

ModusLink Global Solutions Inc
Form 10-Q
March 12, 2010
Table of Contents

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, 2010

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 000-23262

ModusLink Global Solutions, Inc.

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)

1100 Winter Street
Waltham, Massachusetts
(Address of principal executive offices)

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

02451
(Zip Code)

(781) 663-5001
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
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 5, 2010, there were 44,294,317 shares outstanding of the registrant's Common Stock, \$.01 par value per share.

Table of Contents

MODUSLINK GLOBAL SOLUTIONS, INC.

FORM 10-Q

TABLE OF CONTENTS

	Page Number
Part I. FINANCIAL INFORMATION	
Item 1. Condensed Consolidated Financial Statements	
<u>Condensed Consolidated Balance Sheets January 31, 2010 and July 31, 2009 (unaudited)</u>	3
<u>Condensed Consolidated Statements of Operations Three and six months ended January 31, 2010 and 2009 (unaudited)</u>	4
<u>Condensed Consolidated Statements of Cash Flows Six months ended January 31, 2010 and 2009 (unaudited)</u>	5
<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	18
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	31
Item 4. <u>Controls and Procedures</u>	32
Part II. OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	33
Item 1A. <u>Risk Factors</u>	33
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	33
Item 5. <u>Other Information</u>	34
Item 6. <u>Exhibits</u>	34

Table of Contents**MODUSLINK GLOBAL SOLUTIONS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(In thousands, except per share and share amounts)****(Unaudited)**

	January 31, 2010	July 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 163,970	\$ 168,767
Available-for-sale securities	284	440
Short-term investments		10,000
Accounts receivable, trade, net of allowance for doubtful accounts of \$1,257 and \$3,767, at January 31, 2010 and July 31, 2009, respectively	150,311	171,090
Inventories, net	67,107	63,023
Prepaid expenses and other current assets	13,060	12,773
Total current assets	394,732	426,093
Property and equipment, net	56,348	61,178
Investments in affiliates	13,180	12,369
Goodwill	42,007	25,708
Other intangible assets, net	27,509	23,120
Other assets	9,741	7,353
Total assets	\$ 543,517	\$ 555,821
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current installments of obligations under capital leases	\$ 54	\$ 152
Accounts payable	112,756	122,125
Current portion of accrued restructuring	7,021	15,098
Accrued income taxes	1,377	1,803
Accrued expenses	43,259	42,277
Other current liabilities	5,817	5,793
Current liabilities of discontinued operations	1,602	1,866
Total current liabilities	171,886	189,114
Long-term portion of accrued restructuring	1,686	2,014
Obligations under capital leases, less current installments	64	194
Other long-term liabilities	16,437	16,490
Non-current liabilities of discontinued operations	2,057	2,411
Stockholders' equity:		
Preferred stock, \$0.01 par value per share. Authorized 5,000,000 shares; zero issued or outstanding at January 31, 2010 and July 31, 2009		
Common stock, \$0.01 par value per share. Authorized 1,400,000,000 shares; 44,293,804 issued and outstanding shares at January 31, 2010; 45,652,078 issued and 45,086,746 outstanding shares at July 31, 2009	443	457
Additional paid-in capital	7,427,477	7,437,877

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Treasury stock, at cost 565,332 shares at July 31, 2009		(3,813)
Accumulated deficit	(7,092,103)	(7,103,228)
Accumulated other comprehensive income	15,570	14,305
Total stockholders' equity	351,387	345,598
Total liabilities and stockholders' equity	\$ 543,517	\$ 555,821

See accompanying notes to unaudited condensed consolidated financial statements

Table of Contents**MODUSLINK GLOBAL SOLUTIONS INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(In thousands, except per share amounts)****(Unaudited)**

	Three Months Ended		Six Months Ended	
	January 31,		January 31,	
	2010	2009	2010	2009
Net revenue	\$ 235,488	\$ 260,461	\$ 482,167	\$ 551,874
Cost of revenue	203,954	228,240	414,619	491,583
Gross profit	31,534	32,221	67,548	60,291
Operating expenses:				
Selling, general and administrative	23,917	26,003	46,874	57,081
Amortization of intangible assets	1,599	1,372	2,972	2,740
Impairment of goodwill		164,682		164,682
Restructuring, net	36	656	165	7,074
Total operating expenses	25,552	192,713	50,011	231,577
Operating income (loss)	5,982	(160,492)	17,537	(171,286)
Other income (expense):				
Interest income	82	451	203	1,217
Interest expense	(158)	(177)	(285)	(417)
Other gains (losses), net	(289)	5,799	(580)	1,915
Equity in (losses) of affiliates and impairments	(848)	(10,975)	(1,712)	(11,510)
Total other income (expense)	(1,213)	(4,902)	(2,374)	(8,795)
Income (loss) from continuing operations before income taxes	4,769	(165,394)	15,163	(180,081)
Income tax expense	2,174	3,455	4,055	7,489
Income (loss) from continuing operations	2,595	(168,849)	11,108	(187,570)
Discontinued operations, net of income taxes:				
Income (loss) from discontinued operations	(29)	74	16	159
Net income (loss)	\$ 2,566	\$ (168,775)	\$ 11,124	\$ (187,411)
Basic and diluted earnings (loss) per share:				
Income (loss) from continuing operations	\$ 0.06	\$ (3.73)	\$ 0.25	\$ (4.12)
Income (loss) from discontinued operations	\$	\$	\$	\$
Net income (loss)	\$ 0.06	\$ (3.73)	\$ 0.25	\$ (4.12)
Shares used in computing basic earnings (loss) per share:	44,208	45,256	44,504	45,498

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Shares used in computing diluted earnings (loss) per share:	44,301	45,256	44,623	45,498
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See accompanying notes to unaudited condensed consolidated financial statements

Table of Contents**MODUSLINK GLOBAL SOLUTIONS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(in thousands)****(Unaudited)**

	Six Months Ended January 31,	
	2010	2009
Cash flows from operating activities of continuing operations:		
Net income (loss)	\$ 11,124	\$ (187,411)
Income from discontinued operations	16	159
Income (loss) from continuing operations	11,108	(187,570)
Adjustments to reconcile income (loss) from continuing operations to net cash provided by continuing operations:		
Depreciation	8,450	9,446
Impairment of goodwill		164,682
Amortization of intangible assets	2,972	2,740
Stock-based compensation	2,396	3,044
Non-operating losses (gains)	580	(1,915)
Equity in losses of affiliates and impairments	1,712	11,510
Changes in operating assets and liabilities, excluding effects from acquisition:		
Trade accounts receivable, net	21,940	9,518
Inventories	949	(721)
Prepaid expenses and other current assets	992	1,808
Accounts payable, accrued restructuring and accrued expenses	(18,359)	(26,704)
Refundable and accrued income taxes, net	(1,129)	892
Other assets and liabilities	(1,525)	16,176
Net cash provided by operating activities of continuing operations	30,086	2,906
Cash flows from investing activities of continuing operations:		
Additions to property and equipment	(3,438)	(6,604)
Redemption of short-term investments	10,000	
Proceeds from the sale of equity investments in affiliates	947	1,326
Business acquisition, net of cash acquired	(29,040)	
Investments in affiliates	(3,102)	(7,463)
Net cash used in investing activities of continuing operations	(24,633)	(12,741)
Cash flows from financing activities of continuing operations:		
Repayments on capital lease obligations	(329)	(259)
Proceeds from issuance of common stock	128	
Repurchase of common stock	(9,175)	(3,275)
Net cash used in financing activities of continuing operations	(9,376)	(3,534)
Cash flows from discontinued operations:		
Operating cash flows	(807)	(1,207)
Net cash used in discontinued operations	(807)	(1,207)

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Net effect of exchange rate changes on cash and cash equivalents	(67)	(10,646)
Net decrease in cash and cash equivalents	(4,797)	(25,222)
Cash and cash equivalents at beginning of period	168,767	160,585
Cash and cash equivalents at end of period	\$ 163,970	\$ 135,363

See accompanying notes to unaudited condensed consolidated financial statements

Table of Contents

MODUSLINK GLOBAL SOLUTIONS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

(1) NATURE OF OPERATIONS

ModusLink Global Solutions, Inc. (together with its consolidated subsidiaries, ModusLink Global Solutions or the Company), through its wholly owned subsidiaries, ModusLink Corporation (ModusLink), ModusLink Open Channel Solutions, Inc. (ModusLink OCS), ModusLink PTS, Inc. (ModusLink PTS) and Tech for Less, LLC, is a leader in global supply chain business process management serving technology-based clients in the computing, software, consumer electronics, storage and communications markets. The Company designs and executes critical elements in our clients' global supply chains to improve speed to market, product customization, flexibility, cost, quality and service. These benefits are delivered through a combination of innovative service solutions, integrated operations, proven business processes, an expansive global footprint and world-class technology.

On December 4, 2009, the Company acquired Tech for Less LLC (TFL). TFL is a processor and marketer of customer-returned consumer electronics and business technology products. The Company acquired 100% of the equity interest of TFL for approximately \$30.0 million, a working capital adjustment of approximately \$0.5 million and performance-based consideration of up to \$10.0 million if certain financial measures are met during calendar 2010, which is recorded at a fair value of approximately \$0.5 million at January 31, 2010.

The Company had fiscal 2009 revenue of approximately \$1.0 billion. As of January 31, 2010, the Company has an integrated network of strategically located facilities in various countries, including numerous sites throughout North America, Europe and Asia. The Company previously operated under the names CMGI, Inc. and CMG Information Services, Inc. and was incorporated in Delaware in 1986. ModusLink Global Solutions' address is 1100 Winter Street, Suite 4600, Waltham, Massachusetts 02451.

