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

FORM 10-Q

(Mark One)

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

For the quarterly period ended January 31, 2023

OR

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

For the transition period from __________ to __________

Commission File Number 001-35319

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

Delaware **(State or other jurisdiction of incorporation or organization)**	**04-2921333** **(I.R.S. Employer Identification No.)**
2000 Midway Ln **Smyrna, Tennessee** **(Address of principal executive offices)**	**37167** **(Zip Code)**

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

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.01 par value	STCN	Nasdaq Capital Market
Rights to Purchase Series D Junior Participating Preferred Stock	--	Nasdaq Capital Market

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

As of March 7, 2023, there were 60,784,589 shares issued and outstanding of the registrant's Common Stock, $0.01 par value per share.

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)

	January 31, 2023 (unaudited)	July 31, 2022
ASSETS		
Cash and cash equivalents	$ 62,427	$ 53,142
Accounts receivable, trade, net of allowance for doubtful accounts of $1,008 and $44 at January 31, 2023 and July 31, 2022, respectively	37,180	40,083
Inventories, net	8,916	8,151
Funds held for clients	4,354	4,903
Prepaid expenses and other current assets	5,223	3,551
Total current assets	118,100	109,830
Property and equipment, net	3,493	3,534
Operating lease right-of-use assets	30,538	19,655
Other assets	3,981	4,730
Total assets	$ 156,112	$ 137,749
LIABILITIES, CONTINGENTLY REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS' DEFICIT		
Accounts payable	$ 32,805	$ 30,553
Accrued expenses	25,632	28,396
Funds held for clients	4,323	4,903
Current lease obligations	7,665	6,466
Other current liabilities	15,031	13,482
Total current liabilities	85,456	83,800
Convertible note payable	12,104	11,047
Long-term lease obligations	22,904	12,945
Other long-term liabilities	5,222	3,983
Total long-term liabilities	40,230	27,975
Total liabilities	125,686	111,775
Contingently redeemable preferred stock, $0.01 par value per share. 35,000 shares authorized, issued and outstanding at January 31, 2023 and July 31, 2022	35,180	35,180
Stockholders' deficit:		
Preferred stock, $0.01 par value per share. 4,965,000 shares authorized at January 31, 2023 and July 31, 2022; zero shares issued and outstanding at January 31, 2023 and July 31, 2022	—	—
Common stock, $0.01 par value per share. Authorized 1,400,000,000 shares; 60,784,589 issued and outstanding shares at January 31, 2023; 60,529,558 issued and outstanding shares at July 31, 2022	607	605
Additional paid-in capital	7,479,719	7,479,366
Accumulated deficit	(7,489,960)	(7,493,317)
Accumulated other comprehensive income	4,880	4,140
Total stockholders' deficit	(4,754)	(9,206)
Total liabilities, contingently redeemable preferred stock and stockholders' deficit	$ 156,112	$ 137,749

See accompanying notes to unaudited condensed consolidated financial statements

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

	Three Months Ended January 31,		Six Months Ended January 31,	
	2023	2022	2023	2022
Net revenue	$ 50,781	$ 54,322	$ 102,140	$ 98,676
Cost of revenue	37,719	43,421	74,813	78,369
Gross profit	13,062	10,901	27,327	20,307
Operating expenses:				
Selling, general and administrative	10,459	9,994	20,845	18,829
Restructuring	—	856	—	856
Total operating expenses	10,459	10,850	20,845	19,685
Operating income	2,603	51	6,482	622
Other income (expense):				
Interest income	332	1	476	5
Interest expense	(848)	(750)	(1,674)	(1,512)
Other losses, net	(2,959)	(65)	(74)	(546)
Total other expense, net	(3,475)	(814)	(1,272)	(2,053)
(Loss) income from continuing operations before income taxes	(872)	(763)	5,210	(1,431)
Income tax (benefit) expense	(346)	723	779	1,038
Net (loss) income from continuing operations	(526)	(1,486)	4,431	(2,469)
Net loss from discontinued operations	—	(21,491)	—	(40,002)
Net (loss) income	(526)	(22,977)	4,431	(42,471)
Less: Preferred dividends on redeemable preferred stock	(537)	(537)	(1,074)	(1,074)
Net (loss) income attributable to common stockholders	$ (1,063)	$ (23,514)	$ 3,357	$ (43,545)
Net (loss) income per common shares - basic				
Continuing operations	$ (0.02)	$ (0.03)	$ 0.06	$ (0.06)
Discontinued operations	—	(0.36)	—	(0.67)
Net (loss) income attributable to common stockholders	$ (0.02)	$ (0.39)	$ 0.06	$ (0.73)
Net (loss) income per common shares - diluted				
Continuing operations	$ (0.02)	$ (0.03)	$ 0.06	$ (0.06)
Discontinued operations	—	(0.36)	—	(0.67)
Net (loss) income attributable to common stockholders	$ (0.02)	$ (0.39)	$ 0.06	$ (0.73)
Weighted-average number of common shares outstanding - basic	60,178	59,748	60,129	60,027
Weighted-average number of common shares outstanding - diluted	60,178	59,748	60,637	60,027

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 January 31,		Six Months Ended January 31,	
	2023	2022	2023	2022
Net (loss) income	$ (526)	$ (22,977)	$ 4,431	$ (42,471)
Other comprehensive income (loss):				
Foreign currency translation adjustment	4,655	(13)	1,818	185
Pension liability adjustments, net of tax	—	—	(1,078)	—
Other comprehensive income (loss)	4,655	(13)	740	185
Comprehensive income (loss)	$ 4,129	$ (22,990)	$ 5,171	$ (42,286)

See accompanying notes to unaudited condensed consolidated financial statements

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

	Number of Shares	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Deficit
Balance at October 31, 2022	60,657,539	$ 606	$ 7,479,542	$ (7,488,897)	$ 225	$ (8,524)
Net loss	—	—	—	(526)	—	(526)
Preferred dividends	—	—	—	(537)	—	(537)
Restricted stock grants	127,050	1	(1)	—	—	—
Share-based compensation	—	—	178	—	—	178
Other comprehensive items	—	—	—	—	4,655	4,655
Balance at January 31, 2023	60,784,589	$ 607	$ 7,479,719	$ (7,489,960)	$ 4,880	$ (4,754)

	Number of Shares	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Deficit
Balance at October 31, 2021	60,437,654	$ 605	$ 7,478,855	$ (7,500,251)	$ 7,360	$ (13,431)
Net loss	—	—	—	(22,977)	—	(22,977)
Preferred dividends	—	—	—	(537)	—	(537)
Issuance of common stock pursuant to employee stock purchase plan	331	—	—	—	—	—
Restricted stock grants, net of forfeitures	19,735	—	—	—	—	—
Share-based compensation	—	—	218	—	—	218
Other comprehensive items	—	—	—	—	(13)	(13)
Balance at January 31, 2022	60,457,720	$ 605	$ 7,479,073	$ (7,523,765)	$ 7,347	$ (36,740)

	Number of Shares	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Deficit
Balance at July 31, 2022	60,529,558	$ 605	$ 7,479,366	$ (7,493,317)	$ 4,140	$ (9,206)
Net income	—	—	—	4,431	—	4,431
Preferred dividends	—	—	—	(1,074)	—	(1,074)
Restricted stock grants	255,031	2	(2)	—	—	—
Share-based compensation	—	—	355	—	—	355
Other comprehensive items	—	—	—	—	740	740
Balance at January 31, 2023	60,784,589	$ 607	$ 7,479,719	$ (7,489,960)	$ 4,880	$ (4,754)

	Number of Shares	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity (Deficit)
Balance at July 31, 2021	63,099,496	$ 632	$ 7,478,638	$ (7,480,220)	$ 7,162	$ 6,212
Net loss	—	—	—	(42,471)	—	(42,471)
Preferred dividends	—	—	—	(1,074)	—	(1,074)
Issuance of common stock pursuant to employee stock purchase plan	499	—	—	—	—	—
Restricted stock grants, net of forfeitures	(2,642,275)	(27)	27	—	—	—
Share-based compensation	—	—	408	—	—	408
Other comprehensive items	—	—	—	—	185	185
Balance at January 31, 2022	60,457,720	$ 605	$ 7,479,073	$ (7,523,765)	$ 7,347	$ (36,740)

See accompanying notes to unaudited condensed consolidated financial statements

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

	Six Months Ended January 31, 2023	Six Months Ended January 31, 2022
Cash flows from operating activities:		
Net income (loss)	$ 4,431	$ (42,471)
Less: Loss from discontinued operations, net of tax	—	(40,002)
Income (loss) from continuing operations	4,431	(2,469)
Adjustments to reconcile net income (loss) to cash flows from operating activities:		
Depreciation	924	1,175
Amortization of deferred financing costs	24	68
Accretion of debt discount	1,056	800
Share-based compensation	355	408
Non-cash lease expense	4,488	4,720
Bad debt expense (recovery)	964	(3)
Other losses, net	74	759
Changes in operating assets and liabilities:		
Accounts receivable, net	2,734	(6,665)
Inventories, net	(493)	(1,661)
Prepaid expenses and other current assets	(1,536)	(476)
Accounts payable, accrued restructuring and accrued expenses	(1,016)	5,633
Refundable and accrued income taxes, net	(845)	(319)
Other assets and liabilities	(1,572)	(4,692)
Net cash provided by (used in) operating activities	9,588	(2,722)
Cash flows from investing activities:		
Additions of property and equipment	(866)	(826)
Proceeds from the disposition of property and equipment	16	—
Net cash used in investing activities	(850)	(826)
Cash flows from financing activities:		
Preferred dividend payments	(1,074)	(1,074)
Repayments on capital lease obligations	(38)	(36)
Net cash used in financing activities	(1,112)	(1,110)
Net effect of exchange rate changes on cash, cash equivalents and restricted cash	1,110	(395)
Net increase (decrease) in cash, cash equivalents and restricted cash	8,736	(5,053)
Cash, cash equivalents and restricted cash, beginning of period	58,045	66,329
Cash, cash equivalents and restricted cash, end of period	$ 66,781	$ 61,276
Cash and cash equivalents, end of period	$ 62,427	$ 55,641
Restricted cash for funds held for clients, end of period	4,354	5,635
Cash, cash equivalents and restricted cash, end of period	$ 66,781	$ 61,276
Cash flows from discontinued operations:		
Operating activities	$ —	$ (20,446)
Investing activities	—	(6,363)
Financing activities	—	(3,000)
Net cash used in discontinued operations	$ —	$ (29,809)

See accompanying notes to unaudited condensed consolidated financial statements

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

(1) NATURE OF OPERATIONS

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

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

Disposition of IWCO Direct

On February 25, 2022 (the "Disposal Date"), the Company entered into a transaction agreement (the “Transaction Agreement”) with (a) IWCO Direct Holding Inc. ("IWCO Direct" or "Direct Marketing") and its indirect subsidiaries, (b) Cerberus Business Finance, LLC, in its capacities as collateral agent and administrative agent under a financing agreement (in such capacities, the “Agent”), dated as of December 15, 2017, between IWCO Direct, IWCO Direct’s direct and indirect subsidiaries, the Agent and the lenders party thereto (the “Lenders”) (the “Financing Agreement”), (c) the Lenders, (d) the Lenders or their respective designees listed on the signature pages to the Transaction Agreement under the caption “Participating Lender Purchasers” (the “Participating Lender Purchasers”), (e) SPH Group Holdings LLC (the “Sponsor”) and (f) Instant Web Holdings, LLC (the “Buyer”), an entity owned by the Participating Lender Purchasers. On the Effective Date (as defined in the Transaction Agreement) and pursuant to the terms of the Transaction Agreement, the Company transferred all of its interests in IWCO Direct to the Buyer as part of a negotiated restructuring of the capital structure and certain financial obligations of IWCO Direct under the Financing Agreement as contemplated by the Transaction Agreement. The results of operations of the IWCO Direct business are reported as discontinued operations for the prior year period presented. See Note 4 - "Discontinued Operations" for additional information.

