UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended April 30, 2021

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 June 1, 2021, there were 63,096,394 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)

	April 30, 2021	July 31, 2020
	(unaudited)	
ASSETS		
Cash and cash equivalents	$ 97,582	$ 75,887
Accounts receivable, trade, net of allowance for doubtful accounts of $49 and $134 at April 30, 2021 and July 31, 2020, respectively	72,048	93,072
Inventories, net	15,673	15,354
Funds held for clients	8,397	18,755
Prepaid expenses and other current assets	24,765	20,475
Total current assets	218,465	223,543
Property and equipment, net	66,619	79,678
Goodwill	231,470	257,128
Other intangible assets, net	119,187	135,263
Operating lease right-of-use assets	51,052	56,140
Other assets	7,062	7,420
Total assets	$ 693,855	$ 759,172
LIABILITIES, CONTINGENTLY REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY		
Accounts payable	$ 56,757	$ 70,002
Accrued expenses	107,581	111,380
Funds held for clients	8,397	18,755
Current portion of long-term debt	5,612	5,527
Current lease obligations	13,177	14,318
Other current liabilities	28,319	29,950
Total current liabilities	219,843	249,932
Convertible note payable	8,984	8,054
Long-term debt, excluding current portion	359,604	365,468
Long-term lease obligations	39,457	43,211
Other long-term liabilities	11,203	8,509
Total long-term liabilities	419,248	425,242
Total liabilities	639,091	675,174
Contingently redeemable preferred stock, $0.01 par value per share. 35,000 shares authorized, issued and outstanding at April 30, 2021 and July 31, 2020	35,180	35,180
Stockholders' equity:		
Preferred stock, $0.01 par value per share. 4,965,000 shares authorized at April 30, 2021 and July 31, 2020; zero shares issued and outstanding at April 30, 2021 and July 31, 2020	—	—
Common stock, $0.01 par value per share. Authorized 1,400,000,000 shares; 63,096,394 issued and outstanding shares at April 30, 2021; 62,787,919 issued and outstanding shares at July 31, 2020	631	628
Additional paid-in capital	7,478,491	7,478,047
Accumulated deficit	(7,468,662)	(7,433,700)
Accumulated other comprehensive income	9,124	3,843
Total stockholders' equity	19,584	48,818
Total liabilities, contingently redeemable preferred stock and stockholders' equity	$ 693,855	$ 759,172

See accompanying notes to unaudited condensed consolidated financial statements

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

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2021	2020	2021	2020
Net revenue:				
Products	$ 102,351	$ 98,284	$ 299,214	$ 354,404
Services	49,434	79,067	178,552	263,552
Total net revenue	151,785	177,351	477,766	617,956
Cost of revenue:				
Products	80,007	79,476	229,939	278,696
Services	39,531	64,405	139,262	216,295
Total cost of revenue	119,538	143,881	369,201	494,991
Gross profit	32,247	33,470	108,565	122,965
Operating expenses:				
Selling, general and administrative	21,405	25,872	70,073	79,264
Goodwill impairment charge	25,658	—	25,658	—
Amortization of intangible assets	4,182	6,531	16,076	20,719
Total operating expenses	51,245	32,403	111,807	99,983
Operating (loss) income	(18,998)	1,067	(3,242)	22,982
Other income (expense):				
Interest income	1	8	21	38
Interest expense	(7,764)	(8,523)	(23,412)	(26,425)
Other gains (losses), net	152	2,774	(4,028)	2,509
Total other expense, net	(7,611)	(5,741)	(27,419)	(23,878)
Loss before income taxes	(26,609)	(4,674)	(30,661)	(896)
Income tax expense	1,020	1,485	2,715	4,028
Net loss	(27,629)	(6,159)	(33,376)	(4,924)
Less: Preferred dividends on redeemable preferred stock	(519)	(525)	(1,586)	(1,592)
Net loss attributable to common stockholders	$ (28,148)	$ (6,684)	$ (34,962)	$ (6,516)
Basic net loss per share attributable to common stockholders	$ (0.45)	$ (0.11)	$ (0.56)	$ (0.11)
Diluted net loss per share attributable to common stockholders	$ (0.45)	$ (0.11)	$ (0.56)	$ (0.11)
Weighted average common shares used in:				
Basic loss per share	62,263	61,815	61,898	61,583
Diluted loss per share	62,263	61,815	61,898	61,583

See accompanying notes to unaudited condensed consolidated financial statements

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

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2021	2020	2021	2020
Net loss	$ (27,629)	$ (6,159)	$ (33,376)	$ (4,924)
Other comprehensive (loss) income:				
Foreign currency translation adjustment	(112)	(3,064)	5,281	(2,387)
Net unrealized holding loss on securities, net of tax	—	—	—	(96)
Pension liability adjustments, net of tax	—	(129)	—	(131)
Other comprehensive (loss) income	(112)	(3,193)	5,281	(2,614)
Comprehensive loss	$ (27,741)	$ (9,352)	$ (28,095)	$ (7,538)

See accompanying notes to unaudited condensed consolidated financial statements

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

	Number of Shares	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance at January 31, 2021	63,000,314	$ 630	$ 7,478,395	$ (7,440,514)	$ 9,236	$ 47,747
Net loss	—	—	—	(27,629)	—	(27,629)
Preferred dividends	—	—	—	(519)	—	(519)
Issuance of common stock pursuant to employee stock purchase plan	362	—	—	—	—	—
Restricted stock grants	95,718	1	(1)	—	—	—
Share-based compensation	—	—	97	—	—	97
Other comprehensive items	—	—	—	—	(112)	(112)
Balance at April 30, 2021	63,096,394	$ 631	$ 7,478,491	$ (7,468,662)	$ 9,124	$ 19,584

	Number of Shares	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance at January 31, 2020	62,375,558	$ 624	$ 7,477,697	$ (7,426,119)	$ 1,613	$ 53,815
Net loss	—	—	—	(6,159)	—	(6,159)
Preferred dividends	—	—	—	(525)	—	(525)
Issuance of common stock pursuant to employee stock purchase plan	8,120	—	4	—	—	4
Share-based compensation	—	—	209	—	—	209
Other comprehensive items	—	—	—	—	(3,193)	(3,193)
Balance at April 30, 2020	62,383,678	$ 624	$ 7,477,910	$ (7,432,803)	$ (1,580)	$ 44,151

See accompanying notes to unaudited condensed consolidated financial statements

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

	Number of Shares	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance at July 31, 2020	62,787,919	$ 628	$ 7,478,047	$ (7,433,700)	$ 3,843	$ 48,818
Net loss	—	—	—	(33,376)	—	(33,376)
Preferred dividends	—	—	—	(1,586)	—	(1,586)
Issuance of common stock pursuant to employee stock purchase plan	8,792	—	4	—	—	4
Restricted stock grants	332,578	3	(3)	—	—	—
Restricted stock forfeitures	(32,895)	—	—	—	—	—
Share-based compensation	—	—	443	—	—	443
Other comprehensive items	—	—	—	—	5,281	5,281
Balance at April 30, 2021	63,096,394	$ 631	$ 7,478,491	$ (7,468,662)	$ 9,124	$ 19,584

	Number of Shares	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance at July 31, 2019	61,805,856	$ 618	$ 7,477,327	$ (7,426,287)	$ 1,034	$ 52,692
Net loss	—	—	—	(4,924)	—	(4,924)
Preferred dividends	—	—	—	(1,592)	—	(1,592)
Issuance of common stock pursuant to employee stock purchase plan	17,299	—	8	—	—	8
Restricted stock grants	560,523	6	(6)	—	—	—
Share-based compensation	—	—	581	—	—	581
Other comprehensive items	—	—	—	—	(2,614)	(2,614)
Balance at April 30, 2020	62,383,678	$ 624	$ 7,477,910	$ (7,432,803)	$ (1,580)	$ 44,151

See accompanying notes to unaudited condensed consolidated financial statements

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

	Nine Months Ended April 30, 2021	Nine Months Ended April 30, 2020
Cash flows from operating activities:		
Net loss	$ (33,376)	$ (4,924)
Adjustments to reconcile net loss to cash flows from operating activities:		
Depreciation	15,622	17,240
Amortization of intangible assets	16,076	20,719
Amortization of deferred financing costs	467	285
Accretion of debt discount	930	1,240
Impairment of goodwill	25,658	—
Share-based compensation	443	581
Other losses (gains), net	5,686	(2,509)
Changes in operating assets and liabilities:		
Accounts receivable, net	21,243	28,492
Inventories, net	(80)	3,847
Prepaid expenses and other current assets	(4,179)	7,538
Accounts payable and accrued expenses	(18,592)	(14,547)
Refundable and accrued income taxes, net	(378)	(793)
Other assets and liabilities	(8,508)	2,882
Net cash provided by operating activities	21,012	60,051
Cash flows from investing activities:		
Additions of property and equipment	(2,819)	(11,477)
Proceeds from the disposition of property and equipment	174	12
Proceeds from the sale of available-for-sale securities	—	163
Net cash used in investing activities	(2,645)	(11,302)
Cash flows from financing activities:		
Proceeds from revolving lines of credit, net	—	19,000
Long-term debt repayments	(6,142)	(3,076)
Preferred dividend payments	(1,586)	(1,563)
Payment of debt financing costs	—	(914)
Repayments on capital lease obligations	(52)	(83)
Proceeds from issuance of common stock	4	8
Net cash (used in) provided by financing activities	(7,776)	13,372
Net effect of exchange rate changes on cash, cash equivalents and restricted cash	746	(798)
Net increase in cash, cash equivalents and restricted cash	11,337	61,323
Cash, cash equivalents and restricted cash, beginning of period	94,642	46,064
Cash, cash equivalents and restricted cash, end of period	$ 105,979	$ 107,387
Cash and cash equivalents, end of period	$ 97,582	$ 90,189
Funds held for clients, end of period	8,397	17,198
Cash, cash equivalents and restricted cash, end of period	$ 105,979	$ 107,387

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., together with its consolidated subsidiaries (the "Company"), operates through its wholly-owned subsidiaries, IWCO Direct Holdings, Inc. ("IWCO Direct," "IWCO" or "Direct Marketing") and ModusLink Corporation ("ModusLink" or "Supply Chain").

IWCO Direct delivers data-driven marketing solutions for its customers. Its full range of services includes strategy, creative and execution for omnichannel marketing campaigns, along with postal logistics programs for direct mail. Through its Mail-Gard® division, IWCO Direct also offers business continuity and disaster recovery services to protect against unexpected business interruptions, along with providing print and mail outsourcing services.

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

Historically, the Company has financed its operations and met its capital requirements primarily through funds generated from operations, the sale of its securities, borrowings from lending institutions and sale of facilities that were not fully utilized. The Company believes it has access to adequate resources to meet its needs for normal operating costs, capital expenditures, mandatory debt redemptions and working capital for its existing business for at least twelve months from the date of this filing. These resources include current cash and cash equivalents, ModusLink's credit agreement with MidCap Financial Trust ("MidCap"), IWCO's revolving credit facility with Cerberus Business Finance, LLC ("Cerberus"), and cash, if any, provided by operating activities. The Company's expectations regarding its ability to use its existing cash and available credit facilities to continue funding its operations are based on assumptions that may prove to be inaccurate, and the Company may require capital resources sooner than currently expected. While the Company believes it will be able to access this additional liquidity based on existing information, the assumptions underlying this belief may also later prove to be inaccurate.

As of April 30, 2021 and July 31, 2020, the Company had cash and cash equivalents of $97.6 million and $75.9 million, respectively. As of April 30, 2021, the Company had a working capital deficit of $1.4 million, which includes accrued pricing liabilities and certain tax related liabilities which the Company believes will not require a cash outlay in the next twelve months. As of April 30, 2021, IWCO Direct had $25.0 million available borrowing capacity under its revolving facility. As of April 30, 2021, ModusLink had a readily available borrowing capacity under its revolving credit facility of $5.2 million. The Company believes it will generate sufficient cash to meet its debt covenants under its credit facilities to which certain of its subsidiaries are a party and that it will be able to obtain cash through its current and future credit facilities, if needed.

Impact of COVID-19

In March 2020, the World Health Organization categorized the novel Coronavirus ("COVID-19") as a pandemic. The spread of the outbreak caused significant disruptions in certain sectors of the U.S. and global economies during 2020 and 2021, and many economists expect the impact will be significant during at least the remainder of calendar 2021. The Company is subject to risks and uncertainties as a result of the COVID-19 pandemic. The Company continues to evaluate the global risks and the slowdown in business activity related to COVID-19, including the potential impacts on its employees, customers, suppliers and financial results. The effects of COVID-19 required temporary closures of certain of ModusLink's facilities for short periods of time during the fiscal year ended July 31, 2020. Additionally, although IWCO operated and continues to operate as an essential business, it has reduced operating levels and labor shifts due to lower sales volume during the current and prior fiscal year. As of the filing of this quarterly report on Form 10-Q, all of the Company's facilities were open and able to operate at normal capacities.

