

ModusLink Global Solutions Inc
Form 10-K
January 11, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended July 31, 2012

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition Period From **to**

Commission file number: 001-35319

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)

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

1601 Trapelo Road

Waltham, Massachusetts
(Address of principal executive offices)

02451
(Zip Code)

(781) 663-5000

(Registrant's telephone number, including area code)

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

Title of each class:
Common Stock, \$0.01 par value

Name of each exchange on which registered:
The NASDAQ Stock Market LLC

Preferred Stock Purchase Rights

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 Act). Yes No

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The aggregate market value of the Registrant's common stock held by non-affiliates of the Registrant computed with reference to the price at which the common stock was last sold as of the last business day of the Registrant's most recently completed second fiscal quarter was \$214,158,281.

On January 4, 2013, the Registrant had outstanding 43,841,024 shares of common stock, \$0.01 par value.

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This Annual Report on Form 10-K contains 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. For this purpose, any statements contained herein that are not statements of historical fact 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 Item 1A of this report, "Risk Factors," and elsewhere in this report. 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. We do not undertake any obligation to update forward-looking statements whether as a result of new information, future events or otherwise.

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Explanatory Note

Overview of Restatement

In this Annual Report on Form 10-K, ModusLink Global Solutions, Inc. (the Company):

- (a) restates its Consolidated Balance Sheets as of July 31, 2011 and 2010, and the related Consolidated Statements of Operations, Cash Flows and Stockholders' Equity for the fiscal years ended July 31, 2011, 2010, and 2009;
- (b) amends its Management's Discussion and Analysis of Financial Condition and Results of Operations as it relates to the fiscal years ended July 31, 2011 and 2010;
- (c) restates its Selected Financial Data in Item 6 for fiscal years 2011, 2010, 2009, 2008, and 2007; and restates its Unaudited Quarterly Financial Data for the first two fiscal quarters in the fiscal year ended July 31, 2012 and each fiscal quarter in the fiscal years ended July 31, 2011 and 2010.

Background and Scope of the Investigation

On February 15, 2012, the Division of Enforcement of the Securities and Exchange Commission (SEC) initiated with the Company an informal inquiry, and later a formal action, regarding the Company's treatment of rebates associated with volume discounts provided by vendors (the SEC Inquiry).

On March 12, 2012, in its Form 10-Q for the quarterly period ended January 31, 2012, the Company announced the pendency of the SEC Inquiry.

Concurrent with the SEC Inquiry, the Audit Committee of the Company's Board of Directors commenced an internal investigation of the Company's practices with regard to rebates received from vendors to determine whether and to what extent such rebates should not have been accounted for as revenue, based on the applicable pricing model in effect with its clients. The Audit Committee engaged the law firm of Wilmer, Cutler, Pickering, Hale and Dorr LLP (WilmerHale) to lead the investigation as independent legal counsel to the Audit Committee. In turn, WilmerHale engaged independent forensic accountants. WilmerHale also engaged an independent accounting firm to provide accounting, financial, and process improvement consulting services in connection with a review of the Company's internal controls with regard to rebates and the Company's pricing practices. The scope of the investigation was determined by WilmerHale and its advisors in consultation with the Audit Committee. The investigation involved a comprehensive program of forensic analysis and inquiry directed to aspects of the Company's rebate and pricing practices, and related accounting and financial reporting practices, throughout the Company's global operations, and evaluated aspects of the Company's historical accounting and financial reporting practices since fiscal year 2005.

In providing its supply chain services, the Company enters into contracts with its clients that employ various arrangements for pricing, including fixed-price, cost-plus, or cost-pass-through pricing models. Although the specifications and terms of the pricing model can frequently vary from client to client, and among the products or programs for a single client, under a fixed-price model, the Company and its client will typically negotiate a fixed unit price for the supply chain services to be provided, where the level of costs incurred by the Company does not affect the contractual, negotiated price. Under a cost-plus model, the client agrees to pay the costs incurred by the Company to purchase materials, together with an agreed-to percentage mark-up on those costs. Finally, with regard to a cost-pass-through model, materials and other costs incurred by the Company are passed through directly to the client, and the client agrees to pay a separate negotiated fee for specified services provided by the Company. Arrangements with clients can include the use of any one or more of these pricing models, depending on the client program involved and the location from which the Company services the client. In addition, continued price and cost discussions with clients through the course of the relationship can sometimes result in an accepted change in the pricing model applied. Consequently, the implication and interpretation of the cost and price terms applicable to any particular client relationship can vary across client programs and products, at different periods in time, and based on the locations from which a client may be serviced.

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In the course of the Company's contractual relationships, clients often demand lower costs over time, typically attributable to efficiency gains in service offerings. The Company accomplishes this in various ways, including for example, by shifting production to lower cost regions, redesigning clients' packaging and supply chains, and strategically sourcing materials. As part of these services and in the normal course of its business, the Company purchases certain commodity types of materials, including, but not limited to, print, packaging, media and labels, to meet client requirements, often in quantities well in excess of those required by any one client. As a result, the Company receives improved pricing on materials. Frequently, the Company also received and retained rebates based on aggregate volumes of purchases or other criteria established by the vendor. The retention of rebates produced a positive impact on the Company's revenue, and, therefore, also positively affected the Company's profitability and operating income.

As a part of the investigation, the Audit Committee with the assistance of its outside advisors performed an extensive review of these relationships and determined that certain client contracts had not been aligned consistently with the Company's practice of retaining rebates, based on the applicable pricing model in effect with its clients. In the course of this investigation, the Audit Committee also identified limited instances where costs of materials incurred were marked-up to clients in a manner not consistent with client contracts. For fixed-price contracts, the Company concluded that rebates and mark-ups were appropriately retained and that the accounting remains correct, as the clients' prices were not a function of materials cost. However, based on additional accounting evaluations conducted in connection with the investigation and in consultation with the Audit Committee's advisors, the Company concluded, and recommended to the Audit Committee, that revenue should not have been recognized for retained rebates and mark-ups associated with the cost-based client contracts.

The SEC Inquiry is ongoing and the Company continues to cooperate with the staff of the SEC by voluntarily producing documents and other materials identified in the course of the Audit Committee's investigation, and as requested by the staff. The Company, however, cannot predict the outcome of the SEC Inquiry or any related legal and administrative proceedings, which could include the institution of administrative, civil injunctive, or other proceedings, as well as the imposition of fines and other penalties, remedies and sanctions.

Summary of Investigation Findings

The Audit Committee, together with its independent legal and accounting advisors, investigated the manner in which Company personnel interpreted and sought to comply with the terms of client contracts, and the processes by which costs for materials were calculated and presented to clients. The errors identified in the course of the Audit Committee's investigation revealed deficiencies in the Company's accounting and financial control environment, some of which were determined to be material weaknesses. These included a failure of effective controls to track and reconcile the Company's belief that it was entitled to retain rebates and pricing mark-ups against the specific terms of the contractual pricing models and cost disclosure obligations required by client contracts. However, the investigation did not identify evidence that the need to restate its consolidated financial statements was the result of an effort to overstate revenues purposefully.

