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

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**FORM 10-Q**

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(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, 2018

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-35319

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**Steel Connect, Inc.**

(Exact name of registrant as specified in its charter)

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

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

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

**02451**  
(Zip Code)

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

(Former name or former address, if changed since last report.)

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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 May 31, 2018, there were 60,739,100 shares issued and outstanding of the registrant's Common Stock, \$0.01 par value per share.

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STEEL CONNECT, INC.

FORM 10-Q

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**PART I. FINANCIAL INFORMATION**

**Item 1. Condensed Consolidated Financial Statements**

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

	April 30, 2018	July 31, 2017
<b>ASSETS</b>		
Cash and cash equivalents	\$ 99,723	\$ 110,670
Trading securities	—	11,898
Accounts receivable, trade, net of allowance for doubtful accounts of \$274 and \$616 at April 30, 2018 and July 31, 2017, respectively	99,682	81,450
Inventories, net	46,184	34,369
Funds held for clients	10,781	13,454
Prepaid expenses and other current assets	13,850	6,005
Total current assets	270,220	257,846
Property and equipment, net	103,775	18,555
Goodwill	255,361	—
Other intangible assets, net	198,848	—
Other assets	14,829	4,897
Total assets	<u>\$ 843,033</u>	<u>\$ 281,298</u>
<b>LIABILITIES, CONTINGENTLY REDEEMABLE PREFERRED STOCK &amp; STOCKHOLDERS' EQUITY</b>		
Accounts payable	\$ 78,947	\$ 71,476
Accrued restructuring	140	186
Accrued expenses	85,780	37,898
Funds held for clients	10,781	13,454
Current portion of long-term debt	5,727	—
Other current liabilities	48,341	26,141
Notes payable	63,274	—
Total current liabilities	292,990	149,155
Notes payable	—	59,758
Long-term debt, excluding current portion	384,543	—
Other long-term liabilities	11,667	9,414
Total long-term liabilities	396,210	69,172
Total liabilities	689,200	218,327
Contingently redeemable preferred stock, \$0.01 par value per share. 35,000 shares authorized, issued and outstanding at April 30, 2018; zero shares authorized, issued and outstanding shares at July 31, 2017 (Note 12)	35,175	—
Stockholders' equity:		
Preferred stock, \$0.01 par value per share. Authorized 4,965,000 and 5,000,000 shares at April 30, 2018 and July 31, 2017, respectively; zero issued and outstanding shares at April 30, 2018 and at July 31, 2017	—	—
Common stock, \$0.01 par value per share. Authorized 1,400,000,000 shares; 60,739,100 issued and outstanding shares at April 30, 2018; 55,555,973 issued and outstanding shares at July 31, 2017	608	556
Additional paid-in capital	7,466,706	7,457,051
Accumulated deficit	(7,355,500)	(7,398,949)
Accumulated other comprehensive income	6,844	4,313
Total stockholders' equity	118,658	62,971
Total liabilities, contingently redeemable preferred stock and stockholders' equity	<u>\$ 843,033</u>	<u>\$ 281,298</u>

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,		Nine Months Ended April 30,	
	2018	2017	2018	2017
Net revenue	\$ 188,922	\$ 97,948	\$ 443,022	\$ 336,843
Cost of revenue	149,917	89,406	379,120	307,770
Gross profit	<u>39,005</u>	<u>8,542</u>	<u>63,902</u>	<u>29,073</u>
Operating expenses				
Selling, general and administrative	29,584	14,034	72,558	39,561
Amortization of intangible assets	7,964	—	12,071	—
Gain on sale of property	—	—	(12,692)	—
Restructuring, net	77	(249)	118	1,901
Total operating expenses	<u>37,625</u>	<u>13,785</u>	<u>72,055</u>	<u>41,462</u>
Operating income (loss)	<u>1,380</u>	<u>(5,243)</u>	<u>(8,153)</u>	<u>(12,389)</u>
Other income (expense):				
Interest income	174	96	430	276
Interest expense	(10,680)	(2,041)	(19,362)	(6,179)
Other gains (losses), net	(692)	2,708	(987)	3,239
Total other income (expense)	<u>(11,198)</u>	<u>763</u>	<u>(19,919)</u>	<u>(2,664)</u>
Loss before income taxes	(9,818)	(4,480)	(28,072)	(15,053)
Income tax expense (benefit)	715	819	(71,719)	2,591
Gains on investments in affiliates, net of tax	(200)	(232)	(601)	(1,128)
Net income (loss)	<u>(10,333)</u>	<u>(5,067)</u>	<u>44,248</u>	<u>(16,516)</u>
Less: Preferred dividends on redeemable preferred stock	(529)	—	(788)	—
Net income (loss) attributable to common stockholders	<u>\$ (10,862)</u>	<u>\$ (5,067)</u>	<u>\$ 43,460</u>	<u>\$ (16,516)</u>
Basic net earning (loss) per share attributable to common stockholders:	\$ (0.18)	\$ (0.09)	\$ 0.75	\$ (0.30)
Diluted net earning (loss) per share attributable to common stockholders:	\$ (0.18)	\$ (0.09)	\$ 0.63	\$ (0.30)
Weighted average common shares used in:				
Basic earnings per share	60,076	55,257	58,281	55,099
Diluted earnings per share	60,076	55,257	78,934	55,099

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		Nine Months Ended	
	April 30,		April 30,	
	2018	2017	2018	2017
Net income (loss)	<u>\$ (10,333)</u>	<u>\$ (5,067)</u>	<u>\$44,248</u>	<u>\$ (16,516)</u>
Other comprehensive loss:				
Foreign currency translation adjustment	(1,411)	232	2,515	(1,771)
Net unrealized holding gain (loss) on securities, net of tax	(26)	40	(10)	40
Pension liability adjustments, net of tax	—	80	26	830
Other comprehensive gain (loss)	<u>(1,437)</u>	<u>352</u>	<u>2,531</u>	<u>(901)</u>
Comprehensive income (loss)	<u>\$ (11,770)</u>	<u>\$ (4,715)</u>	<u>\$46,779</u>	<u>\$ (17,417)</u>

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,	
	2018	2017
Cash flows from operating activities:		
Net income (loss)	\$ 44,248	\$ (16,516)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	11,388	5,967
Amortization of intangible assets	12,071	—
Amortization of deferred financing costs	748	422
Accretion of debt discount	3,230	2,913
Share-based compensation	9,657	526
Non-cash (gains) losses, net (including gain on sale of building)	(13,137)	(3,239)
Gains on investments in affiliates	(601)	(1,128)
Changes in operating assets and liabilities, net of business acquired:		
Accounts receivable, net	30,600	16,813
Inventories, net	16,350	4,889
Prepaid expenses and other current assets	4,156	356
Accounts payable, accrued restructuring and accrued expenses	(32,508)	(30,975)
Refundable and accrued income taxes, net	9,123	238
Deferred tax assets and liabilities	(75,775)	—
Other assets and liabilities	(13,882)	(1,623)
Net cash provided by (used in) operating activities	<u>5,668</u>	<u>(21,357)</u>
Cash flows from investing activities:		
Payments to acquire business	(469,221)	—
Additions to property and equipment	(13,610)	(3,885)
Proceeds from the disposition of property and equipment	20,747	—
Proceeds from the sale of Trading Securities	13,775	7,998
Proceeds from investments in affiliates	601	1,128
Net cash provided by (used in) investing activities	<u>(447,708)</u>	<u>5,241</u>
Cash flows from financing activities:		
Proceeds from long-term debt	393,000	—
Proceeds from issuance of preferred stock	35,000	—
Proceeds from revolving line of credit	6,000	—
Payment of long-term debt	(1,500)	—
Payment of deferred financing costs	(1,334)	—
Payment of preferred dividends	(612)	—
Purchase of the Company's Convertible Notes	—	(1,763)
Repayments on capital lease obligations	(178)	(171)
Proceeds from issuance of common stock	3	15
Net cash provided by (used in) financing activities	<u>430,379</u>	<u>(1,919)</u>
Net effect of exchange rate changes on cash and cash equivalents	714	(810)
Net decrease in cash and cash equivalents	<u>(10,947)</u>	<u>(18,845)</u>
Cash and cash equivalents at beginning of period	110,670	130,790
Cash and cash equivalents at end of period	<u>\$ 99,723</u>	<u>\$ 111,945</u>

See accompanying notes to unaudited condensed consolidated financial statements

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

**(1) NATURE OF OPERATIONS**

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

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

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

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

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

Historically, the Company has financed its operations and met its capital requirements primarily through funds generated from operations, the sale of our securities and borrowings from lending institutions. As of April 30, 2018, the Company had available cash and cash equivalents of \$99.7 million. The Company believes it will generate sufficient cash to meet its debt covenants of its Credit Facility, repay or restructure the Convertible Senior Notes, and be able to obtain cash through its current PNC Bank. Additionally, the Company expects to preserve cash through a tax sharing agreement with IWCO. The Company believes that it has adequate cash and available resources to meet its obligations for one year.

**(2) CORRECTION OF PRIOR PERIOD FINANCIAL STATEMENTS**

In connection with the preparation of our condensed consolidated financial statements for the three months ended April 30, 2018, and our remediation efforts related to the material weakness in our internal control over financial reporting related to our controls over non-routine transactions, we identified errors as of January 31, 2018 in the determination of deferred tax liabilities in connection with the acquisition of IWCO Direct and in our revenue recognition for our Direct Marketing segment. Based in part upon the estimates of self-insurance and fixed assets, we overstated a tax benefit in our condensed consolidated statements of operations. The correction of this error requires an adjustment to the income tax benefit of \$4.1 million as of January 31, 2018. Additionally, we identified bill and hold revenue recognition practices for a portion of certain Direct Mail revenues. We evaluated the error and determined that the related impact was not material to our results of operations or financial position for any prior annual or interim period, but that correcting the \$4.1 million cumulative impact of the error would be material to our results of operations for the three months ended April 30, 2018. Although deemed immaterial, we also corrected the recognition of the Direct Mail revenue recognized before the performance obligation to the customer had been satisfied for a portion of certain Direct Mail revenues. Accordingly, we have corrected the condensed consolidated balance sheets as of January 31, 2018 and the condensed consolidated statements of operations for the three and six months ended January 31, 2018. Additionally, we have restated the preliminary fair value of acquired assets and liabilities assumed at the date of acquisition. These errors had no impact on the three and six months ended January 31, 2017. The impact to the condensed consolidated balance sheets, and the consolidated statements of income for the three and six months ended January 31, 2018 is as follows (in thousands, except per share amounts):

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### Consolidated Balance Sheets

	January 31, 2018		
	As Previously Reported	Adjustments	As Revised
Inventories, net	\$ 45,211	\$ 4,002	\$ 49,213
Goodwill	259,085	(3,724)	255,361
Total assets	870,110	278	870,388
Other current liabilities	43,561	23,549	67,110
Other long-term liabilities	30,693	(18,000)	12,693
Total liabilities	700,883	5,549	706,432
Accumulated deficit	(7,339,367)	(5,271)	(7,344,638)
Total stockholders' equity	\$ 133,968	\$ (5,271)	\$ 128,697

### Consolidated Statements of Operations

	Three Months Ended January 31, 2018			Six Months Ended January 31, 2018		
	As Previously Reported	Adjustments	As Revised	As Previously Reported	Adjustments	As Revised
Net revenue	\$ 151,119	\$ 459	\$ 151,578	\$ 253,641	\$ 459	\$ 254,100
Cost of revenue	134,169	1,586	135,755	227,617	1,586	229,203
Gross profit	16,950	(1,127)	15,823	26,024	(1,127)	24,897
Income tax expense (benefit)	(77,664)	4,143	(73,521)	(76,577)	4,143	(72,434)
Net income (loss)	\$ 65,089	\$ (5,271)	\$ 59,818	\$ 59,852	\$ (5,271)	\$ 54,581
Basic net earning (loss) per share attributable to common stockholders:	\$ 1.11		\$ 1.02	\$ 1.05		\$ 0.96
Diluted net earning (loss) per share attributable to common stockholders:	\$ 0.85		\$ 0.78	\$ 0.87		\$ 0.80

The impact to the preliminary fair value of acquired assets and liabilities assumed at the date of acquisition is noted in Note 9 to these Condensed Consolidated Financial Statements.

### (3) BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of a normal recurring nature) considered necessary for fair presentation have been included. These unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements and related notes for the year ended July 31, 2017, which are contained in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on October 16, 2017. The results for the three and nine months ended April 30, 2018 are not necessarily indicative of the results to be expected for the full fiscal year. The July 31, 2017 condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

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

The Company considers events or transactions that occur after the balance sheet date but before the issuance of financial statements to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. For the period ended April 30, 2018, the Company evaluated subsequent events for potential recognition and disclosure through the date these financial statements were filed.

#### **(4) RECENT ACCOUNTING PRONOUNCEMENTS**

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

The standard allows two methods of adoption: (i) retrospectively to each prior period presented (“full retrospective method”), or (ii) retrospectively with the cumulative effect recognized in retained earnings as of the date of adoption (“modified retrospective method”). The Company will adopt the new standard using the modified retrospective method at the beginning of its first quarter of fiscal 2019.

The Company and its outside consultants have initiated the process of evaluating the potential effects on the consolidated financial statements and establishing new accounting policies and internal controls necessary to support the requirements of the new standard. This preliminary assessment is based on the types and number of revenue arrangements currently in place. The exact impact of the new standard will be dependent on facts and circumstances at adoption.

The Company does not expect the new standard to have a material impact on its revenue recognition practices on an ongoing basis. Revenue from the sale of physical and digital supply chain management services to the Company’s clients will continue to be recognized over time as the services are performed. The new standard will primarily impact the Company’s revenue recognition with respect to certain transactions involving the sale of software products by the ModusLink’s e-Business operations and IWCO’s marketing solutions offerings. Currently, revenue from the sale of perpetual licenses sold in multiple element arrangements is recognized ratably over the initial maintenance term, due to lack of Vendor Specific Objective Evidence (VSOE) for certain undelivered elements. The new standard will accelerate the recognition of revenue from the sale of perpetual licenses as the Company will allocate consideration between each performance obligation based on each item’s relative standalone selling price. Revenue recognized related to IWCO’s marketing solutions offerings, which typically consist of a single combined performance obligation, will be recognized over time as the services are performed, rather than the current practice of recognizing revenue at a point in time when the services are complete. However, given the typical contract terms, the Company does not expect this change to be material.

In addition, the new standard will require incremental contract acquisition costs (such as certain sales commissions) for customer contracts to be capitalized and amortized over the period of contract performance or expected client program life, if renewals are expected and the renewal commission is not commensurate with the initial commission. Currently, these costs are expensed as incurred. The Company has identified certain commissions programs where it expects that incremental costs will be capitalized and recognized over a period of greater than one year.

The Company will be required to record cumulative effect adjustments to retained earnings (net of tax) upon adopting the new standard as of the fiscal year commencing August 1, 2018. The most significant of these adjustments will be to establish an asset and increase retained earnings related to the requirement to capitalize incremental contract acquisition costs for customer contracts. An adjustment will also be recorded to reduce deferred revenue and increase retained earnings at the date of adoption to reflect revenue that would have been already recognized under the new standard related to an existing software arrangements where the pattern and timing of revenue recognition will change, as well as creating a contract asset for unbilled revenue for services that are being performed over time, but where the customer is not billed until completion of the work. The Company expects to complete its assessment during the final quarter of fiscal year 2019.

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

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

In November 2015, the FASB issued ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes, which requires companies to classify all deferred tax assets and liabilities as noncurrent on the balance sheet instead of separating deferred taxes into current and noncurrent amounts. This guidance allowed for adoption on either a prospective or retrospective basis. The Company had elected to early adopt this guidance in fiscal year 2017 on a prospective basis and, as a result, prior consolidated balance sheets were not retrospectively adjusted.

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

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

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

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

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

## **(5) INVENTORIES**

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

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Inventories, net consisted of the following:

	April 30, 2018	July 31, 2017
	(In thousands)	
Raw materials	\$21,760	\$24,129
Work-in-process	15,259	713
Finished goods	9,165	9,527
	<u>\$46,184</u>	<u>\$34,369</u>

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

IWCO's inventory consists primarily of raw materials (paper) used to produce direct mail packages and work-in-process. Finished goods are generally not a significant element of the inventory as they are generally mailed after the production and sorting process. With the acquisition of IWCO the Company recorded a fair value "step-up" to work-in-process inventory of \$7.0 million, which was recognized as a non-cash charge to cost of revenues during the nine months ended April 30, 2018.

## **(6) INVESTMENTS**

### *Trading securities*

During the nine months ended April 30, 2018, the Company received \$13.8 million in proceeds associated with the sale of publicly traded securities ("Trading Securities"), which included a cash gain of \$4.6 million. During the nine months ended April 30, 2018, the Company recognized \$2.7 million in net non-cash net losses associated with its Trading Securities.

During the three months ended April 30, 2017, the Company received \$2.2 million in proceeds associated with the sale of publicly traded securities ("Trading Securities"), which included a \$0.4 million cash gain. During the three months ended April 30, 2017, the Company recognized \$2.2 million in net non-cash net gains associated with its Trading Securities. During the nine months ended April 30, 2017, the Company received \$8.0 million in proceeds associated with the sale of Trading Securities, which included a \$0.9 million cash gain. During the nine months ended April 30, 2017, the Company recognized \$1.7 million in net non-cash net gains associated with its Trading Securities. These gains and losses were recorded as a component of Other gains (losses), net on the Statements of Operations.

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As of April 30, 2018, the Company did not have any investments in Trading Securities. As of July 31, 2017, the Company had \$11.9 million in investments in Trading Securities.

### (7) ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

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

	April 30, 2018	July 31, 2017
	(In thousands)	
Accrued taxes	\$30,268	\$ 2,272
Accrued compensation	21,254	10,678
Accrued interest	992	1,366
Accrued audit, tax and legal	2,814	2,759
Accrued contract labor	1,612	1,632
Accrued worker’s compensation	6,690	—
Accrued other	22,150	19,191
	<u>\$85,780</u>	<u>\$37,898</u>
	(In thousands)	
	April 30, 2018	July 31, 2017
Accrued pricing liabilities	\$18,882	\$18,882
Line of credit liability	6,000	—
Customer postage deposits	12,357	—
Other	11,102	7,259
	<u>\$48,341</u>	<u>\$26,141</u>

As of April 30, 2018 and July 31, 2017, the Company had accrued pricing liabilities of approximately \$18.9 million for both periods. As previously reported by the Company, several adjustments were made to its historic financial statements for periods ending on or before April 30, 2012, the most significant of which related to the treatment of vendor rebates in its pricing policies. Where the retention of a rebate or a mark-up was determined to have been inconsistent with a client contract (collectively referred to as “pricing adjustments”), the Company concluded that these amounts were not properly recorded as revenue. Accordingly, revenue was reduced by an equivalent amount for the period that the rebate was estimated to have affected. A corresponding liability for the same amount was recorded in that period (referred to as accrued pricing liabilities). The Company believes that it may not ultimately be required to pay all of the accrued pricing liabilities, due in part to the nature of the interactions with its clients. The remaining accrued pricing liabilities at April 30, 2018 will be derecognized when there is sufficient information for the Company to conclude that such liabilities have been extinguished, which may occur through payment, legal release, or other legal or factual determination.

In connection with the acquisition of IWCO the Company performed an analysis of the liability associated with IWCO’s sales tax. Based on the information currently available, a reserve of \$18.0 million was recorded on IWCO’s opening balance sheet. This reserve is subject to review during the measurement period and may be adjusted accordingly. As of April 30, 2018, accrued expenses includes sales tax liabilities of approximately \$18.0 million.

**(8) RESTRUCTURING, NET**

Restructuring and other costs for the three and nine months ended April 30, 2018, primarily included continuing charges for personnel reductions and facility consolidations in an effort to streamline operations across our global supply chain operations. It is expected that the payments of employee-related charges will be substantially completed during the fiscal year ended July 31, 2018. The remaining contractual obligations primarily relate to facility lease obligations for vacant space resulting from the previous restructuring activities of the Company. The Company anticipates that these contractual obligations will be substantially fulfilled by the end of December 2018.

The \$0.1 million restructuring charge recorded during the nine months ended April 30, 2018 primarily consisted of \$0.1 million of employee-related costs in the Americas. The \$1.9 million restructuring charge recorded during the nine months ended April 30, 2017 primarily consisted of \$0.2 million, \$0.7 million, \$0.5 million and \$0.1 million of employee-related costs in the Americas, Asia, Europe and e-Business, respectively, related to the workforce reduction of 78 employees in our global supply chain. Of this amount, \$0.5 million related to contractual obligations.