To help mitigate the financial impact of the COVID-19 pandemic, during the prior fiscal year ended July 31, 2020, the Company initiated cost reduction actions, including waiver of board fees, hiring freezes, staffing and force reductions, Company-wide salary reductions, bonus payment deferrals and temporary 401(k) match suspension. The temporary waiver of board fees and Company-wide salary reduction actions taken in the prior fiscal year were fully restored prior to the beginning of the current fiscal year, and the majority of salary reductions were repaid prior to the quarter ended January 31, 2021. The Company continues to focus on cash management and liquidity, which includes reduction of discretionary spending, aggressive working capital management, strict approvals for capital expenditures and other actions. The Company will evaluate further actions if circumstances warrant.

As the situation surrounding COVID-19 continues to remain fluid, it is difficult to predict the duration of the pandemic and the impact on the Company's business, operations, financial condition and cash flows. The severity of the impact on the Company's business for the remainder of calendar 2021 and beyond will depend on a number of factors, including, but not limited to, the duration and severity of the pandemic, the extent and severity of the impact on the Company's customers and suppliers, the continued disruption to demand for our businesses' products and services, and the impact of the global business and economic environment on liquidity and the availability of capital, all of which are uncertain and cannot be predicted. The Company's future results of operations and liquidity could also be adversely impacted by delays in payments of outstanding receivables beyond normal payment terms, supply chain disruptions and uncertain demand, and the effect of any initiatives or programs that the Company may undertake to address financial and operational challenges faced by its customers. There is also no certainty that federal, state or local regulations regarding safety measures to address the spread of COVID-19 will not adversely impact the Company's operations.

Steel Holdings Expression of Interest

On November 19, 2020, the Company's Board of Directors (the "Board") received a preliminary, non-binding expression of interest (the "Expression of Interest") from Steel Partners Holdings L.P. ("Steel Holdings") to acquire all of the outstanding shares of common stock not already owned by Steel Holdings or its affiliates for a combination of cash and Steel Holdings 6% Series A Preferred Units, which would imply a value per share of common stock in the range of $0.65 to $0.72 per share. The Board has established a special committee comprised solely of independent directors (the "Acquisition Proposal Special Committee") authorized to retain independent legal and financial advisors and to review, evaluate, negotiate and approve or disapprove the Expression of Interest, and to explore alternative strategies or transactions. The Acquisition Proposal Special Committee announced on January 11, 2021 that it had retained financial advisors and legal counsel. As set forth in the Expression of Interest, the proposed transaction will be subject to the approval of the Acquisition Proposal Special Committee, as well as a non-waivable condition requiring approval of a majority of the shares outstanding of the Company not owned by Steel Holdings and its affiliates and related parties. The Board resolutions establishing the Acquisition Proposal Special Committee expressly provide that the Board will not approve the proposed transaction contemplated by the Expression of Interest or any alternative thereto without a prior favorable recommendation by the Acquisition Proposal Special Committee.

No decision has yet been made with respect to the Company's response to the Expression of Interest or any alternatives thereto. The Board has only received a proposal, which does not constitute an offer or proposal capable of acceptance and may be withdrawn at any time and in any manner. There can be no assurance that any definitive offer will be made, that any agreement will be executed or that the transaction proposed in the Expression of Interest or any other transaction will be approved or completed. The Company is not obligated to disclose any further developments or updates on the progress of the proposed transaction until either the Company enters into a definitive agreement or the Acquisition Proposal Special Committee determines no such transaction will be approved.

(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, 2020 (Fiscal Year 2020), which are contained in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on September 30, 2020. The results for the nine months ended April 30, 2021 are not necessarily indicative of the results to be expected for the full fiscal year. The year-end condensed consolidated balance sheet data was derived from audited consolidated financial statements, but does not include all disclosures required by U.S. GAAP.

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

The Company considers events or transactions that occur after the balance sheet date but before the issuance of financial statements to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. For the nine months ended April 30, 2021, the Company evaluated subsequent events for potential recognition and disclosure through the date these financial statements were filed.

During the three months ended October 31, 2019, the Company recorded an adjustment to correct an out-of-period misstatement related to the Company's estimate for certain tax related liabilities, resulting in a $6.4 million reduction in selling, general and administrative expenses.

(3) RECENT ACCOUNTING PRONOUNCEMENTS

Adoption of New Accounting Standards

In August 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement*. ASU 2018-13 modifies the disclosure requirements on fair value measurements. The amendments in ASU 2018-13 were effective in the first quarter of the Company's fiscal year ending July 31, 2021 (Fiscal Year 2021). The adoption of the accounting standard did not have a material impact on the Company's financial statements.

In August 2018, the FASB issued ASU 2018-14, *Compensation-Retirement Benefits-Defined Benefit Plans-General (Subtopic 715-20): Disclosure Framework-Changes to the Disclosure Requirements for Defined Benefit Plans*. ASU 2018-14 modifies the disclosure requirements for employers that sponsor defined benefit pension and other post-retirement plans. The amendments in ASU 2018-14 became effective in the first quarter of the Company's Fiscal Year 2021. The adoption of the accounting standard did not have a material impact on the Company's financial statements.

In August 2018, the FASB issued ASU 2018-15, *Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (a consensus of the FASB Emerging Issues Task Force)* to align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The amendments in ASU 2018-15 became effective for the Company's first quarter of Fiscal Year 2021. The adoption of the accounting standard did not have a material impact on the Company's consolidated financial statements.

Accounting Standards Issued and Not Yet Implemented

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit 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 December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, which amends the existing guidance relating to the accounting for income taxes. This ASU is intended to simplify the accounting for income taxes by removing certain exceptions to the general principles of accounting for income taxes and to improve the consistent application of U.S. GAAP for other areas of accounting for income taxes by clarifying and amending existing guidance. The new guidance is effective for the Company's first quarter of the fiscal year ending July 31, 2022. The Company does not expect that the adoption of this new guidance will have a material impact on its consolidated financial statements.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which is intended to provide temporary optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships and other transactions affected by the discontinuation of the London Interbank Offered Rate, known as LIBOR, or by another reference rate expected to be discontinued. This optional guidance is effective beginning on March 12, 2020, and the Company may elect to apply the amendments prospectively through December 31, 2022. The Company is currently evaluating this guidance to determine the impact it may have on its consolidated financial statements.

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

(4) INVENTORIES

The table below presents the components of Inventories, net:

	April 30, 2021	July 31, 2020
	(In thousands)	
Raw materials	$ 14,651	$ 14,216
Work-in-process	191	253
Finished goods	831	885
	$ 15,673	$ 15,354

(5) GOODWILL AND INTANGIBLE ASSETS

The Company's goodwill of $231.5 million and $257.1 million as of April 30, 2021 and July 31, 2020, respectively, relates to the Company's Direct Marketing reporting unit, which is the only reporting unit in the Direct Marketing reportable segment. Other intangible assets, net, as of April 30, 2021, include trademarks and tradenames, and customer relationships. The trademarks and tradenames intangible assets, which were fully amortized as of April 30, 2021, were being amortized on a straight-line basis and the customer relationship intangible assets are amortized using an accelerated method, which reflects the pattern in which the Company receives the economic benefit of the asset.

A summary of other intangible assets, net are reflected in the table below:

		April 30, 2021			July 31, 2020		
	Weighted Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(in years)	(In thousands)					
Customer relationships	15	$ 192,730	$ 73,543	$ 119,187	$ 192,730	$ 60,032	$ 132,698
Trademarks and trade names	3	20,520	20,520	—	20,520	17,955	2,565
Total		$ 213,250	$ 94,063	$ 119,187	$ 213,250	$ 77,987	$ 135,263

The table below presents amortization expense recorded by the Company for other intangible assets:

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2021	2020	2021	2020
	(In thousands)			
Customer relationships	$ 4,182	$ 4,825	$ 13,511	$ 15,589
Trademarks and trade names	—	1,706	2,565	5,130
Total	$ 4,182	$ 6,531	$ 16,076	$ 20,719

Goodwill Impairment Charge

The carrying value of goodwill is not amortized, but is tested for impairment annually as of June 30, and, additionally on an interim basis, whenever events or changes in circumstances indicate that the carrying value may not be recoverable. During the three months ended April 30, 2021, IWCO was informed by two significant customers that they would be transitioning their direct marketing services to other providers by the end of the fiscal year ending July 31, 2021 and another customer that it would have significantly lower volumes of sales in at least the next fiscal quarter ending July 31, 2021. In connection with its quarterly close procedures, the Company assessed the anticipated negative impact on revenue and earnings from these changes in demand, along with the previously reported notification of another significant customer transitioning its direct marketing services to another company, and determined these factors were indicators that goodwill and other long-lived assets may be impaired. The customers who are transitioning their direct marketing spending to other companies accounted for approximately $10.9 million or 7% and $13.1 million or 7% of the Company's revenues for the three months ended April 30, 2021 and 2020, respectively. As a result, the

Company performed an interim impairment test of Direct Marketing's goodwill and other long-lived assets as of April 30, 2021. The Company determined that the goodwill was impaired, and recorded a non-cash impairment charge of $25.7 million for the three months ended April 30, 2021. The Company determined that other long-lived assets were not impaired as of April 30, 2021.

The fair value of the Direct Marketing reporting unit was calculated using a discounted cash flow model (a form of the income approach) using the Company's current projections, which are subject to various risks and uncertainties associated with its forecasted revenue, expenses and cash flows, as well as the duration and expected impact on its business from the COVID-19 pandemic. The Company's significant assumptions in the analysis include, but are not limited to, future cash flow projections, the weighted average cost of capital, the terminal growth rate and the tax rate. The Company's estimates of future cash flows are based on current economic climates, recent operating results and planned business strategies. These estimates could be negatively affected by decreased customer demand for IWCO's services, changes in regulations, further economic downturns, increased customer attrition or an inability to execute IWCO's business strategies. Future cash flow estimates are, by their nature, subjective, and actual results may differ materially from the Company's estimates. If the Company's ongoing cash flow projections are not met, the Company may have to record impairment charges in future periods.

(6) ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

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

	April 30, 2021	July 31, 2020
Accrued Expenses	(In thousands)	
Accrued taxes	$ 58,409	$ 60,744
Accrued compensation	23,773	25,439
Accrued worker's compensation	2,539	3,949
Accrued audit, tax and legal	4,426	3,399
Accrued contract labor	985	981
Accrued interest	190	476
Accrued other	17,259	16,392
	$ 107,581	$ 111,380

	April 30, 2021	July 31, 2020
Other Current Liabilities	(In thousands)	
Accrued pricing liabilities	$ 13,499	$ 13,499
Customer postage deposits	9,744	8,551
Other	5,076	7,900
	$ 28,319	$ 29,950

As of April 30, 2021 and July 31, 2020, the Company had accrued taxes of $58.4 million and $60.7 million, respectively, which reflected the Company's estimate for certain tax related liabilities. During the quarter ended April 30, 2020, the Direct Marketing business recorded a net decrease of $5.0 million in certain sales tax liabilities. As of both April 30, 2021 and July 31, 2020, the Company had accrued pricing liabilities of approximately $13.5 million. As previously reported by the Company, several principal adjustments were made to its historic financial statements for periods ending on or before January 31, 2012, the most significant of which related to the treatment of vendor rebates in its pricing policies. Where the retention of a rebate or a mark-up was determined to have been inconsistent with a client contract, the Company concluded that these amounts were not properly recorded as revenue. Accordingly, revenue was reduced by an equivalent amount for the period that the rebate was estimated to have been affected. A corresponding liability for the same amount was recorded in that period (referred to as accrued pricing liabilities). The Company believes that it may not ultimately be required to pay all or any of the accrued pricing liabilities based upon the expiration of statutes of limitations, and due in part to the nature of the interactions with its clients. The remaining accrued pricing liabilities as of April 30, 2021 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) LEASES

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

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2021	2020	2021	2020
	(In thousands)			
Operating lease cost	$ 4,093	$ 2,837	$ 12,452	$ 12,469
Short-term lease expense	524	1,802	1,464	2,254
Variable lease cost	(9)	4	10	50
Amortization of finance lease assets	—	2	—	38
Interest on finance lease liabilities	1	1	4	9
	$ 4,609	$ 4,646	$ 13,930	$ 14,820

Supplemental Cash Flow Information

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

	Nine Months Ended April 30,	
	2021	2020
	(In thousands)	
Cash paid for amounts included in measurement of lease liabilities:		
Operating cash flows from operating leases	$ 12,328	$ 11,677
Operating cash flows from finance leases	$ 4	$ 7
Financing cash flows from finance leases	$ 52	$ 83

(8) DEBT

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

	April 30, 2021	July 31, 2020
	(In thousands)	
Secured		
Cerberus Term Loan due December 15, 2022	$ 365,829	$ 371,972
Unsecured		
7.50% Convertible Senior Note due March 1, 2024	14,940	14,940
Credit Facilities		
Cerberus Revolving Facility	—	—
MidCap Credit Facility	—	—
Less: unamortized discounts and issuance costs	(6,569)	(7,863)
Total debt, net	374,200	379,049
Less: current portion of debt, net	(5,612)	(5,527)
Total long-term debt, net	$ 368,588	$ 373,522

7.50% Convertible Senior Note

On February 28, 2019, the Company entered into a 7.50% Convertible Senior Note Due 2024 Purchase Agreement (the "SPHG Note Purchase Agreement") with SPH Group Holdings LLC ("SPHG Holdings"), whereby SPHG Holdings agreed to loan the Company $14.9 million in exchange for a 7.50% Convertible Senior Note due 2024 (the "SPHG Note"). SPHG Holdings has the right, at its option, prior to the close of business on the business day immediately preceding the 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, subject to, and in accordance with, the settlement provisions of the SPHG Note. As of April 30, 2021, the if-converted value of the SPHG Note did not exceed the principal value of the SPHG Note. As of April 30, 2021, the remaining period over which the unamortized discount will be amortized is 34 months. As of April 30, 2021 and July 31, 2020, the net carrying value of the SPHG Note was $9.0 million and $8.1 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:

	April 30, 2021	July 31, 2020
	(In thousands)	
Carrying amount of equity component	$ 8,200	$ 8,200
Principal amount of note	$ 14,940	$ 14,940
Unamortized debt discount	(5,956)	(6,886)
Net carrying amount	$ 8,984	$ 8,054

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2021	2020	2021	2020
	(In thousands)			
Interest expense related to contractual interest coupon	$ 277	$ 280	$ 850	$ 840
Interest expense related to accretion of the discount	325	410	930	1,240
	$ 602	$ 690	$ 1,780	$ 2,080

Amendments to MidCap Credit Facility

On December 9, 2020, ModusLink entered into a First Amendment to the MidCap credit agreement ("Amendment No. 1") by and among ModusLink, certain of ModusLink's subsidiaries identified on the signature pages thereto, and MidCap as lender and agent.