The Company has implemented a new control, whereby the Company reviews and analyzes, at the Corporate level, rebates on a global basis and pricing mark-ups by client each quarter. This improvement to the Company's internal controls, in the short term, will allow the Company to check the accuracy of the amount of the revenue reductions attributable to rebates and mark-ups in accordance with client contractual terms. Management will adjust revenue based on its investigation of contracts, vendor invoices, rebates received, and client billings (including whether billings are in alignment with contracts related to rebates and pricing mark-ups).

On a longer term basis, management is in the process of performing a review of all process- and transaction-level controls, in addition to assessing relevant monitoring and entity-level controls, in relation to contract

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administration, purchasing, client invoicing, and availability of relevant information across all three areas. Management expects to enhance existing process-level controls and potentially implement new controls in each area as the processes are redesigned.

Restatement Adjustments

As a result of this investigation, the Audit Committee concluded that the Company would need to restate its financial statements from fiscal years 2009 through 2011 and the first two quarters of fiscal year 2012, and selected unaudited financial data for fiscal years 2007 and 2008, and that those previously issued financial statements should no longer be relied upon. The Company is correcting the underlying errors within this 10-K filing for the fiscal year ended July 31, 2012. Accordingly, the filing includes a restatement of the Company's financial statements for fiscal years 2009 through 2011 and the first two quarters of fiscal year 2012, and selected unaudited financial data for fiscal years 2007 and 2008. Any adjustments from periods prior to fiscal year 2007 are reflected in a change to beginning accumulated deficit for fiscal year 2007. The cumulative effect of those restatement adjustments on years prior to fiscal year 2007 has been restated as a \$13.2 million increase to beginning accumulated deficit from \$6,968.3 million to \$6,981.5 million for fiscal year 2007. This disclosure expands the usual five year selected unaudited financial data to include 2007 to provide data that would otherwise have been presented had the Company issued an amendment to the Company's Annual Report on Form 10-K for the fiscal year ended July 31, 2011. In addition, immediately prior to the filing of this Annual Report on Form 10-K, we are filing the Quarterly Report on Form 10-Q for the fiscal quarter ended April 30, 2012, not previously filed.

The cumulative adjustments required to correct the errors for these previously reported periods are reflected in the restated financial information presented in this report.

Several principal adjustments were made to historic financial statements as a result of the restatement as shown in *Effects of Restatement* below. Where the retention of a rebate or a mark-up was determined to have been inconsistent with a client contract (collectively referred to as pricing adjustments), the Company concluded that these amounts were not properly recorded as revenue. Accordingly, revenue was reduced by an equivalent amount for the period that the rebate was estimated to have affected. A corresponding liability for the same amount was recorded in that period (referred to as accrued pricing liabilities), which decreased working capital in the period. The Company believes that it may not ultimately be required to pay the accrued pricing liabilities, due in part to the nature of the interactions with its clients. Those interactions may provide either legal or factual grounds for mitigation of such liabilities. In addition, during such interactions, clients appear to be focused principally on service levels and the cost savings delivered to them by the Company, measured by the total price charged by the Company for its services. Even where there are cost plus or cost-pass-through contracts in effect, clients regularly request periodic price reductions, without reference to the actual costs incurred by the Company. The Company expects that its dealings with clients, which include periodic business and pricing reviews, as well as its ability to demonstrate the delivery of savings over time, may result in mitigation of the accrued pricing liabilities. When, and to the extent that, the Company is able to conclude that the liabilities have been extinguished for less than the amounts accrued, the Company will record the difference as other income. In the course of its business with certain clients, the Company has received releases of claims from such clients which have resulted in the Company concluding that the accrued pricing liabilities for those clients have been extinguished. The amounts derecognized and recorded in other income were \$11.8 million and \$13.5 million for the years ended July 31, 2012 and 2011. The remaining accrued pricing liabilities at July 31, 2012 will be derecognized when there is sufficient information for the Company to conclude that such liabilities have been extinguished, which may occur through payment, legal release, or other legal or factual determination.

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In addition to the errors described above, the restated financial statements include a \$3.7 million adjustment in the year ended July 31, 2011 to correct a reserve for an uncertain tax position (the tax adjustment). Based on the date of effective settlement of the uncertain tax position, the reserve should have been reversed in the year ended July 31, 2011.

The restated financial statements also include other adjustments to correct certain immaterial errors for previously unrecorded adjustments identified in audits of prior years' financial statements (the other adjustments). The previously unrecorded audit adjustments are being recorded as part of the restatement process although none of these adjustments is individually material.

In the tables appearing in this Form 10-K and the accompanying consolidated financial statements, the column labeled Restatement Pricing Adjustments sets forth the pricing adjustments and the column labeled Restatement Other Adjustments sets forth the tax adjustment (where applicable) and the other adjustments.

Effects of Restatement

Through July 31, 2012, the restatement adjustments had the following effects on net income (in thousands):

	Restatement Pricing Adjustments (Decrease) Increase	Restatement Other Adjustments (Decrease) Increase	Total Increase (Decrease) Increase to Net Income
2007	\$ (9,291)	\$ (2,386)	\$ (11,677)
2008	(8,297)	(324)	(8,621)
2009	(6,574)	643	(5,931)
2010	(4,891)	(1,163)	(6,054)
2011	11,576	2,974	14,550
2012	(913)	626	(287)
	\$ (18,390)	\$ 370	\$ (18,020)

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The following table sets forth the effects of the restatement adjustments on affected items within our previously reported Consolidated Financial Statements. The adjustments necessary to correct the errors have not had a material effect on reported cash flow.

	Six Months Ended 1/31/2012	Fiscal Year Ended 7/31/2011	Fiscal Year Ended 7/31/2010	Fiscal Year Ended 7/31/2009	Fiscal Year Ended 7/31/2008	Fiscal Year Ended 7/31/2007
Net revenue (in millions)						
As Reported	\$ 384.7	\$ 876.5	\$ 924.0	\$ 1,008.6	\$ 1,068.2	\$ 1,143.0
Adjustment	(0.5)	(2.7)	(5.6)	(6.6)	(8.3)	(9.3)
As Restated	\$ 384.2	\$ 873.8	\$ 918.4	\$ 1,002.0	\$ 1,059.9	\$ 1,133.7

	Six Months Ended 1/31/2012	Fiscal Year Ended 7/31/2011	Fiscal Year Ended 7/31/2010	Fiscal Year Ended 7/31/2009	Fiscal Year Ended 7/31/2008	Fiscal Year Ended 7/31/2007
Gross profit (in millions)						
As Reported	\$ 41.6	\$ 83.6	\$ 116.6	\$ 122.4	\$ 137.6	\$ 131.1
Adjustment	(0.3)	(2.7)	(5.6)	(6.6)	(8.4)	(9.9)
As Restated	\$ 41.3	\$ 80.9	\$ 111.0	\$ 115.8	\$ 129.2	\$ 121.2

