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)

x **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)

Delaware	**04-2921333**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
1601 Trapelo Road	
Waltham, Massachusetts	**02451**
(Address of principal executive offices)	**(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:	**Name of each exchange on which registered:**
Common Stock, $0.01 par value	**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 x

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 x

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 x

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 x

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 x
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 x

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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ANNUAL REPORT ON FORM 10-K

FISCAL YEAR ENDED JULY 31, 2012

MODUSLINK GLOBAL SOLUTIONS, INC.

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 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.

Net revenue (in millions)	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
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

Gross profit (in millions)	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
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

Operating income (loss) (in millions)	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
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

Other income (expense) (in millions)	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
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

Net income (loss) (in millions)	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
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

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

	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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Working capital (in millions)	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
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.

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 Poetic® 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.

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

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.

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.

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 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.

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.

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 accounting, if we hold at least 20% but less than 50% of the issued and outstanding stock of the investee. At July 31, 2012, these investments had a carrying value of $10.8 million.

Estimating the net realizable value of investments in privately held early-stage technology companies is inherently subjective and has contributed to significant volatility in our reported results of operations in the past and may negatively impact our results of operations in the future. 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. We recorded non-cash impairment charges related to our @Ventures investments of approximately $2.9 million, $2.5 million, $0.3 million, and $16.8 million during the fiscal years ended July 31, 2012, 2011, 2010 and 2009. The process of assessing whether a particular equity investment s net realizable value is less than its carrying cost requires a significant amount of subjective judgment. We may incur impairment charges to our investments in privately held companies, which could have an adverse impact on our future results of operations.

Future proxy contests could be disruptive and costly and the possibility that activist stockholders may wage proxy contests or gain representation on or control of our Board of Directors could cause uncertainty about the direction of our business.

For the 2012 Annual Meeting of Stockholders, three stockholders have notified the Company that they intend to make director nominations. In connection with the 2011 Annual Meeting of Stockholders, we were engaged in a contested election with an activist stockholder for seats on the Board of Directors. Also, in connection with the 2010 Annual Meeting of Stockholders activist stockholders threatened a proxy contest, which ultimately resulted in a settlement. Future proxy contests, if any, could be costly and time-consuming, disrupt our operations and divert the attention of management and our employees from executing our strategic plan. Perceived uncertainties as to our future direction as a result of changes to composition of the Board of Directors may lead to the perception of a change in the direction of the business, instability or lack of continuity which may be exploited by our competitors, cause concern to our current or potential clients, and make it more

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difficult to attract and retain qualified personnel. In addition, disagreement among our directors about the direction of our business could impair our ability to effectively execute our strategic plan.

We face risks related to the ongoing SEC Inquiry.

As previously disclosed, on February 15, 2012, the Division of Enforcement of the SEC informed the Company that it was conducting an inquiry regarding the Company s treatment of rebates associated with volume discounts provided by vendors. The Company, at the direction of the Audit Committee of the Company s Board of Directors, is cooperating fully with the SEC staff s inquiry. At this point, we are unable to predict what, if any, consequences the SEC inquiry may have on us. However, the inquiry has resulted and could continue to result in considerable legal expenses, divert management s attention from other business concerns and harm our business. If the SEC were to commence legal action, we could be required to pay significant penalties and/or other amounts and could become subject to injunctions, an administrative cease and desist order, and/or other equitable remedies. The filing of our restated financial statements to correct the discovered accounting errors will not resolve the SEC inquiry. Further, the resolution of the SEC inquiry could require the filing of additional restatements of our prior financial statements, and/or our restated financial statements, or require that we take other actions not presently contemplated. We can provide no assurances as to the outcome of the SEC inquiry.

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

We are currently party to various legal and other proceedings. In particular, certain putative class actions and stockholder derivative actions have been filed against us in response to our announcement of the restatement. See Item 3, *Legal Proceedings*. These matters may involve substantial expense to us, which could have a material adverse impact on our financial position and our results of operations. We can provide no assurances as to the outcome of any litigation.

Management s determination that material weaknesses exist in our internal controls over financial reporting could have a material adverse impact on the Company.

We are required to maintain internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external purposes in accordance with generally accepted accounting principles. In Item 9A of this Annual Report, management reports that material weaknesses exist in the Company s internal control over financial reporting. Due to these material weaknesses, management has concluded that as of the end of the period covered by this Annual Report, the Company s disclosure controls and procedures were not effective. Consequently, and pending the Company s remediation of the matters that have caused the control deficiencies underlying the material weaknesses, our business and results of operations could be harmed, we may be unable to report properly or timely the results of our operations, and investors may lose faith in the reliability of our financial statements. Accordingly, the price of our securities may be adversely and materially impacted.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We lease or own more than 30 sites in 15 countries from which we operate ModusLink, which facilities consist of office and warehouse space. These facilities are located throughout the world, including significant facilities throughout the United States (including our corporate headquarters in Waltham, Massachusetts), in Mexico, Europe, Taiwan, Singapore, Malaysia, Japan, China, Hong Kong, Australia, and India. TFL and ModusLink PTS operate from leased headquarters in Indiana and ModusLink PTS leases an additional three facilities in Indiana. e-Business operates from its leased facilities in the Netherlands with offices in Massachusetts, Utah, Singapore and Australia. We believe that our existing facilities are suitable and adequate for our present purposes, and that new facilities will be available in the event we need additional or new space.

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Our leases generally expire at varying dates through fiscal year 2026 and include renewals at our option. Certain facilities leased by us are subleased in whole or in part to subtenants and we are seeking to sublease additional office and warehouse space that is not currently being utilized by us.

ITEM 3. LEGAL PROCEEDINGS

SEC Inquiry

As previously disclosed in its Form 10-Q filed for the second quarter of fiscal year 2012 ended January 31, 2012, the Company received an inquiry from the SEC regarding the Company s treatment of rebates associated with volume discounts provided by vendors. To date the SEC has not asserted any formal claims.

Audit Committee Internal Investigation

As previously disclosed in the Current Report on Form 8-K dated June 9, 2012, the Audit Committee of the Company s Board of Directors initiated an internal investigation in light of the SEC staff s inquiry. The Audit Committee retained legal counsel, which in turn retained forensic accountants to assist in this investigation and to respond to requests in the SEC staff s inquiry.

Stockholder Litigation

Following the June 11, 2012 announcement of the pending restatement (the June 11, 2012 Announcement), shareholders of the Company commenced three purported class actions in the United States District Court for the District of Massachusetts arising from the circumstances described in the June 11, 2012 Announcement (the Securities Actions), entitled, respectively:

Irene Collier, Individually And On Behalf Of All Others Similarly Situated, vs. ModusLink Global Solutions, Inc., Joseph C. Lawler and Steven G. Crane, Case 1:12-CV-11044-DJC, filed June 12, 2012 (the Collier Action);

Alexander Shnerer Individually And On Behalf Of All Others Similarly Situated, vs. ModusLink Global Solutions, Inc., Joseph C. Lawler and Steven G. Crane, Case 1:12-CV-11078-DJC, filed June 18, 2012 (the Shnerer Action); and

Harold Heszkel, Individually and on Behalf of All Others Similarly Situated v. ModusLink Global Solutions, Inc., Joseph C. Lawler, and Steven G. Crane, Case 1:12-CV-11279-DJC, filed July 11, 2012 (the Heszkel Action).

Each of the Securities Actions purports to be brought on behalf of those persons who purchased shares of the Company between September 26, 2007 through and including June 8, 2012 (the Class Period) and alleges that failure to timely disclose the issues raised in the June 11, 2012 Announcement during the Class Period rendered defendants public statements concerning the Company s financial condition materially false and misleading in violation of Sections 10(b) and 20(a) of the Exchange Act, and Rule 10b-5 promulgated thereunder.

On July 13, 2012, a fourth shareholder commenced a purported derivative action in United States District Court for the District of Massachusetts against the Company (as nominal defendants), and certain of its current and former directors and officers, entitled, *Samuel Montini, Derivatively On Behalf Of ModusLink Global Solutions, Inc. v. Joseph C. Lawler, Steven G. Crane, Francis J. Jules, Virginia G. Breen, Michael J. Mardy, Edward E. Lucente, Jeffrey J. Fenton, Joseph M. O Donnell, William R. McLennan, Thomas H. Johnson, And Anthony J. Bay, Defendants, And ModusLink Global Solutions, Inc., A Delaware Corporation, Nominal Defendant,* Case 1:12-CV-11296-DJC and on July 31, 2012, a fifth shareholder commenced a purported derivative action in United States District Court for the District of Massachusetts against the Company (as nominal defendants), and certain of its current and former directors and officers, entitled, *Edward Tansey, Derivatively On Behalf Of ModusLink Global Solutions, Inc. v. Joseph C. Lawler, Steven G. Crane, Francis J.*

Jules, Virginia G. Breen, Michael J. Mardy, Edward E. Lucente, Jeffrey J. Fenton, Joseph M. O Donnell, William R. McLennan, Thomas H. Johnson, And Anthony J. Bay, Defendants, And ModusLink Global Solutions, Inc., A Delaware Corporation, Nominal Defendant, Civil Action No. 12-CV-11399 (DJC) (collectively, the Derivative Actions). The Derivative Actions further assert that as a result of the individual defendants alleged actions and course of conduct, the Company is now the subject of the Securities Actions and will incur related expenses and a possible judgment against it. These litigation matters also arise from the issues raised in the June 11, 2012 Announcement and allege that the individual defendants breached their duty of loyalty to the Company by allowing defendants to cause, or by themselves causing, the Company to make improper statements regarding its business prospects and/or by failing to prevent the other Individual Defendants from taking such purportedly illegal actions.

Although there can be no assurance as to the ultimate outcome, the Company believes it has meritorious defenses, will deny liability, and intends to defend this litigation vigorously.

On October 10, 2012, a sixth shareholder, Donald Reith, served upon the Company s Board of Directors a demand to institute litigation and take other purportedly necessary, but unidentified, remedial measures to redress and prevent a recurrence of purported breaches of fiduciary duties on the part of the Board and unspecified corporate officers allegedly arising from the same facts and circumstances asserted in the Derivative Actions.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock is traded on the NASDAQ Global Select Market under the symbol MLNK . The following table sets forth the range of high and low sales prices per share of common stock per fiscal quarter, as reported by the NASDAQ for our two most recent fiscal years.

Fiscal Year Ended July 31, 2012	High	Low
First Quarter	$ 4.43	$ 3.25
Second Quarter	$ 5.85	$ 3.98
Third Quarter	$ 6.00	$ 4.78
Fourth Quarter	$ 5.02	$ 2.60
Fiscal Year Ended July 31, 2011	**High**	**Low**
First Quarter	$ 7.44	$ 5.75
Second Quarter	$ 7.17	$ 6.13
Third Quarter	$ 7.16	$ 5.09
Fourth Quarter	$ 5.26	$ 4.16

Stockholders

As of January 4, 2013, there were approximately 1,586 holders of record of common stock of the Company.

Dividends

On March 7, 2011 the Company announced that its Board of Directors had declared a special dividend of $0.9134 per common share outstanding, or $40.0 million in aggregate, with a payment date of March 31, 2011 and a record date of March 17, 2011.

Prior and subsequent to the special cash dividend announced on March 7, 2011, the Company had never declared or paid cash dividends on our common stock. We currently intend to retain earnings, if any, to support our business and do not anticipate paying cash dividends in the foreseeable future. Payment of future dividends, if any, will be at the discretion of our Board of Directors after taking into account various factors, including our financial condition, operating results, current and anticipated cash needs and plans for expansion.

Issuer Purchases of Equity Securities

The following table provides information about purchases by the Company of its common stock during the quarter ended July 31, 2012.

	Total Number of Shares Repurchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Program	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
May 1, 2012 to May 31, 2012	1,798(1)	$ 4.66		
June 1, 2012 to June 30, 2012	226(1)	$ 3.10		
July 1, 2012 to July 31, 2012	1,012(1)	$ 3.31		

(1) Consists of shares delivered to the Company as payment of tax liability upon the vesting of shares of restricted stock.

Equity Compensation Plans

Information regarding the Company s equity compensation plans and the securities authorized for issuance thereunder is set forth in Item 12 of Part III.

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ITEM 6. SELECTED FINANCIAL DATA

The selected financial data set forth below as of and for the fiscal years ended July 31, 2011, 2010, 2009, 2008, and 2007, have been restated to reflect adjustments to our previously issued financial statements as more fully discussed in Item 7, *Management s Discussion and Analysis of Financial Condition and Results of Operations*, in Note 3, *Restatement of Previously Issued Financial Statements* and in Note 21, *Selected Quarterly Financial Information (Unaudited)* of the Consolidated Financial Statements included in Item 8 of this Annual Report. The following selected consolidated financial data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations in Item 7 below and our accompanying consolidated financial statements and notes to consolidated financial statements in Item 8 below. On March 18, 2008, we acquired Open Channel Solutions, Inc. During fiscal year 2009 Open Channel Solutions, Inc. changed its name to ModusLink Open Channel Solutions, Inc. (ModusLink OCS). Effective August 1, 2010 ModusLink OCS was merged with the Company s e-Business operations. On May 2, 2008, we acquired ModusLink PTS. On December 4, 2009, we acquired TFL. The following consolidated financial data includes the results of operations of the e-Business operations, ModusLink PTS and TFL from their dates of acquisition. The historical results presented herein are not necessarily indicative of future results.

	Years Ended July 31,					
	2012	2011 (As Restated)	2010 (As Restated)	2009 (As Restated)	2008 (As Restated)	2007 (As Restated)
	(in thousands, except per share data)					
Consolidated Statements of Operations Data:						
Net revenue	$ 739,891	$ 873,748	$ 918,445	$ 1,001,980	$ 1,059,910	$ 1,133,735
Cost of revenue	675,579	792,809	807,416	886,144	930,662	1,012,554
Selling, general and administrative	99,409	85,187	92,855	99,938	114,439	108,706
Amortization of intangible assets	1,279	5,457	6,308	5,485	3,773	4,821
Impairment of goodwill and long-lived assets	2,062	27,166	25,800	164,682	14,000	
Restructuring, net	7,455	795	(965)	19,341	5,285	4,566
Operating income (loss)	(45,893)	(37,666)	(12,969)	(173,610)	(8,249)	3,088
Interest income (expense), net	7	(224)	(275)	677	6,594	7,905
Other gains (losses), net	14,431	8,882	(988)	820	16,149	31,874
Equity in income (losses) of affiliates and impairments	(4,109)	(4,308)	(2,129)	(16,565)	589	1,726
Income tax expense	(3,035)	(819)	(5,162)	(10,831)	(10,425)	(7,135)
Income (loss) from continuing operations	(38,599)	(34,135)	(21,523)	(199,509)	4,658	37,458
Income (loss) from discontinued operations, net of income taxes	491	(330)	(2,318)	126	(4,151)	276
Net income (loss)	$ (38,108)	$ (34,465)	$ (23,841)	$ (199,383)	$ 507	$ 37,734
Basic and Diluted income (loss) per share:						
Income (loss) from continuing operations	$ (0.88)	$ (0.79)	$ (0.49)	$ (4.39)	$ 0.10	$ 0.76
Income (loss) from discontinued operations, net of income taxes	0.01	(0.01)	(0.05)		(0.09)	0.01
Net earnings (loss)	$ (0.87)	$ (0.80)	$ (0.54)	$ (4.39)	$ 0.01	$ 0.77
Shares used in computing basic income (loss) per share	43,565	43,294	44,104	45,372	47,747	48,455
Shares used in computing diluted income (loss) per share	43,565	43,294	44,104	45,372	47,901	48,833

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	As of July 31,					
	2012	2011 (As Restated)	2010 (As Restated)	2009 (As Restated)	2008 (As Restated)	2007 (As Restated)
			(in thousands)			
Consolidated Balance Sheet Data:						
Working capital	$ 113,511	$ 152,383	$ 179,452	$ 199,802	$ 207,508	$ 297,626
Total assets	358,882	422,247	525,941	556,027	810,721	819,128
Long-term obligations	11,374	14,562	20,155	21,271	29,542	43,706
Stockholders equity	165,132	214,542	275,514	308,465	514,772	532,489

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 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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.

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

(d) 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

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). Concurrent with the SEC Inquiry, the Audit Committee of the Company s Board of Directors commenced an internal investigation of the Company s practice with regard to rebates received from vendors.

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.

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.

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 *Quarterly Effects of Restatement* below. Where the retention of a rebate or a mark-up was determined to have been inconsistent with a client contract, revenue was reduced by the pricing adjustment. A corresponding accrued pricing liability was recorded in that period, which decreased working capital in the period. As described earlier in this Annual Report on Form 10-K, 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. 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. The amounts derecognized and recorded in

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other income were $11.8 million and $13.5 million for the years ended July 31, 2012 and 2011, respectively. 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.

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. 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 previously unrecorded audit adjustments are being recorded as part of the restatement process although none of these adjustments is individually material.

Quarterly Effects of the Restatement

The following tables and subsequent sections discuss the effect of the restatement on quarterly net revenue, operating income (loss), net income (loss) and diluted net income (loss) per share during the first two quarters in the fiscal year ended July 31, 2012 and all four quarters in the fiscal years ended July 31, 2011 and 2010, and on working capital as of the end of each of the first two quarters in the fiscal year 2012 and all four quarters in fiscal years ended July 31, 2011 and 2010. Note 21 to our consolidated financial statements sets forth unaudited restated quarterly financial information for the first two quarters in the fiscal year ended July 31, 2012 and all four quarters in the fiscal years ended July 31, 2011 and 2010.

	YEAR ENDED JULY 31, 2012 (FOR THE QUARTERS ENDED) (In Thousands, except per share data)			
	October 31, 2011		January 31, 2012	
	As Previously Reported	As Restated	As Previously Reported	As Restated
Net revenue	$ 206,151	$ 205,908	$ 178,588	$ 178,324
Operating income (loss)	$ 2,208	$ 2,186	$ (13,469)	$ (13,730)
Net income (loss)	$ 1,169	$ 1,145	$ (12,613)	$ (12,876)
Diluted net income (loss) per share	$ 0.03	$ 0.03	$ (0.29)	$ (0.30)
Working capital at end of quarter	$ 185,322	$ 153,198	$ 169,806	$ 137,191

	YEAR ENDED JULY 31, 2011 (FOR THE QUARTERS ENDED) (In Thousands, except per share data)							
	October 31, 2010		January 31, 2011		April 30, 2011		July 31, 2011	
	As Previously Reported	As Restated	As Previously Reported	As Restated	As Previously Reported	As Restated	As Previously Reported	As Restated
Net revenue	$ 236,379	$ 235,271	$ 234,150	$ 233,212	$ 207,140	$ 206,579	$ 198,798	$ 198,688
Operating income (loss)	$ (2,665)	$ (3,779)	$ (26,324)	$ (27,268)	$ (1,616)	$ (2,183)	$ (4,367)	$ (4,436)
Net income (loss)	$ (6,670)	$ (2,212)	$ (28,334)	$ (29,280)	$ (5,126)	$ 1,478	$ (8,885)	$ (4,451)
Diluted net income (loss) per share	$ (0.15)	$ (0.05)	$ (0.65)	$ (0.68)	$ (0.12)	$ 0.03	$ (0.21)	$ (0.10)
Working capital end of quarter	$ 224,096	$ 186,621	$ 226,326	$ 188,333	$ 189,287	$ 157,745	$ 184,248	$ 152,383

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YEAR ENDED JULY 31, 2010
(FOR THE QUARTERS ENDED)
(In Thousands, except per share data)

	October 31, 2009		January 31, 2010		April 30, 2010		July 31, 2010	
	As Previously Reported	As Restated	As Previously Reported	As Restated	As Previously Reported	As Restated	As Previously Reported	As Restated
Net revenue	$ 246,678	$ 245,273	$ 235,488	$ 234,034	$ 213,697	$ 212,379	$ 228,133	$ 226,760
Operating income (loss)	$ 11,555	$ 10,198	$ 5,982	$ 4,576	$ 1,295	$ (605)	$ (25,760)	$ (27,139)
Net income (loss)	$ 8,558	$ 7,197	$ 2,566	$ 1,157	$ (3,426)	$ (5,329)	$ (25,485)	$ (26,867)
Diluted net income (loss) per share	$ 0.19	$ 0.16	$ 0.06	$ 0.03	$ (0.08)	$ (0.12)	$ (0.58)	$ (0.62)
Working capital end of quarter	$ 248,872	$ 210,336	$ 222,846	$ 182,902	$ 221,287	$ 179,441	$ 222,613	$ 179,452

2012

The restatement adjustments decreased net revenue for the quarter ended October 31, 2011 by $0.3 million, from $206.2 million as previously reported, to $205.9 million. Of this decrease, $0.4 million related to pricing adjustments offset by an increase in revenue of $0.1 million related to other adjustments. The restatement did not materially impact operating income or net income for the quarter ended October 31, 2011. The restatement did not change diluted net income per share for the quarter ended October 31, 2011. The restatement decreased working capital as of October 31, 2011 by $32.1 million, from $185.3 million as previously reported, to $153.2 million.

The restatement adjustments decreased net revenue for the quarter ended January 31, 2012 by $0.3 million, from $178.6 million as previously reported, to $178.3 million. Of this decrease, $0.5 million related to pricing adjustments offset by an increase in revenue of $0.2 million related to other adjustments. The restatement increased the operating loss for the quarter ended January 31, 2012 by $0.2 million, from $13.5 million as previously reported, to $13.7 million. The restatement increased net loss for the quarter ended January 31, 2012 by $0.3 million, from $12.6 million as previously reported, to $12.9 million. The restatement increased diluted net loss per share for the quarter ended January 31, 2012 by $0.01, from $0.29 as previously reported, to $0.30. The restatement decreased working capital as of January 31, 2012 by $32.6 million, from $169.8 million as previously reported, to $137.2 million.

2011

The restatement adjustments decreased net revenue for the quarter ended October 31, 2010 by $1.1 million, from $236.4 million as previously reported, to $235.3 million. Of this decrease, $0.6 million related to pricing adjustments and $0.5 million related to other adjustments. The restatement increased operating loss for the quarter ended October 31, 2010 by $1.1 million, from $2.7 million as previously reported, to $3.8 million. The restatement decreased net loss for the quarter ended October 31, 2010 by $4.5 million, from $6.7 million as previously reported, to $2.2 million due to the derecognition of accrued pricing liabilities related to the releases of claims received from certain customers. The restatement decreased diluted net loss per share for the quarter ended October 31, 2010 by $0.10, from $0.15 as previously reported, to $0.05. The restatement decreased working capital as of October 31, 2010 by $37.5 million, from $224.1 million as previously reported, to $186.6 million.