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

Liquidity and Capital Resources

Historically, the Parent financed its operations and met its capital requirements primarily through funds generated from operations, the sale of its securities, borrowings from lending institutions and sales of facilities that were not fully utilized. The Parent believes it has access to adequate resources to meet its needs for normal operating costs, capital expenditures, debt obligations and working capital for at least the next twelve months. Upon a redemption request by the holder of the Series C Convertible Preferred Stock (as discussed in Note 16 - "Related Party Transactions" and in the Company's Fiscal Year 2022 Form 10-K filed), the Parent believes it is probable that it has access to adequate resources, including cash on hand and potential dividends from ModusLink, to pay the redemption price and continue its operations.

As of January 31, 2023, these resources include cash and cash equivalents and ModusLink's credit agreement with Umpqua Bank (the “Umpqua Revolver”), as lender and as agent. The Umpqua Revolver provides for a maximum credit commitment of $12.5 million and a sublimit of $5.0 million for letters of credit and expires on March 16, 2024. There was no balance outstanding on the Umpqua Revolver as of January 31, 2023. See Note 9 - "Debt" for further details regarding the Umpqua Revolver.

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

As of January 31, 2023 and July 31, 2022, the Company had cash and cash equivalents of $62.4 million and $53.1 million, respectively. As of January 31, 2023, the Company had excess working capital of $32.6 million.

COVID-19 Update

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

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

Outbreaks in Mainland China throughout 2022 (March to May, July and September to October) led to temporary lockdown orders impacting several ModusLink facilities in China; however, ModusLink was able to resume operations at all facilities and the lockdowns have not had a significant impact to ModusLink's operations through the filing of this Quarterly Report on Form 10-Q. If the situation continues at this level or worsens, however, it could result in a potential adverse impact on our business, results of operations and financial condition.

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

Terminated Merger with Steel Holdings

On June 12, 2022, the Company, Steel Partners Holdings L.P. ("Steel Holdings") and SP Merger Sub, Inc., a wholly owned subsidiary of Steel Holdings ("Merger Sub"), entered into an agreement and plan of merger (the "Merger Agreement"), pursuant to which Merger Sub would merge with and into the Company (the "Merger"), with the Company surviving the Merger as a wholly owned subsidiary of Steel Holdings. The Merger Agreement provided that each share of the Company's common stock issued and outstanding immediately prior to the effective time of the Merger (other than dissenting shares and shares owned by the Company, Steel Holdings or any of their respective subsidiaries) would, subject to the terms and conditions set forth in the Merger Agreement, be converted into the right to receive (i) $1.35 in cash, without interest and (ii) one contingent value right to receive a pro rata share of the proceeds received by the Company, Steel Holdings or any of their affiliates with respect to the sale, transfer or other disposition of all or any portion of the assets currently owned by ModusLink within two years of the Merger's closing date, to the extent such proceeds exceed $80.0 million plus certain related costs and expenses.

Steel Holdings and certain of its affiliates also entered into a Voting and Support Agreement, dated as of June 12, 2022 (the "Voting and Support Agreement"), pursuant to which, among other things, they agreed to vote all shares of common stock and Series C Convertible Preferred Stock beneficially owned by them in favor of the adoption of the Merger Agreement and the Merger and any alternative acquisition agreement approved by the Company's Board of Directors (acting on the recommendation of the special committee (the "Special Committee") of independent and disinterested directors formed to consider and negotiate the terms and conditions of the Merger and to make a recommendation to our Board of Directors).

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

On November 15, 2022, Steel Holdings terminated the Merger Agreement. The Merger Agreement was terminated following the 2021 Annual Meeting of Stockholders of the Company at which the proposal to adopt the Merger Agreement was (a) approved by the affirmative vote of the holders of (i) a majority of the outstanding shares of Series C Convertible Preferred Stock, par value $0.01 per share, of the Company and (ii) a majority in voting power of the issued and outstanding shares of common stock and Series C Convertible Preferred Stock (voting on an as converted to shares of common stock basis), voting together as a single class, but (b) not approved by a majority of the outstanding shares of common stock not owned, directly or indirectly, by Steel Holdings, and Merger Sub, any other officer or director of the Company or any other person having any equity interest in, or any right to acquire any equity interest in, Merger Sub or any person of which Merger Sub is a direct or indirect subsidiary as required under the Merger Agreement.

As a result of the termination of the Merger Agreement, the Voting and Support Agreement, dated as of June 12, 2022, by and among the Company, Steel Holdings and certain of its affiliates, automatically terminated pursuant to its terms.

(2) BASIS OF PRESENTATION

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

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

The Company considers events or transactions that occur after the balance sheet date but before the issuance of financial statements to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. For the six months ended January 31, 2023, the Company evaluated subsequent events for potential recognition and disclosure through the date these financial statements were filed. Please refer to Note 18 - "Subsequent Events" for further details.

Reclassification

On the statement of cash flows for the six months ended January 31, 2022, the Company reclassified bad debt recovery as a non-cash adjustment to net loss which totaled $3.0 thousand from Accounts receivable, net to Bad debt recovery. This reclassification was made to prior year balances to conform with current reporting and had no impact on net loss or stockholder's deficit.

(3) RECENT ACCOUNTING PRONOUNCEMENTS

Accounting Standards Issued and Not Yet Implemented

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

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

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

Other new pronouncements issued but not effective until after January 31, 2023 are not expected to have a material impact on our financial condition, results of operations or liquidity.

(4) DISCONTINUED OPERATIONS

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

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

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

	Three months ended January 31, 2022	Six months ended January 31, 2022
Net revenue	$ 66,316	$ 147,375
Cost of revenue	63,617	138,802
Gross profit	2,699	8,573
Operating expenses:		
Selling, general and administrative	12,523	25,355
Amortization of intangible assets	3,903	8,085
Restructuring	535	873
Total operating expenses	16,961	34,313
Operating loss	(14,262)	(25,740)
Other expense:		
Interest expense	(7,229)	(14,262)
Total other expense, net	(7,229)	(14,262)
Loss from discontinued operations before income taxes	(21,491)	(40,002)
Income tax expense	—	—
Loss from discontinued operations, net of tax	$ (21,491)	$ (40,002)

(5) INVENTORIES, NET

The table below presents the components of Inventories, net:

	January 31, 2023	July 31, 2022
	(In thousands)	
Raw materials	$ 7,965	$ 7,330
Work-in-process	145	124
Finished goods	806	697
	$ 8,916	$ 8,151

(6) ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

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

	January 31, 2023	July 31, 2022
Accrued Expenses	(In thousands)	
Accrued compensation	$ 5,983	$ 5,099
Accrued audit, tax and legal	4,298	4,564
Accrued price concessions	2,884	4,539
Accrued taxes	2,847	3,344
Accrued occupancy costs	1,655	1,671
Accrued freight	796	782
Accrued IT costs	683	1,108
Accrued interest	476	476
Accrued contract labor	399	792
Accrued other	5,611	6,021
Total accrued expenses	$ 25,632	$ 28,396

	January 31, 2023	July 31, 2022
Other Current Liabilities	(In thousands)	
Accrued pricing liabilities	$ 9,435	$ 9,435
Deferred revenue - current	3,489	2,705
Other	2,107	1,342
Total other current liabilities	$ 15,031	$ 13,482

As of both January 31, 2023 and July 31, 2022, the Company had accrued pricing liabilities of approximately $9.4 million. As previously reported by the Company, several principal adjustments were made to its historic financial statements for periods ended on or before January 31, 2012, the most significant of which related to the treatment of vendor rebates in its pricing policies. Where the retention of a rebate or a mark-up was determined to have been inconsistent with a client contract, the Company concluded that these amounts were not properly recorded as revenue. Accordingly, revenue was reduced by an equivalent amount for the period that the rebate was estimated to have been affected. A corresponding liability for the same amount was recorded in that period (referred to as accrued pricing liabilities). The Company believes that it may not ultimately be required to pay all or any of the accrued pricing liabilities based upon the expiration of statutes of limitations, and due in part to the nature of the interactions with its clients. The remaining accrued pricing liabilities as of January 31, 2023 will be derecognized when there is sufficient information for the Company to conclude that such liabilities are not subject to escheatment and have been extinguished, which may occur through payment, legal release, or other legal or factual determination. The Company has not provided for any provision for interest and or penalties related to escheatment as it has concluded that such is not probable to occur, and any potential interest and penalties cannot be reasonably estimated.

(7) RESTRUCTURING

ModusLink Restructuring Activities

During the fiscal year ended July 31, 2021, ModusLink implemented a strategic plan to reorganize its sales function and the e-Business operations. The restructuring charges associated with this plan were primarily composed of employee termination costs. In November 2021, ModusLink amended its strategic plan to include reorganizing its supply chain operations and recorded a restructuring charge of approximately $0.9 million during the three months ended January 31, 2022. In July 2022, ModusLink reorganized its supply chain operations in Ireland and recorded a restructuring charge of approximately $0.6 million during the three months ended July 31, 2022, which reduced the restructuring liability at January 31, 2023. The restructuring charges recorded in fiscal year ended July 31, 2022 were primarily composed of employee termination costs.

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

	Three months ended January 31,		Six months ended January 31,	
	2023	2022	2023	2022
	(In thousands)			
Cost of revenue	$ —	$ 646	$ —	$ 646
Selling, general and administrative	—	210	—	210
	$ —	$ 856	$ —	$ 856

Changes to the restructuring liability during the six months ended January 31, 2023 were as follows:

	(in thousands)
Balance as of July 31, 2022	$ 892
Costs incurred	—
Cash payments	(722)
Non-cash relief of accrual	—
Change in estimates	(2)
Balance as of January 31, 2023	$ 168

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

(8) LEASES

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

	Three Months Ended January 31,		Six Months Ended January 31,	
	2023	2022	2023	2022
	(In thousands)			
Operating lease cost	$ 2,497	$ 2,463	$ 4,902	$ 4,973
Short-term lease expense	437	452	875	739
Variable lease cost	3	4	7	15
Amortization of finance lease assets	—	—	—	—
Interest on finance lease liabilities	—	1	—	2
Sublease income	(291)	(213)	(564)	(213)
	$ 2,646	$ 2,707	$ 5,220	$ 5,516

Supplemental Cash Flow Information

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

	Six Months Ended January 31, 2023	2022
	(In thousands)	
Cash paid for amounts included in measurement of lease liabilities:		
Operating cash flows from operating leases	$ 4,826	$ 5,044
Operating cash flows from finance leases	$ —	$ 2
Financing cash flows from finance leases	$ 38	$ 36

(9) DEBT

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

	January 31, 2023	July 31, 2022
	(In thousands)	
Unsecured		
7.50% Convertible Senior Note due March 1, 2024	$ 14,940	$ 14,940
Credit Facilities		
Umpqua Revolver	—	—
Less: unamortized discounts and issuance costs[(a)]	(2,892)	(3,972)
Total debt, net	$ 12,048	$ 10,968

[(a)] *Amounts include deferred debt issuance costs related to credit facilities of $56 thousand and $79 thousand as of January 31, 2023 and July 31, 2022, respectively, which are presented in Prepaid expenses and other current assets and Other assets.*

7.50% Convertible Senior Note

On February 28, 2019, the Company entered into a 7.50% Convertible Senior Note Due 2024 Purchase Agreement (the "SPHG Note Purchase Agreement") with SPH Group Holdings LLC ("SPHG Holdings"), whereby SPHG Holdings agreed to loan the Company $14.9 million in exchange for a 7.50% Convertible Senior Note due 2024 (the "SPHG Note"). SPHG Holdings has the right, at its option, prior to the close of business on the business day immediately preceding March 1, 2024, the maturity date of the SPHG Note, to convert the SPHG Note or a portion thereof that is $1,000 or an integral multiple thereof, into shares of common stock (if the Company has not received a required stockholder approval) or cash, shares of common stock or a combination of cash and shares of common stock, as applicable (if the Company has received a required stockholder approval), at an initial conversion rate of 421.2655 shares of common stock, which is equivalent to an initial conversion price of approximately $2.37 per share (subject to adjustment as provided in the SPHG Note) per $1,000 principal amount of the SPHG Note, subject to, and in accordance with, the settlement provisions of the SPHG Note. As of January 31, 2023, the if-converted value of the SPHG Note did not exceed the principal value of the SPHG Note. As of January 31, 2023, the remaining period over which the unamortized discount will be amortized is 13 months. As of January 31, 2023 and July 31, 2022, the net carrying value of the SPHG Note was $12.1 million and $11.0 million, respectively. The effective interest rate on the SPHG Note, including accretion of the discount, is 27.8%. The following tables reflect the components of the SPHG Note:

	January 31, 2023	July 31, 2022
	(In thousands)	
Carrying amount of equity component	$ 8,200	$ 8,200
Principal amount of note	$ 14,940	$ 14,940
Unamortized debt discount	(2,836)	(3,893)
Net carrying amount	$ 12,104	$ 11,047

	Three months ended January 31,		Six months ended January 31,	
	2023	2022	2023	2022
	(In thousands)			
Interest expense related to contractual interest coupon	$ 286	$ 286	$ 573	$ 572
Interest expense related to accretion of the discount	547	414	1,056	800
Interest expense related to revolving credit facilities (see below)	12	34	24	69
Other	3	16	21	71
Total interest expense	$ 848	$ 750	$ 1,674	$ 1,512

See Note 18 – “Subsequent Events” for additional information regarding the SPHG Note.

