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

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 31, 2023

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 001-35319

Steel Connect, Inc.
(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	**04-2921333** **(I.R.S. Employer Identification No.)**
590 Madison Avenue **New York, New York** **(Address of principal executive offices)**	**10022** **(Zip Code)**

(914) 461-1276
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.01 par value	STCN	Nasdaq Capital Market
Rights to Purchase Series D Junior Participating Preferred Stock	--	Nasdaq Capital Market

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

As of December 1, 2023, there were 6,267,230 shares issued and outstanding of the registrant's Common Stock, $0.01 par value per share.

STEEL CONNECT, INC.
FORM 10-Q
TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements.

STEEL CONNECT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)

	Successor	
	October 31, 2023	July 31, 2023
	(unaudited)	
ASSETS		
Cash and cash equivalents	$ 276,705	$ 121,372
Accounts receivable, trade, net of allowance for credit losses of $211 and $219 at October 31, 2023 and July 31, 2023, respectively	27,974	28,616
Inventories, net	6,756	8,569
Funds held for clients	1,946	2,031
Prepaid expenses and other current assets	4,402	158,686
Total current assets	317,783	319,274
Property and equipment, net	3,724	3,698
Operating lease right-of-use assets	25,997	27,098
Investments	3,443	—
Other intangible assets, net	33,714	34,589
Goodwill	22,785	22,785
Other assets	3,149	3,737
Total assets	$ 410,595	$ 411,181
LIABILITIES, CONTINGENTLY REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS' DEFICIT		
Accounts payable	$ 24,889	$ 26,514
Accrued expenses	26,198	26,774
Funds held for clients	1,902	1,949
Current lease obligations	8,680	7,973
Convertible note payable	12,327	—
Other current liabilities	3,902	4,544
Total current liabilities	77,898	67,754
Convertible note payable	—	12,461
Long-term lease obligations	17,818	19,161
Other long-term liabilities	5,475	5,442
Total long-term liabilities	23,293	37,064
Total liabilities	101,191	104,818
Series C contingently redeemable preferred stock, $0.01 par value per share. 35,000 shares authorized, issued and outstanding at October 31, 2023 and July 31, 2023	35,006	35,006
Series E contingently redeemable preferred stock, $0.01 par value per share. 3,500,000 shares authorized, issued and outstanding at October 31, 2023 and July 31, 2023	202,733	202,733
Total contingently redeemable preferred stock	237,739	237,739
Stockholders' equity:		
Preferred stock, $0.01 par value per share. 4,965,000 shares authorized at October 31, 2023 and July 31, 2023; zero shares issued and outstanding at October 31, 2023 and July 31, 2023	—	—
Common stock, $0.01 par value per share. Authorized 1,400,000,000 shares; 6,267,230 issued and outstanding shares at October 31, 2023; 6,250,493 issued and outstanding shares at July 31, 2023	65	65
Additional paid-in capital	61,671	61,534
Accumulated earnings	11,512	7,612
Accumulated other comprehensive loss	(1,583)	(587)
Total stockholders' equity	71,665	68,624
Total liabilities, contingently redeemable preferred stock and stockholders' equity	$ 410,595	$ 411,181

See accompanying notes to unaudited condensed consolidated financial statements

STEEL CONNECT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)
(unaudited)

	Successor	Predecessor
	Three Months Ended October 31, 2023	Three Months Ended October 31, 2022
Net revenue	$ 41,341	$ 51,359
Cost of revenue	29,866	37,094
Gross profit	11,475	14,265
Operating expenses:		
Selling, general and administrative	8,795	10,386
Amortization	875	—
Total operating expenses	9,670	10,386
Operating income	1,805	3,879
Other income (expense):		
Interest income	3,219	144
Interest expense	(247)	(826)
Other gains, net	330	2,886
Total other income, net	3,302	2,204
Income before income taxes	5,107	6,083
Income tax expense	671	1,126
Net income	4,436	4,957
Less: Preferred dividends on Series C redeemable preferred stock	(536)	(537)
Net income attributable to common stockholders	$ 3,900	$ 4,420
Net income per common shares - basic	$ 0.15	$ 0.69
Net income per common shares - diluted	$ 0.15	$ 0.59
Weighted-average number of common shares outstanding - basic	6,199	6,434
Weighted-average number of common shares outstanding - diluted	26,066	8,403

See accompanying notes to unaudited condensed consolidated financial statements

STEEL CONNECT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in thousands)
(unaudited)

	Successor	Predecessor
	Three Months Ended October 31, 2023	Three Months Ended October 31, 2022
Net income	$ 4,436	$ 4,957
Other comprehensive loss:		
Foreign currency translation adjustment	(996)	(2,837)
Pension liability adjustments, net of tax	—	(1,078)
Other comprehensive loss	(996)	(3,915)
Comprehensive income	$ 3,440	$ 1,042

See accompanying notes to unaudited condensed consolidated financial statements

STEEL CONNECT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
(in thousands, except share amounts)
(unaudited)

	Number of Shares	Common Stock	Additional Paid-in Capital	Accumulated Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balance at 7/31/2023 (Successor)	6,250,493	$ 65	$ 61,534	$ 7,612	$ (587)	$ 68,624
Net income	—	—	—	4,436	—	4,436
Preferred dividends	—	—	—	(536)	—	(536)
Restricted stock grants	16,737	—	—	—	—	—
Share-based compensation	—	—	137	—	—	137
Other comprehensive items	—	—	—	—	(996)	(996)
Balance at 10/31/2023 (Successor)	6,267,230	$ 65	$ 61,671	$ 11,512	$ (1,583)	$ 71,665

	Number of Shares	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Deficit
Balance at 7/31/2022 (Predecessor)	6,485,309	$ 65	$ 7,479,906	$ (7,493,317)	$ 4,140	$ (9,206)
Net income	—	—	—	4,957	—	4,957
Preferred dividends	—	—	—	(537)	—	(537)
Restricted stock grants	13,712	—	—	—	—	—
Share-based compensation	—	—	177	—	—	177
Other comprehensive items	—	—	—	—	(3,915)	(3,915)
Balance at 10/31/2022 (Predecessor)	6,499,021	$ 65	$ 7,480,083	$ (7,488,897)	$ 225	$ (8,524)

See accompanying notes to unaudited condensed consolidated financial statements

STEEL CONNECT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Successor	Predecessor
	Three Months Ended October 31, 2023	Three Months Ended October 31, 2022
Cash flows from operating activities:		
Net income	$ 4,436	$ 4,957
Adjustments to reconcile net income to cash flows from operating activities:		
Depreciation	435	459
Amortization of finite-lived intangible assets	875	—
Amortization of deferred financing costs	—	12
Accretion of debt discount	—	510
Share-based compensation	137	177
Non-cash lease expense	2,197	2,230
Bad debt (recovery) expense	(8)	960
Other gains, net	(330)	(2,885)
Changes in operating assets and liabilities:		
Accounts receivable, net	238	3,026
Inventories, net	1,525	(1,077)
Prepaid expenses and other current assets	(367)	(168)
Accounts payable, accrued restructuring and accrued expenses	(1,351)	1,553
Refundable and accrued income taxes, net	312	118
Other assets and liabilities	(1,516)	(1,620)
Net cash provided by operating activities	6,583	8,252
Cash flows from investing activities:		
Purchases of investments	(3,890)	—
Proceeds from disposition of securities	154,526	—
Additions of property and equipment	(552)	(548)
Proceeds from the disposition of property and equipment	—	16
Net cash provided by (used in) investing activities	150,084	(532)
Cash flows from financing activities:		
Preferred dividend payments	(536)	(537)
Repayments on capital lease obligations	—	(19)
Net cash used in financing activities	(536)	(556)
Net effect of exchange rate changes on cash, cash equivalents and restricted cash	(884)	(405)
Net increase in cash, cash equivalents and restricted cash	155,247	6,759
Cash, cash equivalents and restricted cash, beginning of period	123,404	58,045
Cash, cash equivalents and restricted cash, end of period	$ 278,651	$ 64,804
Cash and cash equivalents, end of period	$ 276,705	$ 59,948
Restricted cash for funds held for clients, end of period	1,946	4,856
Cash, cash equivalents and restricted cash, end of period	$ 278,651	$ 64,804

See accompanying notes to unaudited condensed consolidated financial statements

STEEL CONNECT, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

(1) NATURE OF OPERATIONS

Steel Connect, Inc. (the "Company" or "Steel Company"), is a holding company which operates through its wholly-owned subsidiary ModusLink Corporation ("ModusLink" or "Supply Chain").

ModusLink is a supply chain business process management company serving clients in markets such as consumer electronics, communications, computing, medical devices, software and retail. ModusLink designs and executes elements in its clients' global supply chains to improve speed to market, product customization, flexibility, cost, quality and service. The Company also produces and licenses an entitlement management solution for activation, provisioning, entitlement subscription and data collection from physical goods (connected products) and digital products.

Steel Partners and Steel Connect Exchange Transaction

On April 30, 2023, Steel Partners Holdings L.P., (“Steel Holdings”) and the Company executed a series of agreements in which Steel Holdings and certain of its affiliates (the “Steel Partners Group”) agreed to transfer certain marketable securities held by the Steel Partners Group to the Company in exchange for 3.5 million shares of Series E Convertible Preferred Stock of the Company (the “Series E Convertible Preferred Stock”, and, such transfer and related transactions, the “Exchange Transaction”). The Exchange Transaction closed on May 1, 2023, which is the date that the consideration was exchanged between Steel Holdings and the Company.

(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 unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements and related notes for the year ended July 31, 2023 (Fiscal Year 2023), which are contained in the Company's Fiscal Year 2023 Form 10-K filed. The results for the three months ended October 31, 2023 are not necessarily indicative of the results to be expected for the full fiscal year. The year-end condensed consolidated balance sheet data was derived from audited consolidated financial statements, but does not include all disclosures required by U.S. GAAP.

Predecessor/Successor Reporting

On May 1, 2023, the Exchange Transaction resulted in Steel Holdings obtaining control of the Company for financial statement consolidation purposes. Steel Holdings does not consolidate the Company for Federal income tax purposes because the ownership in the Company is dispersed between different federal tax consolidation groups within Steel Holdings. As of May 1, 2023, the Company elected pushdown accounting in which it used Steel Holdings' basis of accounting, which reflected the fair market value of the Company’s assets and liabilities at the date of the Exchange Transaction. As a result, the Company has reflected the required pushdown accounting adjustments in its consolidated financial statements. Due to the application of pushdown accounting, the Company’s consolidated financial statements and certain footnote disclosures include a black line division between the two distinct periods to indicate the application of two different bases of accounting, which may not be comparable, between the periods presented. The pre- exchange period through April 30, 2023 is referred to as the "Predecessor" period. The post-exchange period, May 1, 2023 and onward, includes the impact of pushdown accounting and is referred to as the "Successor" period. As such for purposes of this quarterly report, all references to the three months ended October 31, 2023 are for the Successor period, and all references to the three months ended October 31, 2022 are for the Predecessor period. See Note 4 - "Exchange Transaction" for further information regarding the Exchange Transaction and the application of pushdown accounting.

Reverse/Forward Stock Split

At the special stockholders meeting held on June 6, 2023, the stockholders approved proposals to amend the Company’s restated certificate of incorporation (the “Charter”), to effect a 1-for-3,500 reverse stock split of the common stock (the “Reverse Stock Split”), followed immediately by a 375-for-1 forward stock split of the common stock (the “Forward Stock Split,” and, together with the Reverse Stock Split, the “Reverse/Forward Stock Split”). On June 7, 2023, Steel Connect's Board of Directors ("the Board") approved the Reverse/Forward Stock Split, and as such, the Board directed the Company to file with the State of Delaware certificates of amendment to our Charter to effectuate the Reverse/Forward Stock Split. The Reverse/Forward Stock

Split was effective on June 21, 2023 (the "Effective Date"). The Company's common stock began trading on a Reverse/Forward Stock Split-adjusted basis on the Nasdaq Capital Market when the market opened on June 22, 2023. The trading symbol for the Company's common stock remains "STCN." Accordingly, all share and per-share amounts for the current period and prior periods have been adjusted to reflect the Reverse/Forward Stock Split.

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

The Company considers events or transactions that occur after the balance sheet date but before the issuance of financial statements to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. For the three months ended October 31, 2023, the Company evaluated subsequent events for potential recognition and disclosure through the date these financial statements were filed.

(3) RECENT ACCOUNTING PRONOUNCEMENTS

Accounting Standards Issued and Not Yet Implemented

In November 2023, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*, which requires disclosure of incremental segment information on an annual and interim basis. This ASU is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024, and requires retrospective application to all prior periods presented in the financial statements. We are currently evaluating the impacts of the new standard.

