Steel Connect, Inc.
Form 10-K
December 04, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the Fiscal Year Ended July 31, 2018

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	**04-2921333**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
1601 Trapelo Road, Suite 170 Waltham, Massachusetts	**02451**
(Address of principal executive offices)	**(Zip Code)**

(781) 663-5001

(Registrant s telephone number, including area code)

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

Title of each class:	**Name of each exchange on which registered:**
Common Stock, $0.01 par value	**The NASDAQ Stock Market LLC**

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

None

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

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

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

Indicate by check mark whether the registrant has submitted electronically 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 and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 Act). Yes No

The aggregate market value of the Registrant s common stock held by non-affiliates of the Registrant computed with reference to the price at which the common stock was last sold as of the last business day of the Registrant s most recently completed second fiscal quarter was $81,962,522.

On November 1, 2018, the Registrant had 60,611,082 outstanding shares of common stock, $0.01 par value.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive proxy statement to be delivered to stockholders in connection with the Company s 2018 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated.

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ANNUAL REPORT ON FORM 10-K

FISCAL YEAR ENDED JULY 31, 2018

STEEL CONNECT, INC.

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This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended. For this purpose, any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words believes, anticipates, plans, expects and similar expressions are intended to identify forward-looking statements. Factors that could cause actual results to differ materially from those reflected in the forward-looking statements include, but are not limited to, those discussed in Item 1A of this report, Risk Factors , and elsewhere in this report. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management s analysis, judgment, belief or expectation only as of the date hereof. We do not undertake any obligation to update forward-looking statements whether as a result of new information, future events or otherwise.

PART I

ITEM 1. BUSINESS OVERVIEW

Steel Connect, Inc. (Steel Connect or the Company) together with its consolidated subsidiaries, operates through its wholly owned subsidiaries, ModusLink Corporation and ModusLink PTS, Inc. (together ModusLink or Supply Chain), and IWCO Direct Holdings, Inc. (IWCO Direct or IWCO). The Company was formerly known as ModusLink Global Solutions, Inc. until it changed its name to Steel Connect, Inc. effective February 27, 2018.

ModusLink is a leader in global supply chain business process management serving clients in markets such as consumer electronics, communications, computing, medical devices, software, and retail. ModusLink designs and executes critical elements in its clients global supply chains to improve speed to market, product customization, flexibility, cost, quality and service. These benefits are delivered through a combination of industry expertise, innovative service solutions, and integrated operations, proven business processes, expansive global footprint and world-class technology. The Company also produces and licenses an entitlement management solution powered by its enterprise-class Poetic software, which offers a complete solution for activation, provisioning, entitlement subscription and data collection from physical goods (connected products) and digital products.

ModusLink has an integrated network of strategically located facilities with 20 sites operating in 21 languages in various countries, including numerous sites throughout North America, Europe and Asia. The Company previously operated under the names ModusLink Global Solutions, Inc., CMGI, Inc. and CMG Information Services, Inc. and was incorporated in Delaware in 1986. The Company s address is 1601 Trapelo Road, Suite 170, Waltham, Massachusetts 02451.

IWCO Direct delivers highly-effective data-driven marketing solutions for its customers, which represent some of the largest and most respected brands in the world. Its full range of services includes strategy, creative and execution for omnichannel marketing campaigns, along with one of the industry s most sophisticated postal logistics programs for direct mail. Through its Mail-Gard® division, IWCO Direct also offers business continuity and disaster recovery services to protect against unexpected business interruptions, along with providing print and mail outsourcing services. IWCO Direct was named the largest direct mail production provider in North America, with the largest platform of continuous digital print technology and a growing direct marketing agency service. Their solutions enable customers to improve Customer Lifetime Value (CLV), which in turn, has led to and longer customer relationships.

IWCO has administrative offices in Chanhassen, MN. and has three facilities in Chanhassen, MN., one facility in Little Falls, MN., one facility in Warminster, PA. and two facilities in Hamburg PA.

Historically, the Company has financed its operations and met its capital requirements primarily through funds generated from operations, the sale of our securities and borrowings from lending institutions. As of July 31, 2018, the Company had available cash and cash equivalents of $92.1 million. At July 31, 2018, IWCO had a readily available borrowing capacity under its Revolving Facility of $25.0 million. Per the Financing Agreement with Cerberus Business Finance, LLC (the Financing Agreement), IWCO is permitted to make distributions to the Parent, Steel Connect, Inc., an aggregate amount not to exceed $5.0 million in any fiscal year and pay reasonable documented expenses incurred by the Parent. The Parent is entitled to receive additional cash remittances under a U.S. Federal Income Tax Sharing Agreement. The Company believes it will generate sufficient cash to meet its debt covenants under the Credit Agreement with PNC Bank (the Credit Agreement) and the Financing Agreement to which certain of its subsidiaries are a party, to repay or restructure its 5.25% Convertible Senior Notes (the Notes), and that it will be able to obtain cash through its current credit facilities and through securitization of certain trade receivables. The Company believes that it has adequate cash and available resources to meet its obligations for one year from the date of this filing.

Services

The Supply Chain business operation s revenue primarily comes from the sale of Adaptive Supply Chain Services to its clients. Among ModusLink s core supply chain services are fulfillment, digital commerce, packaging, kitting & assembly, reverse

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logistics and supply chain infrastructure for small companies. In addition, ModusLink is a Microsoft Authorized Replicator, further enhancing its position as a valued supply chain services provider to leading technology hardware original equipment manufacturers (OEMs).

The Supply Chain business operation s core services include:

Packaging, Kitting & Assembly These services center on developing and executing a strategy that has product configuration and packaging done at the optimal time, and from the greatest strategic benefit. With sites located in the Americas, the Asia-Pacific region or Europe, ModusLink affords manufacturers just-in-time flexibility. Options with this service include the ability to postpone product/order configuration until the order fulfillment stage, using the facilities closest to a client s customers. In addition, ModusLink light manufacturing services cover the final assembly of components and parts into finished goods, including build-to-order customization. ModusLink also offers additional value-added processes such as product testing, RFID (Radio Frequency Identification) tagging, product or service activation, language settings, personalization and engraving and multi-channel packaging and packaging design.

Fulfillment ModusLink Fulfillment Services are highly integrated and supported by a best-of-breed technology infrastructure to enable clients to quickly increase efficiency and reduce costs. It has deep experience and is exceptionally skilled at handling the fulfillment requirements of multiple channels, be they manufacturing sites, distribution centers, retail operations or individual consumers dispersed across the globe. ModusLink is equally strong in adapting to the needs of retail/B2B or B2C product movement aspects of bringing product to market, including order management, pick, pack and ship, retail compliance and demand planning services are integral components of ModusLink Fulfillment Services. In addition, ModusLink can help optimize component and finished goods inventory levels for better efficiency and cost savings. Clients also look to ModusLink for the physical programming of digital content such as software, firmware, upgrades or promotional material onto numerous types of flash media, including SD and MicroSD cards, USB drives, navigation systems, smartphones and tablets. This programming includes content protection and activation options as well as full IP security. As direct-to-consumer volumes increase, ModusLink is able to provide a customer experience that can further enhance a brand s relationship with consumers.