(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 condensed consolidated financial statements should be read in conjunction with the audited financial statements and related notes for the year ended July 31, 2009, which are contained in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) on October 14, 2009. The results for the three and six months ended January 31, 2010 are not necessarily indicative of the results to be expected for the full fiscal year.

The Company has six operating segments: Americas; Asia; Europe; ModusLink OCS; ModusLink PTS and TFL. The Company has three reportable segments, Americas, Asia and Europe. The Company reports the ModusLink PTS operating segment in aggregation with the Americas operating segment. In addition to its three reportable segments, the Company reports an All other category. The All other category represents the ModusLink OCS and TFL operating segments. The Company also has Corporate-level activity, which consists primarily of costs associated with certain corporate administrative functions such as legal and finance which are not allocated to the Company's subsidiary companies, administration costs related to the Company's venture capital activities and any residual results of operations from previously divested operations.

In accordance with 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 fiscal quarter ended January 31, 2010, the Company has evaluated subsequent events for potential recognition and disclosure through the day of issuance of these financial statements.

(3) RECENT ACCOUNTING PRONOUNCEMENTS

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In September 2009, the Financial Accounting Standards Board (FASB) ratified final Emerging Issues Task Force (EITF) consensus on the following issue: EITF Issue No. 08-1, Revenue Arrangements with Multiple Deliverables , which is also known as Accounting Standards Update (ASU) 2009-13, Revenue Recognition Topic 605: Multiple-Deliverable Revenue Arrangements (ASU 2009-13). ASU 2009-13 supersedes EITF Issue No. 00-21, Revenue Arrangements with Multiple Deliverables, which is now codified in the Accounting Standards Codification (ASC) under Topic 605, Revenue Recognition (ASC Topic 605). ASU 2009-13 retains the criteria from ASC Topic 605 for when delivered items in a multiple-deliverable arrangement should be considered separate units of accounting, but removes the previous separation criterion under ASC Topic 605 that objective and reliable evidence

Table of Contents

of fair value of any undelivered items must exist for the delivered items to be considered a separate unit or separate units of accounting. ASU 2009-13 is effective for fiscal years beginning on or after June 15, 2010. The Company is currently evaluating ASU 2009-13 and the impact, if any, that it may have on its results of operations or financial position.

In July 2009, the FASB issued Statement of Financial Accounting Standard (SFAS) No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, which is codified in the Accounting Standards Codification (ASC) under Topic 105, Generally Accepted Accounting Principles (ASC Topic 105). ASC Topic 105 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with U.S. GAAP (the GAAP hierarchy). ASC Topic 105 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. ASC Topic 105 became effective for the Company during the first quarter of fiscal 2010.

In April 2009, the FASB issued Staff Position No. FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments, which is now codified in the ASC under Topic 825, Financial Instruments (ASC Topic 825). This standard extends the disclosure requirements concerning the fair value of financial instruments to interim financial statements of publicly traded companies. This guidance is effective for interim or annual financial periods ending after June 15, 2009, and as such, became effective for the Company for the year ended July 31, 2009. Although our adoption did not materially impact our financial condition, results of operations, or cash flow, the Company is now required to provide additional disclosures which are included in Note 5.

(4) ACQUISITION

On December 4, 2009, the Company acquired TFL. TFL acquires returned and excess technology products from retailers, e-tailers, distributors and manufacturers. TFL tests and repairs the merchandise and remarkets it to consumers through its website and other direct channels. TFL provides the Company with a business-to-consumer asset recovery channel for technology products. TFL also extends the Company's aftermarket solution offering, which is designed to manage the complete range of post-sales activities for technology companies, from customer service, technical support and multichannel returns management to testing, repair and asset disposition.

The Company acquired 100% of the equity interest of TFL for approximately \$31.0 million which consisted of a cash payment of \$30.0 million from our existing cash and cash equivalents, a \$0.5 million cash payment related to the working capital adjustment and the acquisition date fair value of the additional performance-based consideration of approximately \$0.5 million. The \$0.5 million represents the acquisition date fair value of the additional performance-based consideration of up to \$10.0 million that may be paid if certain financial performance measures are met in calendar 2010 (the earnout). The estimated acquisition date fair value of the earnout that may be paid has been recorded as a component of other current liabilities . Any change in the fair value of the earnout subsequent to the acquisition date, including changes from events after the acquisition date, such as changes in the meeting of performance goals, will be recognized in earnings in the period the estimated fair value changes. A change in fair value of the earnout could have a material effect on the statement of operations and financial position in the period of the change in estimate. The final working capital adjustment is expected to be determined during the second half of fiscal year 2010 absent a dispute as to the final adjustment amount.

The following table presents the purchase price (in thousands) for the acquisition:

Cash consideration paid	\$ 30,000
Estimated adjustment to excess working capital	464
Earnout acquisition date fair value	500
 Total purchase price	 \$ 30,964

The Company also incurred expenses of approximately \$0.7 million related to the acquisition of TFL, which were expensed in accordance with ASC Topic 805.

The amounts recorded for the assets acquired and the liabilities assumed are based on the estimated fair value as of the acquisition date and are subject to revision as defined in ASC Topic 805.

Intangible assets were recorded for approximately \$7.4 million and will be amortized over estimated useful lives of 2 to 7 years, on a straight-line basis. Goodwill was recorded for approximately \$16.3 million and will not be amortized. Goodwill represents the excess purchase price over the fair value of the net assets acquired and will be deductible for income tax purposes. The amount paid in

Table of Contents

excess of the fair value of net assets acquired provides the Company with a business-to-consumer asset recovery channel for technology products and extends the Company's aftermarket solution offering, which is designed to manage the complete range of post-sales activities for technology companies, from customer service, technical support and multichannel returns management to testing, repair and asset disposition.

The fair value amounts recorded were as follows (in thousands):

Cash	\$ 883
Accounts receivable	729
Inventory	5,164
Prepaid expenses and other current assets	1,322
Property and equipment	445
Intangible assets	7,360
Goodwill	16,299
Accounts payable and accrued expenses	(1,078)
Deferred rent	(160)
 Total purchase price	 \$ 30,964

Operating results of TFL for the period comprising December 4, 2009, through January 31, 2010 have been included in the Company's All other category in the segment information included in Note 11. Approximately \$4.8 million in net revenue and a \$0.4 million net loss from TFL were included in the Company's results. The Company has omitted pro forma disclosures related to this acquisition as the pro forma effect of including the results of TFL since the beginning of fiscal year 2010 or fiscal year 2009 would not be materially different than the actual results reported.

(5) FAIR VALUE MEASUREMENTS

The Company utilizes the valuation hierarchy for disclosure of the inputs used to measure fair value in accordance with ASC Topic 820, "Fair Value Measurements and Disclosures" (ASC Topic 820). ASC Topic 820 establishes a three-tiered fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows: Level 1 inputs are observable, such as quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability either directly or indirectly through market corroboration, for substantially the full term of the financial instrument; and Level 3 inputs are unobservable inputs in which there is little or no market data, which requires the Company to develop its own assumptions.

ASC Topic 820 requires an entity to maximize the use of observable inputs where available and to minimize the use of unobservable inputs when determining fair value. On a recurring basis, the Company measures available-for-sale securities at fair value.

At January 31, 2010 the Company's available-for-sale securities of approximately \$0.3 million, which are carried at fair value and measured on a recurring basis, are comprised of equity investments and are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices.

In connection with the acquisition of TFL on December 4, 2009, the Company agreed to an earnout payment of up to \$10.0 million, which may be paid if certain financial performance measures are met in calendar 2010. The Company has recorded the acquisition-date estimated fair value of the earnout payment of \$0.5 million as a component of the consideration transferred by applying the income approach and using Level 3 inputs. The estimated acquisition-date fair value was measured based on the probability-adjusted present value of the amount expected to be paid. The probability adjusted earnout payment was discounted at 16.5%, the weighted-average cost of capital for the acquisition. The Company remeasures the fair value of the earnout payment at each reporting period using Level 3 inputs. The fair value of the earnout payment was \$0.5 million as of January 31, 2010 and is reflected in "Other current liabilities" in our consolidated balance sheets. There has been no change in fair value of the earnout payment between December 4, 2009 and January 31, 2010.

The following table presents a summary of the earnout payment and activity:

Table of Contents

	Three Months Ended January 31, 2010	Six Months Ended January 31, 2010
	(in thousands)	
Earnout Payment		
Balance at Beginning of Period	\$	\$
Purchase price earnout payment	500	500
Change in fair value of earnout payment		
Balance as of January 31, 2010	\$ 500	\$ 500

As of January 31, 2010 and July 31, 2009, the fair values of our other financial instruments, which include cash and cash equivalents, short-term investments, accounts receivable, accounts payable and short-term and long-term capital lease obligations, approximate the carrying amounts of the respective asset and/or liability due to the short-term nature of these financial instruments and the Company's best estimate of interest rates currently available for similar debt instruments.

(6) CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

The Company considers all highly liquid investments with original maturities of 90 days or less at the time of purchase to be cash equivalents. Investments with maturities greater than 90 days but less than twelve months at the time of purchase are considered short-term and classified as available-for-sale.

(7) GOODWILL AND INTANGIBLE ASSETS

The Company conducts its annual goodwill impairment test on July 31 of each fiscal year. In addition, if and when events or circumstances change that would indicate that the fair value of any of its reporting units may be below its carrying value, an interim test would be performed. In making this assessment, the Company relies on a number of factors including operating results, business plans, economic projections, anticipated future cash flows, and transactions and marketplace data. For goodwill testing purposes the Company has six reporting units, the Americas, Asia, Europe, ModusLink OCS, ModusLink PTS and TFL.