	Six Months Ended 1/31/2012	Fiscal Year Ended 7/31/2011	Fiscal Year Ended 7/31/2010	Fiscal Year Ended 7/31/2009	Fiscal Year Ended 7/31/2008	Fiscal Year Ended 7/31/2007
Operating income (loss) (in millions)						
As Reported	\$ (11.3)	\$ (35.0)	\$ (6.9)	\$ (167.7)	\$ 0.4	\$ 14.8
Adjustment	(0.2)	(2.7)	(6.1)	(5.9)	(8.6)	(11.7)
As Restated	\$ (11.5)	\$ (37.7)	\$ (13.0)	\$ (173.6)	\$ (8.2)	\$ 3.1

	Six Months Ended 1/31/2012	Fiscal Year Ended 7/31/2011	Fiscal Year Ended 7/31/2010	Fiscal Year Ended 7/31/2009	Fiscal Year Ended 7/31/2008	Fiscal Year Ended 7/31/2007
Other income (expense) (in millions)						
As Reported	\$ 1.4	\$ (9.2)	\$ (3.4)	\$ (15.1)	\$ 23.3	\$ 41.5
Adjustment		13.6				
As Restated	\$ 1.4	\$ 4.4	\$ (3.4)	\$ (15.1)	\$ 23.3	\$ 41.5

	Six Months Ended 1/31/2012	Fiscal Year Ended 7/31/2011	Fiscal Year Ended 7/31/2010	Fiscal Year Ended 7/31/2009	Fiscal Year Ended 7/31/2008	Fiscal Year Ended 7/31/2007
Net income (loss) (in millions)						
As Reported	\$ (11.4)	\$ (49.0)	\$ (17.8)	\$ (193.5)	\$ 9.1	\$ 49.4
Adjustment	(0.3)	14.6	(6.0)	(5.9)	(8.6)	(11.7)
As Restated	\$ (11.7)	\$ (34.4)	\$ (23.8)	\$ (199.4)	\$ 0.5	\$ 37.7

	Six Months	Fiscal Year	Fiscal Year	Fiscal Year	Fiscal Year	Fiscal Year
Diluted net income (loss) per share (in dollars)						

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	Ended 1/31/2012	Ended 7/31/2011	Ended 7/31/2010	Ended 7/31/2009	Ended 7/31/2008	Ended 7/31/2007
As Reported	\$ (0.26)	\$ (1.13)	\$ (0.40)	\$ (4.26)	\$ 0.19	\$ 1.01
Adjustment	(0.01)	0.33	(0.14)	(0.13)	(0.18)	(0.24)
As Restated	\$ (0.27)	\$ (0.80)	\$ (0.54)	\$ (4.39)	\$ 0.01	\$ 0.77

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	Six Months Ended	Fiscal Year Ended	Fiscal Year Ended	Fiscal Year Ended	Fiscal Year Ended	Fiscal Year Ended
	1/31/2012	7/31/2011	7/31/2010	7/31/2009	7/31/2008	7/31/2007
Working capital (in millions)						
As Reported	\$ 169.8	\$ 184.2	\$ 222.6	\$ 237.0	\$ 238.7	\$ 320.2
Adjustment	(32.6)	(31.8)	(43.1)	(37.2)	(31.2)	(22.6)
As Restated	\$ 137.2	\$ 152.4	\$ 179.5	\$ 199.8	\$ 207.5	\$ 297.6

The adjustments made as a result of the restatement are more fully described in Note 3, Restatement of Previously Issued Financial Statements, of the Notes to the Consolidated Financial Statements included in this Annual Report. To further review the effects of the accounting errors identified and the restatement adjustments, see Part II Item 6 *Selected Financial Data* and Part II Item 7 *Management's Discussion and Analysis of Financial Condition and Results of Operations* included in this Annual Report. For a description of the control deficiencies identified by management as a result of the investigation and our internal reviews, and management's plan to remediate those deficiencies see Part II Item 9A *Controls and Procedures*.

Previously filed Annual Reports on Form 10-K and quarterly reports on Form 10-Q for the periods affected by the restatements have not been amended. Accordingly, investors should no longer rely upon the Company's previously released financial statements for any period prior to and including January 31, 2012 and any earnings releases or other communications relating to these periods. See Note 21, *Selected Quarterly Financial Information (unaudited)*, of the Notes to the Consolidated Financial Statements in this Annual Report for the impact of these adjustments for the first two quarters of the fiscal year ended July 31, 2012 and each of the quarterly periods in the fiscal years ended July 31, 2011 and 2010.

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PART I

ITEM 1. BUSINESS

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 PTS, Inc. (ModusLink PTS) and Tech For Less LLC (TFL), executes comprehensive supply chain and logistics services that improve clients' revenue, cost, sustainability and customer experience objectives. ModusLink Global Solutions provides services to leading companies in consumer electronics, communications, computing, medical devices, software, luxury goods and retail. The Company's operations are supported by a global footprint that includes more than 30 sites in 15 countries across North America, Europe, and the Asia region.

Over the past decade, the Company has expanded its services by acquiring and developing businesses focused on supply chain management services, entitlement, e-business management solutions, consumer electronics repair services and reverse logistics services. Open Channel Solutions, Inc. was acquired on March 18, 2008 and changed its name to ModusLink Open Channel Solutions, Inc. (ModusLink OCS) during fiscal year 2009. Effective August 1, 2010, ModusLink OCS was merged with ModusLink and became part of the Company's e-Business operations. The Company's e-Business operations provide integrated e-commerce, client support, financial transaction processing, physical shipment and returns processes on a global basis, and entitlement and e-business management solutions. ModusLink PTS, acquired as PTS Electronics, Inc. on May 2, 2008, provides consumer electronics service repair and reverse logistics services. Tech for Less LLC (TFL), acquired on December 4, 2009, processes and markets client-returned consumer electronics and business technology products.

The Company has six operating segments: Americas; Asia; Europe; e-Business; ModusLink PTS; and TFL. Each of these operating segments has designated management teams with direct responsibility over the operations of the respective operating segment. During the fiscal year ended July 31, 2012, the Company determined that it has four reportable segments, Americas, Asia, Europe, and TFL. The Company reports the ModusLink PTS operating segment in aggregation with the Americas operating segment as part of the Americas reportable segment. In addition to its four reportable segments, the Company reports an All other category. The All other category represents the e-Business 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 reportable segments and administration costs related to the Company's venture capital activities. 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. Certain segment information, including revenue, profit and asset information, is set forth in Note 5 of the accompanying notes to consolidated financial statements included in Item 8 below and in Management's Discussion and Analysis of Financial Condition and Results of Operations included in Item 7 below.

The Company previously operated under the names CMGI, Inc. and CMG Information Services, Inc. and was incorporated in Delaware in 1986. The Company's address is 1601 Trapelo Road, Suite 170, Waltham, Massachusetts 02451.

Services

ModusLink's revenue primarily comes from the sale of supply chain management services performed for its clients. These services include the procurement of clients' raw component inventory, as well as the storage, manufacturing and distribution of their proprietary products for sale by our clients to their own customers.

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ModusLink's supply chain management services and solutions are provided to technology and other industries on a global scale. ModusLink's core solutions are factory supply, postponement, aftermarket services and e-Business. These are supported by functional activities including, but not limited to sourcing and supply base management, product configuration, fulfillment and distribution, aftermarket services such as returns management and asset disposition, client care, and digital rights management. Additionally, ModusLink is a Microsoft Authorized Replicator, further enhancing its position as a valued supply chain services provider to leading technology hardware original equipment manufacturers (OEMs).

