

---

---

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

---

**FORM 10-Q**

---

(Mark One)

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

For the quarterly period ended January 31, 2009

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 000-23262

---

**ModusLink Global Solutions, Inc.**

(Exact name of registrant as specified in its charter)

---

**DELAWARE**  
(State or other jurisdiction of  
incorporation or organization)

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

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

**02451**  
(Zip Code)

**(781) 663-5001**

(Registrant's telephone number, including area code)

---

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

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

Large accelerated filer       Accelerated filer       Non-accelerated filer       Smaller reporting company   
(Do not check if a smaller reporting  
company)

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

As of March 6, 2009, there were 45,683,955 shares outstanding of the registrant's Common Stock, \$.01 par value per share.

---

---

MODUSLINK GLOBAL SOLUTIONS, INC.

FORM 10-Q  
TABLE OF CONTENTS

	<u>Page Number</u>
<b>Part I. FINANCIAL INFORMATION</b>	
Item 1. Condensed Consolidated Financial Statements	
<a href="#">Condensed Consolidated Balance Sheets—January 31, 2009 and July 31, 2008 (unaudited)</a>	3
<a href="#">Condensed Consolidated Statements of Operations—Three and six months ended January 31, 2009 and 2008 (unaudited)</a>	4
<a href="#">Condensed Consolidated Statements of Cash Flows—Six months ended January 31, 2009 and 2008 (unaudited)</a>	5
<a href="#">Notes to Condensed Consolidated Financial Statements (unaudited)</a>	6
Item 2. <a href="#">Management’s Discussion and Analysis of Financial Condition and Results of Operations</a>	17
Item 3. <a href="#">Quantitative and Qualitative Disclosures About Market Risk</a>	29
Item 4. <a href="#">Controls and Procedures</a>	30
<b>Part II. OTHER INFORMATION</b>	
Item 1. <a href="#">Legal Proceedings</a>	32
Item 1A. <a href="#">Risk Factors</a>	32
Item 2. <a href="#">Unregistered Sales of Equity Securities and Use of Proceeds</a>	34
Item 4. <a href="#">Submission of Matters to a Vote of Security Holders</a>	34
Item 5. <a href="#">Other Information</a>	34
Item 6. <a href="#">Exhibits</a>	34

## MODUSLINK GLOBAL SOLUTIONS, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

(Unaudited)

	January 31, 2009	July 31, 2008
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 135,363	\$ 160,585
Available-for-sale securities	333	1,517
Accounts receivable, trade, net of allowance for doubtful accounts of \$3,730 and \$2,358, at January 31, 2009 and July 31, 2008, respectively	186,930	213,096
Inventories, net	79,644	85,897
Prepaid expenses and other current assets	10,200	12,820
Total current assets	<u>412,470</u>	<u>473,915</u>
Property and equipment, net	66,259	74,889
Investments in affiliates	29,313	34,558
Goodwill	25,708	190,012
Other intangible assets, net	25,865	29,292
Other assets	6,742	7,894
	<u>\$ 566,357</u>	<u>\$ 810,560</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current installments of obligations under capital lease	\$ 129	\$ 349
Accounts payable	129,275	168,190
Current portion of accrued restructuring	9,944	6,297
Accrued income taxes	1,679	1,027
Accrued expenses	43,248	52,817
Other current liabilities	8,426	3,653
Current liabilities of discontinued operations	2,348	2,840
Total current liabilities	<u>195,049</u>	<u>235,173</u>
Long-term portion of accrued restructuring	2,325	3,871
Obligations under capital leases, less current installments	16	55
Other long-term liabilities	19,336	21,648
Non-current liabilities of discontinued operations	2,964	3,839
Stockholders' equity:		
Preferred stock, \$0.01 par value per share. Authorized 5,000,000 shares; zero issued or outstanding at January 31, 2009 and July 31, 2008	—	—
Common stock, \$0.01 par value per share. Authorized 1,400,000,000 shares; issued and outstanding 45,267,262 at January 31, 2009 and issued 48,685,784 shares, including 2,983,854 shares of treasury stock, at July 31, 2008	456	491
Additional paid-in capital	7,435,789	7,471,230
Treasury stock, at cost 2,983,854 shares at July 31, 2008	—	(35,268)
Accumulated deficit	(7,097,187)	(6,909,776)
Accumulated other comprehensive income	7,609	19,297
Total stockholders' equity	<u>346,667</u>	<u>545,974</u>
	<u>\$ 566,357</u>	<u>\$ 810,560</u>

See accompanying notes to unaudited condensed consolidated financial statements

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

	Three Months Ended January 31,		Six Months Ended January 31,	
	2009	2008	2009	2008
Net revenue	\$ 260,461	\$ 277,972	\$ 551,874	\$ 552,712
Cost of revenue	228,240	239,063	491,583	474,739
Gross profit	32,221	38,909	60,291	77,973
Operating expenses:				
Selling, general and administrative	26,003	28,817	57,081	56,357
Amortization of intangible assets	1,372	746	2,740	1,508
Impairment of goodwill	164,682	—	164,682	—
Restructuring, net	656	745	7,074	2,368
Total operating expenses	192,713	30,308	231,577	60,233
Operating income (loss)	(160,492)	8,601	(171,286)	17,740
Other income (expense):				
Interest income	451	2,677	1,217	5,665
Interest expense	(177)	(472)	(417)	(1,086)
Other gains (losses), net	5,799	18,528	1,915	18,163
Equity in income (losses) of affiliates, net of impairments	(10,975)	632	(11,510)	863
Total other income (losses)	(4,902)	21,365	(8,795)	23,605
Income (loss) from continuing operations before income taxes	(165,394)	29,966	(180,081)	41,345
Income tax expense	3,455	2,077	7,489	4,216
Income (loss) from continuing operations	(168,849)	27,889	(187,570)	37,129
Discontinued operations, net of income taxes:				
Income (loss) from discontinued operations	74	(86)	159	(716)
Net income (loss)	<u>\$(168,775)</u>	<u>\$ 27,803</u>	<u>\$(187,411)</u>	<u>\$ 36,413</u>
Basic and diluted earnings (loss) per share:				
Income (loss) from continuing operations	\$ (3.73)	\$ 0.58	\$ (4.12)	\$ 0.78
Income (loss) from discontinued operations	\$ —	\$ —	\$ —	\$ (0.02)
Net income (loss)	<u>\$ (3.73)</u>	<u>\$ 0.58</u>	<u>\$ (4.12)</u>	<u>\$ 0.76</u>
Shares used in computing basic earnings (loss) per share:	45,256	48,005	45,498	47,556
Shares used in computing diluted earnings (loss) per share:	45,256	48,107	45,498	47,724

See accompanying notes to unaudited condensed consolidated financial statements

**MODUSLINK GLOBAL SOLUTIONS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(In thousands)**  
**(Unaudited)**

	Six Months Ended January 31,	
	2009	2008
Cash flows from operating activities of continuing operations:		
Net income (loss)	\$(187,411)	\$ 36,413
Income (loss) from discontinued operations	159	(716)
	<u>(187,570)</u>	<u>37,129</u>
Adjustments to reconcile income (loss) from continuing operations to cash provided by continuing operations:		
Depreciation	9,446	7,897
Impairment of goodwill	164,682	—
Amortization of intangible assets	2,740	1,508
Stock-based compensation	3,044	2,866
Non-operating losses (gains), net	(1,915)	(18,163)
Equity in losses (income) of affiliates	11,510	(863)
Changes in operating assets and liabilities:		
Trade accounts receivable, net	9,518	3,438
Inventories	(721)	(1,018)
Prepaid expenses and other current assets	1,808	706
Accounts payable, accrued restructuring and accrued expenses	(26,704)	(14,572)
Refundable and accrued income taxes, net	892	1,059
Other assets and liabilities	16,176	(5,550)
Net cash provided by operating activities of continuing operations	<u>2,906</u>	<u>14,437</u>
Cash flows from investing activities of continuing operations:		
Additions to property and equipment	(6,604)	(12,163)
Redemption of short-term investments	—	111,850
Proceeds from affiliate distributions	1,326	19,422
Investments in affiliates	(7,463)	(4,613)
Net cash provided by (used in) investing activities of continuing operations	<u>(12,741)</u>	<u>114,496</u>
Cash flows from financing activities of continuing operations:		
Repayments on revolving line of credit	—	(24,786)
Repayments on capital lease obligations	(259)	(208)
Proceeds from issuance of common stock	—	160
Repurchase of common stock	(3,275)	(14,245)
Net cash used in financing activities of continuing operations	<u>(3,534)</u>	<u>(39,079)</u>
Cash flows from discontinued operations:		
Operating cash flows	<u>(1,207)</u>	<u>(1,204)</u>
Net cash used in discontinued operations	<u>(1,207)</u>	<u>(1,204)</u>
Net effect of exchange rate changes on cash and cash equivalents	<u>(10,646)</u>	<u>6,353</u>
Net increase (decrease) in cash and cash equivalents	(25,222)	95,003
Cash and cash equivalents at beginning of period	160,585	169,481
Cash and cash equivalents at end of period	<u>\$ 135,363</u>	<u>\$ 264,484</u>

See accompanying notes to unaudited condensed consolidated financial statements

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

**(1) NATURE OF OPERATIONS**

ModusLink Global Solutions, Inc. (together with its consolidated subsidiaries, “ModusLink Global Solutions” or the “Company”), through its wholly owned subsidiaries, ModusLink Corporation (“ModusLink”), ModusLink Open Channel Solutions, Inc. (“OCS”) and ModusLink PTS, Inc. (“PTS”) provides end-to-end global supply chain management solutions that help businesses market, sell, distribute and repair their products and services. In addition, ModusLink Global Solutions’ venture capital business, @Ventures, invests in a variety of technology ventures. ModusLink services technology-based clients in the computing, software, consumer electronics, storage and communications markets. On March 18, 2008, ModusLink Global Solutions acquired OCS for approximately \$13.7 million in cash. ModusLink Global Solutions previously had an equity interest in OCS through @Ventures, which interest was originally acquired when ModusLink Global Solutions acquired Modus Media, Inc. OCS provides solutions that manage entitlements for software licenses, maintenance and support subscriptions, hardware features and rights-managed content. On May 2, 2008, the Company acquired PTS for approximately \$45.8 million in cash. PTS provides consumer electronics service repair and reverse logistics services.

The Company had fiscal 2008 revenue of approximately \$1.1 billion and more than 30 facilities in 13 countries with a significant presence in Asia and Europe. The Company previously operated under the names CMGI, Inc. and CMG Information Services, Inc. and was incorporated in Delaware in 1986. ModusLink Global Solutions’ address is 1100 Winter Street, Suite 4600, Waltham, Massachusetts 02451.

ModusLink Global Solutions’ business strategy in recent years has led to the development, acquisition and operation of majority-owned subsidiaries focused on supply chain management services, as well as the investment in emerging, innovative and promising technology companies.

**(2) BASIS OF PRESENTATION**

The accompanying condensed consolidated financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of a normal recurring nature) considered necessary for fair presentation have been included. These condensed consolidated financial statements should be read in conjunction with the audited financial statements and related notes for the year ended July 31, 2008, which are contained in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”) on October 14, 2008. The results for the three and six months ended January 31, 2009 are not necessarily indicative of the results to be expected for the full fiscal year.

The Company reports three operating segments, Americas, Asia and Europe. In addition to its three operating segments, the Company reports an Other category. The Other category represents corporate expenses consisting primarily of costs associated with certain corporate administrative functions such as legal and finance, which are not fully allocated to the Company’s subsidiary companies, and administration costs related to the Company’s venture capital business.

In accordance with U.S. GAAP, all significant intercompany transactions and balances have been eliminated in consolidation. Accordingly, segment results reported by the Company exclude the effect of transactions between the Company and its subsidiaries and between the Company’s subsidiaries.

**(3) RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS**

In May 2008, the FASB issued SFAS No. 162, “The Hierarchy of Generally Accepted Accounting Principles” (“SFAS No. 162”), which identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with U.S. GAAP. SFAS No. 162 was effective for the Company beginning November 15, 2008. The adoption of this SFAS No. 162 did not have a material impact on our results of operations or financial position.

On August 1, 2008, we adopted the Financial Accounting Standards Board (“FASB”) Statement No. 157, “Fair Value Measurements” (“SFAS No. 157”) for financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). SFAS No. 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles, and expands the disclosure requirements related to fair value measurements. SFAS No. 157 was effective for the Company beginning in fiscal 2009, with the exception of the fair value measurement requirements for nonfinancial assets and liabilities which are effective beginning in fiscal 2010. This statement does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. See Note 5.

## [Table of Contents](#)

In February 2008, the FASB issued FASB Staff Position 157-2, “Effective Date of FASB Statement No. 157” (“FSP FAS 157-2”), which delays the effective date of SFAS No. 157 to August 1, 2009 for the Company, for all nonfinancial assets and nonfinancial liabilities, except for items that are recognized at fair value in the financial statements on a recurring basis (at least annually). We believe the adoption of the delayed items of SFAS No. 157 will not have a material impact on our financial statements.

Statement of Financial Accounting Standard (“SFAS”) No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of SFAS No. 115”, (“SFAS No. 159”) became effective for the Company on August 1, 2008. SFAS No. 159 gives the Company the irrevocable option to elect fair value for the initial and subsequent measurement of certain financial assets and liabilities on a contract-by-contract basis with the difference between the carrying value before election of the fair value option and the fair value recorded upon election as an adjustment to beginning retained earnings. The Company chose not to elect the fair value option.

#### **(4) RECENT ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED**

In November 2008, the SEC issued for comment a proposed roadmap regarding the potential use by U.S. issuers of financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”). IFRS is a comprehensive series of accounting standards published by the International Accounting Standards Board (“IASB”). Under the proposed roadmap, we could be required in fiscal 2015 to prepare financial statements in accordance with IFRS, and the SEC will make a determination in 2011 regarding the mandatory adoption of IFRS. We are currently assessing the impact that this potential change would have on our consolidated financial statements, and we will continue to monitor the development of the potential implementation of IFRS.

In April 2008, the FASB issued FSP FAS 142-3, “Determination of the Useful Life of Intangible Assets” (“FSP FAS 142-3”). FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, “Goodwill and Other Intangible Assets”. FSP FAS 142-3 is effective for the Company beginning in fiscal 2010. The Company is currently evaluating FSP FAS 142-3 and the impact, if any, that it may have on our results of operations or financial position.

In March 2008, the FASB issued SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133” (“SFAS No. 161”), which requires additional disclosures about the objectives of the derivative instruments and hedging activities, the method of accounting for such instruments under SFAS No. 133 and its related interpretations, and a tabular disclosure of the effects of such instruments and related hedged items on our financial position, financial performance, and cash flows. SFAS No. 161 is effective for the Company beginning in fiscal 2010. The adoption of this SFAS No. 161 is not expected to have a material impact on the results of operations or financial position.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), “Business Combinations” (“SFAS No. 141(R)”). SFAS No. 141(R) requires acquiring entities in a business combination to recognize the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose to investors the information they need to evaluate and understand the nature and financial effect of the business combination. SFAS No. 141(R) is effective for the Company beginning in fiscal 2010. The Company will adopt and comply with SFAS No. 141(R) on the effective date. The early adoption of this SFAS No. 141(R) is prohibited.

In December 2007, the FASB issued, SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements—an Amendment of ARB No. 51” (“SFAS No. 160”). SFAS No. 160 establishes accounting and reporting standards for noncontrolling interests (previously referred to as “minority interests”) in a subsidiary and for the deconsolidation of a subsidiary, to ensure consistency with the requirements of SFAS No. 141 (revised 2007), “Business Combinations”. SFAS No. 160 states that noncontrolling interests should be classified as a separate component of equity, and establishes reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS No. 160 is effective for the Company beginning in fiscal 2010. The Company will adopt and comply with SFAS No. 160 on the effective date. The early adoption of this SFAS No. 160 is prohibited.

#### **(5) FAIR VALUE MEASUREMENTS**

The Company adopted SFAS No. 157 as of August 1, 2008, with the exception of the application of the statement to nonfinancial assets and nonfinancial liabilities not measured at fair value on a recurring basis, which was delayed by FSP 157-2. The nonfinancial assets and nonfinancial liabilities for which the Company has not applied the provision of SFAS No. 157 include those measured at fair value in goodwill impairment testing and those initially measured at fair value in a business combination.