Umpqua Revolver

On March 16, 2022, ModusLink, as borrower, entered into a new credit agreement with Umpqua Bank as lender and as agent. The Umpqua Revolver provides for a maximum credit commitment of $12.5 million and a sublimit of $5.0 million for letters of credit and expires on March 16, 2024. Concurrent with signing the Umpqua Revolver ModusLink submitted a notice of termination to MidCap Financial Trust for its $12.5 million revolving credit facility (the “MidCap Credit Facility”), which was set to expire on December 31, 2022. There was no balance outstanding on the Midcap Credit Facility at the time of its termination. As of January 31, 2023, ModusLink was in compliance with the Umpqua Revolver's covenants, and believes it will remain in compliance with the Umpqua Revolver’s covenants for the next twelve months. As of January 31, 2023, ModusLink had available borrowing capacity of $11.9 million and there was $0.6 million available for letters of credit. See Note 18 – “Subsequent Events” for additional information regarding the Umpqua Revolver.

(10) CONTINGENCIES

Legal Proceedings

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

On August 13, 2021, the Company, together with certain of its current and former directors of the Board, Warren Lichtenstein, Glen Kassan, William Fejes, Jr., Jack Howard, Jeffrey Fenton and Jeffrey Wald, as well as other named defendants (collectively, the “Defendants”), entered into a memorandum of understanding (the “MOU”) with Donald Reith (the “Plaintiff”) in connection with the settlement of the Reith v. Lichtenstein, et al., C.A. No. 2018-0277-MTZ (Del. Ch. 2018) class and derivative action. A definitive Stipulation of Settlement (the “Stipulation”) incorporating the terms of the MOU was filed with the Court on February 18, 2022. Pursuant to the MOU and Stipulation, and contingent on approval of the terms by the court, the Defendants agreed to cause their directors’ and officers’ liability insurance carriers to pay to the Company $2.75 million in cash.

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

After the parties filed papers in support of court approval of the settlement, and an objector filed papers in opposition to approval of the settlement, and after hearings held on August 12 and August 18, 2022, the parties submitted an amendment to the Stipulation: (i) increasing the proposed total contribution of the insurers to $3.0 million, (ii) reducing Plaintiff's counsel's fee request to $1.6 million, and (iii) providing that if the then pending proposed Merger was consummated, the $3 million, minus fees awarded to Plaintiff's counsel and costs of distribution of up to $125,000, would be distributed to the holders of eligible shares of Common Stock (as defined in the Merger Agreement governing the Merger), other than the Defendants; provided, however, that no distribution would be required to be made to any holder whose proportionate share of the distribution would be less than $1.00. On September 23, 2022, the court ruled that it was denying approval of the settlement. At the court's instruction, the parties provided a status report on October 24, 2022, reporting that the vote on the proposed Merger had been postponed to October 28, 2022, and proposing to file a revised status report on November 23, 2022. The parties filed the status report on November 23, 2022, reporting that due to the termination of the proposed Merger on November 15, 2022, the parties were conferring on the next steps, and therefore proposed providing another status report within 30 days, or on other such date as the court may order. On November 28, 2022, the court issued a minute order advising that no further status updates were required to be filed in the matter and noting that the court would remain available to hear requests for relief as needed. No trial date or pretrial deadlines are currently scheduled. The possible recovery, if any, with respect to this dispute cannot be determined as of the date of this Quarterly Report on Form 10-Q.

(11) REVENUE RECOGNITION

Disaggregation of Revenue

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

	Three months ended January 31,		Six months ended January 31,	
	2023	2022	2023	2022
	(In thousands)			
Major Goods/Service Lines				
Supply chain management services	$ 50,427	$ 53,719	101,358	97,661
Other	354	603	782	1,015
	$ 50,781	$ 54,322	$ 102,140	$ 98,676
Timing of Revenue Recognition				
Services transferred over time	$ 50,781	$ 54,322	102,140	98,676
	$ 50,781	$ 54,322	$ 102,140	$ 98,676

Supply Chain Management Services

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

Other

Other revenue consists of cloud-based software subscriptions, software maintenance and support service contracts, and fees for professional services. Revenue related to these arrangements is recognized on a straight-line basis over the term of the agreement or over the term of the agreement in proportion to the costs incurred in satisfying the obligations under the contract.

Contract Balances

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

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

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

	January 31, 2023	July 31, 2022
	(In thousands)	
Accounts receivable, trade, net	$ 37,180	$ 40,083
Contract assets	508	369
Deferred revenue - current	$ 3,489	$ 2,705
Deferred revenue - long-term	88	134
Total deferred revenue	$ 3,577	$ 2,839

Remaining Performance Obligations

Remaining performance obligations are comprised of deferred revenue. Changes in deferred revenue during the six months ended January 31, 2023 and January 31, 2022, were as follows:

	Six Months Ended January 31,	
	2023	2022
	(In thousands)	
Balance at beginning of period	$ 2,839	$ 2,320
Deferral of revenue	1,483	1,656
Recognition of deferred amounts upon satisfaction of performance obligation	(745)	(588)
Balance at end of period	$ 3,577	$ 3,388

The Company expects to recognize approximately $3.5 million of the deferred revenue over the next twelve months and the remaining $0.1 million beyond that time period.

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

(12) INCOME TAXES

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

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

On March 27, 2020, the President of the United States signed the Coronavirus Aid, Relief, and Economic Security ("CARES") Act into law, which is intended to respond to the COVID-19 pandemic and its impact on the economy, public health, state and local governments, individuals and businesses.

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

Uncertain Tax Positions

In accordance with the Company's accounting policy, interest related to unrecognized tax benefits is included in the income tax expense line of the condensed consolidated statements of operations. As of January 31, 2023 and July 31, 2022, the liabilities for interest expense related to uncertain tax positions were $0.01 million and $0.1 million, respectively. The Company expects $0.2 million of unrecognized tax benefits and related interest to reverse in the next twelve months. The Company is subject to U.S. federal income tax and various state, local and international income taxes in numerous jurisdictions. The federal and state tax returns are generally subject to tax examinations for the tax years ended July 31, 2019 through July 31, 2022. To the extent the Company has tax attribute carryforwards, the tax year in which the attribute was generated may still be adjusted upon examination by the Internal Revenue Service or state tax authorities to the extent utilized in a future period. In addition, a number of tax years remain subject to examination by the appropriate government agencies for certain countries in the Europe and Asia regions. In Europe, the Company's 2014 through 2021 tax years remain subject to examination in most locations, while the Company's 2010 through 2021 tax years remain subject to examination in most Asia locations.

(13)EARNINGS (LOSS) PER SHARE

The following table reconciles net earnings (loss) per share for the three and six months ended January 31, 2023 and 2022:

	Three Months Ended January 31,		Six Months Ended January 31,	
	2023	2022	2023	2022
	(In thousands, except per share data)			
Reconciliation of net (loss) income to net (loss) income attributable to common stockholders after assumed conversions:				
Net (loss) income from continuing operations	$ (526)	$ (1,486)	$ 4,431	$ (2,469)
Loss from discontinued operations	—	(21,491)	—	(40,002)
Net (loss) income	(526)	(22,977)	4,431	(42,471)
Less: Preferred dividends on redeemable preferred stock	(537)	(537)	(1,074)	(1,074)
Net (loss) income attributable to common stockholders	$ (1,063)	$ (23,514)	$ 3,357	$ (43,545)
Net (loss) income per common share - basic				
Net (loss) income from continuing operations	$ (0.02)	$ (0.03)	$ 0.06	$ (0.06)
Net loss from discontinued operations	—	(0.36)	—	(0.67)
Net (loss) income attributable to common stockholders	$ (0.02)	$ (0.39)	$ 0.06	$ (0.73)
Net (loss) income per common share - diluted				
Net (loss) income from continuing operations	$ (0.02)	$ (0.03)	$ 0.06	$ (0.06)
Net loss from discontinued operations	—	(0.36)	—	(0.67)
Net (loss) income attributable to common stockholders	$ (0.02)	$ (0.39)	$ 0.06	$ (0.73)
Weighted average common shares outstanding - basic	60,178	59,748	60,129	60,027
Effect of dilutive securities:				
Common stock equivalents - Restricted stock and restricted stock shares	—	—	508	—
Weighted average common shares outstanding - diluted	60,178	59,748	60,637	60,027

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

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

For the three months ended January 31, 2023, $0.8 million of interest expense, net of tax related to convertible debt and $0.5 million of preferred dividends were excluded from the numerator in the calculation of diluted net loss per share as their inclusion would have been antidilutive. For the three months ended January 31, 2022, $0.7 million of interest expense, net of tax impact related to convertible debt and $0.5 million of preferred dividends were excluded from the numerator in the calculation of diluted net loss per share as their inclusion would have been antidilutive.

For the three months ended January 31, 2023 and 2022, 24.7 million common stock equivalent shares (including those related to convertible debt and preferred stock) were excluded from the denominator in the calculation of diluted net loss per share as their inclusion would have been antidilutive.

For the six months ended January 31, 2023, $1.6 million of interest expense, net of tax related to convertible debt and $1.1 million of preferred dividends were excluded from the numerator in the calculation of diluted net income per share as their inclusion would have been antidilutive. For the six months ended January 31, 2022, $1.4 million of interest expense, net of tax impact related to convertible debt and $1.1 million of preferred dividends were excluded from the numerator in the calculation of diluted net loss per share as their inclusion would have been antidilutive.

For the six months ended January 31, 2023, 24.2 million common stock equivalent shares (including those related to convertible debt and preferred stock) were excluded from the denominator in the calculation of diluted net income per share as their inclusion would have been antidilutive. For the six months ended January 31, 2022, 24.7 million common stock equivalent shares (including those related to convertible debt and preferred stock) were excluded from the denominator in the calculation of diluted net loss per share as their inclusion would have been antidilutive.