Amendment No. 1 amends the MidCap credit agreement to permit special cash dividends to be made on or prior to July 31, 2021 in an aggregate amount not to exceed $50.0 million (the "Special Distributions") to the Company. Payment of the Special Distributions will eliminate the availability of the general dividend basket for the fiscal year ending July 31, 2021. Special Distributions totaling $40.0 million were made by ModusLink to the Company during the quarter ended January 31, 2021. In addition, Amendment No. 1 incorporates a new minimum liquidity financial covenant, which requires that the sum of excess availability under the MidCap credit agreement and the amount of qualified cash and cash equivalents of the borrower is not less than $3.0 million until the earlier of July 31, 2021 or the date on which the borrower has either distributed the maximum amount of the Special Distributions or waived the ability to make further Special Distributions. Among other things, Amendment No. 1 also increases the percentage of eligible accounts included in the borrowing base from 50% to 75% and amends the condition for borrowing of revolving loans after the effective date of Amendment No. 1 to require evidence that specified availability (the sum of excess availability and the difference between the borrowing base and the aggregate revolving loan commitments) is not less than $3.0 million prior to giving effect to any such borrowing.

On June 2, 2021, ModusLink entered into a Second Amendment to the MidCap credit agreement (“Amendment No. 2”) by and among ModusLink, certain of ModusLink’s subsidiaries, and MidCap as lender and agent. Amendment No. 2 amends the MidCap credit agreement to extend the time period for payment from ModusLink to the Company of special distributions to July 31, 2022. In addition, the unused line fee was increased to 0.65% in Amendment No. 2 and certain other technical amendments were incorporated.

(9) CONTINGENCIES

On April 13, 2018, a purported shareholder, Donald Reith, filed a verified complaint, Reith v. Lichtenstein, et al., 2018-277 (Del. Ch.) in the Delaware Court of Chancery. The complaint alleges class and derivative claims for breach of fiduciary duty and/or aiding and abetting breach of fiduciary duty and unjust enrichment against the Board, Warren G. Lichtenstein, Glen M. Kassan,

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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 (Messrs. Fenton, Lengyel and Wald), the Steel Parties dominated and controlled the Special Committee, who approved the Challenged Transactions in breach of their fiduciary duty. Plaintiff alleges that the Challenged Transactions unfairly diluted shareholders and therefore unjustly enriched Steel Holdings, SPHG Holdings and Messrs. Lichtenstein, Howard and Fejes. The complaint also alleges that the Board 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. Discovery is proceeding, and trial dates have been set for this matter to begin in February 2022. Based on information currently available, the Company is unable to reasonably estimate a possible loss or range of possible losses, if any, with regard to the lawsuit. Although there can be no assurance as to the ultimate outcome, the Company believes it has meritorious defenses, continues to deny liability and intends to defend this litigation vigorously.

(10) 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 April 30, 2021			Three Months Ended April 30, 2020		
	Direct Marketing	Supply Chain	Consolidated Total	Direct Marketing	Supply Chain	Consolidat Total
	(In thousands)					
Major Goods/Service Lines						
Marketing solutions offerings	$ 102,351	$ —	$ 102,351	$ 98,284	$ —	$ 98
Supply chain management services	—	48,906	48,906	—	78,626	78
Other	—	528	528	—	441	
	$ 102,351	$ 49,434	$ 151,785	$ 98,284	$ 79,067	$ 177
Timing of Revenue Recognition						
Goods transferred over time	$ 102,351	$ —	$ 102,351	$ 98,284	$ —	$ 98
Services transferred over time	—	49,434	49,434	—	79,067	79
	$ 102,351	$ 49,434	$ 151,785	$ 98,284	$ 79,067	$ 177

	Nine Months Ended April 30, 2021			Nine Months Ended April 30, 2020		
	Direct Marketing	Supply Chain	Consolidated Total	Direct Marketing	Supply Chain	Consolidat Total
	(In thousands)					
Major Goods/Service Lines						
Marketing solutions offerings	$ 299,214	$ —	$ 299,214	$ 354,404	$ —	$ 354
Supply chain management services	—	177,035	177,035	—	262,242	262
Other	—	1,517	1,517	—	1,310	1
	$ 299,214	$ 178,552	$ 477,766	$ 354,404	$ 263,552	$ 617
Timing of Revenue Recognition						
Goods transferred over time	$ 299,214	$ —	$ 299,214	$ 354,404	$ —	$ 354
Services transferred over time	—	178,552	178,552	—	263,552	263
	$ 299,214	$ 178,552	$ 477,766	$ 354,404	$ 263,552	$ 617

Marketing Solutions Offerings

IWCO's revenue is generated through the provision of data-driven marketing solutions, primarily through providing direct mail products to customers. Revenue related to the majority of IWCO's marketing solutions contracts, which typically consist of a single integrated performance obligation, is recognized over time as the Company performs because the products have no alternative use to the Company.

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. Contract assets are primarily comprised of fees related to marketing solutions offerings and supply chain management services. The Company's contract assets are all short-term in nature and are included in prepaid expenses and other current assets in the condensed consolidated balance sheets.

- Deferred revenue when cash payments are received or due in advance of performance. Deferred revenue is primarily comprised of fees related to supply chain management services, cloud-based software subscriptions and software maintenance and support service contracts, which are generally billed in advance. Deferred revenue also includes other offerings for which we have been paid in advance and earn the revenue when we transfer control of the product or service. The deferred revenue balance is classified as a component of other current liabilities and other long-term liabilities on the Company's condensed consolidated balance sheets.

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

	April 30, 2021	July 31, 2020
	(In thousands)	
Accounts receivable, trade, net	$ 72,048	$ 93,072
Contract assets	$ 17,176	$ 13,016
Deferred revenue - current	$ 2,748	$ 2,860
Deferred revenue - long-term	168	85
Total deferred revenue	$ 2,916	$ 2,945

Remaining Performance Obligations

Remaining performance obligations are comprised of deferred revenue. Changes in deferred revenue during the nine months ended April 30, 2021 and April 30, 2020, were as follows:

	Nine Months Ended April 30,	
	2021	2020
	(In thousands)	
Balance at beginning of period	$ 2,945	$ 3,029
Deferral of revenue	4,839	3,804
Recognition of deferred amounts upon satisfaction of performance obligation	(4,868)	(2,954)
Balance at end of period	$ 2,916	$ 3,879

We expect to recognize approximately $2.7 million of the deferred revenue over the next twelve months and the remaining $0.2 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.

(11) INCOME TAXES

The Company operates in multiple taxing jurisdictions, both within and outside of the United States. For the nine months ended April 30, 2021, the Company was profitable in certain jurisdictions, resulting in an income tax expense using enacted rates in those jurisdictions. As of April 30, 2021 and July 31, 2020, the total amount of the liability for unrecognized tax benefits related to federal, state and foreign taxes was approximately $2.6 million and $2.8 million, respectively.

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

The Company elected to defer the employer-paid portion of social security taxes, which is expected to provide the Company with approximately $5.3 million of additional liquidity during the current calendar year, with 50% of the deferral due December 31, 2021 and the remaining 50% due December 31, 2022. The Company does not expect the provisions of the CARES Act to have a significant impact on the income tax provision, income tax payable or deferred income tax positions of the Company.

Uncertain Tax Positions

In accordance with the Company's accounting policy, interest related to unrecognized tax benefits is included in the income tax expense line of the condensed consolidated statements of operations. As of April 30, 2021 and July 31, 2020, the liabilities for interest expense related to uncertain tax positions were $0.3 million and $0.3 million, respectively. The Company has accrued $0.4 million for penalties related to income tax positions. The Company expects $0.6 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, 2017 through July 31, 2020. 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 2012 through 2019 tax years remain subject to examination in most locations, while the Company's 2008 through 2019 tax years remain subject to examination in most Asia locations.

(12) LOSS PER SHARE

The following table reconciles (loss) earnings per share for the three and nine months ended April 30, 2021 and 2020:

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2021	2020	2021	2020
	(In thousands, except per share data)			
Net loss	$ (27,629)	$ (6,159)	$ (33,376)	$ (4,924)
Less: Preferred dividends on redeemable preferred stock	(519)	(525)	(1,586)	(1,592)
Net loss attributable to common stockholders	$ (28,148)	$ (6,684)	$ (34,962)	$ (6,516)
Weighted average common shares outstanding	62,263	61,815	61,898	61,583
Basic net loss per share attributable to common stockholders	$ (0.45)	$ (0.11)	$ (0.56)	$ (0.11)
Diluted net loss per share attributable to common stockholders	$ (0.45)	$ (0.11)	$ (0.56)	$ (0.11)

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

For the three months ended April 30, 2021 and 2020, approximately 24.2 million and 25.0 million, respectively, 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 nine months ended April 30, 2021 and 2020, approximately 24.3 million and 24.5 million, respectively, common stock equivalent shares (including those related to convertible debt and preferred stock) were excluded from the denominator in the calculation of diluted net earnings per share as their inclusion would have been antidilutive.

(13) 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, 2020	$ 5,025	$ (1,182)	$ 3
Foreign currency translation adjustment	5,281	—	5
Net current-period other comprehensive income	5,281	—	5
Accumulated other comprehensive income (loss) as of April 30, 2021	$ 10,306	$ (1,182)	$ 9

	Foreign Currency Items	Pension Items	Unrealized Gains on Securities	Total
	(In thousands)			
Accumulated other comprehensive income (loss) as of July 31, 2019	$ 5,017	$ (4,079)	$ 96	$ 1,034
Foreign currency translation adjustment	(2,387)	—	—	(2,387)
Net unrealized holding loss on securities, net of tax	—	—	(96)	(96)
Pension liability adjustments, net of tax	—	(131)	—	(131)
Net current-period other comprehensive income (loss)	(2,387)	(131)	(96)	(2,614)
Accumulated other comprehensive income (loss) as of April 30, 2020	$ 2,630	$ (4,210)	$ —	$ (1,580)

(14) SEGMENT INFORMATION

The Company has two operating segments which are the same as its reportable segments: Direct Marketing and 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 segments. The Corporate-level balance sheet information includes cash and cash equivalents, debt and other assets and liabilities which are not identifiable to the operations of the Company's operating segments. All significant intra-segment amounts have been eliminated. Management evaluates segment performance based on segment net revenue and operating income (loss).

Summarized financial information by operating segment is as follows:

	Three Months Ended April 30, 2021	Three Months Ended April 30, 2020	Nine Months Ended April 30, 2021	Nine Months Ended April 30, 2020
	(In thousands)			
Net revenue:				
Direct Marketing	$ 102,351	$ 98,284	$ 299,214	$ 354,404
Supply Chain	49,434	79,067	178,552	263,552
	$ 151,785	$ 177,351	$ 477,766	$ 617,956
Operating (loss) income:				
Direct Marketing	$ (16,484)	$ (3,041)	$ (5,778)	$ 12,379
Supply Chain	(534)	6,535	9,574	18,808
Total segment operating (loss) income	(17,018)	3,494	3,796	31,187
Corporate-level activity	(1,980)	(2,427)	(7,038)	(8,205)
Total operating (loss) income	(18,998)	1,067	(3,242)	22,982
Total other expense	(7,611)	(5,741)	(27,419)	(23,878)
Loss before income taxes	$ (26,609)	$ (4,674)	$ (30,661)	$ (896)

	April 30, 2021	July 31, 2020
	(In thousands)	
Total assets:		
Direct Marketing	$ 544,725	$ 584,477
Supply Chain	105,605	169,490
Sub-total—segment assets	650,330	753,967
Corporate	43,525	5,205
	$ 693,855	$ 759,172

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

	Three Months Ended April 30, 2021	Three Months Ended April 30, 2020	Nine Months Ended April 30, 2021	Nine Months Ended April 30, 2020
	(In thousands)			
Products:				
Direct Marketing	$ 102,351	$ 98,284	$ 299,214	$ 354
Services:				
Supply Chain	49,434	79,067	178,552	263
	$ 151,785	$ 177,351	$ 477,766	$ 617

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

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2021	2020	2021	2020
	(In thousands)			
United States	$ 115,646	$ 117,315	$ 345,409	$ 417,028
China	15,220	28,100	57,269	99,898
Netherlands	6,149	9,467	19,331	31,185
Other	14,770	22,469	55,757	69,845
	$ 151,785	$ 177,351	$ 477,766	$ 617,956

(15)RELATED PARTY TRANSACTIONS

As of April 30, 2021, SPHG Holdings and its affiliates, including Steel Holdings, Handy & Harman Ltd. and Steel Partners, Ltd., beneficially owned approximately 54.8% 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 Inc. ("Steel Holdings GP"), the manager of Steel Holdings. Jack L. Howard, the President and a director of Steel Holdings GP, was appointed to the Board upon the closing of the Preferred Stock Transaction described below.

