

ModusLink Global Solutions Inc  
Form 10-Q  
December 10, 2009  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended October 31, 2009

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 December 1, 2009, there were 44,927,043 shares outstanding of the registrant's Common Stock, \$.01 par value per share.

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**MODUSLINK GLOBAL SOLUTIONS, INC.**

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(In thousands, except per share and share amounts)

(Unaudited)

|   | October 31,<br>2009 | July 31,<br>2009  |
|---|---------------------|-------------------|
| <b>ASSETS</b>   |                     |                   |
| Current assets:   |                     |                   |
| Cash and cash equivalents   | \$ 174,402          | \$ 168,767        |
| Available-for-sale securities   | 284                 | 440               |
| Short-term investments  |                     | 10,000            |
| Accounts receivable, trade, net of allowance for doubtful accounts of \$1,154 and \$3,767, at October 31, 2009 and July 31, 2009, respectively  | 194,142             | 171,090           |
| Inventories, net  | 71,037              | 63,023            |
| Prepaid expenses and other current assets   | 10,135              | 12,773            |
| <b>Total current assets</b>   | <b>450,000</b>      | <b>426,093</b>    |
| Property and equipment, net   | 58,940              | 61,178            |
| Investments in affiliates   | 12,514              | 12,369            |
| Goodwill  | 25,708              | 25,708            |
| Other intangible assets, net  | 21,748              | 23,120            |
| Other assets  | 8,111               | 7,353             |
| <b>Total assets</b>   | <b>\$ 577,021</b>   | <b>\$ 555,821</b> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                     |                   |
| Current liabilities:  |                     |                   |
| Current installments of obligations under capital leases  | \$ 64               | \$ 152            |
| Accounts payable  | 135,990             | 122,125           |
| Current portion of accrued restructuring  | 9,364               | 15,098            |
| Accrued income taxes  | 1,155               | 1,803             |
| Accrued expenses  | 47,920              | 42,277            |
| Other current liabilities   | 4,969               | 5,793             |
| Current liabilities of discontinued operations  | 1,666               | 1,866             |
| <b>Total current liabilities</b>  | <b>201,128</b>      | <b>189,114</b>    |
| Long-term portion of accrued restructuring  | 1,804               | 2,014             |
| Obligations under capital leases, less current installments   | 69                  | 194               |
| Other long-term liabilities   | 16,899              | 16,490            |
| Non-current liabilities of discontinued operations  | 2,235               | 2,411             |
| Stockholders' equity:   |                     |                   |
| Preferred stock, \$0.01 par value per share. Authorized 5,000,000 shares; zero issued or outstanding at October 31, 2009 and July 31, 2009  |                     |                   |
| Common stock, \$0.01 par value per share. Authorized 1,400,000,000 shares; 44,931,506 issued and outstanding shares at October 31, 2009; 45,652,078 issued and 45,086,746 outstanding shares at July 31, 2009 | 449                 | 457               |
| Additional paid-in capital  | 7,432,500           | 7,437,877         |

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|   |                   |                   |
|---|-------------------|-------------------|
| Treasury stock, at cost 565,332 shares at July 31, 2009 |                   | (3,813)           |
| Accumulated deficit                                     | (7,094,670)       | (7,103,228)       |
| Accumulated other comprehensive income                  | 16,607            | 14,305            |
| <b>Total stockholders' equity</b>                       | <b>354,886</b>    | <b>345,598</b>    |
| <b>Total liabilities and stockholders' equity</b>       | <b>\$ 577,021</b> | <b>\$ 555,821</b> |

See accompanying notes to unaudited condensed consolidated financial statements

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**MODUSLINK GLOBAL SOLUTIONS INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(In thousands, except per share amounts)

(Unaudited)

|  | Three Months Ended<br>October 31, |             |
|--|-----------------------------------|-------------|
|  | 2009                              | 2008        |
| Net revenue  | \$ 246,678                        | \$ 291,412  |
| Cost of revenue  | 210,664                           | 263,342     |
| Gross profit   | 36,014                            | 28,070      |
| Operating expenses:  |                                   |             |
| Selling, general and administrative                          | 22,958                            | 31,078      |
| Amortization of intangible assets                            | 1,372                             | 1,368       |
| Restructuring and other, net                                 | 129                               | 6,418       |
| Total operating expenses                                     | 24,459                            | 38,864      |
| Operating income (loss)                                      | 11,555                            | (10,794)    |
| Other income (expense):                                      |                                   |             |
| Interest income  | 121                               | 766         |
| Interest expense   | (127)                             | (240)       |
| Other losses, net  | (291)                             | (3,884)     |
| Equity in losses of affiliates, net of impairments           | (864)                             | (535)       |
| Total other income (expense)                                 | (1,161)                           | (3,893)     |
| Income (loss) from continuing operations before income taxes | 10,394                            | (14,687)    |
| Income tax expense   | 1,881                             | 4,033       |
| Income (loss) from continuing operations                     | 8,513                             | (18,720)    |
| Discontinued operations, net of income taxes:                |                                   |             |
| Income from discontinued operations                          | 45                                | 85          |
| Net income (loss)  | \$ 8,558                          | \$ (18,635) |
| Basic and diluted earnings (loss) per share:                 |                                   |             |
| Income (loss) from continuing operations                     | \$ 0.19                           | \$ (0.41)   |
| Income (loss) from discontinued operations                   | \$                                | \$          |
| Net income (loss)  | \$ 0.19                           | \$ (0.41)   |
| Shares used in computing basic earnings per share:           | 44,806                            | 45,706      |
| Shares used in computing diluted earnings per share:         | 44,921                            | 45,706      |