Digital Commerce At the heart of ModusLink s Digital Commerce Services is ModusLink s cloud-based e-commerce platform. It removes the complexities and risk of a global web store, optimizing each stage of the online buying experience so that products can be quickly and easily purchased, serviced and delivered anywhere in the world. This end-to-end approach is fully integrated with global payment, CRM and fulfillment systems, helping clients to quickly and easily expand into a new region and country. In addition, if a client needs help in managing and optimizing its commerce solution once established, ModusLink can support that too. By leveraging ModusLink s e-commerce partnerships with Intershop and Shopify, clients can better meet revenue goals, drive growth and build their brands around the globe. Integration with either partner provides clients with a single, comprehensive view of their customers at every stage of their relationships. ModusLink can also manage the installation, integration and all technical operations for an online store, so a client can dedicate time and resources to its core business. By being able to adapt to their digital commerce and supply chain needs, ModusLink can help clients reach new markets, optimize order processing and customer service, reduce costs and increase margins and flexibility without having to invest in their own infrastructure and personnel.

Reverse Logistics ModusLink Reverse Logistics Services simplifies the returns process for retailers and manufacturers that want to improve service parts management and the value of returned assets. ModusLink manages the end-to-end process, including receipt, RMA, sorting, triage, credit processing and ultimate disposition of the returned product. Its approach to reverse logistics employs a modular global system that combines existing and new supply chain solutions, so clients can gain actionable insight into their reverse supply chains, which leads to reduced costs and increased customer service and satisfaction levels. ModusLink s integrated supply chain infrastructure, technology and operating expertise combine to afford a highly streamlined reverse logistics management operation, one that eliminates costly handoffs and decreases inventory processing time, leading to an increase in value recovery.

Supply Chain Infrastructure for Small Companies These Adaptive Supply Chain Services center on helping small companies with big ambitions grow and expand their geographic reach. The entry point is ModusLink s EZ Connect service, which provides essential fulfillment capabilities for emerging growth companies without the expensive surprises typically associated with third-party fulfillment services for young, growing companies. Key to that is ModusLink s transparent pricing, which consists of the average monthly customer order rate + pick-pack-ship activities with all packaging and related consumables and logo-marked packing lists included + flat-rate 1-2-day shipping to 99.9% of the continental United States. In addition, EZ Connect gives clients a complete view of into each part of the process with real-time, substantive online reports generated by powerful monitoring, management and analytical tools like Power

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BI, SAP and Salesforce. Visibility is offered into orders, inventory, shipments and tracking. Since EZ Connect is powered by ModusLink, as clients of this service grow, ModusLink can scale its services as rapidly as needed, systemically and geographically.

The Supply Chain business solutions seamlessly integrate with other supply chain service providers such as contract manufacturing companies and transportation providers.

The Direct Marketing operation s revenue primarily comes from fully integrated, end-to-end production execution services for complex, data-driven direct marketing programs. Print-to-mail recovery services are provided by the Company s Mail-Gard division which also provides production overflow services for its clients. In addition, the Company s omnichannel practice helps clients combine physical mail with web, email, social, and mobile to maximize return on marketing investment (ROMI)**.**

The Direct Marketing operation s core solutions include: end-to-end services for paper-based direct marketing and omnichannel marketing campaigns. These solutions include strategy, data and analytics, response analysis, creative services, lithographic and digital printing, envelope printing and converting, component manufacturing, promotional cards (manufacturing, personalization and affixing), data processing and hygiene, content and asset management, personalization, lettershop and bindery, and postal optimization, including comprehensive commingling and logistics management.

Operating Segments

The Company has five operating segments: Americas; Asia; Europe; Direct Marketing; and e-Business. Direct Marketing is a new operating segment which represents IWCO. Based on the information provided to the Company s chief operating decision-maker (CODM) for purposes of making decisions about allocating resources and assessing performance and quantitative thresholds, the Company has determined that it has five reportable segments: Americas, Asia, Europe, Direct Marketing and e-Business. In the past the All Other category has completely been comprised of the e-Business operating segment. The Company also has Corporate-level activity, which consists primarily of costs associated with certain corporate administrative functions such as legal, finance, share-based compensation, acquisition costs and certain strategic costs which are not allocated to the Company s reportable segments. The Corporate-level balance sheet information includes cash and cash equivalents, Notes payables and other assets and liabilities which are not identifiable to the operations of the Company s operating segments. Certain reportable segment information, including revenue, profit and asset information, is set forth in Note 20 of the accompanying notes to consolidated financial statements included in Item 8 below and in Management s Discussion and Analysis of Financial Condition and Results of Operations included in Item 7 below.

Technology Infrastructure

ModusLink s information technology systems and infrastructure serve as the backbone of a client s fully integrated global supply chain services and manages the flow and use of physical assets and information. ModusLink offers a secure and redundant operating environment to ensure the integrity and privacy of its clients data. ModusLink works with clients to integrate data, tools and applications to deliver an optimized solution that meets its clients business needs and improves management of the global supply chain. ModusLink s Enterprise Resource Planning (ERP) system is designed to provide the visibility and control needed for better decision making, rapid response to global market dynamics and effective asset utilization across services and geographies. ModusLink has recently completed an ERP upgrade that further improves its data collection and reporting tools and systems across its geographic footprint.

IWCO has dual redundant data centers located in our Minnesota and Pennsylvania locations. These data centers have been architected to provide full resiliency and security to enable our optimal and always on computing resources to support IWCO s enterprise business applications and complex data processing required by our customers. IWCO s information security practice is a leader in the industry and is audited and certified annually against ISO-27001, HiTrust, PCI and HIPAA controls and standards. IWCO has fully integrated and enterprise class business systems including an industry specific ERP that has been customized to support IWCO s unique business flows. These business systems provide end-to-end tracking and visibility to both front end business support functions as well as to our entire manufacturing operation.

Facilities

ModusLink s global footprint consists of an integrated network of strategically located facilities, including sites throughout North America, Europe and Asia. ModusLink s regionally optimized and highly scalable services centers are designed to provide the adaptability to manage supply chain requirements, deliver and configure products in-region, close to the point of consumption

or close to the point of manufacturing in low-cost regions, such as Asia Pacific, Eastern Europe and Mexico for maximum efficiency and cost-effectiveness. Investments in automation and Lean methodologies have enhanced ModusLink s overall value proposition to its clients, enabling quicker response times, more efficient service levels and improved customer satisfaction.

IWCO Direct has more than 1.2 million square feet of production, office and warehouse space at our strategically located facilities in Minnesota and Pennsylvania. Investments in Lean methodologies have enhanced the IWCO s overall value proposition to its clients, enabling faster speed-to-market production cycles, more efficient service levels, and improved product quality. IWCO Direct s national footprint includes:

- Corporate headquarters located in Chanhassen, MN.
- Offices located in Chanhassen and Little Falls, MN, and Hamburg and Warminster, PA.
- Production and mailing facilities located in Chanhassen and Little Falls, MN, and Hamburg and Warminster, PA.
- Recovery services facilities located in Warminster, PA and Hamburg, PA.
- Regional sales offices in Detroit metro, MI; Fort Worth, TX; Hamburg, PA; Los Angeles metro, CA; Minneapolis metro, MN; Naples, FL; New York City metro, NY; Philadelphia metro, PA; Richmond, VA; and St. Louis, MO.