In August 2020, the FASB issued ASU 2020-06, *Debt-Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging-Contracts in Entity's Own Equity (Subtopic 815-40)*. The amendment in this update simplifies the accounting for convertible instruments by reducing the number of accounting models available for convertible debt instruments and convertible preferred stock. This update also amends the guidance for the derivatives scope exception for contracts in an entity's own equity to reduce form-over-substance-based accounting conclusions and requires the application of the if-converted method for calculating diluted earnings per share. The update also requires entities to provide expanded disclosures about the terms and features of convertible instruments, how the instruments have been reported in the entity's financial statements and information about events, conditions and circumstances that can affect how to assess the amount or timing of an entity's future cash flows related to those instruments. The guidance is effective for interim and annual periods beginning in our fiscal year ending July 31, 2025, with early adoption permitted. The Company is currently evaluating this guidance to determine the impact it may have on its consolidated financial statements.

Other new pronouncements issued but not effective until after October 31, 2023 are not expected to have a material impact on our financial condition, results of operations or liquidity.

(4) EXCHANGE TRANSACTION

Steel Partners and Steel Connect Exchange Transaction

On April 30, 2023, the Company and Steel Holdings executed a series of agreements, in which Steel Holdings and the Steel Partners Group transferred an aggregate of 3.6 million shares of common stock, par value $0.10 per share, of Aerojet Rocketdyne Holdings, Inc. ("Aerojet") held by the Steel Partners Group to the Company in exchange for 3.5 million shares of newly created Series E Convertible Preferred Stock of Steel Connect (the “Series E Convertible Preferred Stock” and such transfer and related transactions, the "Exchange Transaction"). Following approval by the Company's stockholders pursuant to the rules of The Nasdaq Stock Market LLC at a special meeting of stockholders held on June 6, 2023, the Series E Convertible Preferred Stock is convertible into an aggregate of 19.8 million shares of the Company's common stock, par value $0.01 per share (the “common stock” or “Common Stock”), and votes together with the Company's common stock and participates in any dividends paid on the Company's common stock, in each case on an as-converted basis. Upon conversion of the Series E Convertible Preferred Stock, the Steel Partners Group would hold approximately 84.0% of the outstanding equity interests of the Company as of May 1, 2023, and the Company became a consolidated subsidiary of Steel Holdings for financial statement purposes. The Company is not consolidated by Steel Holdings for Federal income tax purposes because Steel Holdings' ownership in the Company is dispersed between different federal tax consolidation groups. The Exchange Transaction closed on May 1, 2023, the date that the consideration was exchanged between the Company and Steel Holdings. The Company's assets and liabilities have been included in Steel Holdings' consolidated balance sheet as of May 1, 2023, with a related noncontrolling interest of 16.0% of the Company's common stock. Prior to May 1, 2023, Steel Holdings held a 49.6% ownership interest in the Company and accounted for its investment in the Company in accordance with the equity method of accounting. As of the date of the Exchange Transaction, Steel Holdings remeasured the previously held equity method investment to its fair value based upon a valuation of the Company. The Exchange Transaction accomplishes Steel Holdings' objective, which is to increase ownership in the Company in order to benefit from future earnings and growth and strengthens the Company's balance sheet to permit it to do acquisitions.

The Exchange Transaction was accounted for in accordance with Accounting Standards Codification (“ASC”) Topic 805, *Business Combinations*, and, accordingly, the Company's results of operations were consolidated in Steel Holdings' financial statements on the date of the Exchange Transaction. Steel Holdings recorded a preliminary allocation of the Exchange Transaction to assets acquired and liabilities assumed based on their estimated fair values as of May 1, 2023. The final Exchange Transaction allocation, which is expected to be completed by December 31, 2023, will be based on final appraisals and other analysis of fair values of acquired assets and liabilities. Steel Holdings does not expect that differences between the preliminary and final Exchange Transaction allocation will have a material impact on its results of operations or financial position. As discussed in Note 2 - "Basis of Presentation", the Company elected pushdown accounting in which it uses Steel Holdings' basis of accounting, which reflects the fair market value of the Company’s assets and liabilities at the date of the Exchange Transaction.

The following table summarizes the total Exchange Transaction consideration:

(in thousands)		**May 1, 2023**
Fair value of Aerojet common stock	$	202,733
Fair value of Steel Holdings' previously held interests in Steel Connect and Steel Holdings' noncontrolling interest		111,816
Less: cash acquired from Steel Connect		(65,896)
Total estimated consideration, less cash acquired	$	248,653

The following represents the initial calculation of goodwill and fair value amounts recognized. The Company notes that there were no measurement period adjustments made in the current period that would result in an updated preliminary fair value allocation.

(in thousands)		May 1, 2023
Assets		
Accounts receivable, trade	$	36,900
Inventories, net		6,900
Prepaid expenses and other current assets		4,957
Other intangible assets		35,500
Other assets		3,900
Property and equipment, net		3,400
Operating lease right-of-use assets		29,250
Investments		202,733
Estimated fair value of total assets acquired by Steel Holdings		323,540
Liabilities		
Accounts payable		26,300
Accrued expenses		29,100
Current lease obligations		7,994
Other current liabilities		7,236
Long-term lease obligations		21,300
Other long-term liabilities		5,742
Estimated fair value of total liabilities assumed by Steel Holdings		97,672
Fair value of identifiable net assets		225,868
Goodwill attributable to Steel Connect	$	22,785

As part of pushdown accounting, the Company calculated the amount of goodwill recognized based on the excess of the Exchange Transaction consideration over the fair value of net identifiable assets acquired and liabilities assumed. Goodwill is primarily attributable to expected synergies and the assembled workforce of the Company. The goodwill recognized will not be deductible for income tax purposes.

Identifiable intangible assets were recognized at their estimated fair value as of the date of the Exchange Transaction. The fair value of the trade name asset was determined using the relief-from-royalty method and the fair value of the customer relationships asset was determined using the excess earnings method. These income-based approaches included assumptions such as the amount and timing of projected cash flows, growth rates, customer attrition rates, discount rates, and the assessment of the asset's life cycle. The estimated fair value and estimated remaining useful lives of identifiable intangible assets as of the Exchange Transaction date were as follows:

(in thousands)	Useful Life (Years)		Amount
Customer relationships	7	$	25,000
Trade name	Indefinite		10,500
Estimated fair value of identifiable intangible assets		$	35,500

(5) GOODWILL AND OTHER INTANGIBLE ASSETS, NET

In connection with the application of pushdown accounting, the Company recorded intangible assets for goodwill, customer relationships and tradenames. A reconciliation of the change in the carrying amount of goodwill by reportable segment is as follows:

	Supply Chain	
Balance at July 31, 2023 (Successor)		
Gross goodwill	$	22,785
Accumulated impairments		—
Net goodwill	$	22,785
Balance at October 31, 2023 (Successor)		
Gross goodwill	$	22,785
Accumulated impairments		—
Net goodwill	$	22,785

A summary of Other intangible assets, net is as follows:

	Successor					
	October 31, 2023			July 31, 2023		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Customer relationships	$ 25,000	$ 1,786	$ 23,214	$ 25,000	$ 911	$ 24,089
Trade name	10,500	—	10,500	10,500	—	10,500
Total	$ 35,500	$ 1,786	$ 33,714	$ 35,500	$ 911	$ 34,589

The trade name intangible asset has an indefinite useful life. Customer relationships are amortized on a straight-line basis. Amortization expense related to intangible assets was $0.9 million for the three months ended October 31, 2023. The Exchange Transaction closed on May 1, 2023, and as such, there was no intangible assets or related amortization expense for the three months ended October 31, 2022.

Based on gross carrying amounts at October 31, 2023, the Company's estimate of amortization expense for identifiable intangible assets for the remainder of fiscal year ending July 31, 2024, and fiscal years 2025 through 2028 and thereafter is presented in the table below:

	Fiscal Year Ending July 31,					
	2024	2025	2026	2027	2028	Thereafter
Estimated amortization expense	$ 2,679	$ 3,571	$ 3,571	$ 3,571	$ 3,571	$ 6,251

(6) INVENTORIES, NET

The table below presents the components of Inventories, net:

	Successor	
	October 31, 2023	July 31, 2023
	(In thousands)	
Raw materials	$ 3,680	$ 4,805
Work-in-process	71	239
Finished goods	3,005	3,525
	$ 6,756	$ 8,569

(7) INVESTMENTS

Long-term investments consist of debt and equity securities. The Company determines the appropriate classifications of its investments at the acquisition date and re-evaluates the classifications at each balance sheet date.

Equity securities that do not result in consolidation and are not accounted for under the equity method are measured at fair value, with any changes recognized in Other gains (losses), net in the consolidated statements of operations in accordance with ASC Topic 321, *Investments - Equity Securities*. The Company uses quoted market prices to determine the fair value of equity securities with readily determinable fair value.

Available-for-sale debt securities are reported at fair value, with unrealized gains and losses recognized in accumulated other comprehensive income or loss as a separate component of the Company's stockholders' equity in accordance with ASC Topic 320, *Investments - Debt Securities*. To the extent that debt securities meet the definition of a hybrid security under ASC 815, *Derivatives and Hedging*, the Company may elect the fair value option under ASC 825, *Financial Instruments* to measure the entire hybrid instrument, with changes in fair value recorded in the Company's consolidated statements of operations.

Interest income is recognized when earned.

The following table summarizes the Company's investments as of October 31, 2023. There were no investments as of July 31, 2023.

	Successor	
	October 31, 2023	
Convertible loan note investment[(a)]	$	1,227
Other investments[(b)]		2,216
Total	$	3,443

(a) The Company entered into a new convertible loan note on October 13, 2023, which matures on March 31, 2025. The Company paid 1.0 million GBP (approximately $1.2 million) to subscribe for an amount of £1.0 million (the "loan principal") of 11.0% 2025 unsecured convertible loan notes issued by the investee (the "CLN Instrument Agreement"). Contemporaneous with the execution of the CLN Instrument Agreement, the Company executed the Equity Warrant Instrument Agreement ("Warrant Agreement"), which provides the Company with the option to convert the outstanding balance into equity shares of the investee at any time before repayment of the outstanding loan principal balance. The Company's £1.0 million investment in the £20.0 million GBP 11.0% unsecured convertible loan notes provides it with an approximate 5.0% ownership interest on an if-converted basis. The cost basis of the convertible loan note investment was $1.2 million as of October 31, 2023, which also approximates its fair value. Changes in fair value will be recorded in the Company's consolidated statements of operations as the Company elected the fair value option under ASC 825 to account for this investment.

(b) The balance consists of multiple common stock investments of public companies. All were accounted for under ASC 321.

The amount of net unrealized losses for the three months ended October 31, 2023 that relate to equity securities still held as of October 31, 2023 are as follows:

	Successor	
	Three months ended October 31, 2023	
Unrealized losses recognized during the period on equity securities still held at the end of the period	$	447

Unrealized losses are recorded in Other gains, net on the condensed consolidated statements of operations. There was no investment activity for the three months ended October 31, 2022.

(8) ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

The following tables reflect the components of "Accrued expenses" and "Other current liabilities".

	Successor	
	October 31, 2023	July 31, 2023
Accrued Expenses	(In thousands)	
Accrued compensation	$ 8,500	$ 6,891
Accrued audit, tax and legal	4,577	5,696
Accrued price concessions	2,740	2,981
Accrued taxes	2,715	2,811
Accrued occupancy costs	1,345	1,412
Accrued IT costs	871	831
Accrued other	5,450	6,152
Total accrued expenses	$ 26,198	$ 26,774

	Successor	
	October 31, 2023	July 31, 2023
Other Current Liabilities	(In thousands)	
Deferred revenue - current	2,540	2,574
Other	1,362	1,970
Total other current liabilities	$ 3,902	$ 4,544

(9) LEASES

The table below presents the components of the Company's lease expense:

	Successor	Predecessor
	Three Months Ended October 31, 2023	Three Months Ended October 31, 2022
	(In thousands)	
Operating lease cost	$ 2,546	$ 2,405
Short-term lease expense	451	438
Variable lease cost	—	4
Sublease income	(167)	(273)
Total lease expense	$ 2,830	$ 2,574

Supplemental Cash Flow Information

Supplemental cash flow information related to the Company's leases was as follows:

	Successor	Predecessor
	Three Months Ended October 31, 2023	Three Months Ended October 31, 2022
	(In thousands)	
Cash paid for amounts included in measurement of lease liabilities:		
Operating cash flows from operating leases	$ 2,292	$ 2,207
Financing cash flows from finance leases	$ —	$ 19

(10) DEBT

The components of debt are presented in the table below:

	Successor	
	October 31, 2023	July 31, 2023
	(In thousands)	
Unsecured		
7.50% Convertible Senior Note due September 1, 2024	$ 12,327	$ 12,461
Credit Facilities		
Umpqua Revolver	—	—
Total debt, net	$ 12,327	$ 12,461

7.50% Convertible Senior Note

On February 28, 2019, the Company entered into a 7.50% Convertible Senior Note Due 2024 Purchase Agreement (the "SPHG Note Purchase Agreement") with SPH Group Holdings LLC ("SPHG Holdings"), whereby SPHG Holdings agreed to loan the Company $14.9 million in exchange for a 7.50% Convertible Senior Note due 2024 (the "SPHG Note").