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)**

|   | <b>Three Months Ended<br/>October 31,</b> |             |
|---|---|-------------|
|   | <b>2009</b>                               | <b>2008</b> |
| <b>Cash flows from operating activities of continuing operations:</b>   |   |             |
| Net income (loss)   | \$ 8,558                                  | \$ (18,635) |
| Income from discontinued operations   | 45  | 85          |
| Income (loss) from continuing operations  | 8,513                                     | (18,720)    |
| <b>Adjustments to reconcile income (loss) from continuing operations to net cash used in continuing operations:</b> |   |             |
| Depreciation  | 4,225                                     | 4,667       |
| Amortization of intangible assets   | 1,372                                     | 1,368       |
| Stock-based compensation  | 1,072                                     | 1,684       |
| Non-operating losses, net   | 291                                       | 3,884       |
| Equity in losses of affiliates  | 864                                       | 535         |
| <b>Changes in operating assets and liabilities, excluding effects from acquisition:</b>                             |   |             |
| Trade accounts receivable, net  | (19,858)                                  | (25,671)    |
| Inventories   | (6,830)                                   | (22,416)    |
| Prepaid expenses and other current assets   | 2,746                                     | 1,505       |
| Accounts payable, accrued restructuring and accrued expenses  | 9,383                                     | 16,517      |
| Refundable and accrued income taxes, net  | (702)                                     | 1,601       |
| Other assets and liabilities  | (2,407)                                   | 13,289      |
| Net cash used in operating activities of continuing operations  | (1,331)                                   | (21,757)    |
| <b>Cash flows from investing activities of continuing operations:</b>   |   |             |
| Additions to property and equipment   | (1,470)                                   | (4,050)     |
| Redemption of short-term investments  | 10,000                                    |             |
| Proceeds from the sale of equity investments in affiliates  |   | 451         |
| Investments in affiliates   | (1,102)                                   | (2,780)     |
| Net cash provided by (used in) investing activities of continuing operations  | 7,428                                     | (6,379)     |
| <b>Cash flows from financing activities of continuing operations:</b>   |   |             |
| Repayments on capital lease obligations   | (213)                                     | (163)       |
| Proceeds from issuance of common stock  | 91  |             |
| Repurchase of common stock  | (2,713)                                   | (3,275)     |
| Net cash used in financing activities of continuing operations  | (2,835)                                   | (3,438)     |
| <b>Cash flows from discontinued operations:</b>   |   |             |
| Operating cash flows  | (384)                                     | (616)       |
| Net cash used in discontinued operations  | (384)                                     | (616)       |
| Net effect of exchange rate changes on cash and cash equivalents  | 2,757                                     | (7,565)     |



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|  |            |            |
|--|------------|------------|
| Net increase (decrease) in cash and cash equivalents | 5,635      | (39,755)   |
| Cash and cash equivalents at beginning of period     | 168,767    | 160,585    |
| Cash and cash equivalents at end of period           | \$ 174,402 | \$ 120,830 |

See accompanying notes to unaudited condensed consolidated financial statements

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**MODUSLINK GLOBAL SOLUTIONS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

**(1) NATURE OF OPERATIONS**

ModusLink Global Solutions, Inc. ( ModusLink Global Solutions or the Company ), through its wholly owned subsidiaries, ModusLink Corporation ( ModusLink ), ModusLink Open Channel Solutions, Inc. ( ModusLink OCS ) and ModusLink PTS, Inc. ( ModusLink PTS ), 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.

The Company had fiscal 2009 revenue of approximately \$1.0 billion. As of October 31, 2009, 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 months ended October 31, 2009 are not necessarily indicative of the results to be expected for the full fiscal year.

The Company has five operating segments: Americas; Asia; Europe; ModusLink OCS; and ModusLink PTS. 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 operating segment. 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 October 31, 2009, the Company has evaluated subsequent events for potential recognition and disclosure through December 10, 2009, the day of issuance of these financial statements. These financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended July 31, 2009.

**(3) RECENT ACCOUNTING PRONOUNCEMENTS**

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 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

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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

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**MODUSLINK GLOBAL SOLUTIONS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(unaudited)**

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 4.

**(4) 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 October 31, 2009 the Company's available-for-sale securities, 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.

As of October 31, 2009 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 our best estimate of interest rates currently available for similar debt instruments.

**(5) 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.

**(6) 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 more likely than not 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. For goodwill testing purposes the Company has five reporting units, the Americas, Asia, Europe, ModusLink OCS and ModusLink PTS.

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The Company's goodwill of \$25.7 million as of October 31, 2009 relates to the Company's ModusLink OCS and ModusLink PTS 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 our reporting units were evaluated using an income approach by calculating the present value of our 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.

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## MODUSLINK GLOBAL SOLUTIONS, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

The Company expects to conduct its next annual impairment test on July 31, 2010 for the ModusLink OCS and ModusLink PTS reporting units.

There have been no changes in the carrying amount of goodwill for the three months ended October 31, 2009. The carrying amount of goodwill allocated to the Company's reportable segments as of October 31, 2009 is as follows:

|                                | Americas  | Asia | Europe<br>(in thousands) | All<br>Other | Consolidated<br>Total |
|--------------------------------|-----------|------|--------------------------|--------------|-----------------------|
| Balance as of October 31, 2009 | \$ 19,851 | \$   | \$                       | \$ 5,857     | \$ 25,708             |

**(7) SHARE-BASED PAYMENTS**

The following table summarizes stock-based compensation expense related to employee stock options, employee stock purchases and nonvested shares for the three months ended October 31, 2009 and 2008, which was allocated as follows:

|                                     | Three Months Ended<br>October 31,<br>2009      2008<br>(in thousands) |          |
|-------------------------------------|---|----------|
| Cost of goods sold                  | \$ 91   | \$ 131   |
| Selling, general and administrative | 981   | 1,553    |
|                                     | \$ 1,072  | \$ 1,684 |

**(8) OTHER LOSSES, NET**

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

|                                   | Three Months Ended<br>October 31,<br>2009      2008<br>(in thousands) |            |
|-----------------------------------|---|------------|
| Foreign currency exchange losses  | \$ (271)  | \$ (3,405) |
| Gain on sale of investments       |   | 452        |
| Impairment of investment          |   | (975)      |
| Gain (loss) on disposal of assets | (16)  | 4          |
| Other, net                        | (4)   | 40         |
|                                   | \$ (291)  | \$ (3,884) |

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The Company recorded foreign exchange losses of approximately \$0.3 million during the three months ended October 31, 2009. These net losses related primarily to realized and unrealized losses from foreign currency exposures and settled transactions of approximately \$0.5 million and \$1.7 million in the Americas and Asia, respectively, offset by realized and unrealized gains of approximately \$1.9 million in Europe.