During the quarter ended January 31, 2010, approximately \$16.3 million of goodwill was recognized in the All other category of the Company's segment reporting as a result of the Company's acquisition of TFL. The Company's goodwill of \$42.0 million as of January 31, 2010 relates to the Company's ModusLink OCS, ModusLink PTS and TFL reporting units.

The Company conducted its annual impairment test on July 31, 2009 for the ModusLink OCS and ModusLink PTS reporting units. The Company completed step one of the annual impairment testing analysis and concluded that as of July 31, 2009, the goodwill related to ModusLink OCS and ModusLink PTS reporting units was not impaired.

During fiscal year 2009, the estimated fair values of the Company's reporting units were evaluated using an income approach by calculating the present value of the Company's estimated future cash flows. The Company determined the income approach was more representative of fair value. The income approach incorporates many assumptions including future growth rates, discount factors, expected capital expenditures, and income tax cash flows. In developing an appropriate discount rate to apply in its estimated cash flow models the Company developed an estimate of its weighted average cost of capital. Changes in economic and operating conditions impacting these assumptions could result in goodwill impairment in future periods.

Table of Contents

The changes in the carrying amount of goodwill allocated to the Company's reportable segments as of January 31, 2010 are as follows:

	Americas	Asia	Europe (in thousands)	All Other	Consolidated Total
Balance as of July 31, 2009					
Goodwill	\$ 94,477	\$ 73,948	\$ 30,108	\$ 5,857	\$ 204,390
Accumulated impairment charges	(74,626)	(73,948)	(30,108)		(178,682)
	19,851			5,857	25,708
Goodwill from the acquisition of TFL				16,299	16,299
Balance as of January 31, 2010					
Goodwill	94,477	73,948	30,108	22,156	220,689
Accumulated impairment charges	(74,626)	(73,948)	(30,108)		(178,682)
	\$ 19,851	\$	\$	\$ 22,156	\$ 42,007

(8) SHARE-BASED PAYMENTS

Stock options for the purchase of approximately 0.1 million shares of the Company's common stock were awarded to executives during the six months ended January 31, 2010 at a weighted average exercise price of \$7.27 per share. The weighted average option fair value was \$3.46 per share. The weighted average option fair value was calculated using the binomial-lattice model with the following weighted average assumptions: expected volatility of 65.8%, risk-free rate of 1.83% and expected life of 4.08 years.

Additionally, approximately 0.1 million nonvested shares were awarded to executives during the six months ended January 31, 2010 at a weighted average fair value of \$7.26 per share. The fair value of nonvested shares is determined based on the market price of the Company's common stock on the grant date.

The following table summarizes stock-based compensation expense related to employee stock options, employee stock purchases and nonvested shares for the three and six months ended January 31, 2010 and 2009, which was allocated as follows:

	Three Months Ended January 31, 2010		Six Months Ended January 31, 2010	
	2010	2009	2010	2009
	(in thousands)			
Cost of goods sold	\$ 84	\$ 92	\$ 175	\$ 223
Selling, general and administrative	1,241	1,268	2,221	2,821
	\$ 1,325	\$ 1,360	\$ 2,396	\$ 3,044

(9) OTHER GAINS (LOSSES), NET

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

	Three Months Ended January 31, 2010		Six Months Ended January 31, 2010	
	2010	2009	2010	2009

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	(in thousands)			
Foreign currency exchange gains (losses)	\$ (225)	\$ 5,405	\$ (496)	\$ 2,000
Gain on sale of investments	101	875	101	1,327
Impairment of investment				(975)
Loss on disposal of assets	(52)	(24)	(68)	(20)
Other, net	(113)	(457)	(117)	(417)
	\$ (289)	\$ 5,799	\$ (580)	\$ 1,915

The Company recorded foreign exchange losses of approximately \$0.2 million and \$0.5 million during the three and six months ended January 31, 2010, respectively. These net losses related primarily to realized and unrealized losses from foreign currency exposures and settled transactions in the Americas, Asia and Europe. During the three months ended January 31, 2010, the Company recorded a gain of approximately \$0.1 million to adjust a previously recorded gain on the acquisition by a third party of Virtual Ink, Inc. due to the satisfaction of conditions leading to the release of funds held in escrow.

The Company recorded foreign exchange gains of approximately \$5.4 million and \$2.0 million during the three and six months ended January 31, 2009, respectively. These net gains related primarily to realized and unrealized gains and losses related to foreign

Table of Contents

currency exposures and settled transactions in the Americas, Asia and Europe. During the three months ended January 31, 2009, the Company recorded a gain of approximately \$0.9 million to adjust a previously recorded gain on the acquisition by a third party of The Generations Network, Inc. (TGN) due to the satisfaction of conditions leading to the release of funds held in escrow. Additionally, during the six months ended January 31, 2009, a gain of approximately \$0.5 million was recorded to adjust a previously recorded gain on the acquisition by a third party of Avamar Technologies, Inc., due to the satisfaction of conditions leading to the release of funds held in escrow. TGN and Avamar Technologies, Inc. were @Ventures portfolio companies that were acquired by third parties in previous reporting periods. Also, during the six months ended January 31, 2009, the Company recorded a write-off of an investment in a private company for \$1.0 million. The \$1.0 million write-off was due to the carrying value of the investment exceeding the estimated value of the investment.

(10) RESTRUCTURING AND OTHER CHARGES

The following table summarizes the activity in the restructuring accrual for the three and six months ended January 31, 2010:

	Employee Related Expenses	Contractual Obligations (in thousands)	Asset Impairments	Total
Accrued restructuring balance at July 31, 2009	\$ 6,842	\$ 10,270	\$	\$ 17,112
Restructuring charges				
Restructuring adjustments	(53)	182		129
Cash paid	(2,743)	(3,607)		(6,350)
Non-cash adjustments		277		277
Accrued restructuring balance at October 31, 2009	\$ 4,046	\$ 7,122	\$	\$ 11,168
Restructuring charges				
Restructuring adjustments	(350)	386		36
Cash paid	(1,216)	(1,281)		(2,497)
Non-cash adjustments				
Accrued restructuring balance at January 31, 2010	\$ 2,480	\$ 6,227	\$	\$ 8,707

It is expected that the payments of employee-related charges will be substantially completed by July 31, 2010. The remaining contractual obligations primarily relate to facility lease obligations for vacant space resulting from the current and previous restructuring activities of the Company. The Company anticipates that contractual obligations will be substantially fulfilled by March 2014.

The net restructuring charges for the three and six months ended January 31, 2010 and 2009 would have been allocated as follows had the Company recorded the expense and adjustments within the functional department of the restructured activities:

	Three Months Ended January 31, 2010		Six Months Ended January 31, 2009	
	(in thousands)			
Cost of revenue	\$ 170	\$ (1,006)	\$ 303	\$ 2,891
Selling, general and administrative	(134)	1,662	(138)	4,183
	\$ 36	\$ 656	\$ 165	\$ 7,074

During the three and six months ended January 31, 2010, the Company recorded a net restructuring charge of approximately \$36,000 and \$0.2 million, respectively due to changes in estimates for previously recorded employee-related expenses and facilities lease obligations primarily based on changes to the underlying assumptions.

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During the three and six months ended January 31, 2009, the Company recorded a net restructuring charge of approximately \$0.7 million and \$7.1 million, respectively. These charges resulted primarily from a plan for a workforce reduction of approximately 500 employees, which was approved by management during the first quarter of fiscal year 2009 (the 2009 Plan). As a result of the 2009 Plan, for the three and six months ended January 31, 2009, the Company recognized a pre-tax restructuring charge of \$6.8 million and \$2.2 million, respectively related to the workforce reduction for severance payments. During the three and six months ended January 31, 2009, the Company recorded net adjustments of approximately \$1.5 million and \$1.9 million, respectively, due to reductions in estimates for previously recorded employee-related expenses and facility lease obligations primarily based on changes to the underlying assumptions. All actions related to the workforce reduction will be completed by July 31, 2010.

The following table summarizes the restructuring accrual by reportable segment and the Corporate-level activity for the three and six months ended January 31, 2010:

Table of Contents

	Americas	Asia	Europe	All Other (in thousands)	Corporate-level Activity	Consolidated Total
Accrued restructuring balance at July 31, 2009	\$ 8,104	\$ 410	\$ 7,734	\$ 404	\$ 460	\$ 17,112
Restructuring charges						
Restructuring adjustments	129					129
Cash paid	(3,887)	(266)	(2,029)	(110)	(58)	(6,350)
Non-cash adjustments	277					277
Accrued restructuring balance at October 31, 2009	\$ 4,623	\$ 144	\$ 5,705	\$ 294	\$ 402	\$ 11,168
Restructuring charges						
Restructuring adjustments	308	(54)	(218)			36
Cash paid	(1,049)	(62)	(1,223)	(95)	(68)	(2,497)
Non-cash adjustments						
Accrued restructuring balance at January 31, 2010	\$ 3,882	\$ 28	\$ 4,264	\$ 199	\$ 334	\$ 8,707

(11) SEGMENT INFORMATION

Based on the information provided to the Company's chief operating decision-maker (CODM) for purposes of making decisions about allocating resources and assessing performance; the Company has three reportable operating segments, Americas, Asia, and Europe. The Company reports the ModusLink PTS operating segment in aggregation with the Americas operating segment. In addition to its three reportable operating segments, the Company reports an All other category. The All other category represents activity of the Company's ModusLink OCS operating segment and TFL operating segment. The Company also has Corporate-level activity consisting primarily of costs associated with certain corporate administrative functions such as legal and finance, which are not allocated to the Company's subsidiary companies and administration costs related to the Company's venture capital investing. The All other category's balance sheet information includes ModusLink OCS and TFL. The Corporate-level activity balance sheet information includes cash and cash equivalents, available-for-sale securities, investments and other assets, which are not identifiable to the operations of the Company's operating segments.