On March 9, 2023 (the "Amendment Date"), the Company and SPHG Holdings entered into an amendment to the SPHG Note (the “SPHG Note Amendment”). Pursuant to the SPHG Note Amendment, the maturity date of the SPHG Note was extended to September 1, 2024 from its original maturity date of March 1, 2024. In addition, the Company repaid $1.0 million in principal amount of the SPHG Note on the Amendment Date, and repaid an additional $1.0 million principal amount of the note on June 9, 2023. In connection with the SPHG Note Amendment, the Company paid SPHG Holdings a cash amendment fee of $0.1 million, and derecognized $0.2 million of the debt discount in proportion to the reduction of the principal balance in the third quarter of fiscal year 2023. No other changes were made to the terms of the SPHG Note besides the items discussed.

SPHG Holdings has the right, at its option, prior to the close of business on the business day immediately preceding the maturity date of the SPHG Note, to convert the SPHG Note or a portion thereof that is $1,000 or an integral multiple thereof, into shares of common stock (if the Company has not received a required stockholder approval) or cash, shares of common stock or a combination of cash and shares of common stock, as applicable (if the Company has received a required stockholder approval), at an initial conversion rate of 45.1356 shares of common stock, which is equivalent to an initial conversion price of approximately $22.16 per share (subject to adjustment as provided in the SPHG Note) per $1,000 principal amount of the SPHG Note, subject to, and in accordance with, the settlement provisions of the SPHG Note. As of October 31, 2023, the if-converted value of the SPHG Note did not exceed the principal value of the SPHG Note.

As of May 1, 2023, or the date of the Exchange Transaction, the Company accounts for the SPHG Note under the fair value option in order to conform with Steel Holdings' basis of accounting, with changes in fair value recognized in earnings. Refer to Note 18 - "Fair Value Measurements" for further information.

The below discusses the components of the SPHG Note as of October 31, 2023 and July 31, 2023:

As of October 31, 2023 and July 31, 2023, the principal amount of the note was $12.9 million, respectively. As of October 31, 2023 and July 31, 2023, the fair value of the SPHG Note was $12.3 million and $12.5 million, respectively. The fair value of the SPHG Note was reported as a current liability on the condensed consolidated balance sheets as of October 31, 2023, as its maturity is less than twelve months as of October 31, 2023.

Below is a reconciliation of interest expense related to the SPHG Note to total interest expense:

	Successor	Predecessor
	Three Months Ended October 31, 2023	Three Months Ended October 31, 2022
	(In thousands)	
Interest expense related to contractual interest coupon on the SPHG Note	$ 247	$ 286
Interest expense related to accretion of the discount on the SPHG Note[a]	—	510
Interest expense related to revolving credit facilities (see below)	—	11
Other	—	19
Total interest expense	$ 247	$ 826

(a) Prior to the date of the Exchange Transaction, the discount on the SPHG Note was amortized using the effective interest rate method. The effective interest rate on the SPHG Note was 27.80% prior to the SPHG Note Amendment.

Umpqua Revolver

On March 16, 2022, ModusLink, as borrower, entered into a new credit agreement with Umpqua Bank as lender and as agent. The Umpqua Revolver provides for a maximum credit commitment of $12.5 million and a sublimit of $5.0 million for letters of credit and expires on March 31, 2025.

On March 13, 2023, ModusLink and Umpqua Bank entered into an amendment to the Umpqua Revolver (the "Umpqua Revolver Amendment") to extend the expiration date of the facility to March 31, 2025 from its original expiration date of March 16, 2024. There were no fees associated with the extension.

As of October 31, 2023, ModusLink was in compliance with the Umpqua Revolver's covenants, and believes it will remain in compliance with the Umpqua Revolver's covenants for the next twelve months from the filing of this Form 10-Q. As of October 31, 2023, ModusLink had available borrowing capacity of $11.9 million and there was $0.6 million available for letters of credit.

(11) CONTINGENCIES

Donald Reith v. Warren G. Lichtenstein, et al.

On April 13, 2018, a purported shareholder, Donald Reith, filed a verified complaint, Reith v. Lichtenstein, et al., 2018-277 (Del. Ch.) in the Delaware Court of Chancery (the "Reith litigation"). The complaint alleges class and derivative claims for breach of fiduciary duty and/or aiding and abetting breach of fiduciary duty and unjust enrichment against the Board of Directors, Warren G. Lichtenstein, Glen M. Kassan, William T. Fejes, Jack L. Howard, Jeffrey J. Fenton, Philip E. Lengyel and Jeffrey S. Wald; and stockholders Steel Holdings, Steel Partners, Ltd., SPHG Holdings, Handy & Harman Ltd. and WHX CS Corp. (collectively, the "Steel Parties") in connection with the acquisition of $35.0 million of the Series C Convertible Preferred Stock by SPHG Holdings and equity grants made to Messrs. Lichtenstein, Howard and Fejes on December 15, 2017 (collectively, the "Challenged Transactions"). The Company is named as a nominal defendant. The complaint alleges that although the Challenged Transactions were approved by a Special Committee consisting of the independent members of the Board of Directors (Messrs. Fenton, Lengyel and Wald), the Steel Parties dominated and controlled the Special Committee, who approved the Challenged Transactions in breach of their fiduciary duty. Plaintiff alleges that the Challenged Transactions unfairly diluted stockholders and therefore unjustly enriched Steel Holdings, SPHG Holdings and Messrs. Lichtenstein, Howard and Fejes. The complaint also alleges that the Board of Directors made misleading disclosures in the Company's proxy statement for the 2017 Annual Meeting of Stockholders in connection with seeking approval to amend the 2010 Incentive Award Plan to authorize the issuance of additional shares to accommodate certain shares underlying the equity grants. Remedies requested include rescission of the Series C Convertible Preferred Stock and equity grants, disgorgement of any unjustly obtained property or compensation and monetary damages. On June 8, 2018, defendants moved to dismiss the complaint for failure to plead demand futility and failure to state a claim. On June 28, 2019, the Court denied most of the motion to dismiss allowing the matter to proceed. The defendants answered the complaint on September 6, 2019, denying all liability.

On August 13, 2021, the Company, together with certain of its current and former directors of the Board, Warren Lichtenstein, Glen Kassan, William Fejes, Jr., Jack Howard, Jeffrey Fenton and Jeffrey Wald, as well as other named defendants (collectively, the "Defendants"), entered into a memorandum of understanding (the "MOU") with Donald Reith (the "Plaintiff") in connection with the settlement of the Reith v. Lichtenstein, et al., C.A. No. 2018-0277-MTZ (Del. Ch. 2018) class and derivative action. A definitive Stipulation of Settlement (the "Stipulation") incorporating the terms of the MOU was filed with the Court on February 18, 2022. Pursuant to the MOU and Stipulation, and contingent on approval of the terms by the court, the Defendants agreed to cause their directors' and officers' liability insurance carriers to pay to the Company $2.75 million in cash.

Additionally, under the MOU and separate letter agreements between the Company and such individuals (the "Surrender Agreements"), Messrs. Lichtenstein, Howard and Fejes agreed to surrender to the Company an aggregate 353,571 shares that they had initially received in December 2017 in consideration for services to the Company. The surrenders and cancellations are in the following amounts: for Mr. Lichtenstein, 196,429 vested shares and 32,143 unvested shares; for Mr. Howard, 98,214 vested shares and 16,071 unvested shares; and for Mr. Fejes, 10,714 vested shares. On August 17, 2021, Mr. Lichtenstein and Mr. Howard surrendered the shares required under the MOU, the Stipulation and their respective Surrender Agreements, and in December 2021 Mr. Fejes did the same. All such shares were subsequently cancelled. Pursuant to the MOU and Stipulation, the Company also agreed to pay the Plaintiff's counsel legal fees for this matter in an amount up to $2.05 million, if approved by the court.

After the parties filed papers in support of court approval of the settlement, and an objector filed papers in opposition to approval of the settlement, and after hearings held on August 12 and August 18, 2022, the parties submitted an amendment to the Stipulation: (i) increasing the proposed total contribution of the insurers to $3.0 million, (ii) reducing Plaintiff's counsel's fee request to $1.6 million, and (iii) providing that if the then pending proposed Merger was consummated, the $3.0 million, minus fees awarded to Plaintiff's counsel and costs of distribution of up to $125,000, would be distributed to the holders of eligible shares of Common Stock (as defined in the Merger Agreement governing the Merger), other than the Defendants; provided, however, that no distribution would be required to be made to any holder whose proportionate share of the distribution would be less than $1.00. On September 23, 2022, the court ruled that it was denying approval of the settlement. On September 12, 2023, the court approved a stipulated pretrial and trial schedule culminating in a trial scheduled for September 2024. The possible liability, if any, with respect to this matter cannot be determined.

On June 6, 2023, the Company received a books and records demand from Reith under Delaware General Corporation Law Section 220 which requests an array of documents for the purported purposes of investigating potential wrongdoing in connection with the April 30, 2023 transaction between Steel Holdings and Steel Connect. The Company is responding to this demand. The possible liability, if any, with respect to this matter cannot be determined.

Mohammad Ladjevardian v. Warren G. Lichtenstein, et al.

On September 1, 2023, a purported stockholder, Mohammad Ladjevardian, filed a verified complaint alleging a single direct claim for breach of fiduciary duty against members of Steel Connect's Board of Directors, Steel Holdings, Steel Excel, Inc., and WebFinancial Corporation in connection with the Exchange Transaction. Directors named in the complaint are Warren Lichtenstein, Glen Kassan, and Jack Howard. The complaint alleges that although the challenged transaction was approved by the independent Strategic Planning Committee, the committee failed to obtain a "control premium" or to consider the dilutive effect that the Series E issuance had on the plaintiff's holdings. Remedies requested include rescission of the Series E shares and a judicially imposed requirement that all future transactions involving Steel Holdings and its affiliates be subject to minority stockholder approval. On September 27, 2023, the entity defendants moved to dismiss the complaint. On October 5, 2023, the individual defendants moved to dismiss the complaint. The possible liability, if any, with respect to this matter cannot be determined as of this date.

(12) REVENUE RECOGNITION

Disaggregation of Revenue

The following table presents the Company's revenues from contracts with customers disaggregated by major good or service line and timing of revenue recognition. The table also includes a reconciliation of the disaggregated revenue with the reportable segments.

	Successor	Predecessor
	Three Months Ended October 31, 2023	Three Months Ended October 31, 2022
	(In thousands)	
Major Goods/Service Lines		
Supply chain management services	$ 41,005	$ 50,931
Other	336	428
	$ 41,341	$ 51,359
Timing of Revenue Recognition		
Services transferred over time	$ 41,341	$ 51,359
	$ 41,341	$ 51,359

Supply Chain Management Services

ModusLink's revenue primarily comes from the sale of supply chain management services to its clients. Amounts billed to customers under these arrangements include revenue attributable to the services performed as well as for materials procured on the customer's behalf as part of its service to them. The majority of these arrangements consist of two distinct performance obligations (i.e., warehousing/inventory management service and a separate kitting/packaging/assembly service), revenue related to each of which is recognized over time as services are performed using an input method based on the level of efforts expended.

Other

Other revenue consists of cloud-based software subscriptions, software maintenance and support service contracts, and fees for professional services. Revenue related to these arrangements is recognized on a straight-line basis over the term of the agreement or over the term of the agreement in proportion to the costs incurred in satisfying the obligations under the contract.

Contract Balances

Timing of revenue recognition may differ from timing of invoicing to customers. The Company records contract assets and liabilities related to its contracts with customers as follows:

- Accounts receivable when revenue is recognized prior to receipt of cash payments and if the right to such amounts is unconditional and solely based on the passage of time.

- Contract asset when the Company recognizes revenue based on efforts expended but the right to such amount is conditional upon satisfaction of another performance obligation. Contract assets are primarily comprised of fees related to supply chain management services. The Company's contract assets are all short-term in nature and are included in prepaid expenses and other current assets in the condensed consolidated balance sheets.

- Deferred revenue when cash payments are received or due in advance of performance. Deferred revenue is primarily comprised of fees related to supply chain management services, cloud-based software subscriptions and software maintenance and support service contracts, which are generally billed in advance. Deferred revenue also includes other offerings for which we have been paid in advance and earn the revenue when we transfer control of the product or service. The deferred revenue balance is classified as a component of other current liabilities and other long-term liabilities on the Company's condensed consolidated balance sheets.

The table below presents information for the Company's contract balances:

	Successor		Predecessor
	October 31, 2023	July 31, 2023	August 1, 2022
	(In thousands)		
Accounts receivable, trade, net	$ 27,974	$ 28,616	$ 40,083
Contract assets	464	439	369
Deferred revenue - current	$ 2,540	$ 2,574	$ 2,705
Deferred revenue - long-term	108	144	134
Total deferred revenue	$ 2,648	$ 2,718	$ 2,839

Remaining Performance Obligations

Remaining performance obligations are comprised of deferred revenue. Changes in deferred revenue during the three months ended October 31, 2023 and October 31, 2022, were as follows:

	Successor	Predecessor
	Three Months Ended October 31, 2023	Three Months Ended October 31, 2022
	(In thousands)	
Balance at beginning of period	$ 2,718	$ 2,839
Deferral of revenue	301	271
Recognition of deferred amounts upon satisfaction of performance obligation	(371)	(641)
Balance at end of period	$ 2,648	$ 2,469

The Company expects to recognize approximately $2.5 million of the deferred revenue over the next twelve months and the remaining $0.1 million beyond that time period.