ModusLink's core solutions include:

Factory Supply The Factory Supply solution provides inbound supply of components into ModusLink's clients' manufacturing or light assembly operations on behalf of a client. The solution provides clients with a cost effective means to ensure consistent component quality.

Postponement The Postponement solution combines ModusLink's supply chain design expertise and execution capabilities and our global footprint with techniques, tools and processes to deliver customized solutions to our clients, enabling them to capitalize on last-mile customization of their products for consumption in local markets reducing inventory and shipping costs while maximizing flexibility and responsiveness to their markets.

ModusLink designs and executes a flexible global supply chain by employing optimization methodologies such as postponement and deferred configuration that leverage the best time and place in the supply chain to perform final configuration, packaging and distribution of products. By executing these key processes in-region and later in the cycle when demand is more established, clients can often improve time to market, lower costs and optimize component and finished goods inventory to better meet global demand. This reduces excess and obsolescence and minimizes the need for rework if forecasts are inaccurate.

Aftermarket Services The Aftermarket Services solutions include a complete range of post-sales activity including multi-channel returns management, testing, repair, and asset disposition/ value recovery, enabling clients to benefit from greater efficiency, cost reduction and asset value retention, while improving customer satisfaction.

e-Business ModusLink's e-Business enables a direct end-user revenue channel for clients through its solutions that include integrated e-commerce, client support, financial transaction processing and physical shipment and returns processes on a global basis. e-Business also delivers digital rights management capabilities that facilitate revenue generation for software publishers and related businesses by managing the complexities of multi-channel subscription and client access rights (entitlements) inherent in software licensing through a line of technology, consulting and client support solutions.

ModusLink's solutions seamlessly integrate with other supply chain service providers such as contract manufacturing companies and transportation providers. ModusLink improves the efficiency and effectiveness of the supply chain.

Acquisitions in Fiscal Year 2010

Tech for Less, LLC

On December 4, 2009, the Company completed the acquisition of Tech for Less LLC, a processor and marketer of client-returned consumer electronics and business technology products. The Company acquired 100% of the equity interest of TFL.

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Acquisitions in Fiscal Year 2008

Open Channel Solutions, Inc.

On March 18, 2008, the Company completed the acquisition of Open Channel Solutions, Inc., a leading global provider of entitlement and e-business management solutions and services. ModusLink previously had an equity interest in Open Channel Solutions, Inc., which interest was originally acquired when the Company acquired Modus Media, Inc. The acquisition of Open Channel Solutions, Inc. provides a complementary offering, which permits the Company to offer a digital to physical supply chain management solution. Open Channel Solutions, Inc. changed its name to ModusLink Open Channel Solutions, Inc. during fiscal year 2009. Effective August 1, 2010, the Company merged ModusLink OCS with its e-Business operations.

The e-Business operations work with industry-leading software publishers, digital content providers and OEMs to more effectively manage volumes and multichannel licensing programs for a better return on investment. e-Business Poetif[®] Licensing Management System is designed to centrally manage the complete range of multichannel entitlement management operations including business-to-business order management, license and feature activation, upgrades, renewal management and electronic software download.

PTS Electronics

On May 2, 2008, the Company completed the acquisition of PTS Electronics, Inc., a leading provider of end-to-end aftermarket services and solutions and one of the largest technology repair service and reverse logistics providers in the industry. PTS Electronics, Inc. changed its name to ModusLink PTS, Inc. during fiscal year 2009. ModusLink PTS offers a complete range of post-sales activity including multi-channel returns management, testing, repair, and asset disposition/value recovery.

Technology Infrastructure

Using its information technology systems and infrastructure, the Company manages the flow and use of information throughout the supply chain. The Company's technology infrastructure serves as the backbone of a client's fully integrated global supply chain solution. The Company offers a secure and redundant network environment to ensure its clients' data and information is secure and accurate. The Company works with clients to integrate data, tools and applications to create a technology solution that meets its clients' business needs and improves management of the global supply chain.

The Company's infrastructure, including its Enterprise Resource Planning (ERP) system, spans critical aspects of supply chain processes from beginning-to-end and serves as the foundation for the design, integration, and ongoing management of a client's global supply chain. The Company's ERP system is designed to provide the visibility and control needed for better decision making, more rapid response to global market dynamics and effective asset utilization across services and geographies. The Company's operating infrastructure leverages an integrated global systems platform, standardized process execution, strategic global management, industry expertise and local market knowledge to provide clients with more effective global operations management.

Facilities

The Company's global footprint consists of an integrated network of strategically located facilities in 15 countries, including numerous sites throughout North America, Europe and Asia. The Company's regionally optimized and highly scalable solution centers are designed to provide the flexibility to manage supply chain requirements, deliver and configure products in-region, close to the point of consumption or close to the point of manufacturing in low-cost regions, such as China, Eastern Europe and Mexico for maximum efficiency and cost-effectiveness.

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Sales and Marketing

The Company's sales and marketing staff is strategically and globally aligned to support the development, marketing and sale of its supply chain management services and solutions worldwide.

The Company's marketing efforts are focused on developing greater awareness and brand recognition among its target client base, with an emphasis on companies within its key markets of computing, software, storage, consumer electronics and communications. The Company markets its services and solutions through its website, public relations, advertising and tradeshow campaigns and is developing a wide range of collateral materials and sales tools to support these efforts. Additionally, the Company's global product marketing staff is focused on the ongoing development, positioning and marketing of new services. The Company's product marketing staff also identifies new opportunities and leads within its key industry and geographic markets.

The Company sells its services and solutions on a global scale, through the direct sales channel. The Company's strategically aligned, global sales staff creates new opportunities and cultivates leads in all of its key regions throughout North America, Europe and Asia as well as within its target markets around the world. The Company's sales staff helps to further diversify its client base.

Competition

The market for the supply chain management service offerings provided by the Company is highly competitive. As an end-to-end solutions provider with service offerings covering a range of supply chain operations and activities across the globe, the Company competes with different companies depending on the type of service it is providing or the geographic area in which an activity is taking place.

For the supply chain solutions, the Company faces competition from Electronics Manufacturing Services/Contract Manufacturers (EMS/CM), third party logistics (3PL) providers, Supply Chain Management (SCM) companies, and regional specialty companies. For the aftermarket services, the Company competes against independent repair vendors, EMS/CM companies, 3PL providers, and SCM companies. For the e-business solutions, the Company's competition includes global outsource providers, software as a service providers and technology providers. For the entitlement management solutions the Company competes against computer software providers offering content and document management solutions. As a provider of an outsourcing solution, the Company's competition also includes current and prospective clients, who evaluate the Company's capabilities in light of their own capabilities and cost structures.

The Company believes that the principal competitive factors in its market are quality and range of services, technological capabilities, cost, location of facilities, and responsiveness and flexibility. With the Company's end-to-end supply chain solution, global footprint, strong client service acumen, and our integrated global supply chain services, the Company believes that it is positioned well to compete in each of the markets it serves.