The restatement adjustments decreased net revenue for the quarter ended January 31, 2011 by $0.9 million, from $234.1 million as previously reported, to $233.2 million. Of this decrease, $0.5 million related to pricing adjustments and $0.4 million related to other adjustments. The restatement increased operating loss for the quarter ended January 31, 2011 by $1.0 million, from $26.3 million as previously reported, to $27.3 million. The restatement increased net loss for the quarter ended January 31, 2011 by $1.0 million, from $28.3 million as previously reported, to $29.3 million. The restatement increased diluted net loss per share for the quarter ended January 31, 2011 by $0.03, from $0.65 as previously reported, to $0.68. The restatement decreased working capital as of January 31, 2011 by $38.0 million, from $226.3 million as previously reported, to $188.3 million.

The restatement adjustments decreased net revenue for the quarter ended April 30, 2011 by $0.5 million, from $207.1 million as previously reported, to $206.6 million. Of this decrease, $0.4 million related to pricing adjustments and $0.1 million related to other adjustments. The restatement increased the operating loss for the quarter ended April 30, 2011 by $0.6 million, from $1.6 million as previously reported, to $2.2 million. The restatement decreased net loss for the quarter ended April 30, 2011 by $6.6 million, from net loss of $5.1 million as previously reported, to net income of $1.5 million due to the extinguishment of certain accrued pricing liabilities during the quarter. The restatement decreased diluted net loss per share for the quarter ended April 30, 2011 by $0.15, from diluted net loss per share of $0.12 as previously reported, to diluted net income per share of $0.03. The restatement decreased working capital as of April 30, 2011 by $31.6 million, from $189.3 million as previously reported, to $157.7 million.

The restatement adjustments decreased net revenue for the quarter ended July 31, 2011 by $0.1 million, from $198.8 million as previously reported, to $198.7 million. Of this decrease, $0.4 million related to pricing adjustments offset by an increase in revenue of $0.3 million related to other adjustments. The restatement decreased net loss for the quarter ended July 31, 2011 by $4.4 million due to $1.1 million related to other adjustments and a $3.7 million reversal of a reserve for an uncertain tax position offset by a $0.4 million decrease in net income related to pricing adjustments, from $8.9 million as previously reported, to $4.5 million. The restatement decreased diluted net loss per share for the quarter ended July 31, 2011 by $0.11, from $0.21 as previously reported, to $0.10. The restatement decreased working capital as of July 31, 2011 by $31.8 million, from $184.2 million as previously reported, to $152.4 million.

2010

The restatement adjustments decreased net revenue for the quarter ended October 31, 2009 by $1.4 million, from $246.7 million as previously reported, to $245.3 million. All of the $1.4 million related to pricing adjustments. The restatement decreased operating income for the quarter ended October 31, 2009 by $1.4 million, from $11.6 million as previously reported, to $10.2 million. The restatement decreased net income for the quarter ended October 31, 2009 by $1.4 million, from $8.6 million as previously reported, to $7.2 million. The restatement decreased diluted net income per share for the quarter ended October 31, 2009 by $0.03 from $0.19 as previously reported, to $0.16. The restatement decreased working capital as of October 31, 2009 by $38.6 million, from $248.9 million as previously reported, to $210.3 million.

The restatement adjustments decreased net revenue for the quarter ended January 31, 2010 by $1.5 million, from $235.5 million as previously reported, to $234.0 million. All of the $1.5 million related to pricing adjustments. The restatement decreased operating income for the quarter ended January 31, 2010 by $1.4 million, from $6.0 million as previously reported, to $4.6 million. The restatement decreased net income for the quarter ended January 31, 2010 by $1.4 million, from $2.6 million as previously reported, to $1.2 million. The restatement decreased diluted net income per share for the quarter ended January 31, 2010 by $0.03, from $0.06 as previously reported, to $0.03. The restatement decreased working capital as of January 31, 2010 by $39.9 million, from $222.8 million as previously reported, to $182.9 million.

The restatement adjustments decreased net revenue for the quarter ended April 30, 2010 by $1.3 million, from $213.7 million as previously reported, to $212.4 million. Of this decrease, $1.0 million related to pricing adjustments and $0.3 million related to other adjustments. The restatement decreased operating income for the quarter ended April 30, 2010 by $1.9 million, from $1.3 million as previously reported, to an operating loss of $0.6 million. The restatement increased net loss for the quarter ended April 30, 2010 by $1.9 million, from $3.4 million as previously reported, to net loss of $5.3 million. The restatement increased diluted net loss per share for

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the quarter ended April 30, 2010 by $0.04 from $0.08 as previously reported, to $0.12. The restatement decreased working capital as of April 30, 2010 by $41.9 million, from $221.3 million as previously reported, to $179.4 million.

The restatement adjustments decreased net revenue for the quarter ended July 31, 2010 by $1.3 million, from $228.1 million as previously reported, to $226.8 million. Of this decrease, $0.9 million related to pricing adjustments and $0.4 million related to other adjustments. The restatement increased operating loss for the quarter ended July 31, 2010 by $1.3 million, from $25.8 million as previously reported, to $27.1 million. The restatement increased net loss for the quarter ended July 31, 2010 by $1.4 million, from $25.5 million as previously reported, to $26.9 million. The restatement increased diluted net loss per share for the quarter ended July 31, 2010 by $0.04 from $0.58 as previously reported, to $0.62. The restatement decreased working capital as of July 31, 2010 by $43.1 million, from $222.6 million as previously reported, to $179.5 million.

Throughout the remainder of Management s Discussion and Analysis of Financial Condition and Results of Operations, all referenced amounts give effect to the restatement.

Overview

ModusLink Global Solutions, Inc. 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 regions.

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, goodwill and long-lived asset impairment, restructuring, amortization of intangible assets and share-based compensation. See Note 5 of the accompanying notes to consolidated financial statements included in Item 8 below 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 year 2012 remained consistent with the continued execution against our long-term strategic plan, and the 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 revenue from our supply chain business has 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, in addition to the computing and software markets, we have expanded our sales focus to include additional markets within technology, such as communications, storage and consumer electronics, and outside of technology, such as medical devices. We believe these markets are experiencing faster growth than our historical markets, and represent opportunities to realize higher gross margins on our services. Companies in these markets often 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 2012, we have continued to focus on further developing our e-Business, repair services 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 that these services will enhance our gross margins and drive profitability. Furthermore, we believe that the addition of new services to existing clients will strengthen our relationship with clients, and further integrate us with their businesses.

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 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.

Among the key factors that will influence our performance are successful execution and implementation of our strategic initiatives, global economic conditions, especially in the technology sector, demand for our clients products, the effect of product form factor changes, technology changes, revenue mix and demand for outsourcing services.

During the fiscal year ended July 31, 2009, the Company saw a significant weakening in the business environment and global economy. Management believes that the declines in revenue during the fiscal years ended July 31, 2012, 2011 and 2010 compared with the fiscal year ended July 31, 2009 are in large part due to continued weakness in the global economic environment. During fiscal year 2009, the Company implemented restructuring plans to better position the Company for the long-term, given the ongoing challenging economic environment. The cost cutting actions that were taken during fiscal year 2009 as a result of the general economic decline included the elimination of approximately 550 jobs and the closing of certain facilities. During fiscal year 2012, the Company continued cost cutting actions when recording net restructuring charges of $7.5 million primarily due to global initiatives to streamline operations and reduce our facility footprint. If the Company is unable to improve efficiencies and productivity and achieve lower operating costs, it may be unable to achieve profitability if revenue were to continue to decline.

For the fiscal year ended July 31, 2012, the Company reported net revenue of $739.9 million, an operating loss of $45.9 million, a loss from continuing operations before income taxes of $35.6 million, a net loss of $38.1 million and a gross margin percentage of 8.7%. Operating results for the fiscal year ended July 31, 2012 include the impact of a non-cash goodwill and intangible assets impairment charge of $2.1 million, net restructuring charges of $7.5 million, a non-cash impairment charge of $2.9 million recorded on certain investments included in the @Ventures investment portfolio and gains from the derecognition of accrued pricing liabilities of approximately $11.8 million. At July 31, 2012, we had cash and cash equivalents and available for sale securities of $52.4 million, and working capital of $113.5 million.

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. As of July 31, 2012, approximately 63%, 18% and 19% of our long-lived assets were located in the Americas, Asia and Europe, respectively. As of July 31, 2011, approximately 60%, 18% and 22% of our long-lived assets were located in the Americas, Asia and Europe, respectively. As of July 31, 2010, approximately 73%, 12% and 15% of our long-lived assets were located in the Americas, Asia and Europe, respectively. Approximately 58%, 58%, 59% and 63% of our consolidated net revenue was generated outside of the United States during fiscal years 2012, 2011, 2010 and 2009, respectively.

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 sustained economic uncertainty affecting the world economy. In addition, the drop in consumer demand for products of certain clients has had and may continue to have the effect of reducing our volumes and adversely affecting our revenue performance. The market for our services is very competitive. We also face pressure from our clients to continually realize efficiency gains in order to help our clients maintain their profitability objectives. Increased competition and client demands for efficiency improvements may result in price reductions, reduced gross margins and, in some cases, loss of market share. In addition, our profitability varies based on the types of services we provide and the regions in which we perform them. Therefore the mix of revenue derived from our various services and locations can impact our gross margin results. Also, form factor changes, which we describe as the reduction in the amount of materials and product components used in our clients completed packaged product, can also have the effect of reducing our revenue and gross margin opportunities. As a result of these competitive and client pressures the gross margins in our business are low. During the fiscal year ended July 31, 2012, our gross margin percentage was 8.7%. 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, improve the efficiency of our processes and to lower our infrastructure costs. We seek to lower our cost to service clients by moving work to lower-cost venues, establishing facilities closer to our clients or to our clients end markets 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 fiscal year ended July 31, 2012, sales to Hewlett-Packard accounted for approximately 31% of our consolidated net revenue while ten clients accounted for approximately 69% of our consolidated net revenue. For the fiscal year ended July 31, 2011, sales to Hewlett-Packard accounted for approximately 28% of our consolidated net revenue while ten clients accounted for approximately 73% of our consolidated net revenue. For the fiscal year ended July 31, 2010, sales to Hewlett-Packard accounted for approximately 30% of our consolidated net revenue while ten clients accounted for approximately 75% of our consolidated net revenue. For the fiscal year ended July 31, 2009, sales to Hewlett-Packard, Advanced Micro Devices and SanDisk Corporation accounted for approximately 27%, 10% and 11%, respectively, of our consolidated net revenue. During fiscal year 2009, ten clients accounted for approximately 77% 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 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 six operating segments: Americas; Asia; Europe; e-Business; ModusLink PTS and TFL. The Company 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, which consists 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.

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

Results of Operations

Fiscal Year 2012 compared to Fiscal Year 2011

Net Revenue:

	2012	As a % of Total Net Revenue	2011 (As Restated)	As a % of Total Net Revenue	$ Change	% Change
			(in thousands)			
Americas	$ 249,940	33.8%	$ 296,362	33.9%	$ (46,422)	(15.7)%
Asia	218,880	29.6%	233,724	26.7%	(14,844)	(6.4)%
Europe	211,319	28.6%	275,065	31.5%	(63,746)	(23.2)%
TFL	25,944	3.5%	29,471	3.4%	(3,527)	(12.0)%
All other	33,808	4.6%	39,126	4.5%	(5,318)	(13.6)%
Total	$ 739,891	100.0%	$ 873,748	100.0%	$ (133,857)	(15.3)%

Net revenue decreased by approximately $133.9 million for the fiscal year ended July 31, 2012, as compared to the prior fiscal year. This decrease was primarily a result of lower volumes and cancellations of certain existing client programs as compared to the year-ago period. Approximately $442.4 million of the net revenue for the fiscal year ended July 31, 2012 related to the procurement and re-sale of materials on behalf of our clients as compared to approximately $527.4 million for the fiscal year ended July 31, 2011.

During the fiscal year ended July 31, 2012, net revenue in the Americas region decreased by approximately $46.4 million. This decrease primarily resulted from the cancellation of a certain client program that was no longer profitable to the Company, discontinuation of a product offering by a client, and decreases in order volumes for certain other client programs. Within the Asia region, the net revenue decrease of approximately $14.8 million primarily resulted from short-term supply constraints for certain client programs, as a result of the impact of the flooding in Thailand and decreases in order volumes for certain other client programs. Within the Europe region, the net revenue decrease of approximately $63.7 million was driven by decreases in client order volumes, as a result of challenging economic and client-specific conditions within this region. At TFL, net revenue decreased by $3.5 million during the fiscal year ended July 31, 2012 compared to the prior year period due to increased competition in the market. Within e-Business, the net revenue decrease of approximately $5.3 million was driven by decreases in client order volumes.

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 revenue 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.

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Cost of Revenue:

	2012	As a % of Segment Net Revenue	2011 (As Restated)	As a % of Segment Net Revenue	$ Change	% Change
			(in thousands)			
Americas	$ 246,727	98.7%	$ 292,490	98.7%	$ (45,763)	(15.6)%
Asia	170,674	78.0%	179,438	76.8%	(8,764)	(4.9)%
Europe	200,015	94.7%	259,207	94.2%	(59,192)	(22.8)%
TFL	30,192	116.4%	29,148	98.9%	1,044	3.6%
All other	27,971	82.7%	32,526	83.1%	(4,555)	(14.0)%
Total	$ 675,579	91.3%	$ 792,809	90.7%	(117,230)	(14.8)%

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 $117.2 million for the fiscal year ended July 31, 2012, as compared to the fiscal year ended July 31, 2011, primarily due to lower order volume. Gross margins for fiscal year 2012 were 8.7% as compared to 9.3% in fiscal year 2011. This decrease is primarily attributed to the effect of the fixed portions of indirect labor and infrastructure costs on lower volumes and an unfavorable change in client mix.

For the fiscal year ended July 31, 2012, the Company s gross margin percentages within the Americas, Asia and Europe regions were 1.3%, 22.0% and 5.3%, as compared to 1.3%, 23.2% and 5.8%, respectively, for the same period of the prior year. The gross margin within the Americas region remained flat due to the favorable impact of cost reduction programs at certain facilities offset by the recording of a $3.6 million inventory write-off related to a cancelled client program. Within the Asia region, the decrease in gross margin is primarily attributed to increasing indirect labor salaries and benefits. Within the Europe region, the decrease in gross margin is attributed to the effect of the fixed portions of indirect labor and infrastructure costs on lower volumes and an unfavorable change in client mix. Gross margins for TFL and e-Business for the fiscal year ended July 31, 2012 were (16.4%) and 17.3%, respectively, compared with 1.1% and 16.9%, respectively, in the prior year period. The decrease in gross margin for TFL is primarily attributed to higher inventory related charges during the fiscal year ended July 31, 2012 compared to the prior year period. TFL recorded a $3.4 million inventory reserve to write-down inventory to the lower of cost or market.

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 as China, matures.

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Selling, General and Administrative Expenses:

	2012	As a % of Segment Net Revenue	2011	As a % of Segment Net Revenue	$ Change	% Change
			(in thousands)			
Americas	$ 15,557	6.2%	$ 15,470	5.2%	$ 87	0.6%
Asia	26,110	11.9%	23,085	9.9%	3,025	13.1%
Europe	22,213	10.5%	22,023	8.0%	190	0.9%
TFL	4,672	18.0%	4,477	15.2%	195	4.4%
All other	3,738	11.1%	3,713	9.5%	25	0.7%
Subtotal	72,290	9.8%	68,768	7.9%	3,522	5.1%
Corporate-level Activity	27,119		16,419		10,700	65.2%
Total	$ 99,409	13.4%	$ 85,187	9.7%	$ 14,222	16.7%

Selling, general and administrative expenses consist primarily of compensation and employee-related costs, sales commissions and incentive plans, information technology expenses, travel expenses, facilities costs, consulting fees, fees for professional services, depreciation and marketing expenses. Selling, general and administrative expenses during the fiscal year ended July 31, 2012 increased by approximately $14.2 million compared to the fiscal year ended July 31, 2011, primarily as a result of a $8.6 million increase in professional fees for consultants to assist with the Company s investments in sales and marketing and cost alignment initiatives, evaluation of strategic alternatives, ongoing SEC inquiry and other consulting projects within the Company s finance and marketing organizations, and a $5.8 million increase in salary costs within the Company, of which $2.0 million relates to severance payments. These increases were partially offset by a $2.5 million decrease in costs within the Company s IT organization resulting from cost reduction activities.

Amortization of Intangible Assets:

	2012	As a % of Segment Net Revenue	2011	As a % of Segment Net Revenue	$ Change	% Change
			(in thousands)			
Americas	$ 150	0.1%	$ 2,313	0.8%	$ (2,163)	(93.5)%
Asia			1,448	0.6%	(1,448)	(100.0)%
Europe						
TFL	140	0.5%	707	2.4%	(567)	(80.2)%
All other	989	2.9%	989	2.5%		
Total	$ 1,279	0.2%	$ 5,457	0.6%	$ (4,178)	(76.6)%

The intangible asset amortization relates to certain amortizable intangible assets acquired by the Company in connection with its acquisition of Modus Media, Inc., ModusLink OCS, ModusLink PTS and TFL. The $4.2 million decrease in amortization expense is due to the write-off of certain intangible assets during the quarter ended January 31, 2011 and that the intangible assets related to the Modus Media Inc. acquisition have been fully amortized by the end of fiscal year 2011. The remaining intangible assets are being amortized over lives ranging from 1 to 4 years.

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Impairment of Goodwill and Long-Lived Assets:

	2012	As a % of Total Net Revenue	2011	As a % of Total Net Revenue	$ Change	% Change
			(in thousands)			
Americas	$		$ 15,889	5.4%	$ (15,889)	(100)%
Asia						
Europe	1,128	0.5%			1,128	100%
TFL	934	3.6%	11,277	38.3%	(10,343)	(91.7)%
All other						
Total	$ 2,062	0.3%	$ 27,166	3.1%	$ (25,104)	(92.4)%

The Company conducts its goodwill impairment test on July 31 of each fiscal year. In addition, if and when events or circumstances change that would reduce the fair value of any of its reporting units below its carrying value, an interim test would be performed. In making this assessment, the Company relies on a number of factors including operating results, business plans, economic projections, anticipated future cash flows, and transactions and marketplace data. The Company s reporting units are the same as the operating segments: Americas, Asia, Europe, e-Business, ModusLink PTS and TFL. As of July 31, 2012, the Company had goodwill of $3.1 million related to e-Business.

During fiscal year 2012, indicators of potential impairment caused the Company to conduct an interim impairment test for the long-lived assets of TFL, which includes amortizable intangible assets. These indicators included continued operating losses and increasingly adverse trends that resulted in further deterioration of current operating results and future prospects of the TFL reporting unit. These adverse trends included increased competition for and a decline in the supply of quality products at a reasonable cost and the emergence and growth of new competitors for TFL.

As a result of the impairment test, in connection with the preparation of the financial statements for the quarter ended April 30, 2012, the Company concluded that TFL s long-lived assets were impaired and recorded a $0.9 million non-cash impairment charge. The $0.9 million impairment charge consisted of $0.5 million and $0.4 million for TFL s intangible assets and fixed assets, respectively. The intangible asset impairment charge for TFL is deductible as amortization for tax purposes over time. The impairment charge did not affect the Company s liquidity or cash flows.

In addition, during the third quarter of fiscal year 2012, indicators of potential impairment caused the Company to conduct an interim impairment test for the fixed assets of its facility in Kildare, Ireland. These indicators included declining revenue and increasingly adverse trends that resulted in further deterioration of current operating results and future prospects of the Kildare facility. These adverse trends included declines in sales volumes resulting from the loss of certain client programs, pricing pressure from existing clients, and the emergence and growth of new competitors for the services performed in Kildare.

As a result of the impairment test, in connection with the preparation of the financial statements for the quarter ended April 30, 2012, the Company concluded that Kildare s fixed assets were impaired and recorded a $1.1 million non-cash impairment charge. This charge has been recorded as a component of impairment of goodwill and long-lived assets in the Consolidated Statements of Operations. The fixed asset impairment charge for Kildare is deductible as depreciation for tax purposes over time. The impairment charge did not affect the Company s liquidity or cash flows.

During the second quarter of fiscal year 2011, indicators of potential impairment caused the Company to conduct an interim impairment test for goodwill and other long-lived assets, which includes amortizable intangible assets for its ModusLink PTS and TFL reporting units in connection with the preparation of its quarterly financial statements for the quarter ended January 31, 2011. These indicators included continued operating losses, the departure of key personnel, and increasingly adverse trends that resulted in further deterioration of operating results and future prospects for both the ModusLink PTS and TFL reporting units.

As a result of the impairment tests performed during fiscal year 2011, the Company concluded that its goodwill was impaired and recorded a $13.2 million non-cash goodwill impairment charge, consisting of $7.1 million for ModusLink PTS and $6.1 million for TFL during the second quarter of fiscal year 2011. 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 three months ended January 31, 2011.

The goodwill and intangible asset impairment charges for ModusLink PTS are not deductible for tax purposes. The goodwill and intangible asset impairment charges for TFL are deductible as amortization for tax purposes over time. The impairment charge did not affect the Company s liquidity or cash flows. 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. We believe use of the income approach was appropriate due to lack of comparability to guideline companies and the lack of comparable transactions under the market approach. 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.

While performing the interim goodwill impairment test in 2011, the Company lowered its forecast of revenue growth and gross profit margins for ModusLink PTS and TFL for fiscal years 2011 to 2018. Revenue growth rates and gross profit margins are the variables which make the most significant impact to the discounted cash flow models for these reporting units. The decline in the forecasts for ModusLink PTS and TFL was attributable to our consideration of the operating losses for these reporting units during the first half of fiscal year 2011, the consideration of the impact that the departure of key personnel could have on our future operating results for these reporting units, and increasingly adverse trends that resulted in further deterioration of then-current and future operating results.

In connection with completing the goodwill impairment analysis the Company also evaluated the recoverability of its long-lived assets at the ModusLink PTS and TFL reporting units. The asset groups for both ModusLink PTS and TFL are at the reporting unit level. Recoverability of these asset groups is determined by comparing forecasted undiscounted net cash flows of the reporting units to their respective carrying values. If the asset group s cash flows are determined to be unable to recover the carrying amount of its net assets, then a loss is recognized equal to the amount by which the asset group s carrying value exceeds its fair value. The loss is then allocated among the long-lived assets based on their relative carrying amounts, with the exception that a loss allocated to an individual asset should not reduce the carrying amount of that asset below its fair value. Based upon this evaluation the Company determined that the estimated future undiscounted cash flows related to these asset groups were below their carrying values, and therefore these asset groups were impaired.