Sales and Marketing

ModusLink s sales and marketing staff is strategically and globally aligned to support the development, marketing and sale of its Adaptive Supply Chain Services and solutions worldwide. ModusLink s marketing efforts key on engaging with its target base so as to inform and persuade them of the benefits of its Adaptive Supply Chain Services and convert them into ModusLink clients; and, once being served by ModusLink, to see the value to drawing on more of its capabilities. The approach is to focus on those prospects whose business profile, situation and supply chain needs best map to what ModusLink can offer in terms of supply chain services and what it needs for there to be a win-win partnership with a potential client. The vertical markets/market segments which will be emphasized include technology components (i.e.: semiconductors), computing (systems, storage, software) communications products (wireless devices), consumer electronics (A/V products, smart home electronics and systems, wearables), small home appliances, selected consumer packaged goods categories (long-shelf-life consumables, cosmetics/health & beauty aids), health/healthcare (vitamins/supplements, medical devices, medical supplies), luxury goods, selected apparel categories, industrial and aerospace parts. ModusLink sells its services and solutions on a global scale, through a direct sales channel. ModusLink s strategically aligned, global sales staff identifies new opportunities and cultivates leads throughout North America, Europe and the Asia-Pacific region. ModusLink s sales staff is focused on winning new programs with existing clients, while developing new relationships to further diversify its client base.

Because of IWCO Direct s scale, sales executives are largely focused on specific industry verticals, leveraging industry expertise to drive clients marketing results through improved response rates, automation, and reduced postage spend. Smaller competitors sales executives are often generalists, not vertical specialists. The majority of the sales force has been with IWCO Direct for at least 10 years; many have more than 20 years experience in the industry and are expected to maintain a robust pipeline. IWCO Direct markets its services and solutions through its website, media relations, trade publications and conferences, and has developed collateral materials, case studies, and other sales tools to support these efforts. The Company sells its direct marketing and omnichannel services and solutions through a direct sales channel.

Competition

The market for the supply chain management service offerings provided by ModusLink is highly competitive. As a provider with service offerings covering a range of supply chain operations and activities across the globe, ModusLink competes with different companies depending on the type of service it is providing or the geographic area in which an activity is taking place. ModusLink faces competition from Electronics Manufacturing Services/Contract Manufacturers (EMS/CM), third party logistics (3PL) providers, Supply Chain Management (SCM) companies, and regional specialty companies. For certain digital commerce services, ModusLink s competition includes global outsource providers, software as service (SaaS) providers, technology providers and computer software providers offering content and document management solutions. As a provider of an outsourcing solution, ModusLink s competition also includes current and prospective clients, who evaluate ModusLink s capabilities in light of their own capabilities and cost structures.

The Company believes that the principal competitive factors in its market are quality and range of solutions and services, technological capabilities, costs, location of facilities, responsiveness, and adaptability. With ModusLink s set of supply chain services, global footprint, strong client service acumen, and its integrated global supply chain digital commerce services, the Company believes that it is well positioned to compete in each of the markets it serves, while expanding across various industry subsets.

The market for the range of services offered by IWCO Direct is highly competitive and fragmented. IWCO Direct s scope and scale of end-to-end services provides a competitive advantage by being able to focus on efficiency while making the end product more effective in driving response for clients. While the ability to offer a more effective marketing product is highly valued, we must continue to provide it a competitive price and aggressively manage our cost structure to maintain our client roster and attract new business.

Competitors for our print/mail products and services include printers, envelope manufacturers, and commercial lettershops (i.e. mail service providers). Competitors for our Marketing Services practice include internal and external agencies and data and analytics companies.

Clients

A limited number of clients account for a significant percentage of the Company s consolidated net revenue. For the fiscal year ended July 31, 2018, 2017 and 2016, the Company s 10 largest clients accounted for approximately 44%, 70% and 71% of consolidated net revenue, respectively. No clients accounted for more than 10% of the Company s consolidated net revenue for the fiscal year ended July 31, 2018. In general, the Company does not have any agreements which obligate any client to buy a minimum amount of services from the Company, or which designate the Company as its sole supplier of any particular services. The loss of a significant amount of business or program with any key client could have a material adverse effect on the Company. The Company believes that it will continue to derive the vast majority of its consolidated operating revenue from sales to a small number of clients. There can be no assurance that revenue from key clients will not decline in future periods.

The Company sells its services to its clients primarily on a purchase order basis rather than pursuant to contracts with minimum purchase requirements. Consequently, sales are subject to demand variability by such clients. The Company purchases and maintains adequate levels of inventory in order to meet client needs rapidly and on a timely basis. The Company has no guaranteed price, quantity or delivery agreements with its suppliers other than the purchase obligations noted in Note 11 of the accompanying notes to consolidated financial statements included in Item 8 below. Because of the diversity of its services, as well as the wide geographic dispersion of its facilities, the Company uses numerous sources for the wide variety of raw materials needed for its operations. The Company is not and does not expect to be adversely affected by an inability to obtain materials.

IWCO Direct s services include (a) development of direct mail and omnichannel marketing strategies (b) creative services to design direct mail, email, and online marketing (c) printing and compiling of direct mail pieces into envelopes ready for mailing (d) commingling services to sort mail produced for various customers, by destination to achieve optimized postal savings (e) and business continuity and disaster recovery services for critical communications to protect against unexpected business interruptions. The major markets served by IWCO Direct include financial services, Multiple-System Operations (MSO) (cable or direct-broadcast satellite TV systems), insurance and to a lesser extent subscription/services, healthcare, travel/hospitality and other. Direct mail is a critical piece of marketing for most of its current customers who use direct mail to acquire new customers. Management believes that direct mail will remain an important part of its customer s budgets for the foreseeable future, based on its proven ability to enhance results when used as part of an omnichannel marketing strategy.

International Operations

The Company currently conducts business in many countries including China, the Czech Republic, the Netherlands, Ireland, and Singapore, among others, in addition to its North America operations. IWCO does not currently have international operations. During the year ended July 31, 2018, revenues from our foreign operating segments accounted for approximately 41.2% of total revenues. Refer to Note 20 of the accompanying notes to consolidated financial statements included in Item 8 below.

The Company s international operations increase its exposure to U.S. and foreign laws, regulations, and labor practices, which are often complex and subject to variation and unexpected changes, and with which the Company must comply. A substantial portion of our international business is conducted in China, where we face (i) the challenge of navigating a complex set of licensing and tax requirements and restrictions affecting the conduct of business in China by foreign companies, (ii) potential limitations on the repatriation of cash, (iii) foreign currency fluctuation and (iv) evolving tax laws.

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Seasonality

The demand of our Supply Chain clients products is subject to seasonal consumer buying patterns. As a result, the services we provide to our clients are also subject to seasonality, with higher revenue and operating income typically being realized from handling our clients products during the first half of our fiscal year, which includes the holiday selling season. IWCO Direct s business is not typically subject to seasonal buying patterns.

Intellectual Property

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

Employees

ModusLink:

At July 31, 2018, ModusLink employed approximately 1,525 persons on a full-time basis, 263 in the Americas, 805 in Asia and 457 in Europe. Our subsidiaries in Mexico are parties to several collective bargaining agreements covering approximately 41 employees. Our subsidiary in France is party to collective bargaining agreements covering its employees. Approximately 13 of the employees of our Ireland operation are members of labor unions. As of August 2018, approximately 99 of the employees at one of our China operations are members of labor unions. We consider our employee relations to be good. From time to time we hire project-based, temporary workers based on our client needs and seasonality of our business, and at times the number of these workers may approximate the number of our full-time employees.

IWCO:

At July 31, 2018, IWCO Direct employed approximately 2,399 full-time, non-union persons in the U.S. We consider our employee relations to be good. We utilize a temp-to-hire arrangement as needed for direct labor.