The Company recorded foreign exchange losses of approximately \$3.4 million during the three months ended October 31, 2008. These net losses related primarily to realized and unrealized gains and losses from foreign currency exposures and settled transactions of approximately \$1.3 million and \$7.0 million in the Americas and Europe, respectively, partially offset by \$4.6 million of foreign exchange gains in Asia. Also, during the three months ended October 31, 2008, the Company recorded a net loss on the sale of investments of \$0.5 million. The \$0.5 million loss was the result of a write-off of an investment in a private company for \$1.0 million, offset by a gain of \$0.5 million. The \$1.0 million write-off was due to the carrying value of the investment exceeding the estimated value of the investment. The \$0.5 million gain 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. Avamar Technologies, Inc. was an @Ventures portfolio company that was acquired by a third party in a previous reporting period.

**Table of Contents****MODUSLINK GLOBAL SOLUTIONS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(unaudited)****(9) RESTRUCTURING AND OTHER CHARGES**

The following table summarizes the activity in the restructuring accrual for the three months ended October 31, 2009:

|   | Employee<br>Related<br>Expenses | Contractual<br>Obligations<br>(in thousands) | Asset<br>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 |

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 months ended October 31, 2009 and 2008 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<br>October 31,<br>2009      2008<br>(in thousands) |          |
|-------------------------------------|---|----------|
| Cost of revenue                     | \$ 133  | \$ 5,139 |
| Selling, general and administrative | (4)   | 1,279    |
|                                     | \$ 129  | \$ 6,418 |

During the three months ended October 31, 2009, the Company recorded a net restructuring charge of approximately \$0.1 million 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 October 31, 2008, the Company recorded a net restructuring charge of approximately \$6.4 million. This charge 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. As a result of the plan, the Company recognized a \$6.8 million pre-tax restructuring charge related to the workforce reduction for severance payments. The majority of all actions related to the plan were completed by the fourth quarter of fiscal year 2009. The Company estimates that all payments related to the plan for workforce reductions will be completed by July 31, 2010. The restructuring charge for the plan was offset by \$0.4 million in reductions to estimates for previously recorded employee-related expenses and facilities lease



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obligations primarily based on changes to the underlying assumptions.

The following table summarizes the restructuring accrual by reportable segment and the Corporate-level activity for the three months ended October 31, 2009:

|   | Americas | Asia   | Europe   | All<br>Other<br>(in thousands) | Corporate-level<br>Activity | Consolidated<br>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             |

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**MODUSLINK GLOBAL SOLUTIONS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(unaudited)**

**(10) 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. 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. 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****MODUSLINK GLOBAL SOLUTIONS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(unaudited)**

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

|  | <b>Three Months Ended<br/>October 31,</b> |             |
|--|---|-------------|
|  | <b>2009</b>                               | <b>2008</b> |
|  | <b>(in thousands)</b>                     |             |
| <b>Net revenue:</b>                            |   |             |
| Americas                                       | \$ 85,138                                 | \$ 92,981   |
| Asia   | 75,566                                    | 83,890      |
| Europe   | 83,084                                    | 110,654     |
| All other                                      | 2,890                                     | 3,887       |
|  | \$ 246,678                                | \$ 291,412  |
| <b>Operating income (loss):</b>                |   |             |
| Americas                                       | \$ (583)                                  | \$ (9,052)  |
| Asia   | 15,443                                    | 11,108      |
| Europe   | 320                                       | (9,149)     |
| All other                                      | 78  | 580         |
| Total Segment operating income (loss)          | 15,258                                    | (6,513)     |
| Corporate-level activity                       | (3,703)                                   | (4,281)     |
| Total Operating income (loss)                  | \$ 11,555                                 | \$ (10,794) |
| <b>Adjusted operating income (loss):</b>       |   |             |
| Americas                                       | \$ 1,977                                  | \$ (5,170)  |
| Asia   | 17,168                                    | 13,747      |
| Europe   | 1,933                                     | (2,706)     |
| All other                                      | 383                                       | 881         |
| Total Segment Adjusted operating income (loss) | 21,461                                    | 6,752       |
| Corporate-level activity                       | (3,108)                                   | (3,409)     |
| Total Adjusted operating income (loss)         | \$ 18,353                                 | \$ 3,343    |
| Adjusted operating income (loss)               | \$ 18,353                                 | \$ 3,343    |
| <b>Adjustments:</b>                            |   |             |
| Depreciation                                   | (4,225)                                   | (4,667)     |
| Amortization of intangible assets              | (1,372)                                   | (1,368)     |
| Stock-based compensation                       | (1,072)                                   | (1,684)     |
| Restructuring and other, net                   | (129)                                     | (6,418)     |
| Operating income (loss)                        | 11,555                                    | (10,794)    |

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|                                     |                 |                    |
|-------------------------------------|-----------------|--------------------|
| Other expense, net                  | (1,161)         | (3,893)            |
| Income tax expense                  | 1,881           | 4,033              |
| Income from discontinued operations | 45              | 85                 |
| <b>Net income (loss)</b>            | <b>\$ 8,558</b> | <b>\$ (18,635)</b> |

|   | <b>October 31,<br/>2009</b> | <b>July 31,<br/>2009</b> |
|---|-----------------------------|--------------------------|
|   | (in thousands)              |                          |
| <b>Total assets of continuing operations:</b> |                             |                          |
| Americas                                      | \$ 183,730                  | \$ 180,788               |
| Asia  | 182,538                     | 187,836                  |
| Europe  | 142,242                     | 118,338                  |
| All other                                     | 28,915                      | 24,429                   |
| <br>Sub-total                                 | <br>537,425                 | <br>511,391              |
| Corporate-level activity                      | 39,595                      | 44,430                   |
|   | <br>\$ 577,020              | <br>\$ 555,821           |

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**MODUSLINK GLOBAL SOLUTIONS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(unaudited)**

As of October 31, 2009, approximately 71%, 13% and 16% 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 October 31, 2009, approximately, \$10.1 million, \$8.1 million, \$7.6 million and \$3.7 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.

The Company generated revenue of approximately \$51.1 million and \$38.5 million in China and the Netherlands, respectively, from external customers during the three months ended October 31, 2009. The Company generated revenue of approximately \$56.7 million and \$51.0 million in China and the Netherlands, respectively, from external customers during the three months ended October 31, 2008.

**(11) 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. Certain 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 months ended October 31, 2009 and 2008.