During the fourth quarter of fiscal year 2012 and 2011, the Company completed its annual impairment analysis of goodwill and performed an impairment analysis on its long-lived assets. As a result of the analyses the Company concluded that there was no additional impairment of its goodwill and long-lived assets for fiscal years 2012 and 2011.

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Restructuring, net:

	2012	As a % of Segment Net Revenue	2011	As a % of Segment Net Revenue	$ Change	% Change
			(in thousands)			
Americas	$ 1,615	0.6%	$ 171	0.1%	1,444	844.4%
Asia	646	0.3%	586	0.3%	60	10.2%
Europe	3,680	1.7%	37		3,643	9846%
TFL	1,039	4.0%			1,039	100%
All other	475	1.4%	1		474	47400%
Subtotal	7,455	1.0%	795	0.1%	6,660	837.7%
Corporate-level Activity						
Total	$ 7,455	1.0%	$ 795	0.1%	6,660	837.7%

During the fiscal year ended July 31, 2012 the Company recorded a net restructuring charge of approximately $7.5 million. Of this amount, approximately $6.2 million primarily related to the workforce reduction of 357 employees in the Americas, Asia, and Europe, approximately $1.5 million related to contractual obligations related to facility closure at the Raleigh facility and the TFL facility in Colorado Springs, and approximately $(0.3) million of the recorded net restructuring charge related to changes in estimates for previously recorded facilities lease obligations primarily based on changes to the underlying assumptions.

During the fiscal year ended July 31, 2011, the Company recorded a net restructuring charge of approximately $0.8 million. Approximately $1.2 million of the $0.8 million net restructuring charge related to the workforce reduction of 55 employees in the Americas and Asia, which was partially offset by a benefit of approximately $0.4 million related to changes in estimates for previously recorded facilities lease obligations, primarily based on changes to the underlying assumptions.

Interest Income/Expense:

During fiscal year ended July 31, 2012, interest income increased to $0.4 million from $0.2 million for the fiscal year ended July 31, 2011.

Interest expense totaled approximately $0.4 million and $0.5 million, as restated, for the fiscal years ended July 31, 2012 and 2011, respectively. In both periods, interest expense related primarily to the Company s stadium obligation.

Other Gains (Losses), net:

Other gains, net were approximately $14.4 million for the fiscal year ended July 31, 2012. During the fiscal years ended July 31, 2012, the Company recorded gains from the derecognition of accrued pricing liabilities related to the releases of claims received from certain clients of approximately $11.8 million and foreign exchange gains of approximately $2.9 million related to realized and unrealized gains from foreign currency exposures and settled transactions in Europe and Asia, partially offset by net losses in the Americas. These gains were offset by other net losses of approximately $0.3 million.

Other gains, net, as restated, were approximately $8.9 million for the fiscal year ended July 31, 2011. During the fiscal years ended July 31, 2011, the Company recorded gains from the derecognition of accrued pricing liabilities related to the releases of claims received from certain customers of approximately $13.5 million offset by foreign exchange losses of approximately $4.0 million due to realized and unrealized gains and

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losses from foreign currency exposures and settled transactions in the Americas, Asia and Europe. Also, during the fiscal year ended July 31, 2011, the Company recorded a $0.1 million write-off of an investment in a private company, which had filed for bankruptcy. These losses were partially offset by a gain of approximately $0.1 million related to the sale of available for sale securities and gains of approximately $0.1 million related to the distribution of proceeds from the acquisition by third parties of H2Gen Innovation, Inc. and M2E Power, Inc. due to the satisfaction of conditions leading to the release of funds held in escrow. H2Gen Innovations, Inc. and M2E Power, Inc. were @Ventures portfolio companies that were acquired by third parties in previous reporting periods.

Equity in Losses of Affiliates and Impairments:

Equity in losses of affiliates and impairments, results from the Company s minority ownership in certain investments that are accounted for under the equity method and impairments on its equity method and cost method investments. 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 and impairments was $4.1 million and $4.3 million for the fiscal years ended July 31, 2012 and 2011, respectively. For the fiscal years ended July 31, 2012 and 2011, the Company recorded its proportionate share of the affiliates losses of $1.2 million and $1.8 million, respectively. During the fiscal year ended July 31, 2012 and 2011 the Company also recorded impairment charges of $2.9 million and $2.5 million, respectively, on certain investments included in the @Ventures portfolio of companies.

The Company assesses the need to record impairment losses on its investments and records such losses when the impairment of an investment is determined to be other than temporary in nature. The process of assessing whether a particular equity investment s net realizable value is less than its carrying cost requires a significant amount of judgment. In making this judgment, the Company carefully considers the investee s cash position, projected cash flows (both short and long-term), financing needs, recent financing rounds, most recent valuation data, the current investing environment, management/ownership changes and competition. The valuation process is based primarily on information that the Company requests from these privately held companies and is not subject to the same disclosure and audit requirements as the reports required of U.S. public companies. During the third quarter of 2012, the Company became aware that there may be indicators of impairment for certain investments in the @Ventures portfolio of companies. The Company completed its evaluation of impairment of these investments and based on the Company s evaluation, it recorded a $2.8 million impairment charge during the fiscal year ended July 31, 2012.

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 $10.8 million of investments in affiliates at July 31, 2012 ranging from 10% to 20%, respectively, would decrease our income from continuing operations by $1.1 million to $2.2 million.

Income Tax Expense:

During the fiscal year ended July 31, 2012, the Company recorded income tax expense of approximately $3.0 million compared to income tax expense of $0.8 million, as restated, for the prior fiscal year. For the fiscal years ended July 31, 2012 and 2011, 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. Additionally, net tax expense for the fiscal year ended July 31, 2011 includes the reversal of an uncertain tax position reserve of $3.7 million.

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The Company provides for income tax expense related to federal, state, and foreign income taxes. For the fiscal year ended July 31, 2012, the Company s taxable income for certain foreign locations was offset by net operating loss carryovers from prior years, and the Company calculated a taxable loss in the U.S. For the fiscal year ended July 31, 2011, the Company s taxable income for certain foreign locations was offset by net operating loss carryovers from prior years, and the Company calculated a taxable loss in the U.S. 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.

Discontinued Operations:

During the fiscal year ended July 31, 2012, the Company recorded income from discontinued operations of approximately $0.5 million, as compared to a loss of $0.3 million for same period in the prior fiscal year. The increase of $0.8 million is attributable to the execution of a sublease of the Company s previously closed facility, which resulted in an adjustment to the Company s estimate of future minimum lease payments recoverable through sublease receipts.

Results of Operations

Fiscal Year 2011 compared to Fiscal Year 2010

Net Revenue:

	2011 (As Restated)	As a % of Total Net Revenue	2010 (As Restated)	As a % of Total Net Revenue	$ Change	% Change
			(in thousands)			
Americas	$ 296,362	33.9%	$ 307,552	33.5%	$ (11,190)	(3.6)%
Asia	233,724	26.7%	262,594	28.6%	(28,870)	(11.0)%
Europe	275,065	31.5%	283,584	30.9%	(8,519)	(3.0)%
TFL	29,471	3.4%	23,712	2.6%	5,759	24.3%
All other	39,126	4.5%	41,003	4.5%	(1,877)	(4.6)%
Total	$ 873,748	100.0%	$ 918,445	100.0%	$ (44,697)	(4.9)%

Net revenue decreased by approximately $44.7 million for the fiscal year ended July 31, 2011, as compared to the prior fiscal year. The $44.7 million decrease was the result of a decline in volumes. These decreases were partially offset by an increase in new business revenue. Approximately $527.4 million of the net revenue for the fiscal year ended July 31, 2011 related to the procurement and re-sale of materials on behalf of our clients as compared to approximately $528.5 million for the fiscal year ended July 31, 2010.

During the fiscal year ended July 31, 2011, net revenue in the Americas region decreased by approximately $11.2 million. This decrease resulted primarily from declines in volumes for certain client programs partially offset by an increase in new business revenues. Within the Asia region, the net revenue decrease of approximately $28.9 million resulted from a decrease in client order volumes, price concessions and form factor. Within the Europe region, net revenue decreased by $8.5 million primarily due to declines in client order volumes, cancellation of a certain client program, and an unfavorable impact from foreign currency translation, partially offset by an increase in new business revenue. At TFL, net revenue increased $5.8 million compared to the prior year due to incremental net revenue from TFL, which was acquired during the second quarter of fiscal year 2010. Within e-Business, the net revenue decrease of approximately $1.9 million was driven by decreases in client order volumes.

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Cost of Revenue:

	2011 (As Restated)	As a % of Total Net Revenue	2010 (As Restated)	As a % of Total Net Revenue	$ Change	% Change
			(in thousands)			
Americas	$ 292,490	98.7%	$ 298,094	96.9%	$ (5,604)	(1.9)%
Asia	179,438	76.8%	191,108	72.8%	(11,670)	(6.1)%
Europe	259,207	94.2%	264,490	93.3%	(5,283)	(2.0)%
TFL	29,148	98.9%	20,437	86.2%	8,711	42.6%
All other	32,526	83.1%	33,287	81.2%	(761)	(2.3)%
Total	$ 792,809	90.7%	$ 807,416	87.9%	$ (14,607)	(1.8)%

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 $14.6 million for the fiscal year ended July 31, 2011 as compared to the fiscal year ended July 31, 2010. Gross margins for the fiscal year ended July 31, 2011 were 9.3% as compared to 12.1% for the fiscal year ended July 31, 2010. This decrease is attributable to price concessions, changes in geographical mix, client mix and product mix associated with the levels of procurement and re-sale of materials on behalf of our clients combined, and a $2.8 million increase in inventory impairment related charges. Also, in the prior year there was a $1.8 million reversal of a liability due to satisfaction of conditions under a prior agreement which was not present during the fiscal year ended July 31, 2011.

For the fiscal year ended July 31, 2011, the Company s gross margin percentages within the Americas, Asia and Europe regions, were 1.3%, 23.2% and 5.8% as compared to 3.1%, 27.2% and 6.7%, respectively, for the prior fiscal year. The decrease in gross margin within the Americas region is attributed to a change in product mix and an increase in inventory impairment related charges. Within the Asia region, the decrease in gross margin is primarily attributed to price concessions and a decline in client volumes. Within the Europe region, the decrease in gross margin is primarily due to a decline in volumes. Within TFL the decrease in gross margin is due to an increase in inventory impairment related charges and changes in product mix.

Selling, General and Administrative Expenses:

	2011	As a % of Segment Net Revenue	2010	As a % of Segment Net Revenue	$ Change	% Change
			(in thousands)			
Americas	$ 15,470	5.2%	$ 18,881	6.1%	$ (3,411)	(18.1)%
Asia	23,085	9.9%	22,790	8.7%	295	1.3%
Europe	22,023	8.0%	25,742	9.1%	(3,719)	(14.4)%
TFL	4,477	15.2%	4,501	19.0%	(24)	(0.5)%
All other	3,713	9.5%	6,888	16.8%	(3,175)	(46.1)%
Subtotal	68,768	7.9%	78,802	8.6%	(10,034)	(12.7)%
Corporate-level activity	16,419		14,053		2,366	16.8%
Total	$ 85,187	9.7%	$ 92,855	10.1%	$ (7,668)	(8.3)%

Selling, general and administrative expenses consist primarily of compensation and employee-related costs, sales commissions and incentive plans, information technology expenses, travel expenses, facilities costs,

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consulting fees, fees for professional services, depreciation expense and marketing expenses. Selling, general and administrative expenses during the fiscal year ended July 31, 2011 decreased by approximately $7.7 million as compared to the prior fiscal year, primarily as a result of a $5.5 million decline in employee-related costs, a $2.1 million decline in software development costs, a $0.8 million decrease in acquisition related deal costs and a $1.8 million decline in other expenses. These decreases were partially offset by a $2.1 million increase in professional fees and a $0.4 million impact from the reversal of the TFL earnout during fiscal year 2010.

Amortization of Intangible Assets:

	2011	As a % of Segment Net Revenue	2010	As a % of Segment Net Revenue	$ Change	% Change
			(in thousands)			
Americas	$ 2,313	0.8%	$ 3,025	1.0%	$ (712)	(23.5)%
Asia	1,448	0.6%	1,476	0.6%	(28)	(1.9)%
Europe						
TFL	707	2.4%	818	3.4%	(111)	(13.6)%
All other	989	2.5%	989	2.4%		
Total	$ 5,457	0.6%	$ 6,308	0.7%	$ (851)	(13.5)%

The intangible asset amortization relates to certain amortizable intangible assets acquired by the Company in connection with its acquisitions of Modus Media, Inc., ModusLink OCS, ModusLink PTS and TFL. The $0.9 million decrease in amortization expense is due to the write-off of certain intangibles assets during the fiscal year ended July 31, 2011 at ModusLink PTS and TFL. The remaining intangible assets are being amortized over total useful lives ranging from 1 to 7 years.

Impairment of Goodwill and Long-Lived Assets:

	2011	As a % of Total Net Revenue	2010	As a % of Total Net Revenue	$ Change	% Change
			(in thousands)			
Americas	$ 15,889	5.4%	$ 12,801	4.2%	$ 3,088	24.1%
Asia						
Europe						
TFL	11,277	38.3%	10,200	43.0%	1,077	10.6%
All other			2,799	6.8%	(2,799)	(100.0)%
Total	$ 27,166	3.1%	$ 25,800	2.8%	$ 1,366	5.3%

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, transactions and marketplace data. The Company s reporting units are the same as the operating segments: Americas, Asia, Europe, e-Business, ModusLink PTS and TFL.

During the second quarter of fiscal year 2011, indicators of potential impairment caused the Company to conduct an interim impairment test for goodwill and other long-lived assets, which includes amortizable intangible assets for its ModusLink PTS and TFL reporting units in connection with the preparation of its

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quarterly financial statements for the quarter ended January 31, 2011. As a result of the intangible impairment tests performed during fiscal year 2011, the Company concluded that its goodwill was impaired and recorded a $13.2 million non-cash goodwill impairment charge, consisting of $7.1 million for ModusLink PTS and $6.1 million for TFL during the second quarter of fiscal year 2011. 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 three months ended January 31, 2011.

During the fourth quarter of fiscal year 2011, the Company completed its annual impairment analysis of goodwill and performed an impairment analysis on its long-lived assets. As a result of the analyses the Company concluded that there was no additional impairment of its goodwill and long-lived assets.

During the fourth quarter of fiscal year 2010, the Company completed its annual impairment analysis of goodwill. As a result of the annual impairment analysis and in connection with the preparation of its annual financial statements for the fiscal year ended July 31, 2010 the Company concluded that its goodwill was impaired and recorded a $25.8 million non-cash goodwill impairment charge, consisting of $2.8 million for e-Business, $12.8 million for ModusLink PTS and $10.2 million for TFL.

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. We believe use of the income approach was appropriate due to lack of comparability to guideline companies and the lack of comparable transactions under the market approach. 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.

Restructuring, net:

	2011	As a % of Segment Net Revenue	2010 (As Restated)	As a % of Segment Net Revenue	$ Change	% Change
			(in thousands)			
Americas	$ 171	0.1%	$ 835	0.3%	$ (664)	(79.5)%
Asia	586	0.3%	(65)		651	(1002)%
Europe	37		(1,707)	(0.6)%	1,744	(102.2)%
TFL						
All other	1		(12)		13	(108.3)%
Subtotal	795	0.1%	(949)	(0.1)%	1,744	(183.8)%
Corporate-level Activity			(16)		16	(100.0)%
Total	$ 795	0.1%	$ (965)	(0.1)%	$ 1,760	(182.4)%

During the fiscal year ended July 31, 2011, the Company recorded a net restructuring charge of approximately $0.8 million. Approximately $1.2 million of the $0.8 million net restructuring charge related to the workforce reduction of 55 employees in the Americas and Asia which was partially offset by a benefit of approximately $0.4 million related to changes in estimates for previously recorded facilities lease obligations primarily based on changes to the underlying assumptions.

During the fiscal year ended July 31, 2010, the Company recorded a net restructuring benefit of approximately $1.0 million primarily due to the statutory lapse of time under a prior agreement, which was partially offset by the early termination payment of a lease in Budapest, Hungary, and changes in estimates for previously recorded employee-related expenses and facilities lease obligations primarily based on changes to the underlying assumptions.

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Interest Income/Expense:

During fiscal year ended July 31, 2011, interest income decreased to $0.2 million from $0.3 million for the fiscal year ended July 31, 2010. The decrease in interest income was the result of lower average interest rates and lower average cash balances during the current fiscal year compared to the prior fiscal year.

Interest expense, as restated, totaled approximately $0.5 million and $0.6 million for the fiscal years ended July 31, 2011 and 2010, respectively. In both periods, interest expense related primarily to the Company s stadium obligation.

Other Gains (Losses), net:

Other gains, net, restated were approximately $8.9 million for the fiscal year ended July 31, 2011. During the fiscal years ended July 31, 2011, the Company recorded gains from the derecognition of accrued pricing liabilities related to the releases of claims received from certain customers of approximately $13.5 million offset by foreign exchange losses of approximately $4.0 million due to realized and unrealized gains and losses from foreign currency exposures and settled transactions in the Americas, Asia and Europe. Also, during the fiscal year ended July 31, 2011, the Company recorded a $0.1 million write-off of an investment in a private company, which has filed for bankruptcy. These losses were partially offset by a gain of approximately $0.1 million related to the sale of available for sale securities and gains of approximately $0.1 million related to the distribution of proceeds from the acquisition by third parties of H2Gen Innovation, Inc. and M2E Power, Inc. due to the satisfaction of conditions leading to the release of funds held in escrow. H2Gen Innovations, Inc. and M2E Power, Inc. were @Ventures portfolio companies that were acquired by third parties in previous reporting periods.

Other losses, net, were a net loss of approximately $1.0 million for the fiscal year ended July 31, 2010. During the fiscal year ended July 31, 2010, the Company recorded foreign exchange losses of approximately $1.0 million due to realized and unrealized gains and losses from foreign currency exposures and settled transactions in the Americas, Asia and Europe and a $0.3 million loss on the disposal of fixed assets. These losses were offset by a $0.4 million gain on the sale of @Ventures investments. The $0.4 million gain was the result of acquisitions by third parties of M2E Power, Inc. and H2Gen Innovations, Inc. and an adjustment to a previously recorded gain on the acquisition by a third party of Virtual Ink, Inc., due to satisfaction of conditions leading to the release of funds held in escrow. Virtual Ink, Inc. was an @Ventures portfolio company that was acquired by a third party in a previous reporting period.

Equity in Losses of Affiliates and Impairments:

Equity in losses of affiliates and impairments was $4.3 million and $2.1 million for the fiscal years ended July 31, 2011 and 2010, respectively. For the fiscal years ended July 31, 2011 and 2010, the Company recorded its proportionate share of the affiliates losses of $1.8 million for both periods. During the fiscal year ended July 31, 2011 and 2010 the Company also recorded impairment charges of $2.5 million and $0.3 million, respectively, on certain investments included in the @Ventures portfolio of companies.

Income Tax Expense:

During the fiscal year ended July 31, 2011, the Company recorded income tax expense, as restated, of approximately $0.8 million compared to income tax expense of $5.2 million for the prior fiscal year. For the fiscal year ended July 31, 2011 and 2010, the Company was profitable in certain jurisdictions where the Company operates, resulting in an income tax expense using the enacted tax rates in those jurisdictions. Additionally, net tax expense for the fiscal year ended July 31, 2011 includes the reversal of an uncertain tax position reserve of $3.7 million.

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The Company provides for income tax expense related to federal, state, and foreign income taxes. For the fiscal year ended July 31, 2011, the Company s taxable income for certain foreign locations was offset by net operating loss carryovers from prior years, and the Company calculated a taxable loss in the U.S. For the fiscal year ended July 31, 2010, the Company s taxable income in the U.S. and 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.

Discontinued Operations:

During the fiscal year ended July 31, 2011, the Company recorded a net loss from discontinued operations of approximately $0.3 million, as compared to a net loss of $2.3 million for the fiscal year ended July 31, 2010. The $0.3 million net loss from discontinued operations for the fiscal year ended July 31, 2011 primarily relates to net present value accretion on future lease payments. The $2.3 million net loss from discontinued operations for the fiscal years ended July 31, 2010 primarily relates to changes to previously recorded estimates for facility lease obligations due to changes in the underlying assumptions regarding the estimated length of time required to sublease the vacant space and the expected rent recovery rate.

Results of Operations

Fiscal Year 2010 compared to Fiscal Year 2009

Net Revenue:

	2010 (As Restated)	As a % of Total Net Revenue	2009 (As Restated)	As a % of Total Net Revenue	$ Change	% Change
			(in thousands)			
Americas	$ 307,552	33.5%	$ 327,455	32.7%	$ (19,903)	(6.1)%
Asia	262,594	28.6%	296,756	29.6%	(34,162)	(11.5)%
Europe	283,584	30.9%	333,181	33.3%	(49,597)	(14.9)%
TFL	23,712	2.6%		0.0%	23,712	100.0%
All other	41,003	4.5%	44,588	4.4%	(3,585)	(8.0)%
Total	$ 918,445	100.0%	$ 1,001,980	100.0%	$ (83,535)	(8.3)%

Net revenue decreased by approximately $83.5 million for the fiscal year ended July 31, 2010, as compared to the prior fiscal year. The $83.5 million decrease was the result of a decline in volumes from certain client programs. Approximately $528.5 million of the net revenue for the fiscal year ended July 31, 2010 related to the procurement and re-sale of materials on behalf of our clients as compared to approximately $594.1 million for the fiscal year ended July 31, 2009.

During the fiscal year ended July 31, 2010, net revenue in the Americas, Asia and Europe segments decreased by approximately $19.9 million, $34.2 million and $49.6 million, respectively. These decreases resulted primarily from declines in client order volumes. The $3.6 million decrease in All other is due to lower demand for professional services and new licenses. The $23.7 million in net revenue for TFL reflects the inclusion of net revenue from the TFL operating segment since its acquisition date of December 4, 2009.