(14) COMPREHENSIVE INCOME (LOSS)

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

	Foreign Currency Items	Pension Items	Total
	(In thousands)		
Accumulated other comprehensive income (loss) as of July 31, 2022	$ 6,063	$ (1,923)	$ 4,140
Foreign currency translation adjustment	1,818	—	1,818
Pension liability adjustments	—	(1,078)	(1,078)
Net current-period other comprehensive income	1,818	(1,078)	740
Accumulated other comprehensive income (loss) as of January 31, 2023	$ 7,881	$ (3,001)	$ 4,880

	Foreign Currency Items	Pension Items	Total
	(In thousands)		
Accumulated other comprehensive income (loss) as of July 31, 2021	$ 9,762	$ (2,600)	$ 7,162
Foreign currency translation adjustment	185	—	185
Net current-period other comprehensive income	185	—	185
Accumulated other comprehensive income (loss) as of January 31, 2022	$ 9,947	$ (2,600)	$ 7,347

During the year ended July 31, 2020, a Netherlands defined benefit pension plan was amended such that active participants no longer accrued benefits as of January 1, 2020, which resulted in a pre-tax curtailment gain of $2.4 million recognized in accumulated other comprehensive income (loss). At that time, the active plan participants were moved into a new defined benefit contribution pension plan. During the six months ended January 31, 2023, the Company recorded an increase of approximately $1.1 million to accrued pension liabilities for the defined benefit pension plan as it was determined that plan participants are entitled to unconditional indexation of benefits for as long as they remain in active service with the Company.

(15) SEGMENT INFORMATION

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

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

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

	Three Months Ended January 31,		Six Months Ended January 31,	
	2023	2022	2023	2022
	(In thousands)			
Net revenue:				
Supply Chain	$ 50,781	$ 54,322	102,140	98,676
Total segment net revenue	50,781	54,322	$ 102,140	$ 98,676
Operating income:				
Supply Chain	5,388	2,374	11,238	4,347
Total segment operating income	5,388	2,374	11,238	4,347
Corporate-level activity	(2,785)	(2,323)	(4,756)	(3,725)
Total operating income	2,603	51	6,482	622
Total other expense, net	(3,475)	(814)	(1,272)	(2,053)
(Loss) income before income taxes	$ (872)	$ (763)	$ 5,210	$ (1,431)

	January 31, 2023	July 31, 2022
	(In thousands)	
Total assets:		
Supply Chain	$ 126,913	$ 101,637
Corporate	29,199	36,112
Total assets	$ 156,112	$ 137,749

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

	Three Months Ended January 31,		Six Months Ended January 31,	
	2023	2022	2023	2022
	(In thousands)			
Capital expenditures	$ 318	$ 463	$ 866	$ 826
Depreciation expense	465	545	924	1,175

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

	Three Months Ended January 31,		Six Months Ended January 31,	
	2023	2022	2023	2022
	(In thousands)			
Mainland China	$ 16,231	$ 19,424	$ 34,196	$ 35,390
United States	13,173	13,707	25,345	$ 24,153
Czech	7,535	3,990	13,295	6,757
Singapore	5,102	4,752	10,234	9,916
Netherlands	4,926	6,227	10,277	11,876
Other	3,814	6,222	8,793	10,584
	$ 50,781	$ 54,322	$ 102,140	$ 98,676

(16) RELATED PARTY TRANSACTIONS

As of January 31, 2023, SPHG Holdings and its affiliates, including Steel Holdings, Handy & Harman Ltd. and Steel Partners Ltd., beneficially owned approximately 49.8% of our outstanding capital stock, including the if-converted value of the SPHG Note and shares of Series C Convertible Preferred Stock that vote on an as-converted basis together with our common stock. Warren G. Lichtenstein, our Interim Chief Executive Officer and the Executive Chairman of our Board, is also the Executive Chairman of Steel Holdings GP. Glen Kassan, our Vice Chairman of the Board of Directors and former Chief Administrative Officer, is an employee of Steel Services. Jack L. Howard, the President and a director of Steel Holdings GP, is also a director.

SPHG Note Transaction

On February 28, 2019, the Company entered into a SPHG Note Purchase Agreement with SPHG Holdings, whereby SPHG Holdings agreed to loan the Company $14.9 million in exchange for the SPHG Note. As of both January 31, 2023 and July 31, 2022, SPHG Holdings held $14.9 million principal amount of the SPHG Note. As of January 31, 2023 and July 31, 2022, the net carrying value of the SPHG Note was $12.1 million and $11.0 million, respectively. During the three months ended January 31, 2023 and 2022, the Company recognized interest expense of $0.8 million and $0.7 million, respectively, associated with the SPHG Note. During the six months ended January 31, 2023 and 2022, the Company recognized interest expense of $1.6 million and $1.4 million, respectively, associated with the SPHG Note.

Preferred Stock Transaction

On December 15, 2017, the Company entered into a Preferred Stock Purchase Agreement with SPHG Holdings, pursuant to which the Company issued 35,000 shares of the Company's newly created Series C Convertible Preferred Stock to SPHG Holdings at a price of $1,000 per share, for an aggregate purchase consideration of $35.0 million. The terms, rights, obligations and preferences of the Series C Convertible Preferred Stock are set forth in the Series C Certificate of Designations, which has been filed with the Secretary of State of the State of Delaware. During each of the three months ended January 31, 2023 and 2022, the Company paid dividends of $0.5 million associated with the Series C Convertible Preferred Stock. During each of the six months ended January 31, 2023 and 2022, the Company paid dividends of $1.1 million associated with the Series C Convertible Preferred Stock.

On or after December 15, 2022, each holder of Preferred Stock can also require the Company to redeem its Preferred Stock in cash at a price equal to the Liquidation Preference (as defined in Series C Certificate of Designations), or approximately $35.2 million. As of January 31, 2023, this right had not been exercised by holders of the Preferred Stock.

STCN Management Services Agreement

On June 14, 2019, the Company entered into an agreement (the "STCN Management Services Agreement") with Steel Services Ltd. ("Steel Services"), an indirect wholly-owned subsidiary of Steel Holdings. The Management Services Agreement was effective as of June 1, 2019. Pursuant to the STCN Management Services Agreement, Steel Services provides the Company and its subsidiaries with the non-exclusive services of certain employees, including certain executive officers and other corporate services. In connection with the IWCO Direct Disposal, the monthly fee under the STCN Management Services Agreement was reduced effective on the Disposal Date primarily for the portion of the fee attributable to IWCO Direct. Total expenses incurred related to the STCN Management Services Agreement for the three months ended January 31, 2023 and 2022 were $0.6 million and $0.9 million, respectively. Total expenses incurred related to the STCN Management Services Agreement for the six months ended January 31, 2023 and 2022 were $1.2 million and $1.8 million, respectively. As of January 31, 2023 and July 31, 2022, amounts due to Steel Services was $0.5 million and $1.0 million, respectively.

Termination of Proposed Merger with Steel Holdings

On November 15, 2022, Steel Holdings terminated the Merger Agreement with Steel Holdings. See Note 1 - "Nature of Operations" for further discussion.

(17)FAIR VALUE MEASUREMENTS

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

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

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

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

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

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

The following tables present the Company's financial assets measured at fair value on a recurring basis as of January 31, 2023 and July 31, 2022, classified by fair value hierarchy:

		Fair Value Measurements at Reporting Date Using		
(In thousands)	**January 31, 2023**	**Level 1**	**Level 2**	**Level 3**
Assets:				
Money market funds	$ 25,435	$ 25,435	$ —	$ —

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

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

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

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

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

Fair Value of Financial Instruments

The Company's financial instruments not measured at fair value on a recurring basis include cash and cash equivalents, accounts receivable, customer deposits, accounts payable, restricted cash and debt, and are reflected in the consolidated financial statements at carrying value. With the exception of the SPHG Note and long-term debt, carrying value approximates fair value for these items due to their short-term nature. The Company believes that the carrying value of the liability component of the SPHG Note and our long-term debt approximates fair value because the stated interest rates of this debt is consistent with current market rates. Included in cash and cash equivalents in the accompanying condensed consolidated balance sheets are money market funds. These are valued at quoted market prices in active markets.

(18) SUBSEQUENT EVENTS

SPHG Convertible Note Amendment

On March 9, 2023, the Company and SPHG Holdings entered into an amendment to the SPHG Note (the “SPHG Note Amendment”). Pursuant to the SPHG Note Amendment, the maturity date of the SPHG Note was extended six months to September 1, 2024. In addition, the Company repaid $1.0 million in principal amount of the SPHG Note and will be required to repay an additional $1.0 million principal amount of the note on the three month anniversary of the SPHG Note Amendment. In connection with the SPHG Note Amendment, the Company paid SPHG Holdings a cash amendment fee of $0.1 million.

Investment Sale

The Company owns 9.8% of a privately-held software company (the "Investee"), which was acquired in the early 2000s and whose book value was written down to zero in prior years. The Company was not required to account for this Investee as an equity method investment.

On November 11, 2022, the Investee entered into an asset purchase agreement to sell substantially all of its assets for $40.8 million (the "Purchase Price"). The sale was approved by shareholders on December 15, 2022 and closed in February 2023. The Company received the first distribution of approximately $1.9 million on March 10, 2023, which was communicated as 66.8% of the total distribution to the Company. The Investee also communicated that the total distribution to the Company would be approximately $2.8 million, with the remaining amounts to be distributed in the Summer of 2023, Spring of 2024 and the Fall of 2024. When received, the Company will recognize the cash proceeds as other income on the condensed consolidated statement of operations.

Umpqua Credit Facility Amendment

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

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

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

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

Overview

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

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

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

Beginning in the second quarter of 2020, with the shutdown of the U.S. economy due to the COVID-19 pandemic, IWCO Direct’s business was significantly and adversely affected by a material reduction in customer mailing activities. Against this backdrop, the Company held, on behalf of IWCO Direct, extensive discussions with Cerberus about amending and extending IWCO Direct’s credit facility with Cerberus under which there was approximately $361 million outstanding as of January 31, 2022 that was to mature in December 2022. In addition, the Company’s Board of Directors considered a range of strategic options to address the impending maturity. In mid-January 2022, it became apparent that it would not be possible to extend or refinance the credit facility prior to its maturity. In addition, short-term funding under the revolving credit facility became unavailable. IWCO Direct was in the process of implementing the competitive improvement plan (“CIP”) intended to address the changing requirements of its customers and markets. Despite initial favorable outcomes and improving prospects from the CIP, the Company was unable to amend IWCO Direct's credit facility or identify alternatives to refinance IWCO Direct’s indebtedness given the magnitude of that indebtedness relative to the performance of IWCO Direct’s business.

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

The Company deconsolidated IWCO Direct as of February 25, 2022 as it no longer held a controlling financial interest as of that date. The results of IWCO Direct are presented as a discontinued operation in all periods reported. Refer to Note 1 - "Nature of Operations" and Note 4 - "Discontinued Operations" to the consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information on the IWCO Direct Disposal.

Customers

Historically, a limited number of key clients have accounted for a significant percentage of the Company's revenue. For the three months ended January 31, 2023 and 2022, the Company's ten largest clients accounted for approximately 85.9% and 81.5% of consolidated net revenue, respectively. Two clients accounted for 47.9% and 10.4% of the Company's consolidated net revenue for the three months ended January 31, 2023, and two clients accounted for 26.3% and 16.2% of the Company's consolidated net revenue for the three months ended January 31, 2022. No other clients accounted for more than 10.0% of the Company's consolidated net revenue for the three months ended January 31, 2023 or 2022.

For the six months ended January 31, 2023 and 2022, the Company's ten largest clients accounted for approximately 83.8% and 80.0% of consolidated net revenue, respectively. Two clients accounted for 42.1% and 12.7% of the Company's consolidated net revenue for six months ended January 31, 2023, and two clients accounted for 26.0% and 13.0% of the Company's consolidated net revenue for six months ended January 31, 2022. No other clients accounted for more than 10.0% of the Company's consolidated net revenue for the six months ended January 31, 2023 or 2022.

In general, the Company does not have any agreements which obligate any client to buy a minimum amount of services from it or designate it as an exclusive service provider. Consequently, the Company's net revenue is subject to demand variability by our clients. The level and timing of orders placed by the Company's clients vary for a variety of reasons, including seasonal buying by end-users, the introduction of new technologies and general economic conditions. By diversifying into new markets and improving the operational support structure for its clients, the Company expects to offset the adverse financial impact such factors may bring about.