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

Table of Contents

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

	Three Months Ended January 31,		Six Months Ended January 31,	
	2010	2009	2010	2009
	(in thousands)			
Net revenue:				
Americas	\$ 79,026	\$ 88,646	\$ 164,164	\$ 181,627
Asia	70,116	74,108	145,682	157,998
Europe	79,017	94,106	162,102	204,761
All other	7,329	3,601	10,219	7,488
	\$ 235,488	\$ 260,461	\$ 482,167	\$ 551,874
Operating income (loss):				
Americas	\$ (3,369)	\$ (76,625)	\$ (3,946)	\$ (85,711)
Asia	14,778	(66,162)	30,210	(55,081)
Europe	(1,054)	(13,736)	(729)	(22,823)
All other	(538)	(164)	(459)	416
Total Segment operating income (loss)	9,817	(156,687)	25,076	(163,199)
Other reconciling items	(3,835)	(3,805)	(7,539)	(8,087)
Total Operating income (loss)	\$ 5,982	\$ (160,492)	\$ 17,537	\$ (171,286)
Adjusted operating income (loss):				
Americas	\$ (380)	\$ 266	\$ 1,602	\$ (4,906)
Asia	16,432	10,705	33,591	24,421
Europe	264	4,078	2,201	1,404
All other	(5)	135	378	1,016
Total Segment Adjusted operating income (loss)	16,311	15,184	37,772	21,935
Other reconciling items	(3,143)	(2,827)	(6,252)	(6,235)
Total Adjusted operating income (loss)	\$ 13,168	\$ 12,357	\$ 31,520	\$ 15,700
Adjusted operating income (loss)	\$ 13,168	\$ 12,357	\$ 31,520	\$ 15,700
Adjustments:				
Depreciation	(4,226)	(4,779)	(8,450)	(9,446)
Amortization of intangible assets	(1,599)	(1,372)	(2,972)	(2,740)
Impairment of goodwill		(164,682)		(164,682)
Stock-based compensation	(1,325)	(1,360)	(2,396)	(3,044)
Restructuring and other, net	(36)	(656)	(165)	(7,074)
Operating income (loss)	\$ 5,982	\$ (160,492)	\$ 17,537	\$ (171,286)
Other income (expense), net	(1,213)	(4,902)	(2,374)	(8,795)
Income tax expense	(2,174)	(3,455)	(4,055)	(7,489)
Income (loss) from discontinued operations	(29)	74	16	159
Net income (loss)	\$ 2,566	\$ (168,775)	\$ 11,124	\$ (187,411)

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	January 31, 2010	July 31, 2009
	(in thousands)	
Total assets of continuing operations:		
Americas	\$ 176,572	\$ 180,788
Asia	143,111	187,836
Europe	130,542	118,338
All other	52,685	24,429
Sub-total	502,910	511,391
Corporate-level activity	40,607	44,430
	\$ 543,517	\$ 555,821

Table of Contents

As of January 31, 2010, approximately 76%, 10% and 14% of the Company's long-lived assets were located in the Americas, Asia and Europe, respectively. As of July 31, 2009, approximately 72%, 13% and 15%, of the Company's long-lived assets were located in the Americas, Asia and Europe, respectively. As of January 31, 2010, approximately, \$9.8 million, \$7.6 million, \$8.5 million and \$3.4 million of the Company's long-lived assets were located in Singapore, Ireland, the Netherlands and China, respectively. As of July 31, 2009, approximately, \$10.1 million, \$7.9 million, \$6.5 million and \$4.0 million of the Company's long-lived assets were located in Singapore, Ireland, the Netherlands and China, respectively.

During the three and six months ended January 31, 2010, the Company generated revenue of approximately \$47.4 million and \$98.7 million, respectively, in China and approximately \$35.5 million and \$74.1 million, respectively, in the Netherlands, from external customers. During the three and six months ended January 31, 2009, the Company generated revenue of approximately \$46.8 million and \$104.1 million, respectively, in China and approximately \$45.2 million and \$96.2 million, respectively, in the Netherlands, from external customers.

(12) EARNINGS PER SHARE

The Company calculates earnings per share in accordance with ASC Topic 260, Earnings per Share. The Company adopted ASC Topic 260-10, formerly FASB Staff Position EITF No. 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities effective August 1, 2009. Under ASC Topic 260-10, unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. All of the Company's restricted stock are considered participating securities because they contain non-forfeitable rights to dividend equivalents.

Under the two-class method, net income is reduced by the amount of dividends declared in the period for each class of common stock and participating securities. The remaining undistributed earnings are then allocated to common stock and participating securities as if all of the net income for the period had been distributed. Basic earnings per share excludes dilution and is calculated by dividing net income allocable to common shares by the weighted average number of common shares outstanding for the period. Diluted earnings per share is calculated by dividing net income allocable to common shares by the weighted-average number of common shares for the period, as adjusted for the potential dilutive effect of non-participating share-based awards. The following table reconciles earnings per share for the three and six months ended January 31, 2010 and 2009.

	Three Months Ended January 31, 2010		Six Months Ended January 31, 2009	
	(in thousands)			
BASIC				
Net income (loss)	\$ 2,566	\$ (168,775)	\$ 11,124	\$ (187,411)
Less net income allocable to participating restricted stock	(22)		(75)	
Net income (loss) available for common shares	\$ 2,544	\$ (168,775)	\$ 11,049	\$ (187,411)
Weighted average common shares outstanding	44,208	45,256	44,504	45,498
Basic net income (loss) per common share	\$ 0.06	\$ (3.73)	\$ 0.25	\$ (4.12)
DILUTED				
Net income (loss)	\$ 2,566	\$ (168,775)	\$ 11,124	\$ (187,411)
Less net income allocable to participating restricted stock	(22)		(75)	
Net income (loss) available for common shares	\$ 2,544	\$ (168,775)	\$ 11,049	\$ (187,411)
Weighted average common shares outstanding	44,208	45,256	44,504	45,498
Weighted average common equivalent shares arising from: dilutive stock options	93		119	

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Weighted-average number of common and potential common shares	44,301	45,256	44,623	45,498
Diluted net income (loss) per common share	\$ 0.06	\$ (3.73)	\$ 0.25	\$ (4.12)

For the three and six months ended January 31, 2010, approximately 2.2 million common stock equivalent shares in both periods and 0.4 million and 0.3 million, respectively, nonvested shares were excluded from the denominator in the calculation of diluted earnings per share as their inclusion would have been antidilutive.

Table of Contents

For the three and six months ended January 31, 2009, approximately 2.8 million and 2.4 million, respectively, common stock equivalent shares and 0.3 million and 0.3 million, respectively, nonvested shares were excluded from the denominator in the calculation of diluted earnings per share, as the Company had recorded a net loss for the three and six months ended January 31, 2009.

(13) COMPREHENSIVE INCOME (LOSS)

The components of comprehensive income (loss), net of income taxes, were as follows:

	Three Months Ended		Six Months Ended	
	January 31, 2010	2009	January 31, 2010	2009
	(in thousands)			
Net income (loss)	\$ 2,566	\$ (168,775)	\$ 11,124	\$ (187,411)
Net unrealized holding gain (loss) on securities	362	(282)	113	(1,408)
Foreign currency translation adjustment	(1,399)	(5,233)	1,152	(10,340)
Minimum pension liability adjustment		493		60
Comprehensive income (loss)	\$ 1,529	\$ (173,797)	\$ 12,389	\$ (199,099)

The components of accumulated other comprehensive income was as follows:

	January 31, 2010	July 31, 2009
		(in thousands)
Net unrealized holding gains (losses) on securities	\$ 62	\$ (51)
Cumulative foreign currency translation adjustment	13,071	11,919
Minimum pension liability adjustment	2,437	2,437
Accumulated other comprehensive income	\$ 15,570	\$ 14,305

(14) INVENTORIES

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

Inventories consisted of the following:

	January 31, 2010	July 31, 2009
		(in thousands)
Raw materials	\$ 44,301	\$ 42,349
Work-in-process	2,409	5,482
Finished goods	20,397	15,192
	\$ 67,107	\$ 63,023

(15) CONTINGENCIES

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From time to time, the Company may become involved in litigation relating to claims arising out of operations in the normal course of business, which it considers routine and incidental to its business. The Company currently is not a party to any legal proceedings, the adverse outcome of which, in management's opinion, would have a material adverse effect on the Company's business, results of operation, or financial condition.

(16) SHARE REPURCHASE PROGRAMS

In June 2009, the Company's Board of Directors authorized the repurchase of up to \$15.0 million of the Company's common stock from time to time on the open market or in privately negotiated transactions over a twelve month period (the Repurchase Program). The timing and amount of any shares repurchased will be determined by the Company's management based on its evaluation of market conditions and other factors. Repurchases may also be made under a Rule 10b5-1 plan, which would permit shares to be repurchased when the Company might otherwise be precluded from doing so under insider trading laws. The Repurchase Program may be suspended or discontinued at any time. It is the Company's intention to retire and return any repurchased shares to the Company's authorized, but not issued or outstanding common stock. The Repurchase Program is funded using the Company's

Table of Contents

working capital. As of January 31, 2010, the Company had repurchased an aggregate of approximately 1.6 million shares at a cost of approximately \$12.8 million under the Repurchase Program.