The Company does not disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which we recognize revenue at the amount to which we have the right to invoice for services performed.

(13)INCOME TAXES

The Company operates in multiple taxing jurisdictions, both within and outside of the United States. For the three months ended October 31, 2023, the Company was profitable in certain jurisdictions, resulting in an income tax expense using enacted rates in those jurisdictions. As of both October 31, 2023 and July 31, 2023, the total amount of the liability for unrecognized tax benefits related to federal, state and foreign taxes was approximately $0.4 million.

Uncertain Tax Positions

In accordance with the Company's accounting policy, interest related to unrecognized tax benefits is included in the income tax expense line of the condensed consolidated statements of operations. As of both October 31, 2023 and July 31, 2023, the liabilities for interest expense related to uncertain tax positions was $0.1 million. The Company expects $0.3 million of unrecognized tax benefits and related interest to reverse in the next twelve months. The Company is subject to U.S. federal income tax and various state, local and international income taxes in numerous jurisdictions. The federal and state tax returns are generally subject to tax examinations for the tax years ended July 31, 2020 through July 31, 2023. 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 Europe and Asia regions. In Europe, the Company's 2015 through 2022 tax years remain subject to examination in most locations, while the Company's 2010 through 2021 tax years remain subject to examination in most Asia locations.

(14) EARNINGS PER SHARE

As discussed in Note 2 - "Basis of Presentation", the Reverse/Forward Stock Split was effective on June 21, 2023. The Company's shares of outstanding common stock and earnings per share amounts have been retroactively restated for all periods presented for the Reverse/Forward Stock Split. The following table reconciles net earnings per share for the three months ended October 31, 2023 and 2022:

	Successor	Predecessor
	Three Months Ended October 31, 2023	Three Months Ended October 31, 2022
	(In thousands, except per share data)	
Reconciliation of net income to net income attributable to common stockholders after assumed conversions:		
Net income	$ 4,436	$ 4,957
Less: Preferred dividends on Series C redeemable preferred stock	(536)	(537)
Net income available to common stockholders	3,900	4,420
Less: Undistributed earnings allocated to participating securities	(2,970)	—
Net income attributable to common stockholders	$ 930	$ 4,420
Effect of dilutive securities:		
Dividends on Series C preferred stock	—	537
Undistributed earnings allocated to Series E preferred stock	2,970	—
Net income attributable to common stockholders - assuming dilution	$ 3,900	$ 4,957
Net income per common share - basic	$ 0.15	$ 0.69
Net income per common share - diluted	$ 0.15	$ 0.59
Weighted average common shares outstanding - basic	6,199	6,434
Effect of dilutive securities:		
Common stock equivalents - Restricted stock and restricted stock shares	57	56
Common stock equivalents - Series C Preferred stock	—	1,913
Common stock equivalents - Series E Preferred stock	19,810	—
Weighted average common shares outstanding - diluted	26,066	8,403

For the three months ended October 31, 2023, the Company calculated basic and diluted net income per common share using the two-class method, as the Series E Convertible Preferred Stock meets the definition of a participating security. The two-class method is an allocation formula that determines net income per common share for each share of common stock and Series E Convertible Preferred Stock, a participating security, according to dividends declared and participation rights in undistributed earnings. Under this method, all earnings (distributed and undistributed) are allocated to common shares and Series E Convertible Preferred Stock based on their respective rights to receive dividends. The holders of Series E Convertible Preferred Stock are entitled to participate equally and ratably with the holders of shares of Common Stock in all dividends or other distributions on the shares of Common Stock as if, immediately prior to each record date for payment of dividends or other distributions on the Common Stock, shares of Series E Preferred Stock then outstanding were converted into shares of Common Stock. Basic net income per common share is computed by dividing net income allocated to common stockholders for the period by the weighted average number of common shares outstanding for the period. Net income available to common stockholders for the period includes dividends paid to common stockholders during the period plus a proportionate share of undistributed net income allocable to common stockholders for the period; the proportionate share of undistributed net income allocable to common stockholders for the period is based on the proportionate share of total weighted-average common shares and participating securities outstanding during the period. Diluted net income per common share is computed based on the weighted average number of shares of common stock outstanding during each period, plus potential common shares considered outstanding during the period, as long as the inclusion of such awards is not antidilutive. Potential common shares consist of restricted common stock (calculated based on the treasury stock method) and shares issuable upon debt or preferred stock conversion (calculated using an as-if converted method), using the more dilutive of either the two-class method or as-converted stock method.

The Company was not required to apply the two-class method during the Predecessor Period as there were no participating securities, and as such, there were no changes to the Predecessor Period other than the retrospective restatement for the Reverse/Forward Stock Split discussed previously.

For the three months ended October 31, 2023, $0.2 million of interest expense, net of tax related to the SPHG Note, and $0.5 million of Series C preferred dividends were excluded from the numerator in the calculation of diluted net income per share as their inclusion would have been antidilutive. For the three months ended October 31, 2022, $0.8 million of interest expense, net of tax impact related to the SPHG Note was excluded from the numerator in the calculation of diluted net income per share as their inclusion would have been antidilutive.

For the three months ended October 31, 2023, 2.5 million common stock equivalent shares (including those related to the SPHG Note and the Series C Preferred stock) were excluded from the denominator in the calculation of diluted net income per share as their inclusion would have been antidilutive. For the three months ended October 31, 2022, 0.7 million common stock equivalent shares (including those related to the SPHG Note) were excluded from the denominator in the calculation of diluted net income per share as their inclusion would have been antidilutive.

(15)COMPREHENSIVE (LOSS) INCOME

Comprehensive (loss) income combines net income and other comprehensive items. Other comprehensive items represent certain amounts that are reported as components of stockholders' equity in the accompanying condensed consolidated balance sheets. Accumulated other comprehensive items consist of the following:

	Foreign Currency Items	Pension Items	Total
		(In thousands)	
Accumulated other comprehensive (loss) income as of 7/31/2023 (Successor)	$ (623)	$ 36	$ (
Foreign currency translation adjustment	(996)	—	(
Net current-period other comprehensive loss	(996)	—	(
Accumulated other comprehensive (loss) income as of 10/31/2023 (Successor)	$ (1,619)	$ 36	$ (1,

	Foreign Currency Items	Pension Items	Total
		(In thousands)	
Accumulated other comprehensive income (loss) as of 7/31/2022 (Predecessor)	$ 6,063	$ (1,923)	$ 4,140
Foreign currency translation adjustment	(2,837)	—	(2,837)
Pension liability adjustments, net of tax	—	(1,078)	(1,078)
Net current-period other comprehensive loss	(2,837)	(1,078)	(3,915)
Accumulated other comprehensive income (loss) as of 10/31/2022 (Predecessor)	$ 3,226	$ (3,001)	$ 225

During the year ended July 31, 2020, a Netherlands defined benefit pension plan was amended, so that active participants no longer accrued benefits as of January 1, 2020, which resulted in a pre-tax curtailment gain of $2.4 million recognized in accumulated other comprehensive income (loss). At that time, the active plan participants were moved into a new defined benefit contribution pension plan. During the three months ended October 31, 2022, the Company recorded an increase of approximately $1.1 million to accrued pension liabilities for the defined benefit pension plan as it was determined plan participants are entitled to unconditional indexation of benefits for as long as they remain in active service with the Company.

(16)SEGMENT INFORMATION

The Company has one reportable segment: Supply Chain. The Company also has Corporate-level activity, which consists primarily of costs associated with certain corporate administrative functions such as legal, finance and share-based compensation, which are not allocated to the Company's reportable segment. The Corporate-level balance sheet information includes cash and cash equivalents, debt and other assets and liabilities which are not allocated to the operations of the Company's operating segment. All significant intra-segment amounts have been eliminated. Management evaluates segment performance based on segment net revenue and operating income (loss).

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

	Successor	Predecessor
	Three Months Ended October 31, 2023	Three Months Ended October 31, 2022
	(In thousands)	
Net revenue:		
Supply Chain	$ 41,341	$ 51,359
Total segment net revenue	41,341	51,359
Operating income:		
Supply Chain	2,675	5,851
Total segment operating income	2,675	5,851
Corporate-level activity	(870)	(1,972)
Total operating income	1,805	3,879
Total other income, net	3,302	2,204
Income before income taxes	$ 5,107	$ 6,083

	Successor	
	October 31, 2023	July 31, 2023
	(In thousands)	
Total assets:		
Supply Chain	$ 143,654	$ 146,614
Corporate	266,941	264,567
Total assets	$ 410,595	$ 411,181

Summarized financial information of the Company's capital expenditures and depreciation expense for the Supply Chain reportable segment is as follows:

	Successor	Predecessor
	Three Months Ended October 31, 2023	Three Months Ended October 31, 2022
	(In thousands)	
Capital expenditures	$ 552	$ 548
Depreciation expense	$ 435	$ 459

Summarized financial information of the Company's net revenue by geographic location is as follows:

	Successor Three Months Ended October 31, 2023	Predecessor Three Months Ended October 31, 2022
	(In thousands)	
United States	$ 15,197	$ 12,172
Mainland China	14,384	17,965
Netherlands	5,298	5,351
Czech Republic	2,630	5,760
Singapore	1,460	5,132
Other	2,372	4,979
Total consolidated net revenue	$ 41,341	$ 51,359

(17) RELATED PARTY TRANSACTIONS

As of October 31, 2023, SPHG Holdings and its affiliates, including Steel Holdings, Handy & Harman Ltd. and Steel Partners Ltd., beneficially owned approximately 85.9% of our outstanding capital stock, including the if-converted value of the SPHG Note and shares of Series C Convertible Preferred Stock and Series E Convertible Preferred Stock that vote on an as-converted basis together with our common stock. Warren G. Lichtenstein, our Interim Chief Executive Officer and the Executive Chairman of our Board, is also the Executive Chairman of Steel Holdings GP. Glen Kassan, our Vice Chairman of the Board of Directors and former Chief Administrative Officer, is an employee of Steel Services. Jack L. Howard, the President and a director of Steel Holdings GP, is also a director.

Upon closing of the Exchange Transaction on May 1, 2023, the Company became a consolidated subsidiary of Steel Holdings as described in Note 1 - "Nature of Operations", Note 2 - "Basis of Presentation", and Note 4 - "Exchange Transaction". After May 1, 2023, transactions between Steel Holdings and the Company are eliminated in consolidation by Steel Holdings.

SPHG Note Transaction

On February 28, 2019, the Company entered into a SPHG Note Purchase Agreement with SPHG Holdings, whereby SPHG Holdings agreed to loan the Company $14.9 million in exchange for the SPHG Note.

On March 9, 2023 (the "Amendment Date"), the Company and SPHG Holdings entered into an amendment to the SPHG Note. Pursuant to the SPHG Note Amendment, the maturity date of the SPHG Note was extended six months from March 1, 2024 to September 1, 2024. The Company repaid $1.0 million in principal amount of the SPHG Note on the Amendment Date, and repaid an additional $1.0 million principal amount of the note on June 9, 2023. In connection with the SPHG Note Amendment, the Company also paid SPHG Holdings a cash amendment fee of $0.1 million, and derecognized $0.2 million of the debt discount in proportion to the reduction of the principal balance on the Amendment Date in the third quarter of fiscal year 2023. No other changes were made to the terms of the SPHG Note besides the items discussed.

As of both October 31, 2023 and July 31, 2023, SPHG Holdings held $12.9 million principal amount of the SPHG Note. As of October 31, 2023 and July 31, 2023, the fair value of the SPHG Note was $12.3 million and $12.5 million, respectively. During the three months ended October 31, 2023 and 2022, the Company recognized interest expense of $0.2 million and $0.8 million, respectively, associated with the SPHG Note.

Series C Preferred Stock Transaction

On December 15, 2017, the Company entered into a Preferred Stock Purchase Agreement with SPHG Holdings, pursuant to which the Company issued 35,000 shares of the Company's newly created Series C Convertible Preferred Stock to SPHG Holdings at a price of $1,000 per share, for an aggregate purchase consideration of $35.0 million. The terms, rights, obligations and preferences of the Series C Convertible Preferred Stock are set forth in the Series C Certificate of Designations, which has been filed with the Secretary of State of the State of Delaware. During each of the three months ended October 31, 2023 and 2022, the Company paid dividends of $0.5 million associated with the Series C Convertible Preferred Stock.

On or after December 15, 2022, each holder of Preferred Stock can also require the Company to redeem its Preferred Stock in cash at a price equal to the Liquidation Preference (as defined in Series C Certificate of Designations).