SFAS No. 157 clarifies that fair value is based on an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, SFAS No. 157 establishes a three-tiered fair value hierarchy, which prioritizes the inputs used in

## [Table of Contents](#)

measuring fair value as follows: (Level 1) observable inputs such as quoted prices in active markets; (Level 2) inputs other than the quoted prices in active markets that are observable either directly or indirectly; and (Level 3) unobservable inputs in which there is little or no market data, which requires the Company to develop its own assumptions. SFAS No. 157 requires an entity to maximize the use of observable inputs where available and to minimize the use of unobservable inputs when determining fair value. On a recurring basis, the Company measures certain financial assets and liabilities at fair value, including the Company's available-for-sale securities.

The following table shows the assets and liabilities carried at fair value measured on a recurring basis at January 31, 2009, classified in one of the three classifications described above:

	Total Carrying Value at January 31, 2009	Fair Value Measurements at January 31, 2009 Using:		
		Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)
Available-for-sale securities	\$ 333	\$ 333	\$ —	\$ —

The Company's available-for-sale securities are comprised of equity investments and are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices. The Company utilizes direct observable price quotes, such as common stock price quotes at the reporting date to mark the available-for-sale securities to market.

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

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

### (7) GOODWILL AND INTANGIBLE ASSETS

In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"), the Company conducts its annual goodwill impairment test on July 31 of each fiscal year. In addition, if and when events or circumstances change that would more likely than not reduce the fair value of any of its reporting units below its carrying value, an interim test would be performed. In making this assessment, the Company relies on a number of factors including operating results, business plans, economic projections, anticipated future cash flows, and transactions and marketplace data. For goodwill testing purposes the Company has five reporting units, the Americas, Asia, Europe, OCS and PTS.

During the second quarter of fiscal year 2009, indicators of potential impairment caused the Company to conduct an interim impairment test. Those indicators included a recent significant decrease in the market capitalization of the Company, and the change in the macroeconomic environment. As a result of these events, the Company determined an interim impairment test was necessary and performed the interim test on all five of its reporting units as of January 31, 2009. In accordance with SFAS No. 142, the Company completed step one of the impairment analysis. 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 an appropriate control premium. The Company applied a control premium of approximately 35%. As a result of the step one test, the Company concluded that, as of January 31, 2009, the fair value of three of its five reporting units was below their respective carrying values, including goodwill. The three reporting units that showed potential impairment were the Americas, Asia and Europe. As such, step two of the impairment test was initiated in accordance with SFAS No. 142. The step-two analysis has been completed and in connection with the preparation of its quarterly financial statements for the quarter ended January 31, 2009 the Company concluded that its goodwill was impaired and recorded a \$164.7 million non-cash goodwill impairment charge at January 31, 2009, consisting of \$74.6 million for the Americas, \$73.9 million for Asia and \$16.1 million for Europe.

Historically, the Company has considered three methods of estimating fair value of each of the reporting units. These included the income approach, the company guideline method and the comparable transaction method. The Company has determined that due to the current economic conditions that the income approach is more representative of fair value. The estimated fair values of our reporting units were evaluated in the second quarter of fiscal year 2009 using an income approach by calculating the present value of our estimated future operating cash flows. The income approach incorporates many assumptions including future growth rates, discount factors, expected capital expenditures, and income tax cash flows. In developing an appropriate discount rate to apply in its estimated cash flow models the Company develops an estimate of its weighted average cost of capital. Changes in economic and operating conditions impacting these assumptions could result in a goodwill impairment in future periods.

In connection with completing our goodwill impairment analysis, and in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the Company also evaluated the recoverability of its long-lived assets at each of the three reporting units where goodwill was deemed 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.



## [Table of Contents](#)

The remaining goodwill of \$25.7 million as of January 31, 2009 relates to the Company's OCS and PTS reporting units. The Company will conduct its next annual impairment test on July 31, 2009, which includes an update to the Company's discounted cash flow analyses and cost of capital assumptions for the OCS and PTS reporting units. The Americas operating segment includes the Americas, OCS and PTS reporting units (See Note 11).

The changes in the carrying amount of goodwill by operating segment for the six months ended January 31, 2009 are as follows:

	<u>Americas</u>	<u>Europe</u>	<u>Asia</u>	<u>Total</u>
	(in thousands)			
Balance as of July 31, 2008	\$ 99,956	\$ 16,108	\$ 73,948	\$ 190,012
Purchase price adjustments from acquisition of OCS	(322)	—	—	(322)
Purchase price adjustments from acquisition of PTS	700	—	—	700
Impairment charge	(74,626)	(16,108)	(73,948)	(164,682)
Balance as of January 31, 2009	<u>\$ 25,708</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 25,708</u>

### (8) SHARE-BASED PAYMENTS

Stock options for the purchase of approximately 0.2 million shares of the Company's common stock were awarded to executives during the six months ended January 31, 2009 at a weighted average exercise price of \$9.75 per share. The weighted average option fair value was \$4.06 per share. The weighted average option fair value was calculated using the binominal-lattice model with the following weighted average assumptions: expected volatility of 54.54%, risk-free rate of 2.33% and expected life of 4.08 years.

Additionally, approximately 0.1 million nonvested shares were awarded to executives during the six months ended January 31, 2009 at a weighted average fair value of \$10.32 per share. The fair value of nonvested shares is determined based on the market price of the Company's common stock on the grant date.

The following table summarizes the allocation of stock-based compensation expense related to employee stock options, employee stock purchases and nonvested shares under SFAS No. 123(R), "Share-Based Payment (revised 2004)," for the three and six months ended January 31, 2009 and 2008, respectively:

	<u>Three Months Ended</u> <u>January 31,</u>		<u>Six Months Ended</u> <u>January 31,</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
	(in thousands)			
Cost of goods sold	\$ 92	\$ 145	\$ 223	\$ 244
Selling, general and administrative	1,268	1,344	2,821	2,622
	<u>\$ 1,360</u>	<u>\$ 1,489</u>	<u>\$ 3,044</u>	<u>\$ 2,866</u>

### (9) OTHER GAINS (LOSSES), NET

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

	<u>Three Months Ended</u> <u>January 31,</u>		<u>Six Months Ended</u> <u>January 31,</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
	(in thousands)			
Foreign exchange gains (losses)	\$ 5,405	\$ (66)	\$ 2,000	\$ (2,213)
Gain on sale of investments	875	18,398	1,327	20,115
Impairment of investment	—	—	(975)	—
Loss on disposal of assets	(24)	—	(20)	—
Other, net	(457)	196	(417)	261
	<u>\$ 5,799</u>	<u>\$ 18,528</u>	<u>\$ 1,915</u>	<u>\$ 18,163</u>

The Company recorded foreign exchange gains of approximately \$5.4 million and \$2.0 million during the three and six months ended January 31, 2009, respectively. These net gains related primarily to realized and unrealized gains and losses related to foreign currency exposures and settled transactions in the Americas, Asia and Europe. During the three months ended January 31, 2009, the Company recorded a gain of approximately \$0.9 million to adjust a previously recorded gain on the acquisition by a third party of The Generations Network, Inc. ("TGN") due to the satisfaction of conditions leading to the release of funds held in escrow. Additionally,

## [Table of Contents](#)

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

The Company recorded foreign exchange losses of approximately \$0.1 million and \$2.2 million, respectively, during the three and six months ended January 31, 2008. These foreign exchange losses related primarily to unhedged foreign currency exposures in Asia and Europe. Also during the three and six months ended January 31, 2008, the Company recorded a gain of approximately \$12.9 million on the acquisition of TGN, by a third party in December 2007. Additionally, during the three months ended January 31, 2008, gains of approximately \$2.7 million, \$0.6 million, \$0.4 million, and \$0.2 million, respectively, were recorded to adjust previously recorded gains on the acquisitions by third parties of Avamar Technologies, Inc., Molecular, Inc., Realm Business Solutions, Inc., and Alibris, Inc. due to the satisfaction of conditions leading to the release of funds held in escrow. These companies were also @Ventures portfolio companies that were acquired by third parties in previous reporting periods. During the three and six months ended January 31, 2008, the Company recorded a gain of \$1.6 million from the sale of a minority interest in a former indirect subsidiary. During the six months ended January 31, 2008, gains of approximately \$2.7 million, \$1.8 million, \$0.4 million, and \$0.3 million, respectively, were recorded to adjust previously recorded gains on the acquisitions by third parties of Avamar Technologies, Inc., Molecular, Inc., Realm Business Solutions, Inc., and Alibris, Inc. due to the satisfaction of conditions leading to the release of funds held in escrow.

**(10) RESTRUCTURING CHARGES**

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

	<u>Employee Related Expenses</u>	<u>Contractual Obligations</u>	<u>Asset Impairments</u>	<u>Total</u>
	(in thousands)			
Accrued restructuring balance at July 31, 2008	\$ 1,848	\$ 8,320	\$ —	\$10,168
Restructuring charges	6,756	12	—	6,768
Restructuring adjustments	(99)	(251)	—	(350)
Cash paid	(910)	(1,641)	—	(2,551)
Non-cash adjustments	—	1	—	1
Accrued restructuring balance at October 31, 2008	\$ 7,595	\$ 6,441	\$ —	\$14,036
Restructuring charges	2,165	—	—	2,165
Restructuring adjustments	(1,626)	117	—	(1,509)
Cash paid	(1,744)	(679)	—	(2,423)
Non-cash adjustments	—	—	—	—
Accrued restructuring balance at January 31, 2009	\$ 6,390	\$ 5,879	\$ —	\$12,269

It is expected that the payments of employee-related charges will be substantially completed by July 31, 2010. The remaining contractual obligations primarily relate to facility lease obligations for vacant space resulting from the current and previous restructuring activities of the Company. The Company anticipates that contractual obligations will be substantially fulfilled by May 2012.

The net restructuring charges for the three and six months ended January 31, 2009 and 2008 would have been allocated as follows had the Company recorded the expense and adjustments within the functional department of the restructured activities:

	<u>Three Months Ended January 31,</u>		<u>Six Months Ended January 31,</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
	(in thousands)			
Cost of revenue	\$ (1,006)	\$ 512	\$2,891	\$2,273
Selling, general and administrative	1,662	233	4,183	95
	<u>\$ 656</u>	<u>\$ 745</u>	<u>\$7,074</u>	<u>\$2,368</u>

During the three and six months ended January 31, 2009, the Company recorded a net restructuring charge of approximately \$0.7 million and \$7.1 million, respectively. These charges resulted primarily from a plan for a workforce reduction of approximately 500 employees, which was approved by management during the first quarter of fiscal year 2009 (the "Q1 Plan"). As a result of the Q1 Plan, we recognized a \$6.8 million pre-tax restructuring charge related to the workforce reduction for severance payments. All actions related to the Q1 Plan for workforce reductions will be completed by July 31, 2010. During the three months ended January 31, 2009, the Company recorded net adjustments of approximately \$1.5 million to decrease previously recorded restructuring estimates for employee-related severance expenses due to changes in estimates of employee-related severance expenses. Additionally, during the three months ended January 31, 2009, the Company recorded an additional \$2.2 million pre-tax restructuring charge for severance payments related to a workforce reduction of approximately 63 employees. All actions related to the workforce reduction will be completed by July 31, 2010. For the three and six months ended January 31, 2009, the restructuring charges were offset by \$1.5 million and \$1.9 million, respectively, in reductions to estimates for previously recorded employee-related expenses and facilities lease obligations primarily based on changes to the underlying assumptions.

During the three and six months ended January 31, 2008, the Company recorded a net restructuring charge of approximately \$0.7 million and \$2.4 million, respectively. These charges consisted of approximately \$0.7 million for the three months and approximately \$1.3 million for the six month period for severance costs, relating to the shutdown of facilities in Newark, California and Austin, Texas and the corresponding reduction in the workforce at each location. The workforces at the Newark and Austin facilities were reduced by approximately 39 and 77 employees, respectively. In addition, the Company incurred a \$1.1 million charge relating to the unutilized leased facility in Newark, California and the impairment of certain assets held at the facility. No additional lease obligation has been incurred as a result of the shutdown of the Austin facility, as the shutdown coincided with the expiration of the lease term.

## [Table of Contents](#)

The following table summarizes the regional activity in the restructuring accrual for the three and six months ended January 31, 2009:

	<u>Americas</u>	<u>Asia</u>	<u>Europe</u> <u>(in thousands)</u>	<u>Other</u>	<u>Consolidated</u> <u>Total</u>
Accrued restructuring balance at July 31, 2008	<u>\$ 4,694</u>	<u>\$ 174</u>	<u>\$ 5,056</u>	<u>\$244</u>	<u>\$ 10,168</u>
Amounts charged to restructuring expenses	1,143	721	4,904	—	6,768
Restructuring adjustments	(82)	—	(268)	—	(350)
Cash paid	(1,167)	(145)	(1,239)	—	(2,551)
Non-cash adjustment	1	—	—	—	1
Accrued restructuring balance at October 31, 2008	<u>\$ 4,589</u>	<u>\$ 750</u>	<u>\$ 8,453</u>	<u>\$244</u>	<u>\$ 14,036</u>
Restructuring charges	524	474	915	252	2,165
Restructuring adjustments	6	(15)	(1,500)	—	(1,509)
Cash paid	(907)	(364)	(1,152)	—	(2,423)
Non-cash adjustments	—	—	—	—	—
Accrued restructuring balance at January 31, 2009	<u>\$ 4,212</u>	<u>\$ 845</u>	<u>\$ 6,716</u>	<u>\$496</u>	<u>\$ 12,269</u>

### (11) SEGMENT INFORMATION

Based on the information provided to the Company's chief operating decision-maker ("CODM") for purposes of making decisions about allocating resources and assessing performance, the Company reports three operating segments, Americas, Asia, and Europe. In addition to its three operating segments, the Company reports an Other category. The Other category represents corporate expenses consisting primarily of costs associated with certain corporate administrative functions such as legal and finance, which are not fully allocated to the Company's subsidiary companies, and administration costs related to the Company's venture capital business. The Other category's 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 business segments.

Management evaluates segment performance based on segment net revenue, operating income (loss) and "Non-GAAP operating income (loss)", which is defined as the operating income (loss) excluding net charges related to depreciation, long-lived asset impairment, restructuring, amortization of intangible assets, stock-based compensation and non-cash charges. The Company believes that its Non-GAAP measure of operating income (loss) provides investors with a useful supplemental measure of the Company's operating performance by excluding the impact of non-cash charges and restructuring activities. Each of the excluded items (depreciation, long-lived asset impairment, restructuring, amortization of intangible assets, stock-based compensation and non-cash charges) were 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 Non-GAAP operating income (loss) to assist in evaluating the performance of the Company's core operations. Non-GAAP operating income (loss) does not have any standardized definition and therefore is unlikely to be comparable to similar measures presented by other reporting companies. These Non-GAAP results should not be evaluated in isolation of, or as a substitute for the Company's financial results prepared in accordance with U.S. GAAP.

For the three and six months ended January 31, 2009, sales to Hewlett-Packard accounted for approximately 22% and 23%, respectively, of ModusLink Global Solutions' consolidated net revenue for each period, and sales to SanDisk Corporation accounted for approximately 11% of the Company's consolidated net revenue for each period. For the three and six months ended January 31, 2008, sales to Hewlett-Packard accounted for approximately 20% and 23%, respectively, and sales to SanDisk Corporation accounted for approximately 10% and 11%, respectively, of the Company's consolidated net revenue. Sales to Advanced Micro Devices accounted for approximately 14% of the Company's consolidated net revenue for each period.