In September 2007, the Company's Board of Directors authorized the repurchase of up to \$50.0 million of the Company's common stock from time to time on the open market or in privately negotiated transactions over a period of 18 months (the 2008 Repurchase Program). The 2008 Repurchase Program was funded using the Company's working capital. During the quarter ended January 31, 2009, the Company discontinued the 2008 Repurchase Program. Prior to the discontinuation of the 2008 Repurchase Program, the Company had repurchased an aggregate of 3.5 million shares of common stock at a cost of approximately \$38.3 million.

(17) INCOME TAXES

As of January 31, 2010 and July 31, 2009, the liability for unrecognized tax benefits related to various federal, state, and foreign income tax matters was \$5.7 million and \$6.2 million, respectively. Effective August 1, 2009, the Company adopted the provisions within ASC Topic 805, Business Combinations. As a result, to the extent the unrecognized tax benefits are recognized, the entire amount would impact the effective tax rate. As of January 31, 2010 and July 31, 2009, the Company had recorded liabilities for interest expense related to uncertain tax positions in the amount of \$84,000 for both periods. The Company did not accrue for penalties related to income tax positions as there were no income tax positions that required the Company to accrue penalties. The Company does not expect that the amounts of unrecognized tax benefits will change significantly in the next twelve months. For the three and six months ended January 31, 2010, the Company was profitable in certain jurisdictions where the Company operates, resulting in an income tax expense using enacted rates in those jurisdictions.

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, 2006 through July 31, 2009. In addition, a number of tax years remain subject to examination by the appropriate government agencies for certain countries in the European and Asian regions. In Europe, the Company's 2003 through 2009 tax years remain subject to examination in most locations, while the Company's 1998 through 2009 tax years remain subject to examination in most Asian locations.

(18) @VENTURES INVESTMENTS

The Company maintains interests in several privately held companies through its interests in two venture capital funds which invest as @Ventures. The Company invests in early stage technology companies. These investments are generally made in connection with a round of financing with other third-party investors. During the three and six months ended January 31, 2010, approximately \$2.0 million and \$3.1 million, respectively was invested by @Ventures. At January 31, 2010, the Company's carrying value of investments in privately held companies was approximately \$13.2 million. Investments in which the Company's interest is less than 20% and which are not classified as available-for-sale securities are carried at the lower of cost or net realizable value unless it is determined that the Company exercises significant influence over the investee company, in which case the equity method of accounting is used. For those investments in which the Company's voting interest is between 20% and 50%, the equity method of accounting is generally used. Under this method, the investment balance, originally recorded at cost, is adjusted to recognize the Company's share of net earnings or losses of the investee company as they occur, limited to the extent of the Company's investment in, advances to and commitments for the investee. These adjustments are reflected in Equity in losses of affiliates and impairments in the Company's Consolidated Statement of Operations.

(19) SUBSEQUENT EVENT

On February 1, 2010, the Company and certain of its domestic subsidiaries entered into an Amended and Restated Credit Agreement (the Credit Facility) with Bank of America, N.A., Silicon Valley Bank and HSBC Business Credit (USA) Inc. (collectively, the Lenders), whereby the Lenders provided to the Company a senior secured revolving credit facility up to an initial aggregate principal amount of \$40.0 million. The Credit Facility permits the Company to increase aggregate principal amount by an additional \$20.0 million upon certain conditions being met. The Credit Facility amended and restated the Second Amended and Restated Loan and Security Agreement, dated October 31, 2005, as amended, by and among ModusLink Corporation, SalesLink LLC and SalesLink Mexico Holdings Corp., each a direct and wholly owned subsidiary of the Company, Bank of America, N.A. (as successor by merger to LaSalle National Association) and The PrivateBank and Trust Company (as successor by assignment to RBS Citizens, National Association (f/k/a Citizens Bank of Massachusetts)), which expired on January 31, 2010.

The Credit Facility terminates on February 1, 2013. Each borrowing under the Credit Facility shall be comprised entirely of base rate loans (to be denominated in U.S. dollars), eurodollar rate loans (to be denominated in U.S. dollars) or letters of credit as the Company may request. Letters of credit are subject to a \$15.0 million sublimit.

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Interest under the Credit Facility will accrue, depending on the type of borrowing, at the base rate or the eurodollar rate, plus, in each case, an applicable rate that varies from 1.25% to 1.75% for the base rate and 2.25% to 2.75% for the eurodollar rate, depending on the Company's consolidated leverage ratio. Interest is due and payable in arrears on each interest payment date and the maturity date of the Credit Facility. Principal is due on the maturity date.

Table of Contents

The Credit Facility is secured by the assets of the Company and includes certain restrictive covenants, including covenants that will limit the Company's ability to create liens, incur additional indebtedness, make investments, or dispose of asset or property. In addition, the Company must maintain certain financial covenants typical for this type of arrangement, including a maximum consolidated leverage ratio, a minimum consolidated core cash flow leverage ratio and minimum global cash.

Table of Contents

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

The matters discussed in this report contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended that involve risks and uncertainties. All statements other than statements of historical information provided herein may be deemed to be forward-looking statements. Without limiting the foregoing, the words "believes," "anticipates," "plans," "expects" and similar expressions are intended to identify forward-looking statements. Factors that could cause actual results to differ materially from those reflected in the forward-looking statements include, but are not limited to, those discussed in Part II Item 1A below and elsewhere in this report and the risks discussed in the Company's Annual Report on Form 10-K and Quarterly Reports on Form 10-Q filed with 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.

Overview

ModusLink Global Solutions, Inc. (together with its consolidated subsidiaries, "ModusLink Global Solutions" or the "Company"), through its wholly owned subsidiaries, ModusLink Corporation ("ModusLink"), ModusLink Open Channel Solutions, Inc. ("ModusLink OCS"), ModusLink PTS, Inc. ("ModusLink PTS") and Tech For Less, LLC ("TFL"), is a leader in global supply chain business process management serving technology-based clients in such markets as computing, software, consumer electronics, storage and communications. The Company designs and executes critical elements in our clients' global supply chains to improve speed to market, product customization, flexibility, cost, quality and service. These benefits are delivered through a combination of industry expertise, innovative service solutions, integrated operations, proven business processes, expansive global footprint and world class technology.

On December 4, 2009, the Company acquired TFL. TFL is a processor and marketer of customer-returned consumer electronics and business technology products. The Company acquired 100% of the equity interest of TFL for approximately \$30.0 million, a working capital adjustment of approximately \$0.5 million and performance-based consideration of up to \$10.0 million if certain financial measures are met during calendar 2010, which is recorded at a fair value of approximately \$0.5 million at January 31, 2010.

Management evaluates operating performance based on net revenue, operating income (loss), and net income (loss), and, across its segments, on the basis of "adjusted operating income (loss)," which is defined as operating income (loss) excluding net charges related to depreciation, long-lived asset impairment, restructuring, amortization of intangible assets, stock-based compensation and other changes not related to our baseline operating results. See Note 11 of the notes to the condensed consolidated financial statements included in Item 1 above for segment information, including a reconciliation of adjusted operating income (loss) to net income (loss).

We have developed a long-term set of strategic initiatives and an operating plan focused on increasing both revenue and profitability. We view the continued development of our global operational infrastructure and footprint as a primary source of differentiation in the market place. We believe that by leveraging our global footprint we will be able to optimize our clients' supply chains using multi-facility, multi-geographic solutions.

Our focus during fiscal 2010 remains consistent with the continued execution against our long-term strategic plan, and implementation of the following initiatives which are designed to achieve our long-term goals:

Drive sales growth through a combination of existing client penetration, and targeting new markets. Historically, a significant portion of our revenues from our supply chain business have been generated from clients in the computing and software markets. These markets are mature and, as a result, gross margins in these markets tend to be low. To address this, we have expanded our sales focus to include three new markets, in addition to the computing and software markets, which we believe can benefit from our supply chain expertise. We believe these markets, communications, storage devices and consumer electronics, are experiencing faster growth than our historical markets, and represent opportunities to realize higher gross margins on our services. Companies in these markets often are early in their product life cycles and have significant need for a supply chain partner who will be an extension to their business models.

Increase the value delivered to clients through service expansion. During fiscal year 2010, we have continued to focus on and invest in expanding and further developing our e-commerce, aftermarket and certain other offerings, which we believe will increase the overall value of the supply chain solutions we deliver to our existing clients and to new clients. We expect these solutions will continue to enhance our gross margins and drive greater profitability. Furthermore, we believe that the addition of new services to existing clients will strengthen our relationship with these clients, and further integrate us with their business.

Drive operational efficiencies throughout our organization. Our strategy is to operate an integrated supply chain system infrastructure that extends from front-end order management through distribution and returns management. This end-to-end solution enables clients to link supply

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and demand in real time, improve visibility and performance throughout the supply chain, and provide real-time access to information for greater collaboration and making informed business decisions. We believe that our clients benefit

Table of Contents

from our global integrated business solution. We also reduce our operating costs while implementing operational efficiencies throughout the Company. We expect that our lean sigma continuous improvement program will drive further operational efficiencies in the future. The lean sigma continuous improvement program is aimed at reducing our overall costs, increasing efficiencies and improving capacity utilization. The program consists of standardized training for the Company's employees in the lean sigma fundamentals (which include six sigma and lean methodology approaches) including standard tools to support the identification and elimination of waste and variability and applying these methods to operational and administrative tasks. As noted, the training enables employees to identify and implement projects to improve efficiency, productivity and eliminate waste through ongoing improvement efforts. We believe this initiative will yield improved process standardization and operating efficiency gains, as well as lower our long-term operating costs.

