

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended January 31, 2022

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)

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

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

37167
(Zip Code)

(914) 461-1276

(Registrant's telephone number, including area code)

(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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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

As of March 1, 2022, there were 60,457,720 shares issued and outstanding of the registrant's Common Stock, \$0.01 par value per share.

STEEL CONNECT, INC.
FORM 10-Q
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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements.

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

	January 31, 2022 (unaudited)	July 31, 2021
ASSETS		
Cash and cash equivalents	\$ 64,646	\$ 96,931
Accounts receivable, trade, net of allowance for doubtful accounts of \$44 and \$49 at January 31, 2022 and July 31, 2021, respectively	68,971	69,805
Inventories, net	19,428	16,228
Funds held for clients	5,635	8,212
Prepaid expenses and other current assets	19,901	22,222
Total current assets	178,581	213,398
Property and equipment, net	48,964	58,862
Goodwill	231,470	231,470
Other intangible assets, net	106,920	115,005
Operating lease right-of-use assets	50,385	50,836
Other assets	6,364	6,810
Total assets	\$ 622,684	\$ 676,381
LIABILITIES, CONTINGENTLY REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS' (DEFICIT) EQUITY		
Accounts payable	\$ 57,330	\$ 55,517
Accrued expenses	104,876	106,871
Funds held for clients	5,635	8,212
Current portion of long-term debt	360,996	5,602
Current lease obligations	12,878	13,690
Other current liabilities	25,594	28,101
Total current liabilities	567,309	217,993
Convertible note payable	10,143	9,343
Long-term debt, excluding current portion	—	358,189
Long-term lease obligations	39,149	38,927
Other long-term liabilities	7,643	10,537
Total long-term liabilities	56,935	416,996
Total liabilities	624,244	634,989
Contingently redeemable preferred stock, \$0.01 par value per share. 35,000 shares authorized, issued and outstanding at January 31, 2022 and July 31, 2021	35,180	35,180
Stockholders' equity:		
Preferred stock, \$0.01 par value per share. 4,965,000 shares authorized at January 31, 2022 and July 31, 2021; zero shares issued and outstanding at January 31, 2022 and July 31, 2021	—	—
Common stock, \$0.01 par value per share. Authorized 1,400,000,000 shares; 60,457,720 issued and outstanding shares at January 31, 2022; 63,099,496 issued and outstanding shares at July 31, 2021	605	632
Additional paid-in capital	7,479,073	7,478,638
Accumulated deficit	(7,523,765)	(7,480,220)
Accumulated other comprehensive income	7,347	7,162
Total stockholders' (deficit) equity	(36,740)	6,212
Total liabilities, contingently redeemable preferred stock and stockholders' (deficit) equity	\$ 622,684	\$ 676,381

See accompanying notes to unaudited condensed consolidated financial statements

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

	Three Months Ended January 31,		Six Months Ended January 31,	
	2022	2021	2022	2021
Net revenue:				
Products	\$ 66,316	\$ 91,155	\$ 147,375	\$ 196,863
Services	54,322	64,892	98,676	129,118
Total net revenue	120,638	156,047	246,051	325,981
Cost of revenue:				
Products	63,617	68,740	138,802	149,932
Services	43,421	51,457	78,369	99,731
Total cost of revenue	107,038	120,197	217,171	249,663
Gross profit	13,600	35,850	28,880	76,318
Operating expenses:				
Selling, general and administrative	23,908	21,810	45,913	48,668
Amortization of intangible assets	3,903	5,359	8,085	11,894
Total operating expenses	27,811	27,169	53,998	60,562
Operating (loss) income	(14,211)	8,681	(25,118)	15,756
Other income (expense):				
Interest income	2	—	6	20
Interest expense	(7,980)	(7,825)	(15,775)	(15,648)
Other losses, net	(65)	(2,161)	(546)	(4,180)
Total other expense, net	(8,043)	(9,986)	(16,315)	(19,808)
Loss before income taxes	(22,254)	(1,305)	(41,433)	(4,052)
Income tax expense	723	891	1,038	1,695
Net loss	(22,977)	(2,196)	(42,471)	(5,747)
Less: Preferred dividends on redeemable preferred stock	(537)	(530)	(1,074)	(1,067)
Net loss attributable to common stockholders	\$ (23,514)	\$ (2,726)	\$ (43,545)	\$ (6,814)
Basic and diluted net loss per share attributable to common stockholders	\$ (0.39)	\$ (0.04)	\$ (0.73)	\$ (0.11)
Weighted average common shares used in basic and diluted loss per share	59,748	62,028	60,027	61,961

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 January 31,		Six Months Ended January 31,	
	2022	2021	2022	2021
Net loss	\$ (22,977)	\$ (2,196)	\$ (42,471)	\$ (5,747)
Other comprehensive (loss) income:				
Foreign currency translation adjustment	(13)	2,420	185	5,393
Total other comprehensive (loss) income	(13)	2,420	185	5,393
Comprehensive (loss) income	<u>\$ (22,990)</u>	<u>\$ 224</u>	<u>\$ (42,286)</u>	<u>\$ (354)</u>

See accompanying notes to unaudited condensed consolidated financial statements

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

	Number of Shares	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity (Deficit)
Balance at October 31, 2021	60,437,654	\$ 605	\$ 7,478,855	\$ (7,500,251)	\$ 7,360	\$ (13,179)
Net loss	—	—	—	(22,977)	—	(22,977)
Preferred dividends	—	—	—	(537)	—	(537)
Issuance of common stock pursuant to employee stock purchase plan	331	—	—	—	—	—
Restricted stock grants	119,735	1	(1)	—	—	—
Restricted stock forfeitures	(100,000)	(1)	1	—	—	—
Share-based compensation	—	—	218	—	—	—
Other comprehensive items	—	—	—	—	(13)	(13)
Balance at January 31, 2022	60,457,720	\$ 605	\$ 7,479,073	\$ (7,523,765)	\$ 7,347	\$ (36,146)

	Number of Shares	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance at October 31, 2020	62,793,969	\$ 628	\$ 7,478,238	\$ (7,437,788)	\$ 6,816	\$ 47,304
Net loss	—	—	—	(2,196)	—	(2,196)
Preferred dividends	—	—	—	(530)	—	(530)
Issuance of common stock pursuant to employee stock purchase plan	1,448	—	1	—	—	—
Restricted stock grants	204,897	2	(2)	—	—	—
Share-based compensation	—	—	158	—	—	—
Other comprehensive items	—	—	—	—	2,420	2,420
Balance at January 31, 2021	63,000,314	\$ 630	\$ 7,478,395	\$ (7,440,514)	\$ 9,236	\$ 47,947

See accompanying notes to unaudited condensed consolidated financial statements

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

	Number of Shares	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity (Deficit)
Balance at July 31, 2021	63,099,496	\$ 632	\$ 7,478,638	\$ (7,480,220)	\$ 7,162	\$ 6
Net loss	—	—	—	(42,471)	—	(42,471)
Preferred dividends	—	—	—	(1,074)	—	(1,074)
Issuance of common stock pursuant to employee stock purchase plan	499	—	—	—	—	—
Restricted stock grants	207,725	2	(2)	—	—	—
Restricted stock forfeitures	(2,850,000)	(29)	29	—	—	—
Share-based compensation	—	—	408	—	—	—
Other comprehensive items	—	—	—	—	185	—
Balance at January 31, 2022	60,457,720	\$ 605	\$ 7,479,073	\$ (7,523,765)	\$ 7,347	\$ (36,346)

	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
Net loss	—	—	—	(5,747)	—	(5,747)
Preferred dividends	—	—	—	(1,067)	—	(1,067)
Issuance of common stock pursuant to employee stock purchase plan	8,430	—	4	—	—	—
Restricted stock grants	236,860	2	(2)	—	—	—
Restricted stock forfeitures	(32,895)	—	—	—	—	—
Share-based compensation	—	—	346	—	—	—
Other comprehensive items	—	—	—	—	5,393	5,393
Balance at January 31, 2021	63,000,314	\$ 630	\$ 7,478,395	\$ (7,440,514)	\$ 9,236	\$ 47

See accompanying notes to unaudited condensed consolidated financial statements

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

	Six Months Ended January 31,	
	2022	2021
Cash flows from operating activities:		
Net loss	\$ (42,471)	\$ (5,747)
Adjustments to reconcile net loss to cash flows from operating activities:		
Depreciation	16,340	11,117
Amortization of intangible assets	8,085	11,894
Amortization of deferred financing costs	273	260
Accretion of debt discount	800	605
Impairment of long-lived assets	70	—
Share-based compensation	408	346
Non-cash lease expense	7,015	7,158
Other losses, net	186	5,795
Changes in operating assets and liabilities:		
Accounts receivable, net	1,268	7,143
Inventories, net	(3,380)	1,658
Prepaid expenses and other current assets	2,319	(4,195)
Accounts payable and accrued expenses	1,240	(15,756)
Refundable and accrued income taxes, net	(519)	225
Other assets and liabilities	(14,803)	(15,317)
Net cash (used in) provided by operating activities	<u>(23,169)</u>	<u>5,186</u>
Cash flows from investing activities:		
Additions of property and equipment	(8,152)	(2,160)
Proceeds from the disposition of property and equipment	963	—
Net cash used in investing activities	<u>(7,189)</u>	<u>(2,160)</u>
Cash flows from financing activities:		
Long-term debt repayments	(3,000)	(3,000)
Preferred dividend payments	(1,073)	(1,067)
Repayments on capital lease obligations	(36)	(35)
Proceeds from issuance of common stock	—	4
Net cash used in financing activities	<u>(4,109)</u>	<u>(4,098)</u>
Net effect of exchange rate changes on cash, cash equivalents and restricted cash	(395)	683
Net decrease in cash, cash equivalents and restricted cash	<u>(34,862)</u>	<u>(389)</u>
Cash, cash equivalents and restricted cash, beginning of period	105,143	94,642
Cash, cash equivalents and restricted cash, end of period	<u>\$ 70,281</u>	<u>\$ 94,253</u>
Cash and cash equivalents, end of period	\$ 64,646	\$ 87,649
Funds held for clients, end of period	5,635	6,604
Cash, cash equivalents and restricted cash, end of period	<u>\$ 70,281</u>	<u>\$ 94,253</u>

See accompanying notes to unaudited condensed consolidated financial statements

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

(1) NATURE OF OPERATIONS

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

ModusLink Corporation provides digital and physical supply chain solutions to many of the world's leading brands across a diverse range of industries, including consumer electronics, telecommunications, computing and storage, software and content, consumer packaged goods, medical devices, retail and luxury and connected devices. With a global footprint spanning North America, Europe and the Asia Pacific, the Company's solutions and services are designed to improve end-to-end supply chains in order to drive growth, lower costs, and improve profitability.

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.

Disposition of IWCO Direct

On February 25, 2022, the Company entered into a transaction agreement (the "Transaction Agreement") with (a) IWCO Direct and its indirect subsidiaries, (b) Cerberus Business Finance, LLC, in its capacities as collateral agent and administrative agent under a financing agreement (in such capacities, the "Agent"), dated as of December 15, 2017, between IWCO Direct, IWCO Direct's direct and indirect subsidiaries, the Agent and the lenders party thereto (the "Lenders") (the "Financing Agreement"), (c) the Lenders, (d) the Lenders or their respective designees listed on the signature pages to the Transaction Agreement under the caption "Participating Lender Purchasers" (the "Participating Lender Purchasers"), (e) SPH Group Holdings LLC (the "Sponsor") and (f) Instant Web Holdings, LLC (the "Buyer"), an entity owned by the Participating Lender Purchasers. On the Effective Date (as defined in the Transaction Agreement) and pursuant to the terms of the Transaction Agreement, the Company transferred all of its interests in IWCO Direct to the Buyer as part of a negotiated restructuring of the capital structure and certain financial obligations of IWCO Direct under the Financing Agreement as contemplated by the Transaction Agreement. The Company received no cash consideration for the disposition (the entire transaction being referred to as the "IWCO Direct Disposal"). In addition, as of the Effective Date and subject to the terms and conditions of the Transaction Agreement, the parties entered into certain mutual releases as fully set forth in the Transaction Agreement. In addition, as part of the overall transaction, the Buyer issued a note in the principal amount of \$6.9 million payable to the Company as consideration for intercompany obligations owed by IWCO Direct to the Company (the "Subordinated Note"). The Subordinated Note is subordinated to the obligations under the Financing Agreement (including any amendments or other modifications thereto) and matures on the date that is the earlier of (a) the later of (i) August 25, 2027 and (ii) the date that is six months after the maturity of the Financing Agreement, and (b) the date that is six months after repayment in full of the obligations under the Financing Agreement. Due to the subordinated nature of the note and the assessment of collectability, the Company determined the fair value of the Subordinated Note was zero. The foregoing description of the Transaction Agreement does not purport to be complete and is qualified in its entirety by reference to the full text of the Transaction Agreement, a copy of which is filed as Exhibit 10.1 to the Company's Form 8-K dated February 25, 2022.

The Company deconsolidated IWCO Direct as of February 25, 2022 as it no longer held a controlling financial interest as of that date. The Company expects to record a book gain as of disposal date based on the amount of IWCO Direct's assets and liabilities. In addition, upon the deconsolidation of IWCO Direct, which had an estimated net deferred tax liability balance of \$11.6 million, the Company anticipates recording a valuation allowance in the same amount, with a corresponding increase to income tax expense. The Company did not have any amounts included in accumulated other comprehensive loss associated with IWCO Direct at the time of deconsolidation. As of January 31, 2022, IWCO Direct had assets and liabilities of approximately \$469.7 million and \$516.3 million, respectively. The results of IWCO Direct will be presented as a discontinued operation in future reporting periods. As of January 31, 2022, IWCO Direct did not have any available borrowing capacity under its Cerberus Credit Facility which was no longer in effect on the date of the IWCO Disposal.

The following table summarizes the Company's unaudited pro forma financial information for the six months ended January 31, 2022 and the fiscal year ended July 31, 2021 as if the IWCO Direct Disposal occurred on August 1, 2020.

	Six Months Ended January 31, 2022	Fiscal Year Ended July 31, 2021
	(In thousands)	
Net revenue	\$ 98,676	\$ 226,256
Cost of revenue	\$ 78,369	\$ 178,552
Operating income (loss)	\$ 622	\$ (1,569)

The unaudited pro forma information is presented for illustration purposes only and is not necessarily indicative of the operating results that would have occurred had the IWCO Direct Disposal been completed on August 1, 2020, nor is it necessarily indicative of future operating results of the Company.

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. The Company believes it has access to adequate resources to meet its needs for normal operating costs, capital expenditures and working capital for its existing business for at least twelve months from the date of this filing. As of January 31, 2022, these resources include current cash and cash equivalents, ModusLink's \$12.5 million revolving credit facility pursuant to the MidCap Credit Agreement with MidCap Financial Trust ("MidCap"), and cash, if any, provided by operating activities. As of January 31, 2022, ModusLink had readily available borrowing capacity under its revolving credit facility with MidCap of \$9.2 million. As of and during the fiscal quarter ended January 31, 2022, ModusLink was in compliance with all financial covenants in the MidCap Credit Agreement.

For more information on the termination of the MidCap credit facility and the entry into the new credit facility with Umpqua Bank, see Note 9.

The MidCap Credit Agreement was unaffected by the deconsolidation of IWCO Direct in February 2022. As of January 31, 2022, IWCO Direct did not have any available borrowing capacity under its Cerberus Credit Facility, which was no longer in effect on the date of the IWCO Direct Disposal.

As of January 31, 2022 and July 31, 2021, the Company had cash and cash equivalents of \$64.6 million and \$96.9 million, respectively. As of January 31, 2022, the Company had a working capital deficit of \$388.7 million, which included \$361.0 million current portion of the Cerberus Term Loan which was extinguished upon the IWCO Disposal.

Impact of COVID-19

The ongoing COVID-19 pandemic (in particular, the emergence of new variants of the virus across the globe) has caused, and continues to cause, significant disruptions in the U.S. and global economies. For example, national and local governments in the United States and around the world continue to implement measures to prevent the spread of COVID-19 and its variants, including travel bans, prohibitions on group events and gatherings, shutdowns of certain businesses, quarantines, curfews, and recommendations to practice physical distancing. Such measures have restricted and continue to restrict individuals' daily activities and curtail or cease many businesses' normal operations. The COVID-19 pandemic has adversely impacted, and is likely to further adversely impact, nearly all aspects of our business and markets, including our workforce and the operations of our clients, suppliers, and business partners. Beginning in March 2020, when the World Health Organization categorized COVID-19 as a pandemic and the President of the United States declared the COVID-19 outbreak a national emergency, we experienced impacts to our customers' demand, facility operations, supply chain, availability and productivity of personnel, while also working to comply with rapidly evolving international, federal, state and local restrictions and recommendations on travel and workplace health and safety. We experienced disruptions to our business continuity as a result of temporary closures of certain of ModusLink's facilities in the third and fourth quarters of fiscal year 2020, as well as the fourth quarter of fiscal year 2021. However, these temporary closures did not have a significant impact on ModusLink's operations. Recently, an outbreak in Mainland China forced temporary lockdown orders from March 14, 2022 to March 20, 2022 in several cities in which ModusLink operates. We do not expect significant impacts to ModusLink's operations, and as of the filing of this quarterly report on Form 10-Q one facility was shut due to the temporary lockdown and all other ModusLink facilities were operating at or near capacity. We will evaluate further actions if circumstances warrant.

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

To help combat these impacts and mitigate the financial impact of the COVID-19 pandemic on our business, during fiscal year 2020 we took proactive measures by initiating cost reduction actions, including the waiver of board fees, hiring freezes, staffing and force reductions, company-wide salary reductions, bonus payment deferrals and temporary 401(k) match suspension. The temporary waiver of board fees and company-wide salary reduction actions taken in the prior fiscal year were fully restored prior to the beginning of fiscal year 2021, and the majority of salary reductions were repaid prior to the fiscal quarter ended January 31, 2021. Additionally, against the background of the reduction in IWCO's business, the Company held extensive discussions with Cerberus about amending and extending IWCO Direct's credit facility with Cerberus under which there was approximately \$361.3 million outstanding as of January 31, 2022 that was to mature in December 2022. These discussions ultimately resulted in the IWCO Direct Disposal. For more information, see "Disposition of IWCO Direct" above. We continue our focus on cash management and liquidity, which includes aggressive working capital management.

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

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.

The Board has only received a expression of interest, which it continues to negotiate with Steel Holdings. The expression of interest under negotiation does not constitute a definitive offer 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, 2021 (Fiscal Year 2021), which are contained in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on October 29, 2021, as amended on November 30, 2021 (the "2021 Annual Report"). The results for the six months ended January 31, 2022 are not necessarily indicative of the results to be expected for the full fiscal year. The year-end condensed consolidated balance sheet data was derived from audited consolidated financial statements, but does not include all disclosures required by U.S. GAAP.

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

The Company considers events or transactions that occur after the balance sheet date but before the issuance of financial statements to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. For the six months ended January 31, 2022, the Company evaluated subsequent events for potential recognition and disclosure through the date these financial statements were filed.

Reclassification

On the statement of cash flows for the six months ended January 31, 2021, the Company reclassified the non-cash portion of lease expense which totaled \$7.2 million from Other Assets and Liabilities to Non-cash Lease Expense. This reclassification was made to the prior year balances to conform with current reporting and had no impact on net loss or stockholder's equity.

(3) RECENT ACCOUNTING PRONOUNCEMENTS

Adoption of New Accounting Standards

In December 2019, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes, which amends the existing guidance relating to the accounting for income taxes. This ASU is intended to simplify the accounting for income taxes by removing certain exceptions to the general principles of accounting for income taxes and to improve the consistent application of U.S. GAAP for other areas of accounting for income taxes by clarifying and amending existing guidance. The new guidance was effective for the Company's first quarter of the fiscal year ending July 31, 2022 (Fiscal Year 2022). The adoption of this new guidance did not have a material impact on the Company's consolidated financial statements.

Accounting Standards Issued and Not Yet Implemented

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

In 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 the assessment of the amount or timing of an entity's future cash flows related to those instruments. The guidance is effective for interim and annual periods beginning in our fiscal year ending July 31, 2025, with early adoption permitted. The Company is currently evaluating this guidance to determine the impact it may have on its consolidated financial statements.

(4) INVENTORIES, NET

The table below presents the components of Inventories, net:

	January 31, 2022	July 31, 2021
(In thousands)		
Raw materials	\$ 18,130	\$ 15,484
Work-in-process	640	76
Finished goods	658	668
	<u>\$ 19,428</u>	<u>\$ 16,228</u>

(5) GOODWILL AND INTANGIBLE ASSETS

The Company's goodwill of \$231.5 million as of January 31, 2022 and July 31, 2021, respectively, relates to the Company's Direct Marketing reporting unit, which is the only reporting unit in the Direct Marketing reportable segment. See Note 1 for more details regarding the disposition of IWCO Direct subsequent to which the Company will no longer have any goodwill or amortizable intangible assets. 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 mid-January 2022, the Company determined it would not be possible to extend or refinance the Cerberus Credit Facility and that this was an indicator of impairment of its goodwill, other intangible assets and long-lived assets for the Direct Marketing business. As a result, the Company performed an interim impairment test of IWCO Direct's goodwill and other long-lived assets as of January 31, 2022. Based upon the terms of the Termination Agreement with Cerberus and considering prior fair values determined for the IWCO Direct reporting unit, the Company determined that the goodwill and other long-lived assets were not impaired during the three months ended January 31, 2022.

Other intangible assets, net, as of January 31, 2022, include customer relationships for the Direct Marketing segment. The trademarks and tradenames intangible assets were fully amortized as of January 31, 2021.

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

	Weighted Average Amortization Period (in years)	January 31, 2022			July 31, 2021		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
		(In thousands)					
Customer relationships	15	\$ 192,730	\$ 85,810	\$ 106,920	\$ 192,730	\$ 77,725	\$ 115,005
Trademarks and tradenames	3	20,520	20,520	—	20,520	20,520	—
Total		<u>\$ 213,250</u>	<u>\$ 106,330</u>	<u>\$ 106,920</u>	<u>\$ 213,250</u>	<u>\$ 98,245</u>	<u>\$ 115,005</u>

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

	Three Months Ended January 31,		Six Months Ended January 31,	
	2022	2021	2022	2021
	(In thousands)			
Customer relationships	\$ 3,903	\$ 4,504	\$ 8,085	\$ 9,329
Trademarks and trade names	—	855	—	2,565
Total	<u>\$ 3,903</u>	<u>\$ 5,359</u>	<u>\$ 8,085</u>	<u>\$ 11,894</u>

(6) ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

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

	January 31, 2022	July 31, 2021
Accrued Expenses		
	(In thousands)	
Accrued taxes	\$ 57,952	\$ 57,152
Accrued compensation	20,428	22,987
Accrued worker's compensation	1,500	1,818
Accrued audit, tax and legal	4,042	3,674
Accrued contract labor	756	930
Accrued interest	476	476
Accrued other	19,722	19,834
	<u>\$ 104,876</u>	<u>\$ 106,871</u>
Other Current Liabilities		
	(In thousands)	
Accrued pricing liabilities	\$ 10,295	\$ 10,295
Customer postage deposits	10,599	13,452
Other	4,700	4,354
	<u>\$ 25,594</u>	<u>\$ 28,101</u>

As of January 31, 2022 and July 31, 2021, the Company had accrued taxes of \$58.0 million and \$57.2 million, respectively, which reflected the Company's estimate for certain tax related liabilities. As of both January 31, 2022 and July 31, 2021, the Company had accrued pricing liabilities of approximately \$10.3 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 January 31, 2022 will be derecognized when there is sufficient information for the Company to conclude that such liabilities are not subject to escheatment and have been extinguished, which may occur through payment, legal release, or other legal or factual determination. The Company has not provided for any provision for interest and or penalties related to escheatment as it has concluded that such is not probable to occur, and any potential interest and penalties cannot be reasonably estimated.

(7) RESTRUCTURING

IWCO Direct Restructuring Activities

On June 2, 2021, the Board approved a Competitive Improvement Plan ("CIP") for IWCO Direct, which addressed the changing requirements of its customers and markets it serves, as well as the current competitive landscape. The CIP contemplated a total investment of approximately \$54 million primarily over a 24-month period. The Company estimated the CIP cost would consist of approximately: (1) \$38 million for digital press and insertion equipment, and technology build out cost (of which approximately \$34 million in lease/purchase agreements were entered into subsequent to the year ended July 31, 2021), and (2) \$16 million for severance, employee retention, facilities optimization, and other implementation costs. In addition, the Company expected to incur approximately \$12 million for non-cash accelerated depreciation expense. The cost estimates did not include amounts for potential non-cash asset impairment charges relating to facilities and equipment optimization. The timing and amount of the future costs incurred will depend on a number of factors. These investments are to be funded by IWCO Direct. After the IWCO Direct Disposal, the Company will have no further obligation for the CIP which had estimated future cash outflows remaining of approximately \$44 million. See Note 1 for details regarding the disposition of IWCO Direct.

Accelerated depreciation costs primarily relate to operating facilities and equipment to be sold or closed as part of the programs. Accelerated depreciation costs represent the difference between the depreciation expense to be recognized over the revised useful life of the asset, based upon the anticipated date the site will be closed or divested or the equipment disposed of, and depreciation expense as determined utilizing the useful life prior to the restructuring actions.

As part of the CIP, the Company announced on August 23, 2021 that it will be optimizing its manufacturing footprint by closing IWCO Direct's Little Falls, Minnesota facility. The facility closed in January of 2022.

ModusLink Restructuring Activities

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

The tables below present restructuring charges by type of cost:

	Three Months Ended January 31, 2022			Six Months Ended January 31, 2021		
	Direct Marketing	Supply Chain	Consolidated Total	Direct Marketing	Supply Chain	Consolidated Total
	(In thousands)					
Accelerated depreciation	\$ 3,700	\$ —	\$ 3,700	\$ 8,095	\$ —	\$ 8,095
Impairment of long-lived assets	—	—	—	70	—	70
Employee termination costs	1,386	856	2,242	3,371	856	4,227
Contractual obligations	113	—	113	308	—	308
Other	344	—	344	344	—	344
Total restructuring charges	\$ 5,543	\$ 856	\$ 6,399	\$ 12,188	\$ 856	\$ 13,044

	Three Months Ended January 31, 2022			Six Months Ended January 31, 2021		
	Direct Marketing	Supply Chain	Consolidated Total	Direct Marketing	Supply Chain	Consolidated Total
	(In thousands)					
Cost of revenue	\$ 5,008	\$ 646	\$ 5,654	\$ 11,351	\$ 646	\$ 11,997
Selling, general and administrative	535	210	745	837	210	1,047
	\$ 5,543	\$ 856	\$ 6,399	\$ 12,188	\$ 856	\$ 13,044

Changes to the restructuring liability during the six months ended January 31, 2022 were as follows:

(in thousands)	Employee Termination Costs	Contractual Obligations	Asset Impairment	Other	Restructuring Liability
	(In thousands)				
Balance as of July 31, 2021	\$ 1,055	\$ —	\$ —	\$ —	\$ 1,055
Costs incurred	4,800	199	8,165	472	13,636
Cash payments	(3,759)	(164)	—	(472)	(4,395)
Non-cash relief of accrual	(7)	—	(8,165)	—	(8,172)
Change in estimates	(655)	—	—	—	(655)
Balance as of January 31, 2022	\$ 1,434	\$ 35	\$ —	\$ —	\$ 1,469

(8) LEASES

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

	Three Months Ended January 31,		Six Months Ended January 31,	
	2022	2021	2022	2021
	(In thousands)			
Operating lease cost	\$ 4,165	\$ 4,131	\$ 8,166	\$ 8,359
Short-term lease expense	507	533	856	940
Variable lease cost	4	11	15	19
Interest on finance lease liabilities	1	1	2	3
	<u>\$ 4,677</u>	<u>\$ 4,676</u>	<u>\$ 9,039</u>	<u>\$ 9,321</u>

Supplemental Cash Flow Information

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

	Six Months Ended January 31,	
	2022	2021
	(In thousands)	
Cash paid for amounts included in measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 8,091	\$ 8,377
Operating cash flows from finance leases	\$ 2	\$ 3
Financing cash flows from finance leases	\$ 36	\$ 35

(9) DEBT

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

	January 31,	July 31,
	2022	2021
	(In thousands)	
Secured		
Cerberus Term Loan due December 15, 2022	\$ 361,330	\$ 364,330
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	(5,131)	(6,136)
Total debt, net	371,139	373,134
Less: current portion of debt, net	(360,996)	(5,602)
Total long-term debt, net	<u>\$ 10,143</u>	<u>\$ 367,532</u>

Cerberus Term Loan

On February 25, 2022, Company transferred all of its interests in IWCO Direct to the Buyer as part of a negotiated restructuring of the capital structure and certain financial obligations of IWCO Direct which included the Cerberus Term Loan which will be derecognized upon deconsolidation. See Note 1 for more details regarding the IWCO Direct Disposal.

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 January 31, 2022, the if-converted value of the SPHG Note did not exceed the principal value of the SPHG Note. As of January 31, 2022, the remaining period over which the unamortized discount will be amortized is 25 months. As of January 31, 2022 and July 31, 2021, the net carrying value of the SPHG Note was \$10.1 million and \$9.3 million, respectively. The effective interest rate on the SPHG Note, including accretion of the discount, is 27.8%. The following tables reflect the components of the SPHG Note:

	January 31, 2022	July 31, 2021
	(In thousands)	
Carrying amount of equity component	\$ 8,200	\$ 8,200
Principal amount of note	\$ 14,940	\$ 14,940
Unamortized debt discount	(4,797)	(5,597)
Net carrying amount	<u>\$ 10,143</u>	<u>\$ 9,343</u>

	Three Months Ended January 31,		Six Months Ended January 31,	
	2022	2021	2022	2021
	(In thousands)			
Interest expense related to contractual interest coupon	\$ 286	\$ 287	\$ 572	\$ 573
Interest expense related to accretion of the discount	414	313	800	605
	<u>\$ 700</u>	<u>\$ 600</u>	<u>\$ 1,372</u>	<u>\$ 1,178</u>

On March 16, 2022, ModusLink, as borrower, entered into a new credit agreement with Umpqua Bank (the "Umpqua Revolver"), as lender and as agent. The Umpqua Revolver provides for a maximum credit commitment of \$12.5 million and a sublimit of \$5.0 million for letters of credit and expires on March 16, 2024. Concurrent with signing the Umpqua Revolver, ModusLink submitted a notice of termination to MidCap for its MidCap Credit Agreement which was set to expire on December 31, 2022. ModusLink believes it will remain in compliance with the Umpqua Revolver's covenants for the next twelve months.