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Cost of Revenue:

	2010 (As Restated)	As a % of Segment Net Revenue	2009 (As Restated)	As a % of Segment Net Revenue	$ Change	% Change
			(in thousands)			
Americas	$ 298,094	96.9%	$ 320,609	97.9%	$ (22,515)	(7.0)%
Asia	191,108	72.8%	227,134	76.5%	(36,026)	(15.9)%
Europe	264,490	93.3%	306,881	92.1%	(42,391)	(13.8)%
TFL	20,437	86.2%			20,437	100.0%
All other	33,287	81.2%	31,520	70.7%	1,767	5.6%
Total	$ 807,416	87.9%	$ 886,144	88.4%	$ (78,728)	(8.9)%

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 $78.7 million for the fiscal year ended July 31, 2010 as compared to the fiscal year ended July 31, 2009. Gross margins for the fiscal year ended July 31, 2010 were 12.1% as compared to 11.6% for the fiscal year ended July 31, 2009. This 50 basis-point increase is attributable to increased productivity and cost reduction actions that were initiated during fiscal year 2009 and a change in client mix and product mix.

For the fiscal year ended July 31, 2010, the Company s gross margin percentages within the Americas, Asia and Europe regions, were 3.1%, 27.2% and 6.7% as compared to 2.1%, 23.5% and 7.9%, respectively, for the prior fiscal year. The 100 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 370 basis-point increase in gross margin is primarily attributed to a change in client mix and product mix. Within the Europe region, the 120 basis-point decrease in gross margin is primarily due to a decline in volumes and a negative impact of foreign currency translation, partially offset by increased productivity, changes in product mix, the reversal of a liability due to satisfaction of conditions under a prior agreement and the impact of cost reduction actions initiated during fiscal year 2009.

Selling, General and Administrative Expenses:

	2010	As a % of Segment Net Revenue	2009 (As Restated)	As a % of Segment Net Revenue	$ Change	% Change
			(in thousands)			
Americas	$ 18,881	6.1%	$ 21,193	6.5%	$ (2,312)	(10.9)%
Asia	22,790	8.7%	26,532	8.9%	(3,742)	(14.1)%
Europe	25,742	9.1%	29,029	8.7%	(3,287)	(11.3)%
TFL	4,501	19.0%			4,501	100.0%
All other	6,888	16.8%	9,336	20.9%	(2,448)	(26.2)%
Subtotal	78,802	8.6%	86,090	8.6%	(7,288)	(8.5)%
Corporate-level activity	14,053		13,848		205	1.5%
Total	$ 92,855	10.1%	$ 99,938	10.0%	$ (7,083)	(7.1)%

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

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administrative expenses during the fiscal year ended July 31, 2010 decreased by approximately $7.1 million as compared to the prior fiscal year, primarily as a result of a $5.4 million decline in employee-related costs, a $1.9 million decline in bad debt expense, a $1.0 million decline in depreciation expense, a $0.7 million decline in travel expenses, a $0.5 million decline in sales commissions, partially offset by the inclusion of approximately $4.5 million of selling, general and administrative expenses of TFL, $0.8 million in transaction costs related to the acquisition of TFL and a $0.5 million increase in professional fees.

Amortization of Intangible Assets:

	2010	As a % of Segment Net Revenue	2009	As a % of Segment Net Revenue	$ Change	% Change
			(in thousands)			
Americas	$ 3,025	1.0%	$ 3,018	0.9%	$ 7	0.2%
Asia	1,476	0.6%	1,478	0.5%	(2)	(0.1)%
Europe						
TFL	818	3.4%			818	100.0%
All other	989	2.4%	989	2.2%		
Total	$ 6,308	0.7%	$ 5,485	0.5%	$ 823	15.0%

The intangible asset amortization relates to certain amortizable intangible assets acquired by the Company in connection with its acquisitions of Modus Media, Inc., ModusLink OCS, ModusLink PTS and TFL. The $0.8 million increase in amortization expense is due to the acquisition of TFL during the fiscal year ended July 31, 2010. These intangible assets are being amortized over lives ranging from 1 to 10 years.

Impairment of Goodwill and Long-Lived Assets:

	2010	As a % of Total Net Revenue	2009	As a % of Total Net Revenue	$ Change	% Change
			($ in thousands)			
Americas	$ 12,801	4.2%	$ 74,626	22.8%	$ (61,825)	(82.8)%
Asia			73,948	24.9%	(73,948)	(100.0)%
Europe			16,108	4.8%	(16,108)	(100.0)%
TFL	10,200	43.0%			10,200	100.0%
All other	2,799	6.8%			2,799	100.0%
Total	$ 25,800	2.8%	$ 164,682	16.4%	$ (138,882)	(84.3)%

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, transactions and marketplace data. For goodwill testing purposes the Company has six reporting units, the Americas, Asia, Europe, e-Business, ModusLink PTS and TFL.

During the fourth quarter of fiscal year 2010, the Company completed its annual impairment analysis of goodwill. As a result of the annual impairment analysis and in connection with the preparation of its annual financial statements for the fiscal year ended July 31, 2010 the Company concluded that its goodwill was impaired and recorded a $25.8 million non-cash goodwill impairment charge, consisting of $2.8 million for All other, $12.8 million for ModusLink PTS and $10.2 million for TFL.

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During the second quarter of fiscal year 2009, indicators of potential impairment caused the Company to conduct an interim impairment test. As a result of the annual impairment analysis and in connection with the preparation of its quarterly financial statements for the quarter ended January 31, 2009 the Company concluded that its goodwill was impaired and recorded a $164.7 million non-cash goodwill impairment charge consisting of $74.6 million for the Americas, $73.9 million for Asia, and $16.1 million for Europe.

Restructuring, net:

	2010 (As Restated)	As a % of Segment Net Revenue	2009 (As Restated)	As a % of Segment Net Revenue	$ Change	% Change
			(in thousands)			
Americas	$ 835	0.3%	$ 7,825	2.4%	$ (6,990)	(89.3)%
Asia	(65)		2,041	0.7%	(2,106)	(103.2)%
Europe	(1,707)	(0.6)%	8,579	2.6%	(10,286)	(119.9)%
TFL						
All other	(12)		643	1.4%	(655)	(101.9)%
Subtotal	(949)	(0.1)%	19,088	1.9%	(20,037)	(105.0)%
Corporate-level Activity	(16)		253		(269)	(106.3)%
Total	$ (965)	(0.1)%	$ 19,341	1.9%	$ (20,306)	(105.0)%

During the fiscal year ended July 31, 2010, the Company recorded a net restructuring benefit of approximately $1.0 million primarily due to the statutory lapse of time under a prior agreement, which was partially offset by the early termination payment of a lease in Budapest, Hungary, and changes in estimates for previously recorded employee-related expenses and facilities lease obligations primarily based on changes to the underlying assumptions.

During the fiscal year ended July 31, 2009, the Company recorded a net restructuring charge of approximately $19.3 million. This charge consisted of approximately $15.8 million related to the severance costs for a workforce reduction of approximately 550 employees across the Company. The charges also consist of approximately $5.6 million relating to the shutdown of facilities in El Paso, TX, Nashville, TN, Juarez, Mexico, San Jose, CA, Angers, France and Budapest, Hungary and a $0.4 million charge for the impairment of fixed assets at the location in El Paso, TX. All actions related to the fiscal year 2009 workforce reductions were completed by July 31, 2010. These restructuring charges were partially offset by approximately $2.4 million of adjustments to reduce initial estimates of restructuring charges for certain employee-related expenses and facilities lease obligations based on changes to the underlying assumptions.

Interest Income/Expense:

During fiscal year ended July 31, 2010, interest income decreased by $1.2 million to $0.3 million from $1.5 million for the fiscal year ended July 31, 2009. The decrease in interest income was the result of lower average interest rates during the current fiscal year compared to the prior fiscal year.

Interest expense totaled approximately $0.6 million and $0.8 million for the fiscal years ended July 31, 2010 and 2009, respectively. In both periods, interest expense related primarily to the Company s stadium obligation.

Other Gains (Losses), net:

Other gains (losses), net were a net loss of approximately $1.0 million for the fiscal year ended July 31, 2010. During the fiscal year ended July 31, 2010, the Company recorded foreign exchange losses of approximately $1.0 million due to realized and unrealized gains and losses from foreign currency exposures and

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settled transactions in the Americas, Asia and Europe and a $0.3 million loss on the disposal of fixed assets. These losses were offset by a $0.4 million gain on the sale of @Ventures investments. The $0.4 million gain was the result of acquisitions by third parties of M2E Power, Inc. and H2Gen Innovations, Inc. and an adjustment to a previously recorded gain on the acquisition by a third party of Virtual Ink, Inc., due to satisfaction of conditions leading to the release of funds held in escrow. Virtual Ink, Inc. was an @Ventures portfolio company that was acquired by a third party in a previous reporting period.

Other gains (losses), net were a net gain of approximately $0.8 million for the fiscal year ended July 31, 2009. During the fiscal year ended July 31, 2009, the Company recorded realized and unrealized foreign currency transaction losses of approximately $1.6 million, and $4.0 million of gains on the sale of investments in affiliates. The $4.0 million of gains was the result of a $2.6 million gain on the acquisition by a third party of all of the ownership interests held by @Ventures in Foodbuy, LLC, and $1.3 million of gains to adjust previously recorded gains on the acquisitions by third parties of The Generations Network, Inc. (TGN) and Avamar Technologies, Inc. (Avamar) due to the satisfaction of conditions leading to the release of funds held in escrow. TGN and Avamar were @Ventures portfolio companies that were acquired by third parties in previous reporting periods. These gains were partially offset by a $1.0 million impairment of an investment and a $0.3 million loss on disposals of assets.

Equity in Losses of Affiliates and Impairments:

Equity in losses of affiliates decreased to a loss of approximately $2.1 million for the fiscal year ended July 31, 2010 from a loss of $16.6 million for the prior fiscal year, primarily as a result of a $16.5 million decrease in the amount of impairment charges recorded on investments included in the @Ventures portfolio of investments, which was partially offset by a $2.0 million increase in the amount of equity in income (losses) of affiliates recognized by the Company as its portion for the net income (loss) of certain affiliate companies.

Income Tax Expense:

During the fiscal year ended July 31, 2010, the Company recorded income tax expense of approximately $5.2 million compared to income tax expense of $10.8 million for the prior fiscal year. For the fiscal years ended July 31, 2010 and 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 fiscal years ended July 31, 2010 and 2009, the Company s U.S. taxable income, and the taxable income for certain foreign locations, was offset by net operating loss carryovers from prior years. The Company continues to maintain a full valuation allowance against its deferred tax asset in the U.S. and certain of its foreign subsidiaries due to the uncertainty of realizing such benefits.

Discontinued Operations:

During the fiscal year ended July 31, 2010, the Company recorded a net loss from discontinued operations of approximately $2.3 million, as compared to net income of $0.1 million for the fiscal year ended July 31, 2009. The $2.3 million net loss from discontinued operations primarily relates to changes to previously recorded estimates for facility lease obligations due to changes in the underlying sublease assumptions.

Liquidity and Capital Resources

Historically, the Company has financed its operations and met its capital requirements primarily through funds generated from operations, the sale of our securities, returns generated by our venture capital investments and borrowings from lending institutions. As of July 31, 2012, the Company s primary sources of liquidity consisted of cash and cash equivalents of $52.4 million. The Company s working capital at July 31, 2012 was approximately $113.5 million. In addition, on February 1, 2010 the Company and certain of its domestic subsidiaries entered into an Amended and Restated Credit Agreement and a Security Agreement (the Credit Facility) with a bank syndicate. The Credit Facility provided a senior secured revolving credit facility up to an initial aggregate principal amount of $40.0 million, which was reduced to $15.0 million on August 16, 2012, and was secured by substantially all of the domestic assets of the Company. The Credit Facility expired by its terms on October 31, 2012. Interest on the Credit Facility was based on the type of borrowing, at the base rate or the Eurodollar rate plus an applicable rate that varied from 1.50% to 2.00% for the base rate and 2.50% to 3.00% for the Eurodollar rate depending on the Company s consolidated leverage ratio.

On October 31, 2012, the Company and certain of its domestic subsidiaries entered into a Credit Agreement (the New Credit Facility) with Wells Fargo Bank, National Association as lender and agent for the lenders party thereto. The New Credit Facility provides a senior secured revolving credit facility the lesser of up to an initial aggregate principal amount of $50.0 million or the calculated borrowing base and is secured by substantially all of the domestic assets of the Company. As of October 31, 2012, the calculated borrowing base was $36.0 million. The New Credit Facility terminates on October 31, 2015. Interest on the New Credit Facility is based on the Company s options of LIBOR plus 2.5% or the base rate plus 1.5%. The New Credit Facility includes one restrictive financial covenant, which is minimum EBITDA and restrictions that limit the ability of the Company, to among other things, create liens, incur additional indebtedness, make investments, or dispose of assets or property without prior approval from the lenders.

On July 31, 2012, the Company did not have any debt outstanding and had letters of credit for $0.2 million outstanding under the credit facility.

In addition, the Company maintains a credit facility of approximately $1.0 million in Taiwan. As of July 31, 2012, $34 thousand was outstanding under this facility.

On March 7, 2011 the Company announced that its Board of Directors had declared a special dividend of $0.9134 per common share outstanding, or $40.0 million in aggregate, with a payment date of March 31, 2011 and a record date of March 17, 2011. The aggregate amount paid to stockholders through the special cash dividend was funded with available cash on hand.

Cash provided by (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 $(37.9) million and $(3.1) million for the fiscal years ended July 31, 2012 and 2011, respectively. The $34.8 million decrease in cash provided by operating activities of continuing operations for the fiscal year ended July 31, 2012 compared with the same period in the prior year was due to a $42.8 million increase in loss from continuing operations as adjusted for non-cash items which was offset by a $8.0 million increase in cash resulting from changes in operating assets and liabilities due to working capital requirements of the Company during fiscal year 2012. During the fiscal year ended July 31, 2012, non-cash items included impairment of goodwill and long-lived assets of $2.1 million, depreciation expense of $14.1 million, amortization of intangible assets of $1.3 million, non-operating gains, net, of $14.4 million, equity in losses of affiliates and impairments of $4.1 million and share-based compensation of $3.0 million.

During the fiscal year ended July 31, 2011, non-cash items included impairment of goodwill and long-lived assets of $27.2 million, depreciation expense of $16.8 million, amortization of intangible assets of $5.5 million, non-operating losses, net, of $8.9 million, equity in losses of affiliates and impairments of $4.3 million and share-based compensation of $3.5 million.

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.

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Investing activities of continuing operations used cash of $14.5 million and $12.1 million for the fiscal years ended July 31, 2012 and 2011, respectively. The $14.5 million of cash used in investing activities during the fiscal year ended July 31, 2012 resulted primarily from $11.6 million in capital expenditures and $2.9 million of investments in affiliates. The $12.1 million of cash used in investing activities during the fiscal year ended July 31, 2011 resulted primarily from $9.0 million in capital expenditures, $3.5 million of investments in affiliates, partially offset by $0.2 million or proceeds from investments in the @Ventures portfolio companies and $0.1 million in proceeds from the sale of available-for-sale securities. As of July 31, 2012, the Company had a carrying value of $10.8 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 $0.2 million and $41.5 million for the fiscal years ended July 31, 2012 and 2011, respectively. The $0.2 million of cash used for financing activities of continuing operations during the fiscal year ended July 31, 2012 primarily related to $0.2 million of cash used to repurchase the Company s stock and $0.1 million of capital lease repayments, which were partially offset by $0.1 million of proceeds from the issuance of common stock. During the fiscal year ended July 31, 2012, the Company drew down $10.0 million from the Credit Facility that was repaid within the year. The $41.5 million of cash used for financing activities of continuing operations during the fiscal year ended July 31, 2011 primarily related to a $40.0 million payment of a special dividend, $1.6 million of cash used to repurchase the Company s stock and $0.1 million of capital lease repayments, which were partially offset by $0.2 million of proceeds from the issuance of common stock.

For the fiscal years ended July 31, 2012 and 2011, cash used for discontinued operations totaled $1.5 million and $1.7 million, respectively, both primarily for ongoing lease obligations.

Given the Company s cash resources as of July 31, 2012, 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 July 31, 2012. 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 Financing Arrangements

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

Contractual Obligations

The Company leases facilities and certain other machinery and equipment under various non-cancelable operating leases and executory contracts expiring through December 2021. Certain non-cancelable leases are classified as capital leases and the leased assets are included in property, plant and equipment, at cost. Such leasing arrangements involve buildings and machinery and equipment as discussed in Note 13 in the consolidated financial statements in Item 8 below.

Purchase obligations represent an estimate of all open purchase orders and contractual obligations in the ordinary course of business for which the Company has not received the goods or services. Although open purchase orders are considered enforceable and legally binding, the terms generally allow us the option to cancel, reschedule, and adjust our requirements based on our business needs prior to the delivery of goods or performance of services.

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Future minimum payments, including previously recorded restructuring obligations, as of July 31, 2012 are as follows:

Contractual Obligations	Total	Less than 1 year	1 3 years (in thousands)	3 5 years	After 5 years
Operating leases	$ 72,469	$ 23,893	$ 24,893	$ 10,799	$ 12,884
Capital leases	142	78	44	20	
Stadium obligations	5,600	2,400	3,200		
Long-term debt					
Purchase obligations	16,917	16,917			
Revolving line of credit					
Total(1)	$ 95,128	$ 43,288	$ 28,137	$ 10,819	$ 12,884

(1) These Contractual Obligations do not include any reserves for income taxes. Because we are unable to reasonably predict the ultimate amount or timing of settlement of our reserves for income taxes, the Contractual Obligations and Other Commitments table does not include our reserves for income taxes. As of July 31, 2012, our reserves for income taxes totaled approximately $1.3 million.

The table above excludes obligations related to the Company s defined benefit pension plans. See Note 18 of the accompanying consolidated financial statements for a summary of our expected contributions and benefit payments for these plans.

Total future minimum lease payments have been reduced by future minimum sublease rentals of approximately $87 thousand. Capital lease obligations are net of interest.

Total rent and equipment lease expense charged to continuing operations was approximately $26.5 million, $29.2 million, $29.1 million, and $31.1 million for the fiscal years ended July 31, 2012, 2011, 2010 and 2009, respectively.

In August 2000, the Company announced it had acquired the exclusive naming and sponsorship rights to the New England Patriots new stadium, for a period of fifteen years. In August 2002, the Company finalized an agreement with the owner of the stadium to amend the sponsorship agreement. Under the terms of the amended agreement, the Company relinquished the stadium naming rights and remains obligated for a series of annual payments of $1.6 million per year through 2015.

From time to time, the Company agrees to provide indemnification to its clients in the ordinary course of business. Typically, the Company agrees to indemnify its clients for losses caused by the Company. As of July 31, 2012, the Company had no recorded liabilities with respect to these arrangements.

Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the U.S. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. On an ongoing basis, we evaluate our estimates, including those related to revenue recognition, inventory, restructuring, share-based compensation expense, goodwill and long-lived assets, investments, and income taxes. Of the accounting estimates we routinely make relating to our critical accounting policies, those estimates made in the process of: determining the valuation of inventory and related reserves;

determining future lease assumptions related to restructured facility lease obligations; measuring share-based compensation expense; determining projected and discounted cash flows for purposes of evaluating goodwill and intangible assets for impairment; preparing investment valuations; and establishing income tax valuation allowances and liabilities are the estimates most likely to have a material impact on our financial position and results of operations. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. However, because these estimates inherently involve judgments and uncertainties, there can be no assurance that actual results will not differ materially from those estimates.

The Company has identified the accounting policies below as the policies most critical to its business operations and the understanding of our results of operations. The impact and any associated risks related to these policies on our business operations is discussed throughout Management s Discussion and Analysis of Financial Condition and Results of Operations where such policies affect our reported and expected financial results. Our critical accounting policies are as follows:

Revenue recognition

Inventory valuation

Restructuring expenses

Share-Based Compensation Expense

Accounting for impairment of long-lived assets, goodwill and other intangible assets

Investments

Income taxes

Revenue Recognition

The Company s revenue primarily comes from the sale of supply chain management services to our clients. Amounts billed to clients under these arrangements include revenue attributable to the services performed as well as for materials procured on our clients behalf as part of our service to them. Other sources of revenue include the sale of products and other services. Revenue is recognized for services when the services are performed and for product sales when the products are shipped assuming all other applicable revenue recognition criteria are met.

The Company recognizes revenue when persuasive evidence of an arrangement exists, title and risk of loss have passed or services have been rendered, the sales price is fixed or determinable and collection of the related receivable is reasonably assured in accordance with the provisions under the Accounting Standards Codification (ASC) Topic 605, Revenue Recognition (ASC Topic 605). The Company s standard sales terms are FOB shipping point, which means that risk of loss passes to the client when it is shipped from the Company s location. The Company also evaluates the terms of each major client contract relative to a number of criteria that management considers in making its determination with respect to gross versus net reporting of revenue for transactions with its clients. Management s criteria for making these judgments place particular emphasis on determining the primary obligor in a transaction and which party bears general inventory risk. The Company records all shipping and handling fees billed to clients as revenue, and related costs as cost of sales, when incurred, in accordance with ASC Topic 605.

Inventory Valuation

We value the inventory at the lower of cost or market. We continuously monitor inventory balances and record inventory provisions for any excess of the cost of the inventory over its estimated market value. We also monitor inventory balances for obsolescence and excess quantities as compared to projected demands. Our inventory methodology is based on assumptions about average shelf life of inventory, forecasted volumes,

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forecasted selling prices, write-down history of inventory and market conditions. While such assumptions may change from period to period, in determining the net realizable value of our inventories, we use the best information available as of the balance sheet date. If actual market conditions are less favorable than those projected, or we experience a higher incidence of inventory obsolescence because of rapidly changing technology and client requirements, additional inventory provisions may be required. Once established, write-downs of inventory are considered permanent adjustments to the cost basis of inventory and cannot be reversed due to subsequent increases in demand forecasts.

Restructuring Expenses

The Company follows the provisions of ASC Topic 420, Exit or Disposal Cost Obligations (ASC Topic 420), which addresses financial accounting and reporting for costs associated with exit or disposal activities. The statement requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. The Company records liabilities that primarily include estimated severance and other costs related to employee benefits and certain estimated costs to exit equipment and facility lease obligations and other service contracts and also costs for leases with no future economic benefit. As of July 31, 2012, the Company s accrued restructuring balance totaled approximately $1.7 million, of which remaining contractual obligations represented approximately $1.1 million. These contractual obligations principally represent future obligations under non-cancelable real estate leases. Restructuring estimates relating to real estate leases involve consideration of a number of factors including: potential sublet rental rates, estimated vacancy period for the property, brokerage commissions and certain other costs. Estimates relating to potential sublet rates and expected vacancy periods are most likely to have a material impact on the Company s results of operations in the event that actual amounts differ significantly from estimates. These estimates involve judgment and uncertainties, and the settlement of these liabilities could differ materially from recorded amounts. As such, in the course of making such estimates management often uses third party real estate advisors to assist management in its assessment of the marketplace for purposes of estimating sublet rates and vacancy periods. A 10% 20% unfavorable settlement of our remaining restructuring liabilities, as compared to our current estimates, would decrease our income from continuing operations by approximately $0.2 million to $0.3 million.