COVID-19 Update

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

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

Outbreaks in Mainland China throughout 2022 (March to May, July and September to October) led to temporary lockdown orders impacting several ModusLink facilities in China; however, ModusLink was able to resume operations at all facilities and the lockdowns have not had a significant impact to ModusLink's operations through the filing of this Quarterly Report on Form 10-Q. If the situation continues at this level or worsens, however, it could result in a potential adverse impact on our business, results of operations and financial condition.

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

Terminated Merger with Steel Holdings

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

Steel Holdings and certain of its affiliates also entered into a Voting and Support Agreement, dated as of June 12, 2022 (the "Voting and Support Agreement"), pursuant to which, among other things, they agreed to vote all shares of common stock and Series C Convertible Preferred Stock beneficially owned by them in favor of the adoption of the Merger Agreement and the Merger and any alternative acquisition agreement approved by the Company's Board of Directors (acting on the recommendation of the special committee (the "Special Committee") of independent and disinterested directors formed to consider and negotiate the terms and conditions of the Merger and to make a recommendation to our Board of Directors).

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

On November 15, 2022, Steel Holdings terminated the Merger Agreement. The Merger Agreement was terminated following the 2021 Annual Meeting of Stockholders of the Company at which the proposal to adopt the Merger Agreement was not approved by a majority of the outstanding shares of common stock not owned, directly or indirectly, by Steel Holdings, and Merger Sub, any other officer or director of the Company or any other person having any equity interest in, or any right to acquire any equity interest in, Merger Sub or any person of which Merger Sub is a direct or indirect subsidiary as required under the Merger Agreement. As a result of the termination of the Merger Agreement, the Voting and Support Agreement, dated as of June 12, 2022, by and among the Company, Steel Holdings and certain of its affiliates, automatically terminated pursuant to its terms.

Basis of Presentation

The Company has one operating segment which is the same as its reportable segment: Supply Chain. The Company also has Corporate-level activity, which consists primarily of costs associated with certain corporate administrative functions such as legal, finance and share-based compensation, which are not allocated to the Company's reportable segment. The Corporate-level balance sheet information includes cash and cash equivalents, debt and other assets and liabilities which are not allocated to the operations of the Company's operating segment. All significant intra-segment amounts have been eliminated.

Results of Operations

	Three Months Ended January 31, (unaudited in thousands)			
	2023	**2022**	**$ Change[1]**	**% Change[1]**
Net revenue	$50,781	$54,322	$(3,541)	(6.5)%
Cost of revenue	(37,719)	(43,421)	5,702	13.1%
Gross profit	13,062	10,901	2,161	19.8%
Gross profit percentage	25.7%	20.1%	—	5.6%
Selling, general and administrative	(10,459)	(9,994)	(465)	(4.7)%
Restructuring	—	(856)	856	100.0%
Interest expense, net	(848)	(750)	(98)	(13.1)%
Other losses, net	(2,627)	(64)	(2,563)	(4004.7)%
Loss from continuing operations before income taxes	(872)	(763)	(109)	(14.3)%
Income tax benefit (expense)	346	(723)	1,069	147.9%
Net loss from continuing operations	$(526)	$(1,486)	$960	64.6%

1 *Favorable (unfavorable) change*

Three months ended January 31, 2023 compared to the three months ended January 31, 2022

Net Revenue:

During the three months ended January 31, 2023, net revenue for the Supply Chain segment decreased by approximately $3.5 million. The decrease in net revenue was driven by lower volumes associated with clients in the computing and consumer electronics markets during the three months ended January 31, 2023 as compared to the same period in the prior year. Fluctuations in foreign currency exchange rates had an insignificant impact on the Supply Chain segment's net revenues for the three months ended January 31, 2023, as compared to the same period in the prior year.

Cost of Revenue:

Cost of revenue consists primarily of expenses related to the cost of materials purchased in connection with the provision of supply chain management services, as well as costs for salaries and benefits, depreciation expense, severance, contract labor, consulting, fulfillment and shipping, and applicable facilities costs. Total cost of revenue decreased by $5.7 million for the three months ended January 31, 2023, as compared to the same period in the prior year, primarily driven by a decrease in cost of materials as a result of the decrease in net revenue discussed above. Cost of revenue for the three months ended January 31, 2023 included materials procured on behalf of our Supply Chain clients of $21.1 million, as compared to $25.7 million for the same period in the prior year, a decrease of $4.6 million, driven by lower volumes for clients in the computing and consumer electronics market. The remaining $1.1 million decrease is driven by lower labor costs, such as a decrease in salaries and wages and production costs, and due to severance charges in the three months ended January 31, 2022 that did not recur.

Gross Profit:

Gross profit percentage for the current quarter increased 560 basis points, to 25.7% as compared to 20.1% in the prior year quarter, driven by higher value added revenue for a major client in the computing and consumer electronics market and to a lesser extent the impact of severance charges in the three months ended January 31, 2022 that did not recur. Fluctuations in foreign currency exchange rates had an insignificant impact on Supply Chain's gross margin for the three months ended January 31, 2023 as compared to the same period in the prior year.

Selling, General and Administrative Expenses:

Selling, general and administrative expenses consist primarily of compensation and employee-related costs, sales commissions and incentive plans, information technology expenses, travel expenses, facilities costs, consulting fees, fees for professional services, depreciation expense, marketing expenses, share-based compensation expense, transaction costs, restructuring and public reporting costs. Selling, general and administrative expenses during the three months ended January 31, 2023 increased by approximately $0.5 million as compared to the same period in the prior year due to an increase in legal fees for Corporate-level activity. Selling, general and administrative expenses during the three months ended January 31, 2023 for the Supply Chain segment did not change significantly as compared to the same period in the prior year. Fluctuations in foreign currency exchange rates did not have a significant impact on selling, general and administrative expenses for the three months ended January 31, 2023 as compared to the same period in the prior year.

Restructuring:

During the fiscal year ended July 31, 2021, ModusLink implemented a strategic plan to reorganize its sales function and the e-Business operations. The restructuring charges associated with this plan were primarily composed of employee termination costs. In November 2021, ModusLink amended its strategic plan to include reorganizing its supply chain operations and recorded a restructuring charge of approximately $0.9 million during the three months ended January 31, 2022. There were no restructuring costs recorded during the three months ended January 31, 2023 which is driving the decrease in costs period over period.

Interest Expense:

Total interest expense increased by $0.1 million during the three months ended January 31, 2023 as compared to the same period in the prior year, primarily due to higher interest expense related to accretion of the discount on the 7.50% Convertible Senior Note due 2024 (the "SPHG Note").

Other Losses, Net:

Other losses, net are primarily composed of foreign exchange losses, interest income, and sublease income.

The $2.6 million increase in other losses, net is primarily driven by a $3.0 million increase in foreign exchange losses between the current year quarter and the prior year quarter. The Company recorded $3.3 million of foreign exchange losses compared to $0.3 million of foreign exchange losses during the three months ended January 31, 2023 and 2022, respectively. The increase in foreign exchange losses is primarily driven by unrealized losses incurred, particularly for changes in the China Renminbi and the Singapore Dollar.

Income Tax Benefit (Expense):

During the three months ended January 31, 2023, the Company recorded an income tax benefit of approximately $0.3 million as compared to $0.7 million in income tax expense for the same period in the prior fiscal year. The decrease in income tax expense is primarily due to lower taxable income in foreign jurisdictions, as compared to the prior year period.

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.

Loss from Continuing Operations:

Net loss from continuing operations for the three months ended January 31, 2023 decreased $1.0 million as compared to the same period in the prior fiscal year, driven by the $1.1 million favorable change in income taxes. Refer to discussion above for further details.

Loss from Discontinued Operations:

Net loss from discontinued operations for the three months ended January 31, 2022 was $21.5 million, and reflects the net loss for IWCO Direct. IWCO Direct was deconsolidated in February 2022, and as such, there was no activity from discontinued operations for the three months ended January 31, 2023. See Note 4 - "Discontinued Operations" to the consolidated financial statements in Part I, Item 1 included of this Quarterly Report on Form 10-Q.

	Six Months Ended January 31, (unaudited in thousands)			
	2023	**2022**	**$ Change[1]**	**% Change[1]**
Net revenue	$102,140	$98,676	$3,464	3.5%
Cost of revenue	(74,813)	(78,369)	3,556	4.5%
Gross profit	27,327	20,307	7,020	34.6%
Gross profit percentage	26.8%	20.6%	—	6.2%
Selling, general and administrative	(20,845)	(18,829)	(2,016)	(10.7)%
Restructuring	—	(856)	856	100.0%
Interest expense, net	(1,674)	(1,512)	(162)	(10.7)%
Other gains (losses), net	402	(541)	943	174.3%
Income (loss) from continuing operations before income taxes	5,210	(1,431)	6,641	464.1%
Income tax expense	(779)	(1,038)	259	25.0%
Net income (loss) from continuing operations	$4,431	$(2,469)	$6,900	279.5%

1 *Favorable (unfavorable) change*

Six months ended January 31, 2023 compared to the six months ended January 31, 2022

Net Revenue:

During the six months ended January 31, 2023, net revenue for the Supply Chain segment increased by approximately $3.5 million as compared to the same period in the prior year. This increase in net revenue was driven by overall higher volume associated with clients in the computing and consumer electronics markets as compared to the same period in the prior year, along with new business revenue. Fluctuations in foreign currency exchange rates had an insignificant impact on the Supply Chain segment's net revenues for the six months ended January 31, 2023, as compared to the same period in the prior year.

Cost of Revenue:

Cost of revenue consists primarily of expenses related to the cost of materials purchased in connection with the provision of supply chain management services, as well as costs for salaries and benefits, depreciation expense, severance, contract labor, consulting, fulfillment and shipping, and applicable facilities costs. Cost of revenue for the six months ended January 31, 2023 included materials procured on behalf of our Supply Chain clients of $40.4 million, as compared to $44.7 million for the same period in the prior year, a decrease of $4.3 million, driven by lower costs on programs launched in the prior year period along with lower material costs related to programs that ended during the current year period. Total cost of revenue decreased by $3.6 million for the six months ended January 31, 2023, as compared to the same period in the prior year, primarily due to the decrease in material costs discussed above, offset partially by higher labor costs as a result of overall higher revenue volume.

Gross Profit:

Gross profit percentage for the six months ended January 31, 2023 increased 620 basis points, to 26.8% as compared to 20.6% for the six months ended January 31, 2022, driven by an increase in value added revenue for a major client in the computing and consumer electronics market. Fluctuations in foreign currency exchange rates had an insignificant impact on Supply Chain's gross margin for the six months ended January 31, 2023.

Selling, General and Administrative Expenses:

Selling, general and administrative expenses consist primarily of compensation and employee-related costs, sales commissions and incentive plans, information technology expenses, travel expenses, facilities costs, consulting fees, fees for professional services, depreciation expense, marketing expenses, share-based compensation expense, transaction costs, restructuring and public reporting costs. Selling, general and administrative expenses during the six months ended January 31, 2023 increased by approximately $2.0 million as compared to the same period in the prior year.

Selling, general and administrative expenses for the Supply Chain segment increased $1.0 million primarily due to bad debt expense recorded for a client in the consumer products industry in first quarter of fiscal year 2023. Corporate-level activity increased $1.0 million primarily due to an increase in legal and other professional fees. Fluctuations in foreign currency exchange rates did not have a significant impact on selling, general and administrative expenses for the six months ended January 31, 2023, as compared to the same period in the prior year.

Restructuring:

During the fiscal year ended July 31, 2021, ModusLink implemented a strategic plan to reorganize its sales function and the e-Business operations. The restructuring charges associated with this plan were primarily composed of employee termination costs. In November 2021, ModusLink amended its strategic plan to include reorganizing its supply chain operations and recorded a restructuring charge of approximately $0.9 million during the six months ended January 31, 2022. There were no restructuring costs recorded during the six months ended January 31, 2023, which is driving the decrease in costs period over period.

Interest Expense:

Total interest expense during the six months ended January 31, 2023 increased $0.2 million as compared to the same period in the prior year, primarily due to higher interest expense related to accretion of the discount on the SPHG Note.