(10) 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, 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. ("Handy & Harman") 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.

On August 13, 2021, the Company, together with certain of its current and former directors of the Board, Warren Lichtenstein, Glen Kassan, William Fejes, Jr., Jack Howard, Jeffrey Fenton and Jeffrey Wald, as well as other named defendants

(collectively, the “Defendants”), entered into a memorandum of understanding (the “MOU”) with Donald Reith (the “Plaintiff”) in connection with the settlement of the Reith v. Lichtenstein, et al., C.A. No. 2018-0277-MTZ (Del. Ch. 2018) class and derivative action. Pursuant to the MOU, the Defendants agreed to cause their directors’ and officers’ liability insurance carriers to pay to the Company \$2.75 million in cash. The payment shall be paid into an escrow account within 14 business days of the later of (i) the entry of the scheduling order in connection with the stipulation of the settlement; or (ii) the date on which Plaintiff’s counsel provides to the Defendants’ counsel written payment and wire instructions.

Additionally, under the MOU and separate letter agreements between the Company and such individuals (the “Surrender Agreements”), Messrs. Lichtenstein, Howard and Fejes agreed to surrender to the Company an aggregate 3.3 million shares which they had initially received in December 2017 in consideration for services to the Company. The surrenders and cancellations are in the following amounts: for Mr. Lichtenstein, 1,833,333 vested shares and 300,000 unvested shares; for Mr. Howard, 916,667 vested shares and 150,000 unvested shares; and for Mr. Fejes, 100,000 vested shares. Such amounts are to be adjusted to give effect to the one-for-ten reverse stock split voted on by the Company’s shareholders at the annual meeting on July 26, 2021 (if such reverse stock split is effected prior to the surrender of such shares). The surrenders and cancellations shall be completed no later than seven calendar days following final approval of the settlement by the court and the exhaustion of any appeals therefrom or the expiration of time to appeal. On August 17, 2021, Mr. Lichtenstein and Mr. Howard surrendered the shares required under their respective Surrender Agreements and all such shares were subsequently cancelled. Pursuant to the MOU, the Company has also agreed to pay the Plaintiff’s counsel legal fees for this matter. The settlement requires court approval, and there can be no assurances that such approval will be granted.

On February 18, 2022, the parties filed a Stipulation of Settlement, proposed notice to stockholders, proposed scheduling order, and proposed form of final judgment (collectively, the “Stipulation”), setting forth the settlement terms previously set forth in the MOU. In addition, the Stipulation reflects the parties’ agreement that the amount of the legal fees for which Plaintiffs’ counsel would apply, and that the Company would pay if approved by the court, would be \$2.05 million. The court has not yet entered the scheduling order establishing the date on which a hearing would be held concerning approval of the settlement.

(11) REVENUE RECOGNITION

Disaggregation of Revenue

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

	Three Months Ended January 31, 2022			Three Months Ended January 31, 2021		
	Direct Marketing	Supply Chain	Consolidated Total	Direct Marketing	Supply Chain	Consolidated Total
(In thousands)						
Major Goods/Service Lines						
Marketing solutions offerings	\$ 66,316	\$ —	\$ 66,316	\$ 91,155	\$ —	\$ 91
Supply chain management services	—	53,719	53,719	—	64,342	64
Other	—	603	603	—	550	—
	<u>\$ 66,316</u>	<u>\$ 54,322</u>	<u>\$ 120,638</u>	<u>\$ 91,155</u>	<u>\$ 64,892</u>	<u>\$ 156</u>
Timing of Revenue Recognition						
Goods transferred over time	\$ 66,316	\$ —	\$ 66,316	\$ 91,155	\$ —	\$ 91
Services transferred over time	—	54,322	54,322	—	64,892	64
	<u>\$ 66,316</u>	<u>\$ 54,322</u>	<u>\$ 120,638</u>	<u>\$ 91,155</u>	<u>\$ 64,892</u>	<u>\$ 156</u>
(In thousands)						
Major Goods/Service Lines						
Marketing solutions offerings	\$ 147,375	\$ —	\$ 147,375	\$ 196,863	\$ —	\$ 196
Supply chain management services	—	97,661	97,661	—	128,129	128
Other	—	1,015	1,015	—	989	—
	<u>\$ 147,375</u>	<u>\$ 98,676</u>	<u>\$ 246,051</u>	<u>\$ 196,863</u>	<u>\$ 129,118</u>	<u>\$ 325</u>
Timing of Revenue Recognition						
Goods transferred over time	\$ 147,375	\$ —	\$ 147,375	\$ 196,863	\$ —	\$ 196
Services transferred over time	—	98,676	98,676	—	129,118	129
	<u>\$ 147,375</u>	<u>\$ 98,676</u>	<u>\$ 246,051</u>	<u>\$ 196,863</u>	<u>\$ 129,118</u>	<u>\$ 325</u>

Marketing Solutions Offerings

IWCO Direct'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 Direct'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:

	January 31, 2022	July 31, 2021
	(In thousands)	
Accounts receivable, trade, net	\$ 68,971	\$ 69,805
Contract assets	\$ 10,530	\$ 14,458
Deferred revenue - current	\$ 3,560	\$ 2,562
Deferred revenue - long-term	85	108
Total deferred revenue	<u>\$ 3,645</u>	<u>\$ 2,670</u>

Remaining Performance Obligations

Remaining performance obligations are comprised of deferred revenue. Changes in deferred revenue during the six months ended January 31, 2022 and January 31, 2021, were as follows:

	Six Months Ended January 31,	
	2022	2021
	(In thousands)	
Balance at beginning of period	\$ 2,670	\$ 2,945
Deferral of revenue	1,959	4,417
Recognition of deferred amounts upon satisfaction of performance obligation	(984)	(1,868)
Balance at end of period	<u>\$ 3,645</u>	<u>\$ 5,494</u>

We expect to recognize approximately \$3.3 million of the Supply Chain deferred revenue over the next twelve months and the remaining \$0.1 million beyond that time period.

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

(12) INCOME TAXES

The Company operates in multiple taxing jurisdictions, both within and outside of the United States. For the six months ended January 31, 2022, the Company was profitable in certain jurisdictions, resulting in an income tax expense using enacted rates in those jurisdictions. As of both January 31, 2022 and July 31, 2021, the total amount of the liability for unrecognized tax benefits related to federal, state and foreign taxes was approximately \$2.5 million.

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 163(j) of the U.S. Internal Revenue Code (the "IRC").

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 calendar 2021 and calendar 2022. During the prior calendar year 50% of the deferral was due December 31, 2021 and the remaining 50% will be 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 January 31, 2022 and July 31, 2021, the liabilities for interest expense related to uncertain tax positions were \$0.4 million and \$0.3 million, respectively. The Company has accrued \$0.4 million for penalties related to income tax positions. The Company expects \$0.7 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, 2018 through July 31, 2021. 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 2013 through 2020 tax years remain subject to examination in most locations, while the Company's 2009 through 2020 tax years remain subject to examination in most Asia locations.

(13) LOSS PER SHARE

The following table reconciles loss per share for the three and six months ended January 31, 2022 and 2021:

	Three Months Ended January 31,		Six Months Ended January 31,	
	2022	2021	2022	2021
	(In thousands, except per share data)			
Net loss	\$ (22,977)	\$ (2,196)	\$ (42,471)	\$ (5,747)
Less: Preferred dividends on redeemable preferred stock	(537)	(530)	(1,074)	(1,067)
Net loss attributable to common stockholders	<u>\$ (23,514)</u>	<u>\$ (2,726)</u>	<u>\$ (43,545)</u>	<u>\$ (6,814)</u>
Weighted average common shares used in basic and diluted loss per share	59,748	62,028	60,027	61,961
Basic and diluted net loss per share attributable to common stockholders	\$ (0.39)	\$ (0.04)	\$ (0.73)	\$ (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 January 31, 2022 and 2021, approximately 24.2 million and 24.2 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 six months ended January 31, 2022 and 2021, approximately 24.2 million and 24.2 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.

(14) COMPREHENSIVE INCOME (LOSS)

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

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

	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	5,393	—	5
Net current-period other comprehensive income	5,393	—	5
Accumulated other comprehensive income (loss) as of January 31, 2021	\$ 10,418	\$ (1,182)	\$ 9

(15) SEGMENT INFORMATION

The Company had two operating segments which are the same as its reportable segments: Direct Marketing and Supply Chain. See Note 1 for details regarding the disposition of Direct Marketing segment. 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 January 31,		Six Months Ended January 31,	
	2022	2021	2022	2021
	(In thousands)			
Net revenue:				
Direct Marketing	\$ 66,316	\$ 91,155	\$ 147,375	\$ 196,863
Supply Chain	54,322	64,892	98,676	129,118
	\$ 120,638	\$ 156,047	\$ 246,051	\$ 325,981
Operating (loss) income:				
Direct Marketing	\$ (14,262)	\$ 5,769	\$ (25,740)	\$ 10,706
Supply Chain	2,374	4,957	4,347	10,108
Total segment operating (loss) income	(11,888)	10,726	(21,393)	20,814
Corporate-level activity	(2,323)	(2,045)	(3,725)	(5,058)
Total operating (loss) income	(14,211)	8,681	(25,118)	15,756
Total other expense, net	(8,043)	(9,986)	(16,315)	(19,808)
Loss before income taxes	\$ (22,254)	\$ (1,305)	\$ (41,433)	\$ (4,052)

	January 31, 2022	July 31, 2021
(In thousands)		
Total assets:		
Direct Marketing	\$ 476,374	\$ 530,944
Supply Chain	102,748	101,159
Sub-total—segment assets	579,122	632,103
Corporate	43,562	44,278
	<u>\$ 622,684</u>	<u>\$ 676,381</u>

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

	Three Months Ended January 31,		Six Months Ended January 31,	
	2022	2021	2022	2021
(In thousands)				
Products:				
Direct Marketing	\$ 66,316	\$ 91,155	\$ 147,375	\$ 196,863
Services:				
Supply Chain	54,322	64,892	98,676	129,118
	<u>\$ 120,638</u>	<u>\$ 156,047</u>	<u>\$ 246,051</u>	<u>\$ 325,981</u>

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

	Three Months Ended January 31,		Six Months Ended January 31,	
	2022	2021	2022	2021
(In thousands)				
United States	\$ 80,022	\$ 108,280	\$ 171,528	\$ 229,763
China	19,423	22,409	35,389	42,049
Netherlands	6,227	5,387	11,876	13,182
Other	14,966	19,971	27,258	40,987
	<u>\$ 120,638</u>	<u>\$ 156,047</u>	<u>\$ 246,051</u>	<u>\$ 325,981</u>

(16) RELATED PARTY TRANSACTIONS

As of January 31, 2022, SPHG Holdings and its affiliates, including Steel Holdings, Handy & Harman Ltd. and Steel Partners Ltd., beneficially owned approximately 53.4% 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 January 31, 2022 and July 31, 2021, SPHG Holdings held \$14.9 million principal amount of the SPHG Note. As of January 31, 2022 and July 31, 2021, the net carrying value of the SPHG Note was \$10.1 million and \$9.3 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 "Management Services Agreement") with Steel Services Ltd. ("Steel Services"), an indirect wholly-owned subsidiary of Steel Holdings. The Management Services Agreement was effective as of June 1, 2019. In connection with the IWCO Direct Disposal, the Management Services Agreement monthly fee was reduced effective on the disposal date for the portion of the fee attributable to IWCO Direct.. Total expenses incurred related to the Management Services Agreement for the three months ended January 31, 2022 and 2021 were \$0.9 million and \$0.9 million, respectively. Total expenses incurred related to the Management Services Agreement for the six months ended January 31, 2022 and 2021 were \$1.8 million and \$2.5 million, respectively. As of January 31, 2022 and July 31, 2021, amounts due to Steel Services were \$0.7 million and \$0.9 million, respectively.

(17) 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 January 31, 2022 and July 31, 2021, classified by fair value hierarchy:

(In thousands)	January 31, 2022	Fair Value Measurements at Reporting Date Using		
		Level 1	Level 2	Level 3
Assets:				
Money market funds	\$ 41,326	\$ 41,326	\$ —	\$ —

(In thousands)	July 31, 2021	Fair Value Measurements at Reporting Date Using		
		Level 1	Level 2	Level 3
Assets:				
Money market funds	\$ 42,327	\$ 42,327	\$ —	\$ —

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.

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 Part II, Item 1A. "Risk Factors" of this report and the risks discussed in the Company's 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" or "Direct Marketing") and ModusLink Corporation ("ModusLink" or "Supply Chain"), which serve the direct marketing and supply chain management markets, respectively.

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

IWCO Direct is a provider of data-driven marketing solutions, driving response across all marketing channels and measurable improvements to its customers' return on marketing investment. Effective February 25, 2022, the Company disposed of its interest in IWCO Direct (the "IWCO Direct Disposal"). See "Recent Developments—Disposition of IWCO Direct" below.

Customers

Historically, a limited number of key clients have accounted for a significant percentage of the Company's revenue. For the six months ended January 31, 2022 and the fiscal year ended July 31, 2021, the Company's ten largest clients accounted for approximately 47% and 52% of consolidated net revenue, respectively. For the six months ended January 31, 2022, no client accounted for more than 10% of the Company's consolidated net revenue and for the fiscal year ended July 31, 2021 one client from the computing market accounted for approximately 16% of the Company's consolidated net revenue and one client from the insurance market accounted for approximately 11% of the Company's consolidated net revenue.

For the six months ended January 31, 2022 and fiscal year ended July 31, 2021, on a pro forma basis giving effect to the IWCO Direct Disposal, the Company's 10 largest clients accounted for approximately 75% and 81% of consolidated net revenue, respectively. On the same pro forma basis, two clients from the computing market accounted for approximately 18% and 13% of the Company's consolidated net revenue for six months ended January 31, 2022, and two clients from the computing market accounted for approximately 42% and 10% of the Company's consolidated net revenue for the fiscal year ended July 31, 2021. In general, the Company does not have any agreements that obligate any client to buy a minimum amount of services from it or designate it as an exclusive service provider. Consequently, the Company's net revenue is subject to demand variability by our clients. The level and timing of orders placed by the Company's clients vary for a variety of reasons, including seasonal buying by end-users, the introduction of new technologies and general economic conditions. By diversifying into new markets and improving the operational support structure for its clients, the Company expects to offset the adverse financial impact such factors may bring about.

Impact of COVID-19

The ongoing COVID-19 pandemic (in particular, the emergence of new variants of the virus across the globe) has caused, and continues to cause, significant disruptions in the U.S. and global economies. For example, national and local governments in the United States and around the world continue to implement measures to prevent the spread of COVID-19

and its variants, including travel bans, prohibitions on group events and gatherings, shutdowns of certain businesses, quarantines, curfews, and recommendations to practice physical distancing. Such measures have restricted and continue to restrict individuals' daily activities and curtail or cease many businesses' normal operations. The COVID-19 pandemic has adversely impacted, and is likely to further adversely impact, nearly all aspects of our business and markets, including our workforce and the operations of our clients, suppliers, and business partners. Beginning in March 2020, when the World Health Organization categorized COVID-19 as a pandemic and the President of the United States declared the COVID-19 outbreak a national emergency, we experienced impacts to our customers' demand, facility operations, supply chain, availability and productivity of personnel, while also working to comply with rapidly evolving international, federal, state and local restrictions and recommendations on travel and workplace health and safety. We experienced disruptions to our business continuity as a result of temporary closures of certain of ModusLink's facilities in the third and fourth quarters of fiscal year 2020, as well as the fourth quarter of fiscal year 2021. Recently, an outbreak in Mainland China forced temporary lockdown orders from March 14, 2022 to March 20, 2022 in several cities in which ModusLink operates. We do not expect significant impacts to ModusLink's operations, and as of the filing of this quarterly report on Form 10-Q one facility was shut due to the temporary lockdown and all other ModusLink facilities were operating at or near capacity. We will evaluate further actions if circumstances warrant.

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

To help combat these impacts and mitigate the financial impact of the COVID-19 pandemic on our business, during fiscal year 2020 we took proactive measures by initiating cost reduction actions, including the waiver of board fees, hiring freezes, staffing and force reductions, company-wide salary reductions, bonus payment deferrals and temporary 401(k) match suspension. The temporary waiver of board fees and company-wide salary reduction actions taken in the prior fiscal year were fully restored prior to the beginning of fiscal year 2021, and the majority of salary reductions were repaid prior to the fiscal quarter ended January 31, 2021. Additionally, against the background of the reduction in IWCO's business, the Company held extensive discussions with Cerberus about amending and extending IWCO Direct's credit facility with Cerberus under which there was approximately \$361.3 million outstanding as of January 31, 2022 that was to mature in December 2022. These discussions ultimately resulted in the IWCO Direct Disposal. For more information, see "Disposition of IWCO Direct" above. We continue our focus on cash management and liquidity, which includes aggressive working capital management.

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

Recent Developments

Disposition of IWCO Direct

Beginning in the second quarter of 2020, with the shutdown of the U.S. economy due to the COVID-19 pandemic, IWCO Direct's business was significantly and adversely affected by a material reduction in customer mailing activities. Against this background, the Company held, on behalf of IWCO Direct, extensive discussions with Cerberus about amending and extending IWCO Direct's credit facility with Cerberus under which there was approximately \$361 million outstanding as of January 31, 2022 that was to mature in December 2022. In addition, the Company's board considered a range of strategic options to address the impending maturity. In mid-January 2022, it became apparent that it would not be possible to extend or refinance the credit facility prior to its maturity. In addition, short-term funding under the revolving credit facility became unavailable. IWCO Direct was in the process of implementing the previously disclosed competitive improvement plan ("CIP") intended to address the

changing requirements of its customers and markets. Despite initial favorable outcomes and improving prospects from the CIP, the Company was unable to amend IWCO Direct's credit facility or identify alternatives to refinance IWCO Direct's indebtedness given the magnitude of that indebtedness relative to the performance of IWCO Direct's business.

In light of these developments, the board of directors of the Company determined that it was in the best interests of the Company's shareholders to pursue an orderly and consensual disposition of IWCO Direct to the Cerberus-led investor group. Although the board considered other alternatives for IWCO Direct, the board concluded that such alternatives would not be viable. Steel Connect did not receive any cash consideration from the Cerberus-led investor group in exchange for the disposition of IWCO Direct. Refer to Note 1 for further information on the transaction agreement terms.

The Company deconsolidated IWCO Direct as of February 25, 2022 as it no longer held a controlling financial interest as of that date. The Company expects to record a book gain as of the disposal of IWCO Direct. As of January 31, 2022, IWCO Direct had assets and liabilities of approximately \$469.7 million and \$516.3 million, respectively. The Company did not have any amounts included in accumulated other comprehensive loss associated with IWCO Direct as of January 31, 2022. The results of IWCO Direct will be presented as a discontinued operation in future reporting periods.

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.

The Board has only received an expression of interest, which it continues to negotiate with Steel Holdings. The expression of interest under negotiation does not constitute a definitive offer 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.

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.

IWCO Direct Disposal

As discussed above, on February 25, 2022, the Company disposed of its ownership of IWCO Direct and subsequent to the disposal date IWCO Direct will no longer be included in the Company's consolidated balance sheet, results of operations or cash flows.

Results of Operations

Three months ended January 31, 2022 compared to the three months ended January 31, 2021

Net Revenue:

	Three Months Ended January 31, 2022	As a % of Total Net Revenue		Three Months Ended January 31, 2021	As a % of Total Net Revenue		\$ Change	% Change
(In thousands)								
Direct Marketing	\$ 66,316	55.0 %		\$ 91,155	58.4 %		\$ (24,839)	(27.2) %
Supply Chain	54,322	45.0 %		64,892	41.6 %		(10,570)	(16.3) %
Total	\$ 120,638	100.0 %		\$ 156,047	100.0 %		\$ (35,409)	(22.7) %

Net revenue decreased by approximately \$35.4 million during the three months ended January 31, 2022, as compared to the same period in the prior year. During the three months ended January 31, 2022, net revenue for the Direct Marketing segment decreased by approximately \$24.8 million primarily due to: (1) approximately \$23.1 million of lower sales volume from clients who exited or were planning to exit and (2) approximately \$9.3 million for reduced volume from a client in the insurance industry. These decreases were partially offset by approximately \$7.6 million of higher sales volume across all other clients.

During the three months ended January 31, 2022, net revenue for the Supply Chain segment, net revenues decreased by approximately \$10.6 million. This decrease in net revenue was primarily driven by lower volume associated with clients in the computing and consumer electronics markets which have been negatively impacted by global market shortage of semiconductor and other electrical component supplies. Fluctuations in foreign currency exchange rates had an insignificant impact on the Supply Chain segment's net revenues for the three months ended January 31, 2022, as compared to the same period in the prior year.

Cost of Revenue:

	Three Months Ended January 31, 2022	As a % of Segment Net Revenue		Three Months Ended January 31, 2021	As a % of Segment Net Revenue		\$ Change	% Change
(In thousands)								
Direct Marketing	\$ 63,617	95.9 %		\$ 68,740	75.4 %		\$ (5,123)	(7.5) %
Supply Chain	43,421	79.9 %		51,457	79.3 %		(8,036)	(15.6) %
Total	\$ 107,038	88.7 %		\$ 120,197	77.0 %		\$ (13,159)	(10.9) %

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, depreciation expense, severance, contract labor, consulting, paper for direct mailing, fulfillment and shipping, and applicable facilities costs. Cost of revenue for the three months ended January 31, 2022 included materials procured on behalf of our Supply Chain clients of \$25.7 million, as compared to \$33.2 million for the same period in the prior year, a decrease of \$7.5 million. Total cost of revenue decreased by \$13.2 million for the three months ended January 31, 2022, as compared to the same period in the prior year, primarily due to decreased material and labor costs in both segments from lower sales volume, partially offset by restructuring costs in Direct Marketing. Gross margin percentage for the current quarter decreased to 11.3%, as compared to 23.0% in the prior year quarter.

Direct Marketing's cost of revenue decreased by \$5.1 million during the three months ended January 31, 2022, as compared to the same period in the prior year. The decrease was primarily due to decreased material costs due to lower volume, partially offset by restructuring charges associated with the CIP. The Direct Marketing segment's gross margin percentage decreased by 2050 basis points to 4.1% for the three months ended January 31, 2022, as compared to 24.6% for the same period in the prior year. The decrease in Direct Marketing segment's gross margin percentage is primarily due to restructuring charges for the CIP and lower sales volume.

Supply Chain's cost of revenue decreased by \$8.0 million during the three months ended January 31, 2022, as compared to the same period in the prior year. The decrease was primarily due to lower materials costs as a result of lower sales volume associated with clients in the computing and consumer electronics markets. The Supply Chain segment's gross margin percentage decreased by 60 basis points to 20.1% for the three months ended January 31, 2022, as compared to 20.7% for the same period in the prior year, primarily due lower revenues, not completely offset by the 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 January 31, 2022.

Selling, General and Administrative Expenses:

	Three Months Ended January 31, 2022	As a % of Segment Net Revenue	Three Months Ended January 31, 2021	As a % of Segment Net Revenue	\$ Change	% Change
(In thousands)						
Direct Marketing	\$ 13,058	19.7 %	\$ 11,287	12.4 %	\$ 1,771	15.7 %
Supply Chain	8,527	15.7 %	8,478	13.1 %	49	0.6 %
Sub-total	21,585	17.9 %	19,765	12.7 %	1,820	9.2 %
Corporate-level activity	2,323		2,045		278	13.6 %
Total	\$ 23,908	19.8 %	\$ 21,810	14.0 %	\$ 2,098	9.6 %

Selling, general and administrative expenses consist primarily of compensation and employee-related costs, sales commissions and incentive plans, information technology expenses, travel expenses, facilities costs, consulting fees, fees for professional services, depreciation expense, marketing expenses, share-based compensation expense, transaction costs, restructuring and public reporting costs. Selling, general and administrative expenses during the three months ended January 31, 2022 increased by approximately \$2.1 million, as compared to the same period in the prior year.

Selling, general and administrative expenses for the Direct Marketing segment increased primarily due to an increase in professional fees, employee related costs and restructuring charges for the CIP. Selling, general and administrative expenses for the Supply Chain segment and Corporate did not change significantly as compared to the same period in the prior year. Fluctuations in foreign currency exchange rates had an insignificant impact on selling, general and administrative expenses for the three months ended January 31, 2022.

Amortization of Intangible Assets:

During the three months ended January 31, 2022 and 2021, intangible asset amortization expense totaled \$3.9 million and \$5.4 million, respectively. Intangible asset amortization expense decreased \$1.5 million primarily due to trademarks and tradenames being fully amortized during the prior year.

Interest Expense:

Total interest expense during the three months ended January 31, 2022 did not change significantly as compared to the same period in the prior year.

Other Losses, Net:

Other losses, net are primarily composed of foreign exchange losses. The Company recorded \$0.3 million and \$2.1 million of foreign exchange losses during the three months ended January 31, 2022 and 2021, respectively.

Income Tax Expense:

During the three months ended January 31, 2022, the Company recorded income tax expense of approximately \$0.7 million, as compared to income tax expense of \$0.9 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.

Six Months Ended January 31, 2022 compared to the six months ended January 31, 2021

Net Revenue:

	Six Months Ended January 31, 2022	As a % of Total Net Revenue		Six Months Ended January 31, 2021	As a % of Total Net Revenue		\$ Change	% Change
(In thousands)								
Direct Marketing	\$ 147,375	59.9	%	\$ 196,863	60.4	%	\$ (49,488)	(25.1) %
Supply Chain	98,676	40.1	%	129,118	39.6	%	(30,442)	(23.6) %
Total	\$ 246,051	100.0	%	\$ 325,981	100.0	%	\$ (79,930)	(24.5) %

Net revenue decreased by approximately \$79.9 million during the six months ended January 31, 2022, as compared to the same period in the prior year. During the six months ended January 31, 2022, net revenue for the Direct Marketing segment decreased by approximately \$49.5 million primarily due to: (1) approximately \$41.6 million of lower sales volume from clients who had exited or were planning to exit and (2) approximately \$19.4 million for reduced volume from a client in the insurance industry. These decreases were partially offset by approximately \$11.5 million of higher sales volume across all other clients.

During the six months ended January 31, 2022, net revenue for the Supply Chain segment, net revenues decreased by approximately \$30.4 million. This decrease in net revenue was primarily driven by lower volume associated with clients in the computing and consumer electronics markets which have been negatively impacted by global market shortage of semiconductor and other electrical component supplies. Fluctuations in foreign currency exchange rates had an insignificant impact on the Supply Chain segment's net revenues for the six months ended January 31, 2022, as compared to the same period in the prior year.

Cost of Revenue:

	Six Months Ended January 31, 2022	As a % of Segment Net Revenue		Six Months Ended January 31, 2021	As a % of Segment Net Revenue		\$ Change	% Change
(In thousands)								
Direct Marketing	\$ 138,802	94.2	%	\$ 149,932	76.2	%	\$ (11,130)	(7.4) %
Supply Chain	78,369	79.4	%	99,731	77.2	%	(21,362)	(21.4) %
Total	\$ 217,171	88.3	%	\$ 249,663	76.6	%	\$ (32,492)	(13.0) %

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, depreciation expense, severance, contract labor, consulting, paper for direct mailing, fulfillment and shipping, and applicable facilities costs. Cost of revenue for the six months ended January 31, 2022 included materials procured on behalf of our Supply Chain clients of \$44.7 million, as compared to \$63.6 million for the same period in the prior year, a decrease of \$18.9 million. Total cost of revenue decreased by \$32.5 million for the six months ended January 31, 2022, as compared to the same period in the prior year, primarily due to decreased material and labor costs in both segments, partially offset by restructuring costs in Direct Marketing. Gross margin percentage for the current quarter decreased to 11.7%, as compared to 23.4% in the prior year quarter.

Direct Marketing's cost of revenue decreased by \$11.1 million during the six months ended January 31, 2022, as compared to the same period in the prior year. The decrease was primarily due to decreased material costs due to lower volume, partially offset by restructuring charges associated with the CIP. The Direct Marketing segment's gross margin percentage decreased by 1800 basis points to 5.8% for the six months ended January 31, 2022, as compared to 23.8% for the same period in the prior year. The decrease in Direct Marketing segment's gross margin percentage is primarily due to restructuring charges for the CIP and lower sales volume.

Supply Chain's cost of revenue decreased by \$21.4 million during the six months ended January 31, 2022, as compared to the same period in the prior year. The decrease was primarily due to lower materials and labor costs as a result of lower sales volume associated with clients in the computing and consumer electronics markets. The Supply Chain segment's gross margin percentage decreased by 220 basis points to 20.6% for the six months ended January 31, 2022, as compared to 22.8% for the same period in the prior year, primarily due lower revenues, not completely offset by the decreased materials and labor costs. Fluctuations in foreign currency exchange rates had an insignificant impact on Supply Chain's gross margin for the six months ended January 31, 2022.

Selling, General and Administrative Expenses:

	Six Months Ended January 31, 2022	As a % of Segment Net Revenue	Six Months Ended January 31, 2021	As a % of Segment Net Revenue	\$ Change	% Change
(In thousands)						
Direct Marketing	\$ 26,228	17.8 %	\$ 24,331	12.4 %	\$ 1,897	7.8 %
Supply Chain	15,960	16.2 %	19,279	14.9 %	(3,319)	(17.2)%
Sub-total	42,188	17.1 %	43,610	13.4 %	(1,422)	(3.3)%
Corporate-level activity	3,725		5,058		(1,333)	(26.4)%
Total	\$ 45,913	18.7 %	\$ 48,668	14.9 %	\$ (2,755)	(5.7)%

Selling, general and administrative expenses consist primarily of compensation and employee-related costs, sales commissions and incentive plans, information technology expenses, travel expenses, facilities costs, consulting fees, fees for professional services, depreciation expense, marketing expenses, share-based compensation expense, transaction costs, restructuring and public reporting costs. Selling, general and administrative expenses during the six months ended January 31, 2022 decreased by approximately \$2.8 million, as compared to the same period in the prior year.