Clients

A limited number of clients account for a significant percentage of the Company's consolidated net revenue. For the fiscal year ended July 31, 2012, the Company's 10 largest clients accounted for approximately 69% of consolidated net revenue. This compares to the Company's 10 largest clients accounting for approximately 73%, 75%, and 77% of consolidated net revenue for the fiscal years ended July 31, 2011, 2010 and 2009, respectively. Sales to one client, Hewlett-Packard, accounted for approximately 31%, 28%, and 30%, respectively of the Company's consolidated net revenue for the fiscal years ended July 31, 2012, 2011, and 2010, respectively. Sales to three clients, Hewlett-Packard, Advanced Micro Devices, and SanDisk Corporation, accounted for approximately 27%, 10%, and 11%, respectively, of the Company's consolidated net revenue for the fiscal year ended July 31, 2009. In general, the Company does not have any agreements which obligate any client to buy a minimum amount of services from the Company, or to designate the Company as its sole supplier of any particular services. The loss of a significant amount of business or program with any key client could have a

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material adverse effect on the Company. The Company believes that it will continue to derive the vast majority of its consolidated operating revenue from sales to a small number of clients. There can be no assurance that revenue from key clients will not decline in future periods.

The Company sells its services to its clients primarily on a purchase order basis rather than pursuant to contracts with minimum purchase requirements. Consequently, sales are subject to demand variability by such clients. The Company purchases and maintains adequate levels of inventory in order to meet client needs rapidly and on a timely basis. The Company has no guaranteed price, quantity or delivery agreements with our suppliers. Because of the diversity of its services, as well as the wide geographic dispersion of our facilities, the Company uses numerous sources for the wide variety of raw materials needed for its operations. The Company has not been and does not expect to be adversely affected by an inability to obtain materials.

International Operations

We currently conduct business in many countries including the Netherlands, Hungary, France, Ireland, Czech Republic, Singapore, Taiwan, China, Malaysia, Japan, Australia, India, and Mexico, in addition to our United States operations. In fiscal year 2012, approximately 58% of the Company's consolidated net revenue was generated internationally. Refer to Note 5 of the accompanying notes to consolidated financial statements included in Item 8 below.

Our international operations increase our exposure to U.S. and foreign laws, regulations, and labor practices, which are often complex and subject to variation and unexpected changes, and with which we must comply.

A substantial portion of our international business is conducted in China, where we face (i) the challenge of navigating a complex set of licensing and tax requirements and restrictions affecting the conduct of business in China by foreign companies, (ii) limitations on the repatriation of cash, (iii) foreign currency fluctuation and (iv) evolving tax laws.

Seasonality

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

Intellectual Property

We rely upon a combination of patent, trade secret, copyright and trademark laws to protect our intellectual property. From time to time, we develop new trade secrets and other intellectual property or obtain intellectual property through acquisition activities. Our business is not substantially dependent on any single or group of related patents, trademarks, copyrights or licenses.

Employees

At July 31, 2012, we employed approximately 3,900 persons on a full-time basis, 1,100 in the Americas, 1,600 in Asia and 1,200 in Europe. Our subsidiaries in Mexico are parties to collective bargaining agreements covering approximately 22 employees. Our subsidiary in France is party to collective bargaining agreements covering approximately 36 employees. Approximately 168 of the employees of our Ireland subsidiaries are members of labor unions. Unionizing activities are anticipated at two of our Asia facilities of which 309 individuals are employed. We consider our employee relations to be good. From time to time we hire project-based, temporary workers based on our client needs and seasonality of our business and at times the number of these workers may approximate the number of our full-time employees.

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Our Corporate Information

We make our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports available through our website, free of charge, as soon as reasonably practicable after we file such material with, or furnish it to, the Securities and Exchange Commission. Our internet address is <http://www.moduslink.com>. The contents of our website are not part of this annual report on Form 10-K, and our internet address is included in this document as an inactive textual reference only. Previously filed Annual Reports on Form 10-K and quarterly reports on Form 10-Q for the periods affected by the restatement have not been amended. Accordingly, investors should no longer rely upon the Company's previously released financial statements for these periods and any earnings releases or other communications relating to these periods.

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ITEM 1A. RISK FACTORS

We operate in a rapidly changing environment that involves a number of risks, some of which are beyond our control. Forward-looking statements in this document and those we make from time to time through our senior management are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements concerning the expected future revenue or earnings or concerning projected plans, performance, or development of products and services, as well as other estimates related to future operations are necessarily only estimates of future results. We cannot assure you that actual results will not materially differ from expectations. Forward-looking statements represent our current expectations and are inherently uncertain. We do not undertake any obligation to update forward-looking statements. Factors that could cause actual results to differ materially from results anticipated in forward-looking statements include, but are not limited to, the following:

We derive a substantial portion of our revenue from a small number of clients and adverse industry trends or the loss of any of those clients could significantly damage our business.

We derive a substantial portion of our revenue by providing supply chain management services to a small number of clients. Our business and future growth will continue to depend in large part on the industry trend towards outsourcing supply chain management and other business processes. If this trend does not continue or declines, demand for our supply chain management services will decline and our financial results could suffer.

In addition, the loss of a significant amount of business or program with any key client could cause our revenue to decline. For the fiscal year ended July 31, 2012, sales to one client, Hewlett-Packard, accounted for approximately 31% of our consolidated net revenue. During the year ended July 31, 2012, ten clients accounted for approximately 69% 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 any agreements which obligate any client to buy a minimum amount of services from us, or to designate us as its sole supplier of any particular services. The loss of business with any key clients, or a decision by any one of our key clients to significantly change or reduce the services we provide, could have a material adverse effect on our business. We cannot assure you that our revenue from key clients will not decline in future periods.

In addition, ModusLink has been designated as an authorized replicator for Microsoft. This designation provides a license to replicate Microsoft software products and documentation for clients who want to bundle licensed software with their hardware products. This designation is annually renewable at Microsoft's discretion. A failure to maintain authorized replicator status could result in a reduction in our business and our revenue.

We may have difficulty achieving and sustaining operating profitability, and if we deplete our working capital balances, our business will be materially and adversely affected.

For the fiscal year ended July 31, 2012, we reported an operating loss of approximately \$45.9 million. Our revenue for a particular quarter is difficult to predict and may fluctuate significantly. We anticipate that we will continue to incur significant operating expenses in the future, including significant costs of revenue and selling, general and administrative expenses. Therefore, we cannot assure you that we will achieve or sustain operating profitability in the future. We also have significant commitments and contingencies, including real estate leases, continuing stadium sponsorship obligations, and inventory purchase obligations. We may also use significant amounts of cash to grow and expand our operations. At July 31, 2012, we had consolidated cash, cash equivalents and marketable securities balance of approximately \$52.5 million, and fixed contractual obligations of approximately \$95.1 million. Approximately \$43.3 million of the fixed contractual obligations are due in less than one year. If we are unable to achieve or sustain operating profitability, we risk depleting our working capital balances and our business will be materially adversely affected.