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 April 30, 2021 and July 31, 2020, SPHG Holdings held $14.9 million principal amount of the SPHG Note. As of April 30, 2021 and July 31, 2020, the net carrying value of the SPHG Note was $9.0 million and $8.1 million, respectively.

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.

Management Services Agreement

On June 14, 2019, the Company entered into an agreement (the "2019 Management Services Agreement") with Steel Services Ltd., an indirect wholly-owned subsidiary of Steel Holdings. The 2019 Management Services Agreement was effective as of June 1, 2019. Total expenses incurred related to the 2019 Management Services Agreement for the three months ended April 30, 2021 and 2020 were $1.0 million and $0.9 million, respectively. Total expenses incurred related to the 2019 Management Services Agreement for the nine months ended April 30, 2021 and 2020 were $3.5 million and $2.6 million, respectively. As of April 30, 2021 and July 31, 2020, amounts due to Steel Services Ltd. were $1.4 million and $0.8 million, respectively.

(16)FAIR VALUE MEASUREMENTS

ASC 820 provides that fair value is an exit price, representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants based on the highest and best use of the asset or liability. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. ASC 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 approximate fair value because of the short maturity of these instruments. We believe that the carrying value of our long-term debt approximates fair value because the stated interest rates of this debt is consistent with current market rates. The carrying value of capital lease obligations approximates fair value, as estimated by using discounted future cash flows based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

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

The following tables present the Company's financial assets measured at fair value on a recurring basis as of April 30, 2021 and July 31, 2020, classified by fair value hierarchy:

		Fair Value Measurements at Reporting Date Using		
(In thousands)	**April 30, 2021**	**Level 1**	**Level 2**	**Level 3**
Assets:				
Money market funds	$ 44,147	$ 44,147	$ —	$ —

		Fair Value Measurements at Reporting Date Using		
(In thousands)	**July 31, 2020**	**Level 1**	**Level 2**	**Level 3**
Assets:				
Money market funds	$ 5,117	$ 5,117	$ —	$ —

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.

(17) SUBSEQUENT EVENT

IWCO Direct's Competitive Improvement Plan

On June 2, 2021, the Board of Directors of Steel Connect, Inc. approved a Competitive Improvement Plan ("CIP") for its subsidiary IWCO Direct. This plan addresses the changing requirements of the customers and markets IWCO serves and the current competitive landscape. The CIP seeks to expand IWCO's marketing services capabilities, and upgrade its production platform to new digital and inserting technology, while reducing its overall production costs to enhance its competitive pricing capabilities.

The CIP contemplates a total investment of approximately $50 million over a 24-month period. The Company estimates the CIP cost will consist of approximately $36 million for digital press and insertion equipment and approximately $14 million for severance, employee retention, facilities optimization, and other implementation costs. The cost estimate does not include amounts for potential non-cash accelerated depreciation or asset impairment charges relating to facilities and equipment optimization. The timing and amount of the costs will depend on a number of factors.

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 report and the risks discussed in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission (the "SEC") on September 30, 2020, 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.

Overview

Steel Connect, Inc. (the "Company") is a diversified holding company with two wholly-owned subsidiaries, IWCO Direct Holdings, Inc. ("IWCO Direct," "IWCO" or "Direct Marketing") and ModusLink Corporation ("ModusLink" or "Supply Chain"), that have market-leading positions in direct marketing and supply chain management, respectively.

IWCO Direct

As a leading provider of data-driven direct marketing solutions, IWCO Direct's products and services help clients create more effective marketing offers and communications across all marketing channels to create new and more loyal customers. With a nearly 50-year legacy of printing and mailing services, IWCO Direct's full range of expanded marketing services includes strategy, creative and execution for omnichannel marketing campaigns, along with one of the industry's most sophisticated postal logistics strategies for direct mail. Through Mail-Gard®, IWCO Direct offers business continuity and disaster recovery services to protect against unexpected business interruptions, along with providing print and mail outsourcing services.

IWCO Direct's services include: (a) development of direct mail and omnichannel marketing strategies, (b) creative services to design direct mail, email and online marketing, (c) printing and compiling of direct mail pieces into envelopes ready for mailing, (d) commingling services to sort mail produced for various customers by destination to achieve optimized postal savings and (e) business continuity and disaster recovery services for critical communications to protect against unexpected business interruptions. The major markets served by IWCO Direct include financial services, multiple-system operators ("MSO") (cable or direct-broadcast satellite TV systems), insurance and to a lesser extent subscription/services, healthcare, travel/hospitality and other. Direct mail is a critical piece of marketing for most of its customers who use direct mail to acquire new customers. Management believes that direct mail will remain an important part of its customers' strategy for the foreseeable future, based on its proven ability to enhance results when used as part of an omnichannel marketing strategy. However, as discussed below, IWCO has adopted a Competitive Improvement Plan. This plan addresses the changing requirements of the customers and markets IWCO serves and the current competitive landscape. The CIP seeks to expand IWCO's marketing services capabilities, and upgrade its production platform to new digital and inserting technology, while reducing its overall production costs to enhance its competitive pricing capabilities.

During the three months ended April 30, 2021, as a result of changes in demand, we determined that goodwill in the Direct Marketing reporting unit was impaired and recorded an impairment charge of $25.7 million. It is possible that in future periods decreases in customer demand or volumes, customer attrition, or other potential changes in operations may increase the risk that goodwill and other intangible assets, which are only associated with the Direct Marketing segment, may become impaired.

Supply Chain

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

As a large portion of the Supply Chain revenue comes from outsourcing services provided to clients such as retail products and consumer electronics companies, its operating performance has been and may continue to be adversely affected by declines in the overall performance within these sectors and uncertainty affecting the global economy. In addition, the drop in consumer demand for products of certain clients has had and may continue to have the effect of reducing our volumes and adversely affecting revenue, gross margin and overall operating results. Additionally, the markets for the Supply Chain services are generally very competitive, though we believe we have a compelling and differentiated offering due to the value-added services we provide, our commitment to client management and our global reach. We also face pressure from our clients to continually realize efficiency gains in order to help our clients maintain their profitability objectives. Increased competition and client demands for efficiency improvements may result in price reductions, reduced gross margins and, in some cases, loss of market share. In addition, our profitability varies based on the types of services we provide and the regions in which we perform them. Therefore, the mix of revenue derived from our various services and locations can impact our gross margin results. Also, form factor changes, which we describe as the reduction in the amount of materials and product components used in our clients' completed packaged product, can also have the effect of reducing our revenue and gross margin. As a result of these competitive and client pressures, the gross margins in our Supply Chain business are low.

Many of the Supply Chain business' clients products are subject to seasonal consumer buying patterns. As a result, the services ModusLink provides to its clients are also subject to seasonality, with higher revenue and operating income typically being realized from handling its clients' products during the first half of our fiscal year, which includes the holiday selling season.

We have developed plans and will continue to monitor plans to address process improvements and realize other efficiencies throughout our global footprint with a goal to reduce cost, remove waste and improve our overall gross margins. There can be no assurance that these actions will improve gross margins. Increased competition as well as industry consolidation and/or low demand for our clients' products and services may hinder our ability to maintain or improve our gross margins, profitability and cash flows. We must continue to focus on margin improvement, through implementation of our strategic initiatives, cost reductions and asset and employee productivity gains in order to improve the profitability of our businesses and maintain our competitive position. We generally manage margin and pricing pressures in several ways, including efforts to target new markets, expand and enhance our service offerings, improve the efficiency of our processes and to lower our infrastructure costs. We seek to lower our cost to service clients by moving work to lower-cost venues, consolidating and leveraging our global facility footprint, driving process and efficiency reforms and other actions designed to improve the productivity of our operations.

Customers

Historically, a limited number of key clients have accounted for a significant percentage of the Company's revenue. For the nine months ended April 30, 2021 and 2020, the Company's ten largest clients accounted for approximately 55% and 56% of consolidated net revenue, respectively. One client from the computing market accounted for approximately 16% of the Company's consolidated net revenue for nine months ended April 30, 2021. One client from the insurance market accounted for approximately 10% of the Company's consolidated net revenue for nine months ended April 30, 2021. One client from the computing market accounted for approximately 17% of the Company's consolidated net revenue for the nine months ended April 30, 2020. 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 the its clients, the Company expects to offset the adverse financial impact such factors may bring about.

Impact of COVID-19

In March 2020, the World Health Organization categorized the novel Coronavirus ("COVID-19") as a pandemic. The spread of the outbreak caused significant disruptions in certain sectors of the U.S. and global economies during 2020 and 2021, and many economists expect the impact will be significant during at least the remainder of calendar 2021. The Company is subject to risks and uncertainties as a result of the COVID-19 pandemic. The Company continues to evaluate the global risks and the slowdown in business activity related to COVID-19, including the potential impacts on its employees, customers, suppliers and financial results. The effects of COVID-19 required temporary closures of certain of ModusLink's facilities for short periods of time during the fiscal year ended July 31, 2020. Additionally, although IWCO operated and continues to operate as an essential business, it has reduced operating levels and labor shifts due to lower sales volume during the current and prior fiscal year. As of the filing of this quarterly report on Form 10-Q, all of the Company's facilities were open and able to operate at normal capacities.

To help mitigate the financial impact of the COVID-19 pandemic, during the prior fiscal year ended July 31, 2020, the Company initiated cost reduction actions, including waiver of board fees, hiring freezes, staffing and force reductions, Company-wide salary reductions, bonus payment deferrals and temporary 401(k) match suspension. The temporary waiver of board fees and Company-wide salary reduction actions taken in the prior fiscal year were fully restored prior to the beginning of the current fiscal year, and the majority of salary reductions were repaid prior to the quarter ended January 31, 2021. The Company continues to focus on cash management and liquidity, which includes reduction of discretionary spending, aggressive working capital management, strict approvals for capital expenditures and other actions. The Company will evaluate further actions if circumstances warrant.

As the situation surrounding COVID-19 continues to remain fluid, it is difficult to predict the duration of the pandemic and the impact on the Company's business, operations, financial condition and cash flows. The severity of the impact on the Company's business for the remainder of calendar 2021 and beyond will depend on a number of factors, including, but not limited to, the duration and severity of the pandemic, the extent and severity of the impact on the Company's customers and suppliers, the continued disruption to demand for our businesses' products and services, and the impact of the global business and economic environment on liquidity and the availability of capital, all of which are uncertain and cannot be predicted. The Company's future results of operations and liquidity could also be adversely impacted by delays in payments of outstanding receivables beyond normal payment terms, supply chain disruptions and uncertain demand, and the effect of any initiatives or programs that the Company may undertake to address financial and operational challenges faced by its customers. There is also no certainty that federal, state or local regulations regarding safety measures to address the spread of COVID-19 will not adversely impact the Company's operations.

Recent Developments

Steel Holdings Expression of Interest

On November 19, 2020, the Company's Board of Directors (the "Board") received a preliminary, non-binding expression of interest (the "Expression of Interest") from Steel Partners Holdings L.P. ("Steel Holdings") to acquire all of the outstanding shares of common stock not already owned by Steel Holdings or its affiliates for a combination of cash and Steel Holdings 6% Series A Preferred Units, which would imply a value per share of common stock in the range of $0.65 to $0.72 per share. The Expression of Interest was filed as an exhibit to a Schedule 13D/A filed with the SEC by Steel Holdings and certain of its affiliates on November 19, 2020. The Board has established a special committee comprised solely of independent directors (the "Acquisition Proposal Special Committee") authorized to retain independent legal and financial advisors and to review, evaluate, negotiate and approve or disapprove the Expression of Interest, and to explore alternative strategies or transactions. The Acquisition Proposal Special Committee announced on January 11, 2021 that it had retained financial advisors and legal counsel. As set forth in the Expression of Interest, the proposed transaction will be subject to the approval of the Acquisition Proposal Special Committee, as well as a non-waivable condition requiring approval of a majority of the shares outstanding of the Company not owned by Steel Holdings and its affiliates and related parties. The Board resolutions establishing the Acquisition Proposal Special Committee expressly provide that the Board will not approve the proposed transaction contemplated by the Expression of Interest or any alternative thereto without a prior favorable recommendation by the Acquisition Proposal Special Committee.