Series E Preferred Stock Transaction

On May 1, 2023, the Company and Steel Holdings executed a series of agreements in which the Steel Partners Group agreed to transfer certain marketable securities held by the Steel Partners Group to Steel Connect in exchange for 3.5 million shares of Series E Convertible Preferred Stock of Steel Connect (the “Series E Convertible Preferred Stock”, and, such transfer the “Transfer and Exchange Agreement”). Pursuant to the Transfer and Exchange Agreement, the Company held a special stockholders’ meeting on June 6, 2023 (the “Special Meeting”) to consider and vote upon the rights of the Series E Preferred Stock to vote and receive dividends together with the Common Stock on an as-converted basis and the issuance of the Company's common stock (the "Common Stock") upon conversion of the Series E Preferred Stock by the holders at their option, pursuant to the rules and regulations of Nasdaq (the “Nasdaq Proposal”). Following approval of the Nasdaq Proposal by the Steel Connect stockholders (the “Stockholder Approval”), the Series E Convertible Preferred Stock became convertible into an aggregate of 19.8 million shares of the Common Stock, and votes together with the Common Stock and participates in any dividends paid on the Common Stock, in each case on an as-converted basis.

The terms, rights, obligations and preferences of the Series E Convertible Preferred Stock are set forth in a Certificate of Designations, Preferences and Rights of Series E Convertible Preferred Stock of the Company (the “Series E Certificate of Designations”).

Stockholders' Agreement

Concurrently with the execution of the Transfer and Exchange Agreement, the Company, Steel Holdings, Steel Excel, WebFinancial, WHX CS, LLC, WF Asset Corp., Steel Partners Ltd., Warren G. Lichtenstein and Jack L. Howard (together, the "SP Investors") entered into a Stockholders' Agreement dated as of April 30, 2023 (the "Stockholders' Agreement"). Pursuant to the Stockholders' Agreement, the parties agreed to certain aspects of the Company's governance, including the maintenance of the Board size at seven directors and the creation of an audit committee consisting of at least three independent directors under SEC and applicable stock exchange rules (an "Independent Audit Committee") or one consisting of at least three directors, at least one of whom qualifies as independent under SEC and applicable stock exchange rules and the remainder of whom are not affiliated, as described in the Stockholders’ Agreement, with the Company or the SP Investors or their subsidiaries or affiliates (the “Disinterested Audit Committee”).

The Stockholders' Agreement further provides that (a) prior to September 1, 2025 the prior approval of the Independent Audit Committee or the Disinterested Audit Committee, as applicable, is required for the following: (i) a voluntary delisting of the common stock from the applicable stock exchange or a transaction (including a merger, recapitalization, stock split or otherwise) which results in the delisting of the common stock, Steel Connect ceasing to be an SEC reporting company, or Steel Connect filing a Form 25 or Form 15 or any similar form with the SEC; (ii) an amendment to the terms of the STCN Management Services Agreement (the "Services Agreement") dated June 14, 2019, by and between Steel Connect and Steel Services Ltd.; and (iii) any related party transaction between Steel Connect and the SP Investors and their subsidiaries and affiliates; (b) prior to September 1, 2028, the prior approval of the Independent Audit Committee or the Disinterested Audit Committee, as applicable, is required for the Board to approve a going private transaction pursuant to which Steel Holdings or its subsidiaries or affiliates acquires the outstanding shares of common stock they do not own (or any alternative transaction that would have the same impact); and (c) until the Final Sunset Date, the prior approval of the Independent Audit Committee or the Disinterested Audit Committee, as applicable, is required (i) for the Board to approve a short-form or squeeze-out merger between Steel Connect and the SP Investors; or (ii) prior to any transfer of equity interests in Steel Connect by the members of the SP Group (as defined in the Stockholders' Agreement) if such transfers would result in 80% of the voting power and value of the equity interests in Steel Connect that are held by the members of the SP Group being held by one corporate entity.

The Stockholders' Agreement also provides that 70% of the net proceeds received by the Company upon resolution of the Reith litigation will be distributed to the Company’s stockholders with the SP Investors agreeing to waive their portion of any such distribution to the extent of any shares of common stock held as of the date of the Stockholders’ Agreement or issuable upon conversion of the Series E Convertible Preferred Stock held by the SP Investors and the Series C Convertible Preferred Stock of Steel Connect, and the SPHG Note. Any amendment to the Stockholders’ Agreement by the Company prior to the date that any person or group of related persons owns 100% of the equity securities of the Company requires the prior approval of the Independent Audit Committee or the Disinterested Audit Committee, as applicable.

Steel Connect Management Services Agreement

On June 14, 2019, the Company entered into an agreement (the "STCN Management Services Agreement") with Steel Services Ltd. ("Steel Services"), an indirect wholly-owned subsidiary of Steel Holdings. The STCN Management Services Agreement was effective as of June 1, 2019. Pursuant to the STCN Management Services Agreement, Steel Services provides the Company and its subsidiaries with the non-exclusive services of certain employees, including certain executive officers (including chief financial officer and general counsel services) and other corporate services. Total expenses incurred related to the STCN

Management Services Agreement for the three months ended October 31, 2023 and 2022 were $0.6 million and $0.6 million, respectively. As of October 31, 2023 and July 31, 2023, amounts due to Steel Services was $0.2 million and $0.7 million, respectively, and are recorded within the consolidated balance sheets as a component of Accounts payable.

On October 25, 2023, in Amendment No. 2 to the STCN Management Services Agreement, the parties agreed to increase the monthly fee to $0.1 million effective as of January 1, 2024, primarily to increase the business development and mergers and acquisition staffing needed to originate, analyze and pursue strategic acquisitions and investments with the additional liquidity resulting from the Exchange Transaction.

ModusLink Management Services Agreement

On October 25, 2023, ModusLink entered into a management services agreement (as amended, the "ModusLink Management Services Agreement") with Steel Services, an indirect wholly-owned subsidiary of Steel Holdings, effective as of January 1, 2024. Pursuant to the ModusLink Management Services Agreement, Steel Services provides ModusLink with the non-exclusive services of a person or people to serve in various positions or functions and to perform duties normally associated with those specific to (or substantially equivalent positions or functions for) ModusLink based on its particular needs, including legal and environmental, health and safety, management (including chief financial officer and general counsel services), finance, tax and treasury, human resources, "lean," internal audit, mergers and acquisitions, and information technology (the "Services"). SEC and Nasdaq reporting services and M&A business development services, among other services, are provided only under the STCN Management Services Agreement.

The ModusLink Management Services Agreement provides that ModusLink will pay Steel Services a fixed monthly fee of $80.0 thousand in consideration of the Services and will reimburse Steel Services and its representatives for all reasonable expenses incurred in providing the Services. The ModusLink Management Services Agreement will automatically renew for successive one-year periods (each such period, a "Term") unless and until terminated: (i) by either party, effective on the last day of the current Term, upon not less than 90 days' written notice to the other; (ii) by ModusLink, at any time, on less than 90 days' notice (provided that, in the case of (i) or (ii), ModusLink pays a termination fee to Steel Services as provided in the ModusLink Management Services Agreement, which fee shall equal 125% of the fees due under the ModusLink Management Services Agreement from and including the termination date until the 90th day following the date of such termination); (iii) immediately upon the bankruptcy or dissolution of Steel Services; (iv) promptly by ModusLink upon a material breach of the ModusLink Management Services Agreement by Steel Services; or (v) immediately by ModusLink for Cause (as defined in the ModusLink Management Services Agreement). The ModusLink Management Services Agreement provides that ModusLink will reimburse Steel Services and its representatives for all reasonable expenses incurred in providing the Services.

Air Travel

The Company reimburses SP General Services, LLC (an affiliate of Steel Holdings), rather than Steel Services, for expenses for business-related air travel, which relates to services provided to the Company by Warren G. Lichtenstein as Interim Chief Executive Officer as well as certain of the Company's executive officers whose services are provided to the Company under the STCN Management Services Agreement. For the three months ended October 31, 2023 and October 31, 2022, SP General Services, LLC did not incur any reportable expenses for such business-related air travel.

(18) FAIR VALUE MEASUREMENTS

ASC 820, *Fair Value Measurement*, provides that fair value is an exit price, representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants based on the highest and best use of the asset or liability. 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. ASC 820 requires the Company to use valuation techniques to measure fair value that maximize the use of observable inputs and minimize the use of unobservable inputs. These inputs are prioritized as follows:

Level 1: Observable inputs such as quoted prices for identical assets or liabilities in active markets

Level 2: Other inputs that are observable directly or indirectly, such as quoted prices for similar assets or liabilities or market-corroborated inputs

Level 3: Unobservable inputs for which there is little or no market data and which require the Company to develop its own assumptions about how market participants would price the assets or liabilities

The carrying value of cash and cash equivalents, accounts receivable, restricted cash, accounts payable, current liabilities and the revolving line of credit under the Umpqua Revolver approximate fair value because of the short maturity of these instruments. The carrying value of capital lease obligations approximates fair value, as estimated by using discounted future cash flows based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

Assets and Liabilities that are Measured at Fair Value on a Recurring Basis

The following tables present the Company's financial assets and liability measured at fair value on a recurring basis as of October 31, 2023 and July 31, 2023, classified by fair value hierarchy:

	Successor	Fair Value Measurements at Reporting Date Using		
(In thousands)	**October 31, 2023**	**Level 1**	**Level 2**	**Level 3**
Assets:				
Money market funds	$ 238,090	$ 238,090	$ —	$ —
Convertible loan note investment	$ 1,227	$ —	$ —	$ 1,227
Other investments	$ 2,216	$ 2,216	$ —	$ —
Liabilities:				
SPHG Note	$ 12,327	$ —	$ —	$ 12,327

	Successor	Fair Value Measurements at Reporting Date Using		
(In thousands)	**July 31, 2023**	**Level 1**	**Level 2**	**Level 3**
Assets:				
Money market funds	$ 85,269	$ 85,269	$ —	$ —
Liabilities:				
SPHG Note	$ 12,461	$ —	$ —	$ 12,461

There were no transfers between Levels 1, 2 or 3 during any of the periods presented.

When available, quoted prices are used to determine fair value. When quoted prices in active markets are available, investments are classified within Level 1 of the fair value hierarchy. When quoted prices in active markets are not available, fair values are determined using pricing models, and the inputs to those pricing models are based on observable market inputs. The inputs to the pricing models are typically benchmark yields, reported trades, broker-dealer quotes, issuer spreads and benchmark securities, among others.

Assets and Liabilities that are Measured at Fair Value on a Nonrecurring Basis

The Company reviews the carrying amounts of these assets whenever certain events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognized when the carrying amount of the asset group or reporting unit is not recoverable and exceeds its fair value. The Company estimates the fair values of assets subject to impairment based on the Company's own judgments about the assumptions that market participants would use in pricing the assets and on observable market data, when available.

Fair Value of Financial Instruments

The Company's financial instruments not measured at fair value on a recurring basis include cash and cash equivalents, accounts receivable, customer deposits, accounts payable, and restricted cash, and are reflected in the consolidated financial statements at carrying value. Carrying value approximates fair value for these items due to their short-term nature. Included in cash and cash equivalents in the accompanying condensed consolidated balance sheets are money market funds. These are valued at quoted market prices in active markets.

Subsequent to the issuance of fiscal year 2023 financial statements, the Company determined that the money market funds balance as of July 31, 2023 in the above table, was understated by $54.2 million. The Company corrected this immaterial error in the table above as of July 31, 2023. This disclosure change did not have any impact to amounts recognized in the consolidated balance sheets.

Prior to the date of the Exchange Transaction, the Company did not measure the fair value of the SPHG Note on a recurring basis, as the assumption was that the carrying value of the liability component of the SPHG Note approximated fair value because the stated interest rate of this debt was consistent with current market rates. In conjunction with the application of pushdown accounting, the Company now measures the fair value of the SPHG on a recurring basis. Refer to Note 10 - "Debt" for further details. The Company estimates the value of the SPHG Note using a Binomial Lattice Model. Key inputs in the valuation include the trading price and volatility of Steel Connect's common stock, the risk-free rate of return, as well as the dividend rate, conversion price, and maturity date. The Company recognized $0.1 million in unrealized gains in Other gains, net within the consolidated statements of operations for the Successor Period as a result of the fair value measurement performed at October 31, 2023.

Following is a summary of changes in the SPHG Note measured using Level 3 inputs:

Balance as of July 31, 2023 (Successor)	$	12,461
Change in fair value		(134)
Balance as of October 31, 2023 (Successor)	$	12,327

As discussed in Note 7 - "Investments", the Company elected the fair value option to account for their convertible loan note investment. The Company believes the cost basis of the investment to approximate its fair value as of October 31, 2023. As such, there were no unrealized gains or losses recorded to the consolidated statement of operations for the Successor Period. There were no unrealized gains or losses recorded to the consolidated statement of operations for the Predecessor Period, as the convertible loan note investment was a new investment in October 2023.

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 (the "Exchange Act"), 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 risks discussed elsewhere in this Quarterly Report on Form 10-Q and the risks discussed in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission (the "SEC") on November 8, 2023, and other subsequent reports filed with or furnished to 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, except as required by law.

The following discussion and analysis of our financial condition and results of operations should be read together with our consolidated financial statements and related notes included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Overview

Steel Connect, Inc. (the "Company" or "Steel Connect") is a holding company which operates through its wholly-owned subsidiary, ModusLink Corporation ("ModusLink" or "Supply Chain"), which serves the supply chain management market.