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

Our contracts do not contain minimum purchase requirements and we sell primarily on a purchase order basis. Therefore, our sales are subject to demand variability by our clients, which is difficult to predict and has fluctuated and may continue to fluctuate significantly. The level and timing of orders placed by these clients vary for a variety of reasons, including seasonal buying by end- users, the introduction of new technologies and general economic conditions. If we are unable to anticipate and respond to the demands of our clients, we may lose clients because we have an inadequate supply of their products needed, or we may have excess inventory, either of which may harm our business, financial position and operating results.

Disruption in the economy and financial markets could have a negative effect on our business.

The economy and financial markets in the United States, Europe and Asia have experienced extreme disruption during the last four years, including, among other things, extreme volatility in securities prices, severely diminished liquidity and credit availability, rating downgrades of certain investments and declining valuations of others. Governments have taken unprecedented actions intended to address extreme market conditions that include severely restricted credit and declines in real estate values. The businesses of our clients, and in turn our business, is highly dependent on consumer demand, which has been affected by the economic downturn and is highly uncertain. There can be no assurance that there will not be a further deterioration in financial markets and confidence in major economies, which could then lead to further challenges in the operation of our business. These economic developments affect businesses such as ours in a number of ways. The tightening of credit in financial markets adversely affects the ability of clients and suppliers to obtain financing for significant purchases and operations and could result in a decrease in orders and spending for our products and services. We are unable to predict the likelihood, duration and severity of disruptions in financial markets and adverse economic conditions and the effects they will have on our business and financial condition.

A decline in the technology sector could reduce our revenue.

A large portion of our revenue comes from clients in the technology sector, which is intensely competitive, very volatile and subject to rapid changes. Declines in the overall performance of the technology sector have in the past and could in the future adversely affect the demand for supply chain management services and reduce our revenue and profitability from these clients. In addition, industry changes, such as the transition of more collateral materials from physical form to digital form, and the convergence of functionality of smartphones, could lessen the demand for certain of our services or devices we currently handle.

Our exposure to financially troubled clients or suppliers may adversely affect our financial results.

We derive a substantial portion of our revenue by providing supply chain management services to a small number of clients, which may in the future experience financial difficulty, particularly in light of conditions in the credit markets and the overall economy. Our suppliers may also experience financial difficulty in this environment. If our clients experience financial difficulty, we could have difficulty recovering amounts owed to us from these clients, or demand for our services from these clients could decline. Additionally, if our suppliers experience financial difficulty, we could have difficulty sourcing supply necessary to fulfill production requirements and meet scheduled shipments. These conditions could adversely affect our financial position and results of operations.

Our quarterly results may fluctuate significantly.

Our operating results have fluctuated widely on a quarterly basis during the last several years. We expect that we may experience significant fluctuations in future quarterly operating results. Many factors, some of which are beyond our control, have contributed to these quarterly fluctuations in the past and may continue to

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contribute to fluctuations. Therefore, operating results for future periods are difficult to predict, and prior results are not necessarily indicative of results to be expected in future periods. These factors include:

how well we execute on our strategy and operating plans;

implementation of our strategic initiatives and achievement of expected results of these initiatives;

demand for our services;

consumer confidence and demand;

specific economic conditions in the industries in which we compete;

general economic and financial market conditions;

timing of new product introductions or software releases by our clients or their competitors;

payment of costs associated with our acquisitions, sales of assets and investments;

timing of sales of assets and marketable securities;

market acceptance of new products and services;

seasonality;

temporary shortages in supply from vendors;

charges for impairment of long-lived assets, including goodwill and/or restructuring in future periods;

political instability or natural disasters in the countries in which we operate;

actual events, circumstances, outcomes, and amounts differing from judgments, assumptions, and estimates reflected in our accompanying consolidated financial statements; and

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changes in accounting rules.

We believe that period-to-period comparisons of our results of operations will not necessarily be meaningful or indicative of our future performance. In some fiscal quarters our operating results may be below the expectations of securities analysts and investors, which may cause the price of our common stock to decline.

A reduction in consumer demand may harm our results of operations.

To the extent recent uncertainty in the economy or other factors result in decreased consumer demand for our clients' products, we may experience a reduction in volumes of client products that we handle, which may harm our business, financial position and operating results.

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

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

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Our ability to obtain particular client products or components in the quantities required to fulfill client orders on a timely basis is critical to our success. We have no guaranteed price or delivery agreements with our suppliers. We may occasionally experience a supply shortage of some products as a result of strong demand or problems experienced by our suppliers. If shortages or delays persist, the price of those products may increase, or the products may not be available at all. Accordingly, if we are not able to secure and maintain an adequate supply of products or components to fulfill our client orders on a timely basis, our business, financial position and operating results may be adversely affected.

Our failure to meet client demands could result in lost revenue, increased expenses and negative publicity.

Our clients face significant uncertainties in forecasting the demand for their products. Limitations on the size of facilities, number of personnel and availability of materials could make it difficult to meet clients' unforecasted demand for additional production. Any failure to meet clients' specifications, capacity requirements or expectations could result in lost revenue, lower client satisfaction, negative perceptions in the marketplace and potential claims for damages.

If we are not able to establish client sites where requested, or if we fail to retain key clients at established sites, our client relationships, revenue and expenses could be seriously harmed.

Our clients have, at times, requested that we add capacity or open a facility in locations near their sites. If we do not elect to add required capacity at sites near existing clients or establish sites near existing or potential clients, clients may decide to seek other service providers. In addition, if we lose a significant client of a particular site or open or expand a site with the expectation of business that does not materialize, operations at that site could become unprofitable or significantly less efficient and we may need to incur restructuring costs. Any of these events could have a material adverse effect on our business, financial position and operating results.

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

We continue to identify ways to increase efficiencies and productivity and effect cost savings. We have undertaken projects designed to increase our operational efficiencies, including the standardization to a global solutions platform through an integrated ERP system, the opening of new solution centers in low cost areas to expand client offerings and to effect cost savings. We have also implemented a shared services model utilizing centralized hub locations to service multiple spoke locations across the Americas, Asia and Europe regions. We cannot assure you that these projects will result in the realization of the expected benefits that we anticipate in a timely manner or at all. We may encounter problems with these projects that will divert the attention of management and/or result in additional costs and unforeseen project delays. If we or these projects do not achieve expected results, our business, financial position and operating results may be adversely affected.

We are subject to risks of operating internationally.

We maintain significant operations outside of the United States, and we will likely continue to expand these operations. Our success depends, in part, on our ability to manage and expand our international operations. This international expansion requires significant management attention and financial resources. Our operations will continue to be subject to numerous and varied regulations worldwide, some of which may have an adverse effect on our ability to develop our international operations in accordance with our business plans or on a timely basis.

We currently conduct business in many countries including the Netherlands, Hungary, France, Ireland, Czech Republic, Singapore, Taiwan, China, Malaysia, Japan, Australia, India, and Mexico, in addition to our United States operations. International revenue accounted for approximately 58% of our total consolidated net revenue for the fiscal year ended July 31, 2012. A portion of our international revenue, cost of revenue and operating expenses are denominated in foreign currencies. Changes in exchange rates between foreign currencies

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and the U.S. dollar may adversely affect our operating results. There is also additional risk if the foreign currency is not freely traded. Some currencies, such as the Chinese Renminbi, are subject to limitations on conversion into other currencies, which can limit or delay our ability to repatriate funds or engage in hedging activities. While we may enter into forward currency exchange contracts to manage a portion of our exposure to foreign currencies, future exchange rate fluctuations may have a material adverse effect on our business and operating results.