Our Corporate Information

We make our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports available through our website, free of charge, as soon as reasonably practicable after we file such material with, or furnish it to, the Securities and Exchange Commission. Our internet address is http://www.moduslink.com. The contents of our website are not part of this annual report on Form 10-K, and our internet address is included in this document as an inactive textual reference only.

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ITEM 1A. RISK FACTORS

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

RISKS RELATED TO OUR BUSINESS

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

The Supply Chain business derives a substantial portion of our revenue by providing supply chain management services to a small number of clients. Our business and future growth will continue to depend in large part on the industry trend towards outsourcing supply chain management and other business processes. If this trend does not continue or declines, demand for our supply chain management services will decline and our financial results could suffer. With the acquisition of IWCO Direct and its subsidiaries on December 15, 2017 (the IWCO Acquisition), our reliance on a small number of clients has been partially mitigated on a consolidated basis.

In addition, the loss of a significant amount of business or program with any key client could cause our revenue and or profits to decline and our financial results could suffer.

For the fiscal year ended July 31, 2018, 2017 and 2016, the Company s 10 largest clients accounted for approximately 44%, 70% and 71% of consolidated net revenue, respectively. No clients accounted for more than 10% of the Company s consolidated net revenue for the fiscal year ended July 31, 2018. The Supply Chain business is expected to continue to derive the vast majority of our consolidated net revenue and or profits from sales to a small number of key clients. In general, we do not have any agreements which obligate any client to buy a minimum amount of services from us, or to designate us as its sole supplier of any particular services. The loss of business with any key clients, or a decision by any one of our key clients to significantly change or reduce the services we provide, could have a material adverse effect on our business. Further, demand for our clients products is subject to ever-changing consumer tastes and depends on our client nimbleness in responding to these shifts by introducing improved and/or new products. If any of our key clients fail to respond successfully to market shifts, we would be adversely affected. We cannot assure you that our revenue and or profits from key clients will not decline in future periods.

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

For the fiscal years ended July 31, 2018 and 2017, we reported operating losses of $8.3 million and $19.8 million, respectively. Although we have increased our revenues and reduced our operating losses, and reduced our cost of revenues as a percentage of revenues, we anticipate that we may continue to incur significant fixed operating expenses in the future, including both cost of revenue and selling, general and administrative expenses. Therefore, since our revenue is subject to fluctuations, we cannot assure you that we will achieve or sustain operating income in the future. We may also use significant amounts of cash in an effort to increase the efficiency and profitability of our business. At July 31, 2018, we had consolidated cash and cash equivalents of approximately $92.1 million and current liabilities of approximately $290.6 million. If we are unable to achieve or sustain operating profitability, we risk depleting our working capital balances and our business will be materially adversely affected.

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

Our contracts generally do not contain minimum purchase requirements and we sell primarily on a purchase order basis. Therefore, our sales are subject to demand variability by our clients, which is difficult to predict, has fluctuated historically and may continue to fluctuate, sometimes materially from year to year and even from quarter to quarter. The level and timing of orders placed by these clients vary for a variety of reasons, including seasonal buying by end-users for the Supply Chain business,

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individual client strategies, the introduction of new technologies, the desire of our clients to reduce their exposure to any single supplier and general economic conditions. If we are unable to anticipate and respond to the demands of our clients, we may lose clients because we have an inadequate supply of their products or insufficient capacity in our sites, or in the alternative, we may have excess inventory or excess capacity, either of which may have a material adverse effect on our business, financial position and operating results.

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

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

A decline in the technology and consumer products sectors or a reduction in consumer demand generally could have a material adverse effect on our Supply Chain business.

A large portion of our revenue comes from clients in the technology and consumer products sectors, which is intensely competitive, very volatile and subject to rapid changes. Declines in the overall performance of the technology and consumer products sectors have in the past and could in the future adversely affect the demand for supply chain management services and reduce our revenue and profitability from these clients. In addition, industry changes, such as the transition of more collateral materials from physical form to digital form, and the convergence of functionality of smart phones, could lessen the demand for certain of our services or devices we currently handle. To the extent recent uncertainty in the economy or other factors result in decreased consumer demand for our clients products, we may experience a reduction in volumes of client products that we handle, which could have a material adverse effect on our business, financial position and operating results.

Our quarterly results may fluctuate significantly.

The Supply Chain business operating results have fluctuated widely on a quarterly basis during the last several years. We expect that we may experience significant fluctuations in future quarterly operating results. Many factors, some of which are beyond our control, have contributed to these quarterly fluctuations in the past and may continue to contribute to fluctuations. Therefore, operating results for future periods are difficult to predict, and prior results are not necessarily indicative of results to be expected in future periods. These factors include:

- how well we execute on our strategy and operating plans;
- implementation of our strategic initiatives and achievement of expected results of these initiatives;
- demand for our services;
- consumer confidence and demand;
- specific economic conditions in the industries in which we compete;
- general economic and financial market conditions;

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

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

market acceptance of new products and services;

seasonality;

temporary shortages in supply from vendors;

charges for impairment of long-lived assets, including restructuring in future periods;

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- political instability including changes in tariff laws or natural disasters in the countries in which we operate;

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

- changes in accounting rules;

- changes in tax rules and regulations;

- changes in labor laws;

- availability of temporary labor and the variability of available rates for the temporary labor;

- unionization of our labor and contract labor; and

- implementation of automation.

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

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

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

Our ability to obtain particular products or components in the quantities required to fulfill client orders on a timely basis is critical to our success. We have no guaranteed price or delivery agreements with our suppliers. We may occasionally experience a supply shortage of some products as a result of strong demand or problems experienced by our suppliers. If shortages or delays persist, the price of those products may increase, or the products may not be available at all. Accordingly, an inability to secure and maintain an adequate supply of products, packaging materials or components to fulfill our client orders on a timely basis, or a failure to meet clients expectations could result in lost revenue, lower client satisfaction, negative perceptions in the marketplace, potential claims for damages and have a material adverse effect on our business.

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

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

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

We continue to seek to identify ways to increase efficiencies and productivity and effect cost savings. In addition to already undertaken projects designed to increase our operational efficiencies, including the standardization to a global solutions platform through an integrated ERP system, the opening of new solution centers in low cost areas to expand client offerings and to effect cost savings and the implementation of a model utilizing centralized hub locations to service multiple spoke locations across the Americas, Asia and Europe regions, our new executive team is continuing its review across the organization designed to improve our operations, including a commitment to automate certain facilities. IWCO is continually employing programs to achieve efficiencies which includes investment in capital equipment. We cannot assure you that these projects and investment in capital will result in the realization of the expected benefits that we anticipate in a timely manner or at all. We may encounter problems with these projects that will divert the attention of management and/or result in additional costs and unforeseen project delays. If we, or these projects do not achieve expected results, our business, financial position and operating results may be materially and adversely affected.

The Supply Chain business is subject to risks of operating internationally.

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

We currently conduct business in many countries including China, Czech Republic, the Netherlands, Ireland, and Singapore, among others, in addition to our United States operations. During the year ended July 31, 2018, revenues from our foreign operating segments accounted for approximately 41.2% of total revenues. A portion of our international revenue, cost of revenue and operating expenses are denominated in foreign currencies. Changes in exchange rates between foreign currencies and the U.S. dollar may adversely affect our operating results. There is also additional risk if the foreign currency is not freely traded. Some currencies, such as the Chinese Renminbi, are subject to limitations on conversion into other currencies, which can limit or delay our ability to repatriate funds or engage in hedging activities. While we may enter into forward currency exchange contracts to manage a portion of our exposure to foreign currencies, future exchange rate fluctuations may have a material adverse effect on our business and operating results.