Selling, general and administrative expenses for the Direct Marketing segment increased primarily due to an increase in professional fees, employee related costs and restructuring charges for the CIP. Selling, general and administrative expenses for the Supply Chain segment decreased primarily due to a decrease in restructuring and professional expenses that were incurred in the prior year period. Corporate-level activity decreased primarily due to a decrease in professional fees and employee related costs. Fluctuations in foreign currency exchange rates had an insignificant impact on selling, general and administrative expenses for the six months ended January 31, 2022.

Amortization of Intangible Assets:

During the six months ended January 31, 2022 and 2021, intangible asset amortization expense totaled \$8.1 million and \$11.9 million, respectively. Intangible asset amortization expense decreased \$3.8 million primarily due to trademarks and tradenames being fully amortized during the prior year.

Interest Expense:

Total interest expense during the six months ended January 31, 2022 did not change significantly as compared to the same period in the prior year.

Other Losses, Net:

Other losses, net are primarily composed of foreign exchange losses. The Company recorded \$0.8 million and \$3.8 million of foreign exchange losses during the six months ended January 31, 2022 and 2021, respectively.

Income Tax Expense:

During the six months ended January 31, 2022, the Company recorded income tax expense of approximately \$1.0 million, as compared to income tax expense of \$1.7 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.

Liquidity and Capital Resources

Anticipated Sources and Uses of Cash Flow

Historically, the Company has financed its operations and met its capital requirements primarily through funds generated from operations, the sale of its securities, borrowings from lending institutions and sale of facilities that were not fully utilized.

Disposal of IWCO

As a result of the IWCO Direct Disposal, the Company will have no debt outstanding under the Cerberus Credit Facility (as defined below) which had approximately \$361.3 million outstanding as of January 31, 2022 and was to mature on December 15, 2022. Additionally, the CIP which had estimated future cash outflows remaining of approximately \$44 million will no longer be a future cash outflow of the Company.

The following table summarizes our liquidity:

	January 31, 2022
	(In thousands)
Cash and cash equivalents	\$ 64,646
Readily available borrowing capacity under Midcap Credit Facility	9,210
	<u>\$ 73,856</u>

Due to the changes reflected in the U.S. Tax Cuts and Jobs Act in December 2017 ("U.S. Tax Reform"), there is no U.S. tax payable upon repatriating the undistributed earnings of foreign subsidiaries considered not subject to permanent investment. Foreign withholding taxes would range from 0% to 10% on any repatriated funds. For the Company, earnings and profits have been calculated at each subsidiary. The Company's foreign subsidiaries are in an overall net deficit for earnings and profits purposes. As such, no adjustment was made to U.S. taxable income in the six months ended January 31, 2022 relating to this aspect of the U.S. Tax Reform. In future years, the Company will be able to repatriate its foreign earnings without incurring additional U.S. tax as a result of a 100% dividends received deduction. The Company believes that any future withholding taxes or state taxes associated with such a repatriation would be minor.

Consolidated working capital deficit was \$388.7 million as of January 31, 2022, as compared to \$4.6 million at July 31, 2021. Included in the working capital deficit were cash and cash equivalents of \$64.6 million as of January 31, 2022 and \$96.9 million at July 31, 2021. The increase in the working capital deficit was primarily due to the Cerberus Term Loan becoming classified as current as of January 31, 2022. The Cerberus Term Loan balance of \$361.0 million as of January 31, 2022 was extinguished upon the IWCO Direct Disposal. Sources and uses of cash for the six months ended January 31, 2022, as compared to the same period in the prior year, are as follows:

	Six Months Ended January 31,	
	2022	2021
	(In thousands)	
Net cash (used in) provided by operating activities	\$ (23,169)	\$ 5,186
Net cash used in investing activities	\$ (7,189)	\$ (2,160)
Net cash used in financing activities	\$ (4,109)	\$ (4,098)

Operating Activities: We used cash of \$23.2 million from operating activities during the six months ended January 31, 2022, a decrease of \$28.4 million compared with \$5.2 million generated during the six months ended January 31, 2021. The decrease was primarily due to lower gross profits and a reduction in working capital. The Company's future cash flows related to operating activities are dependent on several factors, including profitability, accounts receivable collections, effective inventory management practices and optimization of the credit terms of certain vendors of the Company, and overall performance of the technology sector impacting the Supply Chain segment.

Investing Activities: Net cash used in investing activities was \$7.2 million and \$2.2 million during the six months ended January 31, 2022 and 2021, respectively, and was primarily related to capital expenditures. The increase was primarily due to reduced capital spending in the prior year as the result of the COVID-19 pandemic.

Financing Activities: Net cash used in financing activities was \$4.1 million during both the six months ended January 31, 2022 and 2021, and primarily consisted of \$3.0 million in long-term debt payments for IWCO Direct and \$1.1 million of preferred dividend payments in both periods.

Debt and Financing Arrangements

As of January 31, 2022 outstanding debt consisted of the following:

	January 31, 2022
	(In thousands)
Cerberus Term Loan due December 15, 2022	\$ 361,330
7.50% Convertible Note due March 1, 2024	14,940
	<u>\$ 376,270</u>

Cerberus Credit Facility

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

MidCap Credit Facility

As of and during the six months ended January 31, 2022, ModusLink was in compliance with all financial covenants in the MidCap Credit Agreement. The MidCap Credit Agreement was unaffected by the deconsolidation of IWCO Direct in February 2022.

On March 16, 2022, ModusLink, as borrower, submitted a notice of termination to MidCap, and entered into a new credit agreement with Umpqua Bank (the "Umpqua Revolver"), as lender and as agent. The Umpqua Revolver provides for a maximum credit commitment of \$12.5 million and a sublimit of \$5.0 million for letters of credit and expires on March 16, 2024. ModusLink believes it will remain in compliance with the Umpqua Revolver's covenants for the next twelve months.

Steel Connect, Inc.

The Company believes it has access to adequate resources to meet its needs for normal operating costs, debt obligations and working capital for at least the next twelve months.

Off-Balance Sheet Arrangements

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

Critical Accounting Policies Update

During the three months ended January 31, 2022, 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 the Annual Report on Form 10-K for the fiscal year ended July 31, 2021 filed with the Securities and Exchange Commission (the "SEC") on October 29, 2021, as amended on November 30, 2021 (the "2021 Annual Report"),

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 the 2021 Annual Report.

Accounting for Impairment of Long-Lived Assets, Goodwill and Other Intangible Assets

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 mid-January 2022, the Company determined it would not be possible to extend or refinance the Cerberus Credit Facility and determined this was an indicator of impairment of its goodwill, other intangible assets and long-lived assets for the Direct Marketing business. As a result, the Company performed an interim impairment test of Direct Marketing's goodwill and other long-lived assets as of January 31, 2022. Based upon the terms of the Termination Agreement with Cerberus and considering prior fair values determined for the IWCO Direct reporting unit, the Company determined that the goodwill and other long-lived assets were not impaired during the three months ended January 31, 2022.

The prior 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 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 included, but were 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 were based on current economic climates, recent operating results and planned business strategies. These estimates could be negatively affected by decreased customer demand for IWCO Direct's services, changes in regulations, further economic downturns, increased customer attrition or an inability to execute IWCO Direct's business strategies. Future cash flow estimates are, by their nature, subjective, and actual results may differ materially from the Company's estimates.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

An evaluation was performed under the supervision and with the participation of our management, including the Interim Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as such terms are defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of the end of the period covered by this report. "Disclosure controls and procedures" means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives. Based upon that evaluation, management, including the Interim Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls were effective as of January 31, 2022.

Changes in Internal Control over Financial Reporting

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

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

The information set forth under Note 10 - "Contingencies" to Condensed Consolidated Financial Statements, included in Part I, Item 1 of this 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 this quarterly report on Form 10-Q.

Item 1A. Risk Factors.

Our business is subject to a number of risks. 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, you should carefully consider the following risk factors, together with all of the other information included or incorporated by reference in this report, before you decide whether to purchase our common stock. As a result of the IWCO Direct Disposal, these risk factors amend and restate in their entirety the risk factors included in Part I, Item 1A, Risk Factors of our 2021 Annual Report. These factors are not intended to represent a complete list of the general or specific risks that may affect us. It should be recognized that other risks may be significant, presently or in the future, and the risks set forth below may affect

us to a greater extent than indicated. If any of the following risks occur, our business, financial condition and results of operations could be materially adversely affected. In such case, the trading price of our common stock could decline, and you may lose all or part of your investment.

RISKS RELATED TO THE IWCO DIRECT DISPOSAL

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

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

In addition, the divestiture poses risks and challenges that may adversely impact our business, including difficulties in the separation of operations, services and personnel, the diversion of management's attention from other business concerns, transaction and transition costs, the disruption of business, and the potential loss of key employees. Moreover, declines in our net revenues, cash flows and earnings as a result of the divestiture could result in future asset impairments. As a result, we may not achieve the anticipated benefits of the divestiture.

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

As a result of the IWCO Direct Disposal, our future financial results are expected to differ materially from our previous results, since our future financial results will be solely dependent on our Supply Chain segment. Our recently divested Direct Marketing business segment generated approximately 60% and 63% of our total net revenue for the six months ended January 31, 2022 and fiscal year ended July 31, 2021, respectively, and represented approximately 77% and 78% of our assets as of January 31, 2022 and July 31, 2021, respectively. However, our Direct Marketing business segment also represented the majority of all of our operating losses for the six months ended January 31, 2022 and the fiscal year ended July 31, 2021. On a pro forma basis giving effect to the IWCO Direct Disposal, our operating results were as follows: (i) for the six months ended January 31, 2022, our historical total net revenue, operating loss and net loss attributable to common stockholders were \$246.1 million, \$25.1 million and \$43.5 million, respectively, and our pro forma total net revenue, operating income and net loss attributable to common stockholders were \$98.7 million, \$0.6 million and \$3.5 million, respectively; and (ii) for the year ended July 31, 2021, our historical total net revenue, operating loss and net loss attributable to common stockholders were \$613.8 million, \$12.8 million and \$46.5 million, respectively, and our pro forma total net revenue, operating loss and net loss attributable to common stockholders were \$226.3 million, \$1.6 million and \$6.3 million, respectively. Thus, due to the IWCO Direct Disposal, we expect to experience significant reduction in our future net revenue and assets, while possibly experiencing lower net losses and operating losses and/or higher operating incomes. However, there can be no guarantee that the IWCO Direct Disposal will result in stronger long-term financial and operational results for our remaining Supply Chain business segment. Any downturn in our Supply Chain business could have a material adverse effect on our future operating results and financial condition and could materially and adversely affect the trading price of our outstanding securities.

RISKS RELATED TO OUR BUSINESS, OPERATIONS AND INDUSTRY

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

We depend on a small number of clients for a substantial portion of our business. For more information see Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations - Overview - Customers" of this quarterly report on Form 10-Q. Additionally, in general, the Company does not have any agreements which obligate any client to buy a material amount of services from it or designate it as an exclusive service provider. Consequently, the Company's net revenue is subject to demand variability by our clients. The level and timing of orders placed by the Company's clients vary for a variety of reasons, including seasonal buying by end-users, the introduction of new technologies and general economic conditions. Changes in relationships with significant clients may require us to evaluate our 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 clients could have a materially adverse impact on our businesses, financial condition or results from operations. For more information, see Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies" of this quarterly report on Form 10-Q.

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

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

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

For the fiscal years ended July 31, 2021 and 2020, we reported total net revenue of \$613.8 million and \$782.8 million, respectively, costs of revenue of \$484.2 million and \$619.9 million, respectively, and operating loss of \$12.8 million and operating income of \$32.4 million, respectively. On a pro forma basis giving effect to the IWCO Direct Disposal, such operating results were as follows: (i) for the six months ended January 31, 2021, our historical total net revenue, cost of revenue and operating loss were \$246.1 million, \$217.2 million and \$25.1 million, respectively, and our pro forma total net revenue, cost of revenue and operating income were \$98.7 million, \$78.4 million and \$0.6 million, respectively; and (ii) for the year ended July 31, 2021, our historical total net revenue, cost of revenue and operating loss were \$613.8 million, \$484.2 million and \$12.8 million, respectively, and our pro forma total net revenue, cost of revenue and operating loss were \$226.3 million, \$178.6 million and \$1.6 million, respectively.

Although we have reduced our cost of revenue as a percentage of revenue (a key focus of our restructuring activities was to reduce operating costs), and reduced our pro forma cost of revenue as a percentage of revenue for the three months ended October 31, 2021, we anticipate that we will continue to incur significant fixed operating expenses in the future within both cost of revenue and selling, general and administrative expenses. Therefore, since our revenue is subject to fluctuations, there can be no assurance that we will achieve or sustain operating income in the future. We may also use significant amounts of cash in an effort to increase the efficiency and profitability of our business. If we are unable to achieve or sustain operating profitability, we risk depleting our working capital balances, and our business could be materially adversely affected.

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

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

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

In March 2020, the World Health Organization categorized COVID-19 as a pandemic. The spread of the outbreak has caused significant disruptions in the U.S. and global economies, and the impact may continue to be significant during the rest of the calendar year and potentially beyond. 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. For the fiscal year 2020 and 2021, COVID-19 required temporary closures of certain of ModusLink's facilities and recently, an outbreak in Mainland China forced temporary lockdown orders from March 14, 2022 to March 20, 2022 in several cities in which ModusLink operates. Beginning in the second quarter of 2020, with the shutdown of the U.S. economy due to the COVID-19 pandemic, IWCO Direct's business was also significantly and adversely affected by a material reduction in customer mailing activities. Although IWCO Direct operated as an essential business, it had reduced operating levels and labor shifts due to lower sales volume. Against the background of the reduction in IWCO's business, we held extensive discussions with Cerberus about amending and extending IWCO Direct's credit facility with Cerberus under which there was approximately \$361.0 million outstanding as of January 31, 2022 that was to mature

in December 2022. These discussions ultimately resulted in the IWCO Direct Disposal. For more information, see Part I, Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operation—Recent Developments—Disposition of IWCO Direct”.

The Company’s results of operations, including sales volume, were adversely affected by COVID-19 during the years ended July 31, 2021 and 2020. The COVID-19 pandemic or other epidemics or outbreaks of infectious diseases could materially adversely impact the Company’s results of operations, financial condition and liquidity in several ways. In particular, the continued spread of COVID-19 and efforts to contain the virus could:

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

As the situation surrounding COVID-19 remains fluid, it is difficult to predict the duration of the pandemic and the impact on the Company’s business, operations, financial condition and cash flows. The severity of the impact on the Company’s business in fiscal 2022 will depend on a number of factors, including, but not limited to, the duration and severity of the pandemic (including the advent of variants and the impact of vaccination on infection and hospitalization rates), the extent and severity of the impact on the Company’s customers and suppliers, the continued disruption to the manufacturing of and demand for our businesses’ products and services, the effect of federal, state or local regulations regarding safety measures to address the spread of COVID-19, and the impact of the global business and economic environment on liquidity and the availability of capital, all of which are uncertain and cannot be predicted. Due to the evolving and uncertain nature of this event, the Company cannot predict at this time the full extent to which the COVID-19 pandemic will adversely impact the Company’s business, results and financial condition, which will depend on many factors that are not known at this time. The Company is staying in close communication with its employees, customers and suppliers, and acting to mitigate the impact of this dynamic and evolving situation, but there is no guarantee the Company will be able to do so.

Our business sectors are subject to intense competition.

The markets for our services are highly competitive and often lack significant barriers to entry enabling new businesses to enter these markets relatively easily. Numerous well-established companies and smaller entrepreneurial companies are focusing significant resources on developing and marketing products and services that will compete with our offerings. The market for supply chain management products and services, as well as marketing solutions, is very competitive, and the intensity of the competition is expected to continue to increase. For more information, see Part I, Item 1, “Business—Competition” of our 2021 Annual Report. Any failure to maintain and enhance our competitive position would limit our ability to maintain and increase market share, which could result in serious harm to our business. Increased competition may also result in price reductions, reduced gross margins and loss of market share. In addition, many of our current and potential competitors will continue to have greater financial, technical, operational and marketing resources. We may not be able to compete successfully against these competitors. Competitive pressures may also force prices for our products and services down, and these price reductions may reduce our revenue. The competition we face may also increase as a result of consolidation within the supply chain management and logistics, and marketing solutions industries. For example, if as a result of consolidation, our competitors are able to obtain more favorable terms from their suppliers, offer more comprehensive services to their customers, or otherwise take actions that increase their competitive strengths, our competitive position and therefore our business, results of operations and financial condition may be materially adversely affected.

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

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

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

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

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

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

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

A large portion of the revenue of our Supply Chain business (currently our only business) comes from clients in the technology and consumer products sectors, which is intensely competitive and subject to rapid changes. A reduction or interruption in supply, including disruptions on our global supply chain as a result of the COVID-19 pandemic, a significant natural disaster (including as a result of climate change) or escalating tensions arising from Russia's recent invasion of Ukraine, or from supply chain issues, a failure to appropriately cancel, reschedule, or adjust our requirements based on our business needs, or a decrease in demand for our services could materially adversely affect our business, operating results, and financial condition and could materially damage customer relationships. There is currently a market shortage of semiconductor and other electrical

component supplies, which has affected, and could further affect, our Supply Chain clients in the computing and consumer electrical markets and, consequently, their demand for our offerings. We experienced supply chain challenges during the first half of fiscal 2022 and these may continue throughout the second half of fiscal 2022 or later. During periods of component shortages for our clients, we may also encounter reduced client demand, and accordingly, our revenue and profitability could suffer until other component sources can be developed.

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

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

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

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

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

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

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

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

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

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

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

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

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

Part of our business strategy is to acquire businesses that we believe can complement our current business activities, both financially and strategically. Acquisitions involve many complexities and inherent risk, including, but not limited to: failure to achieve all or any projected synergies or other intended benefits of the acquisition; failure to integrate the purchased operations, technologies, products or services; substantial unanticipated integration costs; loss of key employees, including those of the acquired business; additional debt and/or assumption of unknown liabilities; loss of customers; and the impact on our internal controls and compliance with the regulatory requirements under the Sarbanes-Oxley Act of 2002. As a result, there is no guarantee that our acquisitions will increase the profitability and cash flow of the Company, and our efforts could cause unforeseen complexities and additional cash outflows, including financial losses.

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

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

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

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

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

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

Our business in Mainland China faces specific risks.

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

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

Moreover, our ability to operate in Mainland China may be adversely affected by changes in U.S. and Chinese laws and regulations, such as those related to, among other things, international trade, taxation, intellectual property, currency controls, network security, employee benefits and other matters. For example, the U.S. administration has advocated greater restrictions on trade generally and significant increases on tariffs on certain goods imported into the United States, particularly from Mainland China and has taken steps toward restricting trade in certain goods. China and other countries have retaliated in response to new trade policies, treaties and tariffs implemented by the United States. China has imposed significant tariffs on U.S. imports since 2018. Such trade escalations have had, and may continue to have, an adverse effect on manufacturing and trade levels and specifically, may cause an increase in the cost of goods exported from Asia Pacific and the risks associated with exporting goods from the region. If any of these events occur, our business, financial condition and results of operations could be materially and adversely affected.

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

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

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

We rely on information and operational technology systems in the conduct of our business to process, transmit and store electronic information, and to manage or support a variety of critical business processes and activities. In some cases, we may rely

upon third-party providers of hosting, support and other services to meet our information technology requirements. We also collect and store sensitive data, including confidential business information and personal data. Upgrading our information technology systems is costly and subject to delay, and there is no assurance new systems will provide the benefits expected. We may also experience operational problems attributable to the installation, implementation, integration, performance, features or functionality of third-party software, systems and services.

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

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

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

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

The various United States federal government orders and regulations directing employers to require their employees to be vaccinated could lead to labor disruptions, which could have a material adverse effect on our business and results of operations.

On September 9, 2021, U.S. President Joseph R. Biden announced plans for the federal Occupational Safety and Health Administration (“OSHA”) to issue an Emergency Temporary Standard (“ETS”) mandating that all employers with more than 100 employees ensure their workers are either fully vaccinated against COVID-19 or produce, on a weekly basis, a negative COVID test (the “vaccine mandate”). On November 4, 2021, OSHA issued the ETS, which will require covered employers to comply with the vaccine mandate beginning January 4, 2022 or face substantial penalties for non-compliance. Currently, the implementation of the vaccine mandate has been blocked by a federal appeals court, subject to the resolution of ongoing litigation challenging the

constitutionality of the rules. In addition to the vaccine mandate, it is possible that additional mandates may be announced by foreign or local jurisdictions that could impact our workforce and operations. As a company with more than 100 employees, unless these new regulations are overturned, we would thus be required to comply with the vaccine mandate.

Although we cannot predict with certainty the impact that the potential vaccine mandate and any other related measures may have on our workforce and operations, these mandates may result in increased operating costs, labor disruptions or employee attrition, which could be material. If we lose employees, it may be difficult in the current competitive labor market to find replacement employees, and this could have an adverse effect on future revenues and costs, which could be material. In addition, additional uncertainty could be caused by competing and potentially conflicting laws and regulations, such as the recent executive order issued by the Governor of Texas prohibiting vaccine mandates. Furthermore, these measures may further disrupt the national supply chain, all of which could have a material adverse effect on our business, financial condition and results of operations.

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

We are currently a party to various legal and other proceedings. See Part II, Item 1, "Legal Proceedings" of this quarterly report on Form 10-Q. Trends in litigation may include class actions involving consumers, shareholders or employees, and claims relating to commercial, labor, employment, antitrust, securities or environmental matters. Litigation trends and the outcome of litigation cannot be predicted with certainty and adverse litigation trends and outcomes could result in material damages and/or other expenses, which could adversely affect our financial condition and results of operations. We can provide no assurances as to the outcome of any litigation

RISKS RELATED TO TAXATION

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

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

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

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

Our ability to use our Current NOLs in future years will depend upon the amount of our federal and state taxable income. If we do not have sufficient federal and state taxable income in future years to use the Current NOLs before they expire, we will lose the benefit of the Current NOLs permanently. In addition to the generation of future federal and state taxable income, our ability to use our Current NOLs will depend significantly on our success in identifying suitable acquisition or investment candidates, and once identified, successfully consummating an acquisition of, or investment in these candidates. We have adopted an amendment to our Restated Certificate of Incorporation (the "Protective Amendment") and a tax benefit preservation plan ("Tax Plan"), each designed to preserve our ability to utilize our NOLs, by preventing an "ownership change" within the meaning of Section 382 that would impair our ability to utilize our NOLs. For more information, see Part II, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations—Tax Benefits Preservation Plan" of the 2021 Annual Report.

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

The amount of NOLs that we have claimed has not been audited or otherwise validated by the U.S. Internal Revenue Service ("IRS"). The IRS could challenge our calculation of the amount of our NOLs or our determinations as to when a prior change in ownership occurred, and other provisions of the Internal Revenue Code may limit our ability to carry forward our NOLs to offset taxable income in future years. If the IRS was successful with respect to any such challenge, the potential tax benefit of the NOLs to us could be substantially reduced. In addition, determining whether an ownership change has occurred is subject to uncertainty, both because of the complexity and ambiguity of the Section 382 provisions and because of limitations on the knowledge that any publicly traded company can have about the ownership of, and transactions in, its securities on a timely basis. Therefore, we cannot assure you that the IRS or other taxing authority will not claim that we experienced an ownership change and attempt to reduce the benefit of the NOLs even if the Protective Amendment and Tax Plan are in place. Any of the above risks to our ability to use our NOLs could significantly impair our financial condition and materially adversely affect the value of your investment.

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

The Protective Amendment and Tax Plan are intended to deter persons or groups of persons from acquiring beneficial ownership of our Common Stock in excess of the specified limitations, as a way of preventing an "ownership change" and protecting our ability to use our NOLs. For more information, see Part II, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations—Tax Benefits Preservation Plan" of the 2021 Annual Report. Nonetheless, the Protective Amendment and Tax Plan may have an "anti-takeover effect" because they may deter a person or group of persons from acquiring beneficial ownership of 4.99 percent or more of our outstanding common stock or, in the case of a person or group of persons that already own 4.99 percent or more of our outstanding common stock, from acquiring any additional common stock. The Protective Amendment and Tax Plan could discourage or prevent a merger, tender offer, proxy contest or accumulations of substantial blocks of shares of common stock.

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

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

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

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

We may be subject to state sales taxes that we have not paid, or collected from our customers or reserved for on our financial statements, which could materially and adversely affect our business, financial condition and operating results.

On June 21, 2018, the United States Supreme Court rendered a decision in *South Dakota v. Wayfair, Inc.* holding that a state may require a remote seller with no physical presence in the state to collect and remit sales tax on goods and services provided to purchasers in the state, overturning certain existing court precedent. We are evaluating our state tax filings with respect to the *Wayfair* decision and prior regulations, and are in the process of reviewing our collection practices. It is possible that one or more jurisdictions may assert that we have liability for periods for which we have not collected sales, use or other similar taxes and, if such an assertion or assertions were successful, it could materially and adversely affect our business, financial condition and operating results. One or more jurisdictions may change their laws or policies to apply their sales, use or other similar taxes to our operations and if such changes were made, it could materially and adversely affect our business, financial condition and operating results.

Changes in tax rates, laws or regulations, including U.S. government tax reform, could have a negative impact on the results of future operations.

The Company is subject to taxation in the U.S. and foreign jurisdictions. Changes in various tax laws can and do occur. For example, on December 22, 2017, the U.S. Tax Cuts and Jobs Act (the "Act") was enacted. The Act made substantial changes to the IRC, some of which could have an adverse effect on our business. Among other things, the Act (i) reduces the U.S. corporate income tax rate from 35% to 21% beginning in 2018, (ii) limits annual deductions for interest net expense to no more than 30% of our "adjusted taxable income," plus 100% of our business interest income for the year and (iii) permits a taxpayer to offset only 80% (rather than 100%) of its taxable income with any U.S. NOLs generated for taxable years beginning after 2017. The U.S. Department of the Treasury has broad authority to issue regulations and interpretative guidance that may significantly impact how we will apply the law and impact our results of operations in the period issued. While the U.S. Department of the Treasury has issued some proposed regulations since the enactment of the Act, additional guidance is likely forthcoming.

The current U.S. presidential administration has various proposals that, if enacted, would cause significant changes to existing tax law, in particular, an increase in U.S. federal income taxes on corporations and the tax rate on foreign earnings. Additionally, longstanding international tax norms that determine each country's jurisdiction to tax cross-border international trade are subject to potential evolution. In connection with the Base Erosion and Profit Shifting Integrated Framework provided by Organization for Economic Cooperation and Development ("OECD"), the OECD recently reached an agreement to align countries on a minimum corporate tax rate and expand taxing rights of market countries. As a result of this agreement, the determination of multi-jurisdictional taxation rights and the rate of tax applicable to certain types of income may be subject to potential change. There can be no assurance that future changes to federal and state tax laws in the U.S. and foreign income tax laws will not be proposed or enacted that could materially or adversely impact our business or financial results. If and when any or all of these changes are put into effect, they could result in tax increases where we do business both in and outside of the United States, and could have a material adverse effect on the results of our operations.

RISKS RELATED TO OWNERSHIP OF OUR COMMON STOCK

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

Our common stock is currently listed on the Nasdaq Global Select Market. In order to maintain this listing, we must satisfy minimum financial and other requirements. On April 28, 2020, we received a deficiency letter from the Listing Qualifications Department of The Nasdaq Stock Market LLC ("Nasdaq") notifying the Company that, for the last 30 consecutive business days, the closing bid price of the Company's common stock has not been maintained at the minimum required closing bid price of at least \$1.00 per share as required for continued listing on the Nasdaq Global Select Market pursuant to Listing Rule 5450(a)(1) (the "Minimum Bid Price Rule"). On January 26, 2021, the Company received a letter from Nasdaq notifying it that it had regained full compliance with the Minimum Bid Price Rule, and that the matter was closed. From that date until the date of this quarterly report on Form 10-Q, the closing price per share of the Company's common stock has fluctuated from a low of \$0.92 to a high of \$2.45. The Company's continued compliance with the Minimum Bid Price Rule is dependent on the Company's share price and there can be no assurance that Company will continue to satisfy Nasdaq's minimum financial and other requirements in future periods.

The perception among investors that the Company is at heightened risk of a deficiency under the Minimum Bid Price Rule and of subsequent delisting could negatively affect the market price of our securities and trading volume of the Company's common stock. Additionally, any delisting determination, if made following the notification of a deficiency and expiration of any applicable cure period, could seriously decrease or eliminate the value of an investment in the Company's common stock. While an alternative listing on an over-the-counter exchange could maintain some degree of a market in the Company's common stock,

we could face substantial material adverse consequences, including, but not limited to: limited availability for market quotations for the Company's common stock; reduced liquidity with respect to the Company's common stock; a determination that the Company's common stock is a "penny stock" under SEC rules, subjecting brokers trading the Company's common stock to more stringent rules on disclosure and the class of investors to which the broker may sell the common stock; and limited news and analyst coverage.

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

As of January 31, 2022, SPH Group Holdings LLC ("SPHG Holdings") and its affiliates, including Steel Holdings, Handy & Harman Ltd. and Steel Partners, Ltd., owned approximately 30.2% of our outstanding common stock, and a Section 13(d) group made of SPHG Holdings and certain of its affiliates collectively owned 34.8% of our outstanding common stock. Assuming conversion of the Series C Preferred Stock, which vote on an as-converted basis together with our common stock, and 7.50% Convertible Note, which do not vote on an as-converted basis together with our common stock, as of January 31, 2022, SPHG Holdings and its affiliates, including Steel Holdings, Handy & Harman Ltd. and Steel Partners, Ltd. owned approximately 50.0%, and, when combined with its above-named affiliates, approximately 53.4%, of the outstanding shares of common stock, representing, with respect to the latter group, 49.6% of the voting power.