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|   | <b>Three Months Ended<br/>October 31,<br/>2009      2008<br/>(in thousands)</b> |             |
|---|---|-------------|
| <b><u>BASIC</u></b>   |   |             |
| Net income (loss)   | \$ 8,558  | \$ (18,635) |
| Less net income allocable to participating restricted stock                       | (57)  |             |
| Net income (loss) available for basic common shares                               | \$ 8,501  | \$ (18,635) |
| Weighted average common shares outstanding  | 44,806  | 45,706      |
| Basic net income (loss) per common share  | \$ 0.19   | \$ (0.41)   |
| <b><u>DILUTED</u></b>   |   |             |
| Net income (loss)   | \$ 8,558  | \$ (18,635) |
| Less net income allocable to participating restricted stock                       | (57)  |             |
| Net income (loss) available for diluted common shares                             | \$ 8,501  | \$ (18,635) |
| Weighted average common shares outstanding  | 44,806  | 45,706      |
| Weighted average common equivalent shares arising from:<br>dilutive stock options | 116   |             |
| Weighted-average number of common and potential common shares                     | 44,921  | 45,706      |
| Diluted net income (loss) per common share  | \$ 0.19   | \$ (0.41)   |

For the three months ended October 31, 2009, approximately 1.8 million common stock equivalent shares and 0.1 million nonvested shares were excluded from the denominator in the calculation of diluted earnings per share as their inclusion would have been antidilutive.

Approximately 2.3 million common stock equivalent shares and 0.3 million nonvested shares were excluded from the denominator in the calculation of diluted earnings per share for the three months ended October 31, 2008, as the Company has recorded a net loss for the three months ended October 31, 2008.

**(12) COMPREHENSIVE INCOME (LOSS)**

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

|                   | <b>Three Months Ended<br/>October 31,<br/>2009      2008<br/>(in thousands)</b> |             |
|-------------------|---|-------------|
| Net income (loss) | \$ 8,558  | \$ (18,635) |

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|   |                  |                    |
|---|------------------|--------------------|
| Net unrealized holding loss on securities | (249)            | (1,126)            |
| Foreign currency translation adjustment   | 2,551            | (5,107)            |
| Minimum pension liability adjustment      |                  | (433)              |
| <b>Comprehensive income (loss)</b>        | <b>\$ 10,860</b> | <b>\$ (25,301)</b> |

The components of accumulated other comprehensive income was as follows:

|  | <b>October 31,<br/>2009</b> | <b>July 31,<br/>2009</b> |
|--|-----------------------------|--------------------------|
|  | <b>(in thousands)</b>       |                          |
| Net unrealized holding losses on securities        | \$ (300)                    | \$ (51)                  |
| Cumulative foreign currency translation adjustment | 14,470                      | 11,919                   |
| Minimum pension liability adjustment               | 2,437                       | 2,437                    |
| <b>Accumulated other comprehensive income</b>      | <b>\$ 16,607</b>            | <b>\$ 14,305</b>         |

**Table of Contents****MODUSLINK GLOBAL SOLUTIONS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(unaudited)****(13) 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:

|                 | <b>October 31,<br/>2009</b> | <b>July 31,<br/>2009</b> |
|-----------------|-----------------------------|--------------------------|
|                 | <b>(in thousands)</b>       |                          |
| Raw materials   | \$ 48,178                   | \$ 42,349                |
| Work-in-process | 4,794                       | 5,482                    |
| Finished goods  | 18,065                      | 15,192                   |
|                 | \$ 71,037                   | \$ 63,023                |

**(14) CONTINGENCIES**

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.

**(15) 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 working capital. As of October 31, 2009, the Company had repurchased an aggregate of approximately 0.9 million shares at a cost of approximately \$6.3 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.

**(16) INCOME TAXES**

As of October 31, 2009 and July 31, 2009, the liability for unrecognized tax benefits related to various federal, state, and foreign income tax matters was \$6.5 million and \$6.2 million, respectively. Effective August 1, 2009, the Company adopted the provisions within ASC Topic 805,



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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 October 31, 2009 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 12 months. For the three months ended October 31, 2009, 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.

### **(17) @VENTURES INVESTMENTS**

The Company maintains interests in several privately held companies primarily 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

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**MODUSLINK GLOBAL SOLUTIONS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(unaudited)**

connection with a round of financing with other third-party investors. During the three months ended October 31, 2009, approximately \$1.1 million was invested by @Ventures. At October 31, 2009, the Company's carrying value of investments in privately held companies was approximately \$12.5 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, net of impairments in the Company's Consolidated Statement of Operations.

**(18) SUBSEQUENT EVENT**

On December 8, 2009, the Company acquired Tech for Less LLC ( TFL ) for approximately \$30.0 million in cash and an additional \$10.0 million performance-based consideration if certain financial performance measures are met in calendar 2010. 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 high-tech companies, from customer service, technical support and multichannel returns management to testing, repair and asset disposition.

The acquisition of TFL will be recorded during the second quarter of fiscal 2010 in accordance with ASC Topic 805. It is estimated that a significant portion of the purchase price will be allocated to amortizable intangible assets and to goodwill. The acquisition of TFL is not material to the Company's results of operations, financial position or cash flows.

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### **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") and ModusLink PTS, Inc. ("ModusLink PTS"), 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.

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 10 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 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 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

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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.

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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 first fiscal quarter ended October 31, 2009 compared with the first quarter of fiscal 2009 are in large part due to the current global economic environment. During fiscal 2009, ModusLink 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 months ended October 31, 2009, the Company recorded restructuring charges of \$0.1 million due to changes in underlying assumptions of initial estimates of previously recorded restructuring plans.

For the three months ended October 31, 2009, the Company reported net revenue of \$246.7 million, operating income of \$11.6 million, income from continuing operations before income taxes of \$10.4 million, net income of \$8.6 million and a gross margin percentage of 14.6%. Net income for the three months ended October 31, 2009 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 October 31, 2009, we had cash and cash equivalents, available-for-sale securities and short-term investments of \$174.7 million, and working capital of \$248.9 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 months ended October 31, 2009, our gross margin percentage was 14.6%. 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 months ended October 31, 2009, sales to Hewlett-Packard accounted for approximately 28% of our consolidated net revenue. For the three months ended October 31, 2008, sales to Hewlett-Packard and SanDisk Corporation accounted for approximately 23% and 11%, respectively of our consolidated net revenue. 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 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 five operating segments: Americas; Asia; Europe; ModusLink OCS; and ModusLink PTS. 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 operating segment. 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 fully 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.