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

- added fulfillment complexities in operations, including multiple languages, currencies, bills of materials and stock keeping units;
- the complexity of ensuring compliance with multiple U.S. and foreign laws, particularly differing laws on intellectual property rights, export control, taxation and duties; and
- labor practices, difficulties in staffing and managing foreign operations, political and social instability, health crises or similar issues, and potentially adverse tax consequences.

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

- the challenge of navigating a complex set of licensing and tax requirements and restrictions affecting the conduct of business in China by foreign companies;
- difficulties and limitations on the repatriation of cash;
- currency fluctuation and exchange rate risks;
- protection of intellectual property, both for us and our clients;
- evolving regulatory systems and standards, including recent tax law and labor law changes;

- difficulty retaining management personnel and skilled employees; and

- expiration of tax holidays.

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

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

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The Supply Chain business may be affected by strikes, work stoppages and slowdowns by our employees.

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

IWCO may have trouble obtaining and retaining its labor force

IWCO Direct s production operations are dependent upon attracting and retaining skilled and unskilled employees to take advantage of all available manufacturing capacity and ensure on-time delivery of clients marketing programs to meet service level agreements (SLAs) without penalty. The Company s future success depends on its continuing ability to identify, hire, develop, motivate, retain and promote personnel for all areas of its organization. Labor market conditions may have an adverse impact on profitability and ability to deliver product on time. The Company is exploring automation and efficiency options to reduce its reliance on direct labor.

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

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

- the jurisdictions in which profits are determined to be earned and taxed;
- the resolution of issues arising from tax audits with various tax authorities;
- changes in the valuation of our deferred tax assets and liabilities;
- adjustments to estimated taxes upon finalization of various tax returns;
- increases in expenses not deductible for tax purposes, including write-offs of acquired in-process R&D, impact of costs associated with business combinations and impairments of goodwill in connection with acquisitions;
- changes in available tax credits;
- changes in share-based compensation;
- changes in tax laws or the interpretation of such tax laws, and changes in generally accepted accounting principles;
- the repatriation of non-U.S. earnings for which we have not previously provided for U.S. taxes;
- increases in tax rates in various jurisdictions; and

the expiration of tax holidays.

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

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

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

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The Supply Chain business is subject to intense competition.

The markets for our services are highly competitive and often lack significant barriers to entry enabling new businesses to enter these markets relatively easily. Numerous well-established companies and smaller entrepreneurial companies are focusing significant resources on developing and marketing products and services that will compete with our offerings. The market for supply chain management products and services is very competitive, and the intensity of the competition is expected to continue to increase. Any failure to maintain and enhance our competitive position would limit our ability to maintain and increase market share, which could result in serious harm to our business. Increased competition may also result in price reductions, reduced gross margins and loss of market share. In addition, many of our current and potential competitors will continue to have greater financial, technical, operational and marketing resources. We may not be able to compete successfully against these competitors. Competitive pressures may also force prices for supply chain management products and services down and these price reductions may reduce our revenue. The competition we face may also increase as a result of consolidation within the supply chain management and logistics industries. For example, if as a result of consolidation, our competitors are able to obtain more favorable terms from their suppliers, offer more comprehensive services to their customers, or otherwise take actions that increase their competitive strengths, our competitive position and therefore our business, results of operations and financial condition may be materially adversely affected.

The trend toward outsourcing of supply chain management and logistics activities, either globally or within specific industries that we serve, may change, thereby reducing demand for our services.

Our growth strategy is partially based on the assumption that the trend toward outsourcing of supply chain management and logistics services will continue. Third-party service providers like ourselves are generally able to provide such services more efficiently than otherwise could be provided in-house , primarily as a result of our expertise and lower and more flexible employee cost structure. However, many factors could cause a reversal in the outsourcing trend. For example, our clients may see risks in relying on third-party service providers, or they may begin to define supply chain management and logistics activities as within their core competencies and decide to perform these operations themselves. If our clients are able to develop supply chain management expertise or improve the cost structure of their in-house supply chain activities, we may not be able to provide such clients with an attractive alternative for their supply chain management and logistics needs. If our clients in-source significant aspects of their supply chain operations, or if potential new clients decide to continue to perform their own supply chain activities in-house, our business, results of operations and financial condition may be materially adversely affected. In addition, if our current and potential clients choose to change their sourcing strategy, wherein they utilize multiple supply chain management and logistics service providers, this could have an adverse effect on our results of operations and financial condition.

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

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

- claims under client agreements or applicable law, or other liability for damages;
- delayed or lost revenue due to adverse client reaction;
- negative publicity; and
- litigation that could be costly and time consuming.

We could be subject to infringement claims and other intellectual property disputes.

The Supply Chain business employs a broad range of intellectual property and from time to time, we have been, and will continue to be, subject to third-party claims in the ordinary course of business, including claims of alleged infringement of intellectual property rights. These claims may damage our business by:

subjecting us to significant liability for damages;

resulting in invalidation of our proprietary rights;

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

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

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

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

Although we have put in place policies and procedures to address the new GDPR (General Data Protection Regulation) regulation, as required by the European Union and we deem these adequate, there are certain risks as we often handle personal information as part of our e-Business offering. Any security breach or inadvertent release of this information could expose us to risks of loss, litigation and liability and could seriously disrupt our operations. If third parties are able to penetrate our network or telecommunications security or otherwise misappropriate the personal information or credit card information of our clients customers or if we give third parties improper access to such information, we could be subject to liability. This liability could include claims for unauthorized purchases with credit card information, impersonation or other similar fraud claims. They could also include claims for other misuses of personal information, including unauthorized marketing purposes. These claims could result in litigation. Liability for misappropriation of this information could be significant. Further, any resulting adverse publicity arising from investigations could have a material adverse impact on our business.

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

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

The funds held for clients may be subject to credit risk.

In the course of providing primarily e-Business related services to our clients, we at times have possession of client funds. The funds are maintained at financial institutions and the balances associated with these funds are at times without and in excess of federally insured limits. If these funds are impaired, misappropriated or stolen, we could suffer:

- claims under client agreements or applicable law, or other liability for damages;
- delayed or lost revenue due to adverse client reaction;
- negative publicity; and
- litigation that could be costly and time consuming.

Material disruption in our information systems could adversely affect our business or results of operations.

We rely on our information systems to process transactions on behalf of our clients, summarize our operating results and manage our business. Our information systems are subject to damage or interruption from power outages, computer and telecommunications failures, computer viruses, cyber-attack or other security breaches and catastrophic events such as fires, floods, earthquakes, tornadoes, hurricanes and acts of war or terrorism.

To keep pace with changing technology, we must continuously implement new information technology systems as well as enhance our existing systems. The successful execution of some of our growth strategies is dependent on the design and implementation of new systems and technologies and/or the enhancement of existing systems, in particular the expansion of our online e-commerce capabilities.

The reliability and capacity of our information systems is critical to our operations and the implementation of our growth initiatives. Any disruptions affecting our information systems, or delays or difficulties in implementing or integrating new systems, could have an adverse effect on our business, in particular our e-commerce operations, and results of operations.

We may not be able to achieve the anticipated synergies and benefits from business acquisitions, including our recent acquisition of IWCO Direct Holdings Inc.