As a result of this board representation and ownership of our capital stock, SPHG Holdings and its affiliates are able to influence our management and affairs and many matters requiring stockholder approval, including the election of directors, the passage of a tax benefits preservation plan and certain amendments to our organizational documents. In addition, because a business combination, such as a merger or consolidation, requires the affirmative vote of 75% of our outstanding voting stock, this concentration of ownership may have the effect of delaying or preventing a change in control of our Company and might adversely affect the market price of our common stock. SPHG Holdings and its affiliates may also have interests that are different from other shareholders and may vote in a way that may be adverse to our other stockholders' interests, conflicts of interest, or the appearance of conflicts of interest, could arise between our interests and the interests of SPHG Holdings and its affiliates. See Note 16 to the condensed consolidated financial statements of this quarterly report on Form 10-Q and Note 21 to the consolidated financial statements of our 2021 Annual Report for additional information.

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

Some members of our Board also hold positions with Steel Holdings and its affiliates. Specifically, Warren G. Lichtenstein, our Interim Chief Executive Officer and Executive Chairman of the Board, is affiliated with Steel Holdings and is the Executive Chairman of Steel Partners Holdings GP Inc. ("Steel Holdings GP"). Glen Kassan, our Vice Chairman of the Board and former Chief Administrative Officer, is an employee of Steel Services. Jack L. Howard, a director, is the President and a director of Steel Holdings GP. See our 2021 Annual Report for full biographical information for Messrs. Lichtenstein, Kassan and Howard.

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

There can be no assurance that the proposed 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, and we continue to negotiate the non-binding expression of interest with Steel Holdings. No decision has yet been made with respect to Steel Connect's response to the expression of interest or any alternatives thereto and we and Steel Holdings have not yet reached a definitive offer to purchase. Any definitive agreement with respect to such transaction is subject to approval by the board of directors of Steel Holdings, the Board and shareholders. 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. We also cannot reasonably predict the impact that the IWCO Disposition will have on the market's long-term perception of our value or on our overall valuation, and, in turn, the impact that it may have on a possible acquisitive transaction, if any, with Steel Holdings. In addition, we expect to incur a number of non-recurring, transaction-related costs associated with negotiating the proposed transaction.

Our Board may choose to effect a reverse split of the issued and outstanding shares of our common stock at the ratio of one-for-ten, the effects of which we cannot predict with certainty and which may be materially adverse to the value of your investment in our common stock.

At our Annual Meeting of stockholders held on July 26, 2021, our stockholders approved a reverse split of the issued and outstanding shares of our common stock at the ratio of one-for-ten (the "Reverse Stock Split"). Our board is authorized to determine when to file the necessary amendment to our Restated Certificate of Incorporation for the Reverse Stock Split with the Delaware Secretary of State at any time on or before the 12-month anniversary of stockholder approval thereof. The board may, at its discretion, cause the filing of the amendment to effect the Reverse Stock Split or abandon the amendment and not effect the Reverse Stock Split if it determines that any such action is or is not in the best interests of the Company and its stockholders. The board's decision as to whether and when to effect the Reverse Stock Split will be based on a number of factors, including market conditions, existing and expected trading prices for our common stock, and the Nasdaq Rules. Upon consummation of the Reverse Stock Split, every ten shares of common stock held by a stockholder at that time will be combined into one share of common stock. The Reverse Stock Split will affect all of our stockholders uniformly and will not affect any stockholder's percentage ownership interests in the Company or proportionate voting power, except for minor adjustments due to the treatment of fractional shares. No fractional shares will be issued in connection with the Reverse Stock Split.

If the Reverse Stock Split is implemented, our board expects that it will increase the market price of our common stock so that we are able to maintain compliance with the Minimum Bid Price Rule. However, the effect of the Reverse Stock Split upon the market price of our common stock cannot be predicted with any certainty, and the history of similar stock splits for companies in like circumstances is varied. It is possible that (i) the per share price of our common stock after the Reverse Stock Split will not rise in proportion to the reduction in the number of shares of our common stock outstanding resulting from the Reverse Stock Split, (ii) the market price per post-Reverse Stock Split share may ultimately not exceed or remain in excess of the \$1.00 minimum bid price for a sustained period of time, or (iii) the Reverse Stock Split may not result in a per share price that would attract brokers and investors who do not trade in lower priced stocks. In addition, if the Reverse Stock Split is implemented and the market price of our common stock declines, the percentage decline may be greater than would occur in the absence of a reverse stock split. Furthermore, although our board believes that the decrease in the number of shares of our common stock outstanding as a consequence of the Reverse Stock Split and the anticipated increase in the market price of our common stock could encourage interest in our common stock and possibly promote greater liquidity for our stockholders, such liquidity could also be adversely affected by the reduced number of shares outstanding after the Reverse Stock Split. The liquidity of our common stock may be harmed by the proposed Reverse Stock Split given the reduced number of shares of common stock that would be outstanding after the Reverse Stock Split, particularly if the stock price does not increase as a result of the Reverse Stock Split.

Additionally, at our annual meeting of stockholders held on July 26, 2021, our stockholders approved the amendment to our Restated Certificate of Incorporation to reduce the number of shares of authorized common stock (the "Authorized Shares Reduction"), from 1,400,000,000 to 140,000,000. While our board currently intends to implement the Authorized Shares Reduction to the extent that it implements the Reverse Stock Split, our board reserves its right to elect not to proceed with the Authorized Shares Reduction if it determines, in its sole discretion, following stockholder approval, that this proposal is no longer in the best interests of the Company or its stockholders. Under these circumstances, the Reverse Stock Split could have an anti-takeover effect. A relative increase in the number of our authorized shares of common stock could enable the board to render more difficult or discourage an attempt by a party attempting to obtain control of the Company by tender offer or other means. The issuance of common stock in a public or private sale, merger or similar transaction would increase the number of outstanding shares of common stock entitled to vote, increase the number of votes required to approve a change of control of the Company,

and dilute the interest of a party attempting to obtain control of the Company. Any such issuance could deprive stockholders of benefits that could result from an attempt to obtain control of the Company, such as the realization of a premium over the market price that the attempt could cause. Moreover, the issuance of common stock to persons friendly to the board could make it more difficult to remove incumbent officers and directors from office even if the change were favorable to stockholders generally. However, this anti-takeover effect is not the purpose or intent of our board. Even if we were not to implement the Authorized Shares Reduction, we have no present intent to use the relative increase in the number of authorized but unissued shares of our common stock for anti-takeover purposes. We are not aware of any pending or threatened efforts to obtain control of the Company, and the board has no present intent to authorize the issuance of additional shares of common stock to discourage these efforts if they were to arise.

RISKS RELATED TO OUR INDEBTEDNESS

As of January 31, 2022, the carrying value of the debt outstanding was approximately \$371.1 million, which was comprised of \$361.0 million outstanding on the Cerberus Term Loan and \$10.1 million outstanding on a 7.50% Senior Convertible Notes due March 1, 2024. The Cerberus Term Loan balance was extinguished upon the IWCO Direct Disposal. We had no balances outstanding under our MidCap Credit Agreement as of January 31, 2022, and as of the date of this Quarterly Report on Form 10-Q, we have no balances outstanding under our Umpqua Revolver.

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

Although, following the IWCO Direct Disposal, our only outstanding debt is under our 7.50% Senior Convertible Notes (we had no debt outstanding under our MidCap Credit Agreement when we terminated it and we currently have no debt outstanding under our Umpqua Revolver), indebtedness we incur in the future could have important consequences for us and our stockholders. For more information, see Part II, Item 5, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Debt and Financing Arrangements" of this Quarterly Report on Form 10-Q.

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

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

Such future debt agreements could also contain affirmative and negative covenants, including with regard to specified financial covenants, which limit and restrict our operations and may hamper our ability to engage in activities that may be in our long-term best interests. Events beyond our control could affect our ability to meet these and other covenants under the debt agreements. Our failure to comply with those covenants and other obligations under the debt agreements may result in an event of default thereunder. A default, if not cured or waived, may permit acceleration of future indebtedness. This could have serious consequences to our financial condition, operating results and business, and could cause us to become insolvent or enter into bankruptcy proceedings, and shareholders may lose all or a portion of their investment because of the priority of the claims of the creditors on the assets.

Changes in reference interest rates could adversely affect our results from operations and financial condition.

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

In addition to this, LIBOR, the London Interbank Offered Rate, is the basic rate of interest used in lending between banks on the London interbank market and is widely used as a reference for setting the interest rate on loans globally. The Company typically uses LIBOR as a reference rate in the Company's credit facilities such that the interest due to our lenders is calculated using LIBOR. In 2017, the United Kingdom's Financial Conduct Authority ("FCA"), which regulates LIBOR, announced that it intends to phase out LIBOR by the end of 2021. It is unclear if at that time whether or not LIBOR will cease to exist, if new methods of calculating LIBOR will be established such that it continues to exist after 2021 or if replacement conventions will be

developed. In March 2021, the FCA confirmed that all of the LIBOR settings for Euro and Swiss Franc and some of the LIBOR settings for Japanese Yen, Sterling and US dollars will cease in December 2021 and the remainder of the LIBOR settings for US dollars will cease in June 2023. To identify a successor rate for LIBOR, financial regulators in various countries, including the United States, the United Kingdom, the European Union and Switzerland, have formed working groups with the aim of recommending alternatives to LIBOR denominated in their local currencies. Some of the financial regulators have identified the Secured Overnight Financing Rate (“SOFR”) as their preferred alternative rate for LIBOR.

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

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

GENERAL RISK FACTORS

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

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

- the jurisdictions in which profits are determined to be earned and taxed;
- the resolution of issues arising from tax audits with various tax authorities;
- changes in the valuation of our deferred tax assets and liabilities;
- adjustments to estimated taxes upon finalization of various tax returns;
- increases in expenses not deductible for tax purposes, including write-offs of acquired in-process research and development, impact of costs associated with business combinations and impairments of goodwill in connection with acquisitions;
- changes in available tax credits;
- changes in share-based compensation;
- changes in tax laws or the interpretation of such tax laws and changes in generally accepted accounting principles;
- the repatriation of non-U.S. earnings for which we have not previously provided for U.S. taxes; and
- increases in tax rates in various jurisdictions.

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

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

Item 1.01 Entry into a Material Definitive Agreement; Item 1.02 Termination of a Material Definitive Agreement.

On March 16, 2022, ModusLink, as borrower, and certain of its subsidiaries as guarantors (the "Umpqua Guarantors"), entered into a revolving credit agreement (the "Umpqua Credit Agreement"), with Umpqua Bank, as lender ("Umpqua"). The Umpqua Credit Agreement, which expires on March 16, 2024, provides for a maximum credit commitment of \$12.5 million and a sublimit of \$5.0 million for letters of credit. Amounts borrowed under the Umpqua Credit Agreement are due and payable, together with all unpaid interest, fees and other obligations, on March 16, 2024.

Generally, borrowings under the Umpqua Credit Agreement bear interest at a rate per annum equal to the Prime Rate (as defined in the Umpqua Credit Agreement) or at SOFR plus 2.50%, as selected by ModusLink at the time of borrowing. In addition to paying interest on outstanding principal under the Umpqua Credit Agreement, ModusLink is required to pay an unused line fee of 0.10% per annum. ModusLink is also required to pay a customary letter of credit fee for each commercial letter of credit equal to the greatest of (A) \$120 and (B) the 1.00% times the daily maximum amount available to be drawn under such letter of credit, and a letter of credit fee for each standby letter of credit equal to the greater of (A) \$250 and (B) 1.00% times the daily maximum amount available to be drawn under such letter of credit during the succeeding three months.

Obligations under the Umpqua Credit Agreement are guaranteed by the Umpqua Guarantors, and the Umpqua Credit Agreement is secured by security interests in substantially all of the assets of ModusLink and the Umpqua Guarantors, including a pledge of all of the equity interests of each subsidiary of ModusLink. Steel Connect, Inc. is not a borrower or a guarantor under the Umpqua Credit Agreement.

The Umpqua Credit Agreement includes certain representations and warranties of ModusLink, as well as events of default and certain affirmative and negative covenants that are customary for credit agreements of this type. These covenants include restrictions on borrowings, investments and dispositions by ModusLink, as well as limitations on ModusLink's ability to make certain distributions and to enter into transactions with affiliates. The Umpqua Credit Agreement requires compliance with certain financial covenants providing for the maintenance of a minimum fixed charge coverage ratio, a minimum adjusted tangible net worth and a maximum cash flow leverage ratio, all as more fully described in the Umpqua Credit Agreement.

The foregoing description of the Umpqua Revolver does not purport to be complete and is qualified in its entirety by reference to the full text of the Umpqua Revolver, a copy of which is filed as Exhibit 10.2 to this Quarterly Report on Form 10-Q.

Concurrent with signing the Umpqua Credit Agreement, ModusLink submitted a notice of termination to MidCap for its MidCap Credit Agreement, which was set to expire on December 31, 2022.

For more information, see Part II, Item 5, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Debt and Financing Arrangements" of this Quarterly Report on Form 10-Q and "Part II, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Debt and Financing Arrangements—MidCap Credit Facility."

Item 6. Exhibits.

Exhibit Number	Description
10.1	Transaction Agreement, dated February 25, 2022, between IWCO Direct Holdings, Inc., Cerberus Business Finance, LLC, the lenders and participating lender purchasers party thereto, Steel Connect, Inc., SPH Group Holdings LLC and Instant Web Holdings, LLC (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed February 25, 2022).
10.2*#	Credit Agreement dated as of March 16, 2022 between ModusLink Corporation, as borrower, and Umpqua Bank, as Lender
31.1*	Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1±	Certification of the Principal Executive Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2±	Certification of the Principal Financial Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101*	The following financial information from Steel Connect, Inc.'s Quarterly Report Form 10-Q for the quarter ended January 31, 2022 formatted in Inline XBRL: (i) Unaudited Condensed Consolidated Balance Sheets as of January 31, 2022 and July 31, 2021, (ii) Unaudited Condensed Consolidated Statements of Operations for the three and six months ended January 31, 2022 and 2021 (iii) Unaudited Condensed Consolidated Statements of Comprehensive Loss for the three and six months ended January 31, 2022 and 2021, (iv) Unaudited Condensed Consolidated Statements of Stockholders' (Deficit) Equity for the three and six months ended January 31, 2022 and 2021, (v) Unaudited Condensed Consolidated Statements of Cash Flows for the three and six months ended January 31, 2022 and 2021 and (vi) Notes to Unaudited Condensed Consolidated Financial Statements.
104*	Cover Page Interactive Data File (embedded within the Inline XBRL document)

* Filed herewith.

± Furnished herewith.

Schedules and exhibits have been omitted pursuant to Item 601 (a)(5) of Regulation S-K.

SIGNATURES

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

STEEL CONNECT, INC.

Date: March 17, 2022

By: _____ /S/ JASON WONG
Jason Wong
Chief Financial Officer
(Principal Financial Officer and Authorized Signatory)

CREDIT AGREEMENT

Dated as of March 16, 2022

between

MODUSLINK CORPORATION,

as Borrower,

and

UMPQUA BANK,

as Lender

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CREDIT AGREEMENT

This CREDIT AGREEMENT (this "Agreement") is entered into as of March 16, 2022, between MODUSLINK CORPORATION, a Delaware corporation ("Borrower") and UMPQUA BANK, an Oregon state-chartered bank (together with its successors and assigns, "Lender").

PRELIMINARY STATEMENTS:

Borrower has requested that Lender provide credit to Borrower, and Lender has agreed to do so on the terms and subject to the conditions set forth herein.

In consideration of the mutual covenants and agreements herein contained, the parties hereto covenant and agree as follows:

ARTICLE I. DEFINITIONS AND ACCOUNTING TERMS

1.01 Defined Terms. As used in this Agreement, the following terms shall have the meanings set forth below:

"Account" means, individually and collectively as the context so requires, any and all accounts, chattel paper and general intangibles owed or owing to Borrower by Debtors, whether now owned or hereafter acquired by Borrower, or in which Borrower may now have or hereafter acquire any interest.

"Additional Guarantor Security Agreement" shall have the meaning given such term in Section 6.13.

"Additional Subsidiary Guaranty" shall have the meaning given such term in Section 6.13.

"Adjusted EBITDA" means, for any period, the sum of net income (loss) from continuing operations plus (or, if a gain, minus) provision for federal, state and local income taxes, plus Interest Expense (net of any interest income), plus depreciation expense and amortization expense, plus (or, if a gain, minus), the following non-recurring and/or non-cash charges: (i) stock-based compensation, (ii) severance, restructuring, and SAP to Azure project costs, (iii) asset impairment, (iv) the effect of any changes in GAAP, (v) cyber attacks, (vi) the effect of foreign currency adjustments or foreign currency exchange transactions, (vii) Private Copying Levy charges, (viii) other non-cash charges, and (ix) other non-recurring charges approved by Lender in its reasonable discretion, in each case for such period, computed and calculated on a consolidated basis for Borrower and its Subsidiaries in accordance with GAAP.

"Adjusted Tangible Net Worth" means, as determined at any time in accordance with GAAP, on a consolidated basis for Borrower and its Subsidiaries, the amount equal to the difference between: (a) the aggregate net book value of all assets of Borrower and its Subsidiaries (excluding the value of patents, trademarks, tradenames, copyrights, licenses, goodwill, and other intangible assets, including, without limitation, related party account and note receivables, investments in and advances to Affiliates, Subsidiaries, officers and employees), and (b) the aggregate amount of the Indebtedness and other liabilities of Borrower and its Subsidiaries (including tax and other proper accruals, but excluding accrued pricing liabilities).

"Affiliate" means, with respect to any Person, another Person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the Person specified.

"Agreement" means this Credit Agreement.

"Applicable Rate" means, for any day, (a) two and one half percent (2.50%) per annum for SOFR Loans, (b) zero percent (0.00%) per annum for Prime Rate Loans, and (c) one percent (1.0%) per annum for Letters of Credit.

"Availability Period" means the period from and including the Closing Date to the earliest of (a) the Maturity Date, (b) the date of termination of the Revolving Commitment pursuant to Section 2.05, and (c) the date of termination of the Revolving Commitment of Lender pursuant to Section 8.02.

"Borrower" has the meaning specified in the introductory paragraph hereto.

"Borrower Change of Control" means an event or series of events by which Parent ceases to own and control all of the shares of Borrower.

"Borrowing" means the concurrent borrowing of Loans of the same Type and, in the case of SOFR Loans, the same Interest Period.

"Business Day" means any day other than a Saturday, Sunday or other day on which commercial banks are authorized to close under the laws of California, or are in fact closed in, the state where the Lending Office is located.

"Capital Expenditures" shall mean, for any period, the aggregate of all expenditures by Borrower and its Subsidiaries for the acquisition or leasing of fixed or capital assets or additions to equipment (including replacements, capitalized repairs and improvements during such period) which should be capitalized under GAAP on a consolidated balance sheet of Borrower and its Subsidiaries, less net proceeds from sales of fixed or capital assets received by Borrower or any of its Subsidiaries during such period. For the purpose of this definition, the purchase price of equipment which is purchased simultaneously with the trade-in of existing equipment owned by Borrower or any of its Subsidiaries or with insurance proceeds shall be included in Capital Expenditures only to the extent of the gross amount of such purchase price less the credit granted by the seller of such equipment for such equipment being traded in at such time, or the amount of such proceeds, as the case may be.

"Cash Collateralize" means, to pledge and deposit with or deliver to Lender, as collateral for L/C Obligations or the Obligations, cash or deposit account balances in blocked, non-interest bearing deposit accounts maintained with Lender pursuant to documentation in form and substance satisfactory to Lender. Borrower hereby grants to Lender a security interest in all such cash, deposit accounts and all balances therein and all proceeds of the foregoing. "Cash Collateral" shall have a meaning correlative to the foregoing and shall include the proceeds of such cash collateral and other credit support.

"Cash Flow Leverage Ratio" means, for any twelve month period, for Borrower and its Subsidiaries on a consolidated basis, the ratio of Senior Debt (including Revolving Loans outstanding) to Adjusted EBITDA.

"Cash Management Agreement" means any agreement that is not prohibited by the terms hereof to provide treasury or cash management services, including deposit accounts, overnight draft, credit cards, debit cards, p-cards (including purchasing cards and commercial cards), funds transfer, automated clearinghouse, zero balance accounts, returned check concentration, controlled disbursement, lockbox, account reconciliation and reporting and trade finance services and other cash management services.

"Change in Law" means the occurrence, after the date of this Agreement, of any of the following: (a) the adoption or taking effect of any law, rule, regulation or treaty, (b) any change in any law, rule, regulation or treaty or in the administration, interpretation, implementation or application thereof by any Governmental Authority or (c) the making or issuance of any request, rule, guideline or directive (whether or not having the force of law) by any Governmental Authority; provided that notwithstanding anything herein to the contrary, (x) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, guidelines or directives thereunder or issued in connection therewith and (y) all requests, rules, guidelines or directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States or foreign regulatory authorities, in each case pursuant to Basel III, shall in each case be deemed to be a "Change in Law", regardless of the date enacted, adopted or issued.

"Closing Date" means the first date all the conditions precedent in Section 4.01 are satisfied or waived in accordance with Section 9.01.

"Code" means the Internal Revenue Code of 1986.

"Collateral" means all of the "Collateral" referred to in the Collateral Documents and all of the other property that is or is intended under the terms of the Collateral Documents to be subject to Liens in favor of Lender.

"Collateral Access Agreement" means a landlord waiver, bailee letter or acknowledgement agreement of any lessor, warehouseman, processor, consignee or other Person in possession of, having a Lien upon, or having rights or interests in inventory, other goods or other Collateral, in each case, in form and substance reasonably satisfactory to Lender.

"Collateral Documents" shall mean, collectively and severally, the Security Agreement, the Guaranty, the Collateral Access Agreements, the Additional Subsidiary Guaranties, the Additional Guarantor Security Agreements, and all documents, instruments and agreements delivered from time to time in connection therewith.

"Commitment" means the Revolving Commitment.

"Commodity Exchange Act" means the Commodity Exchange Act (7 U.S.C. § 1 et seq.), as amended from time to time, and any successor statute.

"Compliance Certificate" means a certificate in the form of Exhibit A attached hereto from a Responsible Officer of Borrower certifying, as of the end of a fiscal quarter of Borrower as to the absence of any Default or Event of Default except as disclosed therein and setting for in reasonable detail calculations of the financial covenants contained in Section 7.13 of this Agreement.

"Contractual Obligation" as to any Person shall mean any provision of any security issued by such Person or of any agreement, instrument or undertaking to which such Person is a party or by which it or any of its property is bound.

"Control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise. "Controlling" and "Controlled" have meanings correlative thereto.

"Credit Extension" means each of the following: (a) a Borrowing of Revolving Loans, and (b) an L/C Credit Extension.

"Current Portion of Long Term Debt" means, for any period, the scheduled principal and capital lease payments to be paid during the applicable period.

"Debtor Relief Laws" means the Bankruptcy Code of the United States, and all other liquidation, conservatorship, bankruptcy, assignment for the benefit of creditors, moratorium, rearrangement, receivership, insolvency, reorganization, or similar debtor relief laws of the United States or other applicable jurisdictions from time to time in effect and affecting the rights of creditors generally.

"Debtors" means Borrower's customers that are indebted to Borrower.

"Default" means any event or condition that constitutes an Event of Default or that, with the giving of any notice, the passage of time, or both, would be an Event of Default.

"Default Rate" means (a) with respect to any Obligation for which a rate is specified, a rate per annum equal to five percent (5%) in excess of the rate otherwise applicable thereto and (b) with respect to any Obligation for which a rate is not specified or available, a rate per annum equal to the Prime Rate plus the Applicable Rate for Prime Rate Loans plus five percent (5%), in each case, to the fullest extent permitted by applicable law.

"Designated Jurisdiction" means any country or territory to the extent that such country or territory is the subject of any Sanction.

"Disposition" or "Dispose" means the sale, transfer, license, lease or other disposition of any property by any Person (or the granting of any option or other right to do any of the foregoing), including any sale, assignment, transfer or other disposal, with or without recourse, of any notes or accounts receivable or any rights and claims associated therewith.

"Distribution Fixed Charge Coverage Ratio" means, as of the date of calculation, for the twelve (12) full calendar month period immediately prior to such date, as determined on a pro forma, consolidated basis for Borrower and its Subsidiaries in accordance with GAAP, the ratio of (a) Adjusted EBITDA to (b) the sum of cash Interest Expense, cash tax expense, the Current Portion of Long Term Debt as of such date (excluding for purposes hereof Revolving Loans outstanding hereunder), and the amount of the proposed distribution, amortized over a thirty-six (36) month period.

"Dollar" and "\$" mean lawful money of the United States.

"Environmental Claims" shall mean all claims, however asserted, by any Governmental Authority or other Person alleging potential liability or responsibility for violation of any Environmental Law or for release or injury to the environment or threat to public health, personal injury (including sickness, disease or death), property damage, natural resources damage, or otherwise alleging liability or responsibility for damages (punitive or otherwise), cleanup, removal, remedial or response costs, restitution, civil or criminal penalties, injunctive relief, or other type of relief, resulting from or based upon (a) the presence, placement, discharge, emission or release (including intentional and unintentional, negligent and non-negligent, sudden or non-sudden, accidental or non-accidental placement, spills, leaks, discharges, emissions or releases) of any Hazardous Materials at, in, or from property owned, operated or controlled by any Loan Party, or (b) any other circumstances forming the basis of any violation, or alleged violation, of any Environmental Law by any Loan Party.

"Environmental Law" means any and all Federal, state, local, and foreign statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions, grants, franchises, licenses, agreements or governmental restrictions relating to pollution and the protection of the environment or the release of any materials into the environment, including those related to hazardous substances or wastes, air emissions and discharges to waste or public systems.

"Environmental Liability" means any liability, contingent or otherwise (including any liability for damages, costs of environmental remediation, fines, penalties or indemnities), of Borrower, any other Loan Party or any of their respective Subsidiaries directly or indirectly resulting from or based upon (a) violation of any Environmental Law, (b) the generation, use, handling, transportation, storage, treatment or disposal of any Hazardous Materials, (c) exposure to any Hazardous Materials, (d) the release or threatened release of any Hazardous Materials into the environment or (e) any contract, agreement or other consensual arrangement pursuant to which liability is assumed or imposed with respect to any of the foregoing

"Environmental Permit" has the meaning specified in Section 5.16.

"ERISA" means the Employee Retirement Income Security Act of 1974.

"ERISA Affiliate" means any trade or business (whether or not incorporated) under common control with Borrower within the meaning of Section 414(b) or (c) of the Code (and Sections 414(m) and (o) of the Code for purposes of provisions relating to Section 412 of the Code).

"Event of Default" has the meaning specified in Section 8.01.

"Excluded Swap Obligation" means, with respect to any Guarantor, any Swap Obligation if, and to the extent that, all or a portion of the Guaranty of such Guarantor of, or the grant by such Guarantor of a Lien to secure, such Swap Obligation (or any Guarantee thereof) is or becomes illegal under the Commodity Exchange Act or any rule, regulation or order of the Commodity Futures Trading Commission (or the application or official interpretation thereof) by virtue of such Guarantor's failure for any reason to constitute an "eligible contract participant" as defined in the Commodity Exchange Act (determined after giving effect to any "keepwell," support or other agreement for the benefit of such Guarantor and any and all guarantees of such Guarantor's Swap Obligations by other Loan Parties) at the time the Guaranty of such Guarantor, or grant by such Guarantor of a Lien, becomes effective with respect to such Swap Obligation. If a Swap Obligation arises under a Master Agreement governing more than one Financial Contract, such exclusion shall apply only to the portion of such Swap Obligation that is attributable to Financial Contracts for which such Guaranty or Lien is or becomes excluded in accordance with the first sentence of this definition.

"Excluded Taxes" means any of the following Taxes imposed on or with respect to any Recipient or required to be withheld or deducted from a payment to a Recipient, (a) Taxes imposed on or measured

by net income (however denominated), franchise Taxes, and branch profits Taxes, in each case, (i) imposed as a result of such Recipient being organized under the laws of, or having its principal office or, in the case of Lender, its Lending Office located in, the jurisdiction imposing such Tax (or any political subdivision thereof) or (ii) that are Other Connection Taxes, and (b) in the case of Lender, U.S. federal withholding Taxes imposed on amounts payable to a or for the account of Lender with respect to an interest in a Loan or Commitment pursuant to a law in effect on the date on which Lender acquires such interest in the Loan or Commitment or Lender changes its Lending Office, except in each case to the extent that, pursuant to Section 3.01 amounts with respect to such Taxes were payable either to Lender's assignor immediately before Lender became a party hereto or to Lender immediately before it changed its Lending Office.

"Facility" means the Revolving Facility.

"Facility Termination Date" means the date as of which all of the following shall have occurred: (a) the Commitments have terminated, (b) all Obligations have been paid in full (other than contingent indemnification obligations), and (c) all Letters of Credit have terminated or expired (other than Letters of Credit as to which other arrangements with respect thereto satisfactory to Lender shall have been made).

"Financial Contract" means (a) an agreement (including terms and conditions incorporated by reference therein) which is a rate swap agreement, basis swap, forward rate agreement, commodity swap, commodity option, equity or equity index swap, bond option, interest rate option, foreign exchange agreement, rate cap agreement, rate floor agreement, rate collar agreement, currency swap agreement, cross-currency rate swap agreement, currency option, any other similar agreement (including any option to enter into any of the foregoing); (b) any combination of the foregoing; or (c) a master agreement for any of the foregoing together with all supplements, confirmations, documents, agreements and instruments related to the foregoing.

"Fixed Charge Coverage Ratio" means, for any period of four consecutive fiscal quarters, as determined on a consolidated basis for Borrower and its Subsidiaries in accordance with GAAP, the ratio of (a) Adjusted EBITDA to (b) the sum of cash Interest Expense, cash tax expense and the Current Portion of Long Term Debt as of such date (excluding for purposes hereof Revolving Loans outstanding hereunder).

"FRB" means the Board of Governors of the Federal Reserve System of the United States.

"GAAP" means generally accepted accounting principles in the United of America applied on a consistent basis and subject to the terms of Section 1.03(b).

"Governmental Authority" means the government of the United States or any other nation, or of any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government (including any supra-national bodies such as the European Union or the European Central Bank).