[Table of Contents](#)

Summarized financial information of the Company's continuing operations by business segment and the Other category was as follows:

	Three Months Ended January 31,		Six Months Ended January 31,	
	2009	2008	2009	2008
	(in thousands)			
<b>Net revenue:</b>				
Americas	\$ 91,950	\$ 92,592	\$ 188,283	\$ 176,775
Asia	74,405	84,383	158,830	171,095
Europe	94,106	100,997	204,761	204,842
	<u>\$ 260,461</u>	<u>\$ 277,972</u>	<u>\$ 551,874</u>	<u>\$ 552,712</u>
<b>Operating income (loss):</b>				
Americas	\$ (76,898)	\$ 4,992	\$ (85,700)	\$ 8,208
Asia	(66,068)	10,161	(54,704)	23,177
Europe	(13,721)	(1,746)	(22,795)	(3,927)
Sub-total	<u>(156,687)</u>	<u>13,407</u>	<u>(163,199)</u>	<u>27,458</u>
Other	(3,805)	(4,806)	(8,087)	(9,718)
	<u>\$(160,492)</u>	<u>\$ 8,601</u>	<u>\$(171,286)</u>	<u>\$ 17,740</u>
<b>Non-GAAP operating income:</b>				
Americas	\$ 287	\$ 7,385	\$ (4,304)	\$ 13,741
Asia	10,803	11,958	24,806	27,300
Europe	4,094	(43)	1,433	(608)
Sub-total	<u>15,184</u>	<u>19,300</u>	<u>21,935</u>	<u>40,433</u>
Other	<u>(2,827)</u>	<u>(3,973)</u>	<u>(6,235)</u>	<u>(8,054)</u>
	<u>\$ 12,357</u>	<u>\$ 15,327</u>	<u>\$ 15,700</u>	<u>\$ 32,379</u>

The following table reconciles Non-GAAP operating income to U.S. GAAP operating income (loss) and net income (loss):

	Three Months Ended January 31,		Six Months Ended January 31,	
	2009	2008	2009	2008
	(in thousands)			
<b>Non-GAAP operating income</b>	\$ 12,357	\$ 15,327	\$ 15,700	\$ 32,379
<b>Adjustments:</b>				
Depreciation	(4,779)	(3,746)	(9,446)	(7,897)
Amortization of intangible assets	(1,372)	(746)	(2,740)	(1,508)
Impairment of goodwill	(164,682)	—	(164,682)	—
Stock-based compensation	(1,360)	(1,489)	(3,044)	(2,866)
Restructuring, net	(656)	(745)	(7,074)	(2,368)
<b>GAAP operating income (loss)</b>	<u>\$(160,492)</u>	<u>\$ 8,601</u>	<u>\$(171,286)</u>	<u>\$ 17,740</u>
Other income (expense), net	(4,902)	21,365	(8,795)	23,605
Income tax expense	(3,455)	(2,077)	(7,489)	(4,216)
Income (loss) from discontinued operations	74	(86)	159	(716)
<b>Net income (loss)</b>	<u>\$(168,775)</u>	<u>\$ 27,803</u>	<u>\$(187,411)</u>	<u>\$ 36,413</u>

## Table of Contents

	January 31, 2009	July 31, 2008
	(in thousands)	
Total assets of continuing operations:		
Americas	\$ 207,633	\$ 290,412
Asia	178,193	248,000
Europe	122,824	189,187
Total	508,650	727,599
Other	57,707	82,961
	<u>\$ 566,357</u>	<u>\$ 810,560</u>

### (12) EARNINGS PER SHARE

The Company calculates earnings per share in accordance with SFAS No. 128, "Earnings per Share." Basic earnings per share are computed based on the weighted average number of common shares outstanding during the period. The dilutive effect of common stock equivalents is included in the calculation of diluted earnings per share only when the effect of the inclusion would be dilutive.

Approximately 1,000 and 0.1 million common stock equivalent shares have not been included in the diluted per share calculation for the three and six months ended January 31, 2009, respectively, as the Company has recorded a net loss for the three and six months ended January 31, 2009 and the impact would have been anti-dilutive. For the three and six months ended January 31, 2008, approximately 0.1 million and 0.2 million weighted average common stock equivalents, respectively, were included in the denominator in the calculation of dilutive earnings per share. For the three and six months ended January 31, 2008, approximately 1.9 million and 1.5 million common stock equivalent shares, respectively, and 0.2 million and 0.1 million nonvested shares, respectively, were excluded from the denominator in the calculation of diluted earnings per share calculation as their inclusion would have been antidilutive.

### (13) COMPREHENSIVE INCOME

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

	Three Months Ended January 31,		Six Months Ended January 31,	
	2009	2008	2009	2008
	(in thousands)			
Net income (loss)	\$(168,775)	\$27,803	\$(187,411)	\$36,413
Net unrealized holding (loss) on securities	(282)	(223)	(1,408)	(137)
Foreign currency translation adjustment	(5,233)	2,641	(10,340)	4,884
Minimum pension liability adjustment	493	—	60	—
Comprehensive income (loss)	<u>\$(173,797)</u>	<u>\$30,221</u>	<u>\$(199,099)</u>	<u>\$41,160</u>

The components of accumulated other comprehensive income was as follows:

	January 31, 2009	July 31, 2008
	(in thousands)	
Net unrealized holding gains (loss) on securities	\$ (252)	\$ 1,156
Cumulative foreign currency translation adjustment	5,778	16,118
Minimum pension liability adjustment	1,680	1,620
Defined benefit pension plans	403	403
Accumulated other comprehensive income	<u>\$ 7,609</u>	<u>\$19,297</u>

## [Table of Contents](#)

### (14) INVENTORIES

Inventories are stated at the lower of cost or market. Cost is primarily determined by the first-in, first-out (“FIFO”) method. Inventories at January 31, 2009 and July 31, 2008 consisted of the following:

	January 31, 2009	July 31, 2008
	(in thousands)	
Raw materials	\$ 58,985	\$59,459
Work-in-process	1,493	3,756
Finished goods	19,166	22,682
	<u>\$ 79,644</u>	<u>\$85,897</u>

### (15) CONTINGENCIES

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

### (16) SHARE REPURCHASE PROGRAM

In September 2007, the Company’s Board of Directors authorized the repurchase of up to \$50.0 million of the Company’s common stock from time to time on the open market or in privately negotiated transactions over the following 18 months. The repurchase program was funded using the Company’s working capital. As of January 31, 2009, the Company repurchased, cancelled and retired an aggregate of 3.5 million shares of common stock at a cost of approximately \$38.3 million. During the quarter ended January 31, 2009, the Company determined to discontinue the stock repurchase program.

### (17) INCOME TAXES

As of January 31, 2009 and July 31, 2008, the liability for unrecognized tax benefits related to various federal, state, and foreign income tax matters was \$5.7 million and \$6.2 million, respectively. Included in these amounts is approximately \$2.8 million of unrecognized tax benefits, which if recognized, would impact the effective tax rate. The difference between the total amount of unrecognized tax benefits and the amount that would impact the effective rate consists of items that would be offset through goodwill. As of January 31, 2009 and July 31, 2008, the Company had accrued \$68,000 and \$38,000, respectively, of interest and penalties related to uncertain tax positions. The Company does not expect that the amounts of unrecognized tax benefits will change significantly in the next 12 months. For the three and six months ended January 31, 2009, the Company was profitable in certain jurisdictions where the Company operates, resulting in an income tax expense using enacted rates in those jurisdictions.

The Company files income tax returns in the U.S., various states and in foreign jurisdictions. The federal and state income tax returns are generally subject to tax examinations for the tax years ended July 31, 2005 through July 31, 2008. To the extent the Company has tax attribute carryforwards, the tax year in which the attribute was generated may still be adjusted upon examination by the Internal Revenue Service or state tax authorities to the extent utilized in a future period. In addition, a number of tax years remain subject to examination by the appropriate government agencies for certain countries in the European and Asian regions. In Europe, the Company’s 2002 through 2008 tax years remain subject to examination in most locations, while the Company’s 1997 through 2008 tax years remain subject to examination in most Asian locations.

### (18) @VENTURES INVESTMENTS

The Company maintains interests in several privately held companies primarily through its various venture capital funds. The Company’s venture capital business (“@Ventures”) invests in early stage technology companies. These investments are generally made in connection with a round of financing with other third-party investors. At January 31, 2009, the Company’s carrying value of investments in privately held companies was approximately \$29.3 million. Investments in which the Company’s interest is less than 20% and which are not classified as available-for-sale securities are carried at the lower of cost or net realizable value unless it is determined that the Company exercises significant influence over the investee company, in which case the equity method of accounting is used. For those investments in which the Company’s voting interest is between 20% and 50%, the equity method of accounting is generally used. Under this method, the investment balance, originally recorded at cost, is adjusted to recognize the Company’s share of net earnings or losses of the investee company as they occur, limited to the extent of the Company’s investment in, advances to and commitments for the investee. These adjustments are reflected in “Equity in income (losses) of affiliates, net” in the Company’s Consolidated Statement of Operations.

---

## [Table of Contents](#)

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. This valuation process is based primarily on information that the Company requests from these privately held companies and is not subject to the same disclosure and audit requirements as the reports required of U.S. public companies. As such, the reliability and the accuracy of the data may vary. Based on the Company's evaluation, it recorded impairment charges related to its investments in privately held companies of \$13.4 million for the three and six months ended January 31, 2009. This impairment charge is included in "Equity in income (losses) of affiliates, net" in the Company's Consolidated Statement of Operations.

Estimating the net realizable value of investments in privately held early-stage technology companies is inherently subjective and has contributed to significant 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 \$29.3 million of investments in affiliates at January 31, 2009 ranging from 10% to 20%, respectively, would decrease our income from continuing operations by \$2.9 million to \$5.9 million.



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

The matters discussed in this report contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended that involve risks and uncertainties. All statements other than statements of historical information provided herein may be deemed to be forward-looking statements. Without limiting the foregoing, the words "believes", "anticipates", "plans", "expects" and similar expressions are intended to identify forward-looking statements. Factors that could cause actual results to differ materially from those reflected in the forward-looking statements include, but are not limited to, those discussed in Part II—Item 1A below and elsewhere in this report and the risks discussed in the Company's Annual Report on Form 10-K and Quarterly Reports on Form 10-Q filed with the SEC. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis, judgment, belief or expectation only as of the date hereof. The Company undertakes no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after the date hereof.

**Overview**

ModusLink Global Solutions, Inc. (together with its consolidated subsidiaries, "ModusLink Global Solutions" or the "Company"), through its wholly owned subsidiaries, ModusLink Corporation ("ModusLink"), ModusLink Open Channel Solutions, Inc. ("OCS") and ModusLink PTS, Inc. ("PTS"), provides industry-leading end-to-end global supply chain management solutions that help businesses market, sell, distribute and repair their products and services. ModusLink provides supply chain management services to technology-based clients in such markets as computing, software, consumer electronics, storage and communications markets. OCS provides entitlement and e-business management solutions, and PTS provides consumer electronics service repair and reverse logistics services.

We also invest in emerging, innovative and promising technologies and industries through our venture capital business, @Ventures. During the six months ended January 31, 2009, approximately \$7.5 million was invested by @Ventures and \$1.3 million of proceeds were received from the acquisition by third parties of certain @Ventures portfolio companies.

Management evaluates operating performance based on net revenue, operating income (loss), and net income (loss), and, across its segments, on the basis of "Non-GAAP operating income (loss)," which is defined as the operating income (loss) excluding net charges related to depreciation, long-lived asset impairment, restructuring, amortization of intangible assets and stock-based compensation and other non-cash charges. See Note 11 of the notes to the condensed consolidated financial statements for segment information, including a reconciliation of Non-GAAP operating income (loss) to net income (loss).

Our focus during fiscal 2009 remains consistent with the continued execution against our long-term strategic plan, and implementation of the following initiatives designed to achieve our goals:

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

*Increase the value delivered to clients through service expansion.* During fiscal year 2009, we will continue to focus on and invest in expanding and further developing our e-commerce and certain other offerings, which we believe will increase the overall value of the supply chain solutions we deliver to our existing clients and to new clients. We expect these solutions will continue to enhance our gross margins and drive greater profitability. Further, we believe that the addition of new services to existing clients will strengthen our relationship with these clients, and further integrate us with their business.

*Drive operational efficiencies throughout our organization.* As a result of the acquisition of Modus Media, Inc. in August 2004, the Company has been running multiple information technology systems at a significant cost. 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 will enable 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 our clients will benefit greatly from a global integrated business solution while we reduce our operating costs. A program that we expect will drive further operational efficiencies in the future is continued application of our lean sigma continuous improvement program. We believe this initiative will yield improved process standardization and operating efficiency gains, as well as lower our operating costs.

We believe that successful execution of these initiatives will enable us to improve our long-term financial performance. We have developed financial operating metric goals which are dependent on the successful implementation of these initiatives. These

## [Table of Contents](#)

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

During the second fiscal quarter of 2009 ended January 31, 2009, the Company continued to see a weakening in the business environment and global economy. Management believes that the declines in revenue compared with the second quarter of fiscal 2008 are in large part due to the ongoing global economic crisis. In the second quarter of fiscal 2009, ModusLink continued the restructuring efforts that it began in the first fiscal quarter of 2009 to better position the Company for the long-term, given the ongoing challenging economic environment. In October 2008 the management of the Company approved a plan and in December 2008 the Company announced that it was taking certain cost cutting actions as a result of the general economic decline. These actions included the elimination of approximately 500 jobs, and may include the closing of certain facilities. For the three and six months ended January 31, 2009, the Company recorded a restructuring charge of \$0.7 million and \$7.1 million for severance-related expenses. The Company expects to take additional restructuring actions in the remainder of fiscal year 2009 which may result in future restructuring charges in the range of approximately \$10.0 million to \$12.0 million.

For the three months ended January 31, 2009, the Company reported net revenue of \$260.5 million, an operating loss of \$160.5 million, loss from continuing operations before income taxes of \$165.4 million, a net loss of \$168.8 million and a gross margin percentage of 12.4%. For the six months ended January 31, 2009, the Company reported net revenue of \$551.9 million, an operating loss of \$171.3 million, loss from continuing operations before income taxes of \$180.1 million, a net loss of \$187.4 million and a gross margin percentage of 10.9%. Operating results for the three and six months ended January 31, 2009 reflect the impact of a non-cash goodwill impairment charge of \$164.7 million in the quarter ended January 31, 2009. Net income for the three and six months ended January 31, 2009 reflect in addition to the \$164.7 million non-cash goodwill impairment charge, a non-cash impairment charge of \$13.4 million recorded on certain investments included in the @Ventures portfolio of companies. We currently conduct business in The Netherlands, Hungary, France, Ireland, the Czech Republic, Singapore, Taiwan, China, Malaysia, Japan, Australia and Mexico in addition to our U.S. operations. At January 31, 2009, we had cash and cash equivalents, available-for-sale securities and short-term investments of \$135.7 million, and working capital of \$217.4 million.

As a large portion of our revenue comes from outsourcing services provided to clients such as hardware manufacturers, software publishers, telecommunications carriers, broadband and wireless service providers and consumer electronics companies, our operating performance has been and may continue to be adversely affected by declines in the overall performance of the technology sector and the continued economic decline affecting the world economy. In addition, the drop in consumer demand for our clients' products has had and may continue to have the effect of reducing our volumes and adversely affecting our revenue performance. The market for our supply chain management products and services is very competitive. We also face pressure from our clients to continually realize efficiency gains in order to help our clients maintain their gross margins and profitability. Increased competition and client demands for efficiency improvements may result in price reductions, reduced gross margins and, in some cases, loss of market share. As a result of these competitive and client pressures, the gross margins in our business are low. During the three and six months ended January 31, 2009, our gross margin percentages were 12.4% and 10.9%, respectively. Increased competition arising from industry consolidation and/or low demand for our clients' products and services may hinder our ability to maintain or improve our gross margins, profitability and cash flows. We must continue to focus on margin improvement, through implementation of our strategic initiatives, cost reductions and asset and employee productivity gains in order to improve the profitability of our business and maintain our competitive position. We generally react to margin and pricing pressures in several ways, including efforts to target new vertical markets, expand our service offerings and to lower our infrastructure costs. We seek to lower our cost to service clients by moving work to lower-cost venues, establishing facilities closer to our clients to gain efficiencies, and other actions designed to improve the productivity of our operations.

Historically, a limited number of key clients have accounted for a significant percentage of our revenue. For the three and six months ended January 31, 2009, sales to Hewlett-Packard accounted for approximately 22% and 23%, respectively, of our consolidated net revenue and sales to SanDisk Corporation accounted for approximately 11% of our consolidated net revenue for each period. For the three and six months ended January 31, 2008, sales to Hewlett-Packard accounted for approximately 20% and 23%, respectively, and sales to SanDisk Corporation accounted for approximately 10% and 11%, respectively, of our consolidated net revenue. For the three and six months ended January 31, 2008 sales to Advanced Micro Devices accounted for approximately 14% of our consolidated net revenue for both periods. We expect to continue to derive the vast majority of our operating revenue from sales to a small number of key clients. We currently do not have any agreements which obligate any client to buy a minimum amount of products or 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.

[Table of Contents](#)

**Basis of Presentation**

The Company reports three operating segments, Americas, Asia and Europe. In addition to its three operating segments, the Company reports an Other category. The Other category represents corporate expenses consisting primarily of costs associated with certain corporate administrative functions such as legal and finance which are not fully allocated to the Company's subsidiary companies, administration costs related to the Company's venture capital business and any residual results of operations from previously divested operations.

In accordance with U.S. GAAP, all significant intercompany transactions and balances have been eliminated in consolidation. Accordingly, segment results reported by the Company exclude the effect of transactions between the Company and its subsidiaries and between the Company's subsidiaries.