ModusLink provides digital and physical supply chain solutions to many of the world's leading brands across a diverse range of industries, including consumer electronics, telecommunications, computing and storage, software and content, consumer packaged goods, medical devices, retail and luxury and connected devices. These solutions are delivered through a combination of industry expertise, innovative service solutions, and integrated operations, proven business processes, an expansive global footprint and world-class technology. With a global footprint spanning North America, Europe and the Asia Pacific region, the Company's solutions and services are designed to improve end-to-end supply chains in order to drive growth, lower costs, and improve profitability.

Steel Partners and Steel Connect Exchange Transaction

On April 30, 2023, Steel Partners Holdings L.P., (“Steel Holdings”) and the Company executed a series of agreements in which Steel Holdings and certain of its affiliates (the “Steel Partners Group”) agreed to transfer certain marketable securities held by the Steel Partners Group to the Company in exchange for 3.5 million shares of Series E Convertible Preferred Stock of the Company (the “Series E Convertible Preferred Stock”, and, such transfer and related transactions, the “Exchange Transaction”). The Series E Convertible Preferred Stock is convertible into an aggregate of 19.8 million shares of the Company's common stock, par value $0.01 per share (the “common stock” or “Common Stock”), and votes together with the Company's common stock and participate in any dividends paid on the Company's common stock, in each case on an as-converted basis. Upon conversion of the Series E Convertible Preferred Stock on the date of the Exchange Transaction, the Steel Partners Group would hold approximately 84.0% of the outstanding equity interests of the Company. The Exchange Transaction closed on May 1, 2023, which is the date that the consideration was exchanged between Steel Holdings and the Company. Refer to Note 1 - "Nature of Operations" and Note 4 - "Exchange Transaction" to the consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information.

Predecessor/Successor Reporting

On May 1, 2023, the Exchange Transaction resulted in Steel Holdings obtaining control of the Company for financial statement purposes. Steel Holdings does not consolidate the Company for Federal income tax purposes because the ownership in the Company is dispersed between different federal tax consolidation groups within Steel Holdings. The Company elected pushdown accounting in which it uses Steel Holdings' basis of accounting, which reflects the fair market value of the Company’s assets and liabilities at the date of the Exchange Transaction. As a result, the Company has reflected the required pushdown accounting adjustments in its consolidated financial statements. Due to the application of pushdown accounting, the Company’s consolidated financial statements and certain footnote disclosures include a black line division between the two distinct periods to indicate the application of two different bases of accounting, which may not be comparable, between the periods presented. The pre- exchange period through April 30, 2023 is referred to as the "Predecessor" period. The post-exchange period, May 1, 2023 and onward, includes the impact of pushdown accounting and is referred to as the "Successor" period. As such for purposes of this quarterly report, all references to the three months ended October 31, 2023 are for the Successor period, and all references to the three months ended October 31, 2022 are for the Predecessor period. Refer to Note 2 - "Basis of Presentation" and Note 4 - "Exchange Transaction" to the consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information.

As it relates to the results of operations, while the 2024 Successor period and the 2023 Predecessor period are distinct reporting periods, the effects of the change of control for financial statement purposes did not have a material impact on the comparability of our results of operations between the periods, unless otherwise noted related to the impact from pushdown accounting.

Reverse/Forward Stock Split

At the special stockholders meeting held on June 6, 2023, the stockholders approved proposals to amend the Company's restated certificate of incorporation (the "Charter"), to effect a 1-for-3,500 reverse stock split of the common stock (the "Reverse Stock Split"), followed immediately by a 375-for-1 forward stock split of the common stock (the "Forward Stock Split," and, together with the Reverse Stock Split, the "Reverse/Forward Stock Split"). On June 7, 2023, the Board approved the Reverse/Forward Stock Split, and as such, the Board directed the Company to file with the State of Delaware certificates of amendment to our Charter to effectuate the Reverse/Forward Stock Split. The Reverse/Forward Stock Split was effective on June 21, 2023 (the "Effective Date"). The Company's common stock began trading on a Reverse/Forward Stock Split-adjusted basis on the Nasdaq Capital Market when the market opened on June 22, 2023. The trading symbol for the Company's common stock remains "STCN."

No fractional shares were issued in connection with the Reverse/Forward Stock Split. Shares held by stockholders who held fewer than 3,500 of the Company's common stock immediately prior to the Reverse Stock Split were converted into the right to receive a payment in cash (without interest) equal to the fair value of such shares as of the time when those entitled to receive such payments were determined, which shall be an amount equal to such number of shares of Company's common stock held multiplied by the average of the closing sales prices of the Company's common stock on Nasdaq for the five consecutive trading days immediately preceding the effective date of the Reverse Stock Split, and each share of Company's common stock held by a stockholder of record owning 3,500 shares or more immediately prior to the effective time of the Reverse Stock Split were converted into a new number of shares of Company's common stock based on a ratio of 375 shares of the Company's common stock for each share of the Company's common stock owned immediately following the Reverse Stock Split, including any fractional shares owned following the Reverse Stock Split; however, with respect to any fractions of a share of Company Common Stock that may be held as a result of the Forward Stock Split, stockholders received a payment in cash (without interest) equal to the fair value of such fractions as of the time when those entitled to receive such fractions are determined, which was an amount equal to such fractions multiplied by the average of the closing sales prices of the Company's common stock on Nasdaq for the five consecutive trading days immediately preceding the effective date of the Reverse/Forward Stock Split (with such average closing sales prices being adjusted to give effect to the Reverse/Forward Stock Split).

The number of shares of authorized Company's common stock did not change as a result of the Reverse/Forward Stock Split; however, the number of shares of outstanding Company's common stock decreased as a result of the Reverse/Forward Stock Split.

Accordingly, all share and per-share amounts for the current period and prior periods have been adjusted to reflect the Reverse/Forward Stock Split.

The number of shares of Company's common stock issuable upon the exercise of Series C Preferred Stock and the Series E Preferred Stock immediately prior to the Reverse/Forward Stock Split were proportionately decreased and the conversion price of the Series C Preferred Stock and the Series E Preferred Stock were proportionately increased, effective as of June 21, 2023, the close of business on the date of such Reverse/Forward Stock Split. Our authorized preferred stock was not affected by the reverse stock split and continues to be 3,535,000 shares of preferred stock, with a par value of $0.01 per share. Refer to Note 2 - "Basis of Presentation" to the consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information.

Disposition of Interest in Aerojet Shares

As a result of the Exchange Transaction, the Company recorded $202.7 million to investments, which represents the fair value of the Aerojet common stock transferred to Steel Connect. As of July 31, 2023, the Company had disposed of all its interest in Aerojet common stock. The majority of Aerojet common stock was purchased when L3 Harris closed its merger with Aerojet. As of July 31, 2023, the Company received $53.3 million in cash out of the total net proceeds of $207.8 million. As of October 31, 2023, the Company received the remaining $154.5 million proceeds in cash and there was a corresponding decrease in prepaid expenses and other current assets within the consolidated balance sheet at the time of this cash receipt. Refer to Note 1 - "Nature of Operations" to the consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information.

Customers

Historically, a limited number of key clients have accounted for a significant percentage of the Company's revenue. For the three months ended October 31, 2023 and 2022, the Company's ten largest clients accounted for approximately 78.6% and 79.7% of consolidated net revenue, respectively. Two clients accounted for 32.4% and 18.5% of the Company's consolidated net revenue for three months ended October 31, 2023. Two clients accounted for 36.2% and 14.9% of the Company's consolidated net revenue for three months ended October 31, 2022. No other clients accounted for more than 10.0% of the Company's consolidated net revenue for the three months ended October 31, 2023 or 2022.

Four clients, associated with the Supply Chain segment, accounted for greater than 10.0% of the Company's consolidated net accounts receivables as of October 31, 2023. The first, second, third, and fourth client accounted for approximately 31.3%, 12.5%, 10.8%, and 10.6%, respectively, of the Company's consolidated net accounts receivable balance as of October 31, 2023. Four clients, associated with the Supply Chain segment, accounted for greater than 10% of the Company's consolidated net accounts receivables as of July 31, 2023. The first, second, third, and fourth client accounted for approximately 28.0%, 14.0%, 12.0%, and 10.0%, respectively, of the Company's consolidated net accounts receivable balance as of July 31, 2023.

In general, the Company does not have any agreements which obligate any client to buy a minimum amount of services from it or designate it as an exclusive service provider. Consequently, the Company's net revenue is subject to demand variability by our clients. The level and timing of orders placed by the Company's clients vary for a variety of reasons, including seasonal buying by end-users, the introduction of new technologies and general economic conditions. By diversifying into new markets and improving the operational support structure for its clients, the Company expects to offset the adverse financial impact such factors may bring about.

Basis of Presentation

The Company has one operating segment which is the same as its reportable segment: Supply Chain. The Company also has Corporate-level activity, which consists primarily of costs associated with certain corporate administrative functions such as legal, finance and share-based compensation, which are not allocated to the Company's reportable segment. The Corporate-level balance sheet information includes cash and cash equivalents, debt and other assets and liabilities which are not allocated to the operations of the Company's operating segment. All significant intra-segment amounts have been eliminated.

The Company elected pushdown accounting in which it uses Steel Holdings' basis of accounting, which reflects the fair market value of the Company’s assets and liabilities at the date of the Exchange Transaction. As a result, the Company has reflected the required pushdown accounting adjustments in its consolidated financial statements. Due to the application of pushdown accounting, the Company’s consolidated financial statements and certain footnote disclosures include a black line division between the two distinct periods to indicate the application of two different bases of accounting, which may not be comparable, between the periods presented. The pre-exchange period through April 30, 2023 is referred to as the "Predecessor" period. The post-exchange period, May 1, 2023 and onward, includes the impact of pushdown accounting and is referred to as the "Successor" period. As such for purposes of this quarterly report, all references to the three months ended October 31, 2023 are for the Successor period, and all references to the three months ended October 31, 2022 are for the Predecessor period.

All share and per-share amounts for the current period and prior periods have been adjusted to reflect the Reverse/Forward Stock Split.

Results of Operations

The following summarizes the consolidated results of operations for the Successor and Predecessor periods, which relate to the period succeeding and period preceding the Exchange Transaction with Steel Holdings, respectively. The results of operations for the Successor and Predecessor periods are comparable unless otherwise noted that as a result of pushdown accounting the periods are not comparable.

	Successor	Predecessor		
	Three Months Ended October 31,	Three Months Ended October 31,		
	(unaudited in thousands)			
	2023	2022	$ Change[1]	% Change[1]
Net revenue	$41,341	$51,359	$(10,018)	(19.5)%
Cost of revenue	(29,866)	(37,094)	7,228	19.5 %
Gross profit	11,475	14,265	(2,790)	(19.6)%
Gross profit percentage	27.8%	27.8%	—	— bpts
Selling, general and administrative	(8,795)	(10,386)	1,591	15.3 %
Amortization	(875)	—	(875)	(100.0)%
Interest expense, net	(247)	(826)	579	70.1 %
Other gains, net	3,549	3,030	519	17.1 %
Income before income taxes	5,107	6,083	(976)	(16.0)%
Income tax expense	(671)	(1,126)	455	40.4 %
Net income	$4,436	$4,957	$(521)	(10.5)%

1 *Favorable (unfavorable) change*

Three months ended October 31, 2023 compared to the three months ended October 31, 2022

Net Revenue:

During the three months ended October 31, 2023, net revenue for the Supply Chain segment decreased by approximately $10.0 million. This decrease in net revenue was primarily driven by lower volumes associated with clients in the computing and consumer electronics markets. Fluctuations in foreign currency exchange rates had an insignificant impact on the Supply Chain segment's net revenues for the three months ended October 31, 2023, as compared to the same period in the prior year.

Cost of Revenue:

Cost of revenue consists primarily of expenses related to the cost of materials purchased in connection with the provision of supply chain management services, as well as costs for salaries and benefits, depreciation expense, severance, contract labor, consulting, fulfillment and shipping, and applicable facilities costs. Cost of revenue for the three months ended October 31, 2023 included materials procured on behalf of our Supply Chain clients of $13.5 million, as compared to $19.3 million for the same period in the prior year, a decrease of $5.8 million. Total cost of revenue decreased by $7.2 million for the three months ended October 31, 2023, as compared to the same period in the prior year, primarily due to an decrease in material and labor costs as a result of lower revenue.

Gross Profit:

Gross profit decreased by approximately $2.8 million mainly driven by lower sales volume discussed above. The gross profit percentage remained relatively unchanged from the prior period. Fluctuations in foreign currency exchange rates had an insignificant impact on Supply Chain's gross margin for the three months ended October 31, 2023.

Selling, General and Administrative Expenses:

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, marketing expenses, share-based compensation expense, transaction costs, restructuring and public reporting costs. Selling, general and administrative expenses during the three months ended October 31, 2023 decreased by approximately $1.6 million as compared to the same period in the prior year.