The following tables summarize the activities related to the restructuring accrual by expense category and by reportable segment for the nine months ended April 30, 2018:

	Employee Related Expenses	Contractual Obligations	Total
	(In thousands)		
Accrued restructuring balance at July 31, 2017	\$ 100	\$ 86	\$ 186
Restructuring charges	3	—	3
Restructuring adjustments	93	22	115
Cash paid	(48)	(108)	(156)
Non-cash adjustments	(8)	—	(8)
Accrued restructuring balance at April 30, 2018	<u>\$ 140</u>	<u>\$ —</u>	<u>\$ 140</u>

	Americas	Asia	Europe	Direct marketing	e- Business	Consolidated Total
	(In thousands)					
Accrued restructuring balance at July 31, 2017	\$ 51	\$ —	\$ 23	\$ —	\$ 112	\$ 186
Restructuring charges	—	—	—	—	3	3
Restructuring adjustments	101	1	2	—	11	115
Cash paid	(48)	—	—	—	(108)	(156)
Non-cash adjustments	(11)	(1)	(25)	—	29	(8)
Accrued restructuring balance at April 30, 2018	<u>\$ 93</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 47</u>	<u>\$ 140</u>

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The net restructuring charges for the three and nine months ended April 30, 2018 and 2017 would have been allocated as follows had the Company recorded the expense and adjustments within the functional department of the restructured activities:

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2018	2017	2018	2017
	(In thousands)			
Cost of revenue	\$ —	\$ (170)	\$ 8	\$ 565
Selling, general and administrative	77	(79)	110	1,336
	<u>\$ 77</u>	<u>\$ (249)</u>	<u>\$ 118</u>	<u>\$ 1,901</u>

### (9) ACQUISITION OF IWCO DIRECT

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

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

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The following table summarizes the preliminary fair value of assets acquired and liabilities assumed at the date of the acquisition, and the adjustments required due to the correction of the error discussed in Note 2 to these Condensed Consolidated Financial Statements:

	As Previously Reported	Adjustments (In thousands)	As Revised
Accounts receivable	\$ 47,841	\$ —	\$ 47,841
Inventory	27,165	5,590	32,755
Other current assets	7,427	—	7,427
Property and equipment	87,976	—	87,976
Intangible assets	210,920	—	210,920
Goodwill	259,085	(3,724)	255,361
Other assets	3,040	—	3,040
Accounts payable	(31,069)	—	(31,069)
Accrued liabilities and other current liabilities	(35,790)	(24,009)	(59,799)
Customer deposits	(7,829)	—	(7,829)
Deferred income taxes	(79,918)	4,143	(75,775)
Other liabilities	(19,627)	18,000	(1,627)
<b>Total consideration</b>	<b>\$ 469,221</b>	<b>\$ —</b>	<b>\$469,221</b>

Acquired intangible assets include trademarks and tradenames valued at \$20.5 million and customer relationships of \$190.4 million. The preliminary fair value estimate of trademarks and tradenames was prepared utilizing a relief from royalties method of valuation, while the preliminary fair value estimate of customer relationships was prepared using a multi-period excess earnings method of valuation. The trademarks and tradenames intangible asset will be amortized on a straight line basis over a 3 year estimated useful life. The customer relationship intangible asset will be amortized on a double-declining basis over an estimated useful life of 15 years. The acquired property and equipment consist mainly of machinery and equipment. The fair value of the acquired property and equipment was estimated using the cost approach to value, and applying industry standard normal useful lives and inflationary indices. In the preliminary allocation of the purchase price, the Company recognized \$255.4 million of goodwill which arose primarily from the synergies in its business and the assembled workforce of IWCO.

The following unaudited pro forma financial results are based on the Company's historical consolidated financial statements and IWCO's historical consolidated financial statements as adjusted to give effect to the Company's acquisition of IWCO and related transactions. The unaudited pro forma financial information for the three and nine months ended April 30, 2018 give effect to these transactions as if they had occurred on August 1, 2016. The unaudited pro forma results presented do not necessarily reflect the results of operations that would have resulted had the acquisition been completed at the beginning of August 1, 2016, nor do they indicate the results of operations in future periods. Additionally, the unaudited pro forma results do not include the impact of possible business model changes, nor do they consider any potential impacts of current market conditions or revenues, reduction of expenses, asset dispositions, or other factors. The impact of these items could alter the following pro forma results.

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

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2018	2017	2018	2017
	(In thousands)		(In thousands)	
Net revenue	\$187,369	\$204,716	\$620,377	\$671,695
Net income (loss)	\$ (16,449)	\$ (11,660)	\$ 43,339	\$ (35,929)

## **(10) GOODWILL AND INTANGIBLE ASSETS**

The Company conducts its goodwill impairment test on July 31 of each fiscal year. In addition, if and when events or circumstances change that could reduce the fair value of any of its reporting units below its carrying value, an interim test is performed. In making this assessment, the Company relies on a number of factors including operating results, business plans, economic projections, anticipated future cash flows, and transactions and marketplace data. The Company's goodwill of \$255.4 million as of April 30, 2018 relates to the Company's Direct Marketing reporting unit. There were no indicators of impairment identified related to the Company's Direct Marketing reporting unit during the three and nine months ended April 30, 2018.

Intangible assets, as of April 30, 2018, include trademarks and tradenames with a carrying balance of \$17.9 million and customer relationships of \$180.9 million. The trademarks and tradenames intangible asset are being amortized on a straight line basis over a 3 year estimated useful life. The customer relationship intangible asset are being amortized on a double-declining basis over an estimated useful life of 15 years. Intangible assets deemed to have finite lives are amortized over their estimated useful lives, where the useful life is the period over which the asset is expected to contribute directly, or indirectly, to its future cash flows. Intangible assets are reviewed for impairment on an interim basis when certain events or circumstances exist. For amortizable intangible assets, impairment exists when the carrying amount of the intangible asset exceeds its fair value. At least annually, the remaining useful life is evaluated.

## **(11) DEBT**

### *5.25% Convertible Senior Notes Payable*

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

Holder of the Notes may convert all or any portion of their notes, in multiples of \$1,000 principal amount, at their option at any time prior to the close of business or the business day immediately preceding the maturity date. Each \$1,000 of principal of the Notes will initially be convertible into 166.2593 shares of our common stock, which is equivalent to an initial conversion price of approximately \$6.01 per share, subject to adjustment upon the occurrence of certain events, or, if the Company obtains the required consent from its stockholders, into shares of the Company's common stock, cash or a combination of cash and shares of its common stock, at the Company's election. If the Company has received stockholder approval, and it elects to settle conversions through the payment of cash or payment or delivery of a combination of cash and shares, the Company's conversion obligation will be based on the volume weighted average prices ("VWAP") of its common stock for each VWAP trading day in a 40 VWAP trading day observation period. The Notes and any of the shares of common stock issuable upon conversion have not been registered. As of April 30, 2018, the if-converted value of the Notes did not exceed the principal value of the Notes.

Holder will have the right to require the Company to repurchase their Notes, at a repurchase price equal to 100% of the principal amount of the Notes plus accrued and unpaid interest, upon the occurrence of certain fundamental changes, subject to certain conditions. No fundamental changes occurred during the nine months ended April 30, 2018.

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

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

The fair value of the Company's Notes payable, calculated as of the closing price of the traded securities, was \$66.3 million and \$63.9 million as of April 30, 2018 and July 31, 2017, respectively. This value does not represent the settlement value of these long-term debt liabilities to the Company. The fair value of the Notes payable could vary each period based on fluctuations in market interest rates, as well as changes to our credit ratings. The Notes payable are traded and their fair values are based upon traded prices as of the reporting dates. As of April 30, 2018 and July 31, 2017, the net carrying value of the Notes was \$63.3 million and \$59.8 million, respectively.

	April 30, 2018	July 31, 2017
	(In thousands)	
Carrying amount of equity component (net of allocated debt issuance costs)	\$26,961	\$26,961
Principal amount of Notes	\$67,625	\$67,625
Unamortized debt discount	(3,997)	(7,227)
Unamortized debt issuance costs	(354)	(640)
Net carrying amount	<u>\$63,274</u>	<u>\$59,758</u>

As of April 30, 2018, the remaining period over which the unamortized discount will be amortized is 10 months.

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2018	2017	2018	2017
	(In thousands)			
Interest expense related to contractual interest coupon	\$ 914	\$ 914	\$2,741	\$2,737
Interest expense related to accretion of the discount	1,113	973	3,230	2,913
Interest expense related to debt issuance costs	99	86	286	258
	<u>\$ 2,126</u>	<u>\$ 1,973</u>	<u>\$6,257</u>	<u>\$5,908</u>

During the three and nine months ended April 30, 2018, the Company recognized interest expense associated with the Notes of \$2.1 million and \$6.3 million, respectively. During the three and nine months ended April 30, 2017, the Company recognized interest expense associated with the Notes of \$2.0 million and \$5.9 million, respectively. The effective interest rate on the Notes, including amortization of debt issuance costs and accretion of the discount, is 13.9%. The notes bear interest at 5.25%.

### *PNC Bank Credit Facility*

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

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

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

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

The Credit Agreement contains certain customary negative covenants, which include limitations on mergers and acquisitions, the sale of assets, liens, guarantees, investments, loans, capital expenditures, dividends, indebtedness, changes in the nature of business, transactions with affiliates, the creation of subsidiaries, changes in fiscal year and accounting practices, changes to governing documents, compliance with certain statutes, and prepayments of certain indebtedness. The Credit Agreement also contains certain customary affirmative covenants (including periodic reporting obligations) and events of default, including upon a change of control. The Credit Agreement requires compliance with certain financial covenants providing for maintenance of specified liquidity, maintenance of a minimum fixed charge coverage ratio and/or maintenance of a maximum leverage ratio following the occurrence of certain events and/or prior to taking certain actions, all as more fully described in the Credit Agreement. The Company believes that the Credit Agreement provides greater financial flexibility to the Company and the ModusLink Borrowers and may enhance their ability to consummate one or several larger and/or more attractive acquisitions and should provide our clients and/or potential clients with greater confidence in the Company's and the ModusLink Borrowers' liquidity. During the three months ended April 30, 2018, the Company did not meet the criteria that would cause its financial covenants to be applicable. As of April 30, 2018 and July 31, 2017, the Company did not have any balance outstanding on the PNC Bank credit facility.

### *Cerberus Credit Facility*

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

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

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

The Term Loan under the Cerberus Credit Facility is repayable in consecutive quarterly installments, each of which will be in an amount equal per quarter of \$1.5 million and each such installment to be due and payable, in arrears, on the last day of each calendar quarter commencing on March 31, 2018 and ending on the earlier of (a) December 15, 2022 and (b) upon the payment in full of all obligations under the Financing Agreement and the termination of all commitments under the Financing Agreement. Further, the Term Loan would be permanently reduced pursuant to certain mandatory prepayment events including an annual "excess cash flow sweep" of 50% of the consolidated excess cash flow, with a step-down to 25% when the Leverage Ratio (as defined in the Financing Agreement) is below 3.50:1.00; provided that, in any calendar year, any voluntary prepayments of the Term Loan shall be credited against the Borrower's "excess cash flow" prepayment obligations on a dollar-for-dollar basis for such calendar year.

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

The Financing Agreement contains certain representations, warranties, events of default, mandatory prepayment requirements, as well as certain affirmative and negative covenants customary for financing agreements of this type. These covenants include restrictions on borrowings, investments and dispositions, as well as limitations on the ability of the Borrower and the Guarantors to make certain capital expenditures and pay dividends. Upon the occurrence and during the continuation of an event of default under the Financing Agreement, the lenders under the Financing Agreement may, among other things, terminate all commitments and declare all or a portion of the loans under the Financing Agreement immediately due and payable and increase the interest rate at which loans and obligations under the Financing Agreement bear interest.

On May 9, 2018, IWCO entered into a Waiver and Amendment No.1 to Financing Agreement (the "Amendment No. 1") in order to, among other things, amend the definition of "Fiscal Year" to mean the twelve (12) month period ending on July 31st of each calendar year for IWCO and its subsidiaries and to make other related conforming changes to the Financing Agreement. Amendment No.1 also waived an event of default existing under the Financing Agreement that resulted from the failure of the Borrower and the Guarantors to deliver certain financial statements and an opinion for the Fiscal Year, which, prior to the effectiveness of Amendment No.1, was based on a year ending on December 31st of each year. The Company anticipates delivering the required financial statements and opinion for the "Fiscal Year" ended July 31, 2018, as now required under the amended Financing Agreement. There were no events of default under the Financing Agreement during the three months ended April 30, 2018 (after giving effect to the above-described waiver).

During the first quarter of fiscal year 2017, the Company adopted ASU No. 2015-03. As such, the debt issuance costs are capitalized as a reduction of the principal amount of Term Loan on the Company's balance sheet and amortized, using the effective-interest method, as additional interest expense over the term of the Term Loan. As of April 30, 2018, the Company had \$6.0 million outstanding on the revolving credit facility. As of April 30, 2018, the principal amount outstanding on the Term Loan was \$391.5 million. As of April 30, 2018, the current and long-term net carrying value of the Term Loan was \$390.3 million.

	<u>April 30,</u> <u>2018</u>
	<u>(In thousands)</u>
Principal amount outstanding on the Term Loan	\$ 391,500
Unamortized debt issuance costs	(1,230)
Net carrying value of the Term Loan	<u>\$ 390,270</u>

## **(12) STOCKHOLDERS' EQUITY**

### *Preferred Stock*

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

On December 15, 2017, the Company entered into a Preferred Stock Purchase Agreement (the "Purchase Agreement") with SPH Group Holdings LLC ("SPHG Holdings"), pursuant to which the Company issued 35,000 shares of the Company's newly created Series C Convertible Preferred Stock, par value \$0.01 per share (the "Preferred Stock"), to SPHG Holdings at a price of \$1,000 per

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share, for an aggregate purchase consideration of \$35.0 million (the “Preferred Stock Transaction”). The terms, rights, obligations and preferences of the Preferred Stock are set forth in a Certificate of Designations, Preferences and Rights of Series C Convertible Preferred Stock of the Company (the “Series C Certificate of Designations”), which has been filed with the Secretary of State of the State of Delaware.

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

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

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

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

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

### *Common Stock*

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

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

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

On March 12, 2013, stockholders of the Company approved the sale of 7,500,000 shares of newly issued common stock to Steel Partners Holdings L.P. (“Steel Holdings”), an affiliate of SPHG Holdings, at a price of \$4.00 per share, resulting in aggregate proceeds of \$30.0 million before transaction costs. The Company incurred \$2.3 million of transaction costs, which consisted primarily of investment banking and legal fees, resulting in net proceeds from the sale of \$27.7 million. In addition, as part of the transaction, the Company issued Steel Holdings a warrant to acquire an additional 2,000,000 shares at an exercise price of \$5.00 per share (the “Warrant”). These warrants were to expire after a term of five years after issuance. On December 15, 2017, contemporaneously with the closing of the Preferred Stock Transaction, the Company entered into a Warrant Repurchase Agreement (the “Warrant Repurchase Agreement”) with Steel Holdings pursuant to which the Company repurchased the Warrant for \$100. The Warrant was terminated by the Company upon repurchase. The Warrant Repurchase Agreement is more fully described in Note 19 to these Condensed Consolidated Financial Statements.

### **(13) OTHER GAINS (LOSSES), NET**

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

	Three Months Ended		Nine Months Ended	
	April 30,		April 30,	
	2018	2017	2018	2017
	(In thousands)			
Foreign currency exchange gains (losses)	\$ 720	\$ 206	\$(1,351)	\$ 632
Gains on Trading Securities	—	2,509	1,876	2,603
Other, net	(1,412)	(7)	(1,512)	4
	<u>\$ (692)</u>	<u>\$2,708</u>	<u>\$ (987)</u>	<u>\$3,239</u>

The Company recorded foreign exchange gains of approximately \$0.7 million and \$0.2 million during the three months ended April 30, 2018 and 2017, respectively. For the three months ended April 30, 2018, the net gains primarily related to realized and unrealized gains from foreign currency exposures and settled transactions of approximately \$1.4 million in Corporate, offset by net losses of \$0.6 million in Europe. For the three months ended April 30, 2017, the net gains primarily related to realized and unrealized gains (losses) from foreign currency exposures and settled transactions of approximately \$(0.5) million, \$0.5 million and \$0.3 million in Corporate, Asia and e-Business, respectively.

During the three months ended April 30, 2017, the Company recognized \$2.5 million in net gains associated with its Trading Securities.

The Company recorded foreign exchange gains (losses) of approximately \$(1.4) million and \$0.6 million during the nine months ended April 30, 2018 and 2017, respectively. For the nine months ended April 30, 2018, the net losses primarily related to realized and unrealized losses from foreign currency exposures and settled transactions of approximately \$1.0 million and \$0.8 million in the Asia and Corporate, respectively, offset by net gains of \$0.4 million in Europe. For the nine months ended April 30, 2017, the net gains primarily related to realized and unrealized gains (losses) from foreign currency exposures and settled transactions of approximately \$0.7 million, \$0.2 million and \$(0.4) million in Corporate, e-Business and Europe, respectively.

During the nine months ended April 30, 2018 and 2017, the Company recognized \$1.9 million and \$2.6 million in net gains (losses) associated with its Trading Securities.

#### **(14) INCOME TAXES**

The Company operates in multiple taxing jurisdictions, both within and outside of the United States. For the nine months ended April 30, 2018, the Company was profitable in certain jurisdictions, resulting in an income tax expense using enacted rates in those jurisdictions. As of April 30, 2018, the total amount of the liability for unrecognized tax benefits related to federal, state and foreign taxes was approximately \$1.8 million. As of July 31, 2017, the total amount of the liability for unrecognized tax benefits related to federal, state and foreign taxes was approximately \$0.7 million.

##### *Uncertain Tax Positions*

In accordance with the Company's accounting policy, interest related to unrecognized tax benefits is included in the provision of income taxes line of the Condensed Consolidated Statements of Operations. As of April 30, 2018 and July 31, 2017, the liabilities for interest expense related to uncertain tax positions were immaterial. The Company did not accrue for penalties related to income tax positions as there were no income tax positions that required the Company to accrue penalties. The Company does not expect any unrecognized tax benefits to reverse in the next twelve months. The Company is subject to U.S. federal income tax and various state, local and international income taxes in numerous jurisdictions. The federal and state tax returns are generally subject to tax examinations for the tax years ended July 31, 2013 through July 31, 2017. To the extent the Company has tax attribute carryforwards, the tax year in which the attribute was generated may still be adjusted upon examination by the Internal Revenue Service or state tax authorities to the extent utilized in a future period. In addition, a number of tax years remain subject to examination by the appropriate government agencies for certain countries in the Europe and Asia regions. In Europe, the Company's 2009 through 2016 tax years remain subject to examination in most locations, while the Company's 2005 through 2016 tax years remain subject to examination in most Asia locations.

##### *Net Operating Loss*

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

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### *Tax Benefits Preservation Plan*

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

The Board asked the Company’s stockholders to approve, and the stockholders did so approve, the Tax Plan at its 2017 Annual Meeting of Stockholders held on April 12, 2018 (the “2017 Meeting”). If the Tax Plan was not approved by stockholders at the 2017 Meeting, the Tax Plan would have automatically expired immediately following the final adjournment of the 2017 Meeting if stockholder approval was not received.

The Company had net operating loss carryforwards for federal and state tax purposes of approximately \$2.1 billion and \$209.8 million, respectively, as of April 30, 2018. The Company’s ability to use its Tax Benefits would be substantially limited if the Company undergoes an “ownership change” (within the meaning of Section 382 of the Internal Revenue Code). The Tax Plan is intended to prevent an “ownership change” of the Company that would impair the Company ability to utilize its Tax Benefits.

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

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

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

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

### *Protective Amendment*

On March 6, 2018, the Board, subject to approval by the Company’s stockholders, approved an amendment to the Company’s Restated Certificate of Incorporation designed to protect the tax benefits of the Company’s net operating loss carryforwards by preventing certain transfers of our securities that could result in an “ownership change” (as defined under Section 382 of the Code) (the “Protective Amendment”). The Protective Amendment was approved and adopted by the Company’s stockholders at the 2017 Meeting and was filed with the Secretary of State of the State of Delaware on April 12, 2018.

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### *IWCO Acquisition*

As more fully described in Note 9 to these unaudited Condensed Consolidated Financial Statements, the Company completed the IWCO Acquisition on December 15, 2017. Going forward, the Company and IWCO will file a consolidated federal tax return. In purchase accounting, a deferred tax liability of \$75.8 million was computed for IWCO. After considering the transaction, the projected combined results and available temporary differences from the acquired business, the Company has determined in accordance with ASC 805-740-30-3 that its valuation allowance in the same amount of IWCO's full deferred tax liability may be released and the benefit be recognized in income.

### *The Tax Cuts and Jobs Act*

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

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

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

**(15) EARNINGS PER SHARE**

The Company calculates earnings per share in accordance with ASC Topic 260, "Earnings per Share." The following table reconciles earnings per share for the three and nine months ended April 30, 2018 and 2017:

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2018	2017	2018	2017
	(In thousands, except per share data)			
Net income (loss)	\$(10,333)	\$ (5,067)	\$44,248	\$(16,516)
Less: Preferred dividends on redeemable preferred stock	(529)	—	(788)	—
Net income (loss) attributable to common stockholders	<u>(10,862)</u>	<u>(5,067)</u>	<u>43,460</u>	<u>(16,516)</u>
Effect of dilutive securities:				
5.25% Convertible Senior Notes	—	—	5,248	—
Redeemable preferred stock	—	—	788	—
Net income (loss) attributable to common stockholders after assumed conversions	<u><u>\$(10,862)</u></u>	<u><u>\$ (5,067)</u></u>	<u><u>\$49,496</u></u>	<u><u>\$(16,516)</u></u>
Weighted average common shares outstanding	60,076	55,257	58,281	55,099
Weighted average common equivalent shares arising from dilutive stock options, restricted stock, convertible notes and convertible preferred stock	—	—	20,653	—
Weighted average number of common and potential common shares	<u>60,076</u>	<u>55,257</u>	<u>78,934</u>	<u>55,099</u>
Basic net earning (loss) per share attributable to common stockholders:	<u>\$ (0.18)</u>	<u>\$ (0.09)</u>	<u>\$ 0.75</u>	<u>\$ (0.30)</u>
Diluted net earning (loss) per share attributable to common stockholders:	<u>\$ (0.18)</u>	<u>\$ (0.09)</u>	<u>\$ 0.63</u>	<u>\$ (0.30)</u>

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

For the three and nine months ended April 30, 2018, approximately 29.6 million and 0.5 million, respectively, common stock equivalent shares were excluded from the denominator in the calculation of diluted earnings per share as their inclusion would have been antidilutive.

For the three and nine months ended April 30, 2017, approximately 13.9 million and 14.3 million, respectively, common stock equivalent shares were excluded from the denominator in the calculation of diluted earnings per share as their inclusion would have been antidilutive.

**(16) SHARE-BASED PAYMENTS**

The following table summarizes share-based compensation expense related to employee stock options, employee stock purchases and non-vested shares for the three and nine months ended April 30, 2018 and 2017, which was allocated as follows:

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2018	2017	2018	2017
	(In thousands)			
Cost of revenue	\$ 1	\$ 10	\$ 13	\$ 41
Selling, general and administrative	2,259	135	9,644	485
	<u>\$ 2,260</u>	<u>\$ 145</u>	<u>\$ 9,657</u>	<u>\$ 526</u>

During December 2017, the Board, upon the recommendation of the Special Committee and the Human Resources and Compensation Committee of the Board (the “Compensation Committee”), approved equity grants to certain members of the Board, in each case effective upon the closing of the IWCO Acquisition and in consideration for current and future services to the Company.

At April 30, 2018, there was an immaterial amount unrecognized compensation cost related to Stock Options issued under the Company’s plans. At April 30, 2018, there was approximately \$2.1 million of total unrecognized compensation cost related to non-vested share-based compensation awards under the Company’s plans.