Share-Based Compensation Expense

The Company recognizes share-based compensation in accordance with the provisions of ASC Topic 718, Compensation Stock Compensation (ASC Topic 718) which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors including employee stock options and employee stock purchases based on estimated fair values.

ASC Topic 718 requires companies to estimate the fair value of share-based payment awards on the date of grant. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Company s Consolidated Statement of Operations.

ASC Topic 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. In the Company s pro forma information required under ASC Topic 718 for the periods prior to August 1, 2005, the Company established estimates for forfeitures. Share-based compensation expense recognized in the Company s consolidated statements of operations for the fiscal years ended July 31, 2012, 2011, 2010, and 2009 included compensation expense for share-based payment awards granted prior to, but not yet vested as of July 31, 2005 based on the grant date fair value estimated in accordance with the pro forma provisions of ASC Topic 718 and compensation expense for the share-based payment awards granted subsequent to July 31, 2005 based on the grant date fair value estimated in accordance with the provisions of ASC Topic 718.

The Company uses the binomial-lattice option-pricing model (binomial-lattice model) for valuation of share-based awards. The Company believes that the binomial-lattice model is an accurate model for valuing

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employee stock options since it reflects the impact of stock price changes on option exercise behavior. The Company uses third party analyses to assist in developing the assumptions used in its binomial-lattice model and the resulting fair value used to record compensation expense. The Company s determination of fair value of stock options on the date of grant using an option-pricing model is affected by the Company s stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to the Company s expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviors. Any changes in these assumptions may materially affect the estimated fair value of the share-based award.

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

The Company follows ASC Topic 360, Property, Plant, and Equipment (ASC Topic 360). Under ASC Topic 360, the Company tests certain long-lived assets or group of assets for recoverability whenever events or changes in circumstances indicate that the Company may not be able to recover the asset s carrying amount. ASC Topic 360 defines impairment as the condition that exists when the carrying amount of a long-lived asset or group, including property and equipment and other intangible assets, exceeds its fair value. The Company evaluates recoverability by determining whether the undiscounted cash flows expected to result from the use and eventual disposition of that asset or group cover the carrying value at the evaluation date. If the undiscounted cash flows are not sufficient to cover the carrying value, the Company measures an impairment loss as the excess of the carrying amount of the long-lived asset or group over its fair value. Management may use third party valuation experts to assist in its determination of fair value.

The Company is required to test goodwill for impairment annually or if a triggering event occurs in accordance with the provisions of ASC Topic 350, Goodwill and Other (ASC Topic 350). The Company s policy is to perform its annual impairment testing for its reporting units, on July 31, of each fiscal year. As of July 31, 2012, the $3.1 million recorded for goodwill relates 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. All long-lived assets of TFL have been fully impaired as of July 31, 2012. As a result of the analyses performed during 2012, the Company concluded that there was no impairment on the $3.1 million of goodwill, a $0.9 million non-cash impairment of the TFL long-lived assets, and a $1.1 million non-cash impairment charge of the Company s long-lived assets at its Kildare facility.

During the second quarter of fiscal year 2011, indicators of potential impairment caused the Company to conduct an interim impairment test as of January 31, 2011. As a result of our interim impairment analysis and in connection with the preparation of our quarterly financial statements for the quarter ended January 31, 2011, the Company recorded a $13.2 million non-cash goodwill impairment charge consisting of $7.1 million for ModusLink PTS and $6.1 million for TFL. The Company also determined that intangible assets were impaired and recorded a $14.0 million non-cash intangible asset charge, consisting of $8.8 million for ModusLink PTS and $5.2 million for TFL due to low operating margins and low projected future growth.

During the fourth quarter of fiscal year 2010, the Company completed its annual impairment analysis of goodwill. The Company completed step one of the impairment analysis. As a result of the annual impairment analysis and in connection with the preparation of its annual financial statements for the fiscal year ended July 31, 2010 the Company concluded that its goodwill was impaired and recorded a $25.8 million non-cash goodwill impairment charge, consisting of $2.8 million for e-Business, $12.8 million for ModusLink PTS and $10.2 million for TFL.

Investments

The Company maintains interests in several privately held companies primarily through its various venture capital funds. The Company s venture capital investment portfolio, @Ventures, invests in early-stage technology companies. These investments are generally made in connection with a round of financing with other third-party

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investors. 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. The Company s share of net earnings or losses of the investee are reflected in Equity in income (losses) of affiliates and impairments in the Company s Consolidated Statements of Operations.

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 investment s net realizable value is less than its carrying cost requires a significant amount of judgment. This valuation process is based primarily on information that the Company requests from these privately held companies who are not subject to the same disclosure and audit requirements as the reports required of U.S. public companies. As such, the reliability and accuracy of the data may vary. Based on the Company s evaluation, it recorded impairment charges related to its investments in privately held companies of approximately $2.9 million, $2.5 million, $0.3 million, and $16.8 million for fiscal years 2012, 2011, 2010, and 2009, respectively. These impairment losses are reflected in Equity in income (losses) of affiliates and impairments in the Company s Consolidated Statements of Operations.

Estimating the net realizable value of investments in privately held early-stage technology companies is inherently subjective and has contributed to significant volatility in our reported results of operations in the past and it 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 approximately $10.8 million of investments in affiliates at July 31, 2012 ranging from 10% to 20%, respectively, would decrease our income from continuing operations by approximately $1.1 million to $2.2 million.

At the time an equity method investee issues its stock to unrelated parties, the Company accounts for that share issuance as if the Company has sold a proportionate share of its investment. The Company records any gain or loss resulting from an equity method investee s share issuance in its Consolidated Statement of Operations. During fiscal years ended July 31, 2012, 2011, 2010 and 2009, no such gains or losses had been recorded related to any @Ventures investments.

Income Taxes

Income taxes are accounted for under the provisions of ASC Topic 740, Income Taxes (ASC Topic 740) using the asset and liability method whereby deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax assets must be reduced by a valuation allowance, if based on the weight of available evidence it is more likely than not that some portion or all of the recorded deferred tax assets will not be realized in future periods. This methodology is subjective and requires significant estimates and judgments in the determination of the recoverability of deferred tax assets and in the calculation of certain tax liabilities. At July 31, 2012, 2011 and 2010, a valuation allowance has been recorded against the deferred tax asset in the U.S. and certain of its foreign subsidiaries since management believes that after considering all the available objective evidence, both positive and negative, historical and prospective, with greater weight given to historical evidence, it is more likely than not that these assets will not be realized. In each reporting period, we evaluate the adequacy of our valuation allowance on our deferred tax assets. In the future, if the Company is able to demonstrate a consistent trend of pre-tax income, then at that time management may reduce its valuation allowance, accordingly. The Company s federal, state and foreign net operating loss carryforwards at July 31, 2012 totaled $2.0 billion, $409.4 million and $52.8 million, respectively. A 5% reduction in the Company s current valuation allowance on these federal and state net operating loss carryforwards would result in an income tax benefit of approximately $36.6 million.

In addition, the calculation of the Company s tax liabilities involves dealing with uncertainties in the application of complex tax regulations in several tax jurisdictions. The Company is periodically reviewed by domestic and foreign tax authorities regarding the amount of taxes due. These reviews include questions regarding the timing and amount of deductions and the allocation of income among various tax jurisdictions. In evaluating the exposure associated with various filing positions, we record estimated reserves for exposures. Based on our evaluation of current tax positions, the Company believes it has appropriately accrued $1.3 million for exposures as of July 31, 2012.

Recent Accounting Pronouncements

In December 2011, the Financial Accounting Standards Board (FASB) issued a final standard to defer the new requirement to present components of reclassifications of other comprehensive income on the face of the income statement. This update allows entities to continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before Accounting Standard Update (ASU) 2011-05, Presentation of Comprehensive Income . All other requirements included within ASU 2011-05 are not affected and entities must report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. The effective date of this update is for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company believes adoption of this new guidance will not have a material impact on the Company s financial statements as these updates have an impact on presentation only.

In September 2011, the FASB issued ASU 2011-08, Intangibles Goodwill and Other (Topic 350): Testing Goodwill for Impairment which is intended to reduce the complexity and costs related to testing goodwill for impairment. ASU 2011-08 allows an entity the option to make a qualitative evaluation about the likelihood of goodwill impairment in order to determine whether it is necessary to perform the two-step quantitative goodwill impairment test already included in Topic 350. An entity will no longer be required to calculate the fair value of a reporting unit unless the entity determines, based on its qualitative assessment, that it is more likely than not that the fair value of the reporting unit is less than its carrying amount. ASU 2011-08 also expands upon the examples of events and circumstances that an entity should consider between annual impairment tests in determining whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The amended guidance became effective for the Company on August 1, 2012. We do not anticipate that this new guidance will have a material impact on our financial statements.

In June 2011, the FASB issued guidance on the presentation of comprehensive income. The new guidance eliminates the current option to report other comprehensive income and its components in the statement of stockholders equity. Instead, an entity will be required to present either a continuous statement of net income and other comprehensive income or two separate but consecutive statements. The new guidance became effective for the Company on August 1, 2012. The Company believes adoption of this new guidance will not have a material impact on the Company s financial statements as this update has an impact on presentation only.

In May 2011, the FASB issued guidance to amend the accounting and disclosure requirements on fair value measurements. The new guidance limits the highest-and-best-use measure to nonfinancial assets, permits certain financial assets and liabilities with offsetting positions in market or counterparty credits risks to be measured at a net basis, and provides guidance on the applicability of premiums and discounts. Additionally, the new guidance expands the disclosures on Level 3 inputs by requiring quantitative disclosure of the unobservable inputs and assumptions, as well as description of the valuation processes and the sensitivity of the fair value changes in unobservable inputs. The new guidance became effective for the Company on February 1, 2012. Other than requiring additional disclosures, we do not anticipate material impacts on our financial statements upon adoption.

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ITEM 7A. 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 the fair value during this holding period are recorded in the Consolidated Statement of Operations. As of July 31, 2012, the Company did not have any foreign currency exchange contracts outstanding.

Interest Rate Risk

At July 31, 2012, the Company had no outstanding borrowings under its Credit Facility with a bank syndicate and the Company did not have any open derivative positions with respect to its borrowing arrangements.

We maintain a portfolio of highly liquid cash equivalents typically maturing in three months 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 market funds.

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 exposure from 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 July 31, 2012, the Company did not have any derivative financial instruments.

Revenue from our foreign operating segments accounted for approximately 58% of total revenue during the fiscal year ended July 31, 2012. 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 majority 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 revenue and operating expenses for our international operations. Similarly, our revenue 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 fiscal year ended July 31, 2012, we recorded foreign currency translation losses of approximately $(10.7) million, which are

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recorded within accumulated other comprehensive income in Stockholders Equity in our consolidated balance sheet. In addition, certain of our foreign 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 fiscal year ended July 31, 2012, we recorded foreign currency transaction gains of approximately $2.9 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.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

ModusLink Global Solutions, Inc.:

We have audited the accompanying consolidated balance sheets of ModusLink Global Solutions, Inc. and subsidiaries as of July 31, 2012, 2011 and 2010, and the related consolidated statements of operations, stockholders equity and cash flows for each of the years in the four-year period ended July 31, 2012. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ModusLink Global Solutions, Inc. and subsidiaries as of July 31, 2012, 2011 and 2010, and the results of their operations and their cash flows for each of the years in the four-year period ended July 31, 2012, in conformity with U.S. generally accepted accounting principles.

As discussed in note 3, the consolidated balance sheets as of July 31, 2011 and 2010, and the related consolidated statements of operations, stockholders equity and cash flows for each of the years in the three-year period ended July 31, 2011, have been restated.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), ModusLink Global Solutions, Inc. s internal control over financial reporting as of July 31, 2012, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated January 11, 2013 expressed an adverse opinion on the effectiveness of the Company s internal control over financial reporting.

/s/ KPMG LLP

Boston, Massachusetts

January 11, 2013

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MODUSLINK GLOBAL SOLUTIONS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	July 31, 2012	2011 (As Restated)	2010 (As Restated)
ASSETS			
Current assets:			
Cash and cash equivalents	$ 52,369	$ 111,225	$ 161,364
Available-for-sale securities	131	131	270
Accounts receivable, trade, net of allowance for doubtful accounts of $344, $473, and $919 at July 31, 2012, 2011 and 2010, respectively	148,931	146,411	159,768
Inventories, net	83,990	76,883	74,096
Prepaid expenses and other current assets	10,466	10,876	14,226
Total current assets	295,887	345,526	409,724
Property and equipment, net	40,772	47,403	53,061
Investments in affiliates	10,803	12,016	13,016
Goodwill	3,058	3,058	16,207
Other intangible assets, net	2,897	4,699	24,173
Other assets	5,465	9,545	9,760
	$ 358,882	$ 422,247	$ 525,941
LIABILITIES AND STOCKHOLDERS EQUITY			
Current liabilities:			
Current installments of obligations under capital leases	$ 73	$ 94	$ 91
Accounts payable	110,520	114,588	132,098
Current portion of accrued restructuring	1,724	1,456	2,632
Accrued income taxes		180	48
Accrued expenses	41,753	36,384	45,963
Other current liabilities	26,778	38,624	47,649
Current liabilities of discontinued operations	1,528	1,817	1,791
Total current liabilities	182,376	193,143	230,272
Long-term portion of accrued restructuring		8	1,000
Obligations under capital leases, less current installments	69	86	144
Other long-term liabilities	11,012	12,585	15,722
Non-current liabilities of discontinued operations	293	1,883	3,289
Commitments and contingencies (See Note 14)			
Stockholders equity:			
Preferred stock, $0.01 par value per share. Authorized 5,000,000 shares; zero issued or outstanding as of July 31, 2012, 2011 and 2010			
Common stock, $0.01 par value per share. Authorized 1,400,000,000 shares; 43,926,622 issued and outstanding shares at July 31, 2012; 43,829,097 issued and outstanding shares at July 31, 2011; 44,039,938 issued and 43,729,338 outstanding shares at July 31, 2010	439	438	440
Additional paid-in capital	7,390,027	7,387,135	7,427,031

Treasury stock, at cost			(1,992)
Accumulated deficit	(7,236,775)	(7,198,667)	(7,164,202)
Accumulated other comprehensive income	11,441	25,636	14,237
Total stockholders equity	165,132	214,542	275,514
	$ 358,882	$ 422,247	$ 525,941

See accompanying notes to consolidated financial statements.

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MODUSLINK GLOBAL SOLUTIONS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

	Years Ended July 31,			
	2012	2011 (As Restated)	2010 (As Restated)	2009 (As Restated)
Net revenue	$ 739,891	$ 873,748	$ 918,445	$ 1,001,980
Cost of revenue	675,579	792,809	807,416	886,144
Gross profit	64,312	80,939	111,029	115,836
Operating expenses:				
Selling, general and administrative	99,409	85,187	92,855	99,938
Amortization of intangible assets	1,279	5,457	6,308	5,485
Impairment of goodwill and long-lived assets	2,062	27,166	25,800	164,682
Restructuring, net	7,455	795	(965)	19,341
Total operating expenses	110,205	118,605	123,998	289,446
Operating loss	(45,893)	(37,666)	(12,969)	(173,610)
Other income (expense):				
Interest income	380	238	298	1,493
Interest expense	(373)	(462)	(573)	(816)
Other gains (losses), net	14,431	8,882	(988)	820
Equity in losses of affiliates and impairments	(4,109)	(4,308)	(2,129)	(16,565)
	10,329	4,350	(3,392)	(15,068)
Loss from continuing operations before income taxes	(35,564)	(33,316)	(16,361)	(188,678)
Income tax expense	3,035	819	5,162	10,831
Loss from continuing operations	(38,599)	(34,135)	(21,523)	(199,509)
Discontinued operations, net of income taxes:				
Income (loss) from discontinued operations	491	(330)	(2,318)	126
Net loss	$ (38,108)	$ (34,465)	$ (23,841)	$ (199,383)
Basic and diluted loss per share:				
Loss from continuing operations	$ (0.88)	$ (0.79)	$ (0.49)	$ (4.39)
Income (loss) from discontinued operations	0.01	(0.01)	(0.05)	
Net loss	$ (0.87)	$ (0.80)	$ (0.54)	$ (4.39)
Shares used in computing basic loss per share	43,565	43,294	44,104	45,372
Shares used in computing diluted loss per share	43,565	43,294	44,104	45,372

See accompanying notes to consolidated financial statements.

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MODUSLINK GLOBAL SOLUTIONS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(in thousands, except share amounts)

	Number of Shares	Common stock	Treasury stock	Additional paid-in capital	Accumulated other comprehensive income	Accumulated deficit	Total stockholders equity
Balance at July 31, 2008, as reported	49,061,660	$ 491	$ (35,268)	$ 7,471,230	$ 19,297	$ (6,909,776)	$ 545,974
Correction of prior errors						(31,202)	(31,202)
Balance at July 31, 2008, as restated	49,061,660	$ 491	$ (35,268)	$ 7,471,230	$ 19,297	$ (6,940,978)	$ 514,772
Comprehensive loss, net of taxes:							
Net loss, as restated						(199,383)	(199,383)
Other comprehensive loss:							
Net unrealized holding loss					(1,207)		(1,207)
Pension adjustments					414		414
Foreign currency translation adjustment					(4,199)		(4,199)
Total comprehensive loss, as restated							(204,375)
Issuance of common stock pursuant to employee stock purchase plans and stock option exercises	37,593			175			175
Restricted stock grants	96,268	1		2,148			2,149
Restricted stock forfeitures	(81,738)	(1)		(334)			(335)
Share-based compensation expense				2,891			2,891
Repurchase of common stock (1,043,183 shares)			(6,812)				(6,812)
Retirement of treasury stock	(3,461,705)	(34)	38,267	(38,233)			
Balance at July 31, 2009, as restated	45,652,078	$ 457	$ (3,813)	$ 7,437,877	$ 14,305	$ (7,140,361)	$ 308,465
Comprehensive loss, net of taxes:							
Net loss, as restated						(23,841)	(23,841)
Other comprehensive loss:							
Net unrealized holding gain					98		98
Pension adjustments					(255)		(255)
Foreign currency translation adjustment					89		89
Total comprehensive loss, as restated							(23,909)
Issuance of common stock pursuant to employee stock purchase plans and stock option exercises	53,444	1		411			412
Restricted stock grants	165,438	2		1,715			1,717
Restricted stock forfeitures	(25,917)	(2)		(8)			(10)
Share-based compensation expense				2,018			2,018
Repurchase of common stock (1,550,373 shares)			(13,179)				(13,179)
Retirement of treasury stock	(1,805,105)	(18)	15,000	(14,982)			
Balance at July 31, 2010, as restated	44,039,938	$ 440	$ (1,992)	$ 7,427,031	$ 14,237	$ (7,164,202)	$ 275,514
Comprehensive loss, net of taxes:							
Net loss, as restated						(34,465)	(34,465)
Other comprehensive loss:							
Net unrealized holding loss					(73)		(73)
Pension adjustments					128		128
Foreign currency translation adjustment					11,344		11,344

Total comprehensive loss, as restated							(23,066)
Issuance of common stock pursuant to employee stock purchase plans and stock option exercises	42,807	1		207			208
Restricted stock grants	334,533	3		(3)			
Restricted stock forfeitures	(23,003)						
Share-based compensation expense				3,481			3,481
Repurchase of common stock (215,514 shares)			(1,394)				(1,394)
Retirement of treasury stock	(565,178)	(6)	3,386	(3,626)			(246)
Special dividend payment				(39,955)			(39,955)
Balance at July 31, 2011, as restated	43,829,097	$ 438	$	$ 7,387,135	$ 25,636	$ (7,198,667)	$ 214,542
Comprehensive loss, net of taxes:							
Net loss						(38,108)	(38,108)
Other comprehensive loss:							
Pension adjustments					(3,545)		(3,545)
Foreign currency translation adjustment					(10,650)		(10,650)
Total comprehensive loss							(52,303)
Issuance of common stock pursuant to employee stock purchase plans and stock option exercises	45,977			114			114
Restricted stock grants	217,359	2		(2)			
Restricted stock forfeitures	(165,811)	(1)		(187)			(188)
Share-based compensation expense				2,967			2,967
Balance at July 31, 2012	43,926,622	$ 439	$	$ 7,390,027	$ 11,441	$ (7,236,775)	$ 165,132

See accompanying notes to consolidated financial statements.