Selling, general and administrative expenses for the Supply Chain segment decreased by $0.5 million primarily due to bad debt expense recorded for a client in the consumer products industry in the prior year quarter that did not reoccur in the current year quarter. Corporate-level activity decreased by $1.1 million, primarily due to a decrease in legal and other professional fees. Fluctuations in foreign currency exchange rates did not have a significant impact on selling, general and administrative expenses for the three months ended October 31, 2023.

Amortization Expense:

Amortization expense for the three months ended October 31, 2023 was $0.9 million and was driven by the recognition of intangible assets in connection with the application of pushdown accounting as a result of the Exchange Transaction. The Exchange Transaction closed on May 1, 2023, and as such, there was no activity for the three months ended October 31, 2022.

Interest Expense:

Total interest expense during the three months ended October 31, 2023 decreased $0.6 million as compared to the same period in the prior year, primarily due to the cessation of the amortization of the discount on the SPHG Note as of May 1, 2023, the date of the Exchange Transaction.

Other Gains, Net:

Other gains, net are primarily composed of investment gains (losses), foreign exchange gains (losses), interest income, and sublease income.

The Company recorded $3.5 million to Other gains, net for the three months ended October 31, 2023, primarily due to: (1) $3.2 million interest income on money market funds, (2) $0.4 million foreign exchange net gains, and (3) $0.2 million sublease income, offset partially by $0.4 million unrealized losses on investments in equity securities.

The Company recorded $3.0 million to Other gains, net, for the three months ended October 31, 2022 primarily due to $2.5 million in foreign exchange gains.

Income Tax Expense:

During the three months ended October 31, 2023, the Company recorded income tax expense of approximately $0.7 million as compared to $1.1 million for the same period in the prior fiscal year. The decrease in income tax expense is primarily due to lower taxable income in foreign jurisdictions, as compared to the prior year.

Net Income:

Net income for the three months ended October 31, 2023 decreased $0.5 million, as compared to the same period in the prior year. The decrease in net income is primarily due lower gross profit, offset partially by lower operating expenses and non-operating expenses. Refer to above explanations for further details.

Liquidity and Capital Resources

Anticipated Sources and Uses of Cash Flow

Historically, the Company has financed its operations and met its capital requirements primarily through funds generated from operations, the sale of it securities, borrowings from lending institutions and sale of facilities that were not fully utilized.

As a result of the Exchange Transaction, the Company recorded $202.7 million to investments, which represents the fair value of the Aerojet common stock transferred to Steel Connect. As of July 31, 2023, the Company had disposed of all its interest in Aerojet common stock. The majority of Aerojet common stock was disposed of when L3 Harris closed its merger with Aerojet. As of July 31, 2023, the Company received $53.3 million in cash out of the total net proceeds of $207.8 million. During the three months ended October 31, 2023, the Company received the remaining $154.5 million proceeds in cash. The Company believes it has access to adequate resources to meet its needs for normal operating costs, capital expenditures, debt obligations and working capital for at least the next twelve months from the date of filing this Form 10-Q. Upon a redemption request by the holder of the Preferred Stock (as discussed in Note 17 - "Related Party Transactions" and in the Company's Annual Report on Form 10-K for the fiscal year ended July 31, 2023), the Parent believes it is probable that it has access to adequate resources, including cash on hand and potential dividends from ModusLink, to pay the redemption price and continue its operations.

As of October 31, 2023, these resources include cash and cash equivalents and ModusLink's credit agreement with Umpqua Bank (the “Umpqua Revolver”), as lender and as agent. The Umpqua Revolver provides for a maximum credit commitment of $12.5 million and a sublimit of $5.0 million for letters of credit and expires on March 31, 2025. There was no balance outstanding on the Umpqua Revolver as of October 31, 2023. See Note 10 - "Debt" for further details regarding the Umpqua Revolver.

The following table summarizes our liquidity:

	October 31, 2023
	(In thousands)
Cash and cash equivalents	$ 276,705
Readily available borrowing capacity under Umpqua Revolver	11,890
	$ 288,595

Due to the changes reflected in the U.S. Tax Cuts and Jobs Act in December 2017 ("U.S. Tax Reform"), there is no U.S. tax payable upon repatriating the undistributed earnings of foreign subsidiaries considered not subject to permanent investment. Foreign withholding taxes would range from 0% to 10% on any repatriated funds. For the Company, earnings and profits have been calculated at each subsidiary. The Company's foreign subsidiaries are in an overall net deficit for earnings and profits purposes. As such, no adjustment was made to U.S. taxable income in the three months ended October 31, 2023 relating to this aspect of the U.S. Tax Reform. In future years, the Company will be able to repatriate its foreign earnings without incurring additional U.S. tax as a result of a 100% dividends received deduction. The Company believes that any future withholding taxes or state taxes associated with such a repatriation would not be material.

Consolidated working capital was $239.9 million as of October 31, 2023, as compared to $251.5 million at July 31, 2023. Included in working capital were cash and cash equivalents of $276.7 million as of October 31, 2023 and $121.4 million at July 31, 2023. Sources and uses of cash for the three months ended October 31, 2023, as compared to the same period in the prior year, are as follows:

	Three Months Ended October 31,	
	2023	2022
	(In thousands)	
Net cash provided by operating activities	$ 6,583	$ 8,252
Net cash provided by (used in) investing activities	$ 150,084	$ (532)
Net cash used in financing activities	$ (536)	$ (556)

Operating Activities: We generated cash of $6.6 million from operating activities during the three months ended October 31, 2023, a decrease of $1.7 million compared with $8.3 million provided by operating activities during the three months ended October 31, 2022. The Company's future cash flows related to operating activities are dependent on several factors, including profitability, accounts receivable collections, effective inventory management practices and optimization of the credit terms of certain vendors of the Company, and overall performance of the technology sector impacting the Supply Chain segment.

Investing Activities: Net cash provided by investing activities was $150.1 million during the three months ended October 31, 2023 as compared to net cash used in investing activities of $0.5 million during the three months ended October 31, 2022. The increase for the current fiscal year quarter was driven by the $154.5 million cash receipt in August 2023 for the remaining proceeds receivable from the disposition of the Aerojet shares in the prior fiscal year.

Financing Activities: Net cash used in financing activities was $0.5 million during both the three months ended October 31, 2023 and 2022 for the payment of dividends on the Series C Convertible Preferred Stock.

Debt and Financing Arrangements

Following is a summary of Company’s outstanding debt and financing agreements and preferred stock. Refer to Note 10 – “Debt” and Note 17 – “Related Party Transactions” to the consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information.

7.50% Convertible Senior Note

On February 28, 2019, the Company entered into that certain 7.50% Convertible Senior Note Due 2024 Purchase Agreement with SPHG Holdings whereby SPHG Holdings loaned the Company $14.9 million in exchange for a 7.50%

Convertible Senior Note due 2024 (the "SPHG Note"). The SPHG Note bears interest at the fixed rate of 7.50% per year, payable semi-annually in arrears on March 1 and September 1 of each year, beginning on September 1, 2019. The SPHG Note will mature on September 1, 2024 (the "SPHG Note Maturity Date"), unless earlier repurchased by the Company or converted by the holder in accordance with its terms prior to such maturity date.

On March 9, 2023 (the "Amendment Date"), the Company and SPHG Holdings entered into an amendment to the SPHG Note (the “SPHG Note Amendment”). Pursuant to the SPHG Note Amendment, the maturity date of the SPHG Note was extended to its current maturity date of September 1, 2024 from its original maturity date of March 1, 2024. In addition, the Company repaid $1.0 million in principal amount of the SPHG Note on the Amendment Date, and repaid an additional $1.0 million principal amount of the note on June 9, 2023. In connection with the SPHG Note Amendment, the Company paid SPHG Holdings a cash amendment fee of $0.1 million, and derecognized $0.2 million of the debt discount in proportion to the reduction of the principal balance in the third quarter of fiscal year 2023. No other changes were made to the terms of the SPHG Note besides the items discussed.

At its election, the Company may pay some or all of the interest due on each interest payment date by increasing the principal amount of the SPHG Note in the amount of such interest due or any portion thereof (such payment of interest by increasing the principal amount of the SPHG Note referred to as "PIK Interest"), with the remaining portion of the interest due on such interest payment date (or, at the Company's election, the entire amount of interest then due) to be paid in cash by the Company. Following an increase in the principal amount of the SPHG Note as a result of a payment of PIK Interest, the SPHG Note will bear interest on such increased principal amount from and after the date of such payment of PIK Interest. SPHG Holdings has the right to require the Company to repurchase the SPHG Note upon the occurrence of certain fundamental changes, subject to certain conditions, at a repurchase price equal to 100% of the principal amount of the SPHG Note plus accrued and unpaid interest. The Company will have the right to elect to cause the mandatory conversion of the SPHG Note in whole, and not in part, at any time on or after March 6, 2022, subject to certain conditions including that the stock price of the Company exceeds a certain threshold. SPHG Holdings has the right, at its option, prior to the close of business on the business day immediately preceding the SPHG Note Maturity Date, to convert the SPHG Note or a portion thereof that is $1,000 or an integral multiple thereof, into shares of common stock (if the Company has not received a required stockholder approval) or cash, shares of common stock or a combination of cash and shares of common stock, as applicable (if the Company has received a required stockholder approval), at an initial conversion rate of 45.1356 shares of common stock, which is equivalent to an initial conversion price of approximately $22.16 per share (subject to adjustment as provided in the SPHG Note) per $1,000 principal amount of the SPHG Note (the "Conversion Rate"), subject to, and in accordance with, the settlement provisions of the SPHG Note. For any conversion of the SPHG Note, if the Company is required to obtain and has not received approval from its stockholders in accordance with Nasdaq Stock Market Rule 5635 to issue 20% or more of the total shares of common stock outstanding upon conversion (including upon any mandatory conversion) of the SPHG Note prior to the relevant conversion date (or, if earlier, the 45th scheduled trading day immediately preceding the SPHG Note Maturity Date), the Company shall deliver to the converting holder, in respect of each $1,000 principal amount of the SPHG Note being converted, a number of shares of common stock determined by reference to the Conversion Rate, together with a cash payment, if applicable, in lieu of delivering any fractional share of common stock based on the volume weighted average price (VWAP) of its common stock on the relevant conversion date, on the third business day immediately following the relevant conversion date. As of October 31, 2023 and July 31, 2023, outstanding debt in both periods consisted of the $12.9 million 7.50% Convertible Senior Note due September 1, 2024. As of October 31, 2023 and July 31, 2023, the fair value of the SPHG Note was $12.3 million and $12.5 million, respectively.

Umpqua Revolver

On March 16, 2022, ModusLink, as borrower, entered into a new credit agreement with Umpqua Bank as lender and as agent. The Umpqua Revolver provides for a maximum credit commitment of $12.5 million and a sublimit of $5.0 million for letters of credit and expires on March 31, 2025. Steel Connect, Inc. (“Parent”) is not a borrower or a guarantor under the Umpqua Revolver. Under the Umpqua Revolver, ModusLink is permitted to make distributions to the Parent, in an aggregate amount not to exceed $10.0 million in any fiscal year.

On March 13, 2023, ModusLink and Umpqua Bank entered into an amendment to the Umpqua Revolver (the "Umpqua Revolver Amendment") to extend the expiration date of the facility to March 31, 2025 from its original expiration date of March 16, 2024. There were no fees associated with the extension.

As of October 31, 2023, ModusLink was in compliance with the Umpqua Revolver's covenants, and believes it will remain in compliance with the Umpqua Revolver’s covenants for the next twelve months from the date of filing this Form 10-Q. As of October 31, 2023, ModusLink had available borrowing capacity of $11.9 million and there was $0.6 million available for letters of credit.

Series C Preferred Stock

On December 15, 2017, the Company entered into a Preferred Stock Purchase Agreement (the "Purchase Agreement") with SPHG Holdings, pursuant to which the Company issued 35,000 shares of the Company's newly created Series C Convertible Preferred Stock, par value $0.01 per shares, or the Preferred Stock, to SPHG Holdings at a price of $1,000 per share, for an aggregate purchase consideration of $35.0 million (the "Preferred Stock Transaction"). The terms, rights, obligations and preferences of the Preferred Stock are set forth in a Certificate of Designations, Preferences and Rights of Series C Convertible Preferred Stock of the Company (the "Series C Certificate of Designations"), which has been filed with the Secretary of State of the State of Delaware.

Under the Series C Certificate of Designations, each share of Preferred Stock can be converted into shares of the Company's common stock at an initial conversion price equal to $18.29 per share, subject to appropriate adjustments for any stock dividend, stock split, stock combination, reclassification or similar transaction. Holders of the Preferred Stock will also receive dividends at 6% per annum payable, at the Company's option, in cash or common stock. If at any time the closing bid price of the Company's common stock exceeds 170% of the conversion price for at least five consecutive trading days (subject to appropriate adjustments for any stock dividend, stock split, stock combination, reclassification or similar transaction), the Company has the right to require each holder of Preferred Stock to convert all, or any whole number, of shares of the Preferred Stock into common stock.