**(17) COMPREHENSIVE INCOME (LOSS)**

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

Accumulated other comprehensive items consist of the following:

	Foreign currency items	Pension items	Unrealized gains (losses) on securities	Total
	(In thousands)			
Accumulated other comprehensive income (loss) at July 31, 2017	\$ 7,522	\$(3,376)	\$ 167	\$4,313
Foreign currency translation adjustment	2,515	—	—	2,515
Net unrealized holding loss on securities	—	—	(10)	(10)
Pension liability adjustments	—	26	—	26
Net current-period other comprehensive income (loss)	2,515	26	(10)	2,531
Accumulated other comprehensive income (loss) at April 30, 2018	<u>\$10,037</u>	<u>\$(3,350)</u>	<u>\$ 157</u>	<u>\$6,844</u>

**(18) SEGMENT INFORMATION**

The Company has five operating segments: Americas; Asia; Europe; Direct Marketing; and e-Business. Direct Marketing is a new operating segment which represents IWCO. Based on the information provided to the Company’s chief operating decision-maker (“CODM”) for purposes of making decisions about allocating resources and assessing performance and quantitative thresholds, the Company has determined that it has five reportable segments: Americas, Asia, Europe, Direct Marketing and e-Business. In the past the All Other category has completely been comprised of the e-Business operating segment. The Company also has Corporate-level activity, which consists primarily of costs associated with certain corporate administrative functions such as legal, finance, share-based compensation and acquisition costs which are not allocated to the Company’s reportable segments. The Corporate-level balance sheet information includes cash and cash equivalents, Notes payables and other assets and liabilities which are not identifiable to the operations of the Company’s operating segments. All significant intra-segment amounts have been eliminated.

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

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,	
	2018	2017	2018	2017
(In thousands)				
<b>Net revenue:</b>				
Americas	\$ 13,061	\$20,179	\$ 41,664	\$ 73,240
Asia	31,820	37,056	111,622	118,790
Europe	22,942	34,272	99,225	124,363
Direct Marketing	115,647	—	173,019	—
e-Business	5,452	6,441	17,492	20,450
	<u>\$188,922</u>	<u>\$97,948</u>	<u>\$443,022</u>	<u>\$336,843</u>
<b>Operating income (loss):</b>				
Americas	\$ (2,032)	\$ (2,363)	\$ (6,518)	\$ (7,939)
Asia	1,903	832	21,795	4,921
Europe	(1,770)	(2,334)	(8,089)	(4,885)
Direct Marketing	9,917	—	5,965	—
e-Business	(1,646)	(197)	(4,437)	(742)
Total Segment operating income (loss)	6,372	(4,062)	8,716	(8,645)
Corporate-level activity	(4,992)	(1,181)	(16,869)	(3,744)
Total operating income (loss)	<u>1,380</u>	<u>(5,243)</u>	<u>(8,153)</u>	<u>(12,389)</u>
Total other income (expense)	<u>(11,198)</u>	<u>763</u>	<u>(19,919)</u>	<u>(2,664)</u>
Loss before income taxes	<u>\$ (9,818)</u>	<u>\$ (4,480)</u>	<u>\$ (28,072)</u>	<u>\$ (15,053)</u>

Net revenue and operating income associated with Direct Marketing is for the period from December 15, 2017 to April 30, 2018. The Direct Marketing operating income includes certain purchase accounting adjustments associated with the IWCO acquisition.

	April 30,	July 31,
	2018	2017
(In thousands)		
<b>Total assets:</b>		
Americas	\$ 23,679	\$ 21,876
Asia	44,731	63,819
Europe	42,367	64,639
Direct Marketing	641,384	—
e-Business	14,909	20,703
Sub-total - segment assets	767,070	171,037
Corporate	75,963	110,261
	<u>\$843,033</u>	<u>\$281,298</u>

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

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	Three Months Ended April 30,		Nine Months Ended April 30,	
	2018	2017	2018	2017
	(In thousands)			
Supply chain services	\$ 67,823	\$91,507	\$252,511	\$316,393
Direct Marketing	115,647	—	173,019	—
e-Business services	5,452	6,441	17,492	20,450
	<u>\$188,922</u>	<u>\$97,948</u>	<u>\$443,022</u>	<u>\$336,843</u>

As of April 30, 2018, approximately \$108.8 million of the Company's long-lived assets were located in the U.S.A. As of July 31, 2017, approximately \$9.3 million of the Company's long-lived assets were located in the U.S.A.

For the three months ended April 30, 2018, the Company's net revenues within U.S.A., China, Netherlands and Czech Republic were \$129.3 million, \$24.3 million, \$13.3 million and \$6.2 million, respectively. For the three months ended April 30, 2017, the Company's net revenues within U.S.A., China, Netherlands and Czech Republic were \$21.0 million, \$29.1 million, \$16.5 million and \$16.4 million, respectively.

For the nine months ended April 30, 2018, the Company's net revenues within U.S.A., China, Netherlands and Czech Republic were \$216.8 million, \$87.3 million, \$45.1 million and \$46.3 million, respectively. For the nine months ended April 30, 2017, the Company's net revenues within U.S.A., China, Netherlands and Czech Republic were \$75.3 million, \$97.2 million, \$53.3 million and \$64.4 million, respectively.

## **(19) RELATED PARTY TRANSACTIONS**

### *Preferred Stock Transaction and Warrant Repurchase*

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

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

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

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

### *Management Services Agreement*

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

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The Management Services Agreement had an initial term of six months. On June 30, 2015, the Company entered into an amendment that extended the term of the Management Services Agreement to December 31, 2015 and provided for automatic renewal for successive one year periods, unless and until terminated in accordance with the terms set forth therein, which include, under certain circumstances, the payment by the Company of certain termination fees to SP Corporate. On March 10, 2016, the Company entered into a Second Amendment to the Management Services Agreement with SPH Services, Inc. (“SPH Services”), the parent of SP Corporate and an affiliate of SPHG Holdings, pursuant to which SPH Services assumed rights and responsibilities of SP Corporate and the services provided by SPH Services to the Company were modified pursuant to the terms of the amendment. On March 10, 2016, the Company entered into a Transfer Agreement with SPH Services pursuant to which the parties agreed to transfer to the Company certain individuals who provide corporate services to the Company (the “Transfer Agreement”). SP Corporate and Steel Partners LLC merged with and into SPH Services, with SPH Services surviving. SPH Services has since changed its name to Steel Services Ltd. (“Steel Services”). On September 1, 2017, the Company entered into a Third Amendment to the Management Services Agreement, which reduced the fixed monthly fee paid by the Company to Steel Services under the Management Services Agreement from \$175,000 per month to \$95,641 per month. The monthly fee is subject to review and adjustment by agreement between the Company and Steel Services for periods commencing in fiscal 2016 and beyond. Additionally, the Company may be required to reimburse Steel Services and its affiliates for all reasonable and necessary business expenses incurred on our behalf in connection with the performance of the services under the Management Services Agreement, including travel expenses. The Management Services Agreement provides that, under certain circumstances, the Company may be required to indemnify and hold harmless Steel Services and its affiliates and employees from any claims or liabilities by a third party in connection with activities or the rendering of services under the Management Services Agreement. Total expenses incurred related to this agreement for the three and nine months ended April 30, 2018 were \$0.3 million and \$1.5 million, respectively. Total expenses incurred related to this agreement for the three and nine months ended April 30, 2017 were \$0.6 million and \$1.7 million, respectively. As of April 30, 2018 and July 31, 2017, amounts due to SP Corporate and Steel Services were \$0.1 million and \$0.3 million, respectively.

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

On December 15, 2017, the Board, upon the recommendation of the Special Committee and the Compensation Committee, approved restricted stock grants and market performance based restricted stock grants to non-employee directors Messrs. Howard, Fejes and Lichtenstein, the Executive Chairman of the Board, in each case effective upon the closing of the IWCO Acquisition (the “Grant Date”) and in consideration for current and future services to the Company. Messrs. Howard and Lichtenstein are affiliated with Steel Holdings GP, which is a wholly-owned subsidiary of Steel Holdings. Mr. Fejes is currently affiliated with Steel Services, an indirect wholly owned subsidiary of Steel Holdings. These awards were measured based on the fair market value on the Grant Date.

Mutual Securities, Inc. (“Mutual Securities”) serves as the broker and record-keeper for all the transactions associated with the Trading Securities. An officer of SP Corporate and of the General Partner of Steel Holdings is a registered principal of Mutual Securities. Commissions charged by Mutual Securities are generally commensurate with commissions charged by other institutional brokers, and the Company believes its use of Mutual Securities is consistent with its desire to obtain best price and execution. During the three and nine months ended April 30, 2018 and 2017, Mutual Securities received an immaterial amount in commissions associated with these transactions.

## **(20) FAIR VALUE MEASUREMENT OF ASSETS AND LIABILITIES**

ASC Topic 820 provides that fair value is an exit price, representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants based on the highest and best use of the asset or liability. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in

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pricing an asset or liability. ASC Topic 820 requires the Company to use valuation techniques to measure fair value that maximize the use of observable inputs and minimize the use of unobservable inputs. These inputs are prioritized as follows:

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

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

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

The following tables present the Company's financial assets measured at fair value on a recurring basis as of April 30, 2018 and July 31, 2017, classified by fair value hierarchy:

(In thousands)	April 30, 2018	Fair Value Measurements at Reporting Date Using		
		Level 1	Level 2	Level 3
<u>Assets:</u>				
Money market funds	\$ 47,002	\$ 47,002	\$ —	\$ —

  

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

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

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

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

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

### *Fair Value of Financial Instruments*

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

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

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

	<u>April 30, 2018</u>		<u>July 31, 2017</u>		<u>Fair Value Hierarchy</u>
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>	
Notes payable	\$63,274	\$ 66,273	\$59,758	\$ 63,852	Level 1

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

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

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

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

### **Overview**

Steel Connect, Inc. is a diversified holding company with two wholly-owned subsidiaries, ModusLink and IWCO Direct, that have market-leading positions in supply chain management and direct marketing.

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

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

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

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

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

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

As a large portion of ModusLink's revenue comes from outsourcing services provided to clients such as retail products and consumer electronics companies, our operating performance has been and may continue to be adversely affected by declines in the overall performance within these sectors and uncertainty affecting the world economy. In addition, the drop in consumer demand for products of certain clients has had and may continue to have the effect of reducing our volumes and adversely affecting our revenue, gross margin and overall operating performance. Additionally, the markets for our services are generally very competitive, though we believe we have a compelling and differentiated offering due to the value-added services we provide, our commitment to client management, and our global reach. We also face pressure from our clients to continually realize efficiency gains in order to help our clients maintain their profitability objectives. Increased competition and client demands for efficiency improvements may result in price reductions, reduced gross margins and, in some cases, loss of market share. In addition, our profitability varies based on the types of services we provide and the regions in which we perform them. Therefore, the mix of revenue derived from our various services and locations can impact our gross margin results. Also, form factor changes, which we describe as the reduction in the amount of materials and product components used in our clients' completed packaged product, can also have the effect of reducing our revenue and gross margin opportunities. As a result of these competitive and client pressures the gross margins in our business are low. We have developed plans and will continue to monitor plans to address process improvements and realize other efficiencies throughout our global footprint with a goal to reduce cost, remove waste and improve our overall gross margins. There can be no assurance that these actions will improve gross margins. Increased competition as well as industry consolidation and/or low demand for our clients' products and services may hinder our ability to maintain or improve our gross margins, profitability and cash flows. We must continue to focus on margin improvement, through implementation of our strategic initiatives, cost reductions and asset and employee productivity gains in order to improve the profitability of our business and maintain our competitive position. We generally manage margin and pricing pressures in several ways, including efforts to target new markets, expand and enhance our service offerings, improve the efficiency of our processes and to lower our infrastructure costs. We seek to lower our cost to service clients by moving work to lower-cost venues, consolidating and leveraging our global facility footprint, drive process and efficiency reforms and other actions designed to improve the productivity of our operations.

IWCO's services include (a) development of direct mail marketing strategies (b) creative services to design direct mail (c) printing and compiling of direct mail pieces into envelopes ready for mailing (d) comingling services to sort mail produced for various customers, by destination to achieve postal savings (e) and business continuity and disaster recovery services to protect against unexpected business interruptions. The major markets served by IWCO include Financial Services, Multiple-System Operations (cable or direct-broadcast satellite TV systems) Insurance and to a lesser extent Subscription/Services, Healthcare, Travel/Hospitality and other. Direct mail is a critical piece of marketing for most of its current customers. The customers served by IWCO include some of the biggest brands in the world with the top ten customers accounting for approximately 60% of its revenues, with no single customer accounting for greater than 8% of its revenues included in the period from the acquisition date of December 15, 2017 to April 30, 2018. IWCO's differentiators include but are not limited to its capacity to satisfy Tier 1 marketers, provide attractive economics to its clients and provide innovation on various formats. Management believes that direct mail will remain an important part of its customer's budgets for the foreseeable future.

Historically, a limited number of key clients have accounted for a significant percentage of the Company's revenue. For the three months ended April 30, 2018, our top ten clients collectively accounted for approximately 42% of the Company's net revenue. We expect to continue to derive the vast majority of our revenue from a small number of key clients, and we plan to expand into new markets and over time, diversify the concentration of revenue across additional clients. In general, we do not have any agreements which obligate any client to buy a minimum amount of services from us or designate us as an exclusive service provider. Consequently, our net revenue is subject to demand variability by our clients. The level and timing of orders placed by our clients vary for a variety of reasons, including seasonal buying by end-users, the introduction of new technologies and general economic conditions. By diversifying into new markets and improving the operational support structure for our clients, we expect to offset the adverse financial impact such factors may bring about.

For the three months ended April 30, 2018, the Company reported net revenue of \$188.9 million, operating income of \$1.4 million, loss before income taxes of \$9.8 million and net loss of \$10.3 million. For the nine months ended April 30, 2018, the Company reported net revenue of \$443.0 million, operating loss of \$8.2 million, loss before income taxes of \$28.1 million and net income of \$44.2 million. For the three months ended April 30, 2017, the Company reported net revenue of \$97.9 million, operating loss of \$5.2 million, loss before income taxes of \$4.5 million and net loss of \$5.1 million. For the nine months ended April 30, 2017, the Company reported net revenue of \$336.8 million, operating loss of \$12.4 million, loss before income taxes of \$15.1 million and net loss of \$16.5 million. At April 30, 2018, we had cash and cash equivalents of \$99.7 million, and working capital of \$(22.8) million.

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### ***Basis of Presentation***

The Company presents its financial information in accordance with accounting principles generally accepted in the United States, U.S. GAAP (or “GAAP”). The Company has five operating segments: Americas; Asia; Europe; Direct Marketing; and e-Business. Direct Marketing is a new operating segment which represents IWCO. Based on the information provided to the Company’s chief operating decision-maker (“CODM”) for purposes of making decisions about allocating resources and assessing performance and quantitative thresholds, the Company has determined that it has five reportable segments: Americas, Asia, Europe, Direct Marketing and e-Business. The Company also has Corporate-level activity, which consists primarily of costs associated with certain corporate administrative functions such as legal, finance, share-based compensation and acquisition costs which are not allocated to the Company’s reportable segments. The Corporate-level balance sheet information includes cash and cash equivalents, Notes payables and other assets and liabilities which are not identifiable to the operations of the Company’s operating segments.

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

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**Results of Operations**

Three months ended April 30, 2018 compared to the three months ended April 30, 2017

**Net Revenue:**

	Three Months Ended April 30, 2018	As a % of Total Net Revenue	Three Months Ended April 30, 2017	As a % of Total Net Revenue	\$ Change	%Change
	(In thousands)					
Americas	\$ 13,061	6.9%	\$ 20,179	20.6%	\$ (7,118)	(35.3%)
Asia	31,820	16.8%	37,056	37.8%	(5,236)	(14.1%)
Europe	22,942	12.1%	34,272	35.0%	(11,330)	(33.1%)
Direct Marketing	115,647	61.2%	—	0.0%	115,647	—
e-Business	5,452	3.0%	6,441	6.6%	(989)	(15.4%)
Total	<u>\$ 188,922</u>	100.0%	<u>\$ 97,948</u>	100.0%	<u>\$ 90,974</u>	92.9%

Net revenue increased by approximately \$91.0 million during the three months ended April 30, 2018, as compared to the same period in the prior year. This change in net revenue was primarily driven by the increase in revenue associated with the acquisition of IWCO, offset by decreased revenues from clients in the consumer electronics and computing industries. Fluctuations in foreign currency exchange rates had an insignificant impact on net revenues for the quarter ended April 30, 2018 as compared to the same period in the prior year.

During the three months ended April 30, 2018, net revenue in the Americas region decreased by approximately \$7.1 million. This decrease in net revenue was primarily driven by an aftermarket services program related to the repair and refurbishment of mobile devices, and clients in the computing and consumer products markets. Within the Asia region, the net revenue decrease of approximately \$5.2 million primarily resulted from lower revenues from programs in the consumer electronics and computing markets. Within the Europe region, net revenue decreased by approximately \$11.3 million primarily due to lower revenues from clients in the consumer electronics market. Net revenue for e-Business decreased by approximately \$1.0 million primarily due to lower revenues from clients in the consumer electronics market.

**Cost of Revenue:**

	Three Months Ended April 30, 2018	As a % of Segment Net Revenue	Three Months Ended April 30, 2017	As a % of Segment Net Revenue	\$ Change	% Change
	(In thousands)					
Americas	\$ 13,572	103.9%	\$ 19,956	98.9%	\$ (6,384)	(32.0%)
Asia	26,062	81.9%	31,026	83.7%	(4,964)	(16.0%)
Europe	21,958	95.7%	32,563	95.0%	(10,605)	(32.6%)
Direct Marketing	83,046	71.8%	—	0.0%	83,046	—
e-Business	5,279	96.8%	5,861	91.0%	(582)	(9.9%)
Total	<u>\$ 149,917</u>	79.4%	<u>\$ 89,406</u>	91.3%	<u>\$ 60,511</u>	67.7%

Cost of revenue consists primarily of expenses related to the cost of materials purchased in connection with the provision of supply chain management and direct marketing services as well as costs for salaries and benefits, contract labor, consulting, paper for direct mailing, fulfillment and shipping, and applicable facilities costs. Cost of revenue for the three months ended April 30, 2018 included materials procured on behalf of our supply-chain clients of \$40.7 million, as compared to \$55.8 million for the same period in the prior year, a decrease of \$15.6 million. Total cost of revenue increased by \$60.5 million for the three months ended April 30, 2018, as compared to the same period in the prior year, primarily due to the increase in cost of revenue associated with the acquisition of IWCO, partially offset by lower material and labor costs associated with lower volume from clients in the consumer electronics and consumer products industries. Gross margin percentage for the current quarter increased to 20.6% from 8.7% in the prior year quarter, primarily due to the acquisition of IWCO, partially offset by a reduction in revenues in the Americas, Asia and Europe. For the three months ended April 30, 2018, the Company's gross margin percentages within the Americas, Asia, Europe and Direct Marketing segments were -3.9%, 18.1%, 4.3% and 28.2%, respectively, as compared to gross margin percentages within the Americas, Asia and Europe segments of 1.1%, 16.3% and 5.0%, respectively, for the same period of the prior year. Fluctuations in foreign currency exchange rates had an insignificant impact on gross margin for the quarter ended April 30, 2018.



**Restructuring, net:**

	Three Months Ended April 30, 2018	As a % of Segment Net Revenue	Three Months Ended April 30, 2017	As a % of Segment Net Revenue	\$ Change	% Change
	(In thousands)					
Americas	\$ 74	0.6%	\$ (203)	-1.0%	\$ 277	(136.5%)
Asia	—	0.0%	11	0.0%	(11)	(100.0%)
Europe	—	0.0%	(55)	-0.2%	55	(100.0%)
e-Business	3	0.1%	(2)	0.0%	5	(250.0%)
Total	<u>\$ 77</u>	0.0%	<u>\$ (249)</u>	-0.3%	<u>\$ 326</u>	(130.9%)

The \$0.1 million net restructuring adjustments recorded during the three months ended April 30, 2017 primarily consisted of \$0.1 million of employee-related net adjustments of previously recorded accruals in the Americas.

**Interest Income/Expense:**

During the three months ended April 30, 2018 and 2017, interest expense totaled approximately \$10.7 million and \$2.0 million, respectively. The increase in interest expense is primarily due to the additional debt associated with the acquisition of IWCO.

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

The Company recorded foreign exchange gains of approximately \$0.7 million and \$0.2 million during the three months ended April 30, 2018 and 2017, respectively. For the three months ended April 30, 2018, the net gains primarily related to realized and unrealized gains from foreign currency exposures and settled transactions of approximately \$1.4 million in Corporate, offset by net losses of \$0.6 million in Europe. For the three months ended April 30, 2017, the net gains primarily related to realized and unrealized gains (losses) from foreign currency exposures and settled transactions of approximately \$(0.5) million, \$0.5 million and \$0.3 million in Corporate, Asia and e-Business, respectively.

During the three months ended April 30, 2017, the Company recognized \$2.5 million in net gains associated with its Trading Securities.

**Income Tax Expense:**

During the three months ended April 30, 2018, the Company recorded income tax expense of approximately \$0.7 million, as compared to income tax expense of \$0.8 million for the same period in the prior fiscal year. The income tax expense in the current quarter is related to certain jurisdictions where the Company operates, using the enacted tax rates in those jurisdictions.

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

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### Results of Operations

Nine months ended April 30, 2018 compared to the nine months ended April 30, 2017

#### Net Revenue:

	Nine Months Ended April 30, 2018	As a % of Total Net Revenue	Nine Months Ended April 30, 2017	As a % of Total Net Revenue	\$ Change	% Change
(In thousands)						
Americas	\$ 41,664	9.4%	\$ 73,240	21.7%	\$ (31,576)	(43.1%)
Asia	111,622	25.2%	118,790	35.3%	(7,168)	(6.0%)
Europe	99,225	22.4%	124,363	36.9%	(25,138)	(20.2%)
Direct Marketing	173,019	39.1%	—	0.0%	173,019	—
e-Business	17,492	3.9%	20,450	6.1%	(2,958)	(14.5%)
Total	<u>\$ 443,022</u>	100.0%	<u>\$ 336,843</u>	100.0%	<u>\$ 106,179</u>	31.5%

Net revenue increased by approximately \$106.2 million during the nine months ended April 30, 2018, as compared to the same period in the prior year. This change in net revenue was primarily driven by the increase in revenue associated with the acquisition of IWCO, offset by decreased revenues from clients in the consumer electronics industries. Fluctuations in foreign currency exchange rates had an insignificant impact on net revenues for the quarter ended April 30, 2018 as compared to the same period in the prior year.