"Guarantors" means, collectively, Sol Holdings, SalesLink, Modus Media IDSIL, Modus Media ILL, any Additional Subsidiary Guarantor, and any other Person that may from time to time deliver a Guaranty to Lender hereunder.

"Guaranty" means, collectively, the guaranty or guaranties made by Guarantors in favor of Lender, as of the Closing Date, together with each other guaranty and guaranty supplement delivered thereafter, each of which shall be in form and substance satisfactory to Lender.

"Hazardous Materials" means all explosive or radioactive substances or wastes and all hazardous or toxic substances, wastes or other pollutants, including petroleum or petroleum distillates, asbestos or asbestos-containing materials, polychlorinated biphenyls, radon gas, infectious or medical wastes and all other substances or wastes of any nature regulated pursuant to any Environmental Law.

"Honor Date" has the meaning given such term in Section 2.03(c).

"Indebtedness" of any Person shall mean all items of indebtedness which, in accordance with GAAP and practices, would be included in determining liabilities as shown on the liability side of a statement of condition of such Person as of the date as of which indebtedness is to be determined,

including, without limitation, all obligations for money borrowed and capitalized lease obligations, and shall also include all indebtedness and liabilities of others assumed or guaranteed by such Person or in respect of which such Person is secondarily or contingently liable (other than by endorsement of instruments in the course of collection) whether by reason of any agreement to acquire such indebtedness or to supply or advance sums or otherwise.

"Indemnified Taxes" means Taxes other than (a) Excluded Taxes imposed on or with respect to any payment made by or on account of any obligation of any Loan Party under any Loan Document and (b) to the extent not otherwise described in (a), Other Taxes.

"Indemnitees" has the meaning specified in Section 9.04.

"Index" means SOFR or the Replacement Index, if applicable pursuant to Section 3.03.

"Information" has the meaning specified in Section 9.07.

"Interest Expense" shall mean for any period the sum (without duplication) of the following (in each case, eliminating all offsetting debits and credits between Borrower and its Subsidiaries and all other items required to be eliminated in the course of the preparation of consolidated financial statements of Borrower and its Subsidiaries in accordance with GAAP): (a) all interest in respect of Indebtedness for borrowed money and imputed interest on capitalized lease obligations deducted in determining consolidated net income for such period, and (b) all debt discount and expense amortized or required to be amortized in the determination of consolidated net income for such period.

"Interest Payment Date" means the first (1st) day of each calendar month and the Maturity Date.

"Interest Period" means, as to each SOFR Loan, the period commencing on the date such SOFR Loan is disbursed or converted to or continued as a SOFR Loan and ending on the date one, three or six months thereafter, as selected by the Borrower in its Loan Notice; provided that: (a) any Interest Period that would otherwise end on a day that is not a Business Day shall be extended to the next succeeding Business Day unless such Business Day falls in another calendar month, in which case such Interest Period shall end on the next preceding Business Day; (b) any Interest Period that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Business Day of the calendar month at the end of such Interest Period; and (c) no Interest Period shall extend beyond the Maturity Date of the Facility under which the applicable Loan was made.

"ISP" means, with respect to any Letter of Credit, the "International Standby Practices 1998" published by the Institute of International Banking Law & Practice, Inc. (or such later version thereof as may be in effect at the time of issuance).

"L/C Credit Extension" means, with respect to any Letter of Credit, the issuance thereof or extension of the expiry date thereof, or the increase of the amount thereof.

"L/C Obligations" means, as at any date of determination, the aggregate amount available to be drawn under all outstanding Letters of Credit plus the aggregate of all Unreimbursed Amounts. For purposes of computing the amount available to be drawn under any Letter of Credit, the amount of such Letter of Credit shall be determined in accordance with Section 1.06. For all purposes of this Agreement, if on any date of determination a Letter of Credit has expired by its terms but any amount may still be drawn thereunder by reason of the operation of Rule 3.14 of the ISP, such Letter of Credit shall be deemed to be "outstanding" in the amount so remaining available to be drawn.

"Lender" has the meaning specified in the introductory paragraph.

"Lending Office" means the office or offices of Lender described as its address in this Agreement, or such other office or offices as Lender may from time to time notify Borrower.

"Letter of Credit" means any letter of credit issued hereunder. Unless otherwise specified by Lender in writing, a Letter of Credit may be a commercial letter of credit or a standby letter of credit.

"Letter of Credit Application" means an application and agreement for the issuance or amendment of a Letter of Credit in the form from time to time in use by Lender.

"Letter of Credit Expiration Date" means the date that is one hundred eighty (180) days after the Maturity Date then in effect for the Revolving Commitment (or, if such day is not a Business Day, the next preceding Business Day).

"Letter of Credit Sublimit" means an amount equal to \$5,000,000.00. The Letter of Credit Sublimit is part of, and not in addition to, the Revolving Commitment.

"Lien" means any mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or otherwise), charge, or preference, priority or other security interest or preferential arrangement in the nature of a security interest of any kind or nature whatsoever (including any conditional sale or other title retention agreement, any easement, right of way or other encumbrance on title to real property, and any financing lease having substantially the same economic effect as any of the foregoing).

"Loan" means an extension of credit by Lender to Borrower under Article II in the form of a Revolving Loan.

"Loan Documents" means, collectively, (a) this Agreement, (b) any Notes, (c) any Guaranty, (d) the Collateral Documents, (e) each Letter of Credit Application, and (f) any agreement, document, or instrument executed and delivered by a Loan Party in connection herewith or therewith.

"Loan Notice" means a notice of (a) a Borrowing of a Revolving Loan or (b) a conversion of Revolving Loans from one Type to the other, which, if in writing, shall be substantially in form and substance satisfactory to Lender.

"Loan Parties" means, collectively, Borrower and each Guarantor.

"Material Adverse Effect" means (a) a material adverse change in, or a material adverse effect upon, the operations, business, properties, liabilities (actual or contingent), or condition (financial or otherwise) of Borrower, or the Loan Parties and their Subsidiaries taken as a whole; (b) a material impairment of the rights and remedies of Lender under any Loan Document, or of the ability of any Loan Party to perform its obligations under any Loan Document to which it is a party; or (c) a material adverse effect upon the legality, validity, binding effect or enforceability against any Loan Party of any Loan Document to which it is a party.

"Maturity Date" means, with respect to Revolving Loans, March 16, 2024; provided, however, that if such date is not a Business Day, the Maturity Date shall be the next preceding Business Day.

"Maximum Rate" has the meaning specified in Section 9.09.

"Modus Media IDSIL" means Modus Media International Documentation Services (Ireland), Limited, a Delaware corporation.

"Modus Media ILL" means Modus Media International (Ireland) Limited, a Delaware corporation.

"Multiemployer Plan" means any employee benefit plan of the type described in Section 4001(a)(3) of ERISA, to which Borrower or any ERISA Affiliate makes or is obligated to make contributions, or during the preceding five (5) plan years, has made or been obligated to make contributions.

"Multiple Employer Plan" means a Plan which has two or more contributing sponsors (including Borrower or any ERISA Affiliate) at least two of whom are not under common control, as such a plan is described in Section 4064 of ERISA.

"Note" means a Revolving Note or other note evidencing other Loans or L/C Obligations.

"Obligations" means (a) all advances to, and debts, liabilities, obligations, covenants and duties of, any Loan Party arising under any Loan Document or otherwise with respect to any Loan or Letter of Credit, (b) all obligations of Borrower or any other Loan Party under any Cash Management Agreement, (c) all Indebtedness, liabilities or obligations, now existing or hereafter arising, due or to become due, absolute or contingent, of Borrower to Lender and/or its affiliates under any Financial Contract, including,

without limitation, Swap Obligations of Borrower and other Loan Parties to Lender, and (d) all costs and expenses incurred in connection with enforcement and collection of the foregoing, including the fees, charges and disbursements of counsel, including, in each case whether direct or indirect (including those acquired by assumption), absolute or contingent, due or to become due, now existing or hereafter arising and including interest and fees that accrue after the commencement by or against any Loan Party or any Affiliate thereof pursuant to any proceeding under any Debtor Relief Laws naming such Person as the debtor in such proceeding, regardless of whether such interest and fees are allowed claims in such proceeding; provided that Obligations of a Guarantor shall exclude any Excluded Swap Obligations with respect to such Guarantor.

"Other Connection Taxes" means, with respect to any Recipient, Taxes imposed as a result of a present or former connection between such Recipient and the jurisdiction imposing such Tax (other than connections arising from such Recipient having executed, delivered, become a party to, performed its obligations under, received payments under, received or perfected a security interest under, engaged in any other transaction pursuant to or enforced any Loan Document, or sold or assigned an interest in any Revolving Loan or Loan Document).

"Other Taxes" means all present or future stamp or documentary Taxes or any other excise or property Taxes, charges or similar levies arising from any payment made hereunder or under any other Loan Document or from the execution, delivery or enforcement of, or otherwise with respect to, this Agreement or any other Loan Document.

"Outstanding Amount" means, (a) with respect to the Revolving Loans on any date, the aggregate outstanding principal amount thereof after giving effect to any Borrowings and prepayments or repayments of the Revolving Loans, as the case may be, occurring on such date, and (b) with respect to any L/C Obligations on any date, the amount of such L/C Obligations on such date after giving effect to any L/C Credit Extension occurring on such date and any other changes in the aggregate amount of the L/C Obligations as of such date, including as a result of any reimbursements by Borrower of Unreimbursed Amounts.

"Parent" means Steel Connect, Inc., a Delaware corporation

"Parent Change of Control" means an event or series of events by which:

(a) any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, but excluding any employee benefit plan of such person or its subsidiaries, and any person or entity acting in its capacity as trustee, agent or other fiduciary or administrator of any such plan) becomes the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Securities Exchange Act of 1934, except that a person or group shall be deemed to have "beneficial ownership" of all securities that such person or group has the right to acquire, whether such right is exercisable immediately or only after the passage of time (such right, an "option right")), directly or indirectly, of Equity Interests of Parent representing a greater percentage of total outstanding of Equity Interests of Parent than the Equity Interests of Parent beneficially owned by Steel Partners Holdings L.P. and its Affiliates entitled to vote for members of the board of directors or equivalent governing body of Parent on a fully-diluted basis (and taking into account all such securities that such "person" or "group" has the right to acquire pursuant to any option right); or

(b) during any period of 12 consecutive months, a majority of the members of the board of directors or other equivalent governing body of Parent cease to be composed of individuals (i) who were members of that board or equivalent governing body on the first day of such period, (ii) whose election or nomination to that board or equivalent governing body was approved by individuals referred to in clause (b)(i) above constituting at the time of such election or nomination at least a majority of that board or equivalent governing body or (iii) whose election or nomination to that board or other equivalent governing body was approved by individuals referred to in clauses (b)(i) and (b)(ii) above constituting at the time of such election or nomination at least a majority of that board or equivalent governing body (excluding, in the case of both clause (b)(ii) and clause (b)(iii), any individual whose initial nomination for, or assumption of office as, a member of that board or equivalent governing body occurs as a result of an actual or threatened solicitation of proxies or consents for the election or removal of one or more directors by any person or group other than a solicitation for the election of one or more directors by or on behalf of the board of directors); or

(c) any Person or two or more Persons acting in concert, other than Steel Partners Holdings L.P. and its Affiliates, shall have acquired by contract or otherwise, or shall have entered into a contract or

arrangement that, upon consummation thereof, will result in its or their acquisition of the power to exercise, directly or indirectly, a controlling influence over the management or policies of Parent, or control over the equity securities of the Borrower entitled to vote for members of the board of directors or equivalent governing body of Parent on a fully-diluted basis (and taking into account all such securities that such Person or Persons have the right to acquire pursuant to any option right) representing 25% or more of the combined voting power of such securities.

"PBGC" means the Pension Benefit Guaranty Corporation.

"Pension Plan" means any employee pension benefit plan (including a Multiple Employer Plan or a Multiemployer Plan) that is maintained or is contributed to by Borrower and any ERISA Affiliate and is either covered by Title IV of ERISA or is subject to the minimum funding standards under Section 412 of the Code.

"Permitted Lien" means a Lien permitted by Section 7.01.

"Person" means any natural person, corporation, limited liability company, trust, joint venture, association, company, partnership, Governmental Authority or other entity.

"Plan" means any "employee benefit plan" (within the meaning of Section 3(3) of ERISA) (including a Pension Plan) maintained for employees of any Loan Party or any ERISA Affiliate or any such Plan to which any Loan Party or any ERISA Affiliate is required to contribute on behalf of any of its employees.

"Prime Rate" means the rate per annum from time to time established by Lender as the Prime Rate and made available by Lender at its main office or, in the discretion of Lender, the base, reference or other rate then designated by Lender for general commercial loan reference purposes, it being understood that such rate is a reference rate, not necessarily the lowest, established from time to time, which serves as the basis upon which effective interest rates are calculated for loans making reference thereto.

"Prime Rate Loan" means a Revolving Loan that bears interest at rate based on the Prime Rate.

"Recipient" means Lender or any other Recipient of payments from a Loan Party hereunder.

"Reference Financial Statements" means, as of any date, the balance sheet of Borrower and its Subsidiaries for the fiscal year most recently ended, and the related consolidated statement of income or operations, shareholders' equity and cash flows for such fiscal year of Borrower and its Subsidiaries, including the notes thereto.

"Related Parties" means, with respect to any Person, such Person's Affiliates and the partners, directors, officers, employees, agents, trustees, administrators, managers, advisors and representatives of such Person and of such Person's Affiliates.

"Replacement Index" has the meaning specified in Section 3.03.

"Reportable Event" means any of the events set forth in Section 4043(c) of ERISA.

"Request for Credit Extension" means (a) with respect to a Borrowing, conversion or continuation of Revolving Loans, a Loan Notice, and (b) with respect to an L/C Credit Extension, a Letter of Credit Application.

"Requirements of Law" shall mean as to any Person the Certificate of Incorporation and Bylaws or other organizational or governing documents of such Person, and any law, treaty, rule or regulation, or a final and binding determination of an arbitrator or a determination of a court or other Governmental Authority, in each case applicable to or binding upon such Person or any of its property or to which such Person or any of its property is subject.

"Responsible Officer" means the chief executive officer, president, chief financial officer, treasurer, assistant treasurer or controller of a Loan Party and any other officer or employee of the applicable Loan Party so designated by any of the foregoing officers in a notice to Lender. Any document delivered

hereunder that is signed by a Responsible Officer of a Loan Party shall be conclusively presumed to have been authorized by all necessary corporate, partnership and/or other action on the part of such Loan Party and such Responsible Officer shall be conclusively presumed to have acted on behalf of such Loan Party.

"Revolving Commitment" means Lender's obligation to (a) make Revolving Loans to Borrower pursuant to Section 2.01 and (b) issue Letters of Credit for the account of Borrower pursuant to Section 2.03. The Revolving Commitment on the Closing Date shall be \$12,500,000.00.

"Revolving Facility" means, at any time, the Revolving Loans made pursuant to this Agreement.

"Revolving Loan" has the meaning specified in Section 2.01.

"Revolving Note" means a promissory note made by Borrower in favor of Lender evidencing Revolving Loans made by Lender that is in form and substance satisfactory to Lender.

"SalesLink" means SalesLink Mexico Holding Corp., a Delaware corporation.

"Sanction(s)" means any sanction administered or enforced by the United States Government (including, without limitation, OFAC), the United Nations Security Council, the European Union, Her Majesty's Treasury or other relevant sanctions authority.

"Security Agreement" means that certain Security and Pledge Agreement dated as of the Closing Date executed by Borrower and Guarantors in favor of Lender.

"Senior Debt" shall mean with respect to any Person, all outstanding Indebtedness of such Person for borrowed money and capitalized lease obligations (excluding in any event from outstanding Indebtedness for the purposes of this definition, Subordinated Debt).

"SOFR" means the one (1) month, three (3) month, or (six) month, Term Secured Overnight Financing Rate (SOFR) as published by CME Group Benchmark Administration Limited (or a successor administrator), as applicable.

"SOFR Loan" means a Loan bearing interest based on the Index.

"Sol Holdings" means Sol Holdings, Inc., a Delaware corporation.

"Solvent" and "Solvency" mean, with respect to any Person on any date of determination, that on such date (a) the fair value of the property of such Person is greater than the total amount of liabilities, including contingent liabilities, of such Person, (b) the present fair saleable value of the assets of such Person is not less than the amount that will be required to pay the probable liability of such Person on its debts as they become absolute and matured, (c) such Person does not intend to, and does not believe that it will, incur debts or liabilities beyond such Person's ability to pay such debts and liabilities as they mature, (d) such Person is not engaged in business or a transaction, and is not about to engage in business or a transaction, for which such Person's property would constitute an unreasonably small capital, and (e) such Person is able to pay its debts and liabilities, contingent obligations and other Revolving Commitments as they mature in the ordinary course of business. The amount of contingent liabilities at any time shall be computed as the amount that, in the light of all the facts and circumstances existing at such time, represents the amount that can reasonably be expected to become an actual or matured liability.

"Subordinated Debt" shall mean Indebtedness subordinated to the Obligations pursuant to a written subordination agreement in form and substance acceptable to Lender, in its sole and absolute discretion.

"Subsidiary" shall mean with respect to any Person, any corporation, partnership or joint venture more than fifty percent (50%) of the stock or other ownership interest of which having by the terms thereof ordinary voting power to elect the board of directors, managers or trustees of such corporation, partnership or joint venture shall, at the time as of which any determination is being made, be owned by such Person, either directly or through Subsidiaries of such Person (irrespective of whether or not at the time stock of any other class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency).

"Swap Obligations" means, with respect to Borrower or any other Loan Party, any obligation to pay or perform under any agreement, contract or transaction that constitutes a "swap" within the meaning of Section 1a(47) of the Commodity Exchange Act.

"Taxes" means all present or future taxes, levies, imposts, duties, deductions, withholdings (including backup withholding), assessments, fees or other charges imposed by any Governmental Authority, including any interest, additions to tax or penalties applicable thereto.

"Total Revolving Outstandings" means the aggregate Outstanding Amount of all Revolving Loans and L/C Obligations.

"Type" means, with respect to any Loan, its character as a SOFR Loan or a Prime Rate Loan.

"UCC" means the Uniform Commercial Code as in effect in the State of California; provided that, if perfection or the effect of perfection or non-perfection or the priority of any security interest in any Collateral is governed by the Uniform Commercial Code as in effect in a jurisdiction other than the State of California, "UCC" means the Uniform Commercial Code as in effect from time to time in such other jurisdiction for purposes of the provisions hereof relating to such perfection, effect of perfection or non-perfection or priority.

"UCP" means, with respect to any Letter of Credit, the Uniform Customs and Practice for Documentary Credits, International Chamber of Commerce ("ICC") Publication No. 600 (or such later version thereof as may be in effect at the time of issuance).

"United States" and "U.S." mean the United States of America.

"Unreimbursed Amount" has the meaning given such term in Section 2.03(c).

"U.S. Government Securities Business Day" means any day except for a Saturday, Sunday or a day on which the Securities Industry and Financial Markets Association recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities.

1.02 Other Interpretive Provisions. With reference to this Agreement and each other Loan Document, unless otherwise specified herein or in such other Loan Document:

(a) The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words "include," "includes" and "including" shall be deemed to be followed by the phrase "without limitation." The word "will" shall be construed to have the same meaning and effect as the word "shall." Unless the context requires otherwise, (i) any definition of or reference to any agreement, instrument or other document (including the Loan Documents and any organization document) shall be construed as referring to such agreement, instrument or other document as from time to time amended, modified, extended, restated, replaced or supplemented from time to time (subject to any restrictions on such amendments, supplements or modifications set forth herein or in any other Loan Document), (ii) any reference herein to any Person shall be construed to include such Person's successors and assigns, (iii) the words "hereto," "herein," "hereof" and "hereunder," and words of similar import when used in any Loan Document, shall be construed to refer to such Loan Document in its entirety and not to any particular provision thereof, (iv) all references in a Loan Document to Articles, Sections, Preliminary Statements, Exhibits and Schedules shall be construed to refer to Articles and Sections of, and Preliminary Statements, Exhibits and Schedules to, the Loan Document in which such references appear, (v) any reference to any law shall include all statutory and regulatory rules, regulations, orders and provisions consolidating, amending, replacing or interpreting such law and any reference to any law or regulation shall, unless otherwise specified, refer to such law or regulation as amended, modified, extended, restated, replaced or supplemented from time to time, and (vi) the words "asset" and "property" shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, securities, accounts and contract rights.

(b) In the computation of periods of time from a specified date to a later specified date, the word "from" means "from and including"; the words "to" and "until" each mean "to but excluding"; and the word "through" means "to and including."

(c) Section headings herein and in the other Loan Documents are included for convenience of reference only and shall not affect the interpretation of this Agreement or any other Loan Document.

1.03 Accounting Terms Generally. All accounting terms not specifically or completely defined herein shall be construed in conformity with, and all financial data (including financial ratios and other financial calculations) required to be submitted pursuant to this Agreement shall be prepared in conformity with, GAAP applied on a consistent basis, as in effect from time to time, applied in a manner consistent with that used in preparing the Reference Financial Statements, except as otherwise specifically prescribed herein.

(b) Changes in GAAP. If at any time any change in GAAP would affect the computation of any financial ratio or requirement set forth in any Loan Document, and either Borrower or Lender shall so request, Lender and Borrower shall negotiate in good faith to amend such ratio or requirement to preserve the original intent thereof in light of such change in GAAP (subject to the approval of Lender); provided that, until so amended, (i) such ratio or requirement shall continue to be computed in accordance with GAAP prior to such change therein and (ii) Borrower shall provide to Lender financial statements and other documents required under this Agreement or as reasonably requested hereunder setting forth a reconciliation between calculations of such ratio or requirement made before and after giving effect to such change in GAAP.

1.04 Rounding. Any financial ratios required to be maintained by Borrower pursuant to this Agreement shall be calculated by dividing the appropriate component by the other component, carrying the result to one place more than the number of places by which such ratio is expressed herein and rounding the result up or down to the nearest number (with a rounding-up if there is no nearest number).

1.05 Times of Day; Rates. Unless otherwise specified, all references herein to times of day shall be references to Pacific time (daylight or standard, as applicable). Lender does not warrant, nor accept responsibility, nor shall Lender have any liability with respect to the administration, submission or any other matter related to the rates in the definition of "SOFR" or with respect to any comparable or successor rate thereto.

1.06 Letter of Credit Amounts. Unless otherwise specified herein, the amount of a Letter of Credit at any time shall be deemed to be the stated amount of such Letter of Credit in effect at such time; provided, however, that with respect to any Letter of Credit that, by its terms or the terms of any Letter of Credit Application related thereto, provides for one or more automatic increases in the stated amount thereof, the amount of such Letter of Credit shall be deemed to be the maximum stated amount of such Letter of Credit after giving effect to all such increases, whether or not such maximum stated amount is in effect at such time.

1.07 UCC Terms. Terms defined in the UCC in effect on the Closing Date and not otherwise defined herein shall, unless the context otherwise indicates, have the meanings provided by those definitions. Subject to the foregoing, the term "UCC" refers, as of any date of determination, to the UCC then in effect.

ARTICLE II. COMMITMENTS AND CREDIT EXTENSIONS

1.01 Revolving Loans. Subject to the terms and conditions set forth herein, Lender agrees to make loans (each such loan, a "Revolving Loan") to Borrower, in Dollars, from time to time, on any Business Day during the Availability Period, in an aggregate amount not to exceed at any time outstanding the amount of the Revolving Commitment; provided, however, that after giving effect to any Borrowing, the Total Revolving Outstandings shall not exceed the Revolving Commitment. Within the limits of the Revolving Commitment, and subject to the other terms and conditions hereof, Borrower may borrow Revolving Loans, prepay under Section 2.04, and reborrow under this Section 2.01. Revolving Loans may be SOFR Loans or Prime Rate Loans, as further provided herein.

1.02 Borrowings; Conversions and Continuations of Loans.

(a) Notice of Borrowing. Each Borrowing and each conversion of Loans from one Type to the other shall be made upon Borrower's irrevocable notice to Lender, which may be given by (i) telephone or (ii) a Loan Notice; provided that any telephonic notice must be confirmed immediately by

delivery to the Lender of a Loan Notice. Each such notice must be received by the Lender not later than 11:00 a.m. three (3) Business Days prior to the requested date of any Borrowing or continuation of or conversion to SOFR Loans and on the requested date of any Borrowing of Prime Rate Loans. Each telephonic notice by the Borrower pursuant to this Section 2.02(a) must be confirmed promptly by delivery to the Lender of a written Loan Notice, appropriately completed and signed by a Responsible Officer of the Borrower. Each Borrowing of or conversion to SOFR Loans shall be, unless otherwise agreed by Lender, in a principal amount of \$500,000.00 or a whole multiple of \$100,000.00 in excess thereof (or, in connection with any continuation or conversion of a Loan, if less, the entire principal thereof then outstanding). Each Loan Notice (whether telephonic or written) shall specify (A) the applicable Facility and whether Borrower is requesting a Borrowing or a conversion of Loans from one Type to the other, or a continuation of Loans, as the case may be, under such Facility, (B) the requested date of the Borrowing, conversion or continuation, as the case may be (which shall be a Business Day), (C) the principal amount of Loans to be borrowed, converted or continued, (D) the Type of Loans to be borrowed or to which existing Loans are to be converted, and (E) with respect to any SOFR Loan, the duration of the Interest Period with respect thereto (i.e. one, three or six months). If Borrower fails to specify a Type of Loan in a Loan Notice then the applicable Loans shall be made as Prime Rate Loans. At the end of any Interest Period respecting a SOFR Loan such Loan shall be automatically continued as a SOFR Loan for an Interest Period of one month effective as of the last day of the Interest Period in effect for such Loan, unless an Event of Default exists or Borrower timely requests a conversion of such Loan to a Prime Rate Loan pursuant to this Section.

(b) Advances. Upon satisfaction of the applicable conditions set forth in Article IV, Lender shall make the Revolving Loan requested to Borrower either by (i) crediting the account of Borrower on the books of Lender with the amount of such Revolving Loan or (ii) wire transfer of such funds, in each case in accordance with instructions provided to (and reasonably acceptable to) Lender by Borrower.

(c) SOFR Loans. Except as otherwise provided herein, a SOFR Loan may be converted only on the last day of an Interest Period for such SOFR Loan. During the existence of a Default, no Loans may be requested as, converted to or continued as SOFR Loans without the consent of Lender.

(d) Interest Periods. After giving effect to all Borrowings and all conversions of Revolving Loans from one Type to the other, there shall not be more than five (5) Interest Periods in effect in respect of the Revolving Facility.

1.03 Letters of Credit

(a) The Letter of Credit Commitment. Subject to the terms and conditions set forth herein, Lender agrees (i) from time to time on any Business Day during the Availability Period, to issue Letters of Credit in Dollars for the account of Borrower, and to amend Letters of Credit previously issued by it, in accordance with Section 2.03(b), and (ii) to honor drawings under the Letters of Credit; provided that after giving effect to any L/C Credit Extension with respect to any Letter of Credit, (i) the Total Revolving Outstandings shall not exceed the Revolving Commitment and (ii) the Outstanding Amount of the L/C Obligations shall not exceed the Letter of Credit Sublimit. Each request by Borrower for the issuance or amendment of a Letter of Credit shall be deemed to be a representation by Borrower that the L/C Credit Extension so requested complies with the conditions set forth in the proviso to the preceding sentence. Within the foregoing limits, and subject to the terms and conditions hereof, Borrower's ability to obtain Letters of Credit shall be fully revolving, and accordingly Borrower may, during the foregoing period, obtain Letters of Credit to replace Letters of Credit that have expired or that have been drawn upon and reimbursed. Lender shall not be under any obligation to issue any Letter of Credit if: (i) the expiry date of the requested Letter of Credit would occur more than twelve months after the date of issuance or last extension, unless Lender has approved such expiry date; (ii) the expiry date of the requested Letter of Credit would occur after the Letter of Credit Expiration Date, unless Lender has approved such expiry date; (iii) any order, judgment or decree of any Governmental Authority or arbitrator shall by its terms purport to enjoin or restrain Lender from issuing such Letter of Credit, or any law applicable to Lender or any request or directive (whether or not having the force of law) from any Governmental Authority with jurisdiction over Lender shall prohibit, or request that Lender refrain from, the issuance of letters of credit generally or such Letter of Credit in particular or shall impose upon Lender with respect to such Letter of Credit any restriction, reserve or capital requirement (for which Lender is not otherwise compensated hereunder) not in effect on the Closing Date, or shall impose upon Lender any unreimbursed loss, cost or expense which was not applicable on the Closing Date and which Lender in good faith deems material to it; (iv) the issuance of such Letter of Credit would violate one or more

policies of Lender applicable to letters of credit generally; (v) such Letter of Credit is in an amount that is not acceptable to Lender; or (vi) such Letter of Credit is to be denominated in a currency other than Dollars. Lender shall be under no obligation to amend any Letter of Credit if (i) Lender would have no obligation at such time to issue such Letter of Credit in its amended form under the terms hereof, or (ii) the beneficiary of such Letter of Credit does not accept the proposed amendment to the Letter of Credit.

(b) Procedures for Issuance and Amendment of Letters of Credit. Each Letter of Credit shall be issued or amended, as the case may be, upon the request of Borrower delivered to Lender in the form of a Letter of Credit Application, appropriately completed and signed by a Responsible Officer of Borrower. Such Letter of Credit Application may be sent by facsimile transmission, by United States mail, by overnight courier, by electronic transmission using the system provided by Lender, by personal delivery or by any other means acceptable to Lender. Such Letter of Credit Application must be received by Lender not later than 11:00 a.m. at least two Business Days (or such later date and time as Lender may agree in a particular instance in their sole discretion) prior to the proposed issuance date or date of amendment, as the case may be. Borrower shall furnish to Lender and such other documents and information pertaining to such requested Letter of Credit issuance or amendment as Lender may require.