We believe that successful execution of these initiatives will enable us to improve our long-term financial performance. We have developed financial operating metric goals which are dependent on the successful implementation of these initiatives. These goals are to generate gross margins which along with an appropriate level of selling, general and administrative costs will result in an operating income margin range of 5% to 7%. From time to time, we publicly state our progress against these goals and current expectation of when we believe we will attain these goals and begin operating at these levels. Among the key factors that will influence our performance against these goals are successful execution and implementation of our strategic initiatives, global economic conditions, especially in the technology sector, demand for our clients' products, and demand for outsourcing services.

During the prior fiscal year ended July 31, 2009, the Company saw a weakening in the business environment and global economy. Management believes that the declines in revenue during the three and six months ended January 31, 2010 compared with the three and six months ended January 31, 2009 are in large part due to the weakening in the global economic environment. During fiscal 2009, the Company implemented restructuring plans to better position the Company for the long-term, given the ongoing challenging economic environment. The cost cutting actions that were taken during fiscal year 2009 as a result of the general economic decline included the elimination of approximately 500 jobs and the closing of certain facilities. For the three and six months ended January 31, 2010, the Company recorded net restructuring charges of approximately \$36,000 and \$0.2 million due to changes in underlying assumptions of initial estimates of previously recorded restructuring plans.

For the three months ended January 31, 2010, the Company reported net revenue of \$235.5 million, operating income of \$6.0 million, income from continuing operations before income taxes of \$4.8 million, net income of \$2.6 million and a gross margin percentage of 13.4%. For the six months ended January 31, 2010, the Company reported net revenue of \$482.2 million, operating income of \$17.5 million, income from continuing operations before income taxes of \$15.2 million, net income of \$11.1 million and a gross margin percentage of 14.0%. Net income for the six months ended January 31, 2010 reflects an impairment charge of \$0.3 million recorded on a certain investment included in the @Ventures investment portfolio. We currently conduct business in The Netherlands, Hungary, France, Ireland, Czech Republic, Singapore, Taiwan, China, Malaysia, Japan, Australia and Mexico in addition to our United States operations. At January 31, 2010, we had cash and cash equivalents, available-for-sale securities and short-term investments of \$164.3 million, and working capital of \$222.8 million.

As a large portion of our revenue comes from outsourcing services provided to clients such as hardware manufacturers, software publishers, telecommunications carriers, broadband and wireless service providers and consumer electronics companies, our operating performance has been and may continue to be adversely affected by declines in the overall performance of the technology sector and the continued economic decline affecting the world economy. In addition, the drop in consumer demand for our clients' products has had and may continue to have the effect of reducing our volumes and adversely affecting our revenue performance. The market for our supply chain management services is very competitive. We also face pressure from our clients to continually realize efficiency gains in order to help our clients maintain their gross margins and profitability. Increased competition and client demands for efficiency improvements may result in price reductions, reduced gross margins and, in some cases, loss of market share. As a result of these competitive and client pressures the gross margins in our business are low. During the three and six months ended January 31, 2010, our gross margin percentage were 13.4% and 14.0%, respectively. Increased competition arising from industry consolidation and/or low demand for our clients' products and services may hinder our ability to maintain or improve our gross margins, profitability and cash flows. We must continue to focus on margin improvement, through implementation of our strategic initiatives, cost reductions and asset and employee productivity gains in order to improve the profitability of our business and maintain our competitive position. We generally react to margin and pricing pressures in several ways, including efforts to target new markets, expand our service offerings and to lower our infrastructure costs. We seek to lower our cost to service clients by moving work to lower-cost venues, establishing facilities closer to our clients to gain efficiencies, and other actions designed to improve the productivity of our operations.

Historically, a limited number of key clients have accounted for a significant percentage of our revenue. For the three and six months ended January 31, 2010, sales to Hewlett-Packard accounted for approximately 28% of our consolidated net revenue for each period. For the three and six months ended January 31, 2009, sales to Hewlett-Packard accounted for approximately 22% and 23%, respectively, of our consolidated net revenue and sales to SanDisk Corporation accounted for approximately 11% of our consolidated net revenue for each period. We expect to continue to derive the vast majority of our operating revenue from sales to a small number of key clients. In general, we do not have agreements which obligate any client to buy a minimum amount of services from us or designate us as an exclusive service provider. Consequently, our sales are subject to demand variability by our clients. The level and

Table of Contents

timing of orders placed by our clients vary for a variety of reasons, including seasonal buying by end-users, the introduction of new technologies and general economic conditions.

Basis of Presentation

The Company has six operating segments: Americas; Asia; Europe; ModusLink OCS; ModusLink PTS and TFL. The Company has three reportable segments, Americas, Asia and Europe. The Company reports the ModusLink PTS operating segment in aggregation with the Americas operating segment. In addition to its three reportable segments, the Company reports an All other category. The All other category represents the ModusLink OCS and TFL operating segments. The Company also has Corporate-level activity, which consists primarily of costs associated with certain corporate administrative functions such as legal and finance which are not allocated to the Company's subsidiary companies, administration costs related to the Company's venture capital activities and any residual results of operations from previously divested operations.

In accordance with accounting principles generally accepted in the United States of America, all significant intercompany transactions and balances have been eliminated in consolidation.

Results of Operations

Three months ended January 31, 2010 compared to the three months ended January 31, 2009

Net Revenue:

	Three Months Ended January 31, 2010	As a % of Total Net Revenue	Three Months Ended January 31, 2009	As a % of Total Net Revenue	\$ Change	% Change
(in thousands)						
Americas	\$ 79,026	33.6%	\$ 88,646	34.0%	\$ (9,620)	(10.9)%
Asia	70,116	29.8%	74,108	28.5%	(3,992)	(5.4)%
Europe	79,017	33.5%	94,106	36.1%	(15,089)	(16.0)%
All other	7,329	3.1%	3,601	1.4%	3,728	103.5%
Total	\$ 235,488	100.0%	\$ 260,461	100.0%	\$ (24,973)	(9.6)%

Net revenue decreased by approximately \$25.0 million during the three months ended January 31, 2010, as compared to the same period in the prior year. This \$25.0 million decrease was primarily a result of a decline in volumes from certain client programs due to the economic downturn, partially offset by new business. Approximately \$135.1 million of the net revenue for the three months ended January 31, 2010 related to the procurement and re-sale of materials on behalf of our clients as compared to \$155.2 million for the three months ended January 31, 2009.

During the three months ended January 31, 2010, net revenue in the Americas, Asia and Europe regions decreased by approximately \$9.6 million, \$4.0 million and \$15.1 million, respectively. These decreases resulted primarily from declines in client order volumes of the base business due to the economic downturn. The increase in the All other category related to inclusion of incremental revenue from the Company's TFL operating segment.

A significant portion of our client base operates in the technology sector, which is intensely competitive and very volatile. Our clients' order volumes vary from quarter to quarter for a variety of reasons, including market acceptance of their new product introductions and overall demand for their products including seasonality factors. This business environment, and our mode of transacting business with our clients, does not lend itself to precise measurement of the amount and timing of future order volumes, and as a result, future consolidated and segment sales volumes and revenues could vary significantly from period to period. We sell primarily on a purchase order basis, rather than pursuant to contracts with minimum purchase requirements. These purchase orders are generally for quantities necessary to support near-term demand for our clients' products.

Table of Contents**Cost of Revenue:**

	Three Months Ended January 31, 2010	As a % of Segment Net Revenue	Three Months Ended January 31, 2009	As a % of Segment Net Revenue	\$ Change	% Change
	(in thousands)					
Americas	\$ 76,334	96.6%	\$ 84,554	95.4%	\$ (8,220)	(9.7)%
Asia	48,807	69.6%	57,839	78.0%	(9,032)	(15.6)%
Europe	73,747	93.3%	84,324	89.6%	(10,577)	(12.5)%
All other	5,066	69.1%	1,523	42.3%	3,543	232.6%
Total	\$ 203,954	86.6%	\$ 228,240	87.6%	\$ (24,286)	(10.6)%

Cost of revenue consists primarily of expenses related to the cost of materials purchased in connection with the provision of supply chain management services as well as costs for salaries and benefits, contract labor, consulting, fulfillment and shipping, and applicable facilities costs. Cost of revenue decreased by approximately \$24.3 million for the three months ended January 31, 2010, as compared to the three months ended January 31, 2009. Gross margins for the second quarter of fiscal 2010 were 13.4% as compared to 12.4% in the prior year quarter. This increase is attributable to increased productivity and cost reduction actions that were initiated during fiscal year 2009 and a change in customer mix and product mix associated with the levels of procurement and re-sale of materials on behalf of our customers.

For the three months ended January 31, 2010, the Company's gross margin percentages within the Americas, Asia and Europe regions were 3.4%, 30.4% and 6.7%, as compared to 4.6%, 22.0% and 10.4%, respectively, for the same period of the prior year. The 120 basis-point decrease in gross margin within the Americas region is attributed to lower volumes, a change in product mix and less cost leverage as the result of lower volumes, which was partially offset by increased productivity and the impact of cost reduction actions initiated during fiscal year 2009. Within the Asia region, the 840 basis-point increase in gross margin is primarily attributed to a change in product mix and increased cost savings and leverage. Within the Europe region, the 370 basis-point decrease in gross margin was primarily due to reduced cost leverage due to lower volumes, a change in customer mix and geography mix, and a negative impact from foreign currency translation, which was partially offset by the reversal of a liability due to satisfaction of conditions under a prior agreement and the impact of cost reduction actions initiated during fiscal year 2009.

As a result of the lower overall cost of delivering the Company's services in the Asia region, particularly China, we expect gross margin levels in Asia to continue to exceed those earned in the Americas and Europe regions. However, we expect that there will continue to be pressure on gross margin levels in Asia as the market, particularly China, matures.