During the nine months ended April 30, 2018, net revenue in the Americas region decreased by approximately \$31.6 million. This decrease in net revenue was primarily driven by decrease in revenues from an aftermarket services program related to the repair and refurbishment of mobile devices and clients in the consumer products industry. Within the Asia region, the net revenue decrease of approximately \$7.2 million primarily resulted from lower revenues from programs in the consumer electronics market, partially offset by increase in revenues from a program in the computing industry. Within the Europe region, net revenue decreased by approximately \$25.1 million primarily due to lower revenues from clients in the consumer electronics industry. Net revenue for e-Business decreased by approximately \$3.0 million primarily due to lower revenues from clients in the consumer electronics industry.

#### Cost of Revenue:

	Nine Months Ended April 30, 2018	As a % of Segment Net Revenue	Nine Months Ended April 30, 2017	As a % of Segment Net Revenue	\$ Change	% Change
(In thousands)						
Americas	\$ 43,206	103.7%	\$ 72,921	99.6%	\$ (29,715)	(40.7%)
Asia	90,029	80.7%	98,740	83.1%	(8,711)	(8.8%)
Europe	97,473	98.2%	116,955	94.0%	(19,482)	(16.7%)
Direct Marketing	132,137	76.4%	—	—	132,137	—
e-Business	16,275	93.0%	19,154	93.7%	(2,879)	(15.0%)
Total	<u>\$ 379,120</u>	85.6%	<u>\$ 307,770</u>	91.4%	<u>\$ 71,350</u>	23.2%

Cost of revenue consists primarily of expenses related to the cost of materials purchased in connection with the provision of supply chain management and direct marketing services as well as costs for salaries and benefits, contract labor, consulting, paper for direct mailing, fulfillment and shipping, and applicable facilities costs. Cost of revenue for the nine months ended April 30, 2018 included materials procured on behalf of our supply-chain clients of \$155.8 million, as compared to \$192.7 million for the same period in the prior year, a decrease of \$36.9 million. Total cost of revenue increased by \$71.4 million for the nine months ended April 30, 2018, as compared to the same period in the prior year, primarily due to an increase in cost of revenue associated with the acquisition of IWCO, offset by the lower material and labor costs associated with lower volume from clients in the consumer electronics and consumer products industries. Gross margin percentage for the current quarter increased to 14.4% from 8.6% in the prior year quarter, primarily due to the acquisition of IWCO, partially offset by a reduction in revenues in the Americas, Asia and Europe. For the nine months ended April 30, 2018, the Company's gross margin percentages within the Americas, Asia, Europe and

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Direct Marketing segments were -3.7%, 19.3%, 1.8% and 23.6%, respectively, as compared to gross margin percentages within the Americas, Asia and Europe segments of 0.4%, 16.9% and 6.0%, respectively, for the same period of the prior year. Fluctuations in foreign currency exchange rates had an insignificant impact on gross margin for the nine months ended April 30, 2018.

In the Americas, the -4.1 percentage point decline in gross margin, from 0.4% to -3.7%, was primarily due to declines in material costs and a reduction in force, offset by a corresponding unfavorable shift in volumes from clients in the consumer electronics and consumer products industries. In Asia, the 2.4 percentage point increase in gross margin, from 16.9% to 19.3%, was primarily due to product mix despite a decline in revenues. In Europe, the 4.2 percentage point decrease in gross margin, from 6.0% to 1.8%, was attributable to an unfavorable revenue mix associated with clients in the consumer electronics market. The gross margin for e-Business was 7.0% for the nine months ended April 30, 2018 as compared to 6.3% for the same period of the prior year. This increase of 0.6 percentage points was due to a favorable revenue mix primarily associated with clients in the consumer products and computing industries.

### **Selling, General and Administrative Expenses:**

	Nine Months Ended April 30, 2018	As a % of Segment Net Revenue	Nine Months Ended April 30, 2017	As a % of Segment Net Revenue	\$ Change	% Change
	(In thousands)					
Americas	\$ 4,875	11.7%	\$ 7,975	10.9%	\$ (3,100)	(38.9%)
Asia	12,489	11.2%	14,264	12.0%	(1,775)	(12.4%)
Europe	9,839	9.9%	11,655	9.4%	(1,816)	(15.6%)
Direct Marketing	22,846	13.2%	—	—	22,846	—
e-Business	5,640	32.2%	1,923	9.4%	3,717	193.3%
Sub-total	55,689	12.6%	35,817	10.6%	19,872	55.5%
Corporate-level activity	16,869		3,744		13,125	350.6%
Total	<u>\$ 72,558</u>	16.4%	<u>\$ 39,561</u>	11.7%	<u>\$32,997</u>	83.4%

Selling, general and administrative expenses consist primarily of compensation and employee-related costs, sales commissions and incentive plans, information technology expenses, travel expenses, facilities costs, consulting fees, fees for professional services, depreciation expense, marketing expenses, share-based compensation expense, transaction costs and public reporting costs. Selling, general and administrative expenses during the nine months ended April 30, 2018 increased by approximately \$33.0 million compared to the nine month period ended April 30, 2017, primarily due to the additional selling, general and administrative expenses associated with the Direct Marketing segment (\$22.8 million), higher professional fees associated with the acquisition of IWCO (\$2.2 million), higher share-based compensation expense (\$9.2 million) which are recorded as a part of Corporate-level activity, as well as other lower general and administrative costs. Fluctuations in foreign currency exchange rates had an insignificant impact on selling, general and administrative expenses for the quarter ended April 30, 2018.

### **Amortization of Intangible Assets:**

The intangible asset amortization of \$12.1 million, during the nine months ended April 30, 2018, relates to amortizable intangible assets acquired by the Company in connection with its acquisition of IWCO. Acquired intangible assets include trademarks, tradenames and customer relationships. The trademarks and tradenames intangible asset are being amortized on a straight line basis over a 3 year estimated useful life. The customer relationship intangible asset are being amortized on a double-declining basis over an estimated useful life of 15 years.

**Restructuring, net:**

	Nine Months Ended April 30, 2018	As a % of Segment Net Revenue	Nine Months Ended April 30, 2017	As a % of Segment Net Revenue	\$ Change	% Change
	(In thousands)					
Americas	\$ 101	0.2%	\$ 283	0.4%	\$ (182)	(64.3%)
Asia	1	0.0%	865	0.7%	(864)	(99.9%)
Europe	2	0.0%	638	0.5%	(636)	(99.7%)
e-Business	14	0.1%	115	0.6%	(101)	(87.8%)
Total	<u>\$ 118</u>	0.0%	<u>\$ 1,901</u>	0.6%	<u>\$ (1,783)</u>	(93.8%)

The \$0.1 million net restructuring adjustments recorded during the three months ended April 30, 2017 primarily consisted of \$0.1 million of employee-related net adjustments of previously recorded accruals in the Americas. The \$1.9 million restructuring charge recorded during the nine months ended April 30, 2017 primarily consisted of \$0.2 million, \$0.7 million, \$0.5 million and \$0.1 million of employee-related costs in the Americas, Asia, Europe and e-Business, respectively, related to the workforce reduction of 78 employees in our global supply chain. Of this amount, \$0.5 million related to contractual obligations.

**Interest Income/Expense:**

During the nine months ended April 30, 2018 and 2017, interest income was \$0.4 million and \$0.3 million, respectively.

During the nine months ended April 30, 2018 and 2017, interest expense totaled approximately \$19.4 million and \$6.2 million, respectively. The increase in interest expense primarily due to the additional debt associated with the acquisition of IWCO.

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

The Company recorded foreign exchange gains (losses) of approximately \$(1.4) million and \$0.6 million during the nine months ended April 30, 2018 and 2017, respectively. For the nine months ended April 30, 2018, the net losses primarily related to realized and unrealized losses from foreign currency exposures and settled transactions of approximately \$1.0 million and \$0.8 million in the Asia and Corporate, respectively, offset by net gains of \$0.4 million in Europe. For the nine months ended April 30, 2017, the net gains primarily related to realized and unrealized gains (losses) from foreign currency exposures and settled transactions of approximately \$0.7 million, \$0.2 million and \$(0.4) million in Corporate, e-Business and Europe, respectively.

During the nine months ended April 30, 2018 and 2017, the Company recognized \$1.9 million and \$2.6 million in net gains associated with its Trading Securities.

**Income Tax Expense:**

During the nine months ended April 30, 2018, the Company recorded income tax benefit of approximately \$71.7 million. During the nine months ended April 30, 2017, the Company recorded income tax expense of approximately \$2.6 million. The income tax benefit during the nine months ended April 30, 2018 is related to the reduction of the Company's valuation allowance associated with the IWCO acquisition of approximately \$75.8 million partially offset by income tax expense in certain jurisdictions where the Company operates, using the enacted tax rates in those jurisdictions.

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

**Liquidity and Capital Resources**

Historically, the Company has financed its operations and met its capital requirements primarily through funds generated from operations, the sale of our securities and borrowings from lending institutions. As of April 30 2018, the Company had available cash and cash equivalents of \$99.7 million. As of April 30, 2018, the Company had approximately \$20.4 million of cash and cash equivalents held outside of the U.S. Of this amount, approximately \$3.2 million is considered permanently invested due to certain restrictions under local laws, and \$17.2 million is not subject to permanent reinvestment. Due to the Company's U.S. net operating loss carryforward there is no U.S. tax payable upon repatriating the undistributed earnings of foreign subsidiaries considered not subject to permanent investment. Foreign withholding taxes would range from 0% to 10% on any repatriated funds.

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For the Company, earnings and profits have been calculated at each subsidiary. The Company's foreign subsidiaries are in an overall net deficit for earnings and profits purposes. As such, no adjustment has been made to U.S. taxable income in 2018 relating to this aspect of the new tax law. In future years, under the new tax law the Company will be able to repatriate its foreign earnings without incurring additional U.S. tax as a result of a 100% dividends received deduction. The Company believes that any future withholding taxes or state taxes associated with such a repatriation would be minor.

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

On March 18, 2014, the Company entered into an indenture (the Indenture) with Wells Fargo Bank, National Association, as trustee, relating to the Company's issuance of \$100 million of 5.25% Convertible Senior Notes (the Notes). The Notes bear interest at the rate of 5.25% per year, payable semi-annually in arrears on March 1 and September 1 of each year, beginning on September 1, 2014. The Notes will mature on March 1, 2019, unless earlier repurchased by the Company or converted by the holder in accordance with their terms prior to such maturity date. Holders of the Notes may convert all or any portion of their notes, in multiples of \$1,000 principal amount, at their option at any time prior to the close of business or the business day immediately preceding the maturity date. Each \$1,000 of principal of the Notes will initially be convertible into 166.2593 shares of our common stock, which is equivalent to an initial conversion price of approximately \$6.01 per share, subject to adjustment upon the occurrence of certain events, or, if the Company obtains the required consent from its stockholders, into shares of the Company's common stock, cash or a combination of cash and shares of its common stock, at the Company's election. If the Company has received stockholder approval, and it elects to settle conversions through the payment of cash or payment or delivery of a combination of cash and shares, the Company's conversion obligation will be based on the volume weighted average prices ("VWAP") of its common stock for each VWAP trading day in a 40 VWAP trading day observation period. The Notes and any of the shares of common stock issuable upon conversion have not been registered. Holders will have the right to require the Company to repurchase their Notes, at a repurchase price equal to 100% of the principal amount of the Notes plus accrued and unpaid interest, upon the occurrence of certain fundamental changes, subject to certain conditions. No fundamental changes occurred during the three months ended April 30, 2018. The Company may not redeem the Notes prior to the maturity date, and no sinking fund is provided for the Notes. The Company will have the right to elect to cause the mandatory conversion of the Notes in whole, and not in part, at any time on or after March 6, 2017, if the last reported sale price of its common stock has been at least 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive), including the trading day immediately preceding the date on which the Company notifies holders of its election to mandatorily convert the Notes, during any 30 consecutive trading day period ending on, and including, the trading day immediately preceding the date on which the Company notifies holders of its election to mandatorily convert the notes. As of April 30, 2018 and July 31, 2017, the principal amount of the Notes was \$67.6 million, for both periods. As of April 30, 2018 and July 31, 2017, the net carrying value of the Notes was \$63.3 million and \$59.8 million, respectively.

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

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The Financing Agreement provides for \$393.0 million term loan facility (the Term Loan) and a \$25.0 million revolving credit facility (collectively, the Cerberus Credit Facility). Proceeds of the Cerberus Credit Facility were used (i) to finance a portion of the IWCO Acquisition, (ii) to repay certain existing indebtedness of the Borrower and its subsidiaries, (iii) for working capital and general corporate purposes and (iv) to pay fees and expenses related to the Financing Agreement and the IWCO Acquisition. The Cerberus Credit Facility has a maturity of five years. Borrowings under the Cerberus Credit Facility bear interest, at the Borrower's option, at a Reference Rate plus 3.75% or a LIBOR Rate plus 6.5%, each as defined in the Financing Agreement. The initial interest rate under the Cerberus Credit Facility will be at the LIBOR Rate option. The Term Loan under the Cerberus Credit Facility is repayable in consecutive quarterly installments, each of which will be in an amount equal per quarter of \$1,500,000 and each such installment to be due and payable, in arrears, on the last day of each calendar quarter commencing on March 31, 2018 and ending on the earlier of (a) December 15, 2022 and (b) upon the payment in full of all obligations under the Financing Agreement and the termination of all commitments under the Financing Agreement. Further, the Term Loan would be permanently reduced pursuant to certain mandatory prepayment events including an annual "excess cash flow sweep" of 50% of the consolidated excess cash flow, with a step-down to 25% when the Leverage Ratio (as defined in the Financing Agreement) is below 3.50:1.00; provided that, in any fiscal year, any voluntary prepayments of the Term Loan shall be credited against the Borrower's "excess cash flow" prepayment obligations on a dollar-for-dollar basis for such calendar year. Borrowings under the Financing Agreement are fully guaranteed by the Guarantors and are collateralized by substantially all the assets of the Borrower and the Guarantors and a pledge of all of the issued and outstanding equity interests of each of IWCO's subsidiaries. The Financing Agreement contains certain representations, warranties, events of default, mandatory prepayment requirements, as well as certain affirmative and negative covenants customary for financing agreements of this type. These covenants include restrictions on borrowings, investments and dispositions, as well as limitations on the ability of the Borrower and the Guarantors to make certain capital expenditures and pay dividends. Upon the occurrence and during the continuation of an event of default under the Financing Agreement, the lenders under the Financing Agreement may, among other things, terminate all commitments and declare all or a portion of the loans under the Financing Agreement immediately due and payable and increase the interest rate at which loans and obligations under the Financing Agreement bear interest. During the three months ended April 30, 2018, the Company did not trigger any of these covenants. During the first quarter of fiscal year 2017, the Company adopted ASU No. 2015-03. As such, the debt issuance costs are capitalized as a reduction of the principal amount of Term Loan on the Company's balance sheet and amortized, using the effective-interest method, as additional interest expense over the term of the Term Loan. As of April 30, 2018, the Company had \$6.0 million outstanding on the revolving credit facility. As of April 30, 2018, the principal amount outstanding on the Term Loan was \$391.5 million. As of April 30, 2018, the current and long-term net carrying value of the Term Loan was \$390.3 million.

Consolidated working capital was \$(22.8) million at April 30, 2018, compared with \$108.7 million at July 31, 2017. Included in working capital were cash and cash equivalents of \$99.7 million at April 30, 2018 and \$110.7 million at July 31, 2017.

Net cash provided by (used in) operating activities was \$5.7 million for the nine months ended April 30, 2018, as compared to \$(21.4) million in the prior year period. The \$27.0 million change in net cash provided by operating activities as compared with the same period in the prior year was primarily due to the cash provided by the operating activities of IWCO subsequent to its acquisition, as well as, a reduction in the cash used in the operating activities of ModusLink Corporation. During the nine months ended April 30, 2018, non-cash items within net cash provided by operating activities included depreciation expense of \$11.4 million, amortization of intangible assets of \$12.1 million, amortization of deferred financing costs of \$0.7 million, accretion of debt discount of \$3.2 million, share-based compensation of \$9.7 million, non-cash gains, net, (including gain on sale of building) of \$13.1 million and gains on investments in affiliates of \$0.6 million. During the nine months ended April 30, 2017, non-cash items within net cash provided by operating activities included depreciation expense of \$6.0 million, amortization of deferred financing costs of \$0.4 million, accretion of debt discount of \$2.9 million, share-based compensation of \$0.5 million, non-cash gains, net, of \$3.2 million and gains on investments in affiliates of \$1.1 million.

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

Investing activities provided (used) cash of \$(447.7) million and \$5.2 million during the nine months ended April 30, 2018 and 2017, respectively. The \$447.7 million of cash used in investing activities during the nine months ended April 30, 2018 was primarily comprised of \$469.2 in payments associated with the acquisition of IWCO, \$13.6 million in capital expenditures, offset by \$20.7 million in proceeds associated with the sale of property and equipment, \$13.8 in proceeds from the sale of Trading Securities and \$0.6 million in proceeds from investments in affiliates. The \$5.2 million of cash provided in investing activities during the nine months ended April 30, 2017 was comprised of \$8.0 million in proceeds from the sale of Trading Securities and \$1.1 million in proceeds from investments in affiliates, offset by \$3.9 million in capital expenditures.

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Financing activities provided cash of \$430.4 million during the nine months ended April 30, 2017, which primarily related to the \$393.0 million in net proceeds from the Term Loan associated with the IWCO Acquisition, \$35.0 million in proceeds associated with the issuance of convertible preferred stock, 6.0 million in proceeds from the revolving line of credit, \$1.5 million in payments of long-term debt, \$1.3 million in payment of deferred financing costs and \$0.6 million in payments of preferred dividends. Financing activities used cash of \$1.9 million during the nine months ended April 30, 2017, which primarily related to the purchase of the Company's Convertible Notes of \$1.8 million and payments on capital lease obligations of \$0.1 million.

The Company believes it has access to adequate resources to meet its needs for normal operating costs, capital expenditures, mandatory debt redemptions and working capital for its existing business for at least the next twelve months. These resources include cash and cash equivalents, the PNC Credit Agreement, the revolving credit facility noted above and cash, if any, provided by operating activities. At April 30, 2018 and July 31, 2017, the Company had cash and cash equivalents and Trading Securities of \$99.7 million and \$122.6 million, respectively. At April 30, 2018 and July 31, 2017, the Company had a readily available borrowing capacity under its PNC Bank Credit Facility of \$4.2 million and \$16.0 million, respectively. At April 30, 2018, the Company had a readily available borrowing capacity under its Cerberus revolving Credit Facility of \$19.0 million.

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

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

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

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

### ***Contractual Obligations***

A summary of the Company's contractual obligations is included in the Company's Annual Report on Form 10-K for the fiscal year ended July 31, 2017. The Company's contractual obligations and other commercial commitments did not change materially between July 31, 2017 and April 30, 2018, except those associated with the IWCO acquisition. The Company's gross liability for unrecognized tax benefits and related accrued interest was approximately \$1.8 million as of April 30, 2018. The Company is unable to reasonably estimate the amount or timing of payments for the liability.

From time to time, the Company agrees to indemnify its clients in the ordinary course of business. Typically, the Company agrees to indemnify its clients for losses caused by the Company. As of April 30, 2018, the Company had no recorded liabilities with respect to these arrangements.

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

The discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the U.S. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. On an ongoing basis, we evaluate our estimates, including those related to revenue recognition, inventory, restructuring, share-based compensation expense, long-lived assets, investments, and income taxes.

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Of the accounting estimates we routinely make relating to our critical accounting policies, those estimates made in the process of: determining the valuation of inventory and related reserves; determining future lease assumptions related to restructured facility lease obligations; measuring share-based compensation expense; preparing investment valuations; and establishing income tax valuation allowances and liabilities are the estimates most likely to have a material impact on our financial position and results of operations. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. However, because these estimates inherently involve judgments and uncertainties, there can be no assurance that actual results will not differ materially from those estimates.

During the nine months ended April 30, 2018, we believe that there have been no significant changes to the items that we disclosed as our critical accounting policies and estimates in the “Critical Accounting Policies” section of Management’s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended July 31, 2017.

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

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

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

As of April 30, 2018 and July 31, 2017, the Company did not have an outstanding balance on the PNC Bank credit facility. As of April 30, 2018, the Company had \$6.0 million outstanding on the Cerberus revolving credit facility. As of April 30, 2018, the principal amount outstanding on the Term Loan was \$391.5 million. Based on outstanding borrowings as of April 30, 2018, the effect of a 100 basis point change in current interest rates on annualized interest expense would be approximately \$4.0 million.

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

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

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

The Company has operations in various countries and currencies throughout the world and its operating results and financial position are subject to exposure from fluctuations in foreign currency exchange rates. From time to time, the Company has used derivative financial instruments on a limited basis, principally foreign currency exchange rate contracts, to minimize the transaction exposure that results from such fluctuations. As of April 30, 2018 and July 31, 2017, there were no foreign currency forward contracts outstanding.

Revenues from our foreign operating segments accounted for approximately 28.9% and 72.8% of total revenues during the three months ended April 30, 2018 and 2017, respectively. A portion of our international sales made by our foreign business units in their respective countries is denominated in the local currency of each country. These business units also incur a portion of their expenses in the local currency.

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

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The conversion of the foreign subsidiaries' financial statements into U.S. dollars will lead to a translation gain or loss which is recorded as a component of other comprehensive income (loss). For the three months ended April 30, 2018 and 2017, we recorded a foreign currency translation gain (loss) of approximately \$(1.4) million and \$0.2 million, respectively, which is recorded within accumulated other comprehensive income in stockholders' equity in our condensed consolidated balance sheet. In addition, certain of our subsidiaries have assets and liabilities that are denominated in currencies other than the relevant entity's functional currency. Changes in the relative exchange rates between the currencies result in remeasurement gains or losses at each balance sheet date and transaction gains or losses upon settlement. For the three months ended April 30, 2018 and 2017, we recorded net realized and unrealized foreign currency transaction and remeasurement gains of approximately \$0.7 million and \$0.2 million, respectively, which are recorded in "Other gains (losses), net" in our condensed consolidated statements of operations.