Part of our business strategy is to acquire businesses that we believe can complement our current business activities, both financially and strategically. Acquisitions, including the IWCO Acquisition, involve many complexities, including, but not limited to, risks associated with the acquired business past activities, loss of customers, regulatory changes that are not anticipated, difficulties in integrating personnel and human resource programs, integrating ERP systems and other infrastructures under Company control, unanticipated expenses and liabilities, and the impact on our internal controls and compliance with the regulatory requirements under the Sarbanes-Oxley Act of 2002. There is no guarantee that our acquisitions will increase the profitability and cash flow of the Company, and our efforts could cause unforeseen complexities and additional cash outflows, including financial losses. As a result, the realization of anticipated synergies or benefits from acquisitions may be delayed or substantially reduced.

OTHER RISKS ASSOCIATED WITH THE COMPANY

We may be unable to realize the benefits of our net operating loss carry-forwards and other tax benefits (collectively, NOLs).

Our past operations generated significant NOLs. Under federal tax laws, for NOLs arising in tax years beginning before January 1, 2018, we generally can use any such NOLs and certain related tax credits to reduce ordinary income tax paid in our prior two tax years or on our future taxable income for up to 20 years, at which point they expire for such purposes. Until they expire, we can carry forward NOLs and certain related tax credits that we do not use in any particular year to offset taxable income in future years. For NOLs arising in tax years beginning after December 31, 2017, we generally can use any such NOLs and certain related tax credits to reduce ordinary income tax paid on our future taxable income indefinitely, however, any such NOLs cannot be used to reduce ordinary income tax paid in prior tax years. In addition, the deduction for NOLs arising in tax years beginning after December 31, 2017 is limited to 80 percent of our taxable income for any tax year (computed without regard to the NOL deduction). NOLs arising in tax years beginning before January 1, 2018, are referred to herein as Current NOLs. While we cannot estimate the exact amount of NOLs that we will be able use to reduce future income tax liability because we cannot predict the amount and timing of our future taxable income, we believe our NOLs are a very valuable asset.

Our ability to utilize our NOLs to offset future taxable income may be significantly limited if we experience an ownership change, as determined under Section 382 of the Internal Revenue Code of 1986, as amended (the Code). Under Section 382, an ownership change occurs if one or more stockholders or groups of stockholders that each owns (or is deemed to own) at least 5% of our common stock increases their aggregate ownership by more than 50 percentage points over its lowest ownership percentage within a rolling three-year period. If an ownership change is deemed to occur, the limitations imposed by Section 382 could significantly limit our ability to use our NOLs to reduce future income tax liability and result in a material amount of our Current NOLs expiring unused and, therefore, significantly impair the value of our NOLs.

Our ability to use our Current NOLs in future years will depend upon the amount of our federal and state taxable income. If we do not have sufficient federal and state taxable income in future years to use the Current NOLs before they expire, we will lose the benefit of the Current NOLs permanently. In addition to the generation of future federal and state taxable income, our ability to use our Current NOLs will depend significantly on our success in identifying suitable acquisition or investment candidates, and once identified, successfully consummating an acquisition of or investment in these candidates.

On January 19, 2018, Company s Board of Directors adopted a Tax Benefit Preservation Plan (Tax Plan) designed to preserve the Company s ability to utilize its NOLs. The Tax Plan is intended to prevent an ownership change within the meaning of Section 382 of the Internal Revenue Code that would impair the Company s ability to utilize its NOLs. On April 12, 2018, at the Annual Meeting of Steel Connect s stockholders (the 2017 Annual Meeting) the stockholders of Steel Connect approved the Tax Plan and the continuation of its terms.

As part of the plan Tax Plan, the Board declared a dividend of one right (a Right) for each share of Common Stock then outstanding. The dividend was payable to holders of record as of the close of business on January 29, 2018. Any shares of Common Stock issued after January 29, 2018, will be issued together with the Rights. Each Right initially represents the right to purchase one one-thousandth of a share of newly created Series D Junior Participating Preferred Stock.

Initially, the Rights were attached to all certificates representing shares of Common Stock then outstanding and no separate rights certificates were distributed. In the case of book entry shares, the Rights are evidenced by notations in the book entry accounts. Subject to certain exceptions specified in the Plan, the Rights will separate from the Common Stock and a distribution date (the Distribution Date) will occur upon the earlier of (i) ten (10) business days following a public announcement that a stockholder (or group) has become a beneficial owner of 4.99-percent or more of the shares of Common Stock then outstanding and (ii) ten (10) business days (or such later date as the Board determines) following the commencement of a tender offer or exchange offer that would result in a person or group becoming a 4.99-percent stockholder.

Pursuant to the Tax Plan and subject to certain exceptions, if a stockholder (or group) becomes a 4.99-percent stockholder after adoption of the Tax Plan, the Rights would generally become exercisable and entitle stockholders (other than the new

4.99-percent stockholder or group) to purchase additional shares of Steel Connect at a significant discount, resulting in substantial dilution in the economic interest and voting power of the new 4.99-percent stockholder (or group). In addition, under certain circumstances in which Steel Connect is acquired in a merger or other business combination after an non-exempt stockholder (or group) becomes a new 4.99-percent stockholder, each holder of the Right (other than the new 4.99-percent stockholder or group) would then be entitled to purchase shares of the acquiring company s common stock at a discount.

The Rights are not exercisable until the Distribution Date and will expire at the earliest of (i) 11:59 p.m., on January 18, 2021; (ii) the time at which the Rights are redeemed or exchanged as provided in the Tax Plan; and (iii) the time at which the Board determines that the Tax Plan is no longer necessary or desirable for the preservation of NOLs.

On April 12, 2018, following approval by our stockholders at the 2017 Annual Meeting, Steel Connect filed an Amendment to its Restated Certificate of Incorporation (the Protective Amendment) with the Delaware Secretary of State. The purpose of the Protective Amendment is to assist us in protecting the long-term value to the Company of its NOLs by limiting certain direct or indirect transfers of our Common Stock. These transfer restrictions generally restrict any direct or indirect transfers of the common stock if the effect would be to increase the direct or indirect ownership of the common stock by any person (as defined in the Protective Amendment) from less than 4.99% to 4.99% or more of the common stock, or increase the percentage of the common stock owned directly or indirectly by a Person owning or deemed to own 4.99% or more of the common stock. Any direct or indirect transfer attempted in violation of the Protective Amendment will be void as of the date of the prohibited transfer as to the purported transferee. The Board of Directors of Steel Connect has discretion to grant waivers to permit transfers otherwise restricted by the Protective Amendment. In addition, the Protective Amendment includes a mechanism to block the impact of such transfers while allowing purchasers to receive their money back from prohibited purchases.

The amount of NOLs that we have claimed has not been audited or otherwise validated by the U.S. Internal Revenue Service (IRS). The IRS could challenge our calculation of the amount of our NOLs or our determinations as to when a prior change in ownership occurred, and other provisions of the Internal Revenue Code may limit our ability to carry forward our NOLs to offset taxable income in future years. If the IRS was successful with respect to any such challenge, the potential tax benefit of the NOLs to us could be substantially reduced.

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

In recent years, we have financed our operations and met our capital requirements primarily through funds generated from operations, the sale of our securities, borrowings from lending institutions and sale of Company owned facilities that were not being fully utilized. These funding sources may not be sufficient in the future, and we may need to obtain funding from outside sources. However, we may not be able to obtain funding from outside sources. In addition, even if we find outside funding sources, we may be required to issue to those outside sources securities with greater rights than those currently possessed by holders of our common stock. We may also be required to take other actions, which may lessen the value of our common stock or dilute our common stockholders, including borrowing money on terms that are not favorable to us or issuing additional shares of common stock. If we experience difficulties raising capital in the future, our business could be materially adversely affected.