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MODUSLINK GLOBAL SOLUTIONS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Years Ended July 31,			
	2012	2011 (As Restated)	2010 (As Restated)	2009 (As Restated)
Cash flows from operating activities of continuing operations:				
Net loss	$ (38,108)	$ (34,465)	$ (23,841)	$ (199,383)
Income (loss) from discontinued operations	491	(330)	(2,318)	126
Loss from continuing operations	(38,599)	(34,135)	(21,523)	(199,509)
Adjustments to reconcile loss from continuing operations to net cash provided by (used in) operating activities of continuing operations:				
Depreciation	14,057	16,833	16,918	20,057
Impairment of goodwill and long-lived assets	2,062	27,166	25,800	164,682
Amortization of intangible assets	1,279	5,457	6,308	5,485
Share-based payments	2,990	3,481	4,154	5,103
Non-operating losses (gains)	(14,431)	(8,882)	988	(820)
Equity in losses of affiliates and impairments	4,109	4,308	2,129	16,565
Non-cash restructuring charges				389
Changes in operating assets and liabilities, excluding effects from acquisition:				
Trade accounts receivable, net	(9,755)	20,050	9,607	33,138
Inventories	(11,604)	583	(7,604)	18,737
Prepaid expenses and other current assets	(1,591)	3,906	707	(390)
Accounts payable, accrued restructuring and accrued expenses	9,086	(38,511)	2,307	(38,976)
Refundable and accrued income taxes, net	(5,766)	(3,297)	171	(168)
Other assets and liabilities	10,225	(125)	1,233	11,689
Net cash provided by (used in) operating activities of continuing operations	(37,938)	(3,166)	41,195	35,982
Cash flows from investing activities of continuing operations:				
Additions to property and equipment	(11,564)	(8,968)	(9,194)	(11,060)
Redemption (purchase) of short-term investments			10,000	(10,000)
Investments in affiliates	(2,912)	(3,473)	(3,402)	(9,533)
Proceeds from the sale of available-for-sale securities		115		
Proceeds from the sale of equity investments in affiliates	24	238	1,319	18,008
Business acquisitions, net of cash acquired			(29,580)	
Net cash used in investing activities of continuing operations	(14,452)	(12,088)	(30,857)	(12,585)
Cash flows from financing activities of continuing operations:				
Payments of dividends		(40,001)		
Repayments on capital lease obligations	(124)	(106)	(524)	(408)
Line of credit origination costs			(782)	
Proceeds from revolving line of credit	10,000			
Repayments on revolving line of credit	(10,000)			
Proceeds from issuance of common stock	91	204	331	113
Repurchase of common stock	(188)	(1,633)	(13,521)	(7,137)

Net cash used in financing activities of continuing operations	(221)	(41,536)	(14,496)	(7,432)
Cash flows from discontinued operations:				
Operating cash flows	(1,501)	(1,713)	(1,723)	(2,276)
Net cash used in discontinued operations	(1,501)	(1,713)	(1,723)	(2,276)
Net effect of exchange rate changes on cash and cash equivalents	(4,744)	8,364	(1,522)	(5,507)
Net increase (decrease) in cash and cash equivalents	(58,856)	(50,139)	(7,403)	8,182
Cash and cash equivalents at beginning of year	111,225	161,364	168,767	160,585
Cash and cash equivalents at end of year	$ 52,369	$ 111,225	$ 161,364	$ 168,767

See accompanying notes to consolidated financial statements.

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MODUSLINK GLOBAL SOLUTIONS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) NATURE OF OPERATIONS

ModusLink Global Solutions, Inc. (together with its consolidated subsidiaries, ModusLink Global Solutions or the Company), through its wholly-owned subsidiaries, ModusLink Corporation (ModusLink), ModusLink PTS, Inc. (ModusLink PTS), and Tech for Less, LLC (TFL), is a leader in global supply chain business process management serving clients in markets such as consumer electronics, communications, computing, medical devices, software, luxury goods and retail. 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 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.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements reflect the application of certain significant accounting policies described below.

Principles of Consolidation

The accompanying consolidated financial statements of the Company include the results of its wholly-owned and majority-owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation. The Company accounts for investments in businesses in which it owns between 20% and 50% of the voting interest using the equity method, if the Company has the ability to exercise significant influence over the investee company. All other investments for which the Company does not have the ability to exercise significant influence or for which there is not a readily determinable market value, are accounted for under the cost method of accounting.

Use of Estimates

The preparation of the Company s consolidated financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. On an ongoing basis the Company evaluates its estimates including those related to revenue recognition, inventories, investments, intangible assets, income taxes, restructuring, valuation of long-lived assets, impairments, contingencies and litigation. Accounting estimates are based on historical experience and various assumptions that are considered reasonable under the circumstances. However, because these estimates inherently involve judgments and uncertainties, actual results could differ materially from those estimated.

Revenue Recognition

The Company s revenue primarily comes from the sale of supply chain management services to our clients. Amounts billed to clients under these arrangements include revenue attributable to the services performed as well as for materials procured on our clients behalf as part of our service to them. Other sources of revenue include the sale of products and other services. Revenue is recognized for services when the services are performed and for product sales when the products are shipped assuming all other applicable revenue recognition criteria are met.

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The Company recognizes revenue in accordance with the provisions of the Accounting Standards Codification (ASC) Topic 605, Revenue Recognition (ASC Topic 605). Specifically, the Company recognizes revenue when persuasive evidence of an arrangement exists, title and risk of loss have passed or services have been rendered, the sales price is fixed or determinable and collection of the related receivable is reasonably assured. The Company s standard sales terms are FOB shipping point, which means that risk of loss passes to the client when it is shipped from the Company s location. The Company also evaluates the terms of each major client contract relative to a number of criteria that management considers in making its determination with respect to gross versus net reporting of revenue for transactions with its clients. Management s criteria for making these judgments place particular emphasis on determining the primary obligor in a transaction and which party bears general inventory risk. The Company records all shipping and handling fees billed to clients as revenue, and related costs as cost of sales, when incurred.

The Company applies the provisions of ASC Topic 985, Software (ASC Topic 985), with respect to certain transactions involving the sale of software products by our e-Business operations.

The Company also follows the guidance of ASC Topic 605 for determining whether an arrangement involving more than one deliverable contains more than one unit of accounting and how the arrangement consideration should be measured and allocated to the separate units of accounting. On August 1, 2010, the Company adopted guidance issued by the Financial Accounting Standards Board (FASB) on revenue recognition. Under the new guidance, when vendor specific objective evidence or third party evidence for deliverables in an arrangement cannot be determined, a best estimate of the selling price is required to separate deliverables and allocate arrangement consideration using the relative selling price method. The new guidance includes new disclosure requirements on how the application of the relative selling price method affects the timing and amount of revenue recognition. Adoption of the new guidance did not have a material impact on our financial statements. For those contracts which contain multiple deliverables, management must first determine whether each service, or deliverable, meets the separation criteria. In general, a deliverable (or a group of deliverables) meets the separation criteria if the deliverable has standalone value to the client. Each deliverable that meets the separation criteria is considered a separate unit of accounting. Management allocates the total arrangement consideration to each separate unit of accounting based on the relative selling price of each separate unit of accounting. After the arrangement consideration has been allocated to each separate unit of accounting, management applies the appropriate revenue recognition method for each separate unit of accounting as described previously based on the nature of the arrangement. All deliverables that do not meet the separation criteria are combined into one unit of accounting and the appropriate revenue recognition method is applied.

Foreign Currency Translation

All assets and liabilities of the Company s foreign subsidiaries, whose functional currency is the local currency, are translated to U.S. dollars at the rates in effect at the balance sheet date. All amounts in the Consolidated Statement of Operations are translated using the average exchange rates in effect during the year. Resulting translation adjustments are reflected in the accumulated other comprehensive income (loss) component of stockholders equity. Settlement of receivables and payables in a foreign currency that is not the functional currency result in foreign currency transaction gains and losses. Foreign currency transaction gains and losses are included in Other gains (losses), net in the Consolidated Statement of Operations.

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 to twelve months at the time of purchase are considered short-term investments.

Fair Value of Financial Instruments

The carrying value of cash and cash equivalents, accounts receivable, accounts payable, current liabilities and the revolving line of credit approximate fair value because of the short maturity 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.

Investments

Marketable securities held by the Company which meet the criteria for classification as available-for-sale are carried at fair value. Unrealized holding gains and losses on securities classified as available-for-sale are carried net of income taxes, when applicable, as a component of accumulated other comprehensive income (loss) in the Consolidated Statements of Stockholders Equity.

The Company maintains interests in several privately held companies primarily through its various venture capital funds. The Company s venture capital investment portfolio, @Ventures, invests in early-stage technology companies. These investments are generally made in connection with a round of financing with other third-party investors. 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. The Company s share of net income or losses of the investee are reflected in Equity in losses of affiliates and impairments in the Company s Consolidated Statement of Operations.

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. This valuation process is based primarily on information that the Company obtains from these privately held companies who are not subject to the same disclosure and audit requirements as the reports required of U.S. public companies. As such, the timeliness and completeness of the data may vary. Based on the Company s evaluation, it recorded impairment charges related to its investments in privately held companies of approximately $2.9 million, $2.5 million, $0.3 million, and $16.8 million for the fiscal years ended 2012, 2011, 2010, and 2009, respectively. These impairment losses are reflected in Equity in losses of affiliates and impairments in the Company s Consolidated Statements of Operations.

At the time an equity method investee issues its stock to unrelated parties, the Company accounts for that share issuance as if the Company has sold a proportionate share of its investment. The Company records any gain or loss resulting from an equity method investee s share issuance in its Consolidated Statement of Operations.

Inventory

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, power cords and cables for client-owned electronic devices.

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Inventories consisted of the following:

	July 31,		
	2012	2011 (As Restated)	2010
	(in thousands)		
Raw materials	$ 56,198	$ 46,940	$ 49,591
Work-in-process	2,154	2,101	2,006
Finished goods	25,638	27,842	22,499
	$ 83,990	$ 76,883	$ 74,096

The Company values the inventory at the lower of cost or market. The Company continuously monitors inventory balances and records inventory provisions for any excess of the cost of the inventory over its estimated market value. The Company also monitors inventory balances for obsolescence and excess quantities as compared to projected demands. The Company s inventory methodology is based on assumptions about average shelf life of inventory, forecasted volumes, forecasted selling prices, write-down history of inventory and market conditions. While such assumptions may change from period to period, in determining the net realizable value of its inventories, the Company uses the best information available as of the balance sheet date. If actual market conditions are less favorable than those projected, or the Company experiences a higher incidence of inventory obsolescence because of rapidly changing technology and client requirements, additional inventory provisions may be required. Once established, write-downs of inventory are considered permanent adjustments to the cost basis of inventory and cannot be reversed due to subsequent increases in demand forecasts. Accordingly, if inventory previously written down to its net realizable value is subsequently sold, gross profit margins would be favorably impacted.

As previously discussed, the restated financial statements also include adjustments to correct certain other immaterial errors, including previously unrecorded immaterial adjustments identified in audits of prior years financial statements. As of July 31, 2011, the Company recorded a $0.2 million reduction in its raw materials inventory balance which resulted from an understatement of the Company s inventory reserve balance.

Long-Lived Assets, Goodwill and Other Intangible Assets

The Company follows ASC Topic 360, Property, Plant, and Equipment (ASC Topic 360). Under ASC Topic 360, the Company tests certain long-lived assets or group of assets for recoverability whenever events or changes in circumstances indicate that the Company may not be able to recover the asset s carrying amount. ASC Topic 360 defines impairment as the condition that exists when the carrying amount of a long-lived asset or group, including property and equipment and other intangible assets, exceeds its fair value. The Company evaluates recoverability by determining whether the undiscounted cash flows expected to result from the use and eventual disposition of that asset or group cover the carrying value at the evaluation date. If the undiscounted cash flows are not sufficient to cover the carrying value, the Company measures an impairment loss as the excess of the carrying amount of the long-lived asset or group over its fair value. Management may use third party valuation experts to assist in its determination of fair value.

The Company is required to test goodwill for impairment annually or if a triggering event occurs in accordance with the provisions of ASC Topic 350, Goodwill and Other (ASC Topic 350). The Company s policy is to perform its annual impairment testing for all reporting units, determined to be the Americas, Europe, Asia, e-Business, ModusLink PTS and TFL operating segments, on July 31 of each fiscal year.

The Company s valuation methodology for assessing impairment of long-lived assets, goodwill and other intangible assets requires management to make judgments and assumptions based on historical experience and on projections of future operating performance. Management may use third party valuation advisors to assist in its

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determination of the fair value of reporting units subject to impairment testing. The Company operates in highly competitive environments and projections of future operating results and cash flows may vary significantly from actual results. If our assumptions used in estimating our valuations of the Company s reporting units for purposes of impairment testing differ materially from actual future results, the Company may record impairment charges in the future and our financial results may be materially adversely affected.

Restructuring Expenses

The Company follows the provisions of ASC Topic 420, Exit or Disposal Cost Obligations (ASC Topic 420) which addresses financial accounting and reporting for costs associated with exit or disposal activities. The statement requires companies to recognize costs associated with exit or disposal activities when a liability has been incurred rather than at the date of a commitment to an exit or disposal plan. The Company records liabilities that primarily include estimated severance and other costs related to employee benefits and certain estimated costs related to equipment and facility lease obligations and other service contracts. These contractual obligations principally represent future obligations under non-cancelable real estate leases. Restructuring estimates relating to real estate leases involve consideration of a number of factors including: potential sublet rental rates, estimated vacancy period for the property, brokerage commissions and certain other costs. Estimates relating to potential sublet rates and expected vacancy periods are most likely to have a material impact on the Company s results of operations in the event that actual amounts differ significantly from estimates. These estimates involve judgment and uncertainties, and the settlement of these liabilities could differ materially from recorded amounts.

Property and Equipment

Property, plant and equipment are stated at cost. Depreciation and amortization is provided on the straight-line basis over the estimated useful lives of the respective assets. Leasehold improvements are amortized on a straight-line basis over the lesser of the estimated useful life of the asset or the lease term. The Company capitalizes certain computer software development costs when incurred in connection with developing or obtaining computer software for internal use. The estimated useful lives are as follows:

Buildings	32 years
Machinery & equipment	3 to 5 years
Furniture & fixtures	5 to 7 years
Automobiles	5 years
Leasehold improvements	5 to 7 years
Software	3 to 8 years

Maintenance and repairs are charged to operating expenses as incurred. Major renewals and betterments are added to property and equipment accounts at cost.

Income Taxes

Income taxes are accounted for under the provisions of ASC Topic 740, Income Taxes (ASC Topic 740), using the asset and liability method whereby deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. ASC Topic 740 also requires that the deferred tax assets be reduced by a valuation allowance, if based on the weight of available evidence, it is more likely than not that some portion or all of the recorded deferred tax assets will not be realized in future periods. This methodology is subjective and requires significant estimates and judgments in the determination of the recoverability of deferred tax assets and in the calculation of certain tax liabilities.

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In accordance with ASC Topic 740, the Company applies the criteria that an individual tax position must satisfy for some or all of the benefits of that position to be recognized in a company s financial statements. ASC Topic 740 prescribes a recognition threshold of more-likely-than-not, and a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order for those tax positions to be recognized in the financial statements. In accordance with the Company s accounting policy, interest and penalties related to uncertain tax positions is included in the provision of income taxes line of the Consolidated Statement of Operations. See Note 17, Income Taxes, for additional information.

Treasury Stock

Treasury stock is accounted for under the cost method and is included as a deduction from equity in the Stockholders Equity section of the Consolidated Balance Sheets.

Earnings (Loss) Per Share

The Company calculates earnings per share in accordance with ASC Topic 260, Earnings per Share. The Company adopted ASC Topic 260-10, formerly FASB Staff Position EITF No. 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities effective August 1, 2009. Under ASC Topic 260-10, unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. All of the Company s nonvested shares are considered participating securities because they contain non-forfeitable rights to dividends. However, holders of nonvested shares do not have an obligation to fund losses, and therefore, are only allocated a portion of the earnings for the earnings per share calculation when the Company reports net income.

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 fiscal years ended July 31, 2012, 2011, 2010 and 2009.

	Years Ended July 31,			
	2012	2011 (As Restated)	2010 (As Restated)	2009 (As Restated)
	(In thousands)			
BASIC				
Loss from continuing operations	$ (38,599)	$ (34,135)	$ (21,523)	$ (199,509)
Income (loss) from discontinued operations	491	(330)	(2,318)	126
Less net income allocable to participating restricted stock				
Net loss available for basic common shares	$ (38,108)	$ (34,465)	$ (23,841)	$ (199,383)
Weighted average common shares outstanding	43,565	43,294	44,104	45,372
Basic net loss per common share from continuing operations	$ (0.88)	$ (0.79)	$ (0.49)	$ (4.39)
Basic net income (loss) per common share from discontinued operations	0.01	(0.01)	(0.05)	
Basic net loss per common share	$ (0.87)	$ (0.80)	$ (0.54)	$ (4.39)

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	2012	2011 (As Restated)	2010 (As Restated)	2009 (As Restated)
		Years Ended July 31, (In thousands)		
DILUTED				
Loss from continuing operations	$ (38,599)	$ (34,135)	$ (21,523)	$ (199,509)
Income (loss) from discontinued operations	491	(330)	(2,318)	126
Less net income allocable to participating restricted stock				
Net loss available for diluted common shares	$ (38,108)	$ (34,465)	$ (23,841)	$ (199,383)
Weighted average common shares outstanding	43,565	43,294	44,104	45,372
Weighted average common equivalent shares arising from: dilutive stock options				
Weighted-average number of common and potential common shares	43,565	43,294	44,104	45,372
Diluted net loss per common share from continuing operations	$ (0.88)	$ (0.79)	$ (0.49)	$ (4.39)
Diluted net income (loss) per common share from discontinued operations	0.01	(0.01)	(0.05)	
Diluted net loss per common share	$ (0.87)	$ (0.80)	$ (0.54)	$ (4.39)

Approximately 2.9 million, 3.2 million, 2.1 million, and 2.4 million common stock equivalent shares were excluded from the denominator in the calculation of diluted earnings per share for the fiscal years ended July 31, 2012, 2011, 2010 and 2009, respectively, as the Company has recorded a net loss for those periods.

Share-Based Compensation Plans

The Company recognizes share-based compensation in accordance with the provisions of ASC Topic 718, Compensation Stock Compensation (ASC Topic 718) which requires the measurement and recognition of compensation expense for all share- based payment awards made to employees and directors including employee stock options and employee stock purchases based on estimated fair values.

The Company estimates the fair value of share-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods. The Company estimates forfeitures at the time of grant and revises those estimates, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

The Company uses a binomial-lattice option-pricing model (binomial-lattice model) for valuation of share-based awards. The Company believes that the binomial-lattice model is an accurate model for valuing employee stock options since it reflects the impact of stock price changes on option exercise behavior. The Company uses third party analyses to assist in developing the assumptions used in its binomial-lattice model and the resulting fair value used to record compensation expense. The Company s determination of fair value of share-based payment awards on the date of grant using an option-pricing model is affected by the Company s stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to the Company s expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviors. Any changes in these assumptions may materially affect the estimated fair value of the share-based award.

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Major Clients and Concentration of Credit Risk

Sales to one client, Hewlett-Packard accounted for approximately 31%, 28%, and 30% 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 July 31, 2009. To manage risk, the Company performs ongoing credit evaluations of its clients financial condition. The Company generally does not require collateral on accounts receivable. The Company maintains an allowance for doubtful accounts based on its assessment of the collectability of accounts receivable.

Financial instruments which potentially subject the Company to concentrations of credit risk are cash, cash equivalents, available-for-sale securities and accounts receivable. The Company s cash equivalent portfolio is diversified and consists primarily of short-term investment grade securities placed with high credit quality financial institutions.

Derivative Instruments and Hedging Activities

The Company periodically enters into forward foreign currency exchange rate contracts to manage exposures to certain foreign currencies. The fair value of the Company s foreign currency exchange rate contracts would be estimated based on the foreign currency exchange rates as of July 31, 2012. The Company s policy does not allow for the use of derivatives for trading or speculative purposes.

The Company believes that its forward foreign currency exchange rate contracts economically function as effective hedges of the underlying exposures; however, the forward foreign currency exchange rate contracts do not meet the specific criteria for hedge accounting defined in ASC Topic 815, Derivatives and Hedging (ASC Topic 815), thus requiring the Company to record all changes in the fair value of these contracts in earnings in the period of the change. Unrealized gains or losses are included in Other gains (losses), net in the Company s Consolidated Statements of Operations and these amounts.

During fiscal year 2011 the Company had a foreign currency exchange contract. As a result of the change in fair value on this foreign currency exchange contract, the Company recorded a loss of approximately $0.1 million. The Company had no outstanding foreign currency exchange contracts as of July 31, 2012 and 2011.

Recent Accounting Pronouncements

In December 2011, the Financial Accounting Standards Board (FASB) issued a final standard to defer the new requirement to present components of reclassifications of other comprehensive income on the face of the income statement. This update allows entities to continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before Accounting Standard Update (ASU) 2011-05, Presentation of Comprehensive Income . All other requirements included within ASU 2011-05 are not affected and entities must report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. The effective date of this update is for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company believes adoption of this new guidance will not have a material impact on the Company s financial statements as these updates have an impact on presentation only.

In September 2011, the FASB issued ASU 2011-08, Intangibles Goodwill and Other (Topic 350): Testing Goodwill for Impairment which is intended to reduce the complexity and costs related to testing goodwill for impairment. ASU 2011-08 allows an entity the option to make a qualitative evaluation about the likelihood of goodwill impairment in order to determine whether it is necessary to perform the two-step quantitative goodwill impairment test already included in Topic 350. An entity will no longer be required to calculate the fair value of a reporting unit unless the entity determines, based on its qualitative assessment, that it is more likely than not that the fair value of the reporting unit is less than its carrying amount. ASU 2011-08 also expands upon the examples of events and circumstances that an entity should consider between annual impairment tests in determining whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The amended guidance became effective for the Company on August 1, 2012. We do not anticipate that this new guidance will have a material impact on our financial statements.

In June 2011, the FASB issued guidance on the presentation of comprehensive income. The new guidance eliminates the current option to report other comprehensive income and its components in the statement of stockholders equity. Instead, an entity will be required to present either a continuous statement of net income and other comprehensive income or two separate but consecutive statements. The new guidance became effective for the Company on August 1, 2012. The Company believes adoption of this new guidance will not have a material impact on the Company s financial statements as this update has an impact on presentation only.

In May 2011, the FASB issued guidance to amend the accounting and disclosure requirements on fair value measurements. The new guidance limits the highest-and-best-use measure to nonfinancial assets, permits certain financial assets and liabilities with offsetting positions in market or counterparty credits risks to be measured at a net basis, and provides guidance on the applicability of premiums and discounts. Additionally, the new guidance expands the disclosures on Level 3 inputs by requiring quantitative disclosure of the unobservable inputs and assumptions, as well as description of the valuation processes and the sensitivity of the fair value changes in unobservable inputs. The new guidance became effective for the Company on February 1, 2012. Other than requiring additional disclosures, we do not anticipate material impacts on our financial statements upon adoption.

(3) RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS
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). Concurrent with the SEC Inquiry, the Audit Committee of the Company s Board of Directors commenced an internal investigation of the Company s practice with regard to rebates received from vendors.

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.

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. 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.

As previously reported in the Company s Current Report on Form 8-K dated June 9, 2012, the Audit Committee, in consultation with management and the Board of Directors, concluded that the Company s previously issued financial statements for the fiscal years ended July 31, 2009 through 2011 and the first two quarters of fiscal year 2012, and selected unaudited financial data for fiscal years 2007 and 2008, should no longer be relied upon. Accordingly, the Company s accompanying consolidated financial statements for the fiscal years ended July 31, 2011, 2010 and 2009 have been restated.

Several principal adjustments were made to historic financial statements as a result of the restatement. 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. When, and to the extent that, the Company is able to conclude that the accrued pricing 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, respectively. 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.