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

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

#### *Evaluation of Disclosure Controls and Procedures*

An evaluation was performed under the supervision and with the participation of our management, including the Chief Executive Officer ("Principal Executive Officer") and Chief Financial Officer ("Principal Financial Officer"), of the effectiveness of the design and operation of our disclosure controls and procedures (as such terms are defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of the end of the period covered by this report. "Disclosure controls and procedures" means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based upon that evaluation, management, including the Chief Executive Officer and Chief Financial Officer, concluded that, due to the material weakness described below as well as a material weakness in internal controls over financial reporting as reported in the Company's 10-K for the period ended July 31, 2017, as filed with the SEC on October 16, 2017, our disclosure controls and procedures were not effective as of April 30, 2018.

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

We have concluded that the deficiency identified above constituted a material weakness in the Company's internal controls. Management is in the process of remediating the internal controls weakness related to income taxes associated with non-routine transactions. Nevertheless, the Company may continue to report the above material weakness while sufficient evaluation of newly established procedures and controls occurs.

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

### *Remediation of the Material Weakness in Internal Control Over Financial Reporting*

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

- Management has enhanced the formality and rigor of the reconciliation procedures and the evaluation of certain accounts and transactions, controls, including access controls. This deficiency was not effectively remediated during the three months ended April 30, 2018 primarily due to the number of access rights, segregation of duties and review controls not sufficiently documented for a sufficient period of time, primarily within the e-Business segment.
- Management has enhanced the design and precision level of existing monitoring controls to provide additional controls supporting the reporting process.
- A significant amount of remediation was performed in implementing additional policies, improved processes and documented procedures relating to our financial statement close processes and procedures within the e-Business and Americas segments.
- We will continue to engage a nationally recognized accounting firm to provide assistance and guidance in designing, implementing and testing the Company's internal controls during the year.

Under the direction of the Audit Committee, management will continue to review and make necessary changes to the overall design of the Company's internal control environment, as well as policies and procedures to improve the overall effectiveness of internal control over financial reporting.

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

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

On December 15, 2017, the Company acquired IWCO Direct as more fully described in Note 9. During the initial transition period following the acquisition, we enhanced our internal controls to ensure all financial information related to the acquisition was properly reflected in our consolidated financial statements.

Except as described in the preceding paragraph, there have been no changes in our internal controls over financial reporting (as defined in Rule 13(a)-15(f) or Rule 15d-15(f) of the Exchange Act) during the three months ended April 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings.**

On April 13, 2018, a purported shareholder, Donald Reith, filed a verified complaint, *Reith v. Lichtenstein, et al.*, 2018-0277 (Del. Ch.) in the Delaware Court of Chancery. The complaint alleges class and derivative claims for breach of fiduciary duty and/or aiding and abetting breach of fiduciary duty and unjust enrichment against the Company's Board of Directors, Warren Lichtenstein, Glen Kassan, William T. Fejes, Jack L. Howard, Jeffrey J. Fenton, Philip E. Lengyel and Jeffrey S. Wald; and stockholders Steel Holdings, Steel Partners, L.P., SPHG Holdings, Handy & Harman Ltd. and WHX CS Corp. (collectively, "Steel Parties") in connection with the acquisition of \$35 million of the Series C Preferred Stock by SPHG Holdings and equity grants made to Lichtenstein, Howard and Fejes on December 15, 2017 (collectively, "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 (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

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Challenged Transactions unfairly diluted shareholders and therefore unjustly enriched Steel Holdings, SPHG Holdings and Messrs. Lichtenstein, Howard and Fejes. The complaint also alleges that the Board made misleading disclosures in the Company's proxy statement for the 2017 Meeting 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. Plaintiff's date to respond to the motions is July 13, 2018. Plaintiff served discovery requests on May 2, 2018, and responses are due on July 13, 2018. Because the motions to dismiss are pending and no discovery has been conducted, we are unable at this time to provide a calculation of potential damages or litigation loss that is probable or estimable. Although there can be no assurance as to the ultimate outcome, the Company believes it has meritorious defenses, will deny liability, and intends to defend this litigation vigorously.

### **Item 1A. Risk Factors.**

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

#### ***Risks Related to Acquisitions***

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

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

#### ***Risks Related to our Indebtedness***

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

*On June 30, 2014, two direct and wholly owned subsidiaries of the Company (the ModusLink Borrowers) entered into a revolving credit and security agreement (the Credit Agreement), as borrowers and guarantors, with PNC Bank and National Association, as lender and as agent, respectively. The Credit Agreement has a five (5) year term which expires on June 30, 2019. It includes a maximum credit commitment of \$50.0 million, is available for letters of credit (with a sublimit of \$5.0 million) and has a \$20.0 million uncommitted accordion feature. As of April 30, 2018 and July 31, 2017, the Company did not have an outstanding balance on the PNC Bank credit facility. As of April 30, 2018, the Company had \$6.0 million outstanding on the Cerberus revolving credit facility. As of April 30, 2018, the principal amount outstanding on the Term Loan was \$391.5 million.*

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

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

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

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

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

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

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

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

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

**Our Notes mature on March 1, 2019, and we may not have sufficient cash flow from our business to repay the Notes.**

The Notes will mature on March 1, 2019, unless earlier repurchased by the Company or converted by the holder in accordance with their terms prior to such maturity date. As of April 30, 2018, the outstanding principal amount of our Notes was \$67,625,000. To repay the Notes at maturity, we will need to obtain additional financing. Our ability to obtain additional financing will depend on the capital and credit markets and our financial condition at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could have a material adverse effect on our business, financial position and operating results.

***Other Risks Associated With the Company***

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

Some members of our Board also hold positions with Steel Holdings and its affiliates. Specifically, Warren G. Lichtenstein, our Executive Chairman of the Board, is affiliated with Steel Holdings and is now the Executive Chairman of Steel Holdings GP and the Chief Executive Officer of Steel Services and Steel Partners, Ltd. Previously, Mr. Lichtenstein was the Chief Executive Officer of SP Corporate. Glen M. Kassan, our Vice Chairman of the Board and former Chief Administrative Officer, is also associated with Steel Services. Jack Howard, a member of our Board, has served as the President of Steel Holdings GP since July 2009 and has served as a director of Steel Holdings GP since October 2011. Mr. Howard is the President of Steel Holdings and has been associated with Steel Holdings and its predecessors and affiliates since 1993. Mr. Howard has held various positions with HNH and has served as a director of HNH since July 2005. Mr. Fejes has served as the president of Steel Services since October 2017. Mr. Fejes served as Senior Vice President of HNH and President and Chief Executive Officer of Handy & Harman Group Ltd. from June 2016 until October 2017.

As a result, these individuals may face potential conflicts of interest with each other and with our stockholders. They may be presented with situations in their capacity as our directors that conflict with their fiduciary obligations to Steel Partners and its affiliates, which in turn may have interests that conflict with the interests of our other stockholders.

Our Board is composed of seven directors, of that, three directors are independent and the remaining four are not independent.

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

None.

**Item 3. Default Upon Senior Securities.**

None.

**Item 4. Mine Safety Disclosures.**

Note applicable.

**Item 5. Other Information.**

None.

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### Item 6. Exhibits.

<u>Exhibit Number</u>	<u>Description</u>
3.1	<a href="#"><u>Certificate of Ownership and Merger filed with the Secretary of State of the State of Delaware on February 20, 2018, is incorporated herein by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on February 26, 2018.</u></a>
3.2	<a href="#"><u>Amendment to Restated Certificate of Incorporation, filed with the Secretary of State of the State of Delaware on April 12, 2018, is incorporated herein by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on April 16, 2018.</u></a>
10.1	<a href="#"><u>Waiver and Amendment No. 1 to Financing Agreement, dated as of May 9, 2018, is incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on May 10, 2018.</u></a>
10.2*	<a href="#"><u>Steel Connect, Inc. 2010 Incentive Award Plan, as amended.</u></a>
31.1*	<a href="#"><u>Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
31.2*	<a href="#"><u>Certification of the Principal Financial Officer and Principal Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
32.1±	<a href="#"><u>Certification of the Principal Executive Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>
32.2±	<a href="#"><u>Certification of the Principal Financial Officer and Principal Accounting Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>
101*	Interactive Data Files Pursuant to Rule 405 of Regulation S-T: (i) Unaudited Condensed Consolidated Balance Sheets as of April 30, 2018 and July 31, 2017, (ii) Unaudited Condensed Consolidated Statements of Operations for the three and nine months ended April 30, 2018 and 2017, (iii) Unaudited Condensed Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended April 30, 2018 and 2017 (iv) Unaudited Condensed Consolidated Statements of Cash Flows for the nine months ended April 30, 2018 and 2017 and (v) Notes to Unaudited Condensed Consolidated Financial Statements.

\* Filed herewith.

± Furnished herewith.



## STEEL CONNECT, INC.

## 2010 INCENTIVE AWARD PLAN

AS AMENDED APRIL 12, 2018

## ARTICLE 1.

## PURPOSE

The purpose of the Steel Connect, Inc. 2010 Incentive Award Plan (the "Plan") is to promote the success and enhance the value of Steel Connect, Inc. (formerly ModusLink Global Solutions, Inc.) (the "Company") by linking the individual interests of the members of the Board, Employees, and Consultants to those of Company stockholders and by providing such individuals with an incentive for outstanding performance to generate superior returns to Company stockholders. The Plan is further intended to provide flexibility to the Company in its ability to motivate, attract, and retain the services of members of the Board, Employees, and Consultants upon whose judgment, interest, and special effort the successful conduct of the Company's operation is largely dependent.

## ARTICLE 2.

## DEFINITIONS AND CONSTRUCTION

Wherever the following terms are used in the Plan they shall have the meanings specified below, unless the context clearly indicates otherwise. The singular pronoun shall include the plural where the context so indicates.

2.1 "Administrator" shall mean the entity that conducts the general administration of the Plan as provided in Article 12. With reference to the duties of the Committee under the Plan which have been delegated to one or more persons pursuant to Section 12.6, or as to which the Board has assumed, the term "Administrator" shall refer to such person(s) unless the Committee or the Board has revoked such delegation or the Board has terminated the assumption of such duties.

2.2 "Affiliate" shall mean (a) Subsidiary; and (b) any domestic eligible entity that is disregarded, under Treasury Regulation Section 301.7701-3, as an entity separate from either (i) the Company or (ii) any Subsidiary.

2.3 "Applicable Accounting Standards" shall mean Generally Accepted Accounting Principles in the United States, International Financial Reporting Standards or such other accounting principles or standards as may apply to the Company's financial statements under United States federal securities laws from time to time.

2.4 "Award" shall mean an Option, a Restricted Stock award, a Restricted Stock Unit award, a Performance Award, a Dividend Equivalents award, a Deferred Stock award, a Stock Payment award or a Stock Appreciation Right, which may be awarded or granted under the Plan (collectively, "Awards").

2.5 "Award Agreement" shall mean any written notice, agreement, terms and conditions, contract or other instrument or document evidencing an Award, including through electronic medium, which shall contain such terms and conditions with respect to an Award as the Administrator shall determine consistent with the Plan.

2.6 "Award Limit" shall mean with respect to Awards that shall be payable in Shares or in cash, as the case may be, the respective limit set forth in Section 3.3.

2.7 "Board" shall mean the Board of Directors of the Company.

2.8 "Cause" shall mean shall mean a good faith finding by a majority of the members of the Board of: (i) gross negligent or willful misconduct by the Holder in connection with his employment duties; (ii) failure by the Holder (other than due to disability) to perform his or her duties or responsibilities required pursuant to his or her employment, after written notice and an opportunity to cure; (iii) misappropriation by the Holder of the assets or business opportunities of the Company, or its affiliates; (iv) embezzlement or other financial or other fraud committed by the Holder; (v) the Holder knowingly allowing any third party to commit any of the acts described in any of the preceding clauses (iii) or (iv); or (vi) the Holder's indictment for, conviction of, or entry of a plea of no contest with respect to, any felony or any crime involving moral turpitude.

2.9 "Change in Control" shall mean and includes each of the following:

(a) A transaction or series of transactions (other than an offering of Common Stock to the general public through a registration statement filed with the Securities and Exchange Commission) whereby any "person" or related "group" of "persons" (as such terms are used in Sections 13(d) and 14(d)(2) of the Exchange Act) (other than the Company, any of its subsidiaries, an employee benefit plan maintained by the Company or any of its subsidiaries or a "person" that, prior to such transaction, directly or indirectly controls, is controlled by, or is under common control with, the Company) directly or indirectly acquires beneficial ownership (within the meaning of Rule 13d-3 under the Exchange Act) of securities of the Company possessing more than 50% of the total combined voting power of the Company's securities outstanding immediately after such acquisition; or

(b) Such time as the Continuing Directors (as defined below) do not constitute a majority of the Board (or, if applicable, the board of directors of a successor corporation to the Company), where the term "Continuing Director" means at any date a member of the Board (x) who was a member of the Board on the date of the initial adoption of this Plan by the Board or (y) who was nominated or elected subsequent to such date by at least a majority of the directors who were Continuing Directors at the time of such nomination or election or whose election to the Board was recommended or endorsed by at least a majority of the directors who were Continuing Directors at the time of such nomination or election; provided, however, that there shall be excluded from this clause (y) any individual whose initial assumption of office occurred as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents, by or on behalf of a person other than the Board; or

(c) The consummation of a merger, consolidation, reorganization, recapitalization or share exchange involving the Company or a sale or other disposition of all or substantially all of the assets of the Company (a "Business Combination"), unless, immediately following such Business Combination, each of the following two conditions is satisfied: (x) all or substantially all of the individuals and entities who were the beneficial owners of the outstanding Common Stock and outstanding Company voting securities immediately prior to such Business

Combination beneficially own, directly or indirectly, more than 50% of the then-outstanding shares of common stock and the combined voting power of the then-outstanding securities entitled to vote generally in the election of directors, respectively, of the resulting or acquiring corporation in such Business Combination (which shall include, without limitation, a corporation which as a result of such transaction owns the Company or substantially all of the Company's assets either directly or through one or more subsidiaries) (such resulting or acquiring corporation is referred to herein as the "Acquiring Corporation") in substantially the same proportions as their ownership of the outstanding Common Stock and outstanding Company voting securities, respectively, immediately prior to such Business Combination and (y) no person (excluding any employee benefit plan (or related trust) maintained or sponsored by the Company or by the Acquiring Corporation) beneficially owns, directly or indirectly, 40% or more of the then-outstanding shares of common stock of the Acquiring Corporation, or of the combined voting power of the then-outstanding securities of such corporation entitled to vote generally in the election of directors (except to the extent that such ownership existed prior to the Business Combination); or

(d) The Company's stockholders approve a liquidation or dissolution of the Company.

In addition, if a Change in Control constitutes a payment event with respect to any Award which provides for the deferral of compensation and is subject to Section 409A of the Code, the transaction or event described in subsection (a), (b), (c) or (d) with respect to such Award must also constitute a "change in control event," as defined in Treasury Regulation §1.409A-3(i)(5) to the extent required by Section 409A.

2.10 "Code" shall mean the Internal Revenue Code of 1986, as amended from time to time, together with the regulations and official guidance promulgated thereunder.

2.11 "Committee" shall mean the Human Resources and Compensation Committee of the Board, or another committee or subcommittee of the Board, appointed as provided in Section 12.1.

2.12 "Common Stock" shall mean the common stock of the Company, par value \$.01 per share.

2.13 "Company" shall mean Steel Connect, Inc., a Delaware corporation formerly known as ModusLink Global Solutions, Inc..

2.14 "Consultant" shall mean any consultant or adviser engaged to provide services to the Company or any Affiliate that qualifies as a consultant under the applicable rules of the Securities and Exchange Commission for registration of shares on a Form S-8 Registration Statement.

2.15 "Covered Employee" shall mean any Employee who is, or could be, a "covered employee" within the meaning of Section 162(m) of the Code.

2.16 "Deferred Stock" shall mean a right to receive Shares awarded under Section 9.4.

2.17 "Director" shall mean a member of the Board, as constituted from time to time.

2.18 "Dividend Equivalent" shall mean a right to receive the equivalent value (in cash or Shares) of dividends paid on Shares, awarded under Section 9.2.

2.19 “DRO” shall mean a domestic relations order as defined by the Code or Title I of the Employee Retirement Income Security Act of 1974, as amended from time to time, or the rules thereunder.

2.20 “Effective Date” shall mean the date the Plan is approved by the Board, subject to approval of the Plan by the Company’s stockholders.

2.21 “Eligible Individual” shall mean any person who is an Employee, a Consultant or a Non-Employee Director, as determined by the Committee.

2.22 “Employee” shall mean any officer or other employee (as determined in accordance with Section 3401(c) of the Code and the Treasury Regulations thereunder) of the Company or of any Affiliate.

2.23 “Equity Restructuring” shall mean a nonreciprocal transaction between the Company and its stockholders, such as a stock dividend, stock split, spin-off, rights offering or recapitalization through a large, nonrecurring cash dividend, that affects the number or kind of shares of Common Stock (or other securities of the Company) or the share price of Common Stock (or other securities) and causes a change in the per share value of the Common Stock underlying outstanding Awards.

2.24 “Exchange Act” shall mean the Securities Exchange Act of 1934, as amended from time to time.

2.25 “Fair Market Value” shall mean, as of any given date, the value of a Share determined as follows:

(a) If the Common Stock is listed on any (i) established securities exchange (such as the New York Stock Exchange, the NASDAQ Global Market and the NASDAQ Global Select Market), (ii) national market system or (iii) automated quotation system on which the Shares are listed, quoted or traded, its Fair Market Value shall be the closing sales price for a share of Common Stock as quoted on such exchange or system for such date or, if there is no closing sales price for a share of Common Stock on the date in question, the closing sales price for a share of Common Stock on the last preceding date for which such quotation exists, as reported in The Wall Street Journal or such other source as the Administrator deems reliable;

(b) If the Common Stock is not listed on an established securities exchange, national market system or automated quotation system, but the Common Stock is regularly quoted by a recognized securities dealer, its Fair Market Value shall be the mean of the high bid and low asked prices for such date or, if there are no high bid and low asked prices for a share of Common Stock on such date, the high bid and low asked prices for a share of Common Stock on the last preceding date for which such information exists, as reported in The Wall Street Journal or such other source as the Administrator deems reliable; or

(c) If the Common Stock is neither listed on an established securities exchange, national market system or automated quotation system nor regularly quoted by a recognized securities dealer, its Fair Market Value shall be established by the Administrator in good faith.

2.26 “Full Value Award” shall mean any Award other than (i) an Option, (ii) a Stock Appreciation Right or (iii) any other Award for which the Holder pays the intrinsic value existing as of the date of grant (whether directly or by forgoing a right to receive a payment from the Company or any Affiliate).

2.27 “Greater Than 10% Stockholder” shall mean an individual then owning (within the meaning of Section 424(d) of the Code) more than 10% of the total combined voting power of all classes of stock of the Company or any Affiliate corporation (as defined in Section 424(f) of the Code) or parent corporation thereof (as defined in Section 424(e) of the Code).

2.28 “Holder” shall mean a person who has been granted an Award.

2.29 “Incentive Stock Option” shall mean an Option that is intended to qualify as an incentive stock option and conforms to the applicable provisions of Section 422 of the Code.

2.30 “Non-Employee Director” shall mean a Director of the Company who is not an Employee.

2.31 “Non-Qualified Stock Option” shall mean an Option that is not an Incentive Stock Option.

2.32 “Option” shall mean a right to purchase Shares at a specified exercise price, granted under Article 6. An Option shall be either a Non-Qualified Stock Option or an Incentive Stock Option; provided, however, that Options granted to Non-Employee Directors and Consultants shall only be Non-Qualified Stock Options.

2.33 “Parent” shall mean any entity (other than the Company), whether domestic or foreign, in an unbroken chain of entities ending with the Company if each of the entities other than the Company beneficially owns, at the time of the determination, securities or interests representing more than fifty percent (50%) of the total combined voting power of all classes of securities or interests in one of the other entities in such chain.

2.34 “Performance Award” shall mean a cash bonus award, stock bonus award, performance award or incentive award that is paid in cash, Shares or a combination of both, awarded under Section 9.1.

2.35 “Performance-Based Compensation” shall mean any compensation that is intended to qualify as “performance-based compensation” as described in Section 162(m)(4)(C) of the Code.

2.36 “Performance Criteria” shall mean the criteria (and adjustments) that the Committee selects for an Award for purposes of establishing the Performance Goal or Performance Goals for a Performance Period, determined as follows:

(a) The Performance Criteria that shall be used to establish Performance Goals are limited to the following: (i) earnings (either before or after one or more of the following: (A) interest, (B) taxes, (C) depreciation and (D) amortization); (ii) gross or net sales or revenue; (iii) income (either operating, gross or net, or before or after taxes); (iv) adjusted net income; (v) operating earnings or profit; (vi) cash flow (including, but not limited to, operating cash flow and free cash flow); (vii) return on assets; (viii) return on capital; (ix) return on stockholders’ equity; (x) total stockholder return; (xi) return on sales; (xii) gross or net profit or operating margin; (xiii) costs; (xiv) funds from operations; (xv) expenses; (xvi) working capital; (xvii) earnings per share; (xviii) adjusted earnings per share; (xix) price per share of Common Stock; (xx) regulatory body approval

for commercialization of a product; (xxi) implementation or completion of critical projects; (xxii) market share; (xxiii) economic value; (xxiv) productivity; (xxv) operating efficiency; (xxvi) economic value-added (as determined by the Committee); (xxvii) cash flow return on capital (xxviii) return on net assets, (xxiv) regulatory compliance, (xxx) improvement in financial ratings, (xxxi) objective goals relating to the balance sheet or income statement, and (xxxii) such other objective goals established by the Committee, any of which may be measured either in absolute terms or as compared to any incremental increase or decrease or as compared to results of a peer group or to market performance indicators or indices.