In addition, market and other conditions largely beyond our control may affect our ability to engage in future sales of our securities, the timing of any sales, and the amount of proceeds we receive from sales of our securities. Even if we are able to sell our securities in the future, we may not be able to sell at favorable prices or on favorable terms.

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

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

Our performance is substantially dependent on the performance of our executive officers and other key employees, as well as management of our subsidiaries. The familiarity of these individuals with technology and service-related industries makes them especially critical to our success. Our success is also dependent on our ability to attract, train, retain and motivate high quality personnel. Competition for highly qualified personnel is intense. The loss of the services of any of our executive officers or key employees may harm our business. Also, IWCO s sales executives are focused on specific industry verticals leveraging their expertise to drive clients marketing results. The majority of the sales force has at least 10 years experience in the industry. The loss of these executives may have a detrimental effect on IWCO s sales.

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

We may expand our business in certain areas through the acquisition of businesses, technologies, products and services from other businesses. We may also seek to identify new business acquisition opportunities with existing or prospective taxable income, or from which we can realize capital gains. Acquisitions involve a number of special problems, including:

- the need to incur additional indebtedness, issue stock (which may have rights superior to the rights of our common stockholders and which may have a dilutive effect on our common stockholders) or use cash in order to complete the acquisition;
- difficulty integrating acquired technologies, operations and personnel with the existing businesses;
- diversion of management attention in connection with both negotiating the acquisitions and integrating the assets;
- strain on managerial and operational resources as management tries to oversee larger operations;
- the working capital needs for acquired companies may be significant;
- we may acquire a new line of business in which we have no operating history and the success of such new business cannot be assured;
- exposure to unforeseen liabilities of acquired companies; and
- increased risk of costly and time-consuming litigation, including stockholder lawsuits.

We may not be able to successfully address these problems. Our future operating results may depend to a significant degree on our ability to successfully identify suitable acquisitions, negotiate such acquisitions on acceptable terms, complete such transactions, integrate acquisitions and manage operations.

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

The market price of our common stock has been and is likely to continue to be volatile. Our common stock has traded with a closing price as low as $1.49 per share and as high as $2.62 per share during the year ended July 31, 2018. Future market movements unrelated to our performance may adversely affect the market price of our common stock.

SPH Group Holdings LLC and its affiliates may have interests that conflict with the interests of our other stockholders and have significant influence over corporate decisions.

As of February 20, 2018, SPH Group Holdings LLC (SPHG Holdings) and its affiliates, including Steel Partners Holdings L.P. (Steel Holdings), Handy & Harman, Ltd. (HNH), Steel Partners, Ltd. (SPL), beneficially owned approximately 52% of our outstanding capital stock, including shares of Series C Convertible Preferred Stock, par value $0.01 per share (the Series C Preferred Stock) that vote on an as-converted basis together with our Common Stock.

SPHG Holdings acquired the Series C Preferred Stock on December 15, 2017, pursuant to a Preferred Stock Purchase Agreement (the Preferred Stock Purchase Agreement) between Steel Connect and SPHG Holdings. Under Preferred Stock Purchase Agreement, Steel Connect issued 35,000 shares of newly created Series C 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 Series C Preferred Stock are set forth in a Certificate of Designations, Preferences and Rights of Series C Convertible Preferred Stock of Steel Connect filed with the Secretary of State of the State of Delaware.

As a result of the Preferred Stock Transaction, the Company is a controlled company within the meaning of the Nasdaq rules.

Steel Holdings, HNH, SPL and SPHG Holdings will be able to influence our management and affairs and all matters requiring stockholder approval, including the election of directors and approval of mergers, consolidations or the sale of all or substantially all of our assets. In addition, this concentration of ownership may have the effect of delaying or preventing a change in control of our Company and might adversely affect the market price of our Common Stock.

On December 24, 2014, Steel Connect entered into a Management Services Agreement with SP Corporate Services LLC (SP Corporate), effective as of January 1, 2015 (as amended, the Management Services Agreement). SP Corporate is an indirect wholly owned subsidiary of Steel Holdings and is a related party. Pursuant to the Management Services Agreement, SP Corporate provided Steel Connect and its subsidiaries with the services of certain employees, including certain executive officers, and other corporate services. The Management Services Agreement had an initial term of six months. On June 30, 2015, Steel Connect entered into an amendment that extended the term of the Management Services Agreement to December 31, 2015 and provided for automatic renewal for successive one year periods, unless and until terminated in accordance with the terms set forth therein, which include, under certain circumstances, the payment by Steel Connect of certain termination fees to SP Corporate. On March 10, 2016, Steel Connect entered into a Second Amendment to the Management Services Agreement with SPH Services, Inc. (SPH Services) pursuant to which SPH Services assumed rights and responsibilities of SP Corporate and the services provided by SPH Services to the Company were modified pursuant to the terms of the amendment. SPH Services, which has since changed its name to Steel Services Ltd. (Steel Services) is the parent of SP Corporate and an affiliate of SPH Group Holdings LLC. On March 10, 2016, Steel Connect entered into a Transfer Agreement with SPH Services pursuant to which the parties agreed to transfer to Steel Connect certain individuals who provide corporate services to Steel Connect.

During the year ended July 31, 2017, pursuant to the Management Services Agreement, Steel Connect paid a fixed monthly fee of $175,000 in consideration for the services and incremental costs as incurred. Pursuant to a third amendment to the Management Services Agreement, effective September 1, 2017, the fixed monthly fee paid by Steel Connect to Steel Services was reduced from $175,000 per month to $95,641 per month. The fees payable under the Management Services Agreement are subject to review and such adjustments as may be agreed upon by the parties.

Members of our Board also have significant interests in Steel Holdings and its affiliates, which may create conflicts of interest.

Some members of our Board also hold positions with Steel Holdings and its affiliates. Specifically, Warren G. Lichtenstein, our Executive Chairman of the Board, is affiliated with Steel Holdings and is now the Executive Chairman of Steel Partners Holdings GP Inc. (Steel Holdings GP) and the Chief Executive Officer of Steel Services and SPL. Previously, Mr. Lichtenstein was the Chief Executive Officer of SP Corporate. Glen M. Kassan, our Vice Chairman of the Board and former Chief Administrative Officer, is also affiliated with Steel Holdings and Steel Holdings GP. Jack Howard, a member of our Board, has served as the President of Steel Holdings GP since July 2009 and has served as a director of Steel Holdings GP since October 2011. Mr. Howard is the President of Steel Holdings and has been associated with Steel Holdings and its predecessors and affiliates since 1993. Mr. Howard has held various positions with HNH and has served as a director of HNH since July 2005. Mr. Fejes has served as the president of Steel Services since October 2017. Mr. Fejes served as Senior Vice President of HNH and President and Chief Executive Officer of Handy & Harman Group Ltd. from June 2016 until October 2017.

As a result, these individuals may face potential conflicts of interest with each other and with our stockholders. They may be presented with situations in their capacity as our directors that conflict with their fiduciary obligations to Steel Partners and its affiliates, which in turn may have interests that conflict with the interests of our other stockholders.

Our Board is composed of seven directors, of that, three directors are independent and the remaining four are not independent.