(c) Drawings and Reimbursements; Funding of Participations. Upon receipt from the beneficiary of any Letter of Credit of any notice of a drawing under such Letter of Credit, Lender shall notify Borrower. Not later than 1:00 p.m. on the date of any payment by Lender under a Letter of Credit (each such date, an "Honor Date"), Borrower shall reimburse Lender in an amount equal to the amount of such drawing. If Borrower fails to so reimburse Lender by such time, Borrower shall be deemed to have requested a Revolving Loan that is a Prime Rate Loan to be disbursed on the Honor Date in an amount equal to the amount of such unreimbursed drawing (the "Unreimbursed Amount"), without regard to the minimum and multiples specified in Section 2.02(a) for the principal amount of Prime Rate Loans, but subject to the amount of the unutilized portion of the Revolving Commitment and the conditions set forth in Section 4.02 (other than the delivery of a Loan Notice) and provided that, after giving effect to such Borrowing, the Outstanding Amount of the Revolving Loans and L/C Obligations shall not exceed the Revolving Commitment. If Borrower fails to reimburse Lender for any drawing under any Letter of Credit (whether by means of a Borrowing or otherwise) such Unreimbursed Amount shall be due and payable on demand (together with interest) and shall bear interest at the Default Rate.

(d) Obligations Absolute. As more fully set forth in each Letter of Credit Application, the obligation of Borrower to reimburse Lender for each drawing under each Letter of Credit shall be absolute, unconditional and irrevocable, and shall be paid strictly in accordance with the terms of this Agreement under all circumstances, including the following: (i) any lack of validity or enforceability of such Letter of Credit, this Agreement, or any other Loan Document; (ii) the existence of any claim, counterclaim, setoff, defense or other right that Borrower or any Subsidiary may have at any time against any beneficiary or any transferee of such Letter of Credit (or any Person for whom any such beneficiary or any such transferee may be acting), Lender or any other Person, whether in connection with this Agreement or by such Letter of Credit, the transactions contemplated hereby or any agreement or instrument relating thereto, or any unrelated transaction; (iii) any draft, demand, endorsement, certificate or other document presented under or in connection with such Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect; or any loss or delay in the transmission or otherwise of any document required in order to make a drawing under such Letter of Credit; (iv) waiver by Lender of any requirement that exists for Lender's protection and not the protection of Borrower or any waiver by Lender which does not in fact materially prejudice Borrower; (v) honor of a demand for payment presented electronically even if such Letter of Credit requires that demand be in the form of a draft; (vi) any payment made by Lender in respect of an otherwise complying item presented after the date specified as the expiration date of, or the date by which documents must be received under, such Letter of Credit if presentation after such date is authorized by the UCC, the ISP or the UCP, as applicable; (vii) any payment by Lender under such Letter of Credit against presentation of a draft or certificate that does not strictly comply with the terms of such Letter of Credit; or any payment made by Lender under such Letter of Credit to any Person purporting to be a trustee in bankruptcy, debtor-in-possession, assignee for the benefit of creditors, liquidator, receiver or other representative of or successor to any beneficiary or any transferee of such Letter of Credit, including any arising in connection with any proceeding under any Debtor Relief Law; or (viii) any other circumstance or happening whatsoever, whether or not similar to any of the foregoing, including any other circumstance that might otherwise constitute a defense available to, or a discharge of, Borrower or any of its Subsidiaries. Borrower shall promptly examine a copy of each Letter of Credit and each amendment thereto that is delivered to it and, in the event of any claim of noncompliance with Borrower's instructions or other irregularity, Borrower will promptly (but in no event later than five (5) Business Days after an officer of Borrower becoming aware of such claim of non-compliance or other irregularity) notify Lender.

Borrower shall be conclusively deemed to have waived any such claim against Lender and its correspondents unless such notice is given as aforesaid.

(e) Role of Lender. Borrower agrees that, in paying any drawing under a Letter of Credit, Lender shall not have any responsibility to obtain any document (other than any sight draft, certificates and documents expressly required by the Letter of Credit) or to ascertain or inquire as to the validity or accuracy of any such document or the authority of the Person executing or delivering any such document. Borrower hereby assumes all risks of the acts or omissions of any beneficiary or transferee with respect to its use of any Letter of Credit; provided, however, that this assumption is not intended to, and shall not, preclude Borrower's pursuing such rights and remedies as it may have against the beneficiary or transferee at law or under any other agreement. None of Lender, any of its Affiliates, any of the respective officers, directors, employees, agents or attorneys-in-fact of Lender and its Affiliates, nor any of the respective correspondents, participants or assignees of Lender shall be liable or responsible for any of the matters described in clauses (i) through (v) of Section 2.03(d); provided, however, that anything in such clauses to the contrary notwithstanding, Borrower may have a claim against Lender, and Lender may be liable to Borrower, to the extent, but only to the extent, of any direct, as opposed to consequential or exemplary, damages suffered by Borrower which Borrower proves were caused by Lender's willful misconduct or gross negligence or Lender's willful failure to pay under any Letter of Credit after the presentation to it by the beneficiary of a sight draft and certificate(s) strictly complying with the terms and conditions of a Letter of Credit. In furtherance and not in limitation of the foregoing, Lender may accept documents that appear on their face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary, and Lender shall not be responsible for the validity or sufficiency of any instrument transferring, endorsing or assigning or purporting to transfer, endorse or assign a Letter of Credit or the rights or benefits thereunder or proceeds thereof, in whole or in part, which may prove to be invalid or ineffective for any reason. Lender may send a Letter of Credit or conduct any communication to or from the beneficiary via the Society for Worldwide Interbank Financial Telecommunication ("SWIFT") message or overnight courier, or any other commercially reasonable means of communicating with a beneficiary.

(f) Cash Collateral. Upon the request of Lender, (i) if Lender has honored any full or partial drawing request under any Letter of Credit and such drawing has not been reimbursed on the applicable Honor Date, or (ii) if, as of the Letter of Credit Expiration Date, any Letter of Credit may for any reason remain outstanding and partially or wholly undrawn, Borrower shall immediately Cash Collateralize the then Outstanding Amount of all L/C Obligations (in an amount equal to such Outstanding Amount determined as of the applicable Honor Date or the Letter of Credit Expiration Date, as the case may be).

(g) Applicability of ISP and UCP; Limitation of Liability. Unless otherwise expressly agreed by Lender and Borrower when a Letter of Credit is issued, the rules of the ISP shall apply to each standby Letter of Credit. Notwithstanding the foregoing, Lender shall not be responsible to Borrower for, and Lender's rights and remedies against Borrower shall not be impaired by, any action or inaction of Lender required or permitted under any law, order, or practice that is required or permitted to be applied to any Letter of Credit or this Agreement, including the law or any order of a jurisdiction where Lender or the beneficiary is located, the practice stated in the ISP or UCP, as applicable, or in the decisions, opinions, practice statements, or official commentary of the ICC Banking Commission, the Bankers Association for Finance and Trade (BAFT), or the Institute of International Banking Law & Practice, whether or not any Letter of Credit chooses such law or practice.

(h) Letter of Credit Fees. Borrower shall pay to Lender in advance (i) a Letter of Credit fee for each commercial Letter of Credit equal to the greatest of (A) \$120.00 and (B) the Applicable Rate times the daily maximum amount available to be drawn under such Letter of Credit (whether or not such maximum amount is then in effect under such Letter of Credit), and (ii) a Letter of Credit fee for each standby Letter of Credit equal to the greater of (A) \$250.00 and (B) the Applicable Rate times the daily maximum amount available to be drawn under such Letter of Credit during the succeeding three months (whether or not such maximum amount is then in effect under such Letter of Credit). For any Letter of Credit, such letter of credit fees shall be due and payable on or before the date of issuance of such Letter of Credit.

(i) Documentary and Processing Charges Payable to Lender. Borrower shall pay to Lender the customary issuance, presentation, amendment and other processing fees, and other standard costs and charges, of Lender relating to letters of credit as from time to time in effect. Such customary fees and standard costs and charges are due and payable on demand and are nonrefundable.

(j) Letters of Credit Issued for Subsidiaries. Notwithstanding that a Letter of Credit issued or outstanding hereunder is in support of any obligations of, or is for the account of, a Subsidiary, Borrower shall be obligated to reimburse Lender hereunder for any and all drawings under such Letter of Credit. Borrower hereby acknowledges that the issuance of Letters of Credit for the account of Subsidiaries inures to the benefit of Borrower, and that Borrower's business derives substantial benefits from the businesses of such Subsidiaries.

1.04 Prepayments.

(a) Optional. Borrower may, upon three (3) days prior written notice to Lender, at any time or from time to time voluntarily prepay Revolving Loans in whole or in part without premium or penalty subject to Section 3.05; provided that, unless otherwise agreed by Lender (i) such notice must be received by Lender not later than 11:00 a.m. (A) three (3) Business Days prior to any date of prepayment of SOFR Loans and (B) on the date of prepayment of Prime Rate Loans; (ii) any prepayment of Loans shall be in a principal amount of \$500,000.00 or a whole multiple of \$100,000.00 in excess thereof, or, if less, the entire principal amount thereof then outstanding. Each such notice shall specify the date and amount of such prepayment, the Type(s) of Loans to be prepaid, and, if SOFR Loans are to be prepaid, the Interest Period(s) of such Loans. If such notice is given by Borrower, Borrower shall make such prepayment and the payment amount specified in such notice shall be due and payable on the date specified therein. Any prepayment of principal shall be accompanied by all accrued interest on the amount prepaid, together with any additional amounts required pursuant to Section 3.05.

(b) Mandatory.

(i) Revolving Outstandings. If for any reason the Total Revolving Outstandings at any time exceed the Revolving Commitment at such time, Borrower shall immediately prepay Revolving Loans (together with all accrued but unpaid interest thereon) and/or Cash Collateralize the L/C Obligations in an aggregate amount equal to such excess. If Lender terminates the Revolving Commitment pursuant to Section 2.05(b), Borrower shall prepay the Total Revolving Outstandings on or prior to the date of such termination.

(ii) Application of Payments. Prepayments of the Revolving Facility shall be applied first to the outstanding Revolving Loans, and, second to Cash Collateralize the outstanding L/C Obligations. Upon the drawing of any Letter of Credit that has been Cash Collateralized, the funds held as Cash Collateral shall be applied (without any further action by or notice to or from Borrower or any other Loan Party that has provided Cash Collateral) to reimburse Lender. Prepayments pursuant to this Section 2.04(b) shall be applied first, to Prime Rate Loans, if any, and second, to SOFR Loans, if any, in direct order of Interest Period maturities.

All prepayments under this Section 2.04(b) shall be subject to Section 3.05, but otherwise without premium or penalty, and shall be accompanied by interest on the principal amount prepaid through the date of prepayment.

1.05 Termination or Reduction of Commitments.

(a) Optional. Borrower may, upon notice to Lender, terminate the Revolving Facility or the Letter of Credit Sublimit, or from time to time permanently reduce the Revolving Facility or the Letter of Credit Sublimit; provided that (i) any such notice shall be received by Lender not later than 11:00 a.m. five (5) Business Days prior to the date of termination or reduction, (ii) any such partial reduction shall be in an aggregate amount of \$1,000,000.00 or any whole multiple of \$500,000.00 in excess thereof and (iii) Borrower shall not terminate or reduce (A) the Revolving Facility if, after giving effect thereto and to any concurrent prepayments hereunder, the Total Revolving Outstandings would exceed the Revolving Facility, or (B) the Letter of Credit Sublimit if, after giving effect thereto, the Outstanding Amount of L/C Obligations not fully Cash Collateralized hereunder would exceed the Letter of Credit Sublimit.

(b) Mandatory. If after giving effect to any reduction or termination of Revolving Commitments under this Section 2.05, the Letter of Credit Sublimit exceeds the Revolving Commitment at such time, the Letter of Credit Sublimit exceeds the Revolving Commitment at such time, the Letter of Credit Sublimit shall be automatically reduced by the amount of such excess. If a Parent Change of Control occurs, Lender in its sole discretion may terminate the Revolving Commitment on ninety (90) days prior written notice to Borrower.

1.06 Repayment of Revolving Loans. Borrower shall repay to Lender on the Maturity Date for the Revolving Facility the aggregate principal amount of all Revolving Loans outstanding on such date.

1.07 Interest. Subject to the provisions of Section 2.07(b), (i) each SOFR Loan shall bear interest on the outstanding principal amount thereof for each Interest Period at a rate per annum equal to the Index for such Interest Period plus the Applicable Rate; and (ii) each Prime Rate Loan shall bear interest on the outstanding principal amount thereof from the applicable Borrowing date at a rate per annum equal to the Prime Rate plus the Applicable Rate. The effective date of any change in the Index will be the date that is two U.S. Government Securities Business Days preceding the date of change. Under no circumstances will the interest rate hereunder be more than the maximum rate allowed by applicable law, nor shall the Index be less than zero percent (0.000%).

(b) If any amount of principal of any Loan is not paid when due (without regard to any applicable grace periods), whether at stated maturity, by acceleration or otherwise, such amount shall, at Lender's option, thereafter bear interest at a fluctuating interest rate per annum at all times equal to the Default Rate to the fullest extent permitted by applicable laws. If any Event of Default occurs, all obligations shall, at Lender's option, during the continuance of any Event of Default bear interest at a fluctuating rate per annum at all times equal to the Default Rate. At the option of Lender, during the continuance of an Event of Default, the option of Borrower to maintain a Loan as any Type of Loan other than any Prime Rate Loan shall terminate and all Loans shall be converted to Prime Rate Loans.

(c) Interest on each Loan shall be due and payable in arrears on each Interest Payment Date applicable thereto and at such other times as may be specified herein; provided that interest accruing at the Default Rate shall be due and payable upon demand. Interest hereunder shall be due and payable in accordance with the terms hereof before and after judgment, and before and after the commencement of any proceeding under any Debtor Relief Law.

(d) The effective date of any change in the Index will be the date that is two U.S. Government Securities Business Days preceding the date of change. Under no circumstances will the interest rate on this Note be more than the maximum rate allowed by applicable law.

1.08 Fees. All fees payable under this Agreement shall be fully earned and non-refundable when paid.

(a) Commitment Fee. On or prior to the Closing Date, Borrower shall pay Lender, in immediately available United States Dollars, a commitment fee equal to \$31,250.

(b) Unused Fee. Borrower shall pay to Lender, an unused fee equal to one tenth of one percent (0.10%) times the actual daily amount by which the Revolving Commitment exceeds the sum of (i) the Outstanding Amount of Revolving Loans and (ii) the Outstanding Amount of L/C Obligations. The unused fee shall accrue at all times during the Availability Period, including at any time during which one or more of the conditions in Article IV is not met, and shall be due and payable quarterly in arrears on the last Business Day of each calendar quarter, commencing with the first such date to occur after the Closing Date, and on the last day of the Availability Period for the Revolving Commitment. The unused fee shall be calculated in arrears.

1.09 Computation of Interest and Fees. All computations of fees and interest shall be made on an actual day/360 day basis; that is, by applying the ratio of the interest rate over a year of 360 days, multiplied by the outstanding principal balance, multiplied by the actual number of days the principal balance is outstanding. All interest and fees payable under this Agreement shall be computed using this method. This calculation method results in a higher effective interest rate than the numeric interest rate calculated under Section 2.07(a). Interest shall accrue on each Revolving Loan for the day on which the Revolving Loan is made, and shall not accrue on a Loan, or any portion thereof, for the day on which the Revolving Loan or such portion is paid. Each determination by Lender of an interest rate or fee hereunder shall be conclusive and binding for all purposes, absent manifest error.

1.10 Evidence of Debt. The Credit Extensions made by Lender shall be evidenced by one or more accounts or records maintained by Lender in the ordinary course of business. The accounts or records maintained by Lender shall be conclusive absent manifest error of the amount of the Credit Extensions made by Lender to Borrower and the interest and payments thereon. Any failure to so record or any error in doing so shall not, however, limit or otherwise affect the obligation of Borrower hereunder to pay any amount owing with respect to the Obligations. Upon the request of Lender, Borrower shall execute and deliver to Lender one or more Notes, which shall evidence the Revolving Loans in addition to

such accounts or records. Lender may attach schedules to the Notes and endorse thereon the date, Type (if applicable), amount and maturity of the Revolving Loans and payments with respect thereto.

1.11 Payments Generally. All payments to be made by Borrower shall be made without condition or deduction for any counterclaim, defense, recoupment or setoff. Except as otherwise expressly provided herein, all payments by Borrower hereunder shall in Dollars and in immediately available funds, and all payments must be received by Lender consistent with any written payment instructions provided by Lender. If a payment is made consistent with Lender's payment instructions but received after 5:00 PM Pacific Time on a Business Day, Lender will credit Borrower's payment on the next Business Day, and any applicable interest or fee shall continue to accrue. If any payment to be made by Borrower shall come due on a day other than a Business Day, payment shall be made on the next following Business Day, and such extension of time shall be reflected on computing interest or fees, as the case may be. A notice of Lender to Borrower with respect to any amount owing under this Section 2.11 shall be conclusive, absent manifest error. Borrower agrees not to send Lender payments marked "paid in full", "without recourse", or similar language. If Borrower sends such a payment, Lender may accept it without losing any of Lender's rights under this Note, and Borrower will remain obligated to pay any further amount owed to Lender. All written communications concerning disputed amounts, including any check or other payment instrument that indicates that the payment constitutes "payment in full" of the amount owed or that is tendered with other conditions or limitations or as full satisfaction of a disputed amount must be mailed or delivered to: Umpqua Bank, PO Box 1580 Roseburg, OR 97470.

(b) Funding Source. Nothing herein shall be deemed to obligate Lender to obtain the funds for any Revolving Loan in any particular place or manner or to constitute a representation by Lender that it has obtained or will obtain the funds for any Revolving Loan in any particular place or manner.

(c) Direct Debit. On each date when the payment of any principal, interest, or fees are due hereunder or under any Loan Document, Borrower agrees to maintain on deposit in an ordinary checking account (as such account shall be designated by Borrower in a written notice to Lender from time to time, the "Borrower Account") an amount sufficient to pay such principal, interest, or fees in full on such date. Borrower hereby authorizes Lender (i) to deduct automatically all principal, interest, and fees when due hereunder or under any Loan Document from the Borrower Account and (ii) if and to the extent any payment of principal, interest, or fees under this Agreement or any Loan Document is not made when due, to deduct any such amount from any or all of the accounts of Borrower maintained at Lender. Lender agrees to provide written notice to Borrower of any automatic deduction made pursuant to this Section showing in reasonable detail the amounts of such deduction.

(d) Application of Payments. Except as otherwise set forth herein, unless otherwise agreed or required by applicable law, payments will be applied first to any accrued unpaid interest as shown on the most recent statement or bill provided to Borrower (if no statement of bill has been provided for any reason, it shall be applied to the unpaid interest accrued since the last payment); then to principal; then to any late charges; and then to any unpaid collection costs.

1.12 Late Fee. Borrower shall pay to Lender on demand a late charge on any amount payable hereunder that is not paid within ten (10) days of when due equal to the greater of 5.0% of such unpaid amount or \$10.00.

ARTICLE III. TAXES, YIELD PROTECTION AND ILLEGALITY

1.01 Taxes

(a) Payments Free of Taxes. Any and all payments by or on account of any obligation of any Loan Party under any Loan Document shall be made without deduction or withholding for any Taxes, except as required by applicable Laws. If any Loan Party shall be required by the Code or any other applicable Laws to withhold or deduct any Taxes from any payment (as determined in its good faith discretion), then (i) such Loan Party shall withhold or make such deductions as are determined by it to be required, (ii) such Loan Party shall timely pay the full amount withheld or deducted to the relevant Governmental Authority in accordance with the Code or such Laws, and (iii) to the extent that the withholding or deduction is made on account of Indemnified Taxes, the sum payable by the applicable Loan Party shall be increased as necessary so that after any required withholding or the making of all required deductions (including deductions applicable to additional sums payable under this Section 3.01) the applicable Recipient receives an amount equal to the sum it would have received had no such

withholding or deduction been made. The Loan Parties shall timely pay to the relevant Governmental Authority in accordance with applicable law, or at the option of Lender timely reimburse it for the payment of, any Other Taxes.

(b) Tax Indemnifications. Each of the Loan Parties shall, and does hereby, jointly and severally indemnify each Recipient, and shall make payment in respect thereof within ten (10) days after demand therefor, for the full amount of any Indemnified Taxes (including Indemnified Taxes imposed or asserted on or attributable to amounts payable under this Section 3.01) payable or paid by such Recipient or required to be withheld or deducted from a payment to such Recipient, and any penalties, interest and reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate as to the amount of such payment or liability delivered to Borrower by Lender shall be conclusive absent manifest error. Upon request by Lender after any payment of Taxes by Borrower to a Governmental Authority as provided in this Section 3.01, Borrower shall deliver to Lender the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of any return required by Laws to report such payment or other evidence of such payment reasonably satisfactory to Lender.

1.02 Illegality. If Lender determines that any law has made it unlawful, or that any Governmental Authority has asserted that it is unlawful, for Lender or its Lending Office to make, maintain or fund any Credit Extension whose interest is determined by reference to the Index, or to determine or charge interest rates based upon the Index, or any Governmental Authority has imposed material restrictions on the authority of Lender to purchase or sell, or to take deposits of, Dollars in the London interbank market, then, on notice thereof by Lender to Borrower, (a) any obligation of Lender to make or continue SOFR Loans or to convert Prime Rate Loans to SOFR Loans shall be suspended, and (b) Borrower shall, upon demand from Lender, prepay or, if applicable, convert all SOFR Loans to Prime Rate Loans, either on the last day of any Interest Period therefor, if Lender may lawfully continue to maintain such SOFR Loans to such day, or immediately, if Lender may not lawfully continue to maintain such SOFR Loans. Upon any such prepayment or conversion, Borrower shall also pay accrued interest on the amount so prepaid or converted.

1.03 Replacement Index. If, as determined by Lender (such determination to be binding in the absence of substantial and manifest error), (i) the Index becomes generally unavailable or unascertainable; (ii) there is a public statement by the administrator of the Index, the regulator thereof, or other government official that the administrator has ceased or will cease to provide the Index or that the Index is no longer representative of the underlying market or economic reality; or (iii) it is unlawful for Lender to rely on the Index for the types of transactions that include this Note, then Lender may replace the Index with an index selected by Lender in Lender's reasonable discretion (the "Replacement Index"), giving due consideration to any evolving or then-prevailing market convention for determination of a replacement for the Index. Lender may make an adjustment (the "Adjustment") to the Replacement Index (which may be a positive or negative value and which may vary based on the tenor of the applicable advance), giving due consideration to any evolving or then-prevailing market convention for determining such an adjustment, or method for calculating or determining such an adjustment, and any governmental selection or recommendation for such adjustment. The Adjustment shall be reasonably designed to cause the Replacement Index plus the Adjustment to be substantially equivalent to the Index before replacement of the Index. Lender's determination of the Adjustment shall be binding in the absence of substantial and manifest error. The Replacement Index and the Adjustment shall become effective and shall replace the Index for all purposes under this Note on the date specified for such replacement by a notice from Lender to Borrower specifying the Replacement Index and the Adjustment, without any need or requirement for action by Borrower. The Replacement Index and the Adjustment shall be applied in a manner consistent with market practice as determined by Lender; provided that, in each case, to the extent such market practice is not administratively feasible for Lender or is not ascertainable, such Replacement Index and Adjustment shall be applied as otherwise reasonably determined by Lender. Lender may amend this Note and the other loan documents to reflect the replacement of the Index with the Replacement Index and the Adjustment and to make any technical, administrative, or operational changes that Lender determines are appropriate to permit the administration of the Replacement Index and the Adjustment in a manner substantially consistent with market practice. Any such amendment shall be effective upon notice to Borrower, without any need or requirement for action by Borrower.

1.04 Increased Costs; Reserves on SOFR Loans.

(a) Increased Costs Generally. If any Change in Law shall:

(i) impose, modify or deem applicable any reserve, special deposit, compulsory loan, insurance charge or similar requirement against assets of, deposits with or for the account of, or credit extended or participated in by, Lender (except any reserve requirement contemplated by Section 3.04(e));

(ii) subject Lender to any Taxes on its Loans, Loan principal, Commitments, Letters of Credit, or other obligations, or its deposits, reserves, other liabilities or capital attributable thereto; or

(iii) impose on Lender or the London interbank market any other condition, cost or expense affecting this Agreement or SOFR Loans made by Lender or any Letter of Credit;

and the result of any of the foregoing shall be to increase the cost to Lender of making, converting to, continuing or maintaining any Loan the interest on which is determined by reference to the Index (or of maintaining its obligation to make any such Loan), or to increase the cost to Lender of issuing or maintaining any Letter of Credit (or of maintaining its obligation to issue any Letter of Credit), or to reduce the amount of any sum received or receivable by Lender hereunder (whether of principal, interest or any other amount) then, upon request of Lender, Borrower will pay to Lender such additional amount or amounts as will compensate Lender for such additional costs incurred or reduction suffered.

(b) Capital Requirements. If Lender determines that any Change in Law affecting Lender or the Lending Office or Lender's holding company, if any, regarding capital or liquidity requirements has or would have the effect of reducing the rate of return on Lender's capital or on the capital of Lender's holding company, if any, as a consequence of this Agreement, the Commitments of Lender or the Loans made by or the Letters of Credit issued by Lender, to a level below that which Lender or Lender's holding company could have achieved but for such Change in Law (taking into consideration Lender's policies and the policies of Lender's holding company with respect to capital adequacy), then from time to time Borrower will pay to Lender such additional amount or amounts as will compensate Lender or Lender's holding company for any such reduction suffered.

(c) Certificates for Reimbursement. A certificate of Lender setting forth the amount or amounts necessary to compensate Lender or its holding company, as the case may be, as specified in subsection (a) or (b) of this Section and delivered to Borrower shall be conclusive absent manifest error. Borrower shall pay Lender the amount shown as due on any such certificate within ten (10) days after receipt thereof.

(d) Reserves on SOFR Loans. To the extent not calculated into SOFR, Borrower shall pay to Lender, (i) as long as Lender shall be required to maintain reserves with respect to liabilities or assets consisting of or including funds or deposits based on SOFR, additional interest on the unpaid principal amount of each SOFR Loan equal to the actual costs of such reserves allocated to such Loan by Lender (as determined by Lender in good faith, which determination shall be conclusive), and (ii) as long as Lender shall be required to comply with any reserve ratio requirement or analogous requirement of any central banking or financial regulatory authority imposed in respect of the maintenance of the Commitments or the funding of the Loans, such additional costs (expressed as a percentage per annum and rounded upwards, if necessary, to the nearest five decimal places) equal to the actual costs allocated to such Commitment or Loan by Lender (as determined by Lender in good faith, which determination shall be conclusive), which in each case shall be due and payable on each date on which interest is payable on such Loan, provided Borrower shall have received at least ten (10) days' prior notice of such additional interest or costs from Lender. If Lender fails to give notice ten (10) days prior to the relevant Interest Payment Date, such additional interest shall be due and payable ten (10) days from receipt of such notice.

(e) Delay in Requests. Failure or delay on the part of Lender to demand compensation pursuant to the foregoing provisions of this Section 3.04 shall not constitute a waiver of Lender's right to demand such compensation, provided that Borrower shall not be required to compensate Lender pursuant to the foregoing provisions of this Section for any increased costs incurred or reductions suffered more than nine (9) months prior to the date that Lender notifies Borrower of the Change in Law giving rise to such increased costs or reductions and of Lender's intention to claim compensation therefor (except that, if the Change in Law giving rise to such increased costs or reductions is retroactive, then the

nine (9) month period referred to above shall be extended to include the period of retroactive effect thereof).

1.05 Funding Losses. Upon demand of Lender from time to time, Borrower shall promptly compensate Lender and hold Lender harmless from any loss, cost or expense incurred by it as a result of:

(a) any conversion, payment or prepayment of any Revolving Loan other than an Prime Rate Loan on a day other than the last day of the Interest Period for such Revolving Loan (whether voluntary, mandatory, automatic, by reason of acceleration, or otherwise); or

(b) any failure by Borrower (for a reason other than the failure of Lender to make revolving Loan) to prepay, borrow or convert any Revolving Loan other than a Prime Rate Loan on the date or in the amount notified by Borrower,

including any expense arising from the liquidation or reemployment of funds obtained by it to maintain such Revolving Loan or from fees payable to terminate the deposits from which such funds were obtained. Borrower shall also pay any customary administrative fees charged by Lender in connection with the foregoing.

1.06 Requests for Compensation. A certificate of Lender claiming compensation under this Article III and setting forth the additional amount or amounts to be paid to it hereunder shall be conclusive in the absence of manifest error. In determining such amount, Lender may use any reasonable averaging and attribution methods.

1.07 Survival. All of Borrower's obligations under this Article III shall survive termination of the Commitments and repayment of all other Obligations hereunder.

ARTICLE IV. CONDITIONS PRECEDENT TO CREDIT EXTENSIONS

1.01 Conditions of Initial Credit Extension. The obligation of Lender to make its initial Credit Extension hereunder is subject to satisfaction of the following conditions precedent:

(a) Lender's receipt of the following, each of which shall be originals or electronic transmissions (followed promptly by originals) unless otherwise specified, each properly executed by a Responsible Officer of the signing Loan Party, each dated the Closing Date (or, in the case of certificates of governmental officials, a recent date before the Closing Date) and each in form and substance satisfactory to Lender:

(i) executed counterparts of this Agreement and the Guaranty and any Notes executed by Borrower in favor of Lender;

(ii) the Security Agreement duly executed by Borrower and each Guarantor, together with evidence satisfactory to Lender of perfection of its security interests thereunder in accordance with the requirements of the Security Agreement;

(iii) evidence of insurance required by this Agreement and the Collateral Documents and otherwise acceptable to Lender;

(iv) such certificates of resolutions or other action, incumbency certificates and/or other certificates of Responsible Officers of each Loan Party as Lender may require evidencing the identity, authority and capacity of each Responsible Officer thereof authorized to act as a Responsible Officer in connection with this Agreement and the other Loan Documents to which such Loan Party is a party or is to be a party, including, without limitation, (A) original certified articles of incorporation or other charter documents, as applicable, (B) copies of resolutions of the board of directors or comparable managing body approving and adopting the Loan Documents, the transactions contemplated hereby, and authorizing execution and delivery thereof, and (C) a copy of the bylaws or comparable operating agreement of each Loan Party; and

(v) such other assurances, certificates, documents, or consents as Lender reasonably may require.

- (b) Lender shall have completed to its satisfaction its due diligence review of the Loan Parties and the Collateral.
- (c) All fees required to be paid to Lender on or before the Closing Date shall have been paid.