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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 October 31, 2009 compared to the three months ended October 31, 2008

**Net Revenue:**

|              | Three Months Ended October 31, 2009 | As a % of Total Net Revenue | Three Months Ended October 31, 2008 | As a % of Total Net Revenue | \$ Change          | % Change       |
|--------------|-------------------------------------|-----------------------------|-------------------------------------|-----------------------------|--------------------|----------------|
|              | (in thousands)                      |                             |                                     |                             |                    |                |
| Americas     | \$ 85,138                           | 34.5%                       | \$ 92,981                           | 31.9%                       | \$ (7,843)         | (8.4)%         |
| Asia         | 75,566                              | 30.6%                       | 83,890                              | 28.8%                       | (8,324)            | (9.9)%         |
| Europe       | 83,084                              | 33.7%                       | 110,654                             | 38.0%                       | (27,570)           | (24.9)%        |
| All other    | 2,890                               | 1.2%                        | 3,887                               | 1.3%                        | (997)              | (25.6)%        |
| <b>Total</b> | <b>\$ 246,678</b>                   | <b>100.0%</b>               | <b>\$ 291,412</b>                   | <b>100.0%</b>               | <b>\$ (44,734)</b> | <b>(15.4)%</b> |

Net revenue decreased by approximately \$44.7 million during the three months ended October 31, 2009, as compared to the same period in the prior year. This \$44.7 million decrease was primarily a result of lower revenue due to a decline in volumes from certain client programs due to the economic downturn, partially offset by new business. Approximately \$140.0 million of the net revenue for the three months ended October 31, 2009 related to the procurement and re-sale of materials on behalf of our clients as compared to \$178.3 million for the three months ended October 31, 2008.

During the three months ended October 31, 2009, net revenue in the Americas region decreased by approximately \$7.8 million. This decrease resulted primarily from declines in client order volumes of the base business due to the economic downturn. Within the Asia region, the net revenue decrease of approximately \$8.3 million resulted primarily from a decrease in client order volumes. Within the Europe region, net revenue decreased by approximately \$27.6 million primarily due to declines in client order volumes due to the economic downturn.

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.

**Cost of Revenue:**

|           | Three Months Ended October 31, 2009 | As a % of Segment Net Revenue | Three Months Ended October 31, 2008 | As a % of Segment Net Revenue | \$ Change   | % Change |
|-----------|-------------------------------------|-------------------------------|-------------------------------------|-------------------------------|-------------|----------|
|           | (in thousands)                      |                               |                                     |                               |             |          |
| Americas  | \$ 79,470                           | 93.3%                         | \$ 93,436                           | 100.5%                        | \$ (13,966) | (14.9)%  |
| Asia      | 53,777                              | 71.2%                         | 63,861                              | 76.1%                         | (10,084)    | (15.8)%  |
| Europe    | 76,221                              | 91.7%                         | 104,650                             | 94.6%                         | (28,429)    | (27.2)%  |
| All other | 1,196                               | 41.4%                         | 1,395                               | 35.9%                         | (199)       | (14.3)%  |

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|       |            |       |            |       |             |         |
|-------|------------|-------|------------|-------|-------------|---------|
| Total | \$ 210,664 | 85.4% | \$ 263,342 | 90.4% | \$ (52,678) | (20.0)% |
|-------|------------|-------|------------|-------|-------------|---------|



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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 \$52.7 million for the three months ended October 31, 2009, as compared to the three months ended October 31, 2008. Gross margins for the first quarter of fiscal 2010 were 14.6% as compared to 9.6% 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 October 31, 2009, the Company's gross margin percentages within the Americas, Asia and Europe regions were 6.7%, 28.8% and 8.3%, as compared to (0.5)%, 23.9% and 5.4%, respectively, for the same period of the prior year. The 720 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 490 basis-point increase in gross margin is primarily attributed to a change in work mix. Within the Europe region, the 290 basis-point increase in gross margin was primarily due to increased productivity, changes in the work mix, and the impact of cost reduction actions initiated during fiscal year 2009, partially offset by a negative impact of foreign currency translation.

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 October 31, 2009 | As a % of Segment Net Revenue | Three Months Ended October 31, 2008 | As a % of Segment Net Revenue | \$ Change  | % Change |
|--------------------------|-------------------------------------|-------------------------------|-------------------------------------|-------------------------------|------------|----------|
|                          | (in thousands)                      |                               |                                     |                               |            |          |
| Americas                 | \$ 5,367                            | 6.3%                          | \$ 6,783                            | 7.3%                          | \$ (1,416) | (20.9)%  |
| Asia                     | 5,976                               | 7.9%                          | 7,831                               | 9.3%                          | (1,855)    | (23.7)%  |
| Europe                   | 6,544                               | 7.9%                          | 10,518                              | 9.5%                          | (3,974)    | (37.8)%  |
| All other                | 1,368                               | 47.3%                         | 1,665                               | 42.8%                         | (297)      | (17.8)%  |
| Sub-total                | 19,255                              | 7.8%                          | 26,797                              | 9.2%                          | (7,542)    | (28.1)%  |
| Corporate-level activity | 3,703                               |                               | 4,281                               |                               | (578)      | (13.5)%  |
| Total                    | \$ 22,958                           | 9.3%                          | \$ 31,078                           | 10.7%                         | \$ (8,120) | (26.1)%  |

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 October 31, 2009 decreased by approximately \$8.1 million compared to the three month period ended October 31, 2008, primarily as a result of a \$3.9 million decline in employee-related costs, a \$1.6 million decline in bad debt expense, a \$0.7 million decline in Enterprise Resource Planning ( ERP ) system implementation costs, a \$0.5 million decline in travel expenses and a \$0.4 million decline in depreciation expense.