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.

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In the tables appearing in these 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.

The restatement adjustments decreased revenue by $2.7 million, increased net income by $14.6 million and increased basic and diluted earnings per share by $0.33 for the fiscal year ended July 31, 2011. These restatement adjustments decreased revenue by $5.6 million, decreased net income by $6.0 million and decreased basic and diluted earnings per share by $0.14 for the fiscal year ended July 31, 2010. These restatement adjustments decreased revenue by $6.6 million, decreased net income by $5.9 million and decreased basic and diluted earnings per share by $0.13 for the fiscal year ended July 31, 2009.

Certain of the adjustments described above also affected periods prior to July 31, 2010. The cumulative effect of those restatement adjustments on years prior to fiscal year 2010 has been restated as a $37.1 million increase to beginning accumulated deficit from $7,103.2 million to $7,140.3 million for fiscal year 2010, set forth below.

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MODUSLINK GLOBAL SOLUTIONS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

July 31, 2011

(in thousands, except share data)

	As Previously Reported	Restatement Pricing Adjustments	Restatement Other Adjustments	As Restated
ASSETS				
Current assets:				
Cash and cash equivalents	$ 111,225	$	$	$ 111,225
Available-for-sale securities	131			131
Accounts receivable, trade, net of allowance for doubtful accounts of $473	146,411			146,411
Inventories, net	77,102		(219)	76,883
Prepaid expenses and other current assets	10,876			10,876
Total current assets	345,745		(219)	345,526
Property and equipment, net	47,299		104	47,403
Investments in affiliates	12,016			12,016
Goodwill	3,058			3,058
Other intangible assets, net	4,699			4,699
Other assets	9,545			9,545
Total assets	$ 422,362	$	$ (115)	$ 422,247
LIABILITIES AND STOCKHOLDERS EQUITY				
Current liabilities:				
Current installments of obligations under capital leases	$ 43	$	$ 51	$ 94
Accounts payable	114,588			114,588
Current portion of accrued restructuring	1,456			1,456
Accrued income taxes	180			180
Accrued expenses	36,384			36,384
Other current liabilities	7,029	30,706	889	38,624
Current liabilities of discontinued operations	1,817			1,817
Total current liabilities	161,497	30,706	940	193,143
Long-term portion of accrued restructuring	8			8
Obligations under capital leases, less current installments	22		64	86
Other long-term liabilities	15,773		(3,188)	12,585
Non-current liabilities of discontinued operations	1,883			1,883
Total liabilities	179,183	30,706	(2,184)	207,705
Stockholders equity:				
Preferred stock, $0.01 par value per share. Authorized 5,000,000 shares; zero issued or outstanding				
	438			438

Common stock, $0.01 par value per share. Authorized 1,400,000,000 shares; 43,829,097 issued and outstanding shares				
Additional paid-in capital	7,387,135			7,387,135
Treasury stock, at cost				
Accumulated deficit	(7,170,030)	(30,706)	2,069	(7,198,667)
Accumulated other comprehensive income	25,636			25,636
Total stockholders equity	243,179	(30,706)	2,069	214,542
Total liabilities and stockholders equity	$ 422,362	$	$ (115)	$ 422,247

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MODUSLINK GLOBAL SOLUTIONS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

July 31, 2010

(in thousands, except share data)

	As Previously Reported	Restatement Pricing Adjustments	Restatement Other Adjustments	As Restated
ASSETS				
Current assets:				
Cash and cash equivalents	$ 161,364	$	$	$ 161,364
Available-for-sale securities	270			270
Accounts receivable, trade, net of allowance for doubtful accounts of $919	159,768			159,768
Inventories, net	74,096			74,096
Prepaid expenses and other current assets	14,226			14,226
Total current assets	409,724			409,724
Property and equipment, net	52,906		155	53,061
Investments in affiliates	13,016			13,016
Goodwill	16,207			16,207
Other intangible assets, net	24,173			24,173
Other assets	9,760			9,760
Total assets	$ 525,786	$	$ 155	$ 525,941
LIABILITIES AND STOCKHOLDERS EQUITY				
Current liabilities:				
Current installments of obligations under capital leases	$ 40	$	$ 51	$ 91
Accounts payable	132,098			132,098
Current portion of accrued restructuring	2,632			2,632
Accrued income taxes	48			48
Accrued expenses	45,729		234	45,963
Other current liabilities	4,773	42,282	594	47,649
Current liabilities of discontinued operations	1,791			1,791
Total current liabilities	187,111	42,282	879	230,272
Long-term portion of accrued restructuring	1,000			1,000
Obligations under capital leases, less current installments	29		115	144
Other long-term liabilities	15,656		66	15,722
Non-current liabilities of discontinued operations	3,289			3,289
Total liabilities	207,085	42,282	1,060	250,427
Stockholders equity:				
Preferred stock, $0.01 par value per share. Authorized 5,000,000 shares; zero issued or outstanding				
	440			440

Common stock, $0.01 par value per share. Authorized 1,400,000,000 shares; 44,039,938 issued and 43,729,338 outstanding shares				
Additional paid-in capital	7,427,031			7,427,031
Treasury stock, at cost	(1,992)			(1,992)
Accumulated deficit	(7,121,015)	(42,282)	(905)	(7,164,202)
Accumulated other comprehensive income	14,237			14,237
Total stockholders equity	318,701	(42,282)	(905)	275,514
Total liabilities and stockholders equity	$ 525,786	$	$ 155	$ 525,941

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MODUSLINK GLOBAL SOLUTIONS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

Year Ended July 31, 2011

(in thousands, except per share amounts)

	As Previously Reported	Restatement Pricing Adjustments	Restatement Other Adjustments	As Restated
Net revenue	$ 876,466	$ (1,969)	$ (749)	$ 873,748
Cost of revenue	792,833		(24)	792,809
Gross profit	83,633	(1,969)	(725)	80,939
Operating expenses:				
Selling, general and administrative	85,187			85,187
Amortization of intangible assets	5,457			5,457
Impairment of goodwill and long-lived assets	27,166			27,166
Restructuring, net	795			795
Total operating expenses	118,605			118,605
Operating income (loss)	(34,972)	(1,969)	(725)	(37,666)
Other income (expense):				
Interest income	238			238
Interest expense	(453)		(9)	(462)
Other gains (losses), net	(4,663)	13,545		8,882
Equity in losses of affiliates and impairments	(4,308)			(4,308)
	(9,186)	13,545	(9)	4,350
Income (loss) from continuing operations before income taxes	(44,158)	11,576	(734)	(33,316)
Income tax expense (benefit)	4,527		(3,708)	819
Income (loss) from continuing operations	(48,685)	11,576	2,974	(34,135)
Discontinued operations, net of income taxes:				
Income (loss) from discontinued operations	(330)			(330)
Net income (loss)	$ (49,015)	$ 11,576	$ 2,974	$ (34,465)
Basic and diluted loss per share				
Loss from continuing operations	$ (1.12)	$ 0.26	$ 0.07	$ (0.79)
Loss from discontinued operations	$ (0.01)	$	$	$ (0.01)
Net loss	$ (1.13)	$ 0.26	$ 0.07	$ (0.80)
Shares used in computing basic loss per share	43,294			43,294
Shares used in computing diluted loss per share	43,294			43,294

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MODUSLINK GLOBAL SOLUTIONS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

Year Ended July 31, 2010

(in thousands, except per share amounts)

	As Previously Reported	Restatement Pricing Adjustments	Restatement Other Adjustments	As Restated
Net revenue	$ 923,996	$ (4,891)	$ (660)	$ 918,445
Cost of revenue	807,393		23	807,416
Gross profit	116,603	(4,891)	(683)	111,029
Operating expenses:				
Selling, general and administrative	92,855			92,855
Amortization of intangible assets	6,308			6,308
Impairment of goodwill and long-lived assets	25,800			25,800
Restructuring, net	(1,433)		468	(965)
Total operating expenses	123,530		468	123,998
Operating income (loss)	(6,927)	(4,891)	(1,151)	(12,969)
Other income (expense):				
Interest income	298			298
Interest expense	(561)		(12)	(573)
Other gains (losses), net	(988)			(988)
Equity in losses of affiliates and impairments	(2,129)			(2,129)
	(3,380)		(12)	(3,392)
Income (loss) from continuing operations before income taxes	(10,307)	(4,891)	(1,163)	(16,361)
Income tax expense (benefit)	5,162			5,162
Income (loss) from continuing operations	(15,469)	(4,891)	(1,163)	(21,523)
Discontinued operations, net of income taxes:				
Income (loss) from discontinued operations	(2,318)			(2,318)
Net income (loss)	$ (17,787)	$ (4,891)	$ (1,163)	$ (23,841)
Basic and diluted loss per share				
Loss from continuing operations	$ (0.35)	$ (0.11)	$ (0.03)	$ (0.49)
Loss from discontinued operations	(0.05)			(0.05)
Net loss	$ (0.40)	$ (0.11)	$ (0.03)	$ (0.54)
Shares used in computing basic loss per share	44,104			44,104
Shares used in computing diluted loss per share	44,104			44,104

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MODUSLINK GLOBAL SOLUTIONS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

Year Ended July 31, 2009

(in thousands, except per share amounts)

	As Previously Reported	Restatement Pricing Adjustments	Restatement Other Adjustments	As Restated
Net revenue	$ 1,008,554	$ (6,574)	$	$ 1,001,980
Cost of revenue	886,119		25	886,144
Gross profit	122,435	(6,574)	(25)	115,836
Operating expenses:				
Selling, general and administrative	100,409		(471)	99,938
Amortization of intangible assets	5,485			5,485
Impairment of goodwill and long-lived assets	164,682			164,682
Restructuring, net	19,552		(211)	19,341
Total operating expenses	290,128		(682)	289,446
Operating income (loss)	(167,693)	(6,574)	657	(173,610)
Other income (expense):				
Interest income	1,493			1,493
Interest expense	(802)		(14)	(816)
Other gains (losses), net	820			820
Equity in losses of affiliates and impairments	(16,565)			(16,565)
	(15,054)		(14)	(15,068)
Income (loss) from continuing operations before income taxes	(182,747)	(6,574)	643	(188,678)
Income tax expense (benefit)	10,831			10,831
Income (loss) from continuing operations	(193,578)	(6,574)	643	(199,509)
Discontinued operations, net of income taxes:				
Income (loss) from discontinued operations	126			126
Net income (loss)	$ (193,452)	$ (6,574)	$ 643	$ (199,383)
Basic and diluted loss per share				
Loss from continuing operations	$ (4.26)	$ (0.14)	$ 0.01	$ (4.39)
Loss from discontinued operations				
Net loss	$ (4.26)	$ (0.14)	$ 0.01	$ (4.39)
Shares used in computing basic loss per share	45,372			45,372
Shares used in computing diluted loss per share	45,372			45,372

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MODUSLINK GLOBAL SOLUTIONS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended July 31, 2011

(in thousands)

	As Previously Reported	Restatement Pricing Adjustments	Restatement Other Adjustments	As Restated
Cash flows from operating activities of continuing operations:				
Net loss	$ (49,015)	$ 11,576	$ 2,974	$ (34,465)
Income (loss) from discontinued operations	(330)			(330)
Loss from continuing operations	(48,685)	11,576	2,974	(34,135)
Adjustments to reconcile loss from continuing operations to net cash provided by (used in) operating activities of continuing operations:				
Depreciation	16,782		51	16,833
Impairment of goodwill and long-lived assets	27,166			27,166
Amortization of intangible assets	5,457			5,457
Share-based payments	3,481			3,481
Non-operating losses (gains)	4,663	(13,545)		(8,882)
Equity in losses of affiliates and impairments	4,308			4,308
Changes in operating assets and liabilities, excluding effects from acquisition:				
Trade accounts receivable, net	20,050			20,050
Inventories	364		219	583
Prepaid expenses and other current assets	3,906			3,906
Accounts payable, accrued restructuring and accrued expenses	(38,277)		(234)	(38,511)
Refundable and accrued income taxes, net	411		(3,708)	(3,297)
Other assets and liabilities	(2,843)	1,969	749	(125)
Net cash provided by (used in) operating activities of continuing operations	(3,217)		51	(3,166)
Cash flows from investing activities of continuing operations:				
Additions to property and equipment	(8,968)			(8,968)
Investments in affiliates	(3,473)			(3,473)
Proceeds from the sale of available-for-sale securities	115			115
Proceeds from the sale of equity investments in affiliates	238			238
Net cash used in investing activities of continuing operations	(12,088)			(12,088)
Cash flows from financing activities of continuing operations:				
Payments of dividends	(40,001)			(40,001)
Repayments on capital lease obligations	(55)		(51)	(106)
Proceeds from issuance of common stock	204			204
Repurchase of common stock	(1,633)			(1,633)
Net cash used in financing activities of continuing operations	(41,485)		(51)	(41,536)
Cash flows from discontinued operations:				
Operating cash flows	(1,713)			(1,713)

Net cash used in discontinued operations	(1,713)			(1,713)
Net effect of exchange rate changes on cash and cash equivalents	8,364			8,364
Net decrease in cash and cash equivalents	(50,139)			(50,139)
Cash and cash equivalents at beginning of year	161,364			161,364
Cash and cash equivalents at end of year	$ 111,225	$	$	$ 111,225

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MODUSLINK GLOBAL SOLUTIONS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended July 31, 2010

(in thousands)

	As Previously Reported	Restatement Pricing Adjustments	Restatement Other Adjustments	As Restated
Cash flows from operating activities of continuing operations:				
Net loss	$ (17,787)	$ (4,891)	$ (1,163)	$ (23,841)
Income (loss) from discontinued operations	(2,318)			(2,318)
Loss from continuing operations	(15,469)	(4,891)	(1,163)	(21,523)
Adjustments to reconcile loss from continuing operations to net cash provided by (used in) operating activities of continuing operations:				
Depreciation	16,867		51	16,918
Impairment of goodwill and long-lived assets	25,800			25,800
Amortization of intangible assets	6,308			6,308
Share-based payments	4,154			4,154
Non-operating losses (gains)	988			988
Equity in losses of affiliates and impairments	2,129			2,129
Changes in operating assets and liabilities, excluding effects from acquisition:				
Trade accounts receivable, net	9,607			9,607
Inventories	(7,604)			(7,604)
Prepaid expenses and other current assets	707			707
Accounts payable, accrued restructuring and accrued expenses	1,807		500	2,307
Refundable and accrued income taxes, net	171			171
Other assets and liabilities	(4,317)	4,891	659	1,233
Net cash provided by (used in) operating activities of continuing operations	41,148		47	41,195
Cash flows from investing activities of continuing operations:				
Additions to property and equipment	(9,194)			(9,194)
Redemption (purchase) of short-term investments	10,000			10,000
Investments in affiliates	(3,402)			(3,402)
Proceeds from the sale of equity investments in affiliates	1,319			1,319
Business acquisitions, net of cash acquired	(29,580)			(29,580)
Net cash used in investing activities of continuing operations	(30,857)			(30,857)
Cash flows from financing activities of continuing operations:				
Repayments on capital lease obligations	(477)		(47)	(524)
Line of credit origination costs	(782)			(782)
Proceeds from issuance of common stock	331			331
Repurchase of common stock	(13,521)			(13,521)
Net cash used in financing activities of continuing operations	(14,449)		(47)	(14,496)

Cash flows from discontinued operations:				
Operating cash flows	(1,723)			(1,723)
Net cash used in discontinued operations	(1,723)			(1,723)
Net effect of exchange rate changes on cash and cash equivalents	(1,522)			(1,522)
Net decrease in cash and cash equivalents	(7,403)			(7,403)
Cash and cash equivalents at beginning of year	168,767			168,767
Cash and cash equivalents at end of year	$ 161,364	$	$	$ 161,364

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MODUSLINK GLOBAL SOLUTIONS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended July 31, 2009

(in thousands)

	As Previously Reported	Restatement Pricing Adjustments	Restatement Other Adjustments	As Restated
Cash flows from operating activities of continuing operations:				
Net loss	$ (193,452)	$ (6,574)	$ 643	(199,383)
Income (loss) from discontinued operations	126			126
Loss from continuing operations	(193,578)	(6,574)	643	(199,509)
Adjustments to reconcile loss from continuing operations to net cash provided by (used in) operating activities of continuing operations:				
Depreciation	20,012		45	20,057
Impairment of goodwill and long-lived assets	164,682			164,682
Amortization of intangible assets	5,485			5,485
Share-based payments	5,103			5,103
Non-operating losses (gains)	(820)			(820)
Equity in losses of affiliates and impairments	16,565			16,565
Non-cash restructuring charges	389			389
Changes in operating assets and liabilities, excluding effects from acquisition:				
Trade accounts receivable, net	33,138			33,138
Inventories	18,737			18,737
Prepaid expenses and other current assets	(390)			(390)
Accounts payable, accrued restructuring and accrued expenses	(38,327)		(649)	(38,976)
Refundable and accrued income taxes, net	(168)			(168)
Other assets and liabilities	5,115	6,574		11,689
Net cash provided by (used in) operating activities of continuing operations	35,943		39	35,982
Cash flows from investing activities of continuing operations:				
Additions to property and equipment	(11,060)			(11,060)
Redemption (purchase) of short-term investments	(10,000)			(10,000)
Investments in affiliates	(9,533)			(9,533)
Proceeds from the sale of equity investments in affiliates	18,008			18,008
Net cash used in investing activities of continuing operations	(12,585)			(12,585)
Cash flows from financing activities of continuing operations:				
Repayments on capital lease obligations	(369)		(39)	(408)
Proceeds from issuance of common stock	113			113
Repurchase of common stock	(7,137)			(7,137)
Net cash used in financing activities of continuing operations	(7,393)		(39)	(7,432)

Cash flows from discontinued operations:

Operating cash flows	(2,276)	(2,276)
Net cash used in discontinued operations	(2,276)	(2,276)
Net effect of exchange rate changes on cash and cash equivalents	(5,507)	(5,507)
Net increase in cash and cash equivalents	8,182	8,182
Cash and cash equivalents at beginning of year	160,585	160,585
Cash and cash equivalents at end of year	$ 168,767	$ 168,767

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(4) STATEMENT OF CASH FLOWS SUPPLEMENTAL INFORMATION

Cash used for operating activities reflect cash payments for interest and income taxes as follows:

	Years Ended July 31,			
	2012	2011	2010	2009
	(in thousands)			
Cash paid for interest	$ 26	$ 4	$ 50	$ 116
Cash paid for income taxes	$ 3,538	$ 5,419	$ 4,539	$ 9,898

Non-cash financing activities during fiscal years ending 2012, 2011, 2010 and 2009 included the issuance of approximately 0.1 million, 0.3 million, 0.2 million shares and 0.1 million shares, respectively, of nonvested ModusLink Global Solutions common stock, valued at approximately $0.6 million, $1.9 million, $2.0 million and $0.8 million, respectively, to certain executives of the Company.

(5) SEGMENT INFORMATION

The Company has six operating segments: Americas; Asia; Europe; e-Business; ModusLink PTS and TFL. 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 and quantitative thresholds, the Company has 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, which consists 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.

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, goodwill and long-lived asset impairment, restructuring, amortization of intangible assets and share-based compensation. 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 to assist in evaluating the performance of the Company s core operations.

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

	Years Ended July 31,			
	2012	2011 (As Restated)	2010 (As Restated)	2009 (As Restated)
	(in thousands)			
Net revenue:				
Americas	$ 249,940	$ 296,362	$ 307,552	$ 327,455
Asia	218,880	233,724	262,594	296,756
Europe	211,319	275,065	283,584	333,181
TFL	25,944	29,471	23,712	
All other	33,808	39,126	41,003	44,588
	$ 739,891	$ 873,748	$ 918,445	$ 1,001,980
Operating income (loss):				
Americas	$ (14,108)	$ (29,984)	$ (26,253)	$ (98,896)
Asia	21,450	29,168	47,364	(34,790)
Europe	(15,718)	(6,181)	(4,865)	(27,944)
TFL	(11,032)	(16,139)	(12,244)	
All other	634	1,889	(2,933)	2,120
Total segment operating income (loss)	(18,774)	(21,247)	1,069	(159,510)
Other reconciling items	(27,119)	(16,419)	(14,038)	(14,100)
Total operating loss	$ (45,893)	$ (37,666)	$ (12,969)	$ (173,610)
Adjusted operating income (loss):				
Americas	$ (7,675)	$ (6,029)	$ (3,644)	$ (6,935)
Asia	26,811	36,155	54,261	49,472
Europe	(6,061)	198	(319)	4,541
TFL	(8,781)	(4,026)	(1,226)	
All other	2,941	3,811	1,768	4,839
Total segment adjusted operating income (loss)	7,235	30,109	50,840	51,917
Other reconciling items	(25,285)	(14,043)	(11,594)	(10,859)
Total adjusted operating income (loss)	$ (18,050)	$ 16,066	$ 39,246	$ 41,058
Adjusted operating income (loss)	$ (18,050)	$ 16,066	$ 39,246	$ 41,058
Adjustments:				
Depreciation	(14,057)	(16,833)	(16,918)	(20,057)
Amortization of intangible assets	(1,279)	(5,457)	(6,308)	(5,485)
Impairment of goodwill and long-lived assets	(2,062)	(27,166)	(25,800)	(164,682)
Share-based payments	(2,990)	(3,481)	(4,154)	(5,103)
Restructuring, net	(7,455)	(795)	965	(19,341)
Operating loss	$ (45,893)	$ (37,666)	$ (12,969)	$ (173,610)
Other income (expense), net	10,329	4,350	(3,392)	(15,068)
Income tax expense	(3,035)	(819)	(5,162)	(10,831)
Income (loss) from discontinued operations	491	(330)	(2,318)	126
Net loss	$ (38,108)	$ (34,465)	$ (23,841)	$ (199,383)

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		July 31,	
	2012	2011 (As Restated)	2010 (As Restated)
		(in thousands)	
Total assets of continuing operations:			
Americas	$ 101,931	$ 121,481	$ 186,643
Asia	111,660	125,059	113,820
Europe	105,472	120,422	135,135
TFL	2,750	11,029	23,256
All other	20,758	24,809	27,740
Sub-total	342,571	402,800	486,594
Corporate-level activity	16,311	19,447	39,347
	$ 358,882	$ 422,247	$ 525,941

As of July 31, 2012, approximately 63%, 18% and 19% of the Company s long-lived assets were located in the Americas, Asia and Europe, respectively. As of July 31, 2011, approximately 60%, 18% and 22% of the Company s long-lived assets were located in the Americas, Asia and Europe, respectively. As of July 31, 2010, approximately 73%, 12% and 15% of the Company s long-lived assets were located in the Americas, Asia and Europe, respectively. As of July 31, 2012, approximately $9.2 million, $4.8 million, $3.3 million, $2.3 million and $3.4 million of the Company s long-lived assets were located in Singapore, Ireland, China, the Netherlands, and Czech Republic, respectively. As of July 31, 2011, approximately $10.7 million, $7.1 million, $5.4 million, $4.1 million and $3.7 million of the Company s long-lived assets were located in Singapore, Ireland, the Netherlands, China, and Czech Republic, respectively. As of July 31, 2010, approximately $10.1 million, $6.8 million, $5.6 million, $3.6 million and $3.6 million of the Company s long-lived assets were located in Singapore, Ireland, the Netherlands, China and Czech Republic, respectively.