**Results of Operations**

**Three months ended January 31, 2009 compared to the three months ended January 31, 2008**

**Net Revenue:**

	Three Months Ended January 31, 2009	As a % of Total Net Revenue	Three Months Ended January 31, 2008	As a % of Total Net Revenue	\$ Change	% Change
	(in thousands)					
Americas	\$ 91,950	35.3%	\$ 92,592	33.3%	\$ (642)	(0.7)%
Asia	74,405	28.6%	84,383	30.4%	(9,978)	(11.8)%
Europe	94,106	36.1%	100,997	36.3%	(6,891)	(6.8)%
Total	<u>\$ 260,461</u>	100.0%	<u>\$ 277,972</u>	100.0%	<u>\$(17,511)</u>	(6.3)%

Net revenue decreased by approximately \$17.5 million during the three months ended January 31, 2009, as compared to the same period in the prior year. This \$17.5 million decrease was primarily a result of lower revenue of approximately \$26.3 million due to the decline in client programs and an estimated \$6.3 million unfavorable impact of foreign currency translation, offset by the inclusion of \$15.1 million of revenue from OCS and PTS, which were acquired in the second half of fiscal 2008.

During the three months ended January 31, 2009, net revenue in the Americas region decreased by \$0.6 million which resulted primarily from the decline in client order volumes of approximately \$17.9 million, offset by the inclusion of revenue from OCS and PTS of \$14.8 million and \$2.5 million of revenue recognized that was previously deferred. Within the Asia region, the net revenue decrease of approximately \$10.0 million resulted primarily from a \$14.8 million decrease in order volumes from the base business, offset by an increase of \$5.1 million of revenue due to incremental revenues from new customers. Within the Europe region, revenue decreased by approximately \$6.9 million primarily due to the \$6.9 million negative impact of foreign currency translation.

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. This business environment, and our mode of transacting business with our clients, does not lend itself to precise measurement of the amount and timing of future order volumes, and as a result, future consolidated and segment sales volumes and revenues could vary significantly from period to period. We sell primarily on a purchase order basis, rather than pursuant to contracts with minimum purchase requirements. These purchase orders are generally for quantities necessary to support near-term demand for our clients' products.

**Cost of Revenue:**

	Three Months Ended January 31, 2009	As a % of Segment Net Revenue	Three Months Ended January 31, 2008	As a % of Segment Net Revenue	\$ Change	% Change
	(in thousands)					
Americas	\$ 86,065	93.6%	\$ 80,586	87.0%	\$ 5,479	6.8%
Asia	57,866	77.8%	64,854	76.9%	(6,988)	(10.8)%
Europe	84,309	89.6%	93,623	92.7%	(9,314)	(9.9)%
Total	<u>\$ 228,240</u>	87.6%	<u>\$ 239,063</u>	86.0%	<u>\$(10,823)</u>	(4.5)%

Cost of revenue consists primarily of expenses related to the cost of materials purchased for sale or distribution as well as costs for salaries and benefits, contract labor, consulting, fulfillment and shipping, and applicable facilities costs. Cost of revenue decreased by approximately \$10.8 million for the three months ended January 31, 2009, as compared to the three months ended January 31,

## [Table of Contents](#)

2008. Gross margins for the second quarter of fiscal 2009 were 12.4% as compared to 14.0% in the prior year quarter. This decrease is primarily attributable to a decrease in profitability in the Americas due to an adverse customer mix-shift and weak volumes due to the economic recession, which resulted in lower capacity utilization rates.

For the three months ended January 31, 2009, the Company's gross margin percentages within the Americas, Asia and Europe regions were 6.4%, 22.2% and 10.4%, as compared to 13.0%, 23.1% and 7.3%, respectively, for the same period of the prior year. The 660 basis-point decline in gross margin within the Americas region reflected an adverse customer mix-shift and reduced volumes as a result of the global economic recession, partially offset by the recognition of \$2.5 million of revenue which had been deferred in an earlier period. Within the Asia region, the 90 basis-point decline in gross margin is primarily attributed to lower volumes from the base business, lower margins yielded from new business coming on board, and \$0.4 million of deferred revenue in the quarter. Within the Europe region, the 310 basis-point increase in gross margin was primarily due to a favorable impact of foreign currency translation due to the strengthening of the U.S. dollar, in conjunction with a mix-shift to lower cost solution centers and efficiency gains, partially offset by a \$0.6 million deferral of revenue in the second fiscal quarter.

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

### ***Selling, General and Administrative Expenses:***

	Three Months Ended January 31, 2009	As a % of Segment Net Revenue	Three Months Ended January 31, 2008 <small>(in thousands)</small>	As a % of Segment Net Revenue	\$ Change	% Change
Americas	\$ 7,784	8.5%	\$ 5,873	6.3%	\$ 1,911	32.5%
Asia	7,286	9.8%	8,999	10.7%	(1,713)	(19.0)%
Europe	7,379	7.8%	9,139	9.4%	(1,760)	(19.3)%
Sub-total	22,449	8.6%	24,011	8.6%	(1,562)	(6.5)%
Other	3,554	—	4,806	—	(1,252)	(26.1)%
Total	<u>\$ 26,003</u>	10.0%	<u>\$ 28,817</u>	10.4%	<u>\$(2,814)</u>	(9.8)%

Selling, general and administrative expenses consist primarily of compensation and employee-related costs, sales commissions and incentive plans, information technology expenses, travel expenses, facilities costs, consulting fees, fees for professional services, depreciation expense and marketing expenses. Selling, general and administrative expenses during the three months ended January 31, 2009 decreased by approximately \$2.8 million compared to the three month period ended January 31, 2008, primarily as a result of a \$3.6 million decline in Enterprise Resource Planning ("ERP") implementation costs, a \$0.8 million decline in travel expenses and a \$2.1 million decline in employee-related costs. These decreases were partially offset by the inclusion of \$2.8 million of selling, general and administrative expenses for OCS and PTS, \$0.3 million of bad debt expense, and \$0.3 million of increased depreciation expense.

### ***Impairment of Goodwill:***

	Three Months Ended January 31, 2009	As a % of Segment Net Revenue	Three Months Ended January 31, 2008 <small>(in thousands)</small>	As a % of Segment Net Revenue	\$ Change	% Change
Americas	\$ 74,626	81.2%	\$ —	—	\$ 74,626	—
Asia	73,948	99.4%	—	—	73,948	—
Europe	16,108	17.1%	—	—	16,108	—
Total	<u>\$ 164,682</u>	63.2%	<u>\$ —</u>	—	<u>\$ 164,682</u>	—

In accordance with FASB Statement No. 142, "Goodwill and Other Intangible Assets", ("SFAS No. 142"), and the Company's practice, the carrying value of goodwill is tested for impairment annually on July 31 of each fiscal year or whenever events occur or circumstances change between annual tests indicating potential impairment. During the second quarter of fiscal year 2009, indicators of potential impairment caused the Company to conduct an interim impairment test. Those indicators included: a recent significant decrease in the market capitalization of the Company; and the change in the macroeconomic environment. In accordance with SFAS No. 142, the Company completed step one of the impairment analysis. 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

## [Table of Contents](#)

effect to an appropriate control premium. The Company applied a control premium of approximately 35%. As a result of the step one test, the Company concluded that, as of January 31, 2009, the fair value of three of its five reporting units was below their respective carrying values, including goodwill. The three reporting units that showed potential impairment were Americas, Asia and Europe. As such, step two of the impairment test was initiated in accordance with SFAS No. 142. The step-two analysis has been completed and in connection with the preparation of its quarterly financial statements for the quarter ended January 31, 2009 the Company concluded that its goodwill was impaired and recorded a \$164.7 million non-cash goodwill impairment charge at January 31, 2009 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 in the second quarter of fiscal year 2009 an income approach by calculating the present value of our estimated future operating cash flows. The income approach incorporates many assumptions including future growth rates, discount factors, expected capital expenditures and income tax cash flows. In developing an appropriate discount rate to apply in its estimated cash flow models the Company develops an estimate of its weighted average cost of capital. Changes in economic and operating conditions impacting these assumptions could result in a goodwill impairment in future periods.

### ***Amortization of Intangible Assets:***

	Three Months Ended January 31, 2009	As a % of Segment Net Revenue	Three Months Ended January 31, 2008 (in thousands)	As a % of Segment Net Revenue	\$ Change	% Change
Americas	\$ 1,001	1.1%	\$ 377	0.4%	\$ 624	165.5%
Asia	371	0.5%	369	0.4%	2	0.5%
Europe	—	—	—	—	—	—
Total	<u>\$ 1,372</u>	0.5%	<u>\$ 746</u>	0.3%	<u>\$ 626</u>	83.9%

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

### ***Restructuring, net:***

	Three Months Ended January 31, 2009	As a % of Segment Net Revenue	Three Months Ended January 31, 2008 (in thousands)	As a % of Segment Net Revenue	\$ Change	% Change
Americas	\$ 530	0.6%	\$ 765	0.8%	\$ (235)	(30.7)%
Asia	459	0.6%	—	—	459	—
Europe	(585)	(0.6)%	(20)	—	(565)	(2825.0)%
Sub-total	404	0.2%	745	0.3%	(341)	(45.8)%
Other	252	—	—	—	252	—
Total	<u>\$ 656</u>	0.3%	<u>\$ 745</u>	0.3%	<u>\$ (89)</u>	(11.9)%

During the three months ended January 31, 2009, the Company recorded net restructuring charges of approximately \$0.7 million as compared to a net restructuring charge of \$0.7 million in the same period of the prior fiscal year.

The \$0.7 million charge recorded during the three months ended January 31, 2009 consisted of approximately \$2.2 million related to a workforce reduction of approximately 63 employees related to the Company's 2009 restructuring plans, partially offset by a net adjustment of \$1.5 million to decrease previously recorded restructuring estimates for employee-related severance expenses due to changes in estimates of employee-related severance expenses. The \$0.8 million charge recorded during the three months ended January 31, 2008 consisted of approximately \$0.7 million related to a workforce reduction of 77 employees resulting from the shutdown of a facility in Austin, Texas. No additional lease obligation was incurred as a result of the shutdown of the Austin facility, as the shutdown coincided with the expiration of the lease term.

### ***Interest Income and Interest Expense:***

During the three months ended January 31, 2009, interest income decreased to \$0.5 million from \$2.7 million for the three months ended January 31, 2008. The decrease in interest income was the result of lower average interest rates and lower average balances of cash and cash equivalents during the current period compared to the same period in the prior fiscal year.

## [Table of Contents](#)

Interest expense totaled approximately \$0.2 million and \$0.5 million for the three months ended January 31, 2009 and 2008, respectively. In both periods, interest expense of approximately \$0.2 million related to the Company's stadium obligation, and the remaining interest expense for the three months ended January 31, 2008 related primarily to outstanding borrowings on a revolving bank credit facility.

### ***Other Gains (Losses), net:***

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

During the three months ended January 31, 2008, the Company recorded a gain of approximately \$12.9 million on the acquisition of TGN by a third party in December 2007. Additionally, during the three months ended January 31, 2008, gains of approximately \$2.7 million, \$0.6 million, \$0.4 million, and \$0.2 million, respectively, were recorded to adjust previously recorded gains on the acquisitions by third parties of Avamar Technologies, Inc., Molecular, Inc., Realm Business Solutions, Inc., and Alibris, Inc. due to the satisfaction of conditions leading to the release of funds held in escrow. These companies were also @Ventures portfolio companies that were acquired by third parties in previous reporting periods. The Company also recorded a gain of \$1.6 million from the sale of a minority interest in a former indirect subsidiary. The Company also recorded foreign exchange losses of approximately \$0.1 million during this three month period. These foreign exchange losses related primarily to unhedged foreign currency exposures in Asia and Europe.

### ***Equity in Income (Losses) of Affiliates, net:***

Equity in income (losses) of affiliates, net, resulted from the Company's minority ownership in certain investments that are accounted for under the equity method. Under the equity method of accounting, the Company's proportionate share of each affiliate's operating income (losses) is included in equity in income (losses) of affiliates. Equity in income (losses) of affiliates decreased to a loss of \$11.0 million for the three months ended January 31, 2009 from income of \$0.6 million for the same period in the prior fiscal year, primarily as a result of \$13.4 million of impairment charges recorded on certain investments included in the @Ventures portfolio of companies, partially offset by equity in income of affiliates of \$2.4 million recognized by the Company as its portion of the net income of a certain affiliate company.

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. This valuation process is based primarily on information that the Company requests from these privately held companies and is not subject to the same disclosure and audit requirements as the reports required of U.S. public companies. As such, the reliability and the accuracy of the data may vary. Based on the Company's evaluation, it recorded impairment charges related to its investments in privately held companies of \$13.4 million for the three and six months ended January 31, 2009. This impairment charge is included in "Equity in income (losses) of affiliates, net" in the Company's Consolidated Statement of Operations.

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

During the three months ended January 31, 2009, the Company recorded income tax expense of approximately \$3.2 million, as compared to income tax expense of \$2.1 million for same period in the prior fiscal year. For the three months ended January 31, 2009, the Company was profitable in certain jurisdictions where the Company operates, resulting in an income tax expense using the enacted tax rates in those jurisdictions.

The Company provides income tax expense related to federal, state, and foreign income taxes. For the three months ended January 31, 2009 and 2008, the Company's U.S. taxable income, and the taxable income for certain foreign locations, was offset by net operating loss carryovers from prior years. The Company continues to maintain a full valuation allowance against its deferred tax asset in the U.S. and certain of its foreign subsidiaries due to the uncertainty of realizing such benefits.

**Six months ended January 31, 2009 compared to the six months ended January 31, 2008**
**Net Revenue:**

	Six Months Ended January 31, 2009	As a % of Total Net Revenue	Six Months Ended January 31, 2008	As a % of Total Net Revenue	\$ Change	% Change
	(in thousands)					
Americas	\$ 188,283	34.1%	\$ 176,775	32.0%	\$ 11,508	6.5%
Asia	158,830	28.8%	171,095	31.0%	(12,265)	(7.2)%
Europe	204,761	37.1%	204,842	37.0%	(81)	—
Total	<u>\$ 551,874</u>	100.0%	<u>\$ 552,712</u>	100.0%	<u>\$ (838)</u>	(0.2)%

Net revenue decreased by approximately \$0.8 million during the six months ended January 31, 2009, as compared to the same period in the prior fiscal year. This \$0.8 million decrease was primarily a result of an \$88.5 decline associated with certain client programs, offset by the inclusion of \$56.2 million of revenue from certain new client programs and the inclusion of revenue from OCS and PTS of \$31.5 million. The estimated net impact from foreign currency translation for the six months ended January 31, 2009 was not significant.

During the six months ended January 31, 2009, net revenue in the Americas region increased by \$11.5 million which resulted primarily from the inclusion of revenue from OCS and PTS of \$30.6 million, partially offset by a \$19.1 million decline associated with certain client programs. Within the Asia region, the net revenue decrease of approximately \$12.2 million resulted primarily from a \$13.1 million decrease due to a decline in volumes in the base business and lower realization of new business accounts due to the global economic recession. This decline was offset by the inclusion of revenue from OCS of \$0.9 million. Within the Europe region, revenue remained consistent with the six months ended January 31, 2008.

**Cost of Revenue:**

	Six Months Ended January 31, 2009	As a % of Segment Net Revenue	Six Months Ended January 31, 2008	As a % of Segment Net Revenue	\$ Change	% Change
	(in thousands)					
Americas	\$ 180,859	96.1%	\$ 154,564	87.4%	\$ 26,295	17.0%
Asia	121,781	76.7%	129,347	75.6%	(7,566)	(5.8)%
Europe	188,943	92.3%	190,828	93.2%	(1,885)	(1.0)%
Total	<u>\$ 491,583</u>	89.1%	<u>\$ 474,739</u>	85.9%	<u>\$ 16,844</u>	3.5%

Cost of revenue consists primarily of expenses related to the cost of materials purchased for sale or distribution as well as costs for salaries and benefits and contract labor, consulting, fulfillment and shipping, and applicable facilities. Cost of revenue increased by approximately \$16.8 million for the six months ended January 31, 2009, as compared to the six months ended January 31, 2008. Gross margins for the first half of fiscal year 2009 were 10.9% as compared to 14.1% for the first half of fiscal year 2008. This decrease is primarily attributable to a change in certain client programs and decreased capacity utilization due to lower volumes.

For the six months ended January 31, 2009, the Company's gross margin percentages within the Americas, Asia and Europe regions were 3.9%, 23.3% and 7.7%, as compared to 12.6%, 24.4% and 6.8%, respectively, for the same period of the prior fiscal year. The 870 basis-point decline in gross margin within the Americas region reflected decreased capacity utilization due to lower volumes, in conjunction with lower volumes from higher margin base business. Within the Asia region, the 110 basis-point decline in gross margin can be primarily attributed to lower volumes from the base business relative to higher volumes from the lower margin new business. Within the Europe region, the 90 basis-point increase in gross margin was primarily due to a favorable impact of foreign currency translation, in conjunction with a mix-shift to lower cost jurisdictions from higher cost jurisdictions, which was offset by the deferral of revenue.