**Amortization of Intangible Assets:**

|          | Three Months Ended October 31, 2009 | As a % of Segment Net Revenue | Three Months Ended October 31, 2008 | As a % of Segment Net Revenue | \$ Change | % Change |
|----------|-------------------------------------|-------------------------------|-------------------------------------|-------------------------------|-----------|----------|
|          | (in thousands)                      |                               |                                     |                               |           |          |
| Americas | \$ 756                              | 0.9%                          | \$ 752                              | 0.8%                          | \$ 4      | 0.5%     |
| Asia     | 369                                 | 0.5%                          | 369                                 | 0.4%                          |           |          |

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|              |                 |             |                 |             |             |             |
|--------------|-----------------|-------------|-----------------|-------------|-------------|-------------|
| Europe       |                 |             |                 |             |             |             |
| All other    | 247             | 8.5%        | 247             | 6.4%        |             |             |
| <b>Total</b> | <b>\$ 1,372</b> | <b>0.6%</b> | <b>\$ 1,368</b> | <b>0.5%</b> | <b>\$ 4</b> | <b>0.3%</b> |

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 and ModusLink PTS. These intangible assets are being amortized over lives ranging from 1 to 10 years.

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

|              | Three Months Ended<br>October 31,<br>2009 | As a % of<br>Segment<br>Net<br>Revenue | Three Months Ended<br>October 31,<br>2008 | As a % of<br>Segment<br>Net<br>Revenue | \$ Change         | % Change       |
|--------------|---|--|---|--|-------------------|----------------|
|              | (in thousands)                            |  |   |  |                   |                |
| Americas     | \$ 129                                    | 0.2%                                   | \$ 1,061                                  | 1.1%                                   | \$ (932)          | (87.8)%        |
| Asia         |   |  | 721                                       | 0.9%                                   | (721)             | (100.0)%       |
| Europe       |   |  | 4,636                                     | 4.2%                                   | (4,636)           | (100.0)%       |
| All other    |   |  |   |  |                   |                |
| <b>Total</b> | <b>\$ 129</b>                             | <b>0.1%</b>                            | <b>\$ 6,418</b>                           | <b>2.2%</b>                            | <b>\$ (6,289)</b> | <b>(98.0)%</b> |

During the three months ended October 31, 2009, the Company recorded a net restructuring charge of approximately \$0.1 million 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 October 31, 2008, the Company recorded net restructuring charges of approximately \$6.4 million. During the first quarter of fiscal year 2009, management approved a plan for a workforce reduction of approximately 500 employees. As a result of the plan, the Company recognized a \$6.8 million pre-tax restructuring charge related to severance payments for the workforce reduction. The majority of all actions related to the plan were completed by the end of the fourth quarter of fiscal year 2009. The Company estimates that all payments related to the plan for workforce reductions will be completed by the end of the fiscal year 2010. The restructuring charge for the plan was offset by \$0.4 million in reductions to estimates for previously recorded employee related expenses and facilities lease obligations primarily based on changes to the underlying assumptions.

**Interest Income/Expense:**

During the three months ended October 31, 2009, interest income decreased to \$0.1 million from \$0.8 million for the three months ended October 31, 2008. 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 \$0.1 million and \$0.2 million for the three months ended October 31, 2009 and 2008, respectively. In both periods, interest expense related primarily to the Company's stadium obligation.

**Other Losses, net:**

Other losses, net were approximately \$0.3 million for the three months ended October 31, 2009. During the three months ended October 31, 2009, the Company recorded foreign exchange losses of approximately \$0.3 million due to realized and unrealized gains and losses from foreign currency exposures and settled transactions in the Americas, Asia and Europe.

During the three months ended October 31, 2008, other losses, net were a net loss of approximately \$3.9 million. During the three months ended October 31, 2008, the Company recorded foreign currency transaction losses of approximately \$3.4 million and a \$1.0 million impairment of an investment, which were partially offset by approximately \$0.5 million of gains on the sale of investments. The \$0.5 million gain was the result of an adjustment to a previously recorded gain on the acquisitions by a third party of Avamar Technologies, Inc., due to the satisfaction of conditions leading to the release of funds held in escrow. Avamar Technologies, Inc. was an @Ventures portfolio company that was acquired by a third party in a previous reporting period.

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### ***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 increased to a loss of \$0.9 million for the three months ended October 31, 2009 from a loss of \$0.5 million for the same period in the prior fiscal year, primarily as a result of net losses recognized by certain affiliate companies, and a \$0.3 million impairment charge recorded on a certain investment included in the @Ventures portfolio of companies in the current period.

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 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, it recorded a \$0.3 million impairment charge for the three months ended October 31, 2009 related to its investment in a privately held company. This impairment charge is included in Equity in losses of affiliates, net of impairments in the Company's Consolidated Statement of Operations.

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 additional 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 \$12.5 million of investments in affiliates at October 31, 2009 ranging from 10% to 20%, respectively, would decrease our income from continuing operations by \$1.3 million to \$2.5 million.

### ***Income Tax Expense:***

During the three months ended October 31, 2009, the Company recorded income tax expense of approximately \$1.9 million, as compared to income tax expense of \$4.0 million for same period in the prior fiscal year. For the three months ended October 31, 2009, 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 October 31, 2009 and 2008, 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.

### ***Liquidity and Capital Resources***

Historically, the Company has financed its operations and met its capital requirements primarily through funds generated from operations, the issuance of its securities, returns generated by our venture capital investments and borrowings from lending institutions. As of October 31, 2009, the Company's primary sources of liquidity consisted of cash and cash equivalents of \$174.4 million. In addition, ModusLink has a revolving credit agreement (the Loan Agreement) with a bank syndicate. The Loan Agreement, as amended to date, is a \$35.0 million revolving credit facility, with a scheduled maturity of January 31, 2010. Advances under the Loan Agreement may be in the form of loans or letters of credit. At October 31, 2009, the Company did not have any debt outstanding and had letters of credit for \$0.1 million outstanding under the Loan Agreement. Interest on the revolving credit facility is based on the London Interbank Offered Rate LIBOR plus a margin of 2.50%. The Loan Agreement is secured by the assets of ModusLink and includes certain restrictive financial covenants, which include balance sheet leverage, liquidity and profitability measures and restrictions that limit the ability of ModusLink, among other things, to merge, or acquire or sell assets without prior approval from the lenders. While we expect to seek a new Loan Agreement by January 31, 2010, there can be no assurances that we will be able to replace the Loan Agreement on terms that are acceptable to us, or at all. In addition, ModusLink maintains credit facilities of approximately \$3.4 million and \$0.9 million with Japanese and Taiwanese banks, respectively. No amounts were outstanding under these facilities at October 31, 2009. The Company's working capital at October 31, 2009 was approximately \$248.9 million.