(b) The Administrator may, in its sole discretion, provide that one or more objectively determinable adjustments shall be made to one or more of the Performance Goals. Such adjustments may include one or more of the following: (i) items related to a change in accounting principle; (ii) items relating to financing activities; (iii) expenses for restructuring or productivity initiatives; (iv) other non-operating items; (v) items related to acquisitions; (vi) items attributable to the business operations of any entity acquired by the Company during the Performance Period; (vii) items related to the disposal of a business or segment of a business; (viii) items related to discontinued operations that do not qualify as a segment of a business under Applicable Accounting Standards; (ix) items attributable to any stock dividend, stock split, combination or exchange of stock occurring during the Performance Period; (x) any other items of significant income or expense which are determined to be appropriate adjustments; (xi) items relating to unusual or extraordinary corporate transactions, events or developments, (xii) items related to amortization of acquired intangible assets; (xiii) items that are outside the scope of the Company's core, on-going business activities; (xiv) items related to acquired in-process research and development; (xv) items relating to changes in tax laws; (xvi) items relating to major licensing or partnership arrangements; (xvii) items relating to asset impairment charges; (xviii) items relating to gains or losses for litigation, arbitration and contractual settlements; or (xix) items relating to any other unusual or nonrecurring events or changes in applicable laws, accounting principles or business conditions. For all Awards intended to qualify as Performance-Based Compensation, such determinations shall be made within the time prescribed by, and otherwise in compliance with, Section 162(m) of the Code.

2.37 "Performance Goals" shall mean, for a Performance Period, one or more goals established in writing by the Administrator for the Performance Period based upon one or more Performance Criteria. Depending on the Performance Criteria used to establish such Performance Goals, the Performance Goals may be expressed in terms of overall Company performance or the performance of a Subsidiary, division, business unit, or an individual. The achievement of each Performance Goal shall be determined in accordance with Applicable Accounting Standards.

2.38 "Performance Period" shall mean one or more periods of time, which may be of varying and overlapping durations, as the Administrator may select, over which the attainment of one or more Performance Goals will be measured for the purpose of determining a Holder's right to, and the payment of, a Performance Award.

2.39 "Permitted Transferee" shall mean, with respect to a Holder, any "family member" of the Holder, as defined under the instructions to use of the Form S-8 Registration Statement under the Securities Act, after taking into account any state, federal, local or foreign tax and securities laws applicable to transferable Awards.

2.40 "Plan" shall mean this Steel Connect, Inc. 2010 Incentive Award Plan, as it may be amended or restated from time to time.

2.41 “Prior Plans” shall mean, collectively, the following plans of the Company: the ModusLink Global Solutions, Inc. 2004 Stock Incentive Plan, as amended, the ModusLink Global Solutions, Inc. 2002 Non-Officer Employee Stock Incentive Plan, as amended, and the ModusLink Global Solutions, Inc. 2000 Stock Incentive Plan, as amended, in each case as such plan may be amended from time to time.

2.42 “Program” shall mean any program adopted by the Administrator pursuant to the Plan containing the terms and conditions intended to govern a specified type of Award granted under the Plan and pursuant to which such type of Award may be granted under the Plan.

2.43 “Restricted Stock” shall mean Common Stock awarded under Article 8 that is subject to certain restrictions and may be subject to risk of forfeiture or repurchase.

2.44 “Restricted Stock Units” shall mean the right to receive Shares awarded under Section 9.5.

2.45 “Securities Act” shall mean the Securities Act of 1933, as amended.

2.46 “Shares” shall mean shares of Common Stock.

2.47 “Stock Appreciation Right” shall mean a stock appreciation right granted under Article 10.

2.48 “Stock Payment” shall mean (a) a payment in the form of Shares, or (b) an option or other right to purchase Shares, as part of a bonus, deferred compensation or other arrangement, awarded under Section 9.3.

2.49 “Subsidiary” shall mean any entity (other than the Company), whether domestic or foreign, in an unbroken chain of entities beginning with the Company if each of the entities other than the last entity in the unbroken chain beneficially owns, at the time of the determination, securities or interests representing more than fifty percent (50%) of the total combined voting power of all classes of securities or interests in one of the other entities in such chain.

2.50 “Substitute Award” shall mean an Award granted under the Plan upon the assumption of, or in substitution for, outstanding equity awards previously granted by a company or other entity in connection with a corporate transaction, such as a merger, combination, consolidation or acquisition of property or stock; provided, however, that in no event shall the term “Substitute Award” be construed to refer to an award made in connection with the cancellation and repricing of an Option or Stock Appreciation Right.

2.51 “Termination of Service” shall mean,

(a) As to a Consultant, the time when the engagement of a Holder as a Consultant to the Company or an Affiliate is terminated for any reason, with or without Cause, including, without limitation, by resignation, discharge, death or retirement, but excluding terminations where the Consultant simultaneously commences or remains in employment or service with the Company or any Affiliate.

(b) As to a Non-Employee Director, the time when a Holder who is a Non-Employee Director ceases to be a Director for any reason, including, without limitation, a termination by resignation, failure to be elected, death or retirement, but excluding terminations where the Holder simultaneously commences or remains in employment or service with the Company or any Affiliate.

(c) As to an Employee, the time when the employee-employer relationship between a Holder and the Company or any Affiliate is terminated for any reason, including, without limitation, a termination by resignation, discharge, death, disability or retirement; but excluding terminations where the Holder simultaneously commences or remains in employment or service with the Company or any Affiliate.

The Administrator, in its sole discretion, shall determine the effect of all matters and questions relating to Terminations of Service, including, without limitation, the question of whether a Termination of Service resulted from a discharge for Cause and all questions of whether particular leaves of absence constitute a Termination of Service; provided, however, that, with respect to Incentive Stock Options, unless the Administrator otherwise provides in the terms of the Program, the Award Agreement or otherwise, a leave of absence, change in status from an employee to an independent contractor or other change in the employee-employer relationship shall constitute a Termination of Service only if, and to the extent that, such leave of absence, change in status or other change interrupts employment for the purposes of Section 422(a)(2) of the Code and the then applicable regulations and revenue rulings under said Section. For purposes of the Plan, a Holder's employee-employer relationship or consultancy relations shall be deemed to be terminated in the event that the Affiliate employing or contracting with such Holder ceases to remain an Affiliate following any merger, sale of stock or other corporate transaction or event (including, without limitation, a spin-off).

### ARTICLE 3.

#### SHARES SUBJECT TO THE PLAN

##### 3.1 Number of Shares.

(a) Subject to Section 13.2 and Section 3.1(b), the aggregate number of Shares which may be issued or transferred pursuant to Awards under the Plan is (i) 11,000,000 plus (ii) any Shares which are subject to awards under the Prior Plans which after the Effective Date are forfeited or lapse unexercised or are settled in cash and are not issued under the Prior Plans. No more than 11,000,000 Shares may be issued upon the exercise of Incentive Stock Options. After the Effective Date, no awards may be granted under any Prior Plan, however, any awards under any Prior Plan that are outstanding as of the Effective Date shall continue to be subject to the terms and conditions of such Prior Plan.

(b) If (i) any Shares subject to an Award are forfeited or expire or such Award is settled for cash (in whole or in part) or (ii) any Shares subject to an award under any Prior Plan are forfeited or expire or an award under any Prior Plan is settled for cash (in whole or in part), the Shares subject to such Award or award under the Prior Plans shall, to the extent of such forfeiture, expiration or cash settlement, be available for future grants of Awards under the Plan. Notwithstanding anything to the contrary contained herein, the following Shares shall not be added to the Shares authorized for grant under Section 3.1(a) and will not be available for future grants of Awards: (i) Shares tendered by a Holder or withheld by the Company in payment of the exercise price of an Option; (ii) Shares tendered by the Holder or withheld by the Company to satisfy any tax withholding obligation with respect to an Award; (iii) Shares subject to a Stock Appreciation Right

that are not issued in connection with the stock settlement of the Stock Appreciation Right on exercise thereof; and (iv) Shares purchased on the open market with the cash proceeds from the exercise of Options. Any Shares repurchased by the Company under Section 8.4 at the same price paid by the Holder so that such shares are returned to the Company will again be available for Awards. The payment of Dividend Equivalents in cash in conjunction with any outstanding Awards shall not be counted against the shares available for issuance under the Plan. Notwithstanding the provisions of this Section 3.1(b), no Shares may again be optioned, granted or awarded if such action would cause an Incentive Stock Option to fail to qualify as an incentive stock option under Section 422 of the Code.

(c) Substitute Awards shall not reduce the Shares authorized for grant under the Plan. Additionally, in the event that a company acquired by the Company or any Affiliate or with which the Company or any Affiliate combines has shares available under a pre-existing plan approved by stockholders and not adopted in contemplation of such acquisition or combination, the shares available for grant pursuant to the terms of such pre-existing plan (as adjusted, to the extent appropriate, using the exchange ratio or other adjustment or valuation ratio or formula used in such acquisition or combination to determine the consideration payable to the holders of common stock of the entities party to such acquisition or combination) may be used for Awards under the Plan and shall not reduce the Shares authorized for grant under the Plan; provided that Awards using such available shares shall not be made after the date awards or grants could have been made under the terms of the pre-existing plan, absent the acquisition or combination, and shall only be made to individuals who were not employed by or providing services to the Company or its Subsidiaries immediately prior to such acquisition or combination.

3.2 Stock Distributed. Any Shares distributed pursuant to an Award may consist, in whole or in part, of authorized and unissued Common Stock, treasury Common Stock or Common Stock purchased on the open market.

3.3 Limitation on Number of Shares Subject to Awards. Notwithstanding any provision in the Plan to the contrary, and subject to Section 13.2, the maximum aggregate number of Shares with respect to one or more Awards that may be granted to any one person during any calendar year (measured from the date of any grant) shall be 4,000,000 and the maximum aggregate amount of cash that may be paid in cash during any calendar year (measured from the date of any payment) with respect to one or more Awards payable in cash shall be \$3,000,000.

## ARTICLE 4.

### GRANTING OF AWARDS

4.1 Participation. The Administrator may, from time to time, select from among all Eligible Individuals, those to whom an Award shall be granted and shall determine the nature and amount of each Award, which shall not be inconsistent with the requirements of the Plan. No Eligible Individual shall have any right to be granted an Award pursuant to the Plan.

4.2 Award Agreement. Each Award shall be evidenced by an Award Agreement. Award Agreements evidencing Awards intended to qualify as Performance-Based Compensation shall contain such terms and conditions as may be necessary to meet the applicable provisions of Section 162(m) of the Code. Award Agreements evidencing Incentive Stock Options shall contain such terms and conditions as may be necessary to meet the applicable provisions of Section 422 of the Code.

4.3 Limitations Applicable to Section 16 Persons. Notwithstanding any other provision of the Plan, the Plan, and any Award granted or awarded to any individual who is then subject to Section 16 of the Exchange Act, shall be subject to any additional limitations set forth in any applicable exemptive rule under Section 16 of the Exchange Act (including Rule 16b-3 of the Exchange Act and any amendments thereto) that are requirements for the application of such exemptive rule. To the extent permitted by applicable law, the Plan and Awards granted or awarded hereunder shall be deemed amended to the extent necessary to conform to such applicable exemptive rule.

4.4 At-Will Employment. Nothing in the Plan or in any Program or Award Agreement hereunder shall confer upon any Holder any right to continue in the employ of, or as a Director or Consultant for, the Company or any Affiliate, or shall interfere with or restrict in any way the rights of the Company and any Affiliate, which rights are hereby expressly reserved, to discharge any Holder at any time for any reason whatsoever, with or without Cause, and with or without notice, or to terminate or change all other terms and conditions of employment or engagement, except to the extent expressly provided otherwise in a written agreement between the Holder and the Company or any Affiliate.

4.5 Foreign Holders. Notwithstanding any provision of the Plan to the contrary, in order to comply with the laws in other countries in which the Company and its Subsidiaries operate or have Employees, Non-Employee Directors or Consultants, or in order to comply with the requirements of any foreign securities exchange, the Administrator, in its sole discretion, shall have the power and authority to: (a) determine which Subsidiaries shall be covered by the Plan; (b) determine which Eligible Individuals outside the United States are eligible to participate in the Plan; (c) modify the terms and conditions of any Award granted to Eligible Individuals outside the United States to comply with applicable foreign laws or listing requirements of any such foreign securities exchange; (d) establish subplans and modify exercise procedures and other terms and procedures, to the extent such actions may be necessary or advisable (any such subplans and/or modifications shall be attached to the Plan as appendices); provided, however, that no such subplans and/or modifications shall increase the share limitations contained in Sections 3.1 and 3.3; and (e) take any action, before or after an Award is made, that it deems advisable to obtain approval or comply with any necessary local governmental regulatory exemptions or approvals or listing requirements of any such foreign securities exchange. Notwithstanding the foregoing, the Administrator may not take any actions hereunder, and no Awards shall be granted, that would violate the Code, the Exchange Act, the Securities Act, any other securities law or governing statute, the rules of the securities exchange or automated quotation system on which the Shares are listed, quoted or traded or any other applicable law.

4.6 Stand-Alone and Tandem Awards. Awards granted pursuant to the Plan may, in the sole discretion of the Administrator, be granted either alone, in addition to, or in tandem with, any other Award granted pursuant to the Plan. Awards granted in addition to or in tandem with other Awards may be granted either at the same time as or at a different time from the grant of such other Awards.

## ARTICLE 5.

### PROVISIONS APPLICABLE TO AWARDS INTENDED TO QUALIFY AS PERFORMANCE-BASED COMPENSATION.

5.1 Purpose. The Committee, in its sole discretion, may determine at the time an Award is granted or at any time thereafter whether such Award is intended to qualify as Performance-Based Compensation. If the Committee, in its sole discretion, decides to grant such an Award to an Eligible Individual that is intended to qualify as Performance-Based Compensation, then the provisions of this Article 5 shall control over any contrary provision contained in the Plan. The Administrator may in its sole discretion grant Awards to other Eligible Individuals that are based on Performance Criteria or Performance Goals but that do not satisfy the requirements of this Article 5 and that are not intended to qualify as Performance-Based Compensation. Unless otherwise specified by the Administrator at the time of grant, the Performance Criteria with respect to an Award intended to be Performance-Based Compensation payable to a Covered Employee shall be determined on the basis of Applicable Accounting Standards.

5.2 Applicability. The grant of an Award to an Eligible Individual for a particular Performance Period shall not require the grant of an Award to such Individual in any subsequent Performance Period and the grant of an Award to any one Eligible Individual shall not require the grant of an Award to any other Eligible Individual in such period or in any other period.

5.3 Types of Awards. Notwithstanding anything in the Plan to the contrary, the Committee may grant any Award to an Eligible Individual intended to qualify as Performance-Based Compensation, including, without limitation, Restricted Stock the restrictions with respect to which lapse upon the attainment of specified Performance Goals, and any Performance Awards described in Article 9 that vest or become exercisable or payable upon the attainment of one or more specified Performance Goals.

5.4 Procedures with Respect to Performance-Based Awards. To the extent necessary to comply with the requirements of Section 162(m)(4)(C) of the Code, with respect to any Award granted under Articles 7 or 8 to one or more Eligible Individuals and which is intended to qualify as Performance-Based Compensation, no later than 90 days following the commencement of any Performance Period or any designated fiscal period or period of service (or such earlier time as may be required under Section 162(m) of the Code), the Committee shall, in writing, (a) designate one or more Eligible Individuals, (b) select the Performance Criteria applicable to the Performance Period, (c) establish the Performance Goals, and amounts of such Awards, as applicable, which may be earned for such Performance Period based on the Performance Criteria, and (d) specify the relationship between Performance Criteria and the Performance Goals and the amounts of such Awards, as applicable, to be earned by each Covered Employee for such Performance Period. Following the completion of each Performance Period, the Committee shall certify in writing whether and the extent to which the applicable Performance Goals have been achieved for such Performance Period. In determining the amount earned under such Awards, the Committee shall have the right to reduce or eliminate (but not to increase) the amount payable at a given level of performance to take into account additional factors that the Committee may deem relevant, including the assessment of individual or corporate performance for the Performance Period.

5.5 Payment of Performance-Based Awards. Unless otherwise provided in the applicable Program or Award Agreement and only to the extent otherwise permitted by Section 162(m)(4)(C) of the Code, as to an Award that is intended to qualify as Performance-Based Compensation, the Holder must be employed by the Company or an Affiliate throughout the Performance Period. Unless otherwise provided in the applicable Performance Goals, Program or Award Agreement, a Holder shall be eligible to receive payment pursuant to such Awards for a Performance Period only if and to the extent the Performance Goals for such period are achieved.

5.6 Additional Limitations. Notwithstanding any other provision of the Plan and except as otherwise determined by the Administrator, any Award which is granted to an Eligible Individual and is intended to qualify as Performance-Based Compensation shall be subject to any additional limitations set forth in Section 162(m) of the Code or any regulations or rulings issued thereunder that are requirements for qualification as Performance-Based Compensation, and the Plan, the Program and the Award Agreement shall be deemed amended to the extent necessary to conform to such requirements.

## ARTICLE 6.

### GRANTING OF OPTIONS

6.1 Granting of Options to Eligible Individuals. The Administrator is authorized to grant Options to Eligible Individuals from time to time, in its sole discretion, on such terms and conditions as it may determine which shall not be inconsistent with the Plan.

6.2 Qualification of Incentive Stock Options. No Incentive Stock Option shall be granted to any person who is not an Employee of the Company or any “subsidiary corporation” of the Company (as defined in Section 424(f) of the Code). No person who qualifies as a Greater Than 10% Stockholder may be granted an Incentive Stock Option unless such Incentive Stock Option conforms to the applicable provisions of Section 422 of the Code. Any Incentive Stock Option granted under the Plan may be modified by the Administrator, with the consent of the Holder, to disqualify such Option from treatment as an “incentive stock option” under Section 422 of the Code. To the extent that the aggregate fair market value of stock with respect to which “incentive stock options” (within the meaning of Section 422 of the Code, but without regard to Section 422(d) of the Code) are exercisable for the first time by a Holder during any calendar year under the Plan, and all other plans of the Company and any Affiliate or parent corporation thereof (each as defined in Section 424(f) and (e) of the Code, respectively), exceeds \$100,000, the Options shall be treated as Non-Qualified Stock Options to the extent required by Section 422 of the Code. The rule set forth in the preceding sentence shall be applied by taking Options and other “incentive stock options” into account in the order in which they were granted and the Fair Market Value of stock shall be determined as of the time the respective options were granted.

6.3 Option Exercise Price. The exercise price per Share subject to each Option shall be set by the Administrator, but shall not be less than 100% of the Fair Market Value of a Share on the date the Option is granted (or, as to Incentive Stock Options, on the date the Option is modified, extended or renewed for purposes of Section 424(h) of the Code). In addition, in the case of Incentive Stock Options granted to a Greater Than 10% Stockholder, such price shall not be less than 110% of the Fair Market Value of a Share on the date the Option is granted (or the date the Option is modified, extended or renewed for purposes of Section 424(h) of the Code).

6.4 Option Term. The term of each Option shall be set by the Administrator in its sole discretion; provided, however, that the term shall not be more than ten (10) years from the date the Option is granted, or five (5) years from the date an Incentive Stock Option is granted to a Greater Than 10% Stockholder. The Administrator shall determine the time period, including the time period following a Termination of Service, during which the Holder has the right to exercise the vested Options, which time period may not extend beyond the term of the Option term. Except as limited by the requirements of Section 409A or Section 422 of the Code and regulations and rulings thereunder, the Administrator may extend the term of any outstanding Option, and may extend the time period during which vested Options may be exercised, in connection with any Termination of Service of the Holder, and may amend any other term or condition of such Option relating to such a Termination of Service.

#### 6.5 Option Vesting.

(a) The period during which the right to exercise, in whole or in part, an Option vests in the Holder shall be set by the Administrator and the Administrator may determine that an Option may not be exercised in whole or in part for a specified period after it is granted. Such vesting may be based on service with the Company or any Affiliate, any of the Performance Criteria, or any other criteria selected by the Administrator. At any time after grant of an Option, the Administrator may, in its sole discretion and subject to whatever terms and conditions it selects, accelerate the period during which an Option vests.

(b) No portion of an Option which is unexercisable at a Holder's Termination of Service shall thereafter become exercisable, except as may be otherwise provided by the Administrator either in the Program, the Award Agreement or by action of the Administrator following the grant of the Option.

6.6 Substitute Awards. Notwithstanding the foregoing provisions of this Article 6 to the contrary, in the case of an Option that is a Substitute Award, the price per share of the shares subject to such Option may be less than the Fair Market Value per share on the date of grant, provided, that the excess of: (a) the aggregate Fair Market Value (as of the date such Substitute Award is granted) of the shares subject to the Substitute Award, over (b) the aggregate exercise price thereof does not exceed the excess of: (x) the aggregate fair market value (as of the time immediately preceding the transaction giving rise to the Substitute Award, such fair market value to be determined by the Administrator) of the shares of the predecessor entity that were subject to the grant assumed or substituted for by the Company, over (y) the aggregate exercise price of such shares.

6.7 Substitution of Stock Appreciation Rights. The Administrator may provide in the applicable Program or the Award Agreement evidencing the grant of an Option that the Administrator, in its sole discretion, shall have the right to substitute a Stock Appreciation Right for such Option at any time prior to or upon exercise of such Option; provided, that such Stock Appreciation Right shall be exercisable with respect to the same number of Shares for which such substituted Option would have been exercisable, and shall also have the same exercise price and remaining term as the substituted Option.

## ARTICLE 7.

### EXERCISE OF OPTIONS

7.1 Partial Exercise. An exercisable Option may be exercised in whole or in part. However, an Option shall not be exercisable with respect to fractional shares and the Administrator may require that, by the terms of the Option, a partial exercise must be with respect to a minimum number of shares.