Other Gains (Losses), Net:

Other gains (losses), net are primarily composed of foreign exchange gains (losses), interest income and sublease income. The $0.9 million increase in other gains (losses), net is primarily driven by $0.5 million increase in interest income, and $0.4 million increase in sublease income in the six months ended January 31, 2023 as compared to the same period in the prior year. Foreign exchange gains (losses) did not change significantly as compared to the same period in the prior year.

Income Tax Expense:

During the six months ended January 31, 2023, the Company recorded income tax expense of approximately $0.8 million as compared to $1.0 million for the same period in the prior fiscal year. The decrease in income tax expense is primarily due to lower taxable income in foreign jurisdictions, as compared to the prior year period.

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.

Income (Loss) from Continuing Operations:

Net income from continuing operations for the six months ended January 31, 2023 increased $6.9 million, as compared to the same period in the prior year. The increase in net income from continuing operations is primarily due to the increase in gross profit, a decrease in restructuring and income tax expense, and an increase in other gains, net, partially offset by an increase in SG&A expenses. Refer to explanations above for further details regarding specific increases or decreases.

Loss from Discontinued Operations:

Net loss from discontinued operations for the six months ended January 31, 2022 was $40.0 million, and reflects the net loss for IWCO Direct. IWCO Direct was deconsolidated in February 2022, and as such, there was no activity from discontinued operations for the six months ended January 31, 2023. See Note 4 - "Discontinued Operations" to the consolidated financial statements in Part I, Item 1 included of this Quarterly Report on Form 10-Q.

Liquidity and Capital Resources

Anticipated Sources and Uses of Cash Flow

Historically, the Company has financed its operations and met its capital requirements primarily through funds generated from operations, the sale of it securities, borrowings from lending institutions and sale of facilities that were not fully utilized. The following table summarizes our liquidity:

	January 31, 2023
	(In thousands)
Cash and cash equivalents	$ 62,427
Readily available borrowing capacity under Umpqua Revolver	11,890
	$ 74,317

Due to the changes reflected in the U.S. Tax Cuts and Jobs Act in December 2017 ("U.S. Tax Reform"), there is no U.S. tax payable upon repatriating the undistributed earnings of foreign subsidiaries considered not subject to permanent investment. Foreign withholding taxes would range from 0% to 10% on any repatriated funds. For the Company, earnings and profits have been calculated at each subsidiary. The Company's foreign subsidiaries are in an overall net deficit for earnings and profits purposes. As such, no adjustment was made to U.S. taxable income in the six months ended January 31, 2023 relating to this aspect of the U.S. Tax Reform. In future years, the Company will be able to repatriate its foreign earnings without incurring additional U.S. tax as a result of a 100% dividends received deduction. The Company believes that any future withholding taxes or state taxes associated with such a repatriation would not be material.

Consolidated excess working capital was $32.6 million as of January 31, 2023, as compared to $26.0 million at July 31, 2022. Included in excess working capital were cash and cash equivalents of $62.4 million as of January 31, 2023 and $53.1 million at July 31, 2022. The increase in excess working capital was primarily driven by higher cash and cash equivalents as a result of increased collections on accounts receivable. Sources and uses of cash for the six months ended January 31, 2023, as compared to the same period in the prior year, are as follows:

	Six months ended January 31,	
	2023	2022
	(In thousands)	
Net cash provided by (used in) operating activities	$ 9,588	$ (2,722)
Net cash used in investing activities	$ (850)	$ (826)
Net cash used in financing activities	$ (1,112)	$ (1,110)

Operating Activities: We generated cash of $9.6 million from operating activities during the six months ended January 31, 2023, an improvement of $12.3 million compared with $2.7 million used in operating activities during the six months ended January 31, 2022. The Company's future cash flows related to operating activities are dependent on several factors, including profitability, accounts receivable collections, effective inventory management practices and optimization of the credit terms of certain vendors of the Company, and overall performance of the technology sector impacting the Supply Chain segment. The change in cash provided by operating activities as compared to cash used in operating activities the prior fiscal year was primarily due to an increase in net income of $6.9 million and an increase in accounts receivable collections of $9.4 million, offset by an increase in payments on outstanding accounts payable of $6.6 million.

Investing Activities: Net cash used in investing activities was $0.9 million and $0.8 million during the six months ended January 31, 2023 and 2022, respectively, and was primarily related to capital expenditures. The slight increase was primarily due to lower capital spending in the prior year as the result of the COVID-19 pandemic.

Financing Activities: Net cash used in financing activities was $1.1 million during both the six months ended January 31, 2023 and 2022, and primarily consisted of $1.1 million of preferred dividend payments in both periods.

Debt and Financing Arrangements

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

7.50% Convertible Senior Note

On February 28, 2019, the Company entered into that certain 7.50% Convertible Senior Note Due 2024 Purchase Agreement with SPHG Holdings whereby SPHG Holdings loaned the Company $14.9 million in exchange for a 7.50% Convertible Senior Note due 2024 (the "SPHG Note"). The SPHG Note bears interest at the fixed rate of 7.50% per year, payable semi-annually in arrears on March 1 and September 1 of each year, beginning on September 1, 2019. On March 9, 2023, the Company and SPHG Holdings entered into an amendment to the SPHG Note (the “SPHG Note Amendment”). Pursuant to the SPHG Note Amendment, the maturity date of the SPHG Note was extended six months to September 1, 2024. In addition, the Company repaid $1.0 million in principal amount of the SPHG Note and will be required to repay an additional $1.0 million principal amount of the note on the three month anniversary of the SPHG Note Amendment. In connection with the SPHG Note Amendment, the Company paid SPHG Holdings a cash amendment fee of $0.1 million. The SPHG Note will mature on September 1, 2024 (the "SPHG Note Maturity Date"), unless earlier repurchased by the Company or converted by the holder in accordance with its terms prior to such maturity date.

At its election, the Company may pay some or all of the interest due on each interest payment date by increasing the principal amount of the SPHG Note in the amount of such interest due or any portion thereof (such payment of interest by increasing the principal amount of the SPHG Note referred to as "PIK Interest"), with the remaining portion of the interest due on such interest payment date (or, at the Company's election, the entire amount of interest then due) to be paid in cash by the Company. Following an increase in the principal amount of the SPHG Note as a result of a payment of PIK Interest, the SPHG Note will bear interest on such increased principal amount from and after the date of such payment of PIK Interest. SPHG Holdings has the right to require the Company to repurchase the SPHG Note upon the occurrence of certain fundamental changes, subject to certain conditions, at a repurchase price equal to 100% of the principal amount of the SPHG Note plus accrued and unpaid interest. The Company will have the right to elect to cause the mandatory conversion of the SPHG Note in whole, and not in part, at any time on or after March 6, 2022, subject to certain conditions including that the stock price of the Company exceeds a certain threshold. SPHG Holdings has the right, at its option, prior to the close of business on the business day immediately preceding the SPHG Note Maturity Date, to convert the SPHG Note or a portion thereof that is $1,000 or an integral multiple thereof, into shares of common stock (if the Company has not received a required stockholder approval) or cash, shares of common stock or a combination of cash and shares of common stock, as applicable (if the Company has received a required stockholder approval), at an initial conversion rate of 421.2655 shares of common stock, which is equivalent to an initial conversion price of approximately $2.37 per share (subject to adjustment as provided in the SPHG Note) per $1,000 principal amount of the SPHG Note (the "Conversion Rate"), subject to, and in accordance with, the settlement provisions of the SPHG Note. For any conversion of the SPHG Note, if the Company is required to obtain and has not received approval from its stockholders in accordance with Nasdaq Stock Market Rule 5635 to issue 20% or more of the total shares of common stock outstanding upon conversion (including upon any mandatory conversion) of the SPHG Note prior to the relevant conversion date (or, if earlier, the 45th scheduled trading day immediately preceding the SPHG Note Maturity Date), the Company shall deliver to the converting holder, in respect of each $1,000 principal amount of the SPHG Note being converted, a number of shares of common stock determined by reference to the Conversion Rate, together with a cash payment, if applicable, in lieu of delivering any fractional share of common stock based on the volume weighted average price (VWAP) of its common stock on the relevant conversion date, on the third business day immediately following the relevant conversion date. As of January 31, 2023 and July 31, 2022, outstanding debt in both periods consisted of the $14.9 million 7.50% Convertible Senior Note due March 1, 2024. As of January 31, 2023 and July 31, 2022, the net carrying value of the SPHG Note was $12.1 million, and $11.0 million, respectively.

Umpqua Revolver

On March 16, 2022, ModusLink, as borrower, submitted a notice of termination to MidCap Financial Trust for its $12.5 million revolving credit facility and entered into a new credit agreement with Umpqua Bank as lender and as agent. There was no balance outstanding on the Midcap Credit Facility of at the time of its termination. The Umpqua Revolver provides for a maximum credit commitment of $12.5 million and a sublimit of $5.0 million for letters of credit and expires on March 16, 2024. Steel Connect, Inc. (“Parent”) is not a borrower or a guarantor under the Umpqua Revolver. Under the Umpqua Revolver, ModusLink is permitted to make distributions to the Parent, in an aggregate amount not to exceed $10.0 million in any fiscal year. On March 13, 2023, ModusLink and Umpqua Bank entered into an amendment to the Umpqua Revolver to extend its expiration date to March 30, 2025.

Cerberus Credit Facility

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

Preferred Stock

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

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

Upon the occurrence of certain triggering events such as a liquidation, dissolution or winding up of the Company, either voluntary or involuntary, or the merger or consolidation of the Company or significant subsidiary, or the sale of substantially all of the assets or capital stock of the Company or a significant subsidiary, the holders of the Preferred Stock are entitled to receive, prior and in preference to any distribution of any of the assets or funds of the Company to the holders of other equity or equity equivalent securities of the Company other than the Preferred Stock by reason of their ownership thereof, an amount per share in cash equal to the sum of (i) 100% of the stated value per share of Preferred Stock (initially $1,000 per share) then held by them (as adjusted for any stock dividend, stock split, stock combination, reclassification or other similar transactions with respect to the Preferred Stock), plus (ii) 100% of all declared but unpaid dividends, and all accrued but unpaid dividends on each such share of Preferred Stock, in each case as the date of the triggering event.

On or after December 15, 2022, each holder of Preferred Stock can also require the Company to redeem its Preferred Stock in cash at a price equal to the Liquidation Preference (as defined in the Series C Certificate of Designations), or approximately $35.2 million. If holders of the Preferred Stock exercise this right to require the Company to redeem all the Preferred Stock, the Company’s payment of the redemption price would likely adversely impact the Company’s liquidity and ability to finance its operations. As of January 31, 2023, this right had not been exercised by holders of the Preferred Stock.

Steel Connect, Inc.

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

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

Off-Balance Sheet Arrangements

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

Critical Accounting Estimates Update

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

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

An evaluation was performed under the supervision and with the participation of our management, including the Interim Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as such terms are defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of the end of the period covered by this report. "Disclosure controls and procedures" means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives. Based upon that evaluation, management, including the Interim Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls were effective as of January 31, 2023.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during the quarter ended January 31, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

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

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

a. None.

b. Not applicable.

c. None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

On March 9, 2023, the Company and SPHG Holdings entered into an amendment to the SPHG Note (the “SPHG Note Amendment”). Pursuant to the SPHG Note Amendment, the maturity date of the SPHG Note was extended six months to September 1, 2024. In addition, the Company repaid $1.0 million in principal amount of the SPHG Note and will be required to repay an additional $1.0 million principal amount of the note on the three month anniversary of the SPHG Note Amendment. In connection with the SPHG Note Amendment, the Company paid SPHG Holdings a cash amendment fee of $0.1 million. The foregoing summary of the SPHG Note Amendment is qualified by the SPHG Note Amendment which is attached as Exhibit 4.1 to this Form 10-Q.