Cash used in operating activities of continuing operations represents net income (loss) as adjusted for non-cash items and changes in operating assets and liabilities. Net cash used in operating activities of continuing operations was \$1.3 million and \$21.8 million for the three months ended October 31, 2009 and 2008, respectively. The \$20.5 million decrease in cash used in operating activities of continuing operations for the

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three months ended October 31, 2009 compared with the same period in the prior year was due to a \$22.6 million increase in income (loss) from continuing operations as adjusted for non-cash items, improved working capital

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of \$14.3 million, an increase of prepaid expenses and other current assets of \$1.2 million, partially offset by a decrease in other assets and liabilities of \$15.7 million and a decrease in refundable accrued income taxes of \$2.3 million. During the three months ended October 31, 2009, non-cash items included depreciation expense of \$4.2 million, stock-based compensation of \$1.1 million, amortization of intangible assets of \$1.4 million and non-operating losses, net, of \$0.3 million. The cash used in operating activities of continuing operations for the three months ended October 31, 2008 was primarily driven by a loss from continuing operations of \$18.7 million. Cash flow from operating activities of continuing operations for the three months ended October 31, 2008 included an increase in accounts receivable and inventories of approximately \$25.7 million and \$22.4 million, respectively, with a corresponding increase in accounts payable, accrued restructuring and accrued expenses of \$16.5 million, primarily related to seasonality based demand and ramp up of new business.

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

Investing activities of continuing operations provided cash of \$7.4 million for the three months ended October 31, 2009 and used cash of \$6.4 million for the three months ended October 31, 2008. The \$7.4 million of cash provided by investing activities during the three months ended October 31, 2009 resulted primarily from \$10.0 million of proceeds from the maturity of short-term investments. This source of cash was offset by \$1.1 million of investments in affiliates and \$1.5 million in capital expenditures. The \$6.4 million of cash used in investing activities during the three months ended October 31, 2008 resulted primarily from \$4.1 million of capital expenditures and \$2.8 million of investments in affiliates. As of October 31, 2009, the Company had a carrying value of \$12.5 million of investments in affiliates, which may be a potential source of future liquidity. However, the Company does not anticipate being dependent on liquidity from these investments to fund either its short-term or long-term operating activities.

Financing activities of continuing operations used cash of \$2.8 million and \$3.4 million for the three months ended October 31, 2009 and 2008, respectively. The \$2.8 million of cash used for financing activities of continuing operations during the three months ended October 31, 2009 primarily related to \$2.7 million of cash used to repurchase the Company's common stock and \$0.2 million of capital lease repayments. The \$3.4 million of cash used for financing activities of continuing operations during the three months ended October 31, 2008 primarily related to \$3.3 million of cash used to repurchase the Company's common stock and \$0.2 million of capital lease repayments. The Company is not dependent on liquidity from its financing activities to fund either its short-term or long-term operating activities; however, we have utilized our revolving line of credit to meet operating requirements in the past.

Cash used for discontinued operations totaled \$0.4 million and \$0.6 million for the three months ended October 31, 2009 and 2008, respectively, primarily for ongoing lease obligations.

Given the Company's cash resources as of October 31, 2009, the Company believes that it has sufficient working capital and liquidity to support its operations for at least the next 12 months. There are no material capital expenditure requirements as of October 31, 2009. However, should additional capital be needed to fund any future cash needs, investments or acquisition activities, the Company may seek to raise additional capital through offerings of the Company's stock, or through debt financing. There can be no assurance, however, that the Company will be able to raise additional capital on terms that are favorable to the Company, or at all.

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

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

### ***Contractual Obligations***

A summary of the Company's contractual obligations is included in the Company's Annual Report on Form 10-K for the fiscal year ended July 31, 2009. The Company's gross liability for unrecognized tax benefits was approximately \$6.5 million and \$6.0 million, respectively, including approximately \$84,000 and \$52,000, respectively, of accrued interest and penalties as of October 31, 2009 and 2008. The Company is unable to reasonably estimate the amount or timing of payments for the liability.

The Company agrees to indemnify its clients in the ordinary course of business. Typically, the Company agrees to indemnify its clients for losses caused by the Company. As of October 31, 2009, the Company had no recorded liabilities with respect to these arrangements.

In 1999, a subsidiary of the Company entered into a facility lease with a term ending in November 2006. The Company issued a guaranty in connection with this lease. The Company divested of its interest in the subsidiary in 2002. During the quarter ended October 31, 2006, the Company became aware that this lease had been amended to extend the lease term through November 2016 with cumulative base rent of approximately \$16.0 million. The Company disputes that it has any ongoing liability under this guaranty.

The Company is also a party to litigation from time to time, which it considers routine and incidental to its business. Management does not expect the results of such routine and incidental matters to have a material adverse effect on the Company's business, results of operations or financial condition.

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

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The preparation of our quarterly financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and reported amounts of revenues and expenses during the reporting period. On an ongoing basis, we evaluate our estimates, including those related to revenue recognition, stock-based compensation expense, inventories, investments, income taxes, restructuring, impairment of long-lived assets, goodwill and other intangible assets, contingencies and litigation. Of the accounting estimates we routinely make relating to our critical accounting policies, those estimates



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made in the process of: preparing investment valuations; determining discounted cash flows for purposes of evaluating goodwill and intangible assets for impairment; determining future lease assumptions related to restructured facility lease obligations; and establishing income tax liabilities are the estimates most likely to have a material impact on our financial position and the results of operations. Some accounting policies may have a significant impact on amounts reported in these financial statements. During the three months ended October 31, 2009, we believe that there have been no significant changes to the items that we disclosed as our critical accounting policies and estimates in the Critical Accounting Policies section of Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended July 31, 2009.

### ***New Accounting Pronouncements***

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 ( EITF 08-1 ), 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 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 Financial Accounting Standards Board ( 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.