**Selling, General and Administrative Expenses:**

	Six Months Ended January 31, 2009	As a % of Segment Net Revenue	Six Months Ended January 31, 2008	As a % of Segment Net Revenue	\$ Change	% Change
	(in thousands)					
Americas	\$ 16,027	8.5%	\$ 10,832	6.1%	\$ 5,195	48.0%
Asia	15,361	9.7%	17,810	10.4%	(2,449)	(13.8)%
Europe	17,858	8.7%	17,997	8.8%	(139)	(0.8)%
Sub-total	49,246	8.9%	46,639	8.4%	2,607	5.6%
Other	7,835	—	9,718	—	(1,883)	(19.4)%
Total	<u>\$ 57,081</u>	10.3%	<u>\$ 56,357</u>	10.2%	<u>\$ 724</u>	1.3%

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, consulting fees, fees for professional services, depreciation expense and marketing expenses. Selling, general and administrative expenses during the six months ended January 31, 2009 increased by approximately \$0.7 million compared to the six month period ended January 31, 2008, primarily as a result of the inclusion of \$5.5 million of selling, general and administrative expenses for OCS and PTS and \$1.8 million of bad debt expense. These increases were partially offset by a \$5.6 million decline in ERP implementation costs, a \$0.8 million decrease in employee-related costs, and a \$0.8 million decrease in travel expenses.

**Impairment of Goodwill:**

	Six Months Ended January 31, 2009	As a % of Segment Net Revenue	Six Months Ended January 31, 2008	As a % of Segment Net Revenue	\$ Change	% Change
	(in thousands)					
Americas	\$ 74,626	39.6%	\$ —	—	\$ 74,626	—
Asia	73,948	46.6%	—	—	73,948	—
Europe	16,108	7.9%	—	—	16,108	—
Total	<u>\$ 164,682</u>	29.8%	<u>\$ —</u>	—	<u>\$ 164,682</u>	—

In accordance with FASB Statement No. 142, "Goodwill and Other Intangible Assets", ("SFAS No. 142") and the Company's practice, the carrying value of goodwill is tested for impairment annually on July 31, of each fiscal year or whenever events occur or circumstances change between annual tests indicating potential impairment. During the second quarter of fiscal year 2009, indicators of potential impairment caused the Company to conduct an interim impairment test. Those indicators included the following: a recent significant decrease in the market capitalization of the Company, and the change in the macroeconomic environment. In accordance with SFAS No. 142, the Company completed step one of the impairment analysis. 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 an appropriate control premium. The Company applied a control premium of approximately 35%. As a result of the step one test, the Company concluded that, as of January 31, 2009, the fair value of three of its five reporting units was below their respective carrying values, including goodwill. The three reporting units that showed potential impairment were the Americas, Asia and Europe. As such, step two of the impairment test was initiated in accordance with SFAS No. 142. The step-two analysis has been completed and in connection with the preparation of its quarterly financial statements for the quarter ended January 31, 2009 the Company concluded that its goodwill was impaired and recorded a \$164.7 million non-cash goodwill impairment charge at January 31, 2009 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 in the second quarter of fiscal year 2009 using an income approach by calculating the present value of our estimated future operating cash flows. The income approach incorporates many assumptions including future growth rates, discount factors, expected capital expenditures, and income tax cash flows. The income approach incorporates many assumptions including future growth rates, discount factors, expected capital expenditures and income tax cash flows. In developing an appropriate discount rate to apply in its estimated cash flow models the Company develops an estimate of its weighted average cost of capital. Changes in economic and operating conditions impacting these assumptions could result in a goodwill impairment in future periods.



**Amortization of Intangible Assets:**

	Six Months Ended January 31, 2009	As a % of Segment Net Revenue	Six Months Ended January 31, 2008	As a % of Segment Net Revenue	\$ Change	% Change
	(in thousands)					
Americas	\$ 2,000	1.1%	\$ 754	0.4%	\$ 1,246	165.3%
Asia	740	0.5%	749	0.4%	(9)	(1.2)%
Europe	—	—	5	0.0%	(5)	(100.0)%
Total	<u>\$ 2,740</u>	0.5%	<u>\$ 1,508</u>	0.3%	<u>\$ 1,232</u>	81.7%

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

**Restructuring, net:**

	Six Months Ended January 31, 2009	As a % of Segment Net Revenue	Six Months Ended January 31, 2008	As a % of Segment Net Revenue	\$ Change	% Change
	(in thousands)					
Americas	\$ 1,591	0.8%	\$ 2,416	1.4%	\$ (825)	(34.1)%
Asia	1,180	0.7%	13	—	1,167	8,976.9%
Europe	4,051	2.0%	(61)	—	4,112	6,741.0%
Sub-total	6,822	1.2%	2,368	0.4%	4,454	188.1%
Other	252	—	—	—	252	—
Total	<u>\$ 7,074</u>	1.3%	<u>\$ 2,368</u>	0.4%	<u>\$ 4,706</u>	198.7%

During the six months ended January 31, 2009, the Company recorded net restructuring charges of approximately \$7.1 million as compared to a net restructuring charge of \$2.4 million in the same period of the prior fiscal year. The increase of approximately \$4.7 million is primarily the result of a plan for a workforce reduction of approximately 500 employees, which was approved by management in the first quarter of fiscal year 2009 (the "Q1 Plan"). As a result of the Q1 Plan, we recognized a \$6.8 million pre-tax restructuring charge related to severance payments for the workforce reduction in the first fiscal quarter and an additional \$2.2 million pre-tax restructuring charge during the three months ended January 31, 2009 for the reduction in workforce of approximately 63 employees. All actions related to the Q1 Plan and the additional charges taken in the second fiscal quarter will be completed by the end of the fourth quarter of fiscal year 2009. We estimate that all payments related to the Q1 Plan and additional charges taken in the second fiscal quarter for workforce reductions will be completed by the end of fiscal year 2010. The restructuring charges for the six months ended January 31, 2009 was partially offset by a net adjustments of approximately \$1.9 million to decrease previously recorded restructuring estimates for previously recorded employee-related severance expenses and facilities lease obligations primarily based on changes to underlying assumptions.

**Interest Income and Interest Expense:**

During the six months ended January 31, 2009, interest income decreased by \$4.5 million to \$1.2 million from \$5.7 million for the six month period ended January 31, 2008. The decrease in interest income was the result of lower average interest rates and lower average cash, cash equivalents and short-term investment balances during the current period compared to the same period in the prior fiscal year.

Interest expense totaled approximately \$0.4 million and \$1.1 million for the six months ended January 31, 2009 and 2008, respectively. In both periods, interest expense of approximately \$0.4 million related to the Company's stadium obligation, and the remaining interest expense for the six months ended January 31, 2008 related primarily to outstanding borrowings on a revolving bank credit facility.

***Other Gains (Losses), net:***

During the six months ended January 31, 2009, other gains (losses), net consisted of a net gain of approximately \$1.9 million. During the six months ended January 31, 2009, the Company recorded realized and unrealized foreign currency transaction gains of approximately \$2.0 million, and \$1.3 million of gains on the sale of investments. The \$1.3 million of gains was the result of adjustments to previously recorded gains on the acquisitions by a third parties of TGN and Avamar Technologies, Inc., due to the satisfaction of conditions leading to the release of funds held in escrow. TGN and Avamar Technologies, Inc. were @Ventures portfolio companies that were acquired by third parties in previous reporting periods. These gains were partially offset by a \$1.0 million impairment of an investment.

During the six months ended January 31, 2008, the Company recorded a gain of approximately \$12.9 million on the acquisition of TGN by a third party in December 2007. Additionally, during the six months ended January 31, 2008, gains of approximately \$2.7 million, \$1.8 million, \$0.4 million, and \$0.3 million, respectively, were recorded to adjust previously recorded gains on the acquisitions by third parties of Avamar Technologies, Inc., Molecular, Inc., Realm Business Solutions, Inc. and Alibris, Inc. due to the satisfaction of conditions leading to the release of funds held in escrow. These companies were also @Ventures portfolio companies that were acquired by third parties in previous reporting periods. The Company also recorded a gain of \$1.6 million from the sale of a minority interest in a former indirect subsidiary. The Company recognized foreign exchange losses of approximately \$2.2 million during the six months ended January 31, 2008. These foreign exchange losses related primarily to unhedged foreign currency exposures in Asia and Europe.

***Equity in Income (Losses) of Affiliates, net:***

Equity in income (losses) of affiliates, net, resulted from the Company's minority ownership in certain investments that are accounted for under the equity method. Under the equity method of accounting, the Company's proportionate share of each affiliate's operating income (losses) is included in equity in income (losses) of affiliates. Equity in income (losses) of affiliates decreased to a loss of approximately \$(11.5) million for the six months ended January 31, 2009 from income of \$0.9 million for the same period in the prior fiscal year, primarily as a result of a \$13.4 million of impairment charges recorded on certain investments included in the @Ventures portfolio of companies, partially offset by equity in income of affiliates of \$1.9 million recognized by the Company as its portion of the net income of certain affiliate 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. This valuation process is based primarily on information that the Company requests from these privately held companies and is not subject to the same disclosure and audit requirements as the reports required of U.S. public companies. As such, the reliability and the accuracy of the data may vary. Based on the Company's evaluation, it recorded impairment charges related to its investments in privately held companies of \$13.4 million for the three and six months ended January 31, 2009. This impairment charge is included in "Equity in income (losses) of affiliates, net" in the Company's Consolidated Statement of Operations.

***Income Tax Expense:***

During the six months ended January 31, 2009, the Company recorded income tax expense of approximately \$7.2 million, as compared to income tax expense of \$4.2 million for the same period of the prior fiscal year. For the six months ended January 31, 2009, the Company was profitable in certain jurisdictions where the Company operates, resulting in an income tax expense using the enacted tax rates in those jurisdictions.

The Company provides income tax expense related to federal, state, and foreign income taxes. For the six months ended January 31, 2009 and 2008, the Company's U.S. taxable income, and the taxable income for certain foreign locations, was offset by net operating loss carryovers from prior years. The Company continues to maintain a full valuation allowance against its deferred tax asset in the U.S. and certain of its foreign subsidiaries due to the uncertainty of realizing such benefits.

**Liquidity and Capital Resources**

Historically, the Company has financed its operations and met its capital requirements primarily through funds generated from operations, the issuance of its securities, the sale of our interests in subsidiaries, returns generated by our venture capital business and borrowings from lending institutions. As of January 31, 2009, the Company's primary sources of liquidity consisted of cash and cash equivalents of \$135.4 million. In addition, ModusLink has a revolving credit agreement (the "Loan Agreement") with a bank syndicate. The Loan Agreement as amended on February 27, 2009 is a \$35.0 million revolving credit facility, with a scheduled maturity of October 31, 2009. Advances under the Loan Agreement may be in the form of loans or letters of credit. At January 31, 2009, letters of credit for \$0.1 million were outstanding under the Loan Agreement. Interest on the revolving credit facility is based on the London Interbank Offered Rate "LIBOR" plus a margin of 2.50%. The Loan Agreement is secured by the assets of ModusLink and includes certain restrictive financial covenants, which include balance sheet leverage, liquidity and profitability measures and

## [Table of Contents](#)

restrictions that limit the ability of ModusLink, among other things, to merge, or acquire or sell assets without prior approval from the lenders. In addition, ModusLink maintains credit facilities of approximately \$3.4 million and \$0.9 million with Japanese and Taiwanese banks, respectively. No amounts were outstanding under these facilities at January 31, 2009. The Company's working capital at January 31, 2009 was approximately \$217.4 million.

Cash provided by operating activities of continuing operations represents net income as adjusted for non-cash and non-operating items and changes in operating assets and liabilities. Net cash provided by operating activities of continuing operations was \$2.9 million and \$14.4 million for the six months ended January 31, 2009 and 2008, respectively. The \$11.5 million decrease in cash provided by operating activities of continuing operations for the six months ended January 31, 2009 compared with the same period in the prior year reflected a decrease in accounts payable, accrued restructuring, and accrued expenses of \$26.7 million. During the six months ended January 31, 2009, non-cash items included depreciation expense of \$9.4 million, stock-based compensation of \$3.0 million, amortization of intangible assets of \$2.7 million, non-operating gains, net, of \$1.9 million, and \$164.7 million impairment of goodwill. The cash provided by operating activities of continuing operations for the six months ended January 31, 2008 was primarily driven by income from continuing operations of \$36.4 million. Cash flow from operating activities of continuing operations included an increase in accounts receivable of \$3.4 million and a decrease in inventories of \$0.7 million. This was offset by an increase of accounts payable, accrued restructuring and accrued expenses of \$14.6 million. During the six months ended January 31, 2008, non-cash items included depreciation expense of \$7.9 million, amortization of intangible assets of \$1.5 million, stock-based compensation of \$2.9 million and non-operating gains, net of \$18.2 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.

Investing activities of continuing operations used cash of \$12.7 million for the six months ended January 31, 2009 and provided cash of \$114.5 million for the six months ended January 31, 2008. The \$12.7 million of cash used by investing activities during the six months ended January 31, 2009 resulted primarily from \$7.5 million of investments in affiliates and \$6.6 million in capital expenditures. These cash uses were partially offset by the receipt of \$1.3 million of proceeds related to the acquisition by third parties of @Ventures portfolio companies. The \$114.5 million of cash provided by investing activities during the six months ended January 31, 2008 resulted primarily from approximately \$111.9 million from the redemption of short-term investments as a result of the shift in investments strategy away from auction rate securities and \$19.4 million of proceeds related to the acquisition by third parties of @Ventures portfolio companies. These sources of cash were partially offset by \$12.2 million of capital expenditures and \$4.6 million of investments in affiliates. As of January 31, 2009, the Company had a carrying value of \$29.3 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 \$3.5 million and \$39.1 million for the six months ended January 31, 2009 and 2008, respectively. The \$3.5 million of cash used for financing activities of continuing operations during the six months ended January 31, 2009 primarily related to \$3.3 million of cash used to repurchase the Company's common stock and \$0.3 million of capital lease repayments. The \$39.1 million of cash used for financing activities of continuing operations during the six months ended January 31, 2008 primarily related to repayments on the revolving line of credit of \$24.8 million and \$14.2 million of cash used to repurchase the Company's common stock. The Company is not dependent on liquidity from its financing activities to fund either its short-term or long-term operating activities; however, we have utilized our revolving line of credit to meet operating requirements in the past.

Cash used for discontinued operations totaled \$1.2 million for both the six months ended January 31, 2009 and 2008.

Given the Company's cash resources as of January 31, 2009, the Company believes that it has sufficient working capital and liquidity to support its operations for at least the next 12 months. 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**

A summary of the Company's contractual obligations is included in the Company's Annual Report on Form 10-K for the fiscal year ended July 31, 2008. The Company's gross liability for unrecognized tax benefits was approximately \$5.7 million and \$6.3 million, respectively, including approximately \$68,000 and \$24,000, respectively, of accrued interest and penalties as of January 31, 2009 and 2008. The Company is unable to reasonably estimate the amount or timing of payments for the liability.

## [Table of Contents](#)

The Company applies the disclosure provisions of Financial Accounting Standards Board (“FASB”) Interpretation (“FIN”) No. 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Guarantees of Indebtedness of Others”, an Interpretation of SFAS No. 5, “Accounting for Contingencies” (“SFAS No. 5”), SFAS No. 57, “Related Party Disclosures”, and SFAS No. 107, “Disclosures about Fair Value of Financial Instruments” and Rescission of FIN No. 34, “Disclosure of Indirect Guarantees of Indebtedness of Others,” to our agreements that contain guarantee or indemnification clauses. These disclosure provisions expand those required by SFAS No. 5 by requiring that guarantors disclose certain types of guarantees, even if the likelihood of requiring the guarantor’s performance is remote. The following is a description of arrangements in which the Company is a guarantor.