On March 13, 2023, ModusLink and Umpqua Bank entered into an amendment to the Umpqua Revolver (the "Umpqua Revolver Amendment") to extend the expiration date of the facility to March 31, 2025. There were no costs associated with the extension. The foregoing summary of the Umpqua Revolver Amendment is qualified by the Umpqua Revolver Amendment which is attached as Exhibit 10.1 to this Form 10-Q.

Item 6. Exhibits.

Exhibit Number	Description
4.1*	Amendment No. 1 to Convertible Note dated March 9, 2023
10.1*	First Amendment to Credit Agreement dated March 13, 2023
31.1*	Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1±	Certification of the Principal Executive Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2±	Certification of the Principal Financial Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101*	The following financial information from Steel Connect, Inc.'s Quarterly Report Form 10-Q for the quarter ended January 31, 2023 formatted in Inline XBRL: (i) Unaudited Condensed Consolidated Balance Sheets as of January 31, 2023 and July 31, 2022, (ii) Unaudited Condensed Consolidated Statements of Operations for the three and six months ended January 31, 2023 and 2022, (iii) Unaudited Condensed Consolidated Statements of Comprehensive Loss for the three and six months ended January 31, 2023 and 2022, (iv) Unaudited Condensed Consolidated Statements of Stockholders' (Deficit) Equity for the three and six months ended January 31, 2023 and 2022, (v) Unaudited Condensed Consolidated Statements of Cash Flows for the six months ended January 31, 2023 and 2022 and (vi) Notes to Unaudited Condensed Consolidated Financial Statements.
104*	Cover Page Interactive Data File (embedded within the Inline XBRL document)

* Filed herewith.

± Furnished herewith.

SIGNATURES

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

STEEL CONNECT, INC.

Date: March 15, 2023	By: /S/ JASON WONG
	Jason Wong
	Chief Financial Officer
	(Principal Financial Officer and Authorized Signatory)

AMENDMENT NO. 1 TO CONVERTIBLE SENIOR NOTE DUE 2024

This Amendment No. 1 (this "Amendment"), dated as of March 9, 2023, to that certain 7.50% Convertible Senior Note due 2024, dated February 28, 2019 (the "Note"), issued by Steel Connect, Inc., a Delaware corporation (the "Company"), pursuant to that certain 7.50% Convertible Senior Note Due 2024 Purchase Agreement, dated February 28, 2019 (as amended, the "Purchase Agreement"), by and between the Company and to SPH Group Holdings LLC, a Delaware limited liability company, and as assigned to and assumed by WebFinancial Holding Corporation, a Delaware corporation ("WFHC"), is made by and between the Company and WFHC. All capitalized terms used herein and not otherwise defined herein shall have the respective meanings provided to such terms in the Note.

WITNESSETH:

WHEREAS, the Company and WFHC desire to amend certain provisions of the Note;

WHEREAS, pursuant to the Note and Section 5.4 of the Purchase Agreement, the Note may be amended in a written instrument signed by the Company and WFHC; and

WHEREAS, the Company and WFHC have agreed, subject to the terms, conditions and understandings expressed in this Amendment, to amend the Note.

NOW, THEREFORE, in consideration of the mutual covenants set forth herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound, hereby agree as follows:

ARTICLE 1. AMENDMENT

SECTION 1.1 Amendments to the Note. By executing this Amendment, the Company and WFHC hereby agree and acknowledge:

(a) that the first and second paragraphs of the face of the Note are hereby amended to delete "March 1, 2024" and insert "September 1, 2024" in the place of such deletion, whereby the Maturity Date shall be September 1, 2024.

(b) that the following text shall be inserted in the face of the Note immediately following the second paragraph:

"On each of March 9, 2023 and June 9, 2023, the Company shall repay at par $1,000,000 principal amount of this Note."

SECTION 1.2 Amendment Fee. Concurrently with the execution hereof, the Company shall pay WHFC an amount in cash equal to $149,400 as an amendment fee (the "Amendment Fee") by wire transfer of immediately available funds to an account designated by WFHC.

ARTICLE 2. MISCELLANEOUS

SECTION 2.1 Counterparts. This Amendment may be executed in any number of counterparts and by the different parties hereto on separate counterparts, each of which counterparts when executed and delivered (including delivery by way of facsimile) shall be an original, but all of which shall together constitute one and the same instrument. A complete set of counterparts shall be lodged with the Company.

SECTION 2.2 Effective Date. This Amendment shall become effective as of the date first referenced above (the "Effective Date") upon payment of the Amendment Fee.

SECTION 2.3 Effect of Amendment. From and after the Effective Date, the Note and all references to the Note pursuant to the Purchase Agreement and any other documents referenced therein shall be deemed to be references to the Note as modified hereby. Except as expressly amended by this Amendment, the terms and provisions of the Note shall continue in full force and effect. This Amendment is limited as specified and shall not constitute a modification, amendment, acceptance or waiver of any other provision of the Note, the Purchase Agreement or any other document referenced therein.

SECTION 2.4 Headings. The article and section headings in this Amendment are for convenience only and shall not constitute a part of this Amendment for any other purpose and shall not be deemed to limit or affect any of the provisions hereof.

SECTION 2.5 Further Assurances. From and after the date of this Amendment, upon the request of any party hereto, each party shall execute and deliver such instruments, documents and other writings as may be reasonably necessary or desirable to confirm and carry out and to effectuate fully the intent and purposes of this Amendment.

* * * * *

IN WITNESSES WHEREOF, the parties hereto have caused their duly authorized officers to execute and deliver this Amendment as of the date first above written.

COMPANY:

STEEL CONNECT, INC.

By: *__/s/ Jason Wong______*
Name: Jason Wong
Title: Chief Financial Officer

WFHC:

WEBFINANCIAL HOLDING CORPORATION

By: *__/s/ Jack Howard______*
Name: Jack Howard
Title: President

FIRST AMENDMENT TO CREDIT AGREEMENT

THIS FIRST AMENDMENT TO CREDIT AGREEMENT (this "Amendment") is entered into as of March __, 2023, between MODUSLINK CORPORATION, a Delaware corporation ("Borrower"), and UMPQUA BANK, an Oregon state-chartered bank (together with its successors and assigns, "Lender"). Capitalized terms used but not defined in this Amendment shall have the meaning given to such terms in the Credit Agreement (defined below).

RECITALS

A. Borrower and Lender are parties to that certain Credit Agreement dated as of March 16, 2022 (the "Credit Agreement").

B. Borrower and Lender have agreed to amend the Credit Agreement as set forth herein, subject to the terms and conditions of this Amendment.

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

1. Amendments to Credit Agreement.

(a) The definition of "Maturity Date" in Section 1.01 of the Credit Agreement is amended and restated in its entirety to read as follows:

"Maturity Date" means, with respect to Revolving Loans, March 31, 2025; provided, however, that if such date is not a Business Day, the Maturity Date shall be the next preceding Business Day.

(b) Section 7.05 of the Credit Agreement is amended and restated in its entirety to read as follows:

7.05 Payment of Dividends and Distributions. Declare or pay any dividends upon its shares of stock or other equity interests now or hereafter outstanding or make any distribution of assets to its equityholders as such, whether in cash, property or securities, except: (a) dividends and other distributions payable by Subsidiaries to Borrower; and (b) such other dividends paid by Borrower as Borrower may elect to pay up to (i) until July 31, 2023, $13,000,000 in the aggregate per fiscal year, or (ii) after July 31, 2023, $10,000,000 in the aggregate per fiscal year; provided, however, that as a condition precedent to the ability of Borrower or any Subsidiary to pay dividends and make distributions pursuant to clause (b) of this Section 7.05, (i) Borrower shall deliver to Lender a pro forma Compliance Certificate in form and substance satisfactory to Lender certifying that the Distribution Fixed Charge Coverage Ratio after giving effect to such distribution shall not be less than 1.50 to 1.00, and that Borrower is in compliance with the financial covenants set forth in Section 7.13 after giving effect to such distribution, in each case determined on a pro forma basis, and (ii) there shall not exist, and such distribution shall not cause, an Event of Default or Default.

(c) Section 7.13(a) of the Credit Agreement is amended and restated in its entirety to read as follows:

(a) Minimum Adjusted Tangible Net Worth. Fail to maintain at all times Adjusted Tangible Net Worth of no less than (i) from and after the Closing Date, through October 31, 2022, $7,500,000, (ii) from and after November 1, 2022, through April 30, 2023, $10,000,000, and (iii) from and after May 1, 2023, $12,500,000, in each case calculated as of the last day of each fiscal quarter.

2. Conditions. This Amendment shall be effective as of the date (the "Amendment Effective Date") when Lender shall have received each of the following, in each case in form and substance satisfactory to Lender:

(a) this Amendment, duly executed by Borrower, Lender and Guarantors;

(b) such other documents as Lender may reasonably request; and

(c) payment of all of Lender's reasonable out-of-pocket fees, costs and expenses incurred in connection with this Amendment, including, without limitation, reasonable legal fees of Lender's counsel.

3. Representations and Warranties. Borrower represents and warrants to Lender that (a) it possesses all requisite power and authority to execute, deliver and comply with the terms of this Amendment, (b) no other consent of any Person (other than Lender) is required for this Amendment to be effective, (c) the execution and delivery of this Amendment does not violate its organizational documents, (d) after giving effect to this Amendment, the representations and warranties in each Loan Document to which it is a party are true and correct in all material respects on and as of the date of this Amendment as though made on the date of this Amendment (*except* to the extent that such representations and warranties speak to a specific date), (e) after giving effect to this Amendment, it is in full compliance with all covenants and agreements contained in each Loan Document to which it is a party, and (f) after giving effect to this Amendment, no Event of Default or Default has occurred and is continuing. The representations and warranties made in this Amendment shall survive the execution and delivery of this Amendment. No investigation by Lender is required for Lender to rely on the representations and warranties in this Amendment.

4. Scope of Amendment; Reaffirmation. All references to the Credit Agreement shall refer to the Credit Agreement as amended by this Amendment. Except as affected by this Amendment, the Loan Documents are unchanged and continue in full force and effect. However, in the event of any inconsistency between the terms of the Credit Agreement (as amended by this Amendment) and any other Loan Document, the terms of the Credit Agreement shall control and such other document shall be deemed to be amended to conform to the terms of the Credit Agreement. Borrower hereby reaffirms its obligations under the Loan Documents to which it is a party and agrees that all Loan Documents to which it is a party remain in full force and effect and continue to be legal, valid, and binding obligations enforceable in accordance with their terms (as the same are affected by this Amendment).

5. RELEASE. To the fullest extent permitted by California Civil Code Section 1542, Borrower expressly waives and releases all rights conferred upon it by the provisions of such section, and expressly agrees that this Amendment shall be given full force and effect according to its express terms. California Civil Code Section 1542 provides:

> "A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS THAT THE CREDITOR OR RELEASING PARTY DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE AND THAT IF KNOWN BY HIM OR HER WOULD HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR OR SUCH RELEASED PARTY."

With regard to Section 1542 of the California Civil Code, Borrower hereby agrees, represents and warrants that it realizes and acknowledges that factual matters now unknown to it may have given or may hereafter give rise to causes of action, claims, demands, debts, controversies, damages, costs, losses, expenses and defenses, which are presently unknown, unanticipated, misunderstood and unsuspected. Borrower further agrees, represents and warrants that this Amendment has been negotiated and agreed upon in light of that realization and that it nevertheless hereby waives and releases all rights and benefits which it may otherwise have against the Lender under Section 1542 of the California Civil Code, including without limitation, claims for all unknown, unanticipated, misunderstood and unsuspected causes of action and all other claims, demands, debts, controversies, damages, costs, losses, expenses and defenses.

6. Miscellaneous.

(a) No Waiver of Defaults. This Amendment does not constitute (i) a waiver of, or a consent to, (A) any provision of the Credit Agreement or any other Loan Document or (B) any present or future violation of, or default under, any provision of the Loan Documents, or (ii) a waiver of Lender's right to insist upon future compliance with each term, covenant, condition and provision of the Loan Documents.