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

The Company is exposed to the impact of interest rate changes, foreign currency exchange rate fluctuations and changes in the market values of its investments. The carrying values of financial instruments including cash and cash equivalents, accounts receivable, accounts payable and the revolving line of credit, approximate fair value because of the short-term nature of these instruments. The carrying value of capital lease obligations approximates fair value, as estimated by using discounted future cash flows based on the Company's current incremental borrowing rates for similar types of borrowing arrangements. As a matter of policy, the Company does not enter into derivative financial instruments for trading purposes. All derivative positions are used to reduce risk by hedging underlying economic or market exposure and are valued at their fair value on our consolidated balance sheets and adjustments to fair value during this holding period are recorded in the statement of operations.

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

At October 31, 2009, ModusLink had no outstanding borrowings under its Loan Agreement with a bank syndicate and the Company had no open derivative positions with respect to its borrowing arrangements.

We maintain a portfolio of highly liquid cash equivalents typically maturing in 90 days or less as of the date of purchase. We place our investments in instruments that meet high credit quality standards, as specified in our investment policy and include corporate and state municipal obligations such as commercial paper, certificates of deposit and institutional money market funds.

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

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

The Company has operations in various countries and currencies throughout the world and its operating results and financial position are subject to greater exposure from significant fluctuations in foreign currency exchange rates. The Company has historically used derivative financial instruments on a limited basis, principally foreign currency exchange rate contracts, to minimize the transaction exposure that results from such fluctuations. As of October 31, 2009, the Company did not have any derivative financial instruments.

Revenues from our foreign operating segments accounted for approximately 64% of total revenues during the three months ended October 31, 2009. A portion of our international sales made by our foreign business units in their respective countries is denominated in the local currency of each country. These business units also incur a portion of their expenses in the local currency.

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

The conversion of the foreign subsidiaries' financial statements into U.S. dollars will lead to a translation gain or loss which is recorded as a component of other comprehensive income (loss). For the three months ended October 31, 2009, we recorded foreign currency translation gains of approximately \$2.6 million which are recorded within accumulated other comprehensive income in stockholders' equity in our condensed consolidated balance sheet. In addition, certain of our subsidiaries have assets and liabilities that are denominated in currencies other than the relevant entity's functional currency. Changes in the functional currency value of these assets and liabilities create fluctuations that will lead to a transaction gain or loss. For the three months ended October 31, 2009, we recorded realized and unrealized foreign currency transaction losses of approximately \$0.3 million which are recorded in Other gains (losses), net in our consolidated statement of operations.

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

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

***Disclosure Controls and Procedures.*** Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this report were effective in ensuring that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

***Internal Control Over Financial Reporting.*** There have been no changes in our internal control over financial reporting (as defined by Rule 13a-15(f)), that occurred during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents****PART II. OTHER INFORMATION****Item 1. Legal Proceedings.**

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

**Item 1A. Risk Factors.**

There have not been any material changes from the risk factors previously disclosed in the Item 1A. Risk Factors of our Annual Report on Form 10-K, for the fiscal year ended July 31, 2009. In addition to the other information set forth in this report, including in the first paragraph under Management's Discussion and Analysis of Financial Condition and Results of Operation, you should carefully consider the factors discussed in our Annual Report on Form 10-K, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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

The following table provides information about purchases by the Company of its common stock during the quarter ended October 31, 2009:

| Period                               | Total Number of Shares Repurchased <sup>(1)</sup> | Average Price Paid per Share | Total Number of Shares Repurchased as Part of Publicly Announced Plans or Programs | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs <sup>(2)</sup> |
|--------------------------------------|---|------------------------------|--|---|
| August 1, 2009-August 31, 2009       | 44,664 <sup>(3)</sup>                             | \$ 7.12                      | 21,810   | \$ 11,047,145   |
| September 1, 2009-September 30, 2009 | 4,576 <sup>(4)</sup>                              | \$ 8.95                      | N/A  | \$ 11,047,145   |
| October 1, 2009-October 31, 2009     | 279,647 <sup>(5)</sup>                            | \$ 8.38                      | 277,000  | \$ 8,717,187  |

- (1) The Company repurchased an aggregate of 298,810 shares of its common stock during the quarter ended October 31, 2009 pursuant to the repurchase program announced in June 2010 (the Program). The Company has repurchased an aggregate of 864,142 shares of common stock through October 31, 2009 pursuant to the Program.
- (2) In June 2009, the Company was authorized to repurchase up to \$15.0 million of its common stock from time to time on the open market or in privately negotiated transactions under the Program over a 12 month period ending in June 2010. The Program may be suspended or discontinued at any time.
- (3) Includes 22,854 shares delivered to the Company as payment of tax liability upon the vesting of shares of restricted stock.
- (4) Consists of shares delivered to the Company as payment of tax liability upon the vesting of shares of restricted stock.
- (5) Includes 2,647 shares delivered to the Company as payment of tax liability upon the vesting of shares of restricted stock.

**Item 5. Other Information.**

During the quarter ended October 31, 2009, we made no material changes to the procedures by which stockholders may recommend nominees to our Board of Directors, as described in our most recent proxy statement.

**Item 6. Exhibits.**

The Exhibits listed in the Exhibit Index immediately preceding such Exhibits are filed with, or incorporated by reference in, this report.

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**SIGNATURE**

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

MODUSLINK GLOBAL SOLUTIONS, INC.

Date: December 10, 2009

By:

/s/ STEVEN G. CRANE  
**Steven G. Crane**

**Chief Financial Officer**

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**EXHIBIT INDEX**

- 10.1 ModusLink Global Solutions, Inc. FY 2010 Executive Management Incentive Plan is incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated October 16, 2009 (File No. 000-23262).
- 10.2 Amendment No. 5 to Amended and Restated 1995 Employee Stock Purchase Plan is incorporated herein by reference to Appendix I to the Registrant's Definitive Schedule 14A filed October 23, 2009 (File No. 000-23262).
- 10.3 Seventh Amendment to Second Amended and Restated Loan and Security Agreement, dated as of October 9, 2009, by and among ModusLink Corporation, SalesLink LLC and SalesLink Mexico Holding Corp., Bank of America, N.A. (as successor by merger to LaSalle Bank National Association) and The PrivateBank and Trust Company (as successor by assignment to RBS Citizens, National Association (f/k/a Citizens Bank of Massachusetts)).
- 31.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of the Chief Executive Officer Pursuant to 18 U.S.C Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of the Chief Financial Officer Pursuant to 18 U.S.C Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.