No decision has yet been made with respect to the Company's response to the Expression of Interest or any alternatives thereto. The Board cautions that it has only received a proposal, which does not constitute an offer or proposal capable of acceptance and may be withdrawn at any time and in any manner. There can be no assurance that any definitive offer will be made, that any agreement will be executed or that the transaction proposed in the Expression of Interest or any other transaction will be approved or completed. The Company is not obligated to disclose any further developments or updates on the progress of the proposed transaction until either the Company enters into a definitive agreement or the Acquisition Proposal Special Committee determines no such transaction will be approved.

Amendments to MidCap Credit Facility

On December 9, 2020, ModusLink entered into a First Amendment ("Amendment No. 1") to its credit agreement with MidCap Financial Trust ("MidCap") by and among ModusLink, certain of ModusLink's subsidiaries identified on the signature pages thereto, and MidCap as lender and agent.

Amendment No. 1 amends the MidCap credit agreement to permit special cash dividends to be made on or prior to July 31, 2021 in an aggregate amount not to exceed $50.0 million (the "Special Distributions") to the Company. Payment of the Special Distributions will eliminate the availability of the general dividend basket for the fiscal year ending July 31, 2021. Special Distributions totaling $40.0 million were made to the Company during the quarter ended January 31, 2021. In addition, Amendment No. 1 incorporates a new minimum liquidity financial covenant, which requires that the sum of excess availability under the MidCap credit agreement and the amount of qualified cash and cash equivalents of the borrower is not less than $3.0 million until the earlier of July 31, 2021 or the date on which the borrower has either distributed the maximum amount of the Special Distributions or waived the ability to make further Special Distributions. Among other things, Amendment No. 1 also increases the percentage of eligible accounts included in the borrowing base from 50% to 75% and amends the condition for borrowing of revolving loans after the effective date of Amendment No. 1 to require evidence that specified availability (the sum of excess availability and the difference between the borrowing base and the aggregate revolving loan commitments) is not less than $3.0 million prior to giving effect to any such borrowing.

On June 2, 2021, ModusLink entered into a Second Amendment to the MidCap credit agreement (“Amendment No. 2”) by and among ModusLink, certain of ModusLink’s subsidiaries, and MidCap as lender and agent. Amendment No. 2 amends the MidCap credit agreement to extend the time period for payment from ModusLink to the Company of special distributions to July 31, 2022. In addition, the unused line fee was increased to 0.65% in Amendment No. 2 and certain other technical amendments were incorporated.

Tax Benefits Preservation Plan Amendment

On January 8, 2021, the Company amended its Tax Benefits Preservation Plan, dated as of January 19, 2018, between the Company and American Stock Transfer & Trust Company, LLC, as rights agent, to extend the term of the Tax Benefits Preservation Plan to January 8, 2024. The amended Tax Benefits Preservation Plan may also expire earlier, immediately following the certification of votes of the Company's next annual meeting of stockholders (which shall be no later than January 8, 2022), unless the amended Tax Benefits Preservation Plan is then approved by the requisite vote of stockholders, or on such other date as described in the amended Tax Benefits Preservation Plan. The amendment made no other changes to the terms of the Tax Benefits Preservation Plan, which are further described in "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Tax Benefits Preservation Plan" in the Company's annual report on Form 10-K for the fiscal year ended July 31, 2020.

IWCO Direct's Competitive Improvement Plan

On June 2, 2021, the Board of Directors of Steel Connect, Inc. approved a Competitive Improvement Plan (“CIP”) for its subsidiary IWCO Direct. This plan addresses the changing requirements of the customers and markets IWCO serves and the current competitive landscape. The CIP seeks to expand IWCO’s marketing services capabilities, and upgrade its production platform to new digital and inserting technology, while reducing its overall production costs to enhance its competitive pricing capabilities.

The CIP contemplates a total investment of approximately $50 million over a 24 months-month period. The Company estimates the CIP cost will consist of approximately $36 million for digital press and insertion equipment and approximately $14 million for severance, employee retention, facilities optimization, and other implementation costs. The cost estimate does not include amounts for potential non-cash accelerated depreciation or asset impairment charges relating to facilities and equipment optimization. The timing and amount of the costs will depend on a number of factors.

Basis of Presentation

The Company has two operating segments which are the same as its reportable segments: Direct Marketing and 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 segments. The Corporate-level balance sheet information includes cash and cash equivalents, debt and other assets and liabilities which are not identifiable to the operations of the Company's operating segments. All significant intra-segment amounts have been eliminated.

During the three months ended October 31, 2019, the Company recorded an adjustment to correct an out-of-period misstatement related to the Company's estimate for certain tax related liabilities, resulting in a $6.4 million reduction in selling, general and administrative expenses.

Results of Operations

Three months ended April 30, 2021 compared to the three months ended April 30, 2020

Net Revenue:

	Three Months Ended April 30, 2021	As a % of Total Net Revenue	Three Months Ended April 30, 2020	As a % of Total Net Revenue	$ Change	% Change
	(In thousands)					
Direct Marketing	$ 102,351	67.4 %	$ 98,284	55.4 %	$ 4,067	4.1 %
Supply Chain	49,434	32.6 %	79,067	44.6 %	(29,633)	(37.5) %
Total	$ 151,785	100.0 %	$ 177,351	100.0 %	$ (25,566)	(14.4) %

Net revenue decreased by approximately $25.6 million during the three months ended April 30, 2021, as compared to the same period in the prior year. During the three months ended April 30, 2021, net revenue for the Direct Marketing segment increased by approximately $4.1 million primarily driven by higher volume, partially offset by a slightly lower average price per package mailed. The increase in net revenue was primarily associated with customers in the financial industry. Within the Supply Chain segment, net revenues decreased by approximately $29.6 million. This decrease in net revenue was primarily driven by lower volume associated with clients in the computing and consumer electronics markets. Fluctuations in foreign currency exchange rates had an insignificant impact on the Supply Chain segment's net revenues for the three months ended April 30, 2021, as compared to the same period in the prior year.

Reduced customer demand or loss of a significant customer in either of our businesses could have a material adverse effect on the Company and its results of operations. During the three months ended April 30, 2021, and in the prior quarter, IWCO was informed by three of its significant customers that they would be transitioning their direct marketing services to other providers by the end of the fiscal year ending July 31, 2021. The customers who are transitioning their direct marketing spending to other companies accounted for approximately $10.9 million or 7.0% and $13.1 million or 7.0% of the Company’s revenues for the three months ended April 30, 2021 and year ended July 31, 2020, respectively.

Cost of Revenue:

	Three Months Ended April 30, 2021	As a % of Segment Net Revenue	Three Months Ended April 30, 2020	As a % of Segment Net Revenue	$ Change	% Change
	(In thousands)					
Direct Marketing	$ 80,007	78.2 %	$ 79,476	80.9 %	$ 531	0.7 %
Supply Chain	39,531	80.0 %	64,405	81.5 %	(24,874)	(38.6) %
Total	$ 119,538	78.8 %	$ 143,881	81.1 %	$ (24,343)	(16.9) %

Cost of revenue consists primarily of expenses related to the cost of materials purchased in connection with the provision of direct marketing and supply chain management services, as well as costs for salaries and benefits, contract labor, consulting, paper for direct mailing, fulfillment and shipping, and applicable facilities costs. Cost of revenue for the three months ended April 30, 2021 included materials procured on behalf of our supply chain clients of $22.6 million, as compared to $44.9 million for the same period in the prior year, a decrease of $22.3 million. Total cost of revenue decreased by $24.3 million for the three months ended April 30, 2021, as compared to the same period in the prior year, primarily due to decreased material and labor costs. Gross margin percentage for the current quarter increased to 21.2%, as compared to 18.9% in the prior year quarter, primarily due to customer mix, our focus on customer rationalization to improve profitability, as well as cost reduction initiatives in both segments.

Direct Marketing’s cost of revenue increased by $0.5 million during the three months ended April 30, 2021, as compared to the same period in the prior year. The increase was primarily due to increased material costs due to higher volume, partially offset by reduced labor and operating costs realized efficiency gains and favorable cost management initiatives. The Direct Marketing segment's gross margin percentage increased by 270 basis points to 21.8% for the three months ended April 30, 2021, as compared to 19.1% for the same period in the prior year. The increase in Direct Marketing segment’s gross margin percentage is primarily due to favorable changes in customer sales mix and Direct Marketing’s cost management initiatives.

Supply Chain’s cost of revenue decreased by $24.9 million during the three months ended April 30, 2021, as compared to the same period in the prior year. The decreased was primarily due to lower materials and labor costs as a result of lower sales volume. The Supply Chain segment's gross margin percentage increased by 150 basis points to 20.0% for the three months ended April 30, 2021, as compared to 18.5% for the same period in the prior year, primarily due to improved customer mix and decreased materials and labor costs. Fluctuations in foreign currency exchange rates had an insignificant impact on Supply Chain's gross margin for the three months ended April 30, 2021.

Selling, General and Administrative Expenses:

	Three Months Ended April 30, 2021	As a % of Segment Net Revenue	Three Months Ended April 30, 2020	As a % of Segment Net Revenue	$ Change	% Change
			(In thousands)			
Direct Marketing	$ 8,988	8.8 %	$ 15,318	15.6 %	$ (6,330)	(41.3)%
Supply Chain	10,437	21.1 %	8,127	10.3 %	2,310	28.4 %
Sub-total	19,425	12.8 %	23,445	13.2 %	(4,020)	(17.1)%
Corporate-level activity	1,980		2,427		(447)	(18.4)%
Total	$ 21,405	14.1 %	$ 25,872	14.6 %	$ (4,467)	(17.3)%

Selling, general and administrative expenses consist primarily of compensation and employee-related costs, sales commissions and incentive plans, information technology expenses, travel expenses, facilities costs, consulting fees, fees for professional services, depreciation expense, marketing expenses, share-based compensation expense, transaction costs and public reporting costs. Selling, general and administrative expenses during the three months ended April 30, 2021 decreased by approximately $4.5 million, as compared to the same period in the prior year. Selling, general and administrative expenses for the Direct Marketing segment decreased by $6.3 million primarily due to a net decrease of $5.0 million in certain tax liabilities as well as due to decreases in most expense categories as a result of the COVID-19 pandemic response. Selling, general and administrative expenses for the Supply Chain segment increased primarily due to an increase in costs associated with the information technology function. Corporate-level activity increased primarily due to a decrease in employee-related expenses. Fluctuations in foreign currency exchange rates had an insignificant impact on selling, general and administrative expenses for the three months ended April 30, 2021.

Goodwill Impairment Charge:

During the three months ended April 30, 2021, the Company recorded a non-cash pre-tax goodwill impairment charge of $25.7 million for the Direct Marketing segment. The Company did not record any impairment charge during the same period in the prior fiscal year.

Amortization of Intangible Assets:

The intangible asset amortization expense of $4.2 million and $6.5 million, during the three months ended April 30, 2021 and 2020, respectively, relates to customer relationships acquired by the Company in connection with its acquisition of IWCO. Amortization expense decreased, compared to the prior year comparable period, as the customer relationship intangible assets are amortized using an accelerated method, which reflects the pattern in which we receive the economic benefit of the asset.

Interest Expense:

During the three months ended April 30, 2021 and 2020, interest expense totaled approximately $7.8 million and $8.5 million, respectively. The lower interest expense in the current year period is primarily due to lower average outstanding debt balances.

Other (Losses) Gains, Net:

Other (losses) gains, net are primarily composed of foreign exchange gains and losses. The Company recorded $0.2 million and $2.7 million of foreign exchange gains during the three months ended April 30, 2021 and 2020, respectively.

Income Tax Expense:

During the three months ended April 30, 2021, the Company recorded income tax expense of approximately $1.0 million, as compared to income tax expense of $1.5 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.

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.

Nine months ended April 30, 2021 compared to the nine months ended April 30, 2020

Net Revenue:

	Nine Months Ended April 30, 2021	As a % of Total Net Revenue	Nine Months Ended April 30, 2020	As a % of Total Net Revenue	$ Change	% Change
	(In thousands)					
Direct Marketing	$ 299,214	62.6 %	$ 354,404	57.4 %	$ (55,190)	(15.6) %
Supply Chain	178,552	37.4 %	263,552	42.6 %	(85,000)	(32.3) %
Total	$ 477,766	100.0 %	$ 617,956	100.0 %	$ (140,190)	(22.7) %

Net revenue decreased by approximately $140.2 million during the nine months ended April 30, 2021, as compared to the same period in the prior year. During the nine months ended April 30, 2021, net revenue for the Direct Marketing segment decreased by approximately $55.2 million primarily driven by lower sales volume. The decrease in net revenue was primarily associated with customers in the financial and MSO industries. Within the Supply Chain segment, net revenues decreased by approximately $85.0 million. This decrease in net revenue was primarily driven by lower volume associated with clients in the computing and consumer electronics markets. Fluctuations in foreign currency exchange rates had an insignificant impact on the Supply Chain segment's net revenues for the nine months ended April 30, 2021, as compared to the same period in the prior year.