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

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

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

### **Critical Accounting Policies**

The preparation of our quarterly financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and reported amounts of revenues and expenses during the reporting period. On an ongoing basis, we evaluate our estimates, including those related to revenue recognition, stock-based compensation expense, inventories, investments, income taxes, restructuring, impairment of long-lived assets, goodwill and other intangible assets, contingencies and litigation. Of the accounting estimates we routinely make relating to our critical accounting policies, those estimates made in the process of: preparing investment valuations; determining discounted cash flows for purposes of evaluating goodwill and intangible assets for impairment; determining future lease assumptions related to restructured facility lease obligations; and establishing income tax liabilities are the estimates most likely to have a material impact on our financial position and the results of operations. Some accounting policies may have a significant impact on amounts reported in these financial statements. During the three and six months ended January 31, 2009, we believe that there have been no significant changes to the items that we disclosed as our critical accounting policies and estimates in the “Critical Accounting Policies” section of Management’s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended July 31, 2008, except as noted below:

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

The Company follows the provisions of SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets.” Under SFAS No. 144, 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. SFAS No. 144 defines impairment as the condition that exists when the carrying amount of a long-lived asset or group 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 uses third party valuation reports to assist in its determination of fair value. We typically estimate the fair value of long-lived assets using the income approach.

The Company is required to test goodwill for impairment annually or if a triggering event occurs in accordance with the provisions of SFAS No. 142 “Goodwill and Other Intangible Assets.” The Company’s policy is to perform its annual impairment testing for all reporting units, determined to be the Americas, Europe, Asia, OCS and PTS reporting units, in the fourth quarter of each fiscal year. The Company’s 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. In testing for a potential impairment of goodwill, we (1) allocate goodwill to our various reporting units to which the acquired goodwill relates; (2) estimate the fair value of our reporting units based on future estimated discounted cash flows; and (3) determine the carrying value (book value) of those reporting units. Prior to the allocation of assets to the reporting units, we are required to assess long-lived assets for impairment in accordance with SFAS No. 144. Furthermore, if the estimated fair value is less than the carrying value for a particular reporting unit, then we are required to estimate the fair value of all identifiable assets and liabilities of the reporting unit, in a manner similar to a purchase price allocation for an acquired business. Only after this process is completed is the amount of any goodwill impairment determined.

The process of evaluating the potential impairment of goodwill is subjective and requires significant judgment at many points in the analysis. In estimating the fair value of the reporting units with recognized goodwill for the purposes of our annual or periodic analyses, we make estimates and judgments about the future cash flows of these reporting units, including estimated growth rates and assumptions about the economic environment. Although our cash flow forecasts are based on assumptions that are consistent with the

## [Table of Contents](#)

plans and estimates we are using to manage the underlying reporting units, there is significant judgment in determining the cash flows attributable to these reporting units over their estimated remaining useful lives.

As part of the analysis, the Company performs a market capitalization reconciliation to ensure that the resulting outputs of the test and the total Company fair value are consistent, giving effect to an appropriate control premium. The Company has applied a control premium of approximately 35%. In developing an appropriate discount rate to apply in its estimated cash flow models the Company develops an estimate of its weighted average cost of capital.

Based on a combination of factors, including the macroeconomic environment, and a recent decrease in our market capitalization, we concluded that there were sufficient indicators to require us to perform an interim goodwill impairment analysis as of January 31, 2009. As a result, during the second fiscal quarter we recorded a goodwill impairment charge of \$164.7 million. In connection with completing our goodwill impairment analysis, we reviewed our long-lived tangible and intangible assets within the impaired reporting units under SFAS No. 144. We determined that the forecasted undiscounted cash flows related to these assets were in excess of their carrying values, and therefore these assets were not impaired.

### **New Accounting Pronouncements**

In November 2008, the SEC issued for comment a proposed roadmap regarding the potential use by U.S. issuers of financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”). IFRS is a comprehensive series of accounting standards published by the International Accounting Standards Board (“IASB”). Under the proposed roadmap, we could be required in fiscal 2015 to prepare financial statements in accordance with IFRS, and the SEC will make a determination in 2011 regarding the mandatory adoption of IFRS. We are currently assessing the impact that this potential change would have on our consolidated financial statements, and we will continue to monitor the development of the potential implementation of IFRS.

In April 2008, the FASB issued FSP FAS 142-3, “Determination of the Useful Life of Intangible Assets” (“FSP FAS 142-3”). FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, “Goodwill and Other Intangible Assets”. FSP FAS 142-3 is effective for the Company beginning in fiscal 2010. The Company is currently evaluating FSP FAS 142-3 and the impact, if any, that it may have on our results of operations or financial position.

In March 2008, the FASB issued SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133” (“SFAS No. 161”), which requires additional disclosures about the objectives of the derivative instruments and hedging activities, the method of accounting for such instruments under SFAS No. 133 and its related interpretations, and a tabular disclosure of the effects of such instruments and related hedged items on our financial position, financial performance, and cash flows. SFAS No. 161 is effective for the Company beginning in fiscal 2010. The adoption of this SFAS No. 161 is not expected to have a material impact on the results of operations or financial position.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), “Business Combinations” (“SFAS No. 141(R)”). SFAS No. 141(R) requires acquiring entities in a business combination to recognize the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose to investors the information they need to evaluate and understand the nature and financial effect of the business combination. SFAS No. 141(R) is effective for the Company beginning in fiscal 2010. The Company will adopt and comply with SFAS No. 141(R) on the effective date. The early adoption of this SFAS No. 141(R) is prohibited.

In December 2007, the FASB issued, SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements—an Amendment of ARB No. 51” (“SFAS No. 160”). SFAS No. 160 establishes accounting and reporting standards for noncontrolling interests (previously referred to as “minority interests”) in a subsidiary and for the deconsolidation of a subsidiary, to ensure consistency with the requirements of SFAS No. 141 (revised 2007), “Business Combinations”. SFAS No. 160 states that noncontrolling interests should be classified as a separate component of equity, and establishes reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS No. 160 is effective for the Company beginning in fiscal 2010. The Company will adopt and comply with SFAS No. 160 on the effective date. The early adoption of this SFAS No. 160 is prohibited.

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

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

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

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

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

Our exposure to market risk for changes in interest rates relates primarily to our investment in short-term investments. Previously, we had available-for-sale securities, a significant portion of which were classified as short-term investments on our consolidated balance sheet. These short-term investments consisted solely of ARS. Our short-term investments are intended to establish a high-quality portfolio that preserves principal, meets liquidity needs, avoids inappropriate concentrations and delivers an appropriate yield in relationship to our investment guidelines and market conditions. During the three months ended October 31, 2007, the Company modified its investment strategy by reducing its investments in ARS and increasing its investments in more liquid money market investments. During the second quarter of fiscal year 2008, the Company divested its investment portfolio of any ARS.

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

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

Revenues from our foreign operating segments accounted for approximately 65% and 66% of total revenues during the three and six months ended January 31, 2009, respectively. A portion of our international sales made by our foreign business units in their respective countries is denominated in the local currency of each country. These business units also incur a portion of their expenses in the local currency.

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

The conversion of the foreign subsidiaries' financial statements into U.S. dollars will lead to a translation gain or loss which is recorded as a component of other comprehensive income (loss). For the six months ended January 31, 2009, we recorded foreign currency translation losses of approximately \$10.3 million which are recorded within accumulated other comprehensive income in stockholders' equity in our condensed consolidated balance sheet. In addition, certain of our subsidiaries have assets and liabilities that are denominated in currencies other than the relevant entity's functional currency. Changes in the functional currency value of these assets and liabilities create fluctuations that will lead to a transaction gain or loss. For the six months ended January 31, 2009, we recorded realized and unrealized foreign currency transaction gains of approximately \$2.0 million which are recorded in "Other gains (losses), net" in our consolidated statement of operations.

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

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

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

---

[Table of Contents](#)

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

## PART II. OTHER INFORMATION

### Item 1. *Legal Proceedings.*

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

### Item 1A. *Risk Factors.*

Other than with respect to the risk factors below, there have not been any material changes from the risk factors previously disclosed in the "Item 1A. Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended July 31, 2008 and "Item 1A. Risk Factors" of our Quarterly Report on Form 10-Q for the quarterly period ended October 31, 2008. In addition to the other information set forth in this report, including in the first paragraph under "Management's Discussion and Analysis of Financial Condition and Results of Operations," you should carefully consider the factors discussed in our Annual Report on Form 10-K and our Quarterly Report on Form 10-Q, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K and our Quarterly Report on Form 10-Q are not the only risks facing the Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

#### ***Our exposure to financially troubled customers 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, that 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 customers experience financial difficulty, we could have difficulty recovering amounts owed to us from these customers, or demand for our services from these customers 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.

#### ***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.

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

We are required to test goodwill for impairment annually or if a triggering event occurs in accordance with the provisions of SFAS No. 142. We are also required to test long-lived assets for impairment if a triggering event occurs in accordance with the provisions of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Our policy is to perform the annual impairment testing for all reporting units, determined to be Americas, Europe, Asia, OCS and PTS, in the fourth quarter 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 recorded a non-cash goodwill impairment charge of \$164.7 million in the second quarter of fiscal 2009 related to the Company's Americas, Europe and Asia reporting units. We will continue to test goodwill for impairment annually and upon the occurrence of a triggering event. The goodwill subject to impairment testing during the second quarter of fiscal 2009, was recorded upon the 2004 acquisition of Modus Media, Inc., the 2008 acquisition of Open Channel Solutions, Inc. and the 2008 acquisition of PTS Electronics, Inc. The carrying value of goodwill at January 31, 2009 was approximately \$25.7 million. 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 results, we may record impairment charges in the future and our financial results may be materially adversely affected.

As of January 31, 2009, we had a goodwill balance of \$25.7 million. Goodwill 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



## [Table of Contents](#)

growth rates and the level and timing of future cash flows. As a result, several factors could result in the impairment of a material amount of our \$25.7 million goodwill balance in future periods, including, but not limited to:

- (1) A decline in our stock price and resulting market capitalization (such as the decline which occurred subsequent to October 31, 2008), if we determine that the decline is sustained and is indicative of a reduction in the fair value of our reporting units below their carrying value.
- (2) Further weakening of the global economy, continued weakness in the industry, or failure of ModusLink to reach our internal forecasts could impact our ability to achieve our forecasted levels of cash flows and reduce the estimated discounted cash flow value of our reporting units.

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 charge 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, changes in market conditions or a longer-term decline in the quoted market price of our stock 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.

A measure of the sensitivity of the amount of goodwill impairment charges to key assumptions is the amount by which a reporting unit “passed” the first step of the goodwill impairment test. The OCS and PTS reporting units both passed the step one test. The PTS reporting unit carrying value exceeded fair value by 3% of their estimated fair value. Generally, changes in estimates of expected future cash flows would have a similar effect on the estimated fair value of the reporting unit. That is, a 1% change in the estimated future cash flows would decrease the estimated fair value of the reporting unit by approximately 1%. A deterioration in the estimated future cash flows for PTS could lead to an impairment in a future period.

### ***Venture capital investing is risky and highly speculative.***

We invest in privately held companies through @Ventures. We receive proceeds relating to our investments, if at all, only when 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 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 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.

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. We may incur impairment charges to our investments in privately held companies, which could have an adverse impact on our future results of operations. For example, a decline in the carrying value of our \$29.3 million of investments in affiliates at January 31, 2009 ranging from 10% to 20%, respectively, would decrease our income from continuing operations by \$2.9 million to \$5.9 million.

## [Table of Contents](#)

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

The following table provides information about purchases by the Company during the quarter ended January 31, 2009 of equity securities that are registered by the Company pursuant to Section 12 of the Securities Exchange Act of 1934:

<u>Period</u>	<u>Total Number of Shares Repurchased (1)</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Repurchased as Part of Publicly Announced Plans or Programs</u>	<u>Approximate Dollar Value that May Yet Be Purchased Under the Plans or Programs (2)</u>
November 1, 2008-November 30, 2008	—	\$ —	N/A	\$ 11,759,508
December 1, 2008-December 31, 2008	—	\$ —	N/A	\$ 11,759,508
January 1, 2009-January 31, 2009	—	\$ —	N/A	\$ —

- (1) ModusLink Global Solutions has repurchased, cancelled and retired an aggregate of 3,461,705 shares of its common stock through January 31, 2009 pursuant to the repurchase program announced in September 2007 (the "Program").
- (2) In September 2007, ModusLink Global Solutions was authorized to repurchase up to \$50.0 million of its common stock from time to time on the open market or in privately negotiated transactions under the Program over an 18 month period. The Program was discontinued during the second fiscal quarter ended January 31, 2009 prior to its expiration.

### **Item 4. Submission of Matters to a Vote of Security Holders.**

At the 2008 Annual Meeting of Stockholders of the Company (the "Annual Meeting") on December 10, 2008, the following matters were acted upon by the stockholders of the Company:

1. The election of one Class III Director, Thomas H. Johnson, for the ensuing three years; and
2. The ratification of the appointment of KPMG LLP as the Company's independent registered public accounting firm for the current fiscal year.

The number of shares of Common Stock issued, outstanding and eligible to vote at the Annual Meeting as of the record date of October 20, 2008 was 46,144,981. The other directors of the Company, whose terms of office as directors continued after the Annual Meeting, are Anthony J. Bay, Virginia G. Breen, Francis J. Jules, Joseph C. Lawler, Edward E. Lucente, and Michael J. Mardy. The results of the voting on each of the matters presented to stockholders at the Annual Meeting are set forth below:

	<u>VOTES FOR</u>	<u>VOTES WITHHELD</u>	<u>VOTES AGAINST</u>	<u>ABSTENTIONS</u>	<u>BROKER NON-VOTES</u>
1. Election of one Director as a Class III Director: Thomas H. Johnson	35,958,363	1,797,495	N/A	N/A	N/A
2. Ratification of KPMG LLP	36,431,882	N/A	1,197,474	126,506	—

### **Item 5. Other Information.**

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

### **Item 6. Exhibits.**

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

**SIGNATURE**

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

MODUSLINK GLOBAL SOLUTIONS , INC.

Date: March 12, 2009

By: \_\_\_\_\_ /s/ STEVEN G. CRANE  
Steven G. Crane  
Chief Financial Officer

**EXHIBIT INDEX**

- 10.1 Amended and Restated Waiver Agreement dated as of January 30, 2009, by and among ModusLink Corporation, SalesLink LLC, SalesLink Mexico Holding Corp., the lenders party thereto, Bank of America, N.A. (as successor by merger to LaSalle Bank National Association), and RBS Citizens, National Association (f/k/a Citizens Bank of Massachusetts) is incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated January 30, 2009 (File No. 000-23262).
- 10.2 Form of Indemnification Agreement by and between ModusLink Global Solutions, Inc. and each of the Executive Officers of the Registrant (other than the Chief Executive Officer) dated December 17, 2008.
- 10.3 Amendment to Amended and Restated Limited Liability Company Agreement of CMGI @Ventures IV, LLC, dated as of December 29, 2008.
- 10.4 Fifth Amendment to Second Amended and Restated Loan and Security Agreement, dated as of February 27, 2009, by and among ModusLink Corporation, SalesLink LLC and SalesLink Mexico Holding Corp., Bank of America, N.A. (as successor by merger to LaSalle Bank National Association) and RBS Citizens, National Association (f/k/a Citizens Bank of Massachusetts) is incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated February 27, 2009 (File No. 000-23262).
- 10.5 Sixth Amendment to Second Amended and Restated Loan and Security Agreement, dated as of February 27, 2009, by and among ModusLink Corporation, SalesLink LLC and SalesLink Mexico Holding Corp., Bank of America, N.A. (as successor by merger to LaSalle Bank National Association) and The PrivateBank and Trust Company (as successor by assignment to RBS Citizens, National Association (f/k/a Citizens Bank of Massachusetts)) is incorporated herein by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K dated February 27, 2009 (File No. 000-23262).
- 10.6 Second Replacement Second Amended and Restated Revolving Credit Note dated February 27, 2009 issued by ModusLink Corporation, SalesLink LLC and SalesLink Mexico Holding Corp. to Bank of America, N.A is incorporated herein by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K dated February 27, 2009 (File No. 000-23262).
- 10.7 Second Replacement Second Amended and Restated Revolving Credit Note dated February 27, 2009 issued by ModusLink Corporation, SalesLink LLC and SalesLink Mexico Holding Corp. to The PrivateBank and Trust Company is incorporated herein by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K dated February 27, 2009 (File No. 000-23262).
- 31.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of the Chief Executive Officer Pursuant to 18 U.S.C Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of the Chief Financial Officer Pursuant to 18 U.S.C Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**INDEMNIFICATION AGREEMENT**

This Indemnification Agreement (“**Agreement**”) is made as of this [—] day of [—], 2008, between ModusLink Global Solutions, Inc., a Delaware corporation (together with its subsidiaries, the “**Company**”), and [—] (the “**Indemnitee**”).