Selling, General and Administrative Expenses:

	Three Months Ended January 31, 2010	As a % of Segment Net Revenue	Three Months Ended January 31, 2009	As a % of Segment Net Revenue	\$ Change	% Change
	(in thousands)					
Americas	\$ 4,998	6.3%	\$ 5,965	6.7%	\$ (967)	(16.2)%
Asia	6,216	8.9%	7,111	9.6%	(895)	(12.6)%
Europe	6,542	8.3%	7,379	7.8%	(837)	(11.3)%
All other	2,326	31.7%	1,994	55.4%	332	16.6%
Sub-total	20,082	8.5%	22,449	8.6%	(2,367)	(10.5)%
Corporate-level activity	3,835		3,554		281	7.9%
Total	\$ 23,917	10.2%	\$ 26,003	10.0%	\$ (2,086)	(8.0)%

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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 and marketing expenses. Selling, general and administrative expenses during the three months ended January 31, 2010 decreased by approximately \$2.1 million compared to the three month period ended January 31, 2009, primarily as a result of a \$2.5 million decline in employee-related costs, a \$0.3 million decline in bad debt expense, a \$0.3 million decline in depreciation expense, and a \$0.3 million decline in franchise taxes, which were partially offset by the inclusion of approximately \$1.1 million of selling, general and administrative expenses of TFL and \$0.4 million in transaction costs related to the acquisition of TFL.

Table of Contents**Impairment of Goodwill:**

	Three Months Ended January 31, 2010	As a % of Segment Net Revenue	Three Months Ended January 31, 2009	As a % of Segment Net Revenue (in thousands)	\$ Change	% Change
Americas	\$		\$ 74,626	84.2%	\$ (74,626)	(100.0)%
Asia			73,948	99.8%	(73,948)	(100.0)%
Europe			16,108	17.1%	(16,108)	(100.0)%
All other						
Total	\$		\$ 164,682	63.2%	\$ (164,682)	(100.0)%

The Company conducts its goodwill impairment test on July 31 of each fiscal year. In addition, if and when events or circumstances change that would reduce the fair value of any of its reporting units below its carrying value, an interim test would be performed. In making this assessment, the Company relies on a number of factors including operating results, business plans, economic projections, anticipated future cash flows, and transactions and marketplace data. There have been no changes in the carrying amount of goodwill for the three months ended January 31, 2010 other than the inclusion of goodwill recorded in connection with the acquisition of TFL. During the second quarter of fiscal year 2010 there was no impairment recorded. If the assumptions used in preparing the assessments of the reporting units for purposes of impairment analysis differ from actual future results, we may record impairment charges in the future. For goodwill testing purposes the Company has six reporting units, the Americas, Asia, Europe, ModusLink OCS, ModusLink PTS and TFL. During the second quarter of fiscal year 2009, indicators of potential impairment caused the Company to conduct an interim impairment test. Those indicators included the following: a significant decrease in the market capitalization of the Company, and the change in the macroeconomic environment. As part of the test, the Company performed a market capitalization reconciliation to ensure that the resulting outputs of the test and the total Company fair value were consistent, giving effect to a reasonable control premium, 35%. As a result of the step one test, the Company concluded that, as of January 31, 2009, the fair value of three of its five reporting units was below their respective carrying values, including goodwill. The three reporting units that showed potential impairment were the Americas, Asia and Europe. As such, step two of the impairment test was initiated. The step two analysis was completed and in connection with the preparation of its quarterly financial statements for the quarter ended January 31, 2009 the Company concluded that its goodwill was impaired and recorded a \$164.7 million non-cash goodwill impairment charge consisting of \$74.6 million for the Americas, \$73.9 million for Asia, and \$16.1 million for Europe.

The estimated fair values of the Company's reporting units were evaluated in the second quarter of fiscal year 2009 using the income approach by calculating the present value of its estimated future cash flows and the comparable transaction method. The Company determined that due to the economic conditions that the income approach was more representative of fair value. The income approach incorporates many assumptions including future growth rates, discount factors, expected capital expenditures, and income tax cash flows. In developing an appropriate discount rate to apply in its estimated cash flow models the Company develops an estimate of its weighted average cost of capital.

Amortization of Intangible Assets:

	Three Months Ended January 31, 2010	As a % of Segment Net Revenue	Three Months Ended January 31, 2009	As a % of Segment Net Revenue (in thousands)	\$ Change	% Change
Americas	\$ 756	1.0%	\$ 754	0.9%	\$ 2	0.3%
Asia	369	0.5%	371	0.5%	(2)	(0.5)%
Europe						
All other	474	6.5%	247	6.9%	227	91.9%
Total	\$ 1,599	0.7%	\$ 1,372	0.5%	\$ 227	16.5%

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The intangible asset amortization relates to certain amortizable intangible assets acquired by the Company in connection with its acquisition of Modus Media, Inc., ModusLink OCS, ModusLink PTS, and TFL. These intangible assets are being amortized over lives ranging from 1 to 10 years.

Table of Contents**Restructuring and Other, net:**

	Three Months Ended January 31, 2010	As a % of Segment Net Revenue	Three Months Ended January 31, 2009	As a % of Segment Net Revenue	\$ Change	% Change
(in thousands)						
Americas	\$ 308	0.4%	\$ 530	0.6%	\$ (222)	(41.9)%
Asia	(54)		459	0.6%	(513)	(111.8)%
Europe	(218)	(0.3)%	(585)	(0.6)%	367	62.7%
All other						
Sub-total	\$ 36		\$ 404	0.2%	(368)	(91.1)%
Corporate-level activity			252		(252)	(100.0)%
Total	\$ 36		\$ 656	0.3%	\$ (620)	(94.5)%

During the three months ended January 31, 2010, the Company recorded a net restructuring charge of approximately \$36,000 due to changes in estimates for previously recorded employee-related expenses and facilities lease obligations primarily based on changes to the underlying assumptions.

During the three months ended January 31, 2009, the Company recorded a net restructuring charge of approximately \$0.7 million. The \$0.7 million charge recorded during the three months ended January 31, 2009 consisted of approximately \$2.2 million related to a workforce reduction of approximately 63 employees related to the Company's 2009 restructuring plans, partially offset by a net adjustment of \$1.5 million to decrease previously recorded restructuring estimates for employee-related severance expenses due to changes to the underlying assumptions.

Interest Income/Expense:

During the three months ended January 31, 2010, interest income decreased to \$0.1 million from \$0.5 million for the three months ended January 31, 2009. The decrease in interest income was the result of lower average interest rates during the current period compared to the same period in the prior fiscal year.

Interest expense totaled approximately \$0.2 million and \$0.2 million for the three months ended January 31, 2010 and 2009, respectively. In both periods, interest expense related primarily to the Company's stadium obligation.

Other Gains (Losses), net:

Other gains (losses), net were approximately \$0.3 million for the three months ended January 31, 2010. During the three months ended January 31, 2010, the Company recorded foreign exchange losses of approximately \$0.2 million due to realized and unrealized gains and losses from foreign currency exposures and settled transactions in the Americas, Asia and Europe, and a \$0.1 million loss on the disposal of fixed assets. These losses were offset by \$0.1 million gain on the sale of an investment. The \$0.1 million gain was the result of an adjustment to a previously recorded gain on the acquisition by a third party of Virtual Ink, Inc., due to the satisfaction of conditions leading to the release of funds held in escrow.

During the three months ended January 31, 2009, other gains (losses), net consisted of a net gain of approximately \$5.8 million. During the three months ended January 31, 2009, the Company recorded foreign exchange gains of approximately \$5.4 million, and a \$0.9 million gain on the sale of an investment. The \$0.9 million gain was the result of an adjustment to a previously recorded gain on the acquisitions by a third party of The Generations Network, Inc. (TGN), due to the satisfaction of conditions leading to the release of funds held in escrow.

Equity in Losses of Affiliates, net of Impairments:

Equity in losses of affiliates, net of impairments, results from the Company's minority ownership in certain investments that are accounted for under the equity method. Under the equity method of accounting, the Company's proportionate share of each affiliate's operating income or losses is included in equity in losses of affiliates. Equity in losses of affiliates decreased to a loss of \$0.8 million for the three months ended January 31,

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2010 from a loss of \$11.0 million for the same period in the prior fiscal year, primarily as a result of there being no impairments during the current period on investments included in the @Ventures portfolio of companies.

The Company assesses the need to record impairment losses on its investments and records such losses when the impairment of an investment is determined to be other than temporary in nature. The process of assessing whether a particular equity investment's net realizable value is less than its carrying cost requires a significant amount of judgment. In making this judgment, the Company carefully considers the investee's cash position, projected cash flows (both short and long-term), financing needs, recent financing rounds, most recent valuation data, the current investing environment, management/ownership changes and competition. The valuation process is based primarily on information that the Company requests from these privately held companies and is not subject

Table of Contents

to the same disclosure and audit requirements as the reports required of U.S. public companies. As such, the reliability and the accuracy of the data may vary. Based on the Company's evaluation, there is no impairment for the three months ended January 31, 2010 related to its investment in a privately held company.

Estimating the net realizable value of investments in privately held early-stage technology companies is inherently subjective and has contributed to volatility in our reported results of operations in the past and may negatively impact our results of operations in the future. We may incur impairment charges to our investments in privately held companies, which could have an adverse impact on our future results of operations. A decline in the carrying value of our \$13.2 million of investments in affiliates at January 31, 2010 ranging from 10% to 20%, respectively, would decrease our income from continuing operations by \$1.3 million to \$2.6 million.