Cost of Revenue:

	Nine Months Ended April 30, 2021	As a % of Segment Net Revenue	Nine Months Ended April 30, 2020	As a % of Segment Net Revenue	$ Change	% Change
	(In thousands)					
Direct Marketing	$ 229,939	76.8 %	$ 278,696	78.6 %	$ (48,757)	(17.5) %
Supply Chain	139,262	78.0 %	216,295	82.1 %	(77,033)	(35.6) %
Total	$ 369,201	77.3 %	$ 494,991	80.1 %	$ (125,790)	(25.4) %

Cost of revenue for the nine months ended April 30, 2021 included materials procured on behalf of our supply chain clients of $86.2 million, as compared to $151.6 million for the same period in the prior year, a decrease of $65.4 million. Total cost of revenue decreased by $125.8 million for the nine months ended April 30, 2021, as compared to the same period in the prior year, primarily due to decreased material and labor costs. Gross margin percentage for the nine months ended April 30, 2021 increased to 22.7%, as compared to 19.9% in the prior year quarter, primarily due to favorable changes in sales mix, our focus on customer rationalization to improve profitability, as well as cost reduction initiatives in both segments to offset the impact of COVID-19.

Direct Marketing’s cost of revenue decreased by $48.8 million during the nine months ended April 30, 2021, as compared to the same period in the prior year. The decrease was primarily due to decreased material and labor costs as a result of lower volume. The Direct Marketing segment's gross margin percentage increased by 180 basis points to 23.2% for the nine months ended April 30, 2021, as compared to 21.4% for the same period in the prior year, primarily due to favorable changes in customer sales mix and the Company's aggressive measures to manage labor and reduce discretionary spend. Supply Chain's cost of revenue decreased by $77.0 million during the nine months ended April 30, 2021, as compared to the same period in the prior year. The decrease was primarily due to decreased material and labor costs due to lower volume. The Supply Chain segment's gross margin percentage increased by 410 basis points to 22.0% for the nine months ended April 30, 2021, as compared to 17.9% for the same period in the prior year, primarily due to improved sales mix towards higher margin services. Fluctuations in foreign currency exchange rates had an insignificant impact on Supply Chain's gross margin for the nine months ended April 30, 2021.

Selling, General and Administrative Expenses:

	Nine Months Ended April 30, 2021	As a % of Segment Net Revenue	Nine Months Ended April 30, 2020	As a % of Segment Net Revenue	$ Change	% Change
			(In thousands)			
Direct Marketing	$ 33,319	11.1 %	$ 42,610	12.0 %	$ (9,291)	(21.8)%
Supply Chain	29,716	16.6 %	28,449	10.8 %	1,267	4.5 %
Sub-total	63,035	13.2 %	71,059	11.5 %	(8,024)	(11.3)%
Corporate-level activity	7,038		8,205		(1,167)	(14.2)%
Total	$ 70,073	14.7 %	$ 79,264	12.8 %	$ (9,191)	(11.6)%

Selling, general and administrative expenses during the nine months ended April 30, 2021 decreased by approximately $9.2 million, as compared to the same period in the prior year. Selling, general and administrative expenses for the Direct Marketing segment decreased as compared to the same period in the prior year, primarily due to a decrease in employee-related costs, sales and marketing, and other expenses. Selling, general and administrative expenses for the Supply Chain segment increased primarily due to an increase in costs associated with the information technology function. Corporate-level activity decreased primarily due to lower employee-related costs. Fluctuations in foreign currency exchange rates had an insignificant impact on selling, general and administrative expenses for the nine months ended April 30, 2021.

Goodwill Impairment Charge:

During the nine months ended April 30, 2021, the Company recorded a non-cash pre-tax goodwill impairment charge of $25.7 million for the Direct Marketing segment. The Company did not record any impairment charge during the same period in the prior fiscal year.

Amortization of Intangible Assets:

The intangible asset amortization expense of $16.1 million and $20.7 million, during the nine months ended April 30, 2021 and 2020, respectively, relates to trademarks, tradenames and customer relationships acquired by the Company in connection with its acquisition of IWCO. Amortization expense decreased because the trademarks and tradenames were fully amortized in December 2020, and there was lower amortization expense with respect to the customer relationship intangible assets. The customer relationship intangible assets are amortized using an accelerated method, which reflects the pattern in which we receive the economic benefit of the asset.

Interest Expense:

During the nine months ended April 30, 2021 and 2020, interest expense totaled approximately $23.4 million and $26.4 million, respectively. The lower interest expense in the current year period is primarily due to lower average outstanding debt balances.

Other (Losses) Gains, Net:

Other (losses) gains, net are primarily composed of foreign exchange gains and losses. The Company recorded $3.6 million of foreign exchange losses during the nine months ended April 30, 2021, as compared to $2.4 million of foreign exchange gains in the same period in the prior year.

Income Tax Expense:

During the nine months ended April 30, 2021, the Company recorded income tax expense of approximately $2.7 million, as compared to income tax expense of $4.0 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.

Liquidity and Capital Resources

Historically, the Company has financed its operations and met its capital requirements primarily through funds generated from operations, the sale of its securities, borrowings from lending institutions and sale of facilities that were not fully utilized. As of April 30, 2021, the Company's primary source of liquidity consisted of cash and cash equivalents of $97.6 million, which include balances held in certain foreign jurisdictions. Due to the changes reflected in the U.S. Tax Cuts and Jobs Act in December 2017, 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. The Company believes that any future withholding taxes or state taxes associated with such a repatriation would be minor.

As of April 30, 2021, we had $25.0 million and $5.2 million of borrowing capacity available under our Direct Marketing and Supply Chain credit facilities, respectively. There were no outstanding borrowings under either credit facility as of April 30, 2021. The Company was in compliance with all financial covenants in its credit facilities and other debt agreements as of April 30, 2021. The Company continually monitors compliance with the covenants under the Finance Agreement (defined below).

Cerberus Credit Facility

On December 15, 2017, the Company entered into a Financing Agreement (the "Financing Agreement"), by and among the Company, Instant Web, LLC, a Delaware corporation and wholly-owned subsidiary of IWCO (the "Borrower"), IWCO and certain of IWCO's subsidiaries (together with IWCO, the "Guarantors"), the lenders from time to time party thereto and Cerberus, as collateral agent and administrative agent for the lenders. The Company is not a borrower or a guarantor under the Financing Agreement. The Financing Agreement provides for a $393.0 million term loan facility (the "Cerberus Term Loan") and a $25.0 million revolving credit facility (the "Revolving Facility") (together, the "Cerberus Credit Facility").

The Financing Agreement contains certain representations, warranties, events of default, mandatory prepayment requirements, as well as certain affirmative and negative covenants customary for agreements of this type. These covenants include a covenant with respect to the maximum ratio of indebtedness to consolidated EBITDA (as defined in the Finance Agreement) that will apply if IWCO's liquidity (as defined in the Finance Agreement) is less than $14.5 million at the end of the calendar quarter. As of April 30, 2021, IWCO's liquidity was greater than $14.5 million, so the indebtedness to EBITDA covenant did not apply. However, if IWCO's liquidity had been less than $14.5 million, it may not have met this covenant. Upon the occurrence and during the continuation of an event of default under the Financing Agreement, the lenders under the Financing Agreement may, among other things, terminate all commitments and declare all or a portion of the loans under the Financing Agreement immediately due and payable and increase the interest rate at which the loans and obligations under the Financing Agreement bear interest. During the fiscal year ended July 31, 2020, the Company did not trigger any of these covenants. As of April 30, 2021, IWCO had a readily available borrowing capacity under its Revolving Facility of $25.0 million. As of April 30, 2021, IWCO did not have any balance outstanding on the Revolving Facility.

Cash Flows Information

Consolidated working capital deficit was $1.4 million as of April 30, 2021, as compared to $26.4 million at July 31, 2020. Included in the working capital deficit were cash and cash equivalents of $97.6 million as of April 30, 2021 and $75.9 million at July 31, 2020. The decrease in the working capital deficit was primarily driven by higher cash and cash equivalents, and lower accounts payable.

We generated cash of $21.0 million from operating activities during the nine months ended April 30, 2021, a decrease of $39.0 million compared with $60.1 million generated during the nine months ended April 30, 2020. The decrease was primarily due lower gross profit and a reduction in funds held for clients.

The Company's 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, the market for outsourcing services, overall performance of the technology sector impacting the Supply Chain segment and the strength of the Direct Marketing segment.

We used cash of $2.6 million and $11.3 million in investing activities during the nine months ended April 30, 2021 and 2020, respectively, primarily related to capital expenditures. The decrease was primarily due to reduced capital spending as the result of the COVID-19 pandemic.

We used cash of $7.8 million in financing activities during the nine months ended April 30, 2021 primarily due to $6.1 million in payments of long-term debt and $1.6 million in payments of preferred dividends. We generated cash of $13.4 million from financing activities during the nine months ended April 30, 2020, which includes cash provided by $19.0 million net borrowings under the Company's revolving lines of credit, partially offset by $3.1 million in payments of long-term debt,$1.6 million in payments of preferred dividends and $0.9 million in payments for financing the MidCap credit agreement.

The Company believes it will generate sufficient cash to meet its debt covenants under its credit facilities to which certain of its subsidiaries are a party and that it will be able to obtain cash through its current and future credit facilities, if needed.

Off-Balance Sheet Arrangements

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

Contractual Obligations

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

Critical Accounting Policies Update

During the three months ended April 30, 2021, other than the adoption of accounting standards updates discussed in the Condensed Consolidated Financial Statements, we believe that there have been no significant changes to the items that we disclosed as our critical accounting policies and estimates in the "Critical Accounting Policies" section of Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended July 31, 2020.

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, 2020.

The carrying value of goodwill is not amortized, but is tested for impairment annually as of June 30, and, additionally on an interim basis, whenever events or changes in circumstances indicate that the carrying value may not be recoverable. During the three months ended April 30, 2021, IWCO was informed by two significant customers that they would be transitioning their direct marketing services to other providers by the end of the fiscal year ending July 31, 2021 and another customer that it would have significantly lower volumes of sales in at least the next fiscal quarter ending July 31, 2021. In connection with its quarterly close procedures, the Company assessed the anticipated negative impact on revenue and earnings from these changes in demand, along with the previously reported notification of another significant customer transitioning its direct marketing services to another company, and determined these factors were indicators that goodwill and other long-lived assets may be impaired. The customers who are transitioning their direct marketing spending to other companies accounted for approximately $10.9 million or 7.0% and $13.1 million or 7.0% of the Company’s revenues for the three months ended April 30, 2021 and 2020, respectively. As a result, the Company performed an interim impairment test of Direct Marketing's goodwill and other long-lived assets as of April 30, 2021. The Company determined that the goodwill was impaired, and recorded a non-cash impairment charge of $25.7 million for the three months ended April 30, 2021.

The fair value of the Direct Marketing reporting unit was calculated using a discounted cash flow model (a form of the income approach) using the Company's current projections, which are subject to various risks and uncertainties associated with its forecasted revenue, expenses and cash flows, as well as the duration and expected impact on its business from the COVID-19 pandemic. The Company's significant assumptions in the analysis include, but are not limited to, future cash flow projections, the weighted average cost of capital, the terminal growth rate and the tax rate. The Company's estimates of future cash flows are based on current economic climates, recent operating results and planned business strategies. These estimates could be negatively affected by decreased customer demand for IWCO's services, changes in regulations, further economic downturns, increased customer attrition or an inability to execute IWCO's business strategies. Future cash flow estimates are, by their nature, subjective, and actual results may differ materially from the Company's estimates. If the Company's ongoing cash flow projections are not met, the Company may have to record impairment charges in future periods.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

An evaluation was performed under the supervision and with the participation of our management, including the Interim Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as such terms are defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of the end of the period covered by this report. "Disclosure controls and procedures" means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives. Based upon that evaluation, management, including the Interim Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls were effective as of April 30, 2021.

Changes in Internal Control over Financial Reporting

Despite the fact that many of our employees are working remotely due to the COVID-19 pandemic, these remote work arrangements have not resulted in changes in our internal controls over financial reporting (as defined in Rule 13(a)-15(f) or Rule 15d-15(f) of the Exchange Act); however, we are continually monitoring and assessing the COVID-19 situation on our internal controls to minimize the impact on their design and operating effectiveness.

There have been no changes in our internal control over financial reporting during the quarter ended April 30, 2021 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 9 - "Contingencies" to Condensed Consolidated Financial Statements, included in Part I, Item 1 of this Report, 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, 2020.

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, 2020. 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, 2020, except as set forth below:

There can be no assurance that the proposed transaction between us and Steel Holdings will be agreed upon, approved and ultimately consummated and the terms of any such transaction may differ materially from those originally proposed by Steel Holdings.

On November 19, 2020, the Company's Board received a preliminary, non-binding expression of interest from Steel Holdings to acquire all of the outstanding shares of common stock not already owned by Steel Holdings or its affiliates for a combination of cash and Steel Holdings 6% Series A Preferred Units, which would imply a value per share of common stock in the range of $0.65 to $0.72 per share.

The transaction, as proposed, is subject to negotiation. Any definitive agreement with respect to such transaction is subject to approval by the board of directors of Steel Holdings, the Board and shareholder approvals. Such definitive agreement would be expected to contain customary closing conditions, including standard regulatory notifications and approvals.