7.2 Manner of Exercise. All or a portion of an exercisable Option shall be deemed exercised upon delivery of all of the following to the Secretary of the Company, or such other person or entity designated by the Administrator, or his, her or its office, as applicable:

(a) A written or electronic notice complying with the applicable rules established by the Administrator stating that the Option, or a portion thereof, is exercised. The notice shall be signed by the Holder or other person then entitled to exercise the Option or such portion of the Option;

(b) Such representations and documents as the Administrator, in its sole discretion, deems necessary or advisable to effect compliance with all applicable provisions of the Securities Act and any other federal, state or foreign securities laws or regulations, the rules of any securities exchange or automated quotation system on which the Shares are listed, quoted or traded or any other applicable law. The Administrator may, in its sole discretion, also take whatever additional actions it deems appropriate to effect such compliance including, without limitation, placing legends on share certificates and issuing stop-transfer notices to agents and registrars;

(c) In the event that the Option shall be exercised pursuant to Section 11.3 by any person or persons other than the Holder, appropriate proof of the right of such person or persons to exercise the Option, as determined in the sole discretion of the Administrator; and

(d) Full payment of the exercise price and applicable withholding taxes to the stock administrator of the Company for the shares with respect to which the Option, or portion thereof, is exercised, in a manner permitted by Section 11.1 and 11.2.

7.3 Notification Regarding Disposition. The Holder shall give the Company prompt written or electronic notice of any disposition of shares of Common Stock acquired by exercise of an Incentive Stock Option which occurs within (a) two years from the date of granting (including the date the Option is modified, extended or renewed for purposes of Section 424(h) of the Code) such Option to such Holder, or (b) one year after the transfer of such shares to such Holder.

## ARTICLE 8.

### AWARD OF RESTRICTED STOCK

#### 8.1 Award of Restricted Stock.

(a) The Administrator is authorized to grant Restricted Stock to Eligible Individuals, and shall determine the terms and conditions, including the restrictions applicable to each award of Restricted Stock, which terms and conditions shall not be inconsistent with the Plan, and may impose such conditions on the issuance of such Restricted Stock as it deems appropriate.

(b) The Administrator shall establish the purchase price, if any, and form of payment for Restricted Stock; provided, however, that if a purchase price is charged, such purchase price shall be no less than the par value of the Shares to be purchased, unless otherwise permitted by applicable state law. In all cases, legal consideration shall be required for each issuance of Restricted Stock.

8.2 Rights as Stockholders. Subject to Section 8.4, upon issuance of Restricted Stock, the Holder shall have, unless otherwise provided by the Administrator, all the rights of a stockholder with respect to said shares, subject to the restrictions in the applicable Program or in each individual Award Agreement, including the right to receive all dividends and other distributions paid or made with respect to the shares; provided, however, that, in the sole discretion of the Administrator, any extraordinary distributions with respect to the Shares shall be subject to the restrictions set forth in Section 8.3. In addition, with respect to a share of Restricted Stock with performance-based vesting, dividends which are paid prior to vesting shall only be paid out to the Holder to the extent that the performance-based vesting conditions are subsequently satisfied and the share of Restricted Stock vests.

8.3 Restrictions. All shares of Restricted Stock (including any shares received by Holders thereof with respect to shares of Restricted Stock as a result of stock dividends, stock splits or any other form of recapitalization) shall, in the terms of the applicable Program or in each individual Award Agreement, be subject to such restrictions and vesting requirements as the Administrator shall provide. Such restrictions may include, without limitation, restrictions concerning voting rights and transferability and such restrictions may lapse separately or in combination at such times and pursuant to such circumstances or based on such criteria as selected by the Administrator, including, without limitation, criteria based on the Holder's duration of employment, directorship or consultancy with the Company, the Performance Criteria, Company performance, individual performance or other criteria selected by the Administrator. By action taken after the Restricted Stock is issued, the Administrator may, on such terms and conditions as it may determine to be appropriate, accelerate the vesting of such Restricted Stock by removing any or all of the restrictions imposed by the terms of the Program or the Award Agreement. Restricted Stock may not be sold or encumbered until all restrictions are terminated or expire.

8.4 Repurchase or Forfeiture of Restricted Stock. If no price was paid by the Holder for the Restricted Stock, upon a Termination of Service the Holder's rights in invested Restricted Stock then subject to restrictions shall lapse, and such Restricted Stock shall be surrendered to the Company and cancelled without consideration. If a price was paid by the Holder for the Restricted Stock, upon a Termination of Service the Company shall have the right to repurchase from the Holder the unvested Restricted Stock then subject to restrictions at a cash price per share equal to the price paid by the Holder for such Restricted Stock or such other amount as may be specified in the Program or the Award Agreement. The Administrator in its sole discretion may provide that in the event of certain events, including a Change in Control, the Holder's death, retirement or disability or any other specified Termination of Service or any other event, the Holder's rights in unvested Restricted Stock shall not lapse, such Restricted Stock shall vest and, if applicable, the Company shall not have a right of repurchase.

8.5 Certificates for Restricted Stock. Restricted Stock granted pursuant to the Plan may be evidenced in such manner as the Administrator shall determine. Certificates or book entries evidencing shares of Restricted Stock must include an appropriate legend referring to the terms, conditions, and restrictions applicable to such Restricted Stock, and the Company may, in its sole discretion, retain physical possession of any stock certificate until such time as all applicable restrictions lapse.

8.6 Section 83(b) Election. If a Holder makes an election under Section 83(b) of the Code to be taxed with respect to the Restricted Stock as of the date of transfer of the Restricted Stock rather than as of the date or dates upon which the Holder would otherwise be taxable under Section 83(a) of the Code, the Holder shall be required to deliver a copy of such election to the Company promptly after filing such election with the Internal Revenue Service.

## ARTICLE 9.

### AWARD OF PERFORMANCE AWARDS, DIVIDEND EQUIVALENTS, DEFERRED STOCK, STOCK PAYMENTS, RESTRICTED STOCK UNITS

#### 9.1 Performance Awards.

(a) The Administrator is authorized to grant Performance Awards to any Eligible Individual and to determine whether such Performance Awards shall be Performance-Based Compensation. The value of Performance Awards may be linked to any one or more of the Performance Criteria or other specific criteria determined by the Administrator, in each case on a specified date or dates or over any period or periods determined by the Administrator. Performance Awards may be paid in cash, Shares, or both, as determined by the Administrator.

(b) Without limiting Section 9.1(a), the Administrator may grant Performance Awards to any Eligible Individual in the form of a cash bonus payable upon the attainment of objective Performance Goals, or such other criteria, whether or not objective, which are established by the Administrator, in each case on a specified date or dates or over any period or periods determined by the Administrator. Any such bonuses paid to a Holder which are intended to be Performance-Based Compensation shall be based upon objectively determinable bonus formulas established in accordance with the provisions of Article 5.

#### 9.2 Dividend Equivalents.

(a) Dividend Equivalents may be granted by the Administrator based on dividends declared on the Common Stock, to be credited as of dividend payment dates during the period between the date an Award is granted to a Holder and the date such Award vests, is exercised, is distributed or expires, as determined by the Administrator. Such Dividend Equivalents shall be converted to cash or additional shares of Common Stock by such formula and at such time and subject to such limitations as may be determined by the Administrator. In addition, Dividend Equivalents with respect to an Award with performance-based vesting that are based on dividends paid prior to the vesting of such Award shall only be paid out to the Holder to the extent that the performance-based vesting conditions are subsequently satisfied and the Award vests.

(b) Notwithstanding the foregoing, no Dividend Equivalents shall be payable with respect to Options or Stock Appreciation Rights.

9.3 Stock Payments. The Administrator is authorized to make Stock Payments to any Eligible Individual. The number or value of shares of any Stock Payment shall be determined by the Administrator and may be based upon one or more Performance Criteria or any other specific criteria, including service to the Company or any Affiliate, determined by the Administrator. Shares underlying a Stock Payment which is subject to a vesting schedule or other conditions or criteria set by the Administrator will not be issued until those conditions have been satisfied. Unless otherwise

provided by the Administrator, a Holder of a Stock Payment shall have no rights as a Company stockholder with respect to such Stock Payment until such time as the Stock Payment has vested and the Shares underlying the Award have been issued to the Holder. Stock Payments may, but are not required to be made in lieu of base salary, bonus, fees or other cash compensation otherwise payable to such Eligible Individual.

9.4 Deferred Stock. The Administrator is authorized to grant Deferred Stock to any Eligible Individual. The number of shares of Deferred Stock shall be determined by the Administrator and may be based on one or more Performance Criteria or other specific criteria, including service to the Company or any Affiliate, as the Administrator determines, in each case on a specified date or dates or over any period or periods determined by the Administrator. Shares underlying a Deferred Stock award which is subject to a vesting schedule or other conditions or criteria set by the Administrator will not be issued until those conditions have been satisfied. Unless otherwise provided by the Administrator, a Holder of Deferred Stock shall have no rights as a Company stockholder with respect to such Deferred Stock until such time as the Award has vested and the Shares underlying the Award has been issued to the Holder.

9.5 Restricted Stock Units. The Administrator is authorized to grant Restricted Stock Units to any Eligible Individual. The number and terms and conditions of Restricted Stock Units shall be determined by the Administrator. The Administrator shall specify the date or dates on which the Restricted Stock Units shall become fully vested and nonforfeitable, and may specify such conditions to vesting as it deems appropriate, including conditions based on one or more Performance Criteria or other specific criteria, including service to the Company or any Affiliate, in each case on a specified date or dates or over any period or periods, as determined by the Administrator. The Administrator shall specify, or permit the Holder to elect, the conditions and dates upon which the Shares underlying the Restricted Stock Units which shall be issued, which dates shall not be earlier than the date as of which the Restricted Stock Units vest and become nonforfeitable and which conditions and dates shall be subject to compliance with Section 409A of the Code. Restricted Stock Units may be paid in cash, Shares, or both, as determined by the Administrator. On the distribution dates, the Company shall issue to the Holder one unrestricted, fully transferable Share (or the Fair Market Value of one such Share in cash) for each vested and nonforfeitable Restricted Stock Unit.

9.6 Term. The term of a Performance Award, Dividend Equivalent award, Deferred Stock award, Stock Payment award and/or Restricted Stock Unit award shall be set by the Administrator in its sole discretion.

9.7 Exercise or Purchase Price. The Administrator may establish the exercise or purchase price of a Performance Award, shares of Deferred Stock, shares distributed as a Stock Payment award or shares distributed pursuant to a Restricted Stock Unit award; provided, however, that value of the consideration shall not be less than the par value of a Share, unless otherwise permitted by applicable law.

9.8 Exercise upon Termination of Service. A Performance Award, Dividend Equivalent award, Deferred Stock award, Stock Payment award and/or Restricted Stock Unit award is exercisable or distributable only while the Holder is an Employee, Director or Consultant, as applicable. The Administrator, however, in its sole discretion may provide that the Performance Award, Dividend Equivalent award, Deferred Stock award, Stock Payment award and/or Restricted Stock Unit award may be exercised or distributed subsequent to a Termination of Service in certain events, including a Change in Control, the Holder's death, retirement or disability or any other specified Termination of Service.

ARTICLE 10.

AWARD OF STOCK APPRECIATION RIGHTS

10.1 Grant of Stock Appreciation Rights.

(a) The Administrator is authorized to grant Stock Appreciation Rights to Eligible Individuals from time to time, in its sole discretion, on such terms and conditions as it may determine consistent with the Plan.

(b) A Stock Appreciation Right shall entitle the Holder (or other person entitled to exercise the Stock Appreciation Right pursuant to the Plan) to exercise all or a specified portion of the Stock Appreciation Right (to the extent then exercisable pursuant to its terms) and to receive from the Company an amount determined by multiplying the difference obtained by subtracting the exercise price per share of the Stock Appreciation Right from the Fair Market Value on the date of exercise of the Stock Appreciation Right by the number of Shares with respect to which the Stock Appreciation Right shall have been exercised, subject to any limitations the Administrator may impose. Except as described in (c) below, the exercise price per Share subject to each Stock Appreciation Right shall be set by the Administrator, but shall not be less than 100% of the Fair Market Value on the date the Stock Appreciation Right is granted.

(c) Notwithstanding the foregoing provisions of Section 10.1(b) to the contrary, in the case of a Stock Appreciation Right that is a Substitute Award, the price per share of the shares subject to such Stock Appreciation Right may be less than 100% of the Fair Market Value per share on the date of grant; provided, that the excess of: (a) the aggregate Fair Market Value (as of the date such Substitute Award is granted) of the shares subject to the Substitute Award, over (b) the aggregate exercise price thereof does not exceed the excess of: (x) the aggregate fair market value (as of the time immediately preceding the transaction giving rise to the Substitute Award, such fair market value to be determined by the Administrator) of the shares of the predecessor entity that were subject to the grant assumed or substituted for by the Company, over (y) the aggregate exercise price of such shares.

10.2 Stock Appreciation Right Vesting.

(a) The period during which the right to exercise, in whole or in part, a Stock Appreciation Right vests in the Holder shall be set by the Administrator and the Administrator may determine that a Stock Appreciation Right may not be exercised in whole or in part for a specified period after it is granted. Such vesting may be based on service with the Company or any Affiliate, or any other criteria selected by the Administrator. At any time after grant of a Stock Appreciation Right, the Administrator may, in its sole discretion and subject to whatever terms and conditions it selects, accelerate the period during which a Stock Appreciation Right vests.

(b) No portion of a Stock Appreciation Right which is unexercisable at Termination of Service shall thereafter become exercisable, except as may be otherwise provided by the Administrator either in the applicable Program or Award Agreement or by action of the Administrator following the grant of the Stock Appreciation Right.

10.3 Manner of Exercise. All or a portion of an exercisable Stock Appreciation Right shall be deemed exercised upon delivery of all of the following to the stock administrator of the Company, or such other person or entity designated by the Administrator, or his, her or its office, as applicable:

(a) A written or electronic notice complying with the applicable rules established by the Administrator stating that the Stock Appreciation Right, or a portion thereof, is exercised. The notice shall be signed by the Holder or other person then entitled to exercise the Stock Appreciation Right or such portion of the Stock Appreciation Right;

(b) Such representations and documents as the Administrator, in its sole discretion, deems necessary or advisable to effect compliance with all applicable provisions of the Securities Act and any other federal, state or foreign securities laws or regulations. The Administrator may, in its sole discretion, also take whatever additional actions it deems appropriate to effect such compliance; and

(c) In the event that the Stock Appreciation Right shall be exercised pursuant to this Section 10.3 by any person or persons other than the Holder, appropriate proof of the right of such person or persons to exercise the Stock Appreciation Right.

10.4 Stock Appreciation Right Term. The term of each Stock Appreciation Right shall be set by the Administrator in its sole discretion; provided, however, that the term shall not be more than ten (10) years from the date the Stock Appreciation Right is granted. The Administrator shall determine the time period, including the time period following a Termination of Service, during which the Holder has the right to exercise the vested Stock Appreciation Rights, which time period may not extend beyond the expiration date of the Stock Appreciation Right term. Except as limited by the requirements of Section 409A of the Code and regulations and rulings thereunder, the Administrator may extend the term of any outstanding Stock Appreciation Right, and may extend the time period during which vested Stock Appreciation Rights may be exercised, in connection with any Termination of Service of the Holder, and may amend any other term or condition of such Stock Appreciation Right relating to such a Termination of Service.

10.5 Payment. Payment of the amounts payable with respect to Stock Appreciation Rights pursuant to this Article 10 shall be in cash, Shares (based on its Fair Market Value as of the date the Stock Appreciation Right is exercised), or a combination of both, as determined by the Administrator.

## **ARTICLE 11.**

### **ADDITIONAL TERMS OF AWARDS**

11.1 Payment. The Administrator shall determine the methods by which payments by any Holder with respect to any Awards granted under the Plan shall be made, including, without limitation: (a) cash or check, (b) Shares (including, in the case of payment of the exercise price of an Award, Shares issuable pursuant to the exercise of the Award) or Shares held for such period of time as may be required by the Administrator in order to avoid adverse accounting consequences, in each case, having a Fair Market Value on the date of delivery equal to the aggregate payments required, (c) delivery of a written or electronic notice that the Holder has placed a market sell order with a broker with respect to Shares then issuable upon exercise or vesting of an Award, and that the broker has been directed to pay a sufficient portion of the net proceeds of the sale to the Company in

satisfaction of the aggregate payments required; provided, that payment of such proceeds is then made to the Company upon settlement of such sale, or (d) other form of legal consideration acceptable to the Administrator. The Administrator shall also determine the methods by which Shares shall be delivered or deemed to be delivered to Holders. Notwithstanding any other provision of the Plan to the contrary, no Holder who is a Director or an “executive officer” of the Company within the meaning of Section 13(k) of the Exchange Act shall be permitted to make payment with respect to any Awards granted under the Plan, or continue any extension of credit with respect to such payment with a loan from the Company or a loan arranged by the Company in violation of Section 13(k) of the Exchange Act.

11.2 Tax Withholding. The Company or any Affiliate shall have the authority and the right to deduct or withhold, or require a Holder to remit to the Company, an amount sufficient to satisfy federal, state, local and foreign taxes (including the Holder’s FICA or employment tax obligation) required by law to be withheld with respect to any taxable event concerning a Holder arising as a result of the Plan. The Administrator may in its sole discretion and in satisfaction of the foregoing requirement allow a Holder to elect to have the Company withhold Shares otherwise issuable under an Award (or allow the surrender of Shares). The number of Shares which may be so withheld or surrendered shall be limited to the number of shares which have a fair market value on the date of withholding or repurchase equal to the aggregate amount of such liabilities based on the minimum statutory withholding rates for federal, state, local and foreign income tax and payroll tax purposes that are applicable to such supplemental taxable income. The Administrator shall determine the fair market value of the Shares, consistent with applicable provisions of the Code, for tax withholding obligations due in connection with a broker-assisted cashless Option or Stock Appreciation Right exercise involving the sale of shares to pay the Option or Stock Appreciation Right exercise price or any tax withholding obligation.

### 11.3 Transferability of Awards.

(a) Except as otherwise provided in Section 11.3(b):

(i) No Award under the Plan may be sold, pledged, assigned or transferred in any manner other than by will or the laws of descent and distribution or, subject to the consent of the Administrator, pursuant to a DRO, unless and until such Award has been exercised, or the shares underlying such Award have been issued, and all restrictions applicable to such shares have lapsed;

(ii) No Award or interest or right therein shall be liable for the debts, contracts or engagements of the Holder or his successors in interest or shall be subject to disposition by transfer, alienation, anticipation, pledge, hypothecation, encumbrance, assignment or any other means whether such disposition be voluntary or involuntary or by operation of law by judgment, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy), and any attempted disposition thereof shall be null and void and of no effect, except to the extent that such disposition is permitted by the preceding sentence; and

(iii) During the lifetime of the Holder, only the Holder may exercise an Award (or any portion thereof) granted to him under the Plan, unless it has been disposed of pursuant to a DRO; after the death of the Holder, any exercisable portion of an Award may, prior to the time when such portion becomes unexercisable under the Plan or the applicable Program or Award Agreement, be exercised by his personal representative or by any person empowered to do so under the deceased Holder’s will or under the then applicable laws of descent and distribution.

(b) Notwithstanding Section 11.3(a), the Administrator, in its sole discretion, may determine to permit a Holder to transfer an Award other than an Incentive Stock Option to any one or more Permitted Transferees, subject to the following terms and conditions: (i) an Award transferred to a Permitted Transferee shall not be assignable or transferable by the Permitted Transferee other than by will or the laws of descent and distribution; (ii) an Award transferred to a Permitted Transferee shall continue to be subject to all the terms and conditions of the Award as applicable to the original Holder (other than the ability to further transfer the Award); and (iii) the Holder and the Permitted Transferee shall execute any and all documents requested by the Administrator, including, without limitation documents to (A) confirm the status of the transferee as a Permitted Transferee, (B) satisfy any requirements for an exemption for the transfer under applicable federal, state and foreign securities laws and (C) evidence the transfer.

(c) Notwithstanding Section 11.3(a), a Holder may, in the manner determined by the Administrator, designate a beneficiary to exercise the rights of the Holder and to receive any distribution with respect to any Award upon the Holder's death. A beneficiary, legal guardian, legal representative, or other person claiming any rights pursuant to the Plan is subject to all terms and conditions of the Plan and any Program or Award Agreement applicable to the Holder, except to the extent the Plan, the Program and the Award Agreement otherwise provide, and to any additional restrictions deemed necessary or appropriate by the Administrator. If the Holder is married and resides in a community property state, a designation of a person other than the Holder's spouse as his or her beneficiary with respect to more than 50% of the Holder's interest in the Award shall not be effective without the prior written or electronic consent of the Holder's spouse. If no beneficiary has been designated or survives the Holder, payment shall be made to the person entitled thereto pursuant to the Holder's will or the laws of descent and distribution. Subject to the foregoing, a beneficiary designation may be changed or revoked by a Holder at any time provided the change or revocation is filed with the Administrator prior to the Holder's death.

#### 11.4 Conditions to Issuance of Shares.

(a) Notwithstanding anything herein to the contrary, the Company shall not be required to issue or deliver any certificates or make any book entries evidencing Shares pursuant to the exercise of any Award, unless and until the Board or the Committee has determined, with advice of counsel, that the issuance of such shares is in compliance with all applicable laws, regulations of governmental authorities and, if applicable, the requirements of any exchange on which the Shares are listed or traded, and the Shares are covered by an effective registration statement or applicable exemption from registration. In addition to the terms and conditions provided herein, the Board or the Committee may require that a Holder make such reasonable covenants, agreements, and representations as the Board or the Committee, in its discretion, deems advisable in order to comply with any such laws, regulations, or requirements.

(b) All Share certificates delivered pursuant to the Plan and all shares issued pursuant to book entry procedures are subject to any stop-transfer orders and other restrictions as the Administrator deems necessary or advisable to comply with federal, state, or foreign securities or other laws, rules and regulations and the rules of any securities exchange or automated quotation system on which the Shares are listed, quoted, or traded. The Administrator may place legends on any Share certificate or book entry to reference restrictions applicable to the Shares.

(c) The Administrator shall have the right to require any Holder to comply with any timing or other restrictions with respect to the settlement, distribution or exercise of any Award, including a window-period limitation, as may be imposed in the sole discretion of the Administrator.

(d) No fractional Shares shall be issued and the Administrator shall determine, in its sole discretion, whether cash shall be given in lieu of fractional shares or whether such fractional shares shall be eliminated by rounding down.

(e) Notwithstanding any other provision of the Plan, unless otherwise determined by the Administrator or required by any applicable law, rule or regulation, the Company shall not deliver to any Holder certificates evidencing Shares issued in connection with any Award and instead such Shares shall be recorded in the books of the Company (or, as applicable, its transfer agent or stock plan administrator).