The Company generated revenue of approximately $144.1 million and $107.0 million in China and the Netherlands, respectively, from external clients during the fiscal year ended July 31, 2012. The Company generated revenue of approximately $142.2 million and $124.0 million in China and the Netherlands, respectively, from external clients during the fiscal year ended July 31, 2011. The Company generated revenue of approximately $175.5 million and $132.7 million in China and the Netherlands, respectively, from external clients during the fiscal year ended July 31, 2010. The Company generated revenue of approximately $199.7 million and $161.0 million in China and the Netherlands, respectively, from external clients during the fiscal year ended July 31, 2009.

(6) DISCONTINUED OPERATIONS AND DIVESTITURES

The Company recorded income from discontinued operations of approximately $0.5 million for the fiscal year ended July 31, 2012 primarily related to receipts from subleasing of a discontinued facility. The Company recorded income (loss) from discontinued operations of approximately $(0.3) million, $(2.3) million and $0.1 million, respectively, for the fiscal years ended July 31, 2011, 2010 and 2009, primarily related to net present value accretion on future lease payments and adjustments to previously recorded estimates for facility lease obligations based on changes to the underlying assumptions regarding rental income.

Summarized financial information for the discontinued operations of the Company are as follows:

	Years Ended July 31,			
	2012	2011	2010	2009
		(in thousands)		
Results of operations:				
Net revenue	$	$	$	$
Other income	586			126
Total expenses	(95)	(330)	(2,318)	
Income (loss) from discontinued operations	$ 491	$ (330)	$ (2,318)	$ 126

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	2012	July 31, 2011 (in thousands)	2010
Financial position:			
Current assets	$	$	$
Current liabilities	(1,528)	(1,817)	(1,791)
Non-current liabilities	(293)	(1,883)	(3,289)
Net liabilities of discontinued operations	$ (1,821)	$ (3,700)	$ (5,080)

(7) PROPERTY AND EQUIPMENT

Property and equipment at cost, consists of the following:

	2012	July 31, 2011 (As Restated) (in thousands)	2010 (As Restated)
Buildings	$ 20,299	$ 23,833	$ 20,350
Machinery and equipment	18,565	22,122	24,245
Leasehold improvements	18,482	18,321	18,389
Software	40,461	39,743	37,970
Other	5,449	7,078	6,634
	103,256	111,097	107,588
Less: Accumulated depreciation and amortization	(62,484)	(63,694)	(54,527)
Net property and equipment, at cost	$ 40,772	$ 47,403	$ 53,061

Assets under capital leases which are included in the amounts above are summarized as follows:

	2012	July 31, 2011 (As Restated) (in thousands)	2010 (As Restated)
Buildings	$	$	$ 3,734
Machinery and equipment	445	449	411
Other		46	46
Less: Accumulated amortization	(275)	(284)	(3,937)
	$ 170	$ 211	$ 254

The Company recorded depreciation expense of approximately $14.1 million, $16.8 million, $16.9 million and $20.1 million for the fiscal years ended July 31, 2012, 2011, 2010 and 2009, respectively. Depreciation expense within the Americas, Asia, Europe, TFL and All other was approximately $4.3 million, $4.4 million, $4.5 million, $0.1 million and $0.8 million, respectively, for fiscal year 2012, $5.2 million, $4.6 million $6.0 million, $0.1 million and $0.9 million, respectively, for fiscal year 2011, $5.4 million, $5.0 million $5.7 million, $0.0 million and $0.8 million, respectively, for fiscal year 2010, and $7.0 million, $5.7 million $6.5 million, $0.0 million and $0.9 million, respectively, for fiscal year 2009. Amortization of assets recorded under capital leases is included in the depreciation expense amounts.

(8) 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

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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, transactions and marketplace data. The Company s reporting units are the same as the operating segments: Americas, Asia, Europe, e-Business, ModusLink PTS and TFL.

During the third quarter of fiscal year 2012, indicators of potential impairment caused the Company to conduct an interim impairment test for the long-lived assets of TFL, which includes amortizable intangible assets. These indicators included continued operating losses and increasingly adverse trends that resulted in further deterioration of current operating results and future prospects of the TFL reporting unit. These adverse trends included increased competition for and a decline in the supply of quality products at a reasonable cost and the emergence and growth of new competitors for TFL.

As a result of the impairment test, in connection with the preparation of financial statements for the period ended April 30, 2012, the Company concluded that TFL s long-lived assets were impaired and recorded a $0.9 million non-cash impairment charge. The $0.9 million impairment charge consisted of $0.5 million of intangible assets and $0.4 million of fixed assets. The intangible asset impairment charge for TFL is deductible as amortization for tax purposes over time. The impairment charge did not affect the Company s liquidity or cash flows.

In addition, during the third quarter of fiscal year 2012, indicators of potential impairment caused the Company to conduct an interim impairment test for the fixed assets of its facility in Kildare, Ireland. These indicators included declining revenue and increasingly adverse trends that resulted in further deterioration of current operating results and future prospects of the Kildare facility. These adverse trends included declines in sales volumes resulting from the loss of certain client programs, pricing pressure from existing clients, and the emergence and growth of new competitors for the services performed in Kildare.

As a result of the impairment test, in connection with the preparation of financial statements for the period ended April 30, 2012, the Company concluded that Kildare s fixed assets were impaired and recorded a $1.1 million non-cash impairment charge. This charge has been recorded as a component of impairment of goodwill and long-lived assets in the condensed consolidated statements of operations. The fixed asset impairment charge for Kildare is deductible as depreciation for tax purposes over time. The impairment charge did not affect the Company s liquidity or cash flows.

The Company s remaining goodwill of $3.1 million as of July 31, 2012 relates to the Company s e-Business reporting unit. During the fourth quarter of fiscal year 2012, the Company completed its annual impairment analysis of goodwill. The Company concluded that its goodwill was not impaired as of July 31, 2012.

During the second quarter of fiscal year 2011, indicators of potential impairment caused the Company to conduct an interim impairment test for goodwill and other long-lived assets, which includes amortizable intangible assets for ModusLink PTS and TFL reporting units in connection with the preparation of its quarterly financial statements for the quarter ended January 31, 2011. These indicators included continued operating losses, the departure of key personnel, and increasingly adverse trends that resulted in further deterioration of current operating results and future prospects for both ModusLink PTS and TFL reporting units.

As a result of the 2011 interim impairment tests, in connection with the preparation of financial statements for the period ended January 31, 2011, the Company concluded that its goodwill was impaired and recorded a $13.2 million non-cash goodwill impairment charge, consisting of $7.1 million for ModusLink PTS and $6.1 million for TFL. Also in connection with the preparation of such financial statements, the Company 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. The goodwill and intangible asset impairment charges for ModusLink PTS are not deductible for tax purposes. The goodwill and intangible asset impairment charges for TFL are deductible as amortization for tax purposes over time. The impairment charge did not affect the Company s liquidity or cash flows.

In preparing the 2011 interim goodwill impairment test, the Company lowered its forecast of revenue growth and gross profit margins for ModusLink PTS and TFL for fiscal years 2011 to 2018. Revenue growth rates and gross profit margins are the variables which make the most significant impact to the discounted cash flow models for these reporting units. The decline in the forecasts for ModusLink PTS and TFL was attributable to our consideration of the operating losses for these reporting units during the first half of fiscal year 2011, the consideration of the impact that the departure of key personnel could have on our future operating results for these reporting units, and increasingly adverse trends that resulted in further deterioration of current and future operating results.

In connection with completing the 2011 interim goodwill impairment analysis, the Company also evaluated the recoverability of its long-lived assets at the ModusLink PTS and TFL reporting units. The asset groups for both ModusLink PTS and TFL are at the reporting unit level. Recoverability of these asset groups is determined by comparing forecasted undiscounted net cash flows of the reporting units to their respective carrying values. If the asset group s cash flows are determined to be unable to recover the carrying amount of its net assets, then a loss is recognized equal to the amount by which the asset s carrying value exceeds its fair value. The loss is then allocated amongst the long-lived assets based on their relative carrying amounts, with the exception that a loss allocated to an individual asset should not reduce the carrying amount of that asset below its fair value. Based upon this evaluation, the Company determined that the estimated future undiscounted cash flows related to these asset groups was below their carrying values, and therefore these asset groups were impaired.

During the fourth quarter of fiscal year 2010, the Company completed its annual impairment analysis of goodwill. The Company completed step one of the impairment analysis. As a result of the annual impairment analysis and in connection with the preparation of its annual financial statements for the fiscal year ended July 31, 2010 the Company concluded that its goodwill was impaired and recorded a $25.8 million non-cash goodwill impairment charge, consisting of $2.8 million for e-Business, $12.8 million for ModusLink PTS and $10.2 million for TFL. The impairment charge for e-Business and ModusLink PTS is not deductible for tax purposes. The impairment charge for TFL is deductible as amortization for tax purposes over time. The impairment charge did not affect the Company s liquidity or cash flows and had no effect on the Company s compliance with the financial covenants under its credit agreement.

In connection with completing the 2010 goodwill impairment analysis, the Company also evaluated the recoverability of its long-lived assets at the e-Business, ModusLink PTS and TFL reporting units where goodwill was determined to be impaired. Based upon this evaluation, the Company determined that the estimated future undiscounted cash flows related to these assets were in excess of their carrying values, and therefore these long-lived assets were not impaired as of July 31, 2010.

During the second quarter of fiscal year 2009, indicators of potential impairment caused the Company to conduct an interim impairment test as of January 31, 2009. Those indicators included a significant decrease in the market capitalization of the Company, and the change in the macroeconomic environment through the second quarter of fiscal year 2009. The Company completed step one of the impairment analysis and concluded that, as of January 31, 2009, the fair value of three of its five reporting units was below their respective carrying values. As part of the step one test, the Company performed a market capitalization reconciliation to ensure that the resulting outputs of the test and the total Company fair value were consistent, giving effect to a reasonable control premium, 35%. The three reporting units that showed potential impairment were the Americas, Asia and Europe. As such, the Company performed step two of the impairment test and in connection with the preparation of its quarterly financial statements for the quarter ended January 31, 2009 the Company concluded that its goodwill was impaired and recorded a $164.7 million non-cash goodwill impairment charge, consisting of $74.6 million for the Americas, $73.9 million for Asia and $16.1 million for Europe. The estimated fair values of our reporting units were evaluated using an income approach by calculating the present value of our estimated future cash flows.

The estimated fair values of our reporting units for the goodwill impairment test were evaluated using an income approach by calculating the present value of estimated future cash flows. We believe the use of the

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income approach is appropriate due to lack of comparability to guideline companies and the lack of comparable transactions under the market approach. 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.

The changes in the carrying amount of goodwill allocated to the Company s operating segments are as follows:

	Americas	Asia	Europe	TFL	All Other	Consolidated Total
			(in thousands)			
Balance as of July 31, 2009						
Goodwill	$ 94,477	$ 73,948	$ 30,108	$	$ 5,857	204,390
Accumulated impairment charges	(74,626)	(73,948)	(30,108)			(178,682)
	$ 19,851	$	$	$	$ 5,857	$ 25,708
Goodwill from the acquisition of TFL				16,299		16,299
Impairment of goodwill	(12,801)			(10,200)	(2,799)	(25,800)
Balance as of July 31, 2010						
Goodwill	$ 94,477	$ 73,948	$ 30,108	$ 16,299	$ 5,857	220,689
Accumulated impairment charges	(87,427)	(73,948)	(30,108)	(10,200)	(2,799)	(204,482)
	$ 7,050	$	$	$ 6,099	$ 3,058	$ 16,207
Impairment of goodwill	(7,050)			(6,099)		(13,149)
Balance as of July 31, 2011						
Goodwill	94,477	73,948	30,108	16,299	5,857	220,689
Accumulated impairment charges	(94,477)	(73,948)	(30,108)	(16,299)	(2,799)	(217,631)
	$	$	$	$	$ 3,058	$ 3,058
Balance as of July 31, 2012						
Goodwill	94,477	73,948	30,108	16,299	5,857	220,689
Accumulated impairment charges	(94,477)	(73,948)	(30,108)	(16,299)	(2,799)	(217,631)
	$	$	$	$	$ 3,058	$ 3,058

The components of intangible assets are as follows (in thousands):

	July 31, 2012				July 31, 2011			
	Gross Carryin gAmount	Accumulated amortization/ impairment	Net Book Value	Weighted average amortization period	Gross Carrying Amount	Accumulated amortization/ impairment	Net Book Value	Weighted average amortization period
Client Relationships	$ 34,500	$ 32,847	$ 1,653	7 years	$ 34,500	$ 32,215	$ 2,285	7 years
Developed Technology	13,992	12,990	1,002	3 to 7 years	13,992	12,211	1,781	3 to 7 years
Trade Names	5,405	5,174	231	3 to 7 years	5,405	4,801	604	3 to 7 years
Non-competes	713	702	11	1 to 5 years	713	684	29	1 to 5 years

Total	$ 54,610	$ 51,713	$ 2,897	$ 54,610	$ 49,911	$ 4,699

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	July 31, 2010			
	Gross Carrying Amount	Accumulated amortization/ impairment	Net Book Value	Weighted average amortization period
Client Relationships	$ 34,500	$ 21,503	$ 12,997	7 to 10 years
Developed Technology	13,992	5,638	8,354	3 to 8 years
Trade Names	5,405	2,800	2,605	3 to 8 years
Non-competes	713	496	217	1 to 5 years
Total	$ 54,610	$ 30,437	$ 24,173	

Amortization expense for intangible assets for the fiscal years ended July 31, 2012, 2011, 2010 and 2009 totaled approximately $1.3 million, $5.5 million, $6.3 million and $5.5 million, respectively.

Estimated annual amortization expense for intangible assets for the next three years ending July 31, is as follows:

Fiscal Year	Amount (in thousands)
2013	$ 1,133
2014	$ 1,098
2015	$ 666

(9) RESTRUCTURING

The following tables summarize the activity in the restructuring accrual for the fiscal years ended July 31, 2012, 2011, 2010 and 2009:

	Employee Related Expenses	Contractual Obligations	Asset Impairments	Total
		(in thousands)		
Accrued restructuring balance at July 31, 2008, as restated	$ 1,848	$ 8,063	$	$ 9,911
Restructuring charges, as restated	16,292	5,080	389	21,761
Restructuring adjustments	(2,858)	438		(2,420)
Cash paid	(8,378)	(3,550)		(11,928)
Non-cash adjustments	(62)	(229)	(389)	(680)
Accrued restructuring balance at July 31, 2009, as restated	$ 6,842	$ 9,802	$	$ 16,644
Restructuring charges, as restated	54	690		744
Restructuring adjustments	(612)	(1,097)		(1,709)
Cash paid	(6,103)	(6,221)		(12,324)
Non-cash adjustments		277		277
Accrued restructuring balance at July 31, 2010	$ 181	$ 3,451	$	$ 3,632
Restructuring charges	1,099			1,099
Restructuring adjustments	53	(357)		(304)
Cash paid	(1,081)	(1,926)		(3,007)
Non-cash adjustments	44			44

Accrued restructuring balance at July 31, 2011	$ 296	$ 1,168	$	$ 1,464
Restructuring charges	6,218	1,537		7,755
Restructuring adjustments	(439)	139		(300)
Cash paid	(5,405)	(1,854)		(7,259)
Non-cash adjustments	(44)	108		64
Accrued restructuring balance at July 31, 2012	$ 626	$ 1,098	$	$ 1,724

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It is expected that the payments of employee-related charges will be substantially completed during the fiscal year ending July 31, 2013. The remaining contractual obligations primarily relate to facility lease obligations for vacant space resulting from the previous restructuring activities of the Company. The Company anticipates that contractual obligations will be substantially fulfilled by April 2013.

During the fiscal year ended July 31, 2012 the Company recorded a net restructuring charge of approximately $7.5 million. Of this amount, approximately $6.2 million primarily related to the workforce reduction of 357 employees in the Americas, Asia, and Europe, approximately $1.5 million related to contractual obligations related to facility closure at the Raleigh facility and the TFL facility in Colorado Springs. These restructuring charges were partially offset by approximately $0.3 million in reductions to initial estimates for recorded employee-related expenses and facilities lease obligations primarily based on changes in underlying assumptions.

During the fiscal year ended July 31, 2011 the Company recorded a net restructuring charge of approximately $0.8 million. Of this amount, approximately $1.2 million primarily related to the workforce reduction of 55 employees in the Americas and Asia and approximately $(0.4) million of the recorded net restructuring charge related to changes in estimates for previously recorded facilities lease obligations primarily based on changes to the underlying assumptions.

The Company s restructuring charges during the fiscal year ended July 31, 2010 primarily related to changes in estimates for previously recorded facilities lease obligations primarily based on changes to the underlying assumptions, an early termination payment of a lease in Hungary and the reversal of an amount due to a lapse of time under a prior agreement. The Company s restructuring initiatives during the fiscal years ended July 31, 2009 and 2008 involved strategic decisions to right-size the Company and reduce costs. Restructuring charges consisted primarily of contractual obligations related to facilities and equipment, and employee severance charges as a result of workforce reductions. The Company records charges related to operating leases with no future economic benefit to the Company as a result of the closure of facilities.

During the fiscal year ended July 31, 2009, the Company recorded a net restructuring charge of approximately $19.3 million. This charge consisted of approximately $15.8 million related to the workforce reduction of approximately 550 employees across the Company. The charges also consist of approximately $5.6 million relating to the shutdown of facilities in El Paso, TX, Nashville, TN, Juarez, Mexico, San Jose, CA, Angers, France and Budapest, Hungary and a $0.4 million charge for the impairment of fixed assets at the location in El Paso, TX. All actions related to the fiscal year 2009 workforce reductions were completed by July 31, 2010. These restructuring charges were partially offset by approximately $2.4 million of adjustments to reduce initial estimates of restructuring charges for certain employee-related expenses and facilities lease obligations based on changes to the underlying assumptions.

As previously discussed, the restated financial statements also include adjustments to correct certain other immaterial errors, including previously unrecorded immaterial adjustments identified in audits of prior years financial statements. The Company recorded a $0.3 million reduction in its accrued restructuring balance as of July 31, 2008 and a $0.2 million reduction in restructuring expense for the fiscal year ended July 31, 2009 which resulted from shifting of contractual obligation expenses from years prior to fiscal year 2010 to fiscal year 2010.

The net restructuring charges for the fiscal years ended July 31, 2012, 2011, 2010 and 2009 would have been allocated as follows had the Company recorded the expense and adjustments within the functional department of the restructured activities:

	July 31,			
	2012	2011	2010 (As Restated)	2009 (As Restated)
	(in thousands)			
Cost of revenue	$ 3,960	$ 437	$ (838)	$ 14,220
Selling, general and administrative	3,495	358	(127)	5,121
	$ 7,455	$ 795	$ (965)	$ 19,341

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The following tables summarize the restructuring accrual by operating segment, the all other category and the corporate-level activity category for the fiscal years ended July 31, 2012, 2011, 2010, and 2009:

	Americas	Asia	Europe	TFL (in thousands)	All other	Corporate-level Activity	Consolidated Total
Accrued restructuring balance at July 31, 2008, as restated	$ 4,437	$ 174	$ 5,056	$	$	$ 244	$ 9,911
Restructuring charges, as restated	7,660	2,204	11,001		644	252	21,761
Restructuring adjustments	165	(163)	(2,422)				(2,420)
Cash paid	(3,946)	(1,805)	(5,901)		(240)	(36)	(11,928)
Non-cash adjustments	(680)						(680)
Accrued restructuring balance at July 31, 2009, as restated	$ 7,636	$ 410	$ 7,734	$	$ 404	$ 460	$ 16,644
Restructuring charges, as restated	468	43	222			11	744
Restructuring adjustments	367	(108)	(1,929)		(12)	(27)	(1,709)
Cash paid	(5,600)	(345)	(5,543)		(392)	(444)	(12,324)
Non-cash adjustments	277						277
Accrued restructuring balance at July 31, 2010	$ 3,148	$	$ 484	$	$	$	$ 3,632
Restructuring charges	501	593	5				1,099
Restructuring adjustments	(303)	(7)	6				(304)
Cash paid	(1,993)	(586)	(428)				(3,007)
Non-cash adjustments	(7)		51				44
Accrued restructuring balance at July 31, 2011	$ 1,346	$	$ 118	$	$	$	$ 1,464
Restructuring charges	1,706	702	3,766	1,039	542		7,755
Restructuring adjustments	(94)	(56)	(85)		(65)		(300)
Cash paid	(1,933)	(647)	(3,690)	(855)	(134)		(7,259)
Non-cash adjustments	61	1	(58)	60			64
Accrued restructuring balance at July 31, 2012	$ 1,086	$	$ 51	$ 244	$ 343	$	$ 1,724

(10) @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 connection with a round of financing with other third-party investors.

During the fiscal year ended July 31, 2012, 2011, 2010 and 2009, approximately $2.9 million, $3.5 million, $3.4 million, and $9.5 million, respectively was invested by @Ventures in privately held companies. At July 31, 2012, 2011, and 2010, the Company s carrying value of investments in privately held companies was approximately $10.8 million, $12.0 million, and $13.0 million, respectively. During the fiscal years ended July 31, 2012, 2011, 2010, and 2009, the Company recorded $2.9 million, $2.5 million, $0.3 million, and $16.8 million, respectively, of impairment charges related to certain investments in the @Ventures portfolio of companies. During the fiscal year ended July 31, 2012,

@Ventures did not receive any material distributions from its investments. During the fiscal years ended July 31, 2011, 2010, and 2009, @Ventures received distributions of approximately $0.2 million, $1.3 million, and $18.0 million, respectively.

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