(b) Form. Each agreement, document, instrument or other writing to be furnished to Lender under any provision of this Amendment must be in form and substance satisfactory to Lender and its counsel.

(c) Headings. The headings and captions used in this Amendment are for convenience only and will not be deemed to limit, amplify or modify the terms of this Amendment, the Credit Agreement, or the other Loan Documents.

(d) Costs, Expenses and Attorneys' Fees. Borrower agrees to pay or reimburse Lender on demand for all its reasonable out-of-pocket costs and expenses incurred in connection with the preparation, negotiation, and execution of this Amendment including, without limitation, the reasonable fees and disbursements of Lender's counsel.

(e) Successors and Assigns. This Amendment shall be binding upon and inure to the benefit of each of the undersigned and their respective successors and permitted assigns.

(f) Multiple Counterparts. This Amendment may be executed in any number of counterparts with the same effect as if all signatories had signed the same document. All counterparts must be construed together to constitute one and the same instrument. This Amendment may be transmitted and signed by facsimile. The effectiveness of any such documents and signatures shall, subject to applicable law, have the same force and effect as manually-signed originals and shall be binding on Borrower and Lender. The Lender may also require that any such documents and signatures be confirmed by a manually-signed original; provided that, the failure to request or deliver the same shall not limit the effectiveness of any facsimile document or signature.

(g) Governing Law; Jurisdiction; Waiver of Jury Trial; etc. THE PROVISIONS OF SECTIONS 9.13 AND 9.14 OF THE CREDIT AGREEMENT ARE INCORPORATED HEREIN BY REFERENCE, MUTATIS MUTANDIS, AS IF FULLY SET FORTH HEREIN.

(h) Entirety. THE LOAN DOCUMENTS (AS AMENDED HEREBY) REPRESENT THE FINAL AGREEMENT BETWEEN BORROWER AND LENDER AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS BY THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS AMONG THE PARTIES.

[Signatures Pages Follow.]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed by their respective authorized officers as of the day and year first above written.

BORROWER:

MODUSLINK CORPORATION,
a Delaware corporation

DocuSigned by:
By: Catherine L. Venable
Name: Catherine L. Venable
Title: Secretary

LENDER:

UMPQUA BANK,
an Oregon state-chartered bank

DocuSigned by:

By: Monica Fleming
5A0CB58454D848A...

Name: Monica Fleming

Title: Middle Market Relationship Manager

The undersigned Guarantors hereby join in this Amendment to evidence their consent to execution by Borrower of this Amendment, to reaffirm each Loan Document now or previously executed by the undersigned and to confirm that each such Loan Document is in full force and effect, and to acknowledge that without such consent and confirmation, Lender would not execute this Amendment.

GUARANTORS:

SOL HOLDINGS, INC.,
a Delaware corporation
SALESLINK MEXICO HOLDING CORP.,
a Delaware corporation
MODUS MEDIA INTERNATIONAL DOCUMENTATION SERVICES (IRELAND), LIMITED,
a Delaware corporation
MODUS MEDIA INTERNATIONAL (IRELAND) LIMITED,
a Delaware corporation

DocuSigned by:
By: Catherine L. Venable
34468922701249D...
Name: Catherine L. Venable
Title: Secretary

DocuSign

Certificate Of Completion

Envelope Id: 3ADA78539DCD4D9393E584818D4CA152		Status: Completed
Subject: Complete with DocuSign: Umpqua.ModusLink.First Amendment to Credit Agreement EXECUTION.pdf		
Source Envelope:		
Document Pages: 6	Signatures: 3	Envelope Originator:
Certificate Pages: 5	Initials: 0	Larry Her
AutoNav: Enabled		1 Sw Columbia St.
EnvelopeId Stamping: Enabled		Portland, OR 97258
Time Zone: (UTC-08:00) Pacific Time (US & Canada)		LarryHer@umpquabank.com
		IP Address: 73.2.124.59

Record Tracking

Status: Original 3/13/2023 3:27:51 PM	Holder: Larry Her LarryHer@umpquabank.com	Location: DocuSign

Signer Events	Signature	Timestamp
Catherine L. Venable cathy_venable@moduslink.com CFO ModusLink Corporation Security Level: Email, Account Authentication (None)	DocuSigned by: Catherine L. Venable 3A468922701249D... Signature Adoption: Pre-selected Style Using IP Address: 173.19.131.201	Sent: 3/13/2023 3:31:32 PM Viewed: 3/13/2023 4:34:23 PM Signed: 3/13/2023 7:38:41 PM
Electronic Record and Signature Disclosure: Accepted: 3/13/2023 4:34:22 PM ID: 917ab980-ed2e-431f-8a61-f9d669bc6c9c Company Name: Umpqua Holdings Corporation		
Monica Fleming monicafleming@umpquabank.com Security Level: Email, Account Authentication (None)	DocuSigned by: Monica Fleming 5A6CB58454D046A... Signature Adoption: Pre-selected Style Using IP Address: 136.226.66.248	Sent: 3/13/2023 7:38:42 PM Viewed: 3/13/2023 7:41:35 PM Signed: 3/13/2023 7:41:56 PM
Electronic Record and Signature Disclosure: Accepted: 3/13/2023 7:41:35 PM ID: 0c03fe21-1662-4c4d-af0b-9dda27c2e323 Company Name: Umpqua Holdings Corporation		

In Person Signer Events	Signature	Timestamp

Editor Delivery Events	Status	Timestamp

Agent Delivery Events	Status	Timestamp

Intermediary Delivery Events	Status	Timestamp

Certified Delivery Events	Status	Timestamp

Carbon Copy Events	Status	Timestamp

Witness Events	Signature	Timestamp

Notary Events	Signature	Timestamp

Envelope Summary Events	Status	Timestamps

Envelope Summary Events	Status	Timestamps
Envelope Sent	Hashed/Encrypted	3/13/2023 3:31:32 PM
Certified Delivered	Security Checked	3/13/2023 7:41:35 PM
Signing Complete	Security Checked	3/13/2023 7:41:56 PM
Completed	Security Checked	3/13/2023 7:41:56 PM

Payment Events	Status	Timestamps

Electronic Record and Signature Disclosure

Electronic Record and Signature Disclosure

CONSUMER DISCLOSURE:

From time to time, Umpqua Bank (we, us or Company) may be required by law to provide to you certain written notices or disclosures. Described below are the terms and conditions for providing to you such notices and disclosures electronically through the DocuSign, Inc. (DocuSign) electronic signing system. Read the information below carefully and thoroughly, and if you can access this information electronically to your satisfaction and agree to these terms and conditions, confirm your agreement by clicking the 'I agree' button at the bottom of this document.

Getting paper copies:

At any time, you may request from us a paper copy of any record provided or made available electronically to you by us. You will have the ability to download and print documents we send to you through the DocuSign system during and immediately after signing session and, if you elect to create a DocuSign signer account, you may access them for a limited period of time (usually 30 days) after such documents are first sent to you. After such time, if you wish for us to send you paper copies of any such documents from our office to you, you will not be charged a per-page fee. You may request delivery of such paper copies from us by following the procedure described below.

Withdrawing your consent:

If you decide to receive notices and disclosures from us electronically, you may at any time change your mind and tell us that thereafter you want to receive required notices and disclosures only in paper format. How you must inform us of your decision to receive future notices and disclosure in paper format and withdraw your consent to receive notices and disclosures electronically is described below.

Consequences of changing your mind:

If you elect to receive required notices and disclosures only in paper format, it will slow the speed at which we can complete certain steps in transactions with you and delivering services to you because we will need first to send the required notices or disclosures to you in paper format, and then wait until we receive back from you your acknowledgment of your receipt of such paper notices or disclosures. To indicate to us that you are changing your mind, you must withdraw your consent using the DocuSign 'Withdraw Consent' form on the signing page of a DocuSign envelope instead of signing it. This will indicate to us that you have withdrawn your consent to receive required notices and disclosures electronically from us and you will no longer be able to use the DocuSign system to receive required notices and consents electronically from us or to sign electronically documents from us.

All notices and disclosures will be sent to you electronically:

Unless you tell us otherwise in accordance with the procedures described herein, we will provide electronically to you through the DocuSign system all required notices, disclosures, authorizations, acknowledgements, and other documents that are required to be provided or made available to you during the course of our relationship with you. To reduce the chance of you inadvertently not receiving any notice or disclosure, we prefer to provide all of the required notices and disclosures to you by the same method and to the same address that you have given us. Thus, you can receive all the disclosures and notices electronically or in paper format through the paper mail delivery system. If you do not agree with this process, let us know as described below. Also see the paragraph immediately above that describes the consequences of your electing not to receive delivery of the notices and disclosures electronically from us.

How to contact Umpqua Bank:

You may contact us to let us know of your changes as to how we may contact you electronically, to request paper copies of certain information from us, and to withdraw your prior consent to receive notices and disclosures electronically at the following number: (866) 486-7782.

To advise Umpqua Bank of your new e-mail address:

To let us know of a change in your e-mail address where we should send notices and disclosures electronically to you, contact us at (866) 486-7782: be prepared to provide your previous e-mail address and your new e-mail address.

In addition, you must notify DocuSign, Inc. to arrange for your new email address to be reflected in your DocuSign account by following the process for changing e-mail in the DocuSign system.

To request paper copies from Umpqua Bank:

To request delivery from us of paper copies of the notices and disclosures previously provided by us to you electronically, you must contact us at (866) 486-7782 and be prepared to provide your e-mail address, full name, US Postal address, and telephone number.

To withdraw your consent with Umpqua Bank:

To inform us that you no longer want to receive future notices and disclosures in electronic format you may:

i. decline to sign a document from within your DocuSign session, and on the subsequent page, select the check-box indicating you wish to withdraw your consent, or you may;

ii. contact us at (866) 486-7782 and provide your e-mail, full name, US Postal Address, and telephone number.

Required hardware and software:

https://support.docusign.com/guides/ndse-user-guide-system-requirements

** These minimum requirements are subject to change. If these requirements change, you will be asked to re-accept the disclosure. Pre-release (e.g. beta) versions of operating systems and browsers are not supported.

Acknowledging your access and consent to receive materials electronically:

To confirm to us that you can access this information electronically, which will be similar to other electronic notices and disclosures that we will provide to you, verify that you were able to read this electronic disclosure and that you also were able to print on paper or electronically save this page for your future reference and access or that you were able to e-mail this disclosure and consent to an address where you will be able to print on paper or save it for your future reference and access. Further, if you consent to receiving notices and disclosures exclusively in electronic format on the terms and conditions described above, let us know by clicking the 'I agree' button below.

By checking the 'I agree' box, I confirm that:

- I can access and read this Electronic CONSENT TO ELECTRONIC RECEIPT OF ELECTRONIC CONSUMER DISCLOSURES document; and
- I can print on paper the disclosure or save or send the disclosure to a place where I can print it, for future reference and access; and
- Until or unless I notify Umpqua Bank as described above, I consent to receive through exclusively electronic means all notices, disclosures, authorizations, acknowledgements, and other documents that are required to be provided or made available to me by Umpqua Bank during the course of my relationship with you.

Exhibit 31.1

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

I, Warren Lichtenstein, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Steel Connect, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2023

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

Exhibit 31.2

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

I, Jason Wong, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Steel Connect, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2023

By: /S/ JASON WONG
Jason Wong
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

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

In connection with the Quarterly Report on Form 10-Q of Steel Connect, Inc. (the "Company") for the fiscal quarter ended January 31, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Warren Lichtenstein, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 15, 2023

By: /S/ WARREN LICHTENSTEIN

Warren Lichtenstein
Interim Chief Executive Officer
(Principal Executive Officer)

Exhibit 32.2

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

In connection with the Quarterly Report on Form 10-Q of Steel Connect, Inc. (the "Company") for the fiscal quarter ended January 31, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Jason Wong, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 15, 2023

By: /S/ JASON WONG
Jason Wong
Chief Financial Officer
(Principal Financial Officer)