(d) Unless waived by Lender, Borrower shall have paid all reasonable fees, charges and disbursements of counsel to Lender (directly to such counsel if requested by Lender) to the extent invoiced prior to or on the Closing Date, plus such additional amounts of such fees, charges and disbursements as shall constitute its reasonable estimate of such fees, charges and disbursements incurred or to be incurred by it through the closing proceedings (provided that such estimate shall not thereafter preclude a final settling of accounts between Borrower and Lender).

1.02 Conditions to all Credit Extensions. The obligation of Lender to make any Credit Extension is subject to the following conditions precedent:

(a) The representations and warranties of Borrower and the other Loan Parties contained in Article V or any other Loan Document, or which are contained in any document furnished at any time under or in connection herewith or therewith, shall be true and correct on and as of the date of such Credit Extension, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they shall be true and correct as of such earlier date.

- (b) No Default shall exist, or would result from such proposed Credit Extension or from the application of the proceeds thereof.
- (c) Lender shall have received a Request for Credit Extension in accordance with the requirements hereof.

Each Request for Credit Extension submitted by Borrower shall be deemed to be a representation and warranty that the conditions specified in this Article IV have been satisfied on and as of the date of the applicable Credit Extension.

ARTICLE V. REPRESENTATIONS AND WARRANTIES

Borrower and, by execution of each Loan Document to which it is a party, each Loan Party, represents and warrants to Lender as follows:

1.01 Financial Condition. The Reference Financial Statements are complete and correct and present fairly in accordance with GAAP the financial condition of Borrower and its consolidated Subsidiaries at such dates and the consolidated and consolidating results of their operations and changes in financial position for the fiscal periods then ended.

1.02 No Change. Since the date of the Reference Financial Statements there has been no material adverse change in the business, operations, assets or financial or other condition of Borrower or Borrower and its Subsidiaries taken as a whole. Except as otherwise expressly disclosed in writing to Lender prior to the Closing Date, from the date of the Reference Financial Statements through the Closing Date, neither Borrower nor any of its Subsidiaries has entered into, incurred or assumed any material long-term debt, mortgages, leases or oral or written commitments, nor commenced any significant project, nor made any purchase or acquisition of any significant property.

1.03 Corporate Existence; Compliance with Law. Borrower and each of its Subsidiaries: (a) is duly organized, validly existing and in good standing as a corporation under the laws of the jurisdiction of its organization and is qualified to do business in each jurisdiction where its ownership of property or conduct of business requires such qualification and where failure to qualify is reasonably likely to have a Material Adverse Effect on Borrower or such Subsidiary or its property and/or business or on the ability of Borrower or such Subsidiary to pay or perform the Obligations, (b) has the corporate power and authority and the legal right to own and operate its property and to conduct business in the manner in which it does and proposes so to do, and (c) is in compliance with all Requirements of Law and Contractual Obligations, except where the failure to comply is not reasonably likely to have a Material Adverse Effect on the business, operations, assets or financial or other condition of Borrower or Borrower and its Subsidiaries taken as a whole.

1.04 Corporate Power; Authorization; Enforceable Obligations. Borrower has the corporate power and authority and the legal right to execute, deliver and perform the Loan Documents to which it is a party and has taken all necessary corporate action to authorize the execution, delivery and performance of such Loan Documents. The Loan Documents to which Borrower is party have been duly executed and delivered on behalf of Borrower and constitute legal, valid and binding obligations of Borrower enforceable against Borrower in accordance with their respective terms, subject to the effect of applicable bankruptcy and other similar laws affecting the rights of creditors generally and the effect of equitable principles whether applied in an action at law or a suit in equity.

1.05 No Legal Bar. The execution, delivery and performance of the Loan Documents to which Borrower is party, the borrowing hereunder and the use of the proceeds thereof, will not violate any Requirement of Law or any Contractual Obligation of Borrower the violation of which is reasonably likely to have a Material Adverse Effect on the business, operations, assets or financial or other condition of Borrower or Borrower and its Subsidiaries taken as a whole or create or result in the creation of any Lien on any assets of Borrower or any of its Subsidiaries (other than the Liens created by the Collateral Documents).

1.06 No Material Litigation. Except as disclosed on Schedule 5.06 hereto, no litigation, investigation or proceeding of or before any arbitrator, court or Governmental Authority is pending or, to the knowledge of Borrower, threatened by or against Borrower or any of its Subsidiaries or against any of such parties' properties or revenues which is likely to be adversely determined and which, if adversely determined, is likely to have a Material Adverse Effect on the business, operations, property or financial or other condition of Borrower or Borrower and its Subsidiaries taken as a whole.

1.07 Taxes. The Loan Parties and, to the knowledge of the officers of each Loan Party, each of their Subsidiaries, have filed or caused to be filed all tax returns that are required to be filed and have paid all Taxes shown to be due and payable on said returns or on any assessments made against them or any of their property other than Taxes which are being contested in good faith by appropriate proceedings and as to which Borrower or applicable Subsidiary has established adequate reserves in conformity with GAAP.

1.08 Investment Company Act. No Loan Party or Subsidiary thereof is an "investment company" or a company "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

1.09 Equity Interests in Borrower; Loan Parties; Subsidiaries. No Loan Party has any Subsidiaries other than those specifically disclosed in Schedule 5.09, and all of the outstanding equity interests in such Subsidiaries have been validly issued, are fully paid and non-assessable and are owned by a Loan Party in the amounts specified on Schedule 5.09 free and clear of all Liens except Permitted Liens. All of the outstanding equity interests in each Loan Party have been validly issued, are fully paid and non-assessable and are owned by the Person(s) and in the amounts specified on Schedule 5.09 free and clear of all Liens except Permitted Liens. Set forth on Schedule 5.09 is a complete and accurate list of all Loan Parties, showing as of the Closing Date (as to each Loan Party) the jurisdiction of its incorporation and its U.S. taxpayer identification number or, in the case of any Loan Party that does not have a U.S. taxpayer identification number, its unique identification number issued to it by the jurisdiction of its incorporation.

1.10 Federal Reserve Board Regulations. Neither any Loan Party nor any of their Subsidiaries is engaged or will engage, principally or as one of its important activities, in the business of extending credit for the purpose of "purchasing" or "carrying" any "margin stock" within the respective meanings of such terms under Regulation U of the FRB. No part of the proceeds of any Loan issued hereunder will be used for "purchasing" or "carrying" "margin stock" as so defined or for any purpose which violates, or which would be inconsistent with, the provisions of the Regulations of the Board of Governors of the Federal Reserve System.

1.11 ERISA. The Loan Parties are in compliance in all respects with the requirements of ERISA and no Reportable Event has occurred under any Plan maintained by any Loan Party which is likely to result in the termination of such Plan for purposes of Title IV of ERISA.

1.12 Assets. The Loan Parties have good and marketable title to their respective property and assets reflected in the Reference Financial Statements, except property and assets sold or otherwise disposed of in compliance with Section 7.08 below subsequent to the date of the Reference Financial Statements. No Loan Party has outstanding Liens on any of its properties or assets nor are there any

security agreements to which any Loan Party is a party, or title retention agreements, whether in the form of leases or otherwise, of any personal property except as reflected in the financial statements referred to in Section 5.01 above or as permitted under Section 7.01 below.

1.13 Securities Acts. The Loan Parties have not issued any unregistered securities in violation of the registration requirements of Section 5 of the Securities Act of 1933, as amended, or any other law, and are not violating any rule, regulation or requirement under the Securities Act of 1933, as amended, or the Securities and Exchange Act of 1934, as amended. The Loan Parties are not required to qualify an indenture under the Trust Indenture Act of 1939, as amended, in connection with its execution and delivery of the Loan Documents.

1.14 Consents, Etc. No consent, approval, authorization of, or registration, declaration or filing with any Governmental Authority or any other Person is required on the part of any Loan Party or any of their Subsidiaries in connection with the execution and delivery of the Loan Documents or the performance of or compliance with the terms, provisions and conditions hereof or thereof other than such as have been obtained on or prior to the Closing Date.

1.15 Copyrights, Patents, Trademarks and Licenses, etc. Each Loan Party owns or is licensed or otherwise has the right to use all of the patents, trademarks, service marks, trade names, copyrights, contractual franchises, authorizations and other rights that are reasonably necessary for the operation of its business, without conflict with the rights of any other Person. To the knowledge of Borrower, no slogan or other advertising device, product, process, method, substance, part or other material now employed, or now contemplated to be employed, by any Loan Party or Subsidiary thereof infringes upon any rights held by any other Person. Except as specifically disclosed in Schedule 5.06 hereto, as such Schedule may be updated by Borrower from time to time, no claim or litigation regarding any of the foregoing is pending or, to the knowledge of Borrower, threatened, and, to the knowledge of Borrower, no patent, invention, device, application, principle or any statute, law, rule, regulation, standard or code is pending or proposed, which, in either case, could, reasonably be expected to have a Material Adverse Effect on any Loan Party.

1.16 Hazardous Materials. To Borrower's knowledge, the operations of the Loan Parties comply substantially, and during the term of this Agreement will at all times comply substantially, in all respects with all applicable Environmental Laws; each Loan Party has obtained licenses, permits, authorizations and registrations required under applicable Environmental Law ("Environmental Permits") and necessary for its ordinary operations, all such Environmental Permits are in good standing, and each Loan Party is in compliance with all material terms and conditions of such Environmental Permits; neither any Loan Party nor any of their present properties or operations are subject to any outstanding written order from or agreement with any Governmental Authority nor subject to any judicial or docketed administrative proceeding, respecting any Environmental Law, Environmental Claim or Hazardous Material not previously disclosed; there are no Hazardous Materials or other conditions or circumstances existing or arising from operations prior to the date of this Agreement, with respect to any property of any Loan Party that would reasonably be expected to give rise to Environmental Claims; provided, however, that with respect to property leased from an unrelated third party, the foregoing representation is made to the knowledge of Borrower. In addition: (a) the Loan Parties do not have or maintain any underground storage tanks which are not properly registered or permitted under applicable Environmental Laws or which are leaking or disposing of Hazardous Materials off-site, and (b) each Loan Party has notified all of its employees of the existence, if any, of any health hazard arising from the conditions of their employment and have met all notification requirements under Title III of the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (as amended) and all other applicable Environmental Laws.

1.17 Regulated Entities. No Loan Party is subject to regulation under the Federal Power Act, the Interstate Commerce Act, any state public utilities code, or any other Federal or state statute or regulation limiting its ability to incur Indebtedness.

1.18 Anti-Terrorism Regulations; Sanctions Concerns; Anti-Corruption Laws.

(a) Neither the making of the Loans nor the use of the proceeds thereof, nor the entering into Financial Contracts, nor the issuance of Letters of Credit, has violated or will violate the Trading with the Enemy Act, as amended, or any of the foreign assets control regulations of the United States Treasury Department (31 CFR, Subtitle B, Chapter V, as amended) or the Anti-Terrorism Order or any enabling legislation or executive order relating to any of the same. Without limiting the generality of the foregoing, neither any Loan Party nor any of their Subsidiaries: (i) is or will become a blocked Person

described in Section 1 of the Anti-Terrorism Order, or (ii) does nor will it engage in any dealings or transactions or otherwise be associated with any such blocked Person.

(b) No Loan Party, nor any Subsidiary thereof, nor, to the knowledge of Borrower and its Subsidiaries, any director, officer, employee, agent, Affiliate or representative thereof, is an individual or entity currently the subject of any Sanctions, nor is any Loan Party or any Subsidiary thereof located, organized or resident in a Designated Jurisdiction.

(c) The Loan Parties have conducted their business in compliance with applicable anti-corruption laws and have instituted and maintained policies and procedures designed to promote and achieve compliance with such laws.

1.19 Solvency. The Loan Parties are, and after giving effect to the transactions contemplated hereby will be, Solvent.

1.20 Insurance. The properties of each Loan Party are insured with financially sound and reputable insurance companies not affiliated with any Loan Party, in such amounts, with such deductibles and covering such risks as are customarily carried by companies engaged in similar businesses and owning similar properties in localities where each such Loan Party operates. Insurance maintained by the Loan Parties complies with the requirements of this Agreement and the other Loan Documents.

1.21 Disclosure. Borrower has disclosed to Lender all agreements, instruments and corporate or other restrictions to which it or any of its Subsidiaries or any other Loan Party is subject, and all other matters known to it, that, individually or in the aggregate, could reasonably be expected to result in a Material Adverse Effect. No report, financial statement, certificate or other information furnished (whether in writing or orally) by or on behalf of any Loan Party to Lender in connection with the transactions contemplated hereby and the negotiation of this Agreement or delivered hereunder or under any other Loan Document (in each case as modified or supplemented by other information so furnished) contains any material misstatement of fact or omits to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided that, with respect to projected financial information, Borrower represents only that such information was prepared in good faith based upon assumptions believed to be reasonable at the time.

1.22 Collateral Documents. The provisions of the Collateral Documents are effective to create in favor of Lender a legal, valid and enforceable first priority Lien (subject to Permitted Liens) on all right, title and interest of the respective Loan Parties in the Collateral described therein. Except for filings completed prior to the Closing Date and as contemplated hereby and by the Collateral Documents, no filing or other action will be necessary to perfect or protect such Liens.

1.23 Labor Matters. There are no collective bargaining agreements or Multiemployer Plans covering the employees of any Loan Party or any of their Subsidiaries as of the Closing Date and neither any Loan Party nor any Subsidiary thereof has suffered any strikes, walkouts, work stoppages or other material labor difficulty within the last five (5) years preceding the Closing Date.

ARTICLE VI. AFFIRMATIVE COVENANTS

Borrower covenants and agrees that on the Closing Date and thereafter until the Facility Termination Date, Borrower shall, and shall cause each Loan Party to:

1.01 Financial Statements. Deliver to Lender, in form and detail satisfactory to Lender:

(a) Within forty five (45) days after the last day of each fiscal quarter of Borrower, (i) consolidated financial statements of Borrower for such quarter, in form and substance reasonably satisfactory to Borrower, together with, for the periods ending April 30, 2022 through October 31, 2022, the fiscal year-to-date quarterly financial statements for Borrower and its Subsidiaries for the corresponding periods in 2020 and 2021 (ii) a Compliance Certificate; and (iii) a receivables aging report, a payables aging report and an inventory report for Borrower as of the last day of such calendar quarter, said reports to be in form and detail satisfactory to Lender;

(b) Annually, within thirty (30) days after filing with the SEC, beginning with the fiscal year ended July 31, 2022, (i) the consolidated annual financial statements of Parent presented fairly in

accordance with GAAP, audited by and accompanied by an unqualified report of a firm of independent certified public accountants reasonably satisfactory to Lender, (ii) company prepared reconciling financial statements covering Borrower and its Subsidiaries during the period covered by the audit referred to in the foregoing clause (i), prepared under GAAP (subject to the absence of footnotes and normal year-end adjustments), consistently applied, in form and detail satisfactory to Lender, and certified by a Responsible Officer of Borrower, and (iii) consolidating schedules showing the operations of Parent, Borrower and its Subsidiaries during the period covered by such audit, which schedules shall be prepared or reviewed by such firm of independent public accountants;

(c) Other Information. Promptly furnish or cause to be furnished to Lender such additional financial and other information concerning the financial condition and business operations of the Loan Parties and their Subsidiaries as Lender may from time to time reasonably request, including, without limitation, financial statements of the Loan Parties and their Subsidiaries, tax returns, lists of assets and liabilities, agings of accounts receivable and accounts payable, inventory schedules, budgets, forecasts, such information as is necessary to enable Lender to participate out any of its interests in the Loans and other Obligations hereunder or to enable other financial institutions to become signatories hereto.

1.02 Payment of Indebtedness. Pay, discharge or otherwise satisfy at or before maturity or before it becomes delinquent, defaulted or accelerated, as the case may be, all its Indebtedness (including Taxes), except Indebtedness being contested in good faith and for which provision is made to the satisfaction of Lender for the payment thereof in the event Borrower or such Subsidiary is found to be obligated to pay such Indebtedness and which Indebtedness is thereupon promptly paid by Borrower or such Subsidiary.

1.03 Maintenance of Existence and Properties. Except as otherwise permitted pursuant to Section 7.03 below, maintain its corporate existence and maintain all rights, privileges, licenses, approvals, franchises, properties and assets necessary or desirable in the normal conduct of its business other than those assets transferred or otherwise disposed of as permitted pursuant to Section 7.08 below, and comply with all Contractual Obligations and Requirements of Law the failure to comply with which is reasonably likely to have a Material Adverse Effect on the business, operations, assets or financial or other condition of Borrower or Borrower and its Subsidiaries taken as a whole.

1.04 Inspection of Property; Books and Records; Discussions. Keep proper books of record and account in which full, true and correct entries in conformity with GAAP and all Requirements of Law the failure to comply with which is reasonably likely to have a Material Adverse Effect on the business, operations, assets or financial or other condition of Borrower or Borrower and its Subsidiaries taken as a whole shall be made of all dealings and transactions in relation to its business and activities, and permit representatives of Lender to visit and inspect any of its properties and examine and make abstracts from any of its books and records at any reasonable time and as often as may reasonably be desired by Lender and to discuss the business, operations, properties and financial and other condition of Borrower and any of its Subsidiaries with officers and employees of such parties, and with their independent certified public accountants. Promptly cooperate with Lender's reasonable requests in any audit, appraisal or other inspection of inventory, Accounts and other real and personal property of any Loan Party and/or Subsidiary thereof.

1.05 Notices. Promptly give written notice to Lender of:

(a) The occurrence of any Default or Event of Default;

(b) Any litigation or proceeding affecting any Loan Party or any of their Subsidiaries involving amounts in excess of \$250,000.00 in the aggregate or which is likely to be resolved adversely and which if resolved adversely would reasonably be expected to have a Material Adverse Effect on the business, operations, property, or financial or other condition of Borrower or Borrower and its Subsidiaries taken as a whole;

(c) Any other event constituting a material adverse change in the business, operations, property or financial or other condition of Borrower or Borrower and its Subsidiaries taken as a whole; and

(d) The occurrence of a Parent Change of Control.

1.06 Expenses. Pay all reasonable out-of-pocket expenses of Lender (including fees and disbursements of counsel): (a) incident to the preparation, negotiation and administration of the Loan Documents and the protection of the rights of Lender under the Loan Documents, and (b) incident to the enforcement of payment of the Obligations, whether by judicial proceedings or otherwise, including, without limitation, in connection with bankruptcy, insolvency, liquidation, reorganization, moratorium or other similar proceedings involving a Loan Party or a "workout" of the Obligations. The obligations of Borrower under this Section 6.06 shall be effective and enforceable whether or not any Loan is funded or Letter of Credit issued hereunder and shall survive payment of all other Obligations.

1.07 Loan Documents. Comply with and observe all terms and conditions of the Loan Documents.

1.08 Insurance. Obtain and maintain insurance with financially sound and reputable insurance companies not Affiliates of any Loan Party in such amounts and against such risks as are usually carried by corporations engaged in similar businesses similarly situated, and furnish Lender on request full information as to all such insurance. Cause Lender to be named as lenders' loss payable, loss payee or mortgagee, as its interest may appear, and/or additional insured with respect of any such insurance providing liability coverage or coverage in respect of any Collateral, and cause, unless otherwise agreed to by Lender, each provider of any such insurance to agree, by endorsement upon the policy or policies issued by it or by independent instruments furnished to Lender that it will give Lender prior written notice before any such policy or policies shall be altered or cancelled. Obtain and maintain commercial general liability coverage with a minimum \$1,000,000 each occurrence and \$2,000,000.00 general aggregate, and provide a certificate showing Lender as an additional insured with a stipulation that coverage will not be cancelled or diminished without prior written notice to Lender, and without disclaimer of the insurer's liability for failure to give such notice. Obtain and maintain employer liability insurance in such amounts as may be required by the state(s) in which each such Person operates relating to claims by each such Person's employees for personal injury or death. Provide evidence of insurance required under the Loan Documents upon Lender's request. Borrower shall maintain its existing credit insurance policies for their current term (provided that Borrower shall not be required to renew such credit insurance policies), and shall cause Lender to be named as loss payee thereunder. The foregoing notwithstanding, it shall not be an Event of Default if Borrower's business interruption insurance policy expires without replacement, so long as Borrower obtains and provides Lender with satisfactory evidence of a replacement business interruption insurance policy that complies with the requirements hereof no later than June 30, 2022.

1.09 Hazardous Materials.

(a) Conduct its operations and keep and maintain all its Properties in compliance with all applicable Environmental Laws.

(b) Give prompt written notice to Lender, but in no event later than ten days after a an officer of Borrower or any Loan Party becoming aware thereof, of the following: (i) any enforcement, cleanup, removal or other governmental or regulatory actions instituted, completed or threatened in writing against any Loan Party or any of their respective properties pursuant to any applicable Environmental Laws, (ii) all other Environmental Claims, and (iii) any environmental or similar condition on any real property adjoining or in the vicinity of the property of any Loan Party that would reasonably be anticipated to cause such property or any part thereof to be subject to any restrictions on the ownership, occupancy, transferability or use of such property under any Environmental Laws.

(c) Upon the written request of Lender, submit to Lender, at Borrower's sole cost and expense, at reasonable intervals, a report providing an update of the status of any environmental, health or safety compliance, hazard or liability issue identified in any notice required pursuant to this section.

(d) At all times indemnify and hold harmless Lender from and against all liability arising out of any Environmental Claims, except those Environmental Claims caused as a primary and direct result of the gross negligence or willful misconduct of Lender.

1.10 ERISA. Furnish to Lender:

(a) Promptly and in any event within ten (10) days after Borrower knows of the occurrence of a Reportable Event with respect to a Plan with regard to which notice must be provided to the PBGC, a copy of such materials required to be filed with the PBGC with respect to such Reportable

Event and in each such case a statement of the chief financial officer of Borrower setting forth details as to such Reportable Event and the action which Borrower proposes to take with respect thereto;

(b) Promptly and in any event within ten (10) days after Borrower knows of any condition existing with respect to a Plan which presents a material risk of termination of the Plan, imposition of an excise tax, requirement to provide security to the Plan or incurrence of other liability by Borrower or any ERISA Affiliate, a statement of the chief financial officer of Borrower describing such condition;

(c) At least ten (10) days prior to the filing by a plan administrator of a Plan of a notice of intent to terminate such Plan, a copy of such notice;

(d) Promptly and in no event more than ten (10) days after the filing thereof with the Secretary of the Treasury, a copy of any application by Borrower or an ERISA Affiliate for a waiver of the minimum funding standard under Section 412 of the Code;

(e) Promptly and in any event within ten (10) days after Borrower knows of any event or condition which would be reasonably likely to constitute grounds under section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Plan, a statement of the chief financial officer of Borrower describing such event or condition;

(f) Promptly and in no event more than ten (10) days after receipt thereof by Borrower or any ERISA Affiliate, a copy of each notice received by Borrower or an ERISA Affiliate concerning the imposition of any withdrawal liability under section 4202 of ERISA; and

(g) Promptly after receipt thereof a copy of any notice Borrower or any ERISA Affiliate may receive from the PBGC or the Internal Revenue Service with respect to any Plan or Multiemployer Plan; provided, however, that this clause (g) shall not apply to notices of general application promulgated by the PBGC or the Internal Revenue Service.

1.11 Compliance with Laws and Contractual Obligations. Comply, in all material respects with all Requirements of Law and Contractual Obligations the failure to comply with which is reasonably likely to have a Material Adverse Effect on the business, operations, assets or financial or other condition of Borrower or Borrower and its consolidated Subsidiaries taken as a whole.

1.12 Further Assurances. Promptly upon reasonable request by Lender, execute, acknowledge, deliver, record, re-record, file, re-file, register and re-register, any and all such further acts, deeds, conveyances, security agreements, mortgages, assignments, estoppel certificates, financing statements and continuations thereof, termination statements, notices of assignment, transfers, certificates, assurances and other instruments Lender may reasonably require from time to time in order: (a) to carry out more effectively the purposes of this Agreement and the other Loan Documents, (b) to subject to the Liens created by any of the Collateral Documents any of the properties, rights or interests covered by any of the Collateral Documents, (c) to perfect and maintain the validity, effectiveness and priority of any of the Collateral Documents and the Liens intended to be created thereby, and (d) to better assure, convey, grant, assign, transfer, preserve, protect and confirm to Lender the rights granted or now or hereafter intended to be granted to Lender under any Loan Document or under any other document executed in connection therewith.

1.13 Future Subsidiary Guarantors. If following the Closing Date there shall be formed or acquired a Subsidiary of any Loan Party organized in the United States, such Subsidiary shall, upon the request of Lender, execute and deliver to Lender: (a) a guaranty of the Obligations in form and substance acceptable to Lender (an "Additional Subsidiary Guaranty"), (b) as collateral security for such Additional Subsidiary Guaranty, a security agreement in form and substance acceptable to Lender (an "Additional Guarantor Security Agreement"), and (c) such UCC-1 financing statements as Lender shall request.

1.14 Foreign Exchange Relationship. Borrower and its Subsidiaries shall use Lender for all of their foreign exchange transactions.

ARTICLE VII.
NEGATIVE COVENANTS

Borrower hereby covenants and agrees that on the Closing Date and thereafter until the Facility Termination Date, Borrower shall not, nor shall it permit any Loan Party to, directly or indirectly:

1.01 Liens. Create, incur, assume or suffer to exist any Lien upon any of its property, assets or revenues, whether now owned or hereafter acquired, or sign or file or suffer to exist under the Uniform Commercial Code of any jurisdiction a financing statement that names Borrower or any of its Subsidiaries as debtor, or assign any accounts or other right to receive income, other than the following:

(a) Liens and encumbrances in favor of Lender under the Collateral Documents;

(b) Liens or charges for current Taxes, assessments or other governmental charges which are not delinquent or which remain payable without penalty, or the validity of which are contested in good faith by appropriate proceedings upon stay of execution of the enforcement thereof, provided Borrower or such Subsidiary, as applicable, shall have set aside on its books and shall maintain adequate reserves for the payment of same in conformity with GAAP;

(c) Liens, deposits or pledges made to secure statutory obligations, surety or appeal bonds, or bonds to obtain, or to obtain the release of, attachments, writs of garnishment or for stay of execution, or to secure the performance of bids, tenders, contracts (other than for the payment of borrowed money), leases or for purposes of like general nature in the ordinary course of the business of Borrower or such Subsidiary;

(d) Purchase money security interests for property hereafter acquired, conditional sale agreements, or other title retention agreements, with respect to property hereafter acquired; provided, however, that no such security interest or agreement shall extend to any property other than the property acquired;

(e) Statutory Liens of landlord's, carriers, warehousemen, mechanics, materialmen and other similar Liens imposed by law and created in the ordinary course of business for amounts not yet due or which are being contested in good faith by appropriate proceedings and with respect to which adequate reserves are being maintained in conformity with GAAP;

(f) Attachment and judgment Liens not otherwise constituting an Event of Default any of which Liens are in existence less than thirty (30) days after the entry thereof or with respect to which execution has been stayed, payment is covered in full by insurance, or Borrower or such Subsidiary shall in good faith be prosecuting an appeal or proceedings for review and shall have set aside on its books such reserves as may be required by GAAP with respect to such judgment or award;

(g) deposits or pledges of cash to secure obligations under workmen's compensation, social security or similar laws, or under unemployment insurance (but excluding Liens arising under ERISA) pertaining to a Borrower's or its Subsidiary's employees arising in the ordinary course of business;

(h) Liens incidental to the conduct of the business or the ownership of the property of Borrower or such Subsidiary which were not incurred in connection with borrowed money and which do not in the aggregate materially detract from the value of the property or materially impair the use thereof in the operation of the business and which, in any event, when added to Indebtedness secured by liens permitted under clause (c) of this Section 7.01 do not exceed \$500,000.00; and

(i) Liens in favor of Midcap Financial Trust for the period from the Closing Date through the date that is ten (10) days after the Closing Date, so long as such Liens only secure non-material obligations to pay fees and costs, and provided that it shall not be an Event of Default if Borrower pays all obligations secured by such Liens and makes commercially reasonable efforts to cause such Liens to be released.

1.02 Indebtedness. Create, incur, assume or suffer to exist any Indebtedness, except:

(a) the Obligations;

- (b) Trade debt incurred in the ordinary course of business;
- (c) Indebtedness secured by Liens permitted under Section 7.01 above;
- (d) letters of credit outstanding as of the Closing Date;
- (e) Indebtedness incurred as a result of endorsing negotiable instruments received in the ordinary course of business;
- (f) customary indemnification obligations in favor of purchasers arising in connection with dispositions of personal property assets permitted under Section 7.08;
- (g) Indebtedness incurred in the ordinary course of business in respect of credit cards, credit card processing services, debit cards, stored value cards, commercial cards (including so-called "purchase cards", "procurement cards" or "p-cards"), or cash management products and services, in each case incurred in the Ordinary Course of Business and in an aggregate amount not to exceed \$500,000 at any time outstanding;
- (h) Subordinated Debt; and
- (i) any other unsecured any other unsecured Debt in an aggregate amount not to exceed \$500,000 at any time outstanding in an aggregate amount not to exceed \$500,000 at any time outstanding.

1.03 Consolidation and Merger. Liquidate or dissolve or enter into any consolidation, merger, partnership, joint venture, syndicate or other combination other than mergers and consolidations of Subsidiaries into Borrower in which Borrower shall be the surviving corporation and mergers and consolidations of Subsidiaries with other Subsidiaries.

1.04 Acquisitions. Purchase or acquire or incur liability for the purchase or acquisition of any or all of the assets or business of any Person, firm or corporation.

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

1.06 Purchase or Retirement of Stock. Acquire, purchase, redeem or retire any shares of its capital stock now or hereafter outstanding unless at the date thereof there does not exist an Event of Default or Default.

1.07 Investments; Advances. Make or commit to make any advance, loan or extension of credit (other than (a) extensions of credit to customers and consignment transactions in the ordinary course of business, and (b) extensions of credit to employees and officers of Borrower and by Borrower to its Affiliates and Subsidiaries in an amount not to exceed \$50,000 in the aggregate at any date outstanding) or capital contribution to, or purchase any stock, bonds, notes, debentures or other securities of, or make any other investment in, any Person.