**WITNESSETH THAT:**

WHEREAS, it is essential to the Company to attract and retain as Directors and executive Officers the most capable people available; and

WHEREAS, the Indemnitee is a director or officer of the Company or serves as a director, officer, trustee, partner, employee or agent of another corporation, partnership, joint venture, trust or other enterprise or non-profit entity at the express written request of the Company (each a “**Director**” or “**Officer**”, as applicable) and in such capacities provides valuable services to the Company; and

WHEREAS, both the Company and the Indemnitee recognize that the Indemnitee, while serving as a Director or Officer of the Company is exposed to a substantial risk of expensive litigation at a time when liability insurance may not continue to be available to insure adequately against such risk, and at a time when the Company and the Indemnitee recognize that the Indemnitee is not being paid sufficient compensation by the Company to compensate for such risk; and

WHEREAS, it is now and has always been the express policy of the Company to indemnify its Directors and Officers; and

WHEREAS, the Restated Certificate of Incorporation (as amended from time to time, the “**Certificate**”) and Second Amended and Restated By-Laws (as amended from time to time, the “**By-Laws**”) adopted by the Company provide for the indemnification of Officers and Directors of the Company as authorized by Section 145 of the Delaware General Corporation Law; and

WHEREAS, such Articles and By-Laws and the Delaware General Corporation Law specifically provide that they are not exclusive, and thereby contemplate that individual indemnification agreements may be entered into between the Company and its Directors and Officers; and

WHEREAS, in accordance with the authorization provided by law, the Company intends to purchase and maintain a policy or policies of Directors and Officers Liability Insurance (“**D&O Insurance**”), providing certain basic protection against risk of personal liability of Directors and Officers at a reasonable cost, and Indemnitee has relied on the availability of such coverage, but such coverage may become increasingly difficult to obtain on terms providing reasonable protection at a reasonable cost for all risks; and

WHEREAS, to induce Indemnitee to continue to serve as a Director or Officer of the Company and to provide Indemnitee with specific contractual assurance of substantial protection

against personal liability (regardless of, among other things, any amendment to or revocation of any provision of the Company's Certificate or By-Laws concerning indemnification or any change in the composition of the Company's Board of Directors or any acquisition of the Company), the Company desires to enter into this Agreement;

WHEREAS, in order to induce Indemnitee to remain in Indemnitee's present position as a Director or Officer of the Company and in consideration of Indemnitee's so remaining, the Company desires to indemnify Indemnitee according to the terms and conditions set forth below; and

NOW, THEREFORE, in consideration of the foregoing premises and of the Indemnitee's continuing to serve the Company, and for other good and valuable consideration, receipt of which is hereby acknowledged, the parties hereto, for themselves, their successors and assigns, hereby agree as follows:

1. **Agreement to Serve.** Indemnitee agrees to serve or to continue to serve as a Director or Officer of the Company for so long as he is duly elected or until such time as he tenders his resignation in writing or his status as a Director or Officer is terminated. This Agreement shall not be deemed an employment contract between the Company (or any of its subsidiaries) and Officer Indemnitee. Each Officer Indemnitee specifically acknowledges that Indemnitee's employment with the Company (or any of its subsidiaries), if any, is at will, and the Indemnitee may be discharged at any time for any reason, with or without cause, except as may be otherwise provided in any written employment contract between Indemnitee and the Company (or any of its subsidiaries), other applicable formal severance policies duly adopted by the Board, or, with respect to services as an Officer of the Company, by the Company's Certificate, the Company's By-laws, and the General Corporation Law of the State of Delaware. The foregoing notwithstanding, the Agreement shall continue in force after Indemnitee has ceased to serve as a Director or Officer of the Company.

2. **Definitions.** For purposes of this Agreement, the following terms shall have the meanings set forth below:

(a) "Change in Control" shall be deemed to have occurred when (i) there has been a change in control of the Company, not approved by a resolution of the Company's Board of Directors, of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A promulgated under the Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), including in any event the acquisition by any "person" (as such term is used in Sections 13(d)(3) and 14(d)(2) of the Exchange Act) of beneficial ownership, directly or indirectly, of securities of the Company representing 25% or more of the combined voting power of the Company's then outstanding securities, (ii) followed within a period of not more than two years by a change in the identity of a majority of the members of the Company's Board of Directors otherwise than through death, disability or retirement in accordance with the Company's retirement policies.

(b) The term "Claim" shall include any threatened, pending or completed action, suit or proceeding, or any inquiry or investigation, whether brought by or in the right of the Company or by any other party and whether of a civil, criminal, administrative or

investigative nature, including any inquiry or investigation which the Indemnitee in good faith believes might lead to the institution of any action, suit or proceeding, in which Indemnitee may be or may have been involved as a party, witness or otherwise, by reason of the fact that Indemnitee is or was a Director or Officer of the Company, by reason of any action taken by him or of any inaction on his part while acting as such a Director or Officer, or by reason of the fact that he is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise; in each case whether or not he is acting or serving in any such capacity at the time any liability or expense is incurred for which indemnification or reimbursement can be provided under this Agreement.

(c) The term “Expenses” shall include, without limitation, expenses of investigations, judicial or administrative proceedings or appeals, amounts paid in settlement of any Claim by or on behalf of Indemnitee, attorneys fees and disbursements, any expenses of establishing a right to indemnification or Expense Advances under Sections 9 and 10 of this Agreement, and all other costs, expenses and obligations paid or incurred in connection with investigating, defending, being a witness in or participating in (including on appeal), or preparing to defend, be a witness in or participant in, any Claim, but shall not include the amount of judgments, fines or penalties against Indemnitee.

(d) References to “other enterprise” shall include employee benefit plans; references to “fines” shall include any excise tax assessed with respect to any employee benefit plan; references to “serving at the request of the Company” shall include any service as a director, officer, employee or agent of the Company which imposes duties on, or involves services by, such director, officer, employee, or agent with respect to an employee benefit plan, its participants or beneficiaries.

(e) “Potential Change in Control” shall be deemed to have occurred if (i) any person publicly announces an intention to take or to consider taking such actions which if consummated might result in a Change in Control, (ii) any “person” (as such term is used in Sections 13(d)(3) and 14(d)(2) of the Exchange Act) acquires beneficial ownership, directly or indirectly, of securities of the Company representing 25% or more of the combined voting power of the Company’s then outstanding securities, or (iii) the Company’s Board of Directors in its sole discretion adopts a resolution to the effect that, for purposes of this Agreement, a Potential Change in Control has occurred.

3. **Basic Indemnification.** The Company hereby agrees to hold harmless and indemnify Indemnitee and Indemnitee’s successors referred to in Section 18 hereof to the fullest extent authorized or permitted by the General Corporation Law of the State of Delaware, or any other applicable law, or by any amendment thereof or other statutory provision authorizing or permitting such indemnification which is adopted after the date hereof.

4. **Indemnity in Third-Party Claims.** The Company shall indemnify Indemnitee in accordance with the provisions of this Section 4 if Indemnitee is a party or witness to, or threatened to be made a party or witness to, or otherwise involved in any Claim (other than a Claim by or in the right of the Company to procure a judgment in its favor) by reason of the fact that Indemnitee is or was a Director or Officer of the Company, or is or was serving at the request of the Company as a director, officer, employee or agent of another corporation,

partnership, joint venture, trust or other enterprise, against all Expenses, judgments, fines and penalties, actually incurred by Indemnitee in connection with such Claim; provided that such indemnification shall not apply to any Claim (i) in which Indemnitee shall have been finally adjudged to have engaged in willful misconduct or to have acted in a manner which was knowingly fraudulent or deliberately dishonest, or (ii) in the case of a criminal proceeding, in which Indemnitee had reasonable cause to believe that his conduct was unlawful. The Indemnitee shall be presumed to be entitled to indemnification hereunder to the fullest extent possible, and the burden of proving otherwise shall be on the party claiming to diminish such indemnification. The termination of any Claim by judgment, order of court, settlement, conviction or upon a plea of nolo contendere, or its equivalent, shall not create a presumption that Indemnitee engaged in willful misconduct or acted in a manner which was knowingly fraudulent or deliberately dishonest, and with respect to any criminal proceedings, shall not create a presumption that Indemnitee had reasonable cause to believe that his conduct was unlawful.

5. **Indemnity in Claims by or in the Right of the Company.** The Company shall indemnify Indemnitee in accordance with the provisions of this Section 5 if Indemnitee is a party or witness to, or threatened to be made a party or witness to, or otherwise involved in any Claim by or in the right of the Company to procure a judgment in its favor by reason of the fact that Indemnitee is or was a Director or Officer of the Company, or is or was serving at the request of the Company as a director, officer, employee, or agent of another corporation, partnership, joint venture, trust or other enterprise, against all Expenses actually incurred by Indemnitee in connection with such Claim provided that such indemnification for Expenses shall not apply to any Claim in which Indemnitee shall have been finally adjudged to have engaged in willful misconduct or to have acted in a manner which was knowingly fraudulent or deliberately dishonest, unless (and only to the extent that) any court in which such Claim was brought shall determine upon application, that despite the adjudication of liability but in view of all the circumstances of the case, Indemnitee is fairly and reasonably entitled to indemnity for such Expenses as such court shall deem proper. The Indemnitee shall be presumed to be entitled to indemnification hereunder to the fullest extent possible and the burden of proving otherwise shall be on the party claiming to diminish such indemnification.

6. **Insurance.** In the event the Company's D&O Insurance shall terminate or the scope or amount of coverage of the Company's D&O Insurance shall be reduced from the scope and coverage in effect during the first year of this Agreement, the Company agrees to hold harmless and indemnify the Indemnitee to the fullest extent permitted by applicable law to the full extent of the coverage which is in effect during the first year of this Agreement. Notwithstanding the foregoing, the Company is not obligated to maintain any D&O Insurance.

7. **Section 16(b) Liability.** The Company shall not be liable under this Agreement to make any payment in connection with any claim made against Indemnitee for an accounting of profits made from the purchase or sale by Indemnitee of securities of the Company within the meaning of Section 16(b) of the Securities Exchange Act of 1934 and amendments thereto or similar provisions of any state statutory law or common law.

8. **Indemnification of Expenses of Successful Party.** Notwithstanding any other provision of this Agreement, to the extent that Indemnitee has been successful on the merits or otherwise, including the dismissal of an action without prejudice or the settlement of an action



without admission of liability, in defense of any Claim or in defense of any claim, issue or matter therein, Indemnitee shall be indemnified against all Expenses incurred in connection therewith without the necessity of authorization in the specific case.

9. **Advancement of Expenses.** Expenses incurred by the Indemnitee in connection with any Claim or in connection with any proceeding brought by Indemnitee under Section 10 or 13 hereof, must be paid by the Company in advance (“**Expense Advances**”) immediately upon the written request of the Indemnitee provided Indemnitee shall undertake to repay such Expense Advances to the extent that it is ultimately determined that Indemnitee is not entitled to indemnification.

10. **Right of Indemnification Upon Application; Procedure Upon Application.** Any payment hereunder with respect to any judgment, fine or penalty shall be made no later than 45 days after receipt by the Company of the written request of Indemnitee, unless a determination has been made by a court of competent jurisdiction, or unless a determination is made within said 45-day period by independent legal counsel (appointed by the Company and approved by the Indemnitee) in a written opinion that the Indemnitee has not met the relevant standards for indemnification. All payments of Expense Advances must be made immediately in accordance with the terms and conditions of Section 9 except as provided in this Section 10.

The right to indemnification and the immediate right to Expense Advances pending final determination of the right to indemnification or lack thereof, as provided by this Agreement shall be enforceable by the Indemnitee in any court of competent jurisdiction. The burden of proving that indemnification is not appropriate as provided in this Agreement or otherwise shall be on the party claiming to diminish such indemnification. The failure of the Company (including its Board of Directors or independent legal counsel) to have made a determination prior to the commencement of such action that indemnification is proper in the circumstances because Indemnitee has met the applicable standard of conduct, shall not be a defense to the action or create a presumption that Indemnitee has not met the applicable standard of conduct. Indemnitee’s expenses reasonably incurred in connection with successfully establishing his right to indemnification, in whole or in part, with respect to any such Claim shall also be paid by the Company under this Agreement immediately upon written request in advance in accordance with the terms and conditions of Section 9.

In the event of any demand by the Indemnitee for the indemnification with respect to any judgment, fine or penalty hereunder or under the Company’s By-Laws, the Board of Directors of the Company shall either approve the indemnification or shall designate independent legal counsel referred to above. The obligations of the Company hereunder with respect to the payment of any judgment, fine or penalty shall be subject to the condition that the independent legal counsel shall not have determined (in a written opinion) that the Indemnitee is not permitted to be indemnified under applicable law. The obligation of the Company to make Expense Advances pursuant to this Agreement shall be subject to the condition that, if, when and to the extent that the independent legal counsel determines that the Indemnitee is not permitted to be so indemnified under applicable law, the Company shall be entitled to be reimbursed by the Indemnitee (who hereby agrees to reimburse the Company) for all such amounts theretofore paid. If the Indemnitee has commenced legal proceedings (either before or after the determination by independent legal counsel) in a court of competent jurisdiction to secure a

determination that the Indemnitee may be indemnified under this Agreement or otherwise, any determination made by the independent legal counsel that the Indemnitee is not permitted to be indemnified under applicable law shall not be binding, and the Indemnitee shall not be required to reimburse the Company for any Expense Advances and shall continue to be entitled to Expense Advances until a final judicial determination is made with respect thereto (as to which all rights of appeal therefrom have been exhausted or lapsed). If there has been no determination by the independent legal counsel or if the independent legal counsel determines that the Indemnitee is not permitted to be indemnified in whole or in part under applicable law, the Indemnitee shall have the right to commence litigation in any court in the states of Massachusetts or Delaware having subject matter jurisdiction thereof and in which venue is proper seeking an initial determination by the court or challenging any such determination by the independent legal counsel or any aspect thereof, and the Company hereby consents to service of process and to appear in any such proceeding.

11. **Change in Control.** The Company agrees that if there is a Change in Control of the Company, then with respect to all matters thereafter arising concerning the rights of the Indemnitee to indemnify payments and Expense Advances under this Agreement or any other agreement or Company By-Law now or hereafter in effect relating to the Claims, the Company shall seek legal advice only from independent counsel selected by the Indemnitee and approved by the Company (which approval shall not be unreasonably withheld) who has not otherwise performed services for the Company within the last ten years (other than in connection with such matters) or for the Indemnitee. Such counsel, among other things, shall render its written opinion to the Company and the Indemnitee as to whether and to what extent the Indemnitee is permitted to be indemnified under applicable law. The Company agrees to pay the reasonable fees of such independent counsel and to indemnify such counsel against any and all expenses (including attorneys, fees), claims, liabilities and damages relating to this Agreement or its engagement pursuant hereto.

12. **Establishment of Trust.** In the event of a Potential Change in Control, the Company may create a Trust for the benefit of the Indemnitee (either alone or together with one or more other indemnities) and from time to time fund such Trust in such amounts as the Company's Board of Directors may determine to satisfy Expenses reasonably anticipated to be incurred in connection with investigating, preparing for and defending any Claim, and all judgments, fines, penalties and settlement amounts of all Claims from time to time paid or claimed, reasonably anticipated or proposed to be paid. The term of any Trust established pursuant hereto shall provide that upon a Change in Control (i) the Trust shall not be revoked or the principal thereof invaded, without the written consent of the Indemnitee, (ii) the Trustee shall advance, within two business days of a request by the Indemnitee, all Expenses to the Indemnitee (and the Indemnitee hereby agrees to reimburse the Trust under the circumstances under which the Indemnitee would be required to reimburse the Company under this Agreement), (iii) the Trustee shall promptly pay to the Indemnitee all amounts for which the Indemnitee shall be entitled to indemnification pursuant to this Agreement or otherwise, and (iv) all unexpended funds in such Trust shall revert to the Company upon a final determination by the independent legal counsel of a court of competent jurisdiction, as the case may be, that the Indemnitee has been fully indemnified under the terms of this Agreement. The Trustee shall be a person or entity satisfactory to the Indemnitee. Nothing in this Section 12 shall relieve the Company of any of its obligations under this Agreement.

13. **Indemnification for Additional Expenses.** The Company shall indemnify the Indemnitee against all expenses (including attorneys fees) and, if requested by the Indemnitee, shall immediately advance such expenses to the Indemnitee, which are incurred by the Indemnitee in connection with any claim asserted or action brought by the Indemnitee for (i) indemnification or payment of Expense Advances by the Company under this Agreement or any other agreement or Company By-Law now or hereafter in effect relating to Claims, or (ii) recovery under any D&O Insurance policies maintained by the Company, provided the Indemnitee undertakes to repay such expenses to the extent that it is ultimately determined that Indemnitee is not entitled to such indemnification, Expense Advances, or insurance recovery, as the case may be.