There are other risks inherent in conducting international operations, including:

added fulfillment complexities in operations, including multiple languages, currencies, bills of materials and stock keeping units;

the complexity of ensuring compliance with multiple U.S. and foreign laws, particularly differing laws on intellectual property rights, export control, taxation and duties; and

labor practices, difficulties in staffing and managing foreign operations, political and social instability, health crises or similar issues, and potentially adverse tax consequences.

In addition, a substantial portion of our business is conducted in China, where we face additional risks, including the following:

the challenge of navigating a complex set of licensing and tax requirements and restrictions affecting the conduct of business in China by foreign companies;

difficulties and limitations on the repatriation of cash;

currency fluctuation and exchange rate risks;

protection of intellectual property, both for us and our clients;

evolving regulatory systems and standards, including recent tax law changes;

difficulty retaining management personnel and skilled employees; and

expiration of tax holidays.

Our international operations increase our exposure to international laws and regulations. Noncompliance with foreign laws and regulations, which are often complex and subject to variation and unexpected changes, could result in unexpected costs and potential litigation. For example, the governments of foreign countries might attempt to regulate our products and services or levy sales or other taxes relating to our activities; foreign countries may impose tariffs, duties, price controls or other restrictions on foreign currencies or trade barriers; or a governmental authority could make an unfavorable determination regarding our operations, any of which could make it more difficult to conduct our business and have a material adverse effect on our business and operating results.

If we are unable to manage these risks, we may face significant liability, our international sales may decline and our business, operating and financial results may be adversely affected.

We may be affected by strikes, work stoppages and slowdowns by our employees.

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Some of our international employees are covered by collective bargaining agreements or represented by labor unions. We believe our relations with our employees are generally good; however, we may experience strikes, work stoppages or slowdowns by employees. A strike, work stoppage or slowdown may affect our ability to meet our clients' needs, which may result in the loss of business and clients and have a material adverse effect on our financial condition and results of operations. The terms of future collective bargaining agreements also may affect our competitive position, our financial condition and results of operations.

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Change in our effective tax rate may harm our results of operations.

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

the jurisdictions in which profits are determined to be earned and taxed;

the resolution of issues arising from tax audits with various tax authorities;

changes in the valuation of our deferred tax assets and liabilities;

adjustments to estimated taxes upon finalization of various tax returns;

increases in expenses not deductible for tax purposes, including write-offs of acquired in-process R&D, impact of costs associated with business combinations and impairments of goodwill in connection with acquisitions;

changes in available tax credits;

changes in share-based compensation;

changes in tax laws or the interpretation of such tax laws, and changes in generally accepted accounting principles;

the repatriation of non-U.S. earnings for which we have not previously provided for U.S. taxes;

increases in tax rates in various jurisdictions; and

the expiration of tax holidays.

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

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

Historically, we have financed our operations and met our capital requirements primarily through funds generated from operations, the sale of our securities, returns generated by our venture capital investing activities and borrowings from lending institutions. Market and other conditions largely beyond our control may affect our ability to engage in future sales of our securities, the timing of any sales, and the amount of proceeds we receive from sales of our securities. Even if we are able to sell our securities in the future, we may not be able to sell at favorable prices or on favorable terms. In addition, this funding source may not be sufficient in the future, and we may need to obtain funding from outside sources. However, we may not be able to obtain funding from outside sources. In addition, even if we find outside funding sources, we may be required to issue to those outside sources securities with greater rights than those currently possessed by holders of our common stock. We may also be required to take other actions, which may lessen the value of our common stock or dilute our common stockholders, including borrowing money on terms that are not favorable to us or issuing additional shares of common stock. If we experience difficulties raising capital in the future, our business could be materially adversely affected.

The conditions of the U.S. and international capital markets may adversely affect our ability to draw on our current revolving credit facility.

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

The gross margins in the supply chain management business are low, which magnify the impact of variations in revenue and operating costs on our financial results.

As a result of intense price competition in the technology products marketplace, the gross margins in our supply chain management business are low, and we expect them to continue to be low in the future. These low

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gross margins magnify the impact of variations in revenue and operating costs on our financial results. Although we have identified initiatives designed to increase our gross margins, increased competition arising from industry consolidation and/or low demand for products may hinder our ability to maintain or improve our gross margins. Portions of our operating expenses are relatively fixed, and planned expenditures are based in part on anticipated orders. Our current ability to forecast the amount and timing of future order volumes is difficult, and we expect this to continue because we are highly dependent upon the business needs of our clients, which are highly variable. As a result, we may not be able to reduce our operating expenses as a percentage of revenue to mitigate any further reductions in gross margins. We may also be required to spend money to restructure our operations should future demand fall significantly in any one facility. If we cannot proportionately decrease our cost structure in response to competitive price pressures, our business, financial condition and operating results could suffer.

We will continue to be subject to intense competition.

The markets for our services are highly competitive and often lack significant barriers to entry, enabling new businesses to enter these markets relatively easily. Numerous well-established companies and smaller entrepreneurial companies are focusing significant resources on developing and marketing products and services that will compete with our products and services. The market for supply chain management products and services is very competitive, and the intensity of the competition is expected to continue to increase. Any failure to maintain and enhance our competitive position would limit our ability to maintain and increase market share, which would result in serious harm to our business. Increased competition may also result in price reductions, reduced gross margins and loss of market share. In addition, many of our current and potential competitors will continue to have greater financial, technical, operational and marketing resources. We may not be able to compete successfully against these competitors. Competitive pressures may also force prices for supply chain management products and services down and these price reductions may reduce our revenue.

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

In the course of providing supply chain management services to our clients, we often have possession of or access to their physical and intellectual property, including consigned inventory, databases, software masters, certificates of authenticity and similar valuable physical or intellectual property. If this physical or intellectual property is damaged, misappropriated, stolen or lost, we could suffer:

claims under client agreements or applicable law, or other liability for damages;

delayed or lost revenue due to adverse client reaction;

negative publicity; and

litigation that could be costly and time consuming.

We could be subject to infringement claims and other liabilities.

From time to time, we have been, and will continue to be, subject to third-party claims in the ordinary course of business, including claims of alleged infringement of intellectual property rights. These claims may damage our business by:

subjecting us to significant liability for damages;

resulting in invalidation of our proprietary rights;

resulting in costly license fees in order to settle the claims;

being time-consuming and expensive to defend even if the claims are not meritorious; and

resulting in the diversion of our management's time and attention.

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We may be liable if third parties misappropriate personal information of our clients' customers.

We often handle personal information as part of our e-Business offering. Any security breach or inadvertent release of this information could expose us to risks of loss, litigation and liability and could seriously disrupt our operations. If third parties are able to penetrate our network or telecommunications security or otherwise misappropriate the personal information or credit card information of our clients' customers or if we give third parties improper access to such information, we could be subject to liability. This liability could include claims for unauthorized purchases with credit card information, impersonation or other similar fraud claims. They could also include claims for other misuses of personal information, including unauthorized marketing purposes. These claims could result in litigation. Liability for misappropriation of this information could be significant. Further, any resulting adverse publicity arising from investigations could have a material adverse impact on our business.