1.08 Sale of Assets. Sell, lease, assign, transfer or otherwise Dispose of any of its assets (other than obsolete or worn out property or in connection with the discontinuance of operations, any such discontinuance to be based upon a reasonable business plan), whether now owned or hereafter acquired, other than in the ordinary course of business as presently conducted and at fair market value.

1.09 Capital Expenditures. Make or commit to make Capital Expenditures in excess of \$3,000,000.00 in the aggregate during any fiscal year.

1.10 Subordinated Debt. Make or permit to be made any prepayment on account of the Subordinated Debt other than as expressly permitted under the terms of the operative subordination agreement relating thereto, or amend or consent to the amendment or waiver of any term or provision of such Subordinated Debt without the prior written consent of Lender, such consent not to be unreasonably withheld or delayed.

1.11 Intentionally omitted.

1.12 Use of Proceeds. Use the proceeds of any Credit Extension, whether directly or indirectly, and whether immediately, incidentally or ultimately, to purchase or carry margin stock (within the meaning of Regulation U of the FRB) or to extend credit to others for the purpose of purchasing or carrying margin stock or to refund Indebtedness originally incurred for such purpose. Use the proceeds of any Credit Extension for any purpose other than working capital and general corporate purposes.

1.13 Financial Covenants.

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

(b) Cash Flow Leverage Ratio. Permit the Cash Flow Leverage Ratio as of the last day of any fiscal quarter to be greater than 2.00:1.00.

(c) Fixed Charge Coverage Ratio. Permit the Fixed Charge Coverage Ratio as of the last day of any fiscal quarter to be less than 1.50:1.00.

ARTICLE VIII.
EVENTS OF DEFAULT AND REMEDIES

1.01 Events of Default. Any of the following shall constitute an Event of Default:

(a) Non-Payment. Borrower shall fail to pay any principal on the Loans or any L/C Obligation on the date when due or fail to pay within five days of the date when due any other Obligation under the Loan Documents; or

(b) Representations and Warranties. Any representation or warranty made by Borrower in any Loan Document shall be inaccurate or incomplete in any material respect on or as of the date made; or

(c) Specific Covenants. Any Loan Party shall fail to maintain its corporate existence except as otherwise permitted hereunder or Borrower shall default in the observance or performance of any covenant or agreement contained in Section 6.15 or Article VII above; or

(d) Other Defaults. Borrower shall fail to observe or perform any other term or provision contained in the Loan Documents to which it is party and such failure shall continue for thirty (30) days; or

(e) Cross-Default. (i) Any Loan Party or Subsidiary thereof shall default in any Indebtedness to Lender, or (ii) any Loan Party or Subsidiary thereof shall default in any payment of principal of or interest on any Indebtedness (other than the Obligations) in an aggregate amount in excess of \$500,000.00, or (iii) any Person shall default in the payment of any Indebtedness in an aggregate amount in excess of \$500,000.00 upon which any Loan Party is contingently liable, or (iv) any other event shall occur, the effect of which is to permit such Indebtedness to be declared or otherwise to become due prior to its stated maturity; or

(f) Insolvency Proceedings. (i) Any Loan Party shall commence any case, proceeding or other action (A) under any existing or future law of any jurisdiction, domestic or foreign,

relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking to have an order for relief entered with respect to it, or seeking to adjudicate it a bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to it or its debts, or (B) seeking appointment of a receiver, trustee, custodian or other similar official for it or for all or any substantial part of its assets, or any Loan Party shall make a general assignment for the benefit of its creditors; or (ii) there shall be commenced against any Loan Party any case, proceeding or other action of a nature referred to in clause (i) above which (A) results in the entry of an order for relief or any such adjudication or appointment, or (B) remains undismissed, undischarged or unbonded for a period of thirty (30) days; or (iii) there shall be commenced against any Loan Party any case, proceeding or other action seeking issuance of a warrant of attachment, execution, distraint or similar process against all or substantially all of its assets which results in the entry of an order for any such relief which shall not have been vacated, discharged, stayed, satisfied or bonded pending appeal within sixty (60) days from the entry thereof; or (iv) any Loan Party or any of their Subsidiaries shall take any action in furtherance of, or indicating its consent to, approval of, or acquiescence in (other than in connection with a final settlement), any of the acts set forth in clause (i), (ii) or (iii) above; or (v) any Loan Party or any of their Subsidiaries shall generally not, or shall be unable to, or shall admit in writing its inability to pay its debts as they become due; or

(g) ERISA. (i) Any Person shall engage in any "prohibited transaction" (as defined in Section 406 of ERISA or Section 4975 of the Code) involving any Plan, (ii) any "accumulated funding deficiency" (as defined in Section 302 of ERISA), whether or not waived, shall exist with respect to any Plan, (iii) a Reportable Event shall occur with respect to, or proceedings shall commence to have a trustee appointed, or a trustee shall be appointed, to administer or to terminate, any single employer plan (i.e. a plan that is not a Multiemployer Plan), which Reportable Event or institution of proceedings is, in the reasonable opinion of Lender, likely to result in the termination of such Plan for purposes of Title IV of ERISA, and, in the case of a Reportable Event, the continuance of such Reportable Event unremedied for ten days after notice of such Reportable Event pursuant to Section 4043(a), (c) or (d) of ERISA is given or the continuance of such proceedings for ten days after commencement thereof, as the case may be, (iv) any single employer plan shall terminate for purposes of Title IV of ERISA, (v) any withdrawal liability to a Multiemployer Plan shall be incurred by any Loan Party or (vi) any other event or condition shall occur or exist; and in each case in clauses (i) through (v) above, such event or condition, together with all other such events or conditions, if any, is likely to subject any Loan Party to any tax, penalty or other liabilities in the aggregate material in relation to the business, operations, property or financial or other condition of any Loan Party or any Loan Party and its Subsidiaries taken as a whole; or

(h) Judgments. One or more judgments or decrees shall be entered against any Loan Party in excess of \$100,000 in the aggregate that is not fully covered by insurance, and such judgments or decrees shall not have been vacated, discharged, stayed, satisfied or bonded pending appeal within thirty (30) days from the entry thereof; or

(i) Suspension of Business. Borrower shall voluntarily suspend the transaction of all of Borrower's businesses concurrently for more than one month in any calendar year, provided, however, that for the avoidance of doubt, a suspension of business due to Borrower's inability to conduct business for reasons outside of Borrower's control (including, without limitation, as a result of cyber attacks) or to Borrower's compliance with applicable laws or requirements of governmental authorities shall not be deemed voluntary; or

(j) Change of Control. There shall occur a Borrower Change of Control; or

(k) Financial Contracts. Any Loan Party fails to comply with or to perform any other material term, obligation, covenant or condition contained in any Financial Contract or in any of the related documents or to comply with or to perform any material term, obligation, covenant or condition contained in any other agreement between Lender and such Loan Party.

An Event of Default that occurs under this Agreement will continue to exist until it either is cured (to the extent expressly permitted) in accordance with the Loan Documents or otherwise expressly waived in accordance with this Agreement.

1.02 Remedies upon Event of Default. If any Event of Default occurs and is continuing, Lender may take any or all of the following actions:

(a) declare the Commitment of Lender to make Loans and L/C Credit Extensions to be terminated, whereupon such commitments and obligation shall be terminated;

(b) declare the unpaid principal amount of all outstanding Revolving Loans, all interest accrued and unpaid thereon, and all other amounts owing or payable hereunder or under any other Loan Document to be immediately due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived by Borrower;

(c) require that Borrower Cash Collateralize the L/C Obligations (in an amount equal to 110% of the then Outstanding Amount thereof); and

(d) exercise all rights and remedies available to it under applicable law and the Loan Documents;

provided, however, that upon the occurrence of an actual or deemed entry of an order for relief with respect to Borrower under the Bankruptcy Code of the United States, the Revolving Commitment of Lender shall automatically terminate, the unpaid principal amount of all outstanding Revolving Loans and all interest and other amounts as aforesaid shall automatically become due and payable, and the obligation of Borrower to Cash Collateralize the L/C Obligations as aforesaid shall automatically become effective, in each case without further act of Lender.

1.03 Application of Funds. After the exercise of remedies provided for in Section 8.02 (or after the Revolving Loans have automatically become immediately due and payable and the L/C Obligations have automatically been required to be Cash Collateralized as set forth in the proviso to Section 8.02), any amounts received on account of the Obligations shall be applied by Lender in such order as it elects in its sole discretion. Excluded Swap Obligations with respect to any Guarantor shall not be paid with amounts received from such Guarantor or its assets.

ARTICLE IX. MISCELLANEOUS

1.01 Amendments; Etc. No amendment or waiver of any provision of this Agreement or any other Loan Document, and no consent to any departure by Borrower or any other Loan Party therefrom, shall be effective unless in writing signed by Lender and Borrower or the applicable Loan Party, as the case may be, and each such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

1.02 Notices and Other Communications; Facsimile Copies. Except in the case of notices and other communications expressly permitted to be given by telephone (and except as provided in subsection (b) below), all notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by facsimile transmission or other electronic mail transmission to the address, facsimile number, electronic mail address or telephone number specified for such Person on Schedule 9.02, and all notices and other communications expressly permitted hereunder to be given by telephone shall be made to the applicable telephone number. Notices and other communications sent by hand or overnight courier service, or mailed by certified or registered mail, shall be deemed to have been given when received; notices and other communications sent by facsimile transmission shall be deemed to have been given when sent (except that, if not given during normal business hours for the Recipient, shall be deemed to have been given at the opening of business on the next Business Day for the Recipient). Notices and other communications delivered through electronic communications to the extent provided in subsection (b) below shall be effective as provided in such subsection (c).

(b) Lender or Borrower may each, in its discretion, agree to accept notices and other communications to it hereunder by electronic communications pursuant to procedures approved by it, provided that approval of such procedures may be limited to particular notices or communications.

(c) Unless Lender otherwise prescribes, (i) notices and other communications sent to an electronic mail address shall be deemed received upon the sender's receipt of an acknowledgement from the intended Recipient (such as by the "return receipt requested" function, as available, return electronic mail address or other written acknowledgement), and (ii) notices or communications posted to an Internet or intranet website shall be deemed received upon the deemed receipt by the intended Recipient at its electronic mail address as described in the foregoing clause (i) of notification that such notice or communication is available and identifying the website address therefor; provided that, for both clauses (i) and (ii), if such notice, email or other communication is not sent during the normal business hours of the Recipient, such notice, email or communication shall be deemed to have been sent at the opening of business on the next business day for the Recipient.

(d) Lender shall be entitled to rely and act upon any notices (including, without limitation, telephonic or electronic notices, and Loan Notices) purportedly given by or on behalf of any Loan Party even if (i) such notices were not made in a manner specified herein, were incomplete or were not preceded or followed by any other form of notice specified herein, or (ii) the terms thereof, as understood by the Recipient, varied from any confirmation thereof. The Loan Parties shall indemnify Lender and the Related Parties of each of them from all losses, costs, expenses and liabilities resulting from the reliance by such Person on each notice purportedly given by or on behalf of a Loan Party. All telephonic notices to and other telephonic communications with Lender may be recorded by Lender, and each of the parties hereto hereby consents to such recording.

1.03 No Waiver; Cumulative Remedies. No failure by Lender to exercise, and no delay by Lender in exercising, any right, remedy, power or privilege hereunder or under any other Loan Document shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder or under any other Loan Document preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. The rights, remedies, powers and privileges herein provided, and provided under each other Loan Document, are cumulative and not exclusive of any rights, remedies, powers and privileges provided by law.

1.04 Expenses; Indemnity; Damage Waiver.

(a) Costs and Expenses. Borrower shall pay on demand (i) all reasonable out-of-pocket expenses incurred by Lender (including, without limitation, the reasonable fees, charges and disbursements of counsel for Lender), in connection with the preparation, negotiation, execution, delivery and administration of this Agreement and the Loan Documents, or any amendments, modifications or waivers of the provisions hereof or thereof (whether or not the transactions contemplated hereby or thereby shall be consummated), and (i) all out-of-pocket expenses incurred by Lender (including, without limitation, the fees, charges and disbursements of any counsel for Lender), in connection with the enforcement or protection of Lender's rights (A) in connection with this Agreement and the Loan Documents, including, without limitation, Lender's rights under this Section, or (B) in connection with the loans and other extensions of credit made under this Agreement and the Loan Documents, including, without limitation, all such out-of-pocket expenses incurred during any appeal, bankruptcy, workout, restructuring or negotiations in respect of such loans and extensions of credit.

(b) Indemnification by Borrower. Borrower shall indemnify Lender and each of its officers, directors, employees, shareholders, and agents (each such Person being called an "Indemnitee") against, and hold each Indemnitee harmless from, any and all losses, claims, damages, liabilities and related expenses (including the fees, charges and disbursements of any counsel for any Indemnitee), incurred by any Indemnitee or asserted against any Indemnitee by any Person (including Borrower or any other Loan Party) arising out of, in connection with, or as a result of (i) the execution or delivery of this Agreement, any other Loan Document or any agreement or instrument contemplated hereby or thereby, the performance by the parties hereto of their respective obligations hereunder or thereunder or the consummation of the transactions contemplated hereby or thereby, or the administration of this Agreement and the other Loan Documents (including in respect of any matters addressed in Section 3.01), (ii) any Loan or the use or proposed use of the proceeds therefrom, (iii) any actual or alleged presence or release of Hazardous Materials on or from any property owned or operated by a Loan Party or any of its Subsidiaries, or any Environmental Liability related in any way to a Loan Party or any of its Subsidiaries, or (iv) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory, whether brought by a third party or by Borrower or any other Loan Party or any of Borrower's or such Loan Party's directors, shareholders or creditors, and regardless of whether any Indemnitee is a party thereto; provided that such indemnity shall not, as to any Indemnitee, be available to the extent that such losses, claims, damages, liabilities or related expenses (i) are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Indemnitee or (ii) result from a claim brought by Borrower or any other Loan Party against an Indemnitee for breach of such Indemnitee's obligations hereunder or under any other Loan Document, if Borrower or such Loan Party has obtained a final and nonappealable judgment in its favor on such claim as determined by a court of competent jurisdiction.

(c) Waiver of Consequential Damages, Etc. To the fullest extent permitted by applicable law, Borrower shall not assert, and Borrower hereby waives, and acknowledges that no other Person shall have, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement, any other Loan Document or any agreement or instrument

contemplated hereby, the transactions contemplated hereby or thereby, any Loan or the use of the proceeds thereof. No Indemnitee referred to in subsection (b) above shall be liable for any damages arising from the use by unintended Recipients of any information or other materials distributed to such unintended Recipients by such Indemnitee through telecommunications, electronic or other information transmission systems in connection with this Agreement or the other Loan Documents or the transactions contemplated hereby or thereby.

(d) Payments. All amounts due under this Section shall be payable on demand therefor.

(e) Survival. The agreements in this Section shall survive the termination of the Commitments and the repayment, satisfaction or discharge of all the other Obligations.

1.05 Payments Set Aside. To the extent that any payment by or on behalf of Borrower is made to Lender, or Lender exercises its right of set-off, and such payment or the proceeds of such set-off or any part thereof is subsequently invalidated, declared to be fraudulent or preferential, set aside or required (including pursuant to any settlement entered into by Lender in its discretion) to be repaid to a trustee, receiver or any other party, in connection with any proceeding under any Debtor Relief Law or otherwise, then, to the extent of such recovery, the obligation or part thereof originally intended to be satisfied shall be revived and continued in full force and effect as if such payment had not been made or such set-off had not occurred.

1.06 Successors and Assigns.

(a) Successors and Assigns Generally. This Agreement shall inure to the benefit of the parties hereto and their respective successors and assigns, except that Borrower may not assign any of its rights or obligations hereunder without Lender's prior written consent. Lender may at any time (i) assign all or any part of its rights and obligations hereunder to any other Person, and (ii) grant to any other Person participating interests in all or part of its rights and obligations hereunder, in each case without notice to or consent from Borrower. Borrower agrees to execute any documents reasonably requested by Lender in connection with any such assignment. All information provided by or on behalf of Borrower to Lender or its Affiliates may be furnished by Lender to its Affiliates and to any actual or proposed assignee or participant, subject to such recipients agreeing to be bound by Section 9.07(a), hereof.

(b) Certain Pledges. Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement (including under its Note or Notes, if any) to secure obligations of Lender, including any pledge or assignment to secure obligations to a Federal Reserve Bank; provided that no such pledge or assignment shall release Lender from any of its obligations hereunder or substitute any such pledgee or assignee for Lender as a party hereto.

1.07 Treatment of Certain Information; Confidentiality.

(a) Treatment of Certain Information. Lender agrees to maintain the confidentiality of the Information (as defined below), except that Information may be disclosed (i) to its Affiliates and to its Related Parties (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Information and instructed to keep such Information confidential), (ii) to the extent required or requested by any regulatory authority purporting to have jurisdiction over such Person or its Related Parties (including any self-regulatory authority, such as the National Association of Insurance Commissioners), (iii) to the extent required by applicable laws or regulations or by any subpoena or similar legal process, (iv) to any other party hereto, (v) in connection with the exercise of any remedies hereunder or under any other Loan Document or any action or proceeding relating to this Agreement or any other Loan Document or the enforcement of rights hereunder or thereunder, (vi) subject to an agreement containing provisions substantially the same as those of this Section, to (A) any assignee of or participant in, or any prospective assignee of or participant in, any of its rights and obligations under this Agreement or (B) any actual or prospective party (or its Related Parties) to any swap, derivative or other transaction under which payments are to be made by reference to any Loan Party and its obligations, this Agreement or payments hereunder, (vii) on a confidential basis to any rating agency in connection with rating any Loan Party or its Subsidiaries or the credit facilities provided hereunder, or (viii) with the consent of Borrower or to the extent such Information (A) becomes publicly available other than as a result of a breach of this Section or (B) becomes available to Lender or any of its Affiliates on a nonconfidential basis from a source other than Borrower not bound by a duty of confidentiality to Borrower, any Loan Party or any Subsidiary. For purposes of this Section, "Information"

means all information received from Borrower, any other Loan Party or any Subsidiary relating to Borrower, any Loan Party or any Subsidiary or any of their respective businesses, other than any such information that is available to Lender on a nonconfidential basis prior to disclosure by any Loan Party or any Subsidiary, provided that, in the case of information received from Borrower, any Loan Party or any Subsidiary after the date hereof, such information is clearly identified at the time of delivery as confidential. Any Person required to maintain the confidentiality of Information as provided in this Section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.

(b) Press Releases. The Loan Parties and their Affiliates agree that they will not in the future issue any press releases using the name of Lender or its Affiliates or referring to this Agreement or any of the Loan Documents without the prior written consent of Lender.

(c) Customary Advertising Material. The Loan Parties consent to the publication by Lender of customary advertising material relating to the transactions contemplated hereby using the name, product photographs, logo or trademark of the Loan Parties.

1.08 Right of Set-off. If an Event of Default shall have occurred and be continuing, Lender and each of its Affiliates is hereby authorized at any time and from time to time, to the fullest extent permitted by applicable law, to set off and apply any and all deposits (general or special, time or demand, provisional or final, in whatever currency) at any time held and other obligations (in whatever currency) at any time owing by Lender or any such Affiliate to or for the credit or the account of Borrower or any other Loan Party against any and all of the obligations of Borrower or such Loan Party now or hereafter existing under this Agreement or any other Loan Document to Lender or its Affiliates, irrespective of whether or not Lender or Affiliate shall have made any demand under this Agreement or any other Loan Document and although such obligations of Borrower or such Loan Party may be contingent or unmatured, secured or unsecured, or are owed to a branch, office or Affiliate of Lender different from the branch, office or Affiliate holding such deposit or obligated on such indebtedness. The rights of Lender and its Affiliates under this Section are in addition to other rights and remedies (including other rights of setoff) that Lender or its Affiliates may have. Lender agrees to notify Borrower promptly after any such setoff and application, provided that the failure to give such notice shall not affect the validity of such setoff and application.

1.09 Interest Rate Limitation. Notwithstanding anything to the contrary contained in any Loan Document, the interest paid or agreed to be paid under the Loan Documents shall not exceed the maximum rate of non-usurious interest permitted by applicable law (the "Maximum Rate"). If Lender shall receive interest in an amount that exceeds the Maximum Rate, the excess interest shall be applied to the principal of the Revolving Loans or, if it exceeds such unpaid principal, refunded to Borrower. In determining whether the interest contracted for, charged, or received by Lender exceeds the Maximum Rate, Lender may, to the extent permitted by applicable law, (a) characterize any payment that is not principal as an expense, fee, or premium rather than interest, (b) exclude voluntary prepayments and the effects thereof, and (c) amortize, prorate, allocate, and spread in equal or unequal parts the total amount of interest throughout the contemplated term of the Obligations hereunder.

1.10 Counterparts; Integration; Effectiveness. This Agreement and each of the other Loan Documents may be executed in counterparts (and by different parties hereto in different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Agreement, the other Loan Documents, and any separate letter agreements with respect to fees payable to Lender, constitute the entire contract among the parties relating to the subject matter hereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof. Except as provided in Section 4.01, this Agreement shall become effective when it shall have been executed by Lender and when Lender shall have received counterparts hereof that, when taken together, bear the signatures of each of the other parties hereto. Delivery of an executed counterpart of a signature page of this Agreement or any other Loan Document, or any certificate delivered thereunder, by fax transmission or other electronic mail transmission (e.g., "pdf" or "tif") shall be effective as delivery of a manually executed counterpart of this Agreement or such other Loan Document or certificate. Without limiting the foregoing, to the extent a manually executed counterpart is not specifically required to be delivered under the terms of any Loan Document, upon the request of any party, such fax transmission or electronic mail transmission shall be promptly followed by such manually executed counterpart.

1.11 Survival of Representations and Warranties. All representations and warranties made hereunder and in any other Loan Document or other document delivered pursuant hereto or thereto or in

connection herewith or therewith shall survive the execution and delivery hereof and thereof. Such representations and warranties have been or will be relied upon by Lender, regardless of any investigation made by Lender or on its behalf and notwithstanding that Lender may have had notice or knowledge of any Default at the time of any Credit Extension, and shall continue in full force until the Facility Termination Date.

1.12 Severability. If any provision of this Agreement or the other Loan Documents is held to be illegal, invalid or unenforceable, (a) the legality, validity and enforceability of the remaining provisions of this Agreement and the other Loan Documents shall not be affected or impaired thereby and (b) the parties shall endeavor in good faith negotiations to replace the illegal, invalid or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the illegal, invalid or unenforceable provisions. The invalidity of a provision in a particular jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

1.13 Governing Law; Jurisdiction; Etc. GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF CALIFORNIA.

(b) SUBMISSION TO JURISDICTION. BORROWER IRREVOCABLY AND UNCONDITIONALLY SUBMITS, FOR ITSELF AND ITS PROPERTY, TO THE NONEXCLUSIVE JURISDICTION OF THE COURTS OF THE STATE OF CALIFORNIA SITTING IN SAN DIEGO COUNTY AND OF THE UNITED STATES DISTRICT COURT OF THE SOUTHERN DISTRICT OF CALIFORNIA, AND ANY APPELLATE COURT FROM ANY THEREOF, IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT, OR FOR RECOGNITION OR ENFORCEMENT OF ANY JUDGMENT, AND EACH OF THE PARTIES HERETO IRREVOCABLY AND UNCONDITIONALLY AGREES THAT ALL CLAIMS IN RESPECT OF ANY SUCH ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN SUCH CALIFORNIA STATE COURT OR, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, IN SUCH FEDERAL COURT. EACH OF THE PARTIES HERETO AGREES THAT A FINAL JUDGMENT IN ANY SUCH ACTION OR PROCEEDING SHALL BE CONCLUSIVE AND MAY BE ENFORCED IN OTHER JURISDICTIONS BY SUIT ON THE JUDGMENT OR IN ANY OTHER MANNER PROVIDED BY LAW. NOTHING IN THIS AGREEMENT OR IN ANY OTHER LOAN DOCUMENT SHALL AFFECT ANY RIGHT THAT LENDER MAY OTHERWISE HAVE TO BRING ANY ACTION OR PROCEEDING RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT AGAINST BORROWER OR ITS PROPERTIES IN THE COURTS OF ANY JURISDICTION.

(c) WAIVER OF VENUE. BORROWER IRREVOCABLY AND UNCONDITIONALLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT IN ANY COURT REFERRED TO IN PARAGRAPH (B) OF THIS SECTION. EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, THE DEFENSE OF AN INCONVENIENT FORUM TO THE MAINTENANCE OF SUCH ACTION OR PROCEEDING IN ANY SUCH COURT.

(d) SERVICE OF PROCESS. EACH PARTY HERETO IRREVOCABLY CONSENTS TO SERVICE OF PROCESS IN THE MANNER PROVIDED FOR NOTICES IN SECTION 9.02. NOTHING IN THIS AGREEMENT WILL AFFECT THE RIGHT OF ANY PARTY HERETO TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY APPLICABLE LAW.

1.14 Waiver of Jury Trial. EACH PARTY HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PERSON HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PERSON WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

1.15 California Judicial Reference. In any judicial action or cause of action arising from this Agreement or otherwise, including without limitation contract and tort disputes, all decisions of fact and law shall, at the request of either party, be referred to a referee in accordance with Section 638 et seq. of the California Code of Civil Procedure if the action is before a court of any judicial district of the State of California. The referee shall prepare written findings of fact and conclusions of law, and judgment upon the referee's award shall be entered in court in which such proceeding was commenced. No provision or exercise of any right under this provision shall limit the right of the undersigned or Lender or other holder of this Agreement to exercise self-help remedies, such as foreclosure against or sale of any real or personal property collateral or security, or to obtain provisional or ancillary remedies from a court of competent jurisdiction before, during or after the pendency of any judicial reference proceeding. The exercise of a remedy does not waive the right of either party to resort to judicial reference. The parties further agree that all disputes, claims and controversies between them shall be brought in their individual capacities and not as a plaintiff or class member in any purported class or representative proceeding.

1.16 No Advisory or Fiduciary Responsibility. In connection with all aspects of each transaction contemplated hereby (including in connection with any amendment, waiver or other modification hereof or of any other Loan Document), Borrower and each other Loan Party acknowledges and agrees, and acknowledges its Affiliates' understanding, that: (a) (i) the services regarding this Agreement provided by Lender and any Affiliate thereof are arm's-length commercial transactions between Borrower, each other Loan Party and their respective Affiliates, on the one hand, and Lender and its Affiliates, on the other hand, (ii) each of Borrower and the other Loan Parties has consulted its own legal, accounting, regulatory and tax advisors to the extent it has deemed appropriate, and (iii) Borrower and each other Loan Party is capable of evaluating, and understands and accepts, the terms, risks and conditions of the transactions contemplated hereby and by the other Loan Documents; (b) (i) Lender and its Affiliates each is and has been acting solely as a principal and, except as expressly agreed in writing by the relevant parties, has not been, is not, and will not be acting as an advisor, agent or fiduciary, for Borrower, any other Loan Party or any of their respective Affiliates, or any other Person and (ii) neither Lender nor any of its Affiliates has any obligation to Borrower, any other Loan Party or any of their respective Affiliates with respect to the transactions contemplated hereby except those obligations expressly set forth herein and in the other Loan Documents; and (c) Lender and its Affiliates may be engaged in a broad range of transactions that involve interests that differ from those of Borrower, the other Loan Parties and their respective Affiliates, and neither Lender nor any of its Affiliates has any obligation to disclose any of such interests to Borrower, any other Loan Party or any of their respective Affiliates. To the fullest extent permitted by law, each of Borrower and each other Loan Party hereby waives and releases any claims that it may have against Lender or any of its Affiliates with respect to any breach or alleged breach of agency or fiduciary duty in connection with any aspect of any transactions contemplated hereby.

1.17 Electronic Execution of Assignments and Certain Other Documents. The words "deliver," "execute," "execution," "signed," "signature," and words of like import in any Loan Document or any other document executed in connection herewith shall be deemed to include electronic signatures, the electronic matching of assignment terms and contract formations on electronic platforms approved by Lender, or the keeping of records in electronic form, each of which shall be of the same legal effect, validity or enforceability as a manually executed signature, physical delivery thereof or the use of a paper-based recordkeeping system, as the case may be, to the extent and as provided for in any applicable law, including the Federal Electronic Signatures in Global and National Commerce Act or any other similar state laws based on the Uniform Electronic Transactions Act; provided that notwithstanding anything contained herein to the contrary, Lender is not under any obligation to agree to accept electronic signatures in any form or in any format unless expressly agreed to by Lender pursuant to procedures approved by it and provided, further, without limiting the foregoing, upon the request of any party, any electronic signature shall be promptly followed by such manually executed counterpart.

1.18 USA PATRIOT Act Notice. Lender hereby notifies Borrower and the other Loan Parties that pursuant to the requirements of the USA PATRIOT Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the "Act"), it is required to obtain, verify and record information that identifies each Loan Party, which information includes the name and address of each Loan Party and other information that will allow Lender to identify each Loan Party in accordance with the Act. Borrower and the Loan Parties agree to, promptly following a request by Lender, provide all such other documentation and information that Lender requests in order to comply with its ongoing obligations under applicable "know your customer" and anti-money laundering rules and regulations, including the Act.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first above written.

MODUSLINK CORPORATION,
a Delaware corporation,
as Borrower

By: /s/ Catherine L. Venable
Name: Catherine L. Venable
Title: Secretary

Signature Page to Credit Agreement

UMPQUA BANK,
an Oregon state-chartered bank,
as Lender

By: /s/ Lisa Fitch
Name: Lisa Fitch
Title: VP / Client Solutions Manager

Signature Page to Credit Agreement

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

I, Warren Lichtenstein, certify that:

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

Date: March 17, 2022

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

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

I, Jason Wong, certify that:

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

Date: March 17, 2022

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

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

In connection with the Quarterly Report on Form 10-Q of Steel Connect, Inc. (the "Company") for the fiscal quarter ended January 31, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Warren Lichtenstein, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

Date: March 17, 2022

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

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

In connection with the Quarterly Report on Form 10-Q of Steel Connect, Inc. (the "Company") for the fiscal quarter ended January 31, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Jason Wong, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

Date: March 17, 2022

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