14. **Partial Indemnification.** If Indemnitee is entitled under any provision of this Agreement to indemnification by the Company for some or a portion of the Expenses, judgments, fines or penalties actually and reasonably incurred by him in the investigation, defense, appeal or settlement of any Claim but not, however, for the total amount thereof, the Company shall nevertheless indemnify Indemnitee for the portion of such Expenses, judgments, fines or penalties to which Indemnitee is entitled.

15. **Agreement Not Exclusive: Subrogation Rights, etc.** This Agreement shall not be deemed exclusive of and shall not diminish any other rights Indemnitee may have to be indemnified or insured by the Company, any subsidiary of the Company or any other person or entity under any certificate of incorporation, by-law, agreement, policy of insurance, surety, vote of stockholders or disinterested directors or otherwise, whether or not now in effect, and shall continue as to Indemnitee after Indemnitee has ceased to be a Director or an Officer and shall inure to the benefit of Indemnitee's successors referred to in Section 18 hereof.

In the event of payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of the Indemnitee, who shall execute all such papers and do all such things as may be necessary or desirable to secure such rights. The Company shall not be liable under this Agreement to make any payment in connection with any claim made against the Indemnitee to the extent the Indemnitee has otherwise received payment (under any insurance policy, By-law or otherwise) of the amounts otherwise indemnifiable hereunder.

16. **Additional Exclusions.** Notwithstanding any provision in this Agreement, the Company shall not be obligated under this Agreement to make any indemnity in connection with any claim made against Officer Indemnitee in connection with any proceeding (or any part of any proceeding) initiated by an Officer Indemnitee, including any proceeding (or any part of any proceeding) initiated against the Company or its directors, officers, employees or other indemnitees, unless (i) the Board of Directors of the Company authorized the proceeding (or any part of any proceeding) prior to its initiation or (ii) the Company provides the indemnification, in its sole discretion, pursuant to the powers vested in the Company under applicable law.

17. **Continuation of Indemnity.** All agreements and obligations of the Company contained herein shall continue during the period Indemnitee is a director, officer, employee or agent of the Company (or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise)

and shall continue thereafter so long as Indemnatee shall be subject to any possible claim or threatened, pending or completed action, suit or proceeding, whether civil, criminal or investigative, by reason of the fact that Indemnatee was a Director or Officer of the Company or serving in any other capacity referred to herein.

18. **Successor; Binding Agreement.** The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, by agreement in form and substance reasonably satisfactory to Indemnatee, expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform if no such succession had taken place.

This Agreement shall inure to the benefit of and be enforceable by Indemnatee's personal or legal representatives, executors, administrators, successors, heirs, devisee and legatees. If Indemnatee should die while any amounts would still be payable to Indemnatee hereunder if Indemnatee had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to Indemnatee's devisee, legatees, or other designees, or if there be no such devisee, legatees or designees, to Indemnatee's estate.

19. **Notification and Defense of Claim.** Promptly after receipt of Indemnatee of notice of the commencement of any Claim, Indemnatee will, if a claim in respect thereof is to be made against the Company under this Agreement, notify the Company of the commencement thereof, but the omission so to notify the Company will not relieve it from any liability which it may have to Indemnatee hereunder. With respect to any such Claim as to which Indemnatee notifies the Company of the commencement thereof.

- (a) The Company will be entitled to participate therein at its own expense; and
- (b) Except as otherwise provided below, to the extent that it may wish, the Company jointly with any other indemnifying party similarly notified will be entitled to assume the defense thereof, with counsel satisfactory to Indemnatee. After notice from the Company to Indemnatee of its election so to assume the defense thereof, the Company will not be liable to Indemnatee under this Agreement for any legal or other expenses subsequently incurred by Indemnatee in connection with the defense thereof other than reasonable costs of investigation or as otherwise provided below. Indemnatee shall have the right to employ its own counsel with respect to such Claim, but the fees and expenses of such counsel incurred after notice from the Company of its assumption of the defense thereof with counsel satisfactory to Indemnatee shall be at the expense of Indemnatee unless (i) the employment of counsel by Indemnatee has been authorized by the Company (ii) Indemnatee shall have reasonably concluded that there may be a conflict of interest between the Company and Indemnatee in the conduct of the defense of such Claim, or (iii) the Company shall not in fact have employed counsel to assume the defense of such Claim, in each of which cases the fees and expenses of

counsel for the Indemnitee shall be paid immediately by the Company. The Company shall not be entitled to assume the defense of any Claim brought by or on behalf of the Company or as to which Indemnitee shall have made the conclusion provided for in (ii) above; and

- (c) The Company shall not be liable to indemnify the Indemnitee under his Agreement for any amounts paid in settlement of any Claim effected without its written consent. The Company shall not settle any Claim in any manner which would impose any penalty or limitation on Indemnitee without Indemnitee's written consent. Neither the Company nor Indemnitee will unreasonably withhold their consent to any proposed settlement.

20. **Enforcement.** The Company expressly confirms and agrees that it has entered into this Agreement and assumed the obligations imposed on the Company hereby in order to induce Indemnitee to continue as a Director or Officer of the Company, and acknowledges that Indemnitee is relying upon this Agreement in continuing in such capacity.

21. **Separability.** Each of the provisions of this Agreement is a separate and distinct agreement and independent of the others, so that if any provision hereof shall be held to be invalid or unenforceable for any reason; such invalidity or unenforceability shall not affect the validity or enforceability of the provisions hereof, which other provisions shall remain in full force and effect.

22. **Miscellaneous.** No provisions of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing signed by Indemnitee and either the Company's Chief Executive Officer or another officer of the Company specifically designated by the Board of Directors. No waiver by either party hereto at any time of any breach by the other party hereto of, or of compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not set forth expressly in this Agreement. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of Delaware, without giving effect to the principals of conflicts of laws thereof.

23. **Notices.** For the purposes of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered mail, return receipt requested, postage prepaid as follows:

If to Indemnitee:

at the last address on file with the Company

If to the Company:

ModusLink Global Solutions, Inc.  
1100 Winter Street  
Suite 4600  
Waltham, MA 02451  
Attn: General Counsel

or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

24. **Counterparts.** This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together shall constitute one and the same instrument.

25. **Effectiveness.** This Agreement shall be effective as of the date it is executed.

\* \* \* \* \*

IN WITNESS WHEREOF, the undersigned have caused this Agreement to be executed as of the day and year first above written.

MODUSLINK GLOBAL SOLUTIONS, INC.

\_\_\_\_\_  
Name:  
Title:

\_\_\_\_\_  
[—]

[Signature Page to Indemnification Agreement]

## CMGI @VENTURES IV, LLC

AMENDMENT TO  
AMENDED AND RESTATED LIMITED LIABILITY COMPANY AGREEMENT

(Transfer Amendment dated as of December 29, 2008)

THIS AMENDMENT, dated as of December 29, 2008 (the "Transfer Date"), to the Amended and Restated Limited Liability Company Agreement dated as of July 27, 2001 (as amended and in effect from time to time, the "LLC Agreement"), of CMGI @Ventures IV, LLC, a Delaware limited liability company (the "LLC"), is by and among Peter Mills and Marc Poirier (each of whom is a Class B Member of the LLC, and who, together, constitute Two-Thirds in Number of the Class B Members), and CMG @ Ventures Capital Corp. (the sole Class A Member of the LLC), @Ventures Partners III, LLC, a Delaware limited liability company (the "Transferor"), and each of the Transferees identified on Exhibit A attached hereto (each individually, a "Transferee" and collectively, the "Transferees"). Capitalized terms used herein, and not otherwise defined herein, shall have the respective meanings ascribed to them in the LLC Agreement.

WHEREAS, as of the date hereof, the Transferor is a Former Profit Member (Class B) of the LLC, with a 0% Percentage Interest, but with an Investment Percentage Interest in certain of the Investments and Follow-on Investments previously made by the LLC (the "Interest") (which Interest was acquired by the Transferor from Brad Garlinghouse);

WHEREAS, the Transferor desires to assign its entire right, title and interest in and to the Interest to the Transferees (in the respective proportions specified on Exhibit A attached hereto);

WHEREAS, pursuant to, and in accordance with, Section 8.01 of the LLC Agreement, the Class A Member and Two-Thirds in Number of the Class B Members have consented to such proposed transfer and to the admission of the Transferees to the LLC as substitute Members in respect of their respective shares of the Interest; and

WHEREAS, following such transfer, the Transferor shall have no further right or interest in and to the LLC, and shall withdraw therefrom; and

WHEREAS, the parties to this Amendment desire to amend the LLC Agreement to reflect such transfers, admissions and withdrawal.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, and in consideration of the agreements hereinafter set forth, the Agreement is hereby amended as follows:

1. Assignment. Effective as of the Transfer Date, the Transferor hereby assigns and transfers all of Transferor's interest in the Interest to the Transferees, in the respective proportions specified on Exhibit A attached hereto. This assignment includes all rights of the Transferor under and with respect to the LLC Agreement. The Transferor hereby withdraws from the LLC, and hereby acknowledges that it is not entitled to any distributions from the LLC.



2. Assumption. Each Transferee, by his or its execution and delivery of this Amendment, (a) hereby acknowledges receipt of a copy of the LLC Agreement and agrees to be bound by all of the covenants, terms and conditions of the LLC Agreement, (b) hereby agrees to perform all of the obligations arising under the LLC Agreement from and after the date hereof with respect to the portion of the Interest assigned to him or it hereby, including without limitation, obligations to make capital contributions, if any, and (c) hereby ratifies and confirms all actions taken by the LLC to date. For purposes of maintaining the Members' Capital Accounts, and for federal, state and local income tax purposes, the effective date of transfer will be Transfer Date.

3. Amendment to Schedules A and B. Schedules A and B to the Agreement are hereby deleted, and Schedules A and B attached hereto are substituted therefor, in order to reflect, effective as of the Transfer Date, the assignment and transfers described in Section 1 of this Amendment.

4. Certain Representations of Transferees. Each Transferee hereby severally represents and warrants to the Transferor, the LLC, the Class A Member and the Class B Members that:

(a) This Agreement has been duly and validly executed and delivered by or on behalf of such Transferee and such execution and delivery have been duly authorized by all necessary action (trust, partnership, corporate, limited liability company or otherwise, if applicable) of such Transferee.

(b) It is acquiring the Interest for its own account for investment, and not with a view to the distribution thereof, and will not assign, transfer, pledge or hypothecate its interest in the LLC except in accordance with the provisions of the LLC Agreement.

(c) Such Transferee hereby acknowledges that the interest in the LLC acquired by him or it pursuant hereto is subject to restrictions on transfer contained in the LLC Agreement and imposed by applicable state and federal securities laws on unregistered securities, and the Transferees shall abide by such restrictions. Such Transferee understands and agrees that the Interest has not been registered under the Securities Act of 1933, as amended, the Interest may not be transferred unless registered under such Act (or unless an exemption from such registration is available), and the LLC is not obligated and does not intend to make any such registration or file any reports with state or federal securities regulators to enable such Transferee to transfer its interest in the LLC.

(d) Such Transferee understands that the LLC will not register as an investment company under the Investment Company Act of 1940, as amended (the "Investment Company Act"), and in that regard, such Transferee hereby certifies that:

(i) It will hold its share of the Interest for its own account and not for the direct or indirect account or benefit of any other person or entity (in particular but not by way of limitation, such Transferee is not acting as a total return swap counterparty or other form of financial intermediary); and

(ii) Such Transferee is not acting jointly or otherwise in concert with any other person or entity in connection with its acquisition of its share of the Interest and the Transferee, in acquiring such share the Interest, is not doing so as part of a “company” as defined in Section 2(a)(8) of the Investment Company Act.

(e) Such Transferee is an “Accredited Investor” (as that term is defined in Regulation D promulgated under the Securities Act of 1933, as amended).

5. Transferor’s Representations and Warranties. The Transferor represents and warrants to the Transferee, the Class A Member, the Class B Members, and the LLC that:

(a) This Agreement constitutes a valid and binding obligation of the Transferor, enforceable against it in accordance with its terms,

(b) Subject to the terms of the LLC Agreement, the Transferor has good and marketable title to the Interest, free and clear of any liens or claims by others.

(c) This Agreement has been duly and validly executed and delivered by the Transferor and such execution and delivery have been duly authorized by all necessary action of the Transferor.

(d) The assignment of the Interest by the Transferor hereunder will not violate any agreement or instrument to which the Transferor is a party or by which it is bound or result in the creation or imposition of any lien or claim on the Interest.

6. Transferor and Transferee Representations. Each of the Transferor and each Transferee hereby severally represents and warrants to the Class A Member, the Class B Members and the LLC as follows:

(a) The transfer of the Interest contemplated by this Agreement will not be effected on or through (i) a United States national, regional or local securities exchange, (ii) a foreign securities exchange or (iii) an interdealer quotation system that regularly disseminates firm buy or sell quotations by identified brokers or dealers (including, without limitation, Nasdaq); and

(b) Neither the Transferor nor any Transferee is, and the transfer of the Interest will not be made by, through or on behalf of (i) a person or entity, such as a broker or a dealer, making a market in interests in the LLC, or (ii) a person or entity who makes available to the public bid or offer quotes with respect to interests in the LLC.

7. Ratification. In all other respects, the LLC Agreement is hereby ratified and confirmed.

8. Miscellaneous

(a) The Transferor and each Transferee agree to execute any further instruments and perform any further acts which are or may become reasonably necessary to carry out the intent of this Agreement or are reasonably requested by the LLC to complete the substitution of the Transferees as Profits Members of the LLC.

(b) This Agreement shall be governed by and construed under the laws of the State of Delaware.

(c) The representations and warranties of the Transferor and the Transferees shall remain in full force and effect following the transfer of the Interest and the admission of Transferees as Members, and the LLC, the Class A Member and each Class B Member may rely on all such representations and warranties.

(d) This Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same instrument.

(e) Capitalized terms used herein, and not otherwise defined herein, shall have the respective meanings ascribed thereto in the LLC Agreement.

*[Signature page follows.]*

IN WITNESS WHEREOF, the undersigned, constituting all of the Class A Members and a Two-Thirds in Number of the Class B Members, the Transferor and the Transferees, have hereunto set their respective hands and seals as of the day first above written.

**CLASS A MEMBER:**

CMG @VENTURES CAPITAL CORP.

By: /s/ Peter L. Gray

Name: Peter L. Gray

Title: Secretary

**CLASS B MEMBERS:**

/s/ Peter H. Mills

Peter H. Mills

/s/ Marc D. Poirier

Marc D. Poirier

**TRANSFEROR:**

@VENTURES PARTNERS III, LLC

By: /s/ Marc D. Poirier

Name: Marc D. Poirier

Title: Member

**TRANSFEREES:**

CMG @VENTURES CAPITAL CORP.

By: /s/ Peter L. Gray

Name: Peter L. Gray

Title: Secretary

/s/ David Wetherell

David Wetherell

PALM IRREVOCABLE TRUST:

By: /s/ Peter H. Mills

Name:

Title:

/s/ Marc D. Poirier

Marc D. Poirier

/s/ David Nerrow

David Nerrow

**EXHIBIT A**

**TRANSFEREES AND SHARES OF THE INTEREST**

<b><u>Name</u></b>	<b><u>Percentage of Interest to be Transferred to Transferee</u></b>
CMG @Ventures Capital Corp.	10.00%
David Wetherell	36.01%
Palm Irrevocable Trust	36.01%
Marc Poirier	8.99%
David Nerrow	8.99%

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

I, Joseph C. Lawler, certify that:

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

Date: March 12, 2009

By: \_\_\_\_\_ /s/ JOSEPH C. LAWLER

**Joseph C. Lawler  
Chairman, President and  
Chief Executive Officer**

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

I, Steven G. Crane, certify that:

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

Date: March 12, 2009

By: \_\_\_\_\_ /s/ STEVEN G. CRANE  
**Steven G. Crane**  
**Chief Financial Officer**



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

In connection with the Quarterly Report on Form 10-Q of ModusLink Global Solutions, Inc. (the "Company") for the fiscal quarter ended January 31, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Joseph C. Lawler, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

Date: March 12, 2009

By: \_\_\_\_\_ /s/ JOSEPH C. LAWLER

**Joseph C. Lawler**  
**Chairman, President and Chief Executive Officer**

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

In connection with the Quarterly Report on Form 10-Q of ModusLink Global Solutions, Inc. (the "Company") for the fiscal quarter ended January 31, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Steven G. Crane, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

Date: March 12, 2009

By: \_\_\_\_\_ /s/ STEVEN G. CRANE  
**Steven G. Crane**  
**Chief Financial Officer**