11.5 Forfeiture Provisions. Pursuant to its general authority to determine the terms and conditions applicable to Awards under the Plan, the Administrator shall have the right to provide, in the terms of Awards made under the Plan, or to require a Holder to agree by separate written or electronic instrument, that: (a)(i) any proceeds, gains or other economic benefit actually or constructively received by the Holder upon any receipt or exercise of the Award, or upon the receipt or resale of any Shares underlying the Award, must be paid to the Company, and (ii) the Award shall terminate and any unexercised portion of the Award (whether or not vested) shall be forfeited, if (b)(i) a Termination of Service occurs prior to a specified date, or within a specified time period following receipt or exercise of the Award, or (ii) the Holder at any time, or during a specified time period, engages in any activity in competition with the Company, or which is inimical, contrary or harmful to the interests of the Company, as further defined by the Administrator or (iii) the Holder incurs a Termination of Service for Cause.

11.6 Prohibition on Repricing. Subject to Section 13.2, the Administrator shall not, without the approval of the stockholders of the Company, (i) authorize the amendment of any outstanding Option or Stock Appreciation Right to reduce its price per share, or (ii) cancel any Option or Stock Appreciation Right in exchange for cash or another Award when the Option or Stock Appreciation Right price per share exceeds the Fair Market Value of the underlying Shares. Subject to Section 13.2, the Administrator shall have the authority, without the approval of the stockholders of the Company, to amend any outstanding award to increase the price per share or to cancel and replace an Award with the grant of an Award having a price per share that is greater than or equal to the price per share of the original Award.

## ARTICLE 12.

### ADMINISTRATION

12.1 Administrator. The Compensation Committee (or another committee or a subcommittee of the Board assuming the functions of the Committee under the Plan) shall administer the Plan (except as otherwise permitted herein) and, unless otherwise determined by the Board, shall consist solely of two or more Non-Employee Directors appointed by and holding office at the pleasure of the Board, each of whom is intended to qualify as both a “non-employee director” as

defined by Rule 16b-3 of the Exchange Act or any successor rule, an “outside director” for purposes of Section 162(m) of the Code and an “independent director” under the rules of any securities exchange or automated quotation system on which the Shares are listed, quoted or traded; provided, that any action taken by the Committee shall be valid and effective, whether or not members of the Committee at the time of such action are later determined not to have satisfied the requirements for membership set forth in this Section 12.1 or otherwise provided in any charter of the Committee. Except as may otherwise be provided in any charter of the Committee, appointment of Committee members shall be effective upon acceptance of appointment. Committee members may resign at any time by delivering written or electronic notice to the Board. Vacancies in the Committee may only be filled by the Board. Notwithstanding the foregoing, (a) the full Board, acting by a majority of its members in office, shall conduct the general administration of the Plan with respect to Awards granted to Non-Employee Directors and (b) the Board or Committee may delegate its authority hereunder to the extent permitted by Section 12.6.

12.2 Duties and Powers of Committee. It shall be the duty of the Committee to conduct the general administration of the Plan in accordance with its provisions. The Committee shall have the power to interpret the Plan, the Program and the Award Agreement, and to adopt such rules for the administration, interpretation and application of the Plan as are not inconsistent therewith, to interpret, amend or revoke any such rules and to amend any Program or Award Agreement provided that the rights or obligations of the Holder of the Award that is the subject of any such Program or Award Agreement are not affected adversely by such amendment, unless the consent of the Holder is obtained or such amendment is otherwise permitted under Section 13.10. Any such grant or award under the Plan need not be the same with respect to each Holder. Any such interpretations and rules with respect to Incentive Stock Options shall be consistent with the provisions of Section 422 of the Code. In its sole discretion, the Board may at any time and from time to time exercise any and all rights and duties of the Committee under the Plan except with respect to matters which under Rule 16b-3 under the Exchange Act or any successor rule, or Section 162(m) of the Code, or any regulations or rules issued thereunder, or the rules of any securities exchange or automated quotation system on which the Shares are listed, quoted or traded are required to be determined in the sole discretion of the Committee.

12.3 Action by the Committee. Unless otherwise established by the Board or in any charter of the Committee, a majority of the Committee shall constitute a quorum and the acts of a majority of the members present at any meeting at which a quorum is present, and acts approved in writing by all members of the Committee in lieu of a meeting, shall be deemed the acts of the Committee. Each member of the Committee is entitled to, in good faith, rely or act upon any report or other information furnished to that member by any officer or other employee of the Company or any Affiliate, the Company’s independent certified public accountants, or any executive compensation consultant or other professional retained by the Company to assist in the administration of the Plan.

12.4 Authority of Administrator. Subject to any specific designation in the Plan, the Administrator has the exclusive power, authority and sole discretion to:

- (a) Designate Eligible Individuals to receive Awards;
- (b) Determine the type or types of Awards to be granted to each Eligible Individual;

(c) Determine the number of Awards to be granted and the number of Shares to which an Award will relate;

(d) Determine the terms and conditions of any Award granted pursuant to the Plan, including, but not limited to, the exercise price, grant price, or purchase price, any performance criteria, any reload provision, any restrictions or limitations on the Award, any schedule for vesting, lapse of forfeiture restrictions or restrictions on the exercisability of an Award, and accelerations or waivers thereof, and any provisions related to non-competition and recapture of gain on an Award, based in each case on such considerations as the Administrator in its sole discretion determines;

(e) Determine whether, to what extent, and pursuant to what circumstances an Award may be settled in, or the exercise price of an Award may be paid in cash, Shares, other Awards, or other property, or an Award may be canceled, forfeited, or surrendered;

(f) Prescribe the form of each Award Agreement, which need not be identical for each Holder;

(g) Decide all other matters that must be determined in connection with an Award;

(h) Establish, adopt, or revise any rules and regulations as it may deem necessary or advisable to administer the Plan;

(i) Interpret the terms of, and any matter arising pursuant to, the Plan, any Program or any Award Agreement; and

(j) Make all other decisions and determinations that may be required pursuant to the Plan or as the Administrator deems necessary or advisable to administer the Plan.

12.5 Decisions Binding. The Administrator's interpretation of the Plan, any Awards granted pursuant to the Plan, any Program, any Award Agreement and all decisions and determinations by the Administrator with respect to the Plan are final, binding, and conclusive on all parties.

12.6 Delegation of Authority. To the extent permitted by applicable law or the rules of any securities exchange or automated quotation system on which the Shares are listed, quoted or traded, the Board or Committee may from time to time delegate to a committee of one or more members of the Board or one or more officers of the Company the authority to grant or amend Awards or to take other administrative actions pursuant to Article 12; provided, however, that in no event shall an officer of the Company be delegated the authority to grant awards to, or amend awards held by, the following individuals:

(a) individuals who are subject to Section 16 of the Exchange Act, (b) Covered Employees, or (c) officers of the Company (or Directors) to whom authority to grant or amend Awards has been delegated hereunder; provided further, that any delegation of administrative authority shall only be permitted to the extent it is permissible under Section 162(m) of the Code and applicable securities laws or the rules of any securities exchange or automated quotation system on which the Shares are listed, quoted or traded. Any delegation hereunder shall be subject to the restrictions and limits that the Board or Committee specifies at the time of such delegation, and the Board may at any time rescind the authority so delegated or appoint a new delegatee. At all times, the delegatee appointed under this Section 12.6 shall serve in such capacity at the pleasure of the Board and the Committee.

## ARTICLE 13.

### MISCELLANEOUS PROVISIONS

13.1 Amendment, Suspension or Termination of the Plan. Except as otherwise provided in this Section 13.1, the Plan may be wholly or partially amended or otherwise modified, suspended or terminated at any time or from time to time by the Board or the Committee. However, without approval of the Company's stockholders given within twelve (12) months before or after the action by the Administrator, no action of the Administrator may, except as provided in Section 13.2, (i) increase the limits imposed in Section 3.1 on the maximum number of shares which may be issued under the Plan, or (ii) reduce the price per share of any outstanding Option or Stock Appreciation Right granted under the Plan, or (iii) cancel any Option or Stock Appreciation Right in exchange for cash or another Award when the Option or Stock Appreciation Right price per share exceeds the Fair Market Value of the underlying Shares. Except as provided in Section 13.10, no amendment, suspension or termination of the Plan shall, without the consent of the Holder, impair any rights or obligations under any Award theretofore granted or awarded, unless the Award itself otherwise expressly so provides. No Awards may be granted or awarded during any period of suspension or after termination of the Plan, and in no event may any Award be granted under the Plan after the tenth (10th) anniversary of the Effective Date.

#### 13.2 Changes in Common Stock or Assets of the Company, Acquisition or Liquidation of the Company and Other Corporate Events.

(a) In the event of any stock dividend, stock split, combination or exchange of shares, merger, consolidation or other distribution (other than normal cash dividends) of Company assets to stockholders, or any other change affecting the shares of the Company's stock or the share price of the Company's stock other than an Equity Restructuring, the Administrator shall make equitable adjustments, if any, to reflect such change with respect to (i) the aggregate number and kind of shares that may be issued under the Plan (including, but not limited to, adjustments of the limitations in Section 3.1 on the maximum number and kind of shares which may be issued under the Plan and adjustments of the Award Limit; (ii) the number and kind of shares of Common Stock (or other securities or property) subject to outstanding Awards; (iii) the terms and conditions of any outstanding Awards (including, without limitation, any applicable performance targets or criteria with respect thereto); and (iv) the grant or exercise price per share for any outstanding Awards under the Plan. Any adjustment affecting an Award intended as Performance-Based Compensation shall be made consistent with the requirements of Section 162(m) of the Code.

(b) In the event of any transaction or event described in Section 13.2(a) or any unusual or nonrecurring transactions or events affecting the Company, any Affiliate of the Company, or the financial statements of the Company or any Affiliate, or of changes in applicable laws, regulations or accounting principles, the Administrator, in its sole discretion, and on such terms and conditions as it deems appropriate, either by the terms of the Award or by action taken prior to the occurrence of such transaction or event and either automatically or upon the Holder's request, is hereby authorized to take any one or more of the following actions whenever the Administrator determines that such action is appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan or with respect to any Award under the Plan, to facilitate such transactions or events or to give effect to such changes in laws, regulations or principles:

(i) To provide for either (A) termination of any such Award in exchange for an amount of cash, if any, equal to the amount that would have been attained upon the exercise of such Award or realization of the Holder's rights (and, for the avoidance of doubt, if as of the date of the occurrence of the transaction or event described in this Section 13.2 the Administrator determines in good faith that no amount would have been attained upon the exercise of such Award or realization of the Holder's rights, then such Award may be terminated by the Company without payment) or (B) the replacement of such Award with other rights or property selected by the Administrator in its sole discretion having an aggregate value not exceeding the amount that could have been attained upon the exercise of such Award or realization of the Holder's rights had such Award been currently exercisable or payable or fully vested;

(ii) To provide that such Award be assumed by the successor or survivor corporation, or a parent or subsidiary thereof, or shall be substituted for by similar options, rights or awards covering the stock of the successor or survivor corporation, or a parent or subsidiary thereof, with appropriate adjustments as to the number and kind of shares and prices;

(iii) To make adjustments in the number and type of shares of the Company's stock (or other securities or property) subject to outstanding Awards, and in the number and kind of outstanding Restricted Stock or Deferred Stock and/or in the terms and conditions of (including the grant or exercise price), and the criteria included in, outstanding Awards and Awards which may be granted in the future;

(iv) To provide that such Award shall be exercisable or payable or fully vested with respect to all shares covered thereby, notwithstanding anything to the contrary in the Plan or the applicable Program or Award Agreement; and

(v) To provide that the Award cannot vest, be exercised or become payable after such event.

(c) In connection with the occurrence of any Equity Restructuring, and notwithstanding anything to the contrary in Sections 13.2(a) and 13.2(b):

(i) The number and type of securities subject to each outstanding Award and the exercise price or grant price thereof, if applicable, shall be equitably adjusted; and/or

(ii) The Administrator shall make such equitable adjustments, if any, as the Administrator in its discretion may deem appropriate to reflect such Equity Restructuring with respect to the aggregate number and kind of shares that may be issued under the Plan (including, but not limited to, adjustments of the limitations in Section 3.1 on the maximum number and kind of shares which may be issued under the Plan and adjustments of the Award Limit. The adjustments provided under this Section 13.2(c) shall be nondiscretionary and shall be final and binding on the affected Holder and the Company.

(d) Notwithstanding any other provision of the Plan, in the event of a Change in Control, each outstanding Award shall be assumed or an equivalent Award substituted by the successor corporation or a parent or subsidiary of the successor corporation. In the event an Award is assumed or an equivalent Award substituted, and the Holder's service is terminated by the successor or surviving corporation or entity other than for Cause upon or within twelve (12) months following the Change in Control, then such Holder shall be fully vested in such assumed or substituted Award.

(e) In the event that the successor corporation in a Change in Control refuses to assume or substitute for the Award, the Administrator may cause any or all of such Awards to become fully exercisable immediately prior to the consummation of such transaction and all forfeiture restrictions on any or all of such Awards to lapse. If an Award is exercisable in lieu of assumption or substitution in the event of a Change in Control, the Administrator shall notify the Holder that the Award shall be fully exercisable for a period of fifteen (15) days from the date of such notice, contingent upon the occurrence of the Change in Control, and the Award shall terminate upon the expiration of such period.

(f) For the purposes of this Section 13.2, an Award shall be considered assumed if, following the Change in Control, the Award confers the right to purchase or receive, for each share of Common Stock subject to the Award immediately prior to the Change in Control, the consideration (whether stock, cash, or other securities or property) received in the Change in Control by holders of Common Stock for each share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding shares); provided, however, that if such consideration received in the Change in Control was not solely common stock of the successor corporation or its parent, the Administrator may, with the consent of the successor corporation, provide for the consideration to be received upon the exercise of the Award, for each share of Common Stock subject to an Award, to be solely common stock of the successor corporation or its parent equal in fair market value to the per share consideration received by holders of Common Stock in the Change in Control.

(g) The Administrator may, in its sole discretion, include such further provisions and limitations in any Award, agreement or certificate, as it may deem equitable and in the best interests of the Company that are not inconsistent with the provisions of the Plan.

(h) With respect to Awards which are granted to Covered Employees and are intended to qualify as Performance-Based Compensation, no adjustment or action described in this Section 13.2 or in any other provision of the Plan shall be authorized to the extent that such adjustment or action would cause such Award to fail to so qualify as Performance-Based Compensation, unless the Administrator determines that the Award should not so qualify. No adjustment or action described in this Section 13.2 or in any other provision of the Plan shall be authorized to the extent that such adjustment or action would cause the Plan to violate Section 422(b)(1) of the Code. Furthermore, no such adjustment or action shall be authorized to the extent such adjustment or action would result in short-swing profits liability under Section 16 or violate the exemptive conditions of Rule 16b-3 unless the Administrator determines that the Award is not to comply with such exemptive conditions.

(i) The existence of the Plan, the Program, the Award Agreement and the Awards granted hereunder shall not affect or restrict in any way the right or power of the Company or the stockholders of the Company to make or authorize any adjustment, recapitalization, reorganization or other change in the Company's capital structure or its business, any merger or consolidation of the Company, any issue of stock or of options, warrants or rights to purchase stock or of bonds, debentures, preferred or prior preference stocks whose rights are superior to or affect the Common Stock or the rights thereof or which are convertible into or exchangeable for Common Stock, or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.

(j) No action shall be taken under this Section 13.2 which shall cause an Award to fail to comply with Section 409A of the Code or the Treasury Regulations thereunder, to the extent applicable to such Award.

(k) In the event of any pending stock dividend, stock split, combination or exchange of shares, merger, consolidation or other distribution (other than normal cash dividends) of Company assets to stockholders, or any other change affecting the shares of Common Stock or the share price of the Common Stock including any Equity Restructuring, for reasons of administrative convenience, the Company in its sole discretion may refuse to permit the exercise of any Award during a period of thirty (30) days prior to the consummation of any such transaction.

13.3 Approval of Plan by Stockholders. The Plan will be submitted for the approval of the Company's stockholders within twelve (12) months after the date of the Board's initial adoption of the Plan. The Plan shall become effective upon such stockholder approval.

13.4 No Stockholders Rights. Except as otherwise provided herein, a Holder shall have none of the rights of a stockholder with respect to shares of Common Stock covered by any Award until the Holder becomes the record owner of such shares of Common Stock.

13.5 Paperless Administration. In the event that the Company establishes, for itself or using the services of a third party, an automated system for the documentation, granting or exercise of Awards, such as a system using an internet website or interactive voice response, then the paperless documentation, granting or exercise of Awards by a Holder may be permitted through the use of such an automated system.

13.6 Effect of Plan upon Other Compensation Plans. The adoption of the Plan shall not affect any other compensation or incentive plans in effect for the Company or any Affiliate. Nothing in the Plan shall be construed to limit the right of the Company or any Affiliate: (a) to establish any other forms of incentives or compensation for Employees, Directors or Consultants of the Company or any Affiliate, or (b) to grant or assume options or other rights or awards otherwise than under the Plan in connection with any proper corporate purpose including without limitation, the grant or assumption of options in connection with the acquisition by purchase, lease, merger, consolidation or otherwise, of the business, stock or assets of any corporation, partnership, limited liability company, firm or association.

13.7 Compliance with Laws. The Plan, the granting and vesting of Awards under the Plan and the issuance and delivery of Shares and the payment of money under the Plan or under Awards granted or awarded hereunder are subject to compliance with all applicable federal, state, local and foreign laws, rules and regulations (including but not limited to state, federal and foreign securities law and margin requirements), the rules of any securities exchange or automated quotation system on which the Shares are listed, quoted or traded, and to such approvals by any listing, regulatory or governmental authority as may, in the opinion of counsel for the Company, be necessary or advisable in connection therewith. Any securities delivered under the Plan shall be subject to such restrictions, and the person acquiring such securities shall, if requested by the Company, provide such assurances and representations to the Company as the Company may deem necessary or desirable to assure compliance with all applicable legal requirements. To the extent permitted by applicable law, the Plan and Awards granted or awarded hereunder shall be deemed amended to the extent necessary to conform to such laws, rules and regulations.

13.8 Titles and Headings, References to Sections of the Code or Exchange Act. The titles and headings of the Sections in the Plan are for convenience of reference only and, in the event of any conflict, the text of the Plan, rather than such titles or headings, shall control. References to sections of the Code or the Exchange Act shall include any amendment or successor thereto.

13.9 Governing Law. The Plan and any agreements hereunder shall be administered, interpreted and enforced under the internal laws of the State of Delaware without regard to conflicts of laws thereof.

13.10 Section 409A. To the extent that the Administrator determines that any Award granted under the Plan is subject to Section 409A of the Code, the Program pursuant to which such Award is granted and the Award Agreement evidencing such Award shall incorporate the terms and conditions required by Section 409A of the Code. To the extent applicable, the Plan, the Program and any Award Agreements shall be interpreted in accordance with Section 409A of the Code and Department of Treasury regulations and other interpretive guidance issued thereunder, including without limitation any such regulations or other guidance that may be issued after the Effective Date. Notwithstanding any provision of the Plan to the contrary, in the event that following the Effective Date the Administrator determines that any Award may be subject to Section 409A of the Code and related Department of Treasury guidance (including such Department of Treasury guidance as may be issued after the Effective Date), the Administrator may adopt such amendments to the Plan and the applicable Program and Award Agreement or adopt other policies and procedures (including amendments, policies and procedures with retroactive effect), or take any other actions, that the Administrator determines are necessary or appropriate to (a) exempt the Award from Section 409A of the Code and/or preserve the intended tax treatment of the benefits provided with respect to the Award, or (b) comply with the requirements of Section 409A of the Code and related Department of Treasury guidance and thereby avoid the application of any penalty taxes under such Section.

13.11 No Rights to Awards. No Eligible Individual or other person shall have any claim to be granted any Award pursuant to the Plan, and neither the Company nor the Administrator is obligated to treat Eligible Individuals, Holders or any other persons uniformly.

13.12 Unfunded Status of Awards. The Plan is intended to be an “unfunded” plan for incentive compensation. With respect to any payments not yet made to a Holder pursuant to an Award, nothing contained in the Plan or any Program or Award Agreement shall give the Holder any rights that are greater than those of a general creditor of the Company or any Affiliate.

13.13 Indemnification. To the extent allowable pursuant to applicable law, each member of the Committee or of the Board shall be indemnified and held harmless by the Company from any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by such member in connection with or resulting from any claim, action, suit, or proceeding to which he or she may be a party or in which he or she may be involved by reason of any action or failure to act pursuant to the Plan and against and from any and all amounts paid by him or her in satisfaction of judgment in such action, suit, or proceeding against him or her; provided he or she gives the Company an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it on his or her own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled pursuant to the Company's Certificate of Incorporation or Bylaws, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

13.14 Relationship to other Benefits. No payment pursuant to the Plan shall be taken into account in determining any benefits under any pension, retirement, savings, profit sharing, group insurance, welfare or other benefit plan of the Company or any Affiliate except to the extent otherwise expressly provided in writing in such other plan or an agreement thereunder.

13.15 Expenses. The expenses of administering the Plan shall be borne by the Company and its Subsidiaries.

Approved by the stockholders of Steel Connect, Inc. on April 12, 2018.

**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, James R. Henderson, 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 15, 2018

By: \_\_\_\_\_ /S/ JAMES R. HENDERSON  
**James R. Henderson**  
**President and Chief Executive Officer**  
**(Principal Executive Officer)**



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

In connection with the Quarterly Report on Form 10-Q of Steel Connect, Inc. (the "Company") for the fiscal quarter ended April 30, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, James R. Henderson, 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 15, 2018

By: \_\_\_\_\_ /S/ JAMES R. HENDERSON

**James R. Henderson**  
**President and Chief Executive Officer**  
**(Principal Executive Officer)**

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

In connection with the Quarterly Report on Form 10-Q of Steel Connect, Inc. (the "Company") for the fiscal quarter ended April 30, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Louis J. Belardi, 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 15, 2018

By: \_\_\_\_\_ /S/ LOUIS J. BELARDI

**Louis J. Belardi**  
**Chief Financial Officer**  
**(Principal Financial and Accounting Officer)**