Upon the occurrence of certain triggering events such as a liquidation, dissolution or winding up of the Company, either voluntary or involuntary, or the merger or consolidation of the Company or significant subsidiary, or the sale of substantially all of the assets or capital stock of the Company or a significant subsidiary, the holders of the Preferred Stock are entitled to receive, prior and in preference to any distribution of any of the assets or funds of the Company to the holders of other equity or equity equivalent securities of the Company other than the Preferred Stock by reason of their ownership thereof, an amount per share in cash equal to the sum of (i) 100% of the stated value per share of Preferred Stock (initially $1,000 per share) then held by them (as adjusted for any stock dividend, stock split, stock combination, reclassification or other similar transactions with respect to the Preferred Stock), plus (ii) 100% of all declared but unpaid dividends, and all accrued but unpaid dividends on each such share of Preferred Stock, in each case as the date of the triggering event.

On or after December 15, 2022, each holder of Preferred Stock can also require the Company to redeem its Preferred Stock in cash at a price equal to the Liquidation Preference (as defined in the Series C Certificate of Designations), or approximately $35.0 million. If holders of the Preferred Stock exercise this right to require the Company to redeem all the Preferred Stock, the Company may have insufficient liquidity to pay the redemption price, or the Company’s payment of the redemption price would likely adversely impact the Company’s liquidity and ability to finance its operations.

Series E Preferred Stock

On May 1, 2023, the Company and Steel Holdings executed a series of agreements in which the Steel Partners Group agreed to transfer certain marketable securities held by the Steel Partners Group to Steel Connect in exchange for 3.5 million shares of Series E Convertible Preferred Stock of Steel Connect (the “Series E Convertible Preferred Stock”, and, such transfer the “Transfer and Exchange Agreement”). Following the approval by the Company's stockholders at the special stockholders' meeting held on June 6, 2023 pursuant to NASDAQ Marketplace Rules (the “Stockholder Approval”), the Series E Convertible Preferred Stock is convertible into an aggregate of 19.8 million shares of the Company’s common stock (the “Common Stock”), and will vote together with the Common Stock and participate in any dividends paid on the Common Stock, in each case on an as-converted basis.

The terms, rights, obligations and preferences of the Series E Convertible Preferred Stock are set forth in a Certificate of Designations, Preferences and Rights of Series E Convertible Preferred Stock of the Company (the “Series E Certificate of Designations”), which are summarized below:

Any holder of the Series E Convertible Preferred Stock (“Holder”), may, at its option, convert all or any shares of Series E Convertible Preferred Stock held by such Holder into Common Stock based on a conversion price of $10.27 (the “Conversion Price”) per share, subject to appropriate adjustments for any stock dividend, stock split, stock combination, or similar transaction by delivering to the Company a conversion notice.

Holders are entitled to participate equally and ratably with the holders of shares of Common Stock in all dividends or other distributions on the shares of Common Stock as if, immediately prior to each record date for payment of dividends or other distributions on the Common Stock, shares of the Series E Convertible Preferred Stock then outstanding were converted into shares of Common Stock. Dividends or other distributions payable will be payable on the same date that such dividends or other distributions are payable to holders of shares of Common Stock, and no dividends or other distributions will be payable to holders of shares of Common Stock unless dividends or such other distributions are also paid at the same time in respect of the Series E Convertible Preferred Stock.

Upon the occurrence of certain triggering events such as a liquidation, dissolution or winding up of the Company, either voluntary or involuntary, any merger or consolidation in which the Company is a constituent party or a Significant Subsidiary is a constituent party and the Company issues shares of its capital stock pursuant to such merger or consolidation such that the stockholders of the Company prior to such merger or consolidation hold less than 50.0% of the aggregate voting securities of the Corporation following such merger or consolidation, or the sale of substantially all of the assets or capital stock of the Company or a significant subsidiary (collectively, or any of these, a “Liquidation Event(s)”), the holders of the Series E Convertible Preferred Stock are entitled to receive, prior and in preference to any distribution of any of the assets or funds of the Company to the holders of Common Stock by reason of their ownership thereof, an amount per share in cash equal to $58.1087 (as adjusted for any stock split, stock dividend, stock combination or other similar transactions with respect to the Series E Convertible Preferred Stock (“the Series E Convertible Preferred Stock Liquidation Preference”). In the event that the Series E Convertible Preferred Stock Liquidation Preference is not paid with respect to any shares of Series E Convertible Preferred Stock as required to be paid, such shares shall continue to be entitled to dividends and all such shares shall remain outstanding and entitled to all the rights and preferences provided within the Series E Certificate of Designations.

Neither the Company nor the Holder has any rights to redeem the Series E Convertible Preferred Stock.

Each Holder of the Series E Convertible Preferred Stock is entitled to vote with holders of outstanding shares of Common Stock, voting together as a single class, with respect to any and all matters presented to the stockholders of the Company for their action or consideration (whether at a meeting of stockholders of the Company, by written action of stockholders in lieu of a meeting or otherwise), except as provided by law. In any such vote, each Holder shall be entitled to a number of votes equal to the largest number of whole shares of Common Stock into which all shares of Series E Convertible Preferred Stock held of record by such Holder is convertible as of the record date for such vote or written consent or, if there is no specified record date, as of the date of such vote or written consent.

The Company's stockholders approved the issuance of the Series E Convertible Preferred Stock at the special stockholders' meeting held on June 6, 2023.

Steel Connect, Inc. (as parent company, the “Parent”)

The Parent believes it has access to adequate resources to meet its needs for normal operating costs, debt obligations and working capital for at least the next twelve months from the date of filing this Form 10-Q. Upon a redemption request of the holder of the Preferred Stock (as discussed above), the Parent believes it is probable that it has access to adequate resources, including cash on hand and potential dividends from ModusLink, to pay the redemption price and continue its operations.

ModusLink believes that if dividends to the Parent are required, it would have access to adequate resources to meet its operating needs while remaining in compliance with the Umpqua Revolver's covenants over the next twelve months. However, there can be no assurances that ModusLink will continue to have access to its line of credit under the Umpqua Revolver if its financial performance does not satisfy the financial covenants set forth in its financing agreement, which could also result in the acceleration of its debt obligations by its lender, adversely affecting liquidity.

Off-Balance Sheet Arrangements

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

Critical Accounting Estimates Update

During the three months ended October 31, 2023, the Company added the following critical accounting estimate:

Goodwill and Other Intangible Assets, Net

Goodwill, which is not amortized, represents the difference between the purchase price and the fair value of identifiable net assets acquired in a business combination. Goodwill is tested for impairment at a reporting unit level, and all of the Company’s goodwill is assigned to its reporting units. Reporting units are determined based upon the Company’s organizational structure in place at the date of the goodwill impairment testing and are generally one level below the operating segment level. The Company tests goodwill annually for impairment, and additionally on an interim basis, if events occur or circumstances change that would indicate the carrying amount may be impaired. Examples of such events would include pertinent macroeconomic conditions, industry and market considerations, overall financial performance and other factors. An entity can choose between using a qualitative impairment test often referred to as "Step 0" or a quantitative impairment test often referred to as "Step 1".

For the Step 0 approach, an entity may assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. An entity has an unconditional option to bypass the Step 0 assessment for any reporting unit in any period and proceed directly to performing a Step 1 of the goodwill impairment test. An entity may resume performing the Step 0 assessment in any subsequent period. For the Step 1 approach, which is a quantitative approach, the Company will calculate the fair value of a reporting unit and compare it to its carrying amount. There are several methods that may be used to estimate a reporting unit's fair value, including the income approach, the market approach and/or the cost approach. The amount of impairment, if any, is determined by comparing the fair value of a reporting unit with its carrying amount and recognizing an impairment charge based on the amount that the carrying amount exceeds the reporting unit's fair value. The loss recognized should not exceed the total goodwill allocated to the reporting unit.

For finite-lived intangible assets, the Company evaluates the carrying amount of such assets when circumstances indicate the carrying amount may not be recoverable. Conditions that could have an adverse impact on the cash flows and fair value of the long-lived assets are deteriorating business climate, condition of the asset or plans to dispose of the asset before the end of its useful life. If the assets' carrying amounts exceed the sum of the undiscounted cash flows, an impairment charge is recognized in the amount by which the carrying amounts exceeds their fair values. The Company performs such assessments at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities, which is generally at the plant level, operating company level or the reporting unit level, depending on the level of interdependencies in the Company's operations.

Indefinite-lived intangible assets are tested for impairment at least annually, or when events or changes in circumstances indicate that it is more likely than not that the asset is impaired. Companies can use the same two testing approaches for indefinite-lived intangibles as for goodwill. There were no impairments of goodwill or other intangible assets for the three months ended October 31, 2023 or for the fiscal year ended July 31, 2023.

The above critical accounting estimate should be read in conjunction with the items that we disclosed as our critical accounting policies and estimates in the "Critical Accounting Estimates" 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, 2023.

The Company's Condensed Consolidated Financial Statements are prepared in conformity with U.S. generally accepted accounting principles, which require us to make estimates and assumptions that affect the amounts reported in the financial statements. The critical accounting policies and estimates that we believe are most critical to the portrayal of our financial condition and results of operations are reported in the "Critical Accounting Estimates" 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, 2023.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Consistent with the rules applicable to "Smaller Reporting Companies," we have omitted information required by this item.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

An evaluation was performed under the supervision and with the participation of our management, including the Interim Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as such terms are defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of the end of the period covered by this report. "Disclosure controls and procedures" means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives. Based upon that evaluation, management, including the Interim Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls were effective as of October 31, 2023.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during the quarter ended October 31, 2023 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.

The information set forth under Note 11 - "Contingencies" to Condensed Consolidated Financial Statements, included in Part I, Item 1 of this Quarterly Report on Form 10-Q, is incorporated herein by reference. For an additional discussion of certain risks associated with legal proceedings, also see Part I, Item 1A, Risk Factors, of our Annual Report on Form 10-K for the fiscal year ended July 31, 2023.

Item 1A. Risk Factors.

In addition to the risks and uncertainties discussed in this Quarterly Report on Form 10-Q, particularly those disclosed in Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, see "Risk Factors" in the Company's Annual Report on Form 10-K for fiscal year ended July 31, 2023. There have been no material changes from the risk factors previously disclosed under the heading "Risk Factors" in the Company's Annual Report on Form 10-K for the fiscal year ended July 31, 2023.

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

a. None.

b. Not applicable.

c. None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit Number	Description
10.1	Amendment No. 2 to Management Services Agreement, dated as October 25, 2023, between Steel Services Ltd. and Steel Connect, Inc. is incorporated by reference to Exhibit 10.11 to the Registrant's Annual Report on Form 10-K filed on November 8, 2023.
10.2	Management Services Agreement, dated as of October 25, 2023, between Steel Services Ltd. and ModusLink Corporation is incorporated by reference to Exhibit 10.12 to the Registrant's Annual Report on Form 10-K filed on November 8, 2023.
31.1*	Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1±	Certification of the Principal 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 Principal Financial Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101*	The following financial information from Steel Connect, Inc.'s Quarterly Report Form 10-Q for the quarter ended October 31, 2023 formatted in Inline XBRL: (i) Unaudited Condensed Consolidated Balance Sheets as of October 31, 2023 and July 31, 2023, (ii) Unaudited Condensed Consolidated Statements of Operations for the three months ended October 31, 2023 and 2022, (iii) Unaudited Condensed Consolidated Statements of Comprehensive Loss for the three months ended October 31, 2023 and 2022, (iv) Unaudited Condensed Consolidated Statements of Stockholders' Equity (Deficit) for the three months ended October 31, 2023 and 2022, (v) Unaudited Condensed Consolidated Statements of Cash Flows for the three months ended October 31, 2023 and 2022 and (vi) Notes to Unaudited Condensed Consolidated Financial Statements.
104*	Cover Page Interactive Data File (embedded within the Inline XBRL document)

* Filed herewith.

± Furnished herewith.

SIGNATURES

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.

STEEL CONNECT, INC.

Date: December 14, 2023

By: /S/ RYAN O'HERRIN

Ryan O'Herrin
Chief Financial Officer
(Principal Financial Officer and Authorized Signatory)

Exhibit 31.1

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, Warren Lichtenstein, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Steel Connect, 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 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 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: December 14, 2023

By: /S/ WARREN LICHTENSTEIN
Warren Lichtenstein
Interim Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

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, Ryan O'Herrin, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Steel Connect, 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 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 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: December 14, 2023

By: /S/ RYAN O'HERRIN

Ryan O'Herrin
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

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 Steel Connect, Inc. (the “Company”) for the fiscal quarter ended October 31, 2023 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, Warren Lichtenstein, 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: December 14, 2023

By: /S/ WARREN LICHTENSTEIN
Warren Lichtenstein
Interim Chief Executive Officer
(Principal Executive Officer)

Exhibit 32.2

**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 Steel Connect, Inc. (the “Company”) for the fiscal quarter ended October 31, 2023 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, Ryan O'Herrin, 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: December 14, 2023

By: /S/ RYAN O'HERRIN

Ryan O'Herrin
Chief Financial Officer
(Principal Financial Officer)