As a result, we cannot predict whether the terms of such transaction will be agreed upon by Steel Holdings and the Board's special committee for recommendation to their respective boards of directors, for approval of the transaction or whether any such transactions would be approved by the requisite votes of our shareholders.

We also cannot predict the timing, final structure or other terms of any potential transaction and the terms of any such transaction may differ materially from those originally proposed by Steel Holdings. The pendency of any such proposed transaction may have had and may continue to have, an adverse impact on the market price of our common stock. In addition, we expect to incur a number of non-recurring transaction-related costs associated with negotiating the proposed transaction.

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

We depend on a small number of clients for a substantial portion of our business. For the fiscal year ended July 31, 2020, the Company's ten largest clients accounted for approximately 57% consolidated net revenue and one Supply Chain client accounted for approximately 17% of the Company's consolidated net revenue for the fiscal year ended July 31, 2020. For the nine months ended April 30, 2021, the Company's ten largest clients accounted for approximately 55% of consolidated net revenue.

One Supply Chain client from the computing market accounted for approximately 16% of the Company's consolidated net revenue for nine months ended April 30, 2021, and one Direct Marketing client from the insurance market accounted for approximately 10% of the Company's consolidated net revenue for nine months ended April 30, 2021. 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. Changes in relationships with significant clients may require us to evaluate our goodwill, other intangible assets and other long-lived assets for impairment, which may require us to record an impairment charge. Decreases in client demand or volumes or loss of business from one or more of these client could have a material adverse impact on our business, financial condition or results from operations. Refer to the "Critical Accounting Policies Update" section of Management's Discussion and Analysis of Financial Condition and Results of Operations for further information.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Note applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit Number	Description
10.1*	Second Amendment, dated as of June 2, 2021, to Credit and Security Agreement, dated December 31, 2019, by and among ModusLink Corporation, Sol Holdings, Inc., Saleslink Mexico Holding Corp. and Midcap Financial Trust.
10.2	Separation and General Release Agreement, dated April 17, 2021, between Steel Services Ltd. and Douglas B. Woodworth (incorporated by reference to Exhibit 10.1 to Steel Connect, Inc.'s Current Report on Form 8-K, filed April 19, 2021).
31.1*	Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1±	Certification of the Principal Executive Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2±	Certification of the Principal Financial Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101*	The following financial information from Steel Connect, Inc.'s Quarterly Report Form 10-Q for the quarter ended April 30, 2021 formatted in XBRL: (i) Unaudited Condensed Consolidated Balance Sheets as of April 30, 2021 and July 31, 2020, (ii) Unaudited Condensed Consolidated Statements of Operations for the three and nine months ended January 31, 2021 and 2020 (iii) Unaudited Condensed Consolidated Statements of Comprehensive Loss for the three and nine months ended April 30, 2021 and 2020, (iv) Unaudited Condensed Consolidated Statements of Stockholders' Equity for the three and nine months ended April 30, 2021 and 2020, (v) Unaudited Condensed Consolidated Statements of Cash Flows for the nine months ended April 30, 2021 and 2020 and (vi) Notes to Unaudited Condensed Consolidated Financial Statements.

* Filed herewith.

± Furnished herewith.

SIGNATURES

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

STEEL CONNECT, INC.

Date: June 3, 2021

By: /S/ JASON WONG

Jason Wong
Chief Financial Officer
(Principal Financial Officer and Authorized Signatory)

SECOND AMENDMENT TO
CREDIT AND SECURITY AGREEMENT

THIS SECOND AMENDMENT TO CREDIT AND SECURITY AGREEMENT (this "**Amendment**") dated as of June 2, 2021 is made by and among **MODUSLINK CORPORATION**, a Delaware corporation ("**Borrower**"), **SOL HOLDINGS, INC.**, a Delaware corporation ("**Sol**"), **SALESLINK MEXICO HOLDINGS CORP.**, a Delaware corporation ("**Saleslink**", Sol and Saleslink, together the "**Guarantors**", and each, individually, a "**Guarantor**"), **MIDCAP FUNDING IV TRUST**, a Delaware statutory trust, as successor by assignment from MidCap Financial Trust, as administrative agent, individually as a Lender, and as administrative agent (in such capacity, "**Agent**"), for itself and the Lenders (as hereinafter defined).

RECITALS:

A. Pursuant to that certain Credit and Security Agreement dated as of December 31, 2019 (as the same may be amended, renewed, restated, replaced, supplemented or otherwise modified from time to time, the "**Credit Agreement**"), by and among Borrower, Guarantors, the other Credit Parties from time to time party thereto, Agent and the financial institutions party thereto ("**Lenders**"), Lenders agreed to make certain loans and other financial accommodations to Borrower. Capitalized terms used herein without definition shall have the meanings contained in the Credit Agreement.

B. The Borrower has requested, and Agent and Lenders have agreed, subject to the terms and conditions set forth herein, to amend certain provisions of the Credit Agreement as set forth herein.

AGREEMENTS:

Therefore, for good and valuable consideration, the parties hereto agree as follows:

1. Recitals. Each party hereto acknowledges and agrees that the above Recitals are true, accurate, and correct in all respects and that such Recitals are incorporated into this Amendment by reference herein.

2. Amendments to Credit Agreement. Subject to the satisfaction of the conditions set forth in Section 3 below, and in reliance on the representations and warranties contained in Section 5 below, Agent, Lenders and Borrower hereby agree to amend the Credit Agreement as of the Effective Date as follows:

(a) Section 1.1 of the Credit Agreement is hereby amended to add the following defined terms in proper alphabetical order as follows:

"**Amendment No. 2**" means that certain Second Amendment to Credit and Security Agreement, dated as of the Amendment No.2 Effective Date by and among the Borrower, the other Credit Parties thereto and the Agent on behalf of the Lenders.

"**Amendment No. 2 Effective Date**" means June 2, 2021.

(b) The definition of the term "Permitted Distributions" set forth in Section 1.1 of the Credit Agreement is hereby amended to amend and restate clauses (e) and (f) in their entirety as follows:

(e) dividends by ModusLink to Holdings in an aggregate amount not to exceed $2,000,000 in any fiscal year of Borrowers, so long as (i) no Event of Default has occurred and is continuing at the time of making such dividend or would result therefrom, (ii) Borrowers have Revolving Loan Availability, immediately before and for the period of 90 consecutive days after giving effect to such payment, of at least $3,000,000, and (iii) prior to making such dividend, Borrowers have delivered to Agent a certificate of a Responsible Officer of Borrower Representative, in form and substance reasonably satisfactory to Agent, demonstrating Borrowers' compliance with the financial covenants set forth in Article 6 of this Agreement on a pro forma basis after giving effect to the making of such dividend (with the Fixed Charge Coverage Ratio calculated as of the last day of the most recent month preceding the date on which the dividend is made for which financial statements were required to have been delivered under the Agreement, for the 12-month period ending on such date, as if such dividend were made on the first day of such period); *provided that*, if ModusLink makes the Special Distribution to Holdings, no additional dividends may be made by ModusLink to Holdings pursuant to this clause (e) during the fiscal year ending July 31, 2022; and

(f) cash dividends in increments of at least $1,000,000 made during the period commencing on the Amendment No. 1 Effective Date and ending on July 31, 2022 by ModusLink to Holdings in an aggregate amount not to exceed $50,000,000 (the "**Special Distribution**"), so long as (i) no Event of Default has occurred and is continuing at the time of making any Special Distribution or would result therefrom, (ii) Borrowers have Revolving Loan Availability, immediately before and for the period of 90 consecutive days after giving effect to such payment, of at least $3,000,000, and (iii) prior to making any such payment, Borrowers have delivered to Agent a certificate of a Responsible Officer of Borrower Representative, in form and substance reasonably satisfactory to Agent, demonstrating Borrowers' compliance with the financial covenants set forth in Article 6 of this Agreement on a pro forma basis after giving effect to the making of such dividend (with the Fixed Charge Coverage Ratio calculated as of the last day of the most recent month preceding the date on which the dividend is made for which financial statements were required to have been delivered under the Agreement, for the 12-month period ending on such date, as if such dividend were made on the first day of such period).

(c) Section 2.2(b) of the Credit Agreement is hereby amended and restated in its entirety as follows:

(b) Unused Line Fee. From and following the Closing Date, Borrowers shall pay Agent, for the benefit of all Lenders committed to make Revolving Loans, in accordance with their respective Pro Rata Shares, a fee in an amount equal to (i) (A) the Revolving Loan Commitment minus (B) the average daily balance of the sum of the Revolving Loan Outstandings during the preceding month, *multiplied by* (ii) one-half of one percent (0.50%) per annum; *provided* that, from and following the Amendment No. 2 Effective Date, the amount referenced in clauses (ii) of the immediately foregoing sentence shall be sixty-five one-hundredths of one percent (0.65%) per annum. Such fee is to be paid monthly in arrears on the first day of each month.

(d) Exhibit B to the Credit Agreement (Compliance Certificate) is hereby amended and restated in its entirety as attached hereto.

3. Conditions Precedent to Effectiveness. This Amendment shall become effective on the date (the "Effective Date") on which each of the following conditions precedent has been satisfied, each of which shall be in form and substance satisfactory to Agent:

(a) Agent shall have received a fully-executed copy of this Amendment, signed by Agent, Lenders, Borrower and the Guarantors; and

(b) subject to Section 4 below, no Default or Event of Default shall have occurred and be continuing or shall be caused by the transactions contemplated by this Amendment.

4. Waiver; Confirmation. The parties hereto agree and confirm that the amendment set forth in Section 2(d) of this Amendment constitutes an amendment to correct the inadvertent inclusion of Special Distributions as Fixed Charges and in the calculation of the Fixed Charge Coverage Ratio. The Lenders party hereto agree and confirm that any Default or Event of Default that may have been deemed to have occurred solely as a result of the unintentional inclusion of the Special Distribution as a Fixed Charge in the calculation of the Fixed Charge Coverage Ratio (a "**Deemed Default**") shall not have occurred and, as a result, no Deemed Default exists or is continuing as a result of (i) any breach of the Fixed Charge Coverage Ratio covenant set forth in Section 6.2 of the Credit Agreement solely as a result the unintentional inclusion of the Special Distribution as a Fixed Charge, (ii) any calculation of the Fixed Charge Coverage Ratio with respect to any other covenant set forth in the Credit Agreement solely as a result the unintentional inclusion of the Special Distribution as a Fixed Charge, or (iii) with respect to any representations or other statements in any certificate delivered in connection with such compliance or calculation solely as a result the unintentional inclusion of

the Special Distribution as a Fixed Charge. Agent and Lenders hereby confirm that they have waived the requirement to deliver any certificate required to be delivered pursuant to clause (f) of the definition of "Permitted Distributions" in the Credit Agreement in connection with any portion of the Special Distribution paid prior to the Amendment No. 2 Effective Date. This is a limited waiver and confirmation and shall not be deemed to constitute a waiver of any other Defaults or Events of Default or any other breach of the Credit Agreement or any of the other Financing Documents (including any breach of the Fixed Charge Coverage Ratio that does not result solely from the unintentional inclusion of the Special Distribution as a Fixed Charge) or any other requirements of any provision of the Credit Agreement or any other Financing Documents.

5. Representations and Warranties. Borrower and each Guarantor represents and warrants as of the date hereof that it has the full power and authority to execute, deliver and perform this Amendment and to incur the obligations provided for herein, all of which have been duly authorized by all necessary and proper corporate and limited liability company, as applicable, action. Borrower and each Guarantor hereby further represents and warrants as of the date hereof that (a) the representations and warranties made respectively by such Credit Party in the Financing Documents are true and correct in all material respects (except to the extent that such representation or warranty relates to a specific date, in which case such representation and warranty shall be true as of such earlier date); and (b) the execution and delivery by such Credit Party of this Amendment and the performance by such Credit Party of its obligations hereunder: (i) do not and will not violate any law or regulation applicable to such Credit Party; (ii) do not and will not violate any material agreement, order, decree or judgment by which such Credit Party is bound; and (iii) do not and will not violate or conflict with, result in a breach of or constitute (with notice, lapse of time, or otherwise) a default under any material agreement, mortgage, indenture or other contractual obligation to which such Credit Party is a party, or by which such Credit Party's properties are bound.

6. Continuing Effect.

(a) Except as specifically modified and amended herein, all of the terms, covenants, conditions and agreements contained in the Credit Agreement shall remain in full force and effect. In the event of any inconsistency between this Amendment and any Financing Document, the provisions of this Amendment shall control. This Amendment shall constitute a Financing Document.

(b) The Credit Agreement and all of the other Financing Documents, each as amended hereby, are ratified and confirmed in all respects. Each Credit Party acknowledges and reaffirms its obligations under each Financing Document to which it is a party, in each case as amended, restated, supplemented or otherwise modified prior to or as of the date hereof. All Liens granted or created by, or existing under, the Financing Documents, as amended hereby, remain unchanged and continue, unabated, in full force and effect, to secure each Credit Party's obligation to repay the Loans and all other amounts under the other Financing Documents (as amended hereby). Nothing herein shall be deemed to waive, release or discharge the parties hereto from any obligations or liabilities under the Financing Documents, and nothing in this

Amendment shall affect or impair any rights, remedies or powers which Agent or Lenders may have under the Financing Documents.