Income Tax Expense:

During the three months ended January 31, 2010, the Company recorded income tax expense of approximately \$2.2 million, as compared to income tax expense of \$3.5 million for same period in the prior fiscal year. For the three months ended January 31, 2010, the Company was profitable in certain jurisdictions where the Company operates, resulting in an income tax expense using the enacted tax rates in those jurisdictions.

The Company provides for income tax expense related to federal, state, and foreign income taxes. For the three months ended January 31, 2010 and 2009, the Company's U.S. taxable income, and the taxable income for certain foreign locations, was offset by net operating loss carryovers from prior years. The Company continues to maintain a full valuation allowance against its deferred tax asset in the U.S. and certain of its foreign subsidiaries due to the uncertainty of realizing such benefits.

Results of Operations

Six months ended January 31, 2010 compared to the six months ended January 31, 2009

Net Revenue:

	Six Months Ended January 31, 2010	As a % of Total Net Revenue	Six Months Ended January 31, 2009	As a % of Total Net Revenue	\$ Change	% Change
	(in thousands)					
Americas	\$ 164,164	34.0%	\$ 181,627	32.9%	\$ (17,463)	(9.6)%
Asia	145,682	30.3%	157,998	28.6%	(12,316)	(7.8)%
Europe	162,102	33.6%	204,761	37.1%	(42,659)	(20.8)%
All other	10,219	2.1%	7,488	1.4%	2,731	36.5%
Total	\$ 482,167	100.0%	\$ 551,874	100.0%	\$ (69,707)	(12.6)%

Net revenue decreased by approximately \$69.7 million during the six months ended January 31, 2010, as compared to the same period in the prior year. This \$69.7 million decrease was primarily a result of a decline in volumes from certain client programs due to the economic downturn, partially offset by new business. Approximately \$275.3 million of the net revenue for the six months ended January 31, 2010 related to the procurement and re-sale of materials on behalf of our clients as compared to \$333.5 million for the six months ended January 31, 2009.

During the six months ended January 31, 2010, net revenue in the Americas, Asia and Europe regions decreased by approximately \$17.5 million, \$12.3 million and \$42.7 million, respectively. These decreases resulted primarily from declines in client order volumes of the base business due to the economic downturn. The \$2.7 million increase in net revenue in the all other category is due to the inclusion of net revenue from the TFL operating segment.

A significant portion of our client base operates in the technology sector, which is intensely competitive and very volatile. Our clients' order volumes vary from quarter to quarter for a variety of reasons, including market acceptance of their new product introductions and overall demand for their products including seasonality factors. This business environment, and our mode of transacting business with our clients, does not lend itself to precise measurement of the amount and timing of future order volumes, and as a result, future consolidated and segment sales

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volumes and revenues could vary significantly from period to period. We sell primarily on a purchase order basis, rather than pursuant to contracts with minimum purchase requirements. These purchase orders are generally for quantities necessary to support near-term demand for our clients' products.

Table of Contents**Cost of Revenue:**

	Six Months Ended January 31, 2010	As a % of Segment Net Revenue	Six Months Ended January 31, 2009	As a % of Segment Net Revenue	\$ Change	% Change
	(in thousands)					
Americas	\$ 155,804	94.9%	\$ 177,990	98.0%	\$ (22,186)	(12.5)%
Asia	102,585	70.4%	121,700	77.0%	(19,115)	(15.7)%
Europe	149,968	92.5%	188,975	92.3%	(39,007)	(20.6)%
All other	6,262	61.3%	2,918	39.0%	3,344	114.6%
Total	\$ 414,619	86.0%	\$ 491,583	89.1%	\$ (76,964)	(15.7)%

Cost of revenue consists primarily of expenses related to the cost of materials purchased in connection with the provision of supply chain management services as well as costs for salaries and benefits, contract labor, consulting, fulfillment and shipping, and applicable facilities costs. Cost of revenue decreased by approximately \$77.0 million for the six months ended January 31, 2010, as compared to the six months ended January 31, 2009. Gross margins for the first half of fiscal 2010 were 14.0% as compared to 10.9% in the first half of fiscal 2009. This increase is attributable to increased productivity and cost reduction actions that were initiated during fiscal year 2009 and a change in customer mix and product mix associated with the levels of procurement and re-sale of materials on behalf of our customers.

For the six months ended January 31, 2010, the Company's gross margin percentages within the Americas, Asia and Europe regions were 5.1%, 29.6% and 7.5%, as compared to 2.0%, 23.0% and 7.7%, respectively, for the same period of the prior year. The 310 basis-point increase in gross margin within the Americas region is attributed to increased productivity, a change in product mix and the impact of cost reduction actions initiated during fiscal year 2009. Within the Asia region, the 660 basis-point increase in gross margin is primarily attributed to a change in customer and work mix. Within the Europe region, the 20 basis-point decrease in gross margin was primarily due to a decline in volumes and a negative impact of foreign currency translation, partially offset by increased productivity, changes in the work mix the reversal of a liability due to satisfaction of conditions under a prior agreement and the impact of cost reduction actions initiated during fiscal year 2009.

As a result of the lower overall cost of delivering the Company's services in the Asia region, particularly China, we expect gross margin levels in Asia to continue to exceed those earned in the Americas and Europe regions. However, we expect that there will continue to be pressure on gross margin levels in Asia as the market, particularly China, matures.

Selling, General and Administrative Expenses:

	Six Months Ended January 31, 2010	As a % of Segment Net Revenue	Six Months Ended January 31, 2009	As a % of Segment Net Revenue	\$ Change	% Change
	(in thousands)					
Americas	\$ 10,358	6.3%	\$ 12,748	7.0%	\$ (2,390)	(18.7)%
Asia	12,203	8.4%	14,942	9.5%	(2,739)	(18.3)%
Europe	13,080	8.1%	17,897	8.7%	(4,817)	(26.9)%
All other	3,694	36.2%	3,659	48.9%	35	1.0%
Sub-total	39,335	8.2%	49,246	8.9%	(9,911)	(20.1)%
Corporate-level activity	7,539		7,835		(296)	(3.8)%
Total	\$ 46,874	9.7%	\$ 57,081	10.3%	\$ (10,207)	(17.9)%

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 and

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marketing expenses. Selling, general and administrative expenses during the six months ended January 31, 2010 decreased by approximately \$10.2 million compared to the six month period ended January 31, 2009, primarily as a result of a \$6.4 million decline in employee-related costs, a \$1.9 million decline in bad debt expense, a \$0.7 million decline in Enterprise Resource Planning (ERP) system implementation costs, a \$0.7 million decline in depreciation expense, a \$0.5 million decline in travel expenses and a \$0.3 million decline in franchise taxes, partially offset by the inclusion of approximately \$1.1 million of selling, general and administrative expenses of TFL and \$0.7 million in transaction costs related to the acquisition of TFL.

Table of Contents**Impairment of Goodwill:**

	Six Months Ended January 31, 2010	As a % of Segment Net Revenue	Six Months Ended January 31, 2009	As a % of Segment Net Revenue (in thousands)	\$ Change	% Change
Americas	\$		\$ 74,626	41.1%	\$ (74,626)	(100.0)%
Asia			73,948	46.8%	(73,948)	(100.0)%
Europe			16,108	7.9%	(16,108)	(100.0)%
All other						
Total	\$		\$ 164,682	29.8%	\$ (164,682)	(100.0)%

The Company conducts its goodwill impairment test on July 31 of each fiscal year. In addition, if and when events or circumstances change that would reduce the fair value of any of its reporting units below its carrying value, an interim test would be performed. In making this assessment, the Company relies on a number of factors including operating results, business plans, economic projections, anticipated future cash flows, and transactions and marketplace data. There have been no amounts recorded for impairment of goodwill during the six months ended January 31, 2010. During the six months ended January 31, 2010 there was no impairment recorded. If the assumptions used in preparing the assessments of the reporting units for purposes of impairment analysis differ from actual future results, we may record impairment charges in the future. For goodwill testing purposes the Company has six reporting units, the Americas, Asia, Europe, ModusLink OCS, ModusLink PTS and TFL. During the second quarter of fiscal year 2009, indicators of potential impairment caused the Company to conduct an interim impairment test. Those indicators included the following: a significant decrease in the market capitalization of the Company, and the change in the macroeconomic environment. As part of the test, the Company performed a market capitalization reconciliation to ensure that the resulting outputs of the test and the total Company fair value were consistent, giving effect to a reasonable control premium, 35%. As a result of the step one test, the Company concluded that, as of January 31, 2009, the fair value of three of its five reporting units was below their respective carrying values, including goodwill. The three reporting units that showed potential impairment were the Americas, Asia and Europe. As such, step two of the impairment test was initiated. The step two analysis was completed and in connection with the preparation of its quarterly financial statements for the quarter ended January 31, 2009 the Company concluded that its goodwill was impaired and recorded a \$164.7 million non-cash goodwill impairment charge consisting of \$74.6 million for the Americas, \$73.9 million for Asia, and \$16.1 million for Europe.

The estimated fair values of the Company's reporting units were evaluated in the second quarter of fiscal year 2009 using the income approach by calculating the present value of its estimated future cash flows and the comparable transaction method. The Company determined that due to the economic conditions that the income approach was more representative of fair value. The income approach incorporates many assumptions including future growth rates, discount factors, expected capital expenditures, and income tax cash flows. In developing an appropriate discount rate to apply in its estimated cash flow models the Company develops an estimate of its weighted average cost of capital.

Table of Contents

Amortization of Intangible Assets:

Six Months Ended January 31, 2010	As a % of Segment Net Revenue	Six Months Ended January 31, 2009
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