We depend on third-party software, systems and services.

Our business and operations rely on third parties to provide products and services, including IT products and services, and shipping and transportation services. We may experience operational problems attributable to the installation, implementation, integration, performance, features or functionality of third-party software, systems and services. Any interruption in the availability or usage of the products and services provided by third parties could have a material adverse effect on our business or operations.

We depend on important employees, and the loss of any of those employees may harm our business.

Our performance is substantially dependent on the performance of our executive officers and other key employees, as well as management of our subsidiaries. The familiarity of these individuals with technology and service-related industries makes them especially critical to our success. Our success is also dependent on our ability to attract, train, retain and motivate high quality personnel. Competition for personnel is intense. The loss of the services of any of our executive officers or key employees may harm our business.

Our strategy of expanding our business through acquisitions of other businesses and technologies presents special risks.

We may expand our business in certain areas through the acquisition of businesses, technologies, products and services from other businesses, as we have in the past. Acquisitions involve a number of special problems, including:

the need to incur additional indebtedness, issue stock (which may have rights superior to the rights of our common stockholders and which may have a dilutive effect on our common stockholders) or use cash in order to complete the acquisition;

difficulty integrating acquired technologies, operations and personnel with the existing businesses;

diversion of management attention in connection with both negotiating the acquisitions and integrating the assets;

strain on managerial and operational resources as management tries to oversee larger operations;

the working capital needs for acquired companies may be significant;

exposure to unforeseen liabilities of acquired companies; and

increased risk of costly and time-consuming litigation, including stockholder lawsuits.

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We may not be able to successfully address these problems. Our future operating results will depend to a significant degree on our ability to successfully integrate acquisitions and manage operations while also controlling expenses and cash burn.

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The price of our common stock has been volatile and may fluctuate.

The market price of our common stock has been and is likely to continue to be volatile. Our common stock has traded as low as \$2.60 per share and as high as \$6.00 per share during the fiscal year ended July 31, 2012. Future market movements unrelated to our performance may adversely affect the market price of our common stock.

We may incur impairments to goodwill or long-lived assets.

We test goodwill for impairment annually or if a triggering event occurs. We also test long-lived assets for impairment if a triggering event occurs. Our policy is to perform the annual impairment testing for all reporting units, determined to be the Americas, Europe, Asia, e-Business, ModusLink PTS and TFL, on July 31 of each fiscal year or whenever events or circumstances change that would more likely than not reduce the fair value of any of our reporting units below its carrying value. We determined that intangible assets were impaired and recorded a non-cash charge of \$0.9 million in the third quarter ended April 30, 2012 for the TFL reporting unit. Additionally, in the third quarter of fiscal year 2012, the Company determined that the fixed assets at its facility in Kildare, Ireland, were impaired and recorded a non-cash charge of \$1.1 million related to that facility. These impairment charges were recorded in connection with the preparation of our quarterly financial statements for the quarter ended April 30, 2012. The Company performed its annual impairment test on July 31, 2012 and concluded that there was no additional goodwill impairment. We will continue to test goodwill for impairment annually and upon the occurrence of a triggering event.

We recorded a non-cash goodwill impairment charge of \$13.2 million in the second quarter ended January 31, 2011, consisting of \$7.1 million for the ModusLink PTS reporting unit and \$6.1 million for the TFL reporting unit. The Company also determined that its intangible assets were impaired and recorded a \$14.0 million non-cash intangible asset impairment charge, consisting of \$8.8 million for ModusLink PTS and \$5.2 million for TFL during the quarter ended January 31, 2011. Both impairment charges were recorded in connection with the preparation of our quarterly financial statements for the quarter ended January 31, 2011. The Company performed its annual impairment test on July 31, 2011 and concluded that there was no additional goodwill impairment. We will continue to test goodwill for impairment annually and upon the occurrence of a triggering event.

We recorded a non-cash goodwill impairment charge of \$25.8 million at July 31, 2010, consisting of \$2.8 million for e-Business, \$12.8 million for ModusLink PTS and \$10.2 million for TFL. We recorded a non-cash goodwill impairment charge of \$164.7 million in the second quarter of fiscal year 2009 related to the Company's Americas, Europe and Asia reporting units. Our valuation methodology for assessing impairment requires management to make judgments and assumptions based on historical experience and to rely heavily on projections of future operating performance. We operate in highly competitive environments and projections of future operating results and cash flows may vary significantly from actual results. If our assumptions used in preparing our valuations of our reporting units for purposes of impairment testing differ materially from actual future results, we may record impairment charges in the future and our financial results may be materially adversely affected.

As of July 31, 2012, we had a goodwill balance of \$3.1 million related to the e-Business reporting unit. As of July 31, 2012, \$20.6 million, \$11.3 million, \$12.1 million, and \$6.3 million of the Company's long-lived assets related to the Americas, Asia, Europe, and e-Business reporting units, respectively. The long-lived assets of TFL have been fully impaired as of July 31, 2012. As a result of the analyses performed as of July 31, 2012, the Company concluded that there was no impairment on the \$3.1 million of goodwill and the Company's long-lived assets. Goodwill and long-lived asset impairment analysis and measurement is a process that requires significant judgment and the use of significant estimates related to valuation such as discount rates, long-term growth rates and the level and timing of future cash flows. As a result, several factors could result in the impairment of some or all of our goodwill balance and our long-lived assets in future periods, including, but not

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limited to further weakening of the global economy, continued weakness in the industry, or failure of the Company to reach our internal forecasts which could impact our ability to achieve our forecasted levels of cash flows.

It is not possible at this time to determine if any such future impairment charge would result from these factors, or if it does, whether such charges would be material. We will continue to review our goodwill and other long-lived assets for possible impairment. We cannot be certain that a downturn in our business or changes in market conditions will not result in an impairment of goodwill or other long-lived assets and the recognition of resulting expenses in future periods, which could adversely affect our results of operations for those periods.

Venture capital investing is risky and highly speculative.

We invest in privately held companies through several wholly-owned subsidiaries, referred to as @Ventures. We receive proceeds from our investments, if at all, only when or after a portfolio company engages in a liquidity event, such as an initial public offering, or the acquisition of a portfolio company or our interest by a third party. Liquidity events may take many years to materialize, if at all, and the timing of liquidity events is difficult to predict. As a result there is much uncertainty as to the timing and impact of our venture capital portfolio on our financial results. Our ability to earn returns on our investment, or even recover our capital, is dependent upon factors outside of our control, including the success of our portfolio companies' businesses, and the market for initial public offerings and mergers and acquisitions. We typically own a minority position in our portfolio companies, which may afford us representation on the board of directors of a portfolio company, and negative and affirmative covenants but does not give us control over the entity. As a result we may have limited, if any, influence over our portfolio companies' businesses and strategies. We cannot assure you that we will earn any returns or recover our invested capital.

Investments made by @Ventures are (i) carried at the lesser of their historic cost basis or net realizable value or (ii) accounted for under the equity method of accountin