7. Free and Voluntary Act. Borrower and each Guarantor is freely and voluntarily entering into this Amendment and will enter into any other documents and take any action requested by Agent which is necessary to fulfill the agreements contemplated herein. Borrower and each Guarantor has individually read this Amendment and has discussed this Amendment with its respective legal, financial and other counsel. Borrower and each Guarantor understands this Amendment and the risk inherent in, and significance of, the same.

8. No Implied Terms. Any and all duties or obligations that Agent or Lenders may have to any of the Credit Parties are limited to those expressly stated in the Financing Documents as amended hereby, and neither the duties and obligations of Agent or Lenders nor the rights of the Credit Parties shall be expanded beyond the express terms of the Financing Documents as so amended.

9. Fair Consideration. Borrower and each Guarantor hereby acknowledges that adequate and valuable consideration has been given on behalf of Agent and Lenders, including Lenders' agreement to enter this Amendment, the receipt and sufficiency of which are hereby acknowledged.

10. Counterparts. This Amendment may be signed in any number of counterparts and may be executed by facsimile, email delivery or electronic signature, each of which shall be an original, with the same effect as if the signatures hereto and thereto were upon the same instrument. Signatures by facsimile, email delivery or electronic signature or other electronic communication to this Amendment shall bind the parties to the same extent as would a manually executed counterpart.

11. Expenses. Borrower agrees to pay all reasonable out-of-pocket expenses of Agent actually incurred in connection with the negotiation, preparation, execution and delivery of this Amendment, including, without limitation, reasonable attorney's fees and expenses.

12. Binding Effect/Governing Law. This Amendment shall bind, and the rights hereunder shall inure to, the respective successors and assigns of Agent and each Lender and each of the Credit Parties and their respective successors and permitted assigns, subject to the provisions of the Financing Documents as amended hereby. This Amendment shall be governed by and construed in accordance with the internal laws of the State of New York.

13. Release. For and in consideration of Agent's agreements contained herein and in the Financing Documents, each Credit Party hereby releases and discharges Agent, each Lender, their respective trustees, officers, directors, employees, agents, affiliates, representatives, successors and assigns (collectively, the "Released Parties") from any and all claims, causes of actions, damages and liabilities of any nature whatsoever, known or unknown, which such Credit Party ever had, now has or might hereafter have against one or more of the Released Parties which relates, directly or indirectly, to any of the Financing Documents or the transactions

relating thereto, to the extent that any such claim, cause of action, damage or liability shall be based in whole or in part upon facts, circumstances, actions or events existing on or prior to the date hereof and relates to the Deemed Default.

[Signature Pages Follows]

IN WITNESS WHEREOF, this Amendment has been duly executed as of the date first above written.

BORROWER:

MODUSLINK CORPORATION, a Delaware corporation

By:
Name:
Title:

By: /s/ CATHY VENABLE
Name: Cathy Venable
Title: CFO

[Signatures continue on following page.]

GUARANTORS:

SOL HOLDINGS, INC., a Delaware corporation

By: /s/ CATHY VENABLE
Name: Cathy Venable
Title: CFO

SALESLINK MEXICO HOLDING CORP., a Delaware corporation

By: /s/ CATHY VENABLE
Name: Cathy Venable
Title: CFO

[Signatures continue on following page.]

AGENT AND LENDER:

MIDCAP FUNDING IV TRUST, a Delaware statutory trust, as Agent and a Lender

By: APOLLO CAPITAL MANAGEMENT, L.P., its investment manager

By: APOLLO CAPITAL MANAGEMENT GP, LLC, its general partner

By: /s/ MAURICE AMSELLEM
Name: Maurice Amsellem
Title: Authorized Signatory

EXHIBIT B TO CREDIT AGREEMENT

[Attached]

EXHIBIT B TO CREDIT AGREEMENT (COMPLIANCE CERTIFICATE)

COMPLIANCE CERTIFICATE

Date: __________, 202__

This Compliance Certificate is given by _____________________, a Responsible Officer of ModusLink Corporation, a Delaware corporation (the "**Borrower Representative**"), pursuant to that certain Credit and Security Agreement dated as of December 31, 2019 among the Borrower Representative, the other Borrowers party thereto, and any additional Borrower that may hereafter be added thereto (collectively, "**Borrowers**"), the Guarantors from time to time party thereto, Midcap Funding IV Trust, as successor-by-assignment from MidCap Financial Trust, individually as a Lender and as Agent, and the financial institutions or other entities from time to time parties hereto, each as a Lender (as such agreement may have been amended, restated, supplemented or otherwise modified from time to time, the "**Credit Agreement**"). Capitalized terms used herein without definition shall have the meanings set forth in the Credit Agreement.

The undersigned Responsible Officer hereby certifies to Agent and Lenders that:

(a) the financial statements delivered with this certificate in accordance with Section 4.1 of the Credit Agreement fairly present in all material respects the results of operations and financial condition of Borrowers and their Consolidated Subsidiaries as of the dates and the accounting period covered by such financial statements;

(b) the representations and warranties of each Credit Party contained in the Financing Documents are true, correct and complete in all material respects on and as of the date hereof, except to the extent that any such representation or warranty relates to a specific date in which case such representation or warranty shall be true and correct in all material respects as of such earlier date; *provided*, *however*, in each case, such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof;

(c) I have reviewed the terms of the Credit Agreement and have made, or caused to be made under my supervision, a review in reasonable detail of the transactions and conditions of Borrowers and their Consolidated Subsidiaries during the accounting period covered by such financial statements and such review has not disclosed the existence during or at the end of such accounting period, and I have no knowledge of the existence as of the date hereof, of any condition or event that constitutes a Default or an Event of Default, except as set forth in Schedule 1 hereto, which includes a description of the nature and period of existence of such Default or an Event of Default and what action Borrowers have taken, are undertaking and propose to take with respect thereto;

(d) except as noted on Schedule 2 attached hereto, the Credit Agreement contains a complete and accurate list of all business locations of Borrowers and Guarantors and all names under which Borrowers and Guarantors currently conduct business; Schedule 2 specifically notes any changes in the names under which any Borrower or Guarantor conduct business;

(e) except as noted on Schedule 3 attached hereto, the undersigned has no knowledge of (i) any federal or state tax liens having been filed against any Borrower, Guarantor or any Collateral or (ii) any failure of any Borrower or Guarantor to make required payments of withholding or other tax obligations of any Borrower or Guarantor during the accounting period to which the attached statements pertain or any subsequent period;

(f) Schedule 5.14 to the Credit Agreement contains a complete and accurate statement of all deposit accounts and investment accounts maintained by Borrowers and Guarantors;

(g) except as noted on Schedule 4 attached hereto and Schedule 3.6 to the Credit Agreement, the undersigned has no knowledge of any current, pending or threatened: (i) litigation against any Borrower or Guarantor; (ii) inquiries, investigations or proceedings concerning the business affairs, practices, licensing or reimbursement entitlements of any Borrower or Guarantor; or (iii) any default by any Borrower or Guarantor under any Material Contract to which it is a party;

(h) except as noted on Schedule 5 attached hereto, no Borrower or Guarantor has acquired, by purchase, by the approval or granting of any application for registration (whether or not such application was previously disclosed to Agent by Borrowers) or otherwise, any Intellectual Property that is registered with any United States or foreign Governmental Authority, or has filed with any such United States or foreign Governmental Authority, any new application for the registration of any Intellectual Property, or acquired rights under a license as a licensee with respect to any such registered Intellectual Property (or any such application for the registration of Intellectual Property) owned by another Person, that has not previously been reported to Agent on Schedule 3.17 to the Credit Agreement or any Schedule 5 to any previous Compliance Certificate delivered by Borrower Representative to Agent;

(i) except as noted on Schedule 6 attached hereto, no Borrower or Guarantor has acquired, by purchase or otherwise, any Chattel Paper, Letter of Credit Rights, Instruments, Documents or Investment Property that has not previously been reported to Agent on any Schedule 6 to any previous Compliance Certificate delivered by Borrower Representative to Agent;

(j) except as noted on Schedule 7 attached hereto, no Borrower or Guarantor is aware of any commercial tort claim that has not previously been reported to Agent on any Schedule 7 to any previous Compliance Certificate delivered by Borrower Representative to Agent; and

(k) Borrowers and Guarantors (if any) are in compliance with the covenants contained in Article 6 of the Credit Agreement, and in any Guarantee constituting a part of the Financing Documents, as demonstrated by the calculation of such covenants below, except as set forth below; in determining such compliance, the following calculations have been made: **[See attached worksheets].** Such calculations and the certifications contained therein are true, correct and complete.

The foregoing certifications and computations are made as of ________________, 20__ (end of month) and as of _____________, 20__.

Sincerely,

MODUSLINK CORPORATION

By:
Name:
Title:

EBITDA Worksheet (Attachment to Compliance Certificate)

EBITDA for the applicable Defined Period is calculated as follows:

Net income (or loss) for the Defined Period of Borrowers and their Consolidated Subsidiaries, but excluding: (a) the income (or loss) of any Person (other than Subsidiaries of Borrowers) in which Borrowers or any of their Subsidiaries has an ownership interest unless received by Borrower or their Subsidiary in a cash distribution; and (b) the income (or loss) of any Person accrued prior to the date it became a Subsidiary of Borrowers or is merged into or consolidated with Borrowers	$__________
Plus: Any provision for (or *minus* any benefit from) income and franchise taxes deducted in the determination of net income for the Defined Period	$__________
Plus: Interest expense, net of interest income, deducted in the determination of net income for the Defined Period	$__________
Plus: Amortization and depreciation deducted in the determination of net income for the Defined Period	$__________
Plus: Reasonable and documented fees and expenses deducted in the determination of net income incurred in connection with the closing of the Loan(s) and any amendments or waivers to this Agreement or any Financing Document and actually paid in cash for the Defined Period	$__________
Plus: Reasonable and documented fees and expenses deducted in the determination of net income incurred and actually paid in cash for the Defined Period with respect to any Permitted Acquisition consummated after the Closing Date, to the extent incurred within 180 days of the consummation of such Permitted Acquisition and subject to Agent's reasonable approval	$__________
Plus: Non-recurring expense deducted (or minus non-recurring income added) in the determination of net income and actually paid in cash for the Defined Period subject to Agent's reasonable approval	$__________

Plus: Non-cash expense deducted (or minus non-cash income added) in the determination of net income for the Defined Period subject to Agent's reasonable approval $____________

EBITDA for the Defined Period: $____________

Fixed Charge Coverage Ratio Worksheet (Attachment to Compliance Certificate)

Fixed Charges for the applicable Defined Period is calculated as follows:

Payment of interest expense, net of interest income, included in the determination of net income of Borrowers and their Consolidated Subsidiaries for the Defined Period	$___________
Plus: Any provision for (or minus any benefit from) income taxes (less elimination of such taxes as a result of Borrowers' consolidated tax filings with Holdings) or franchise taxes included in the determination of net income for the Defined Period	$___________
Plus: Payments of principal for the Defined Period with respect to all Debt (including the portion of scheduled payments under capital leases allocable to principal but excluding mandatory prepayments required by Section 2.1 and excluding scheduled repayments of Revolving Loans and other Debt subject to reborrowing to the extent not accompanied by a concurrent and permanent reduction of the Revolving Loan Commitment (or equivalent loan commitment))	$___________
Plus: Permitted Distributions (other than any Special Distribution)	$___________
Fixed Charges for the applicable Defined Period:	$___________

Operating Cash Flow for the applicable Defined Period is calculated as follows:

EBITDA for the Defined Period (calculated pursuant to the EBITDA Worksheet)	$___________
Minus: Unfinanced Capital Expenditures for the Defined Period	$___________
Minus: To the extent not already reflected in the calculation of EBITDA, other capitalized costs, defined as the gross amount paid in cash and capitalized during the Defined Period, as long term assets, other than amounts capitalized during the Defined Period as capital expenditures for property, plant and equipment or similar fixed asset accounts	$___________
Operating Cash Flow for the Defined Period:	$___________

Covenant Compliance:

Fixed Charge Coverage Ratio (Ratio of Operating Cash Flow to Fixed Charges) for the Defined Period	___ to 1.0
Minimum Fixed Charge Coverage for the Defined Period	1.0 to 1.0
In Compliance	Yes/No

Exhibit 31.1

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

I, Warren Lichtenstein, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: June 3, 2021

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

Exhibit 31.2

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

I, Jason Wong, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: June 3, 2021

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

Exhibit 32.1

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

In connection with the Quarterly Report on Form 10-Q of Steel Connect, Inc. (the “Company”) for the fiscal quarter ended April 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, Warren Lichtenstein, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

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

Date: June 3, 2021

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

Exhibit 32.2

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

In connection with the Quarterly Report on Form 10-Q of Steel Connect, Inc. (the “Company”) for the fiscal quarter ended April 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, Jason Wong, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

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

Date: June 3, 2021

By: /S/ JASON WONG

Jason Wong
Chief Financial Officer
(Principal Financial Officer)