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

Future proxy contests, if any, could be costly and time-consuming, disrupt our operations and divert the attention of management and our employees from executing our strategic plan. Perceived uncertainties as to our future direction as a result of changes to composition of the Board of Directors may lead to the perception of a change in the direction of the business, instability or lack of continuity which may be exploited by our competitors, cause concern to our current or potential clients, and make it more difficult to attract and retain qualified personnel. In addition, disagreement among our directors about the direction of our business could impair our ability to effectively execute our strategic plan.

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

We are currently a party to various legal and other proceedings. See Item 3, *Legal Proceedings*. These matters may involve substantial expense to us, which could have a material adverse impact on our financial position and our results of operations. We can provide no assurances as to the outcome of any litigation.

RISKS RELATED TO OUR INDEBTEDNESS

On December 15, 2017, MLGS Merger Company, Inc., a wholly owned subsidiary of Steel Connect, entered into a financing agreement (the Financing Agreement) by and among MLGS Merger Company, Inc., a Delaware corporation and newly formed

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wholly-owned subsidiary of the Company *(the MLGS), Instant Web, LLC, a Delaware corporation and wholly owned subsidiary of IWCO (as Borrower), IWCO, and certain of IWCO s subsidiaries (together with IWCO, the Guarantors), the lenders from time to time party thereto, and Cerberus Business Finance, LLC, as collateral agent and administrative agent for the lenders. MLGS was the initial borrower under the Financing Agreement, but immediately upon the consummation of the IWCO Acquisition, Borrower became the borrower under the Financing Agreement. The Financing Agreement provides for $393.0 million term loan facility and a $25.0 million revolving credit facility (together, the Cerberus Credit Facility). Proceeds of the Cerberus Credit Facility were used (i) to finance a portion of the IWCO Acquisition, (ii) to repay certain existing indebtedness of the Borrower and its subsidiaries, (iii) for working capital and general corporate purposes and (iv) to pay fees and expenses related to the Financing Agreement and the IWCO Acquisition. The Cerberus Credit Facility has a maturity of five years.*

On June 30, 2014, two direct and wholly owned subsidiaries of the Company (the ModusLink Borrowers) entered into a revolving credit and security agreement (the Credit Agreement), as borrowers and guarantors, with PNC Bank and National Association, as lender and as agent, respectively. The Credit Agreement has a five (5) year term which expires on June 30, 2019. It includes a maximum credit commitment of $50.0 million, is available for letters of credit (with a sublimit of $5.0 million) and has a $20.0 million uncommitted accordion feature (the PNC Bank Credit Facility). As of July 31, 2018 and July 31, 2017, the Company did not have an outstanding balance on the PNC Bank Credit Facility. As of July 31, 2018, the Company did not have an outstanding balance on the Revolving Facility. As of July 31, 2018, the principal amount outstanding on the term loan under the Cerberus Credit Facility was $390.0 million.

Servicing our debt requires a significant amount of cash, and we may not have sufficient cash flow from our business to pay our substantial debt.

Our ability to make scheduled payments of the principal of, to pay interest on or to refinance our indebtedness, including relating to the Company s outstanding balance of the 5.25% Convertible Senior Notes (the Notes), depends on our financial and operating performance, which is subject to economic, financial, competitive and other factors, some which are beyond our control. We cannot assure you that we will be able to generate cash flow or that we will be able to borrow funds in amounts sufficient to enable us to service our debt, meet working capital requirements and make necessary capital expenditures. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as selling assets, restructuring debt or obtaining additional equity capital on terms that may be onerous or highly dilutive. Our ability to refinance our indebtedness will depend on the capital and credit markets and our financial condition at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on our debt obligations. See Liquidity and Capital Resources contained in Item 7 of this Form 10-K.

In addition, under certain conditions holders of the Notes may convert all or any portion of their notes at their option at any time prior to the close of business or the business day immediately preceding their maturity date (See Note 1 and Note 10 contained in Part II of this Form 10-K) . This conversion may lessen the value of our common stock and/or dilute our common stockholders.

Our indebtedness could restrict our operations and make us more vulnerable to adverse economic conditions.

Our indebtedness could have important consequences for us and our stockholders. For example, our Financing Agreement and our Credit Agreement (together, the Debt Agreements) require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, and acquisitions, and for other general corporate purposes. In addition, our indebtedness could:

- increase our vulnerability to adverse economic and competitive pressures in our industry;
- place us at a competitive disadvantage compared to our competitors that have less debt;
- limit our flexibility in planning for, or reacting to, changes in our business and our industry; and
- limit our ability to borrow additional funds on terms that are acceptable to us or at all.

The Debt Agreements governing our indebtedness contain restrictive covenants that will restrict our operational flexibility and require that we maintain specified financial ratios. If we cannot comply with these covenants, we may be in default under the Debt Agreements.

The Debt Agreements governing our indebtedness contain affirmative and negative covenants, including with regard to specified financial ratios, that limit and restrict our operations and may hamper our ability to engage in activities that may be in our long-term best interests. Events beyond our control could affect our ability to meet these and other covenants under the Debt Agreements. Our failure to comply with our covenants and other obligations under the Debt Agreements may result in an event of

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default thereunder. A default, if not cured or waived, may permit acceleration of our indebtedness. If our indebtedness is accelerated, we cannot be certain that we will have sufficient funds available to pay the accelerated indebtedness (together with accrued interest and fees), or that we will have the ability to refinance the accelerated indebtedness on terms favorable to us or at all. This could have serious consequences to our financial condition, operating results, and business, and could cause us to become insolvent or enter bankruptcy proceedings, and shareholders may lose all or a portion of their investment because of the priority of the claims of our creditors on our assets.

If we are unable to generate or borrow sufficient cash to make payments on our indebtedness, our financial condition would be materially harmed, our business could fail, and shareholders may lose all of their investment.

Our ability to make scheduled payments on or to refinance our obligations will depend on our financial and operating performance, which will be affected by economic, financial, competitive, business, and other factors, some of which are beyond our control. We cannot assure you that our business will generate sufficient cash flow from operations to service our indebtedness or to fund our other liquidity needs. If we are unable to meet our debt obligations or fund our other liquidity needs, we may need to restructure or refinance all or a portion of our indebtedness on or before maturity or sell certain of our assets. We cannot assure you that we will be able to restructure or refinance any of our indebtedness on commercially reasonable terms, if at all, which could cause us to default on our debt obligations and impair our liquidity. Any refinancing of our indebtedness could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations.

Increases in interest rates could adversely affect our results from operations and financial condition.

An increase in prevailing interest rates would have an effect on the interest rates charged on our variable rate debt, which rise and fall upon changes in interest rates. If prevailing interest rates or other factors result in higher interest rates, the increased interest expense would adversely affect our cash flow and our ability to service our indebtedness.

Our Notes mature on March 1, 2019, and we may not have sufficient cash flow from our business to repay the Notes.

The Notes will mature on March 1, 2019, unless earlier restructured, or repurchased by the Company or converted by the holder in accordance with their terms prior to such maturity date. As of July 31, 2018, the outstanding principal amount of our Notes was $67.6 million. To repay the Notes at maturity, we may need to obtain additional financing. Our ability to obtain additional financing will depend on the capital and credit markets and our financial condition at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could have a material adverse effect on our business, financial position and operating results. See Liquidity and Capital Resources contained in Item 7 of this Form 10-K.

RISKS RELATED TO A MATERIAL WEAKNESS EXISTS IN OUR INTERNAL CONTROLS

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

We are required to maintain internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external purposes in accordance with generally accepted accounting principles. In Item 9A of this Annual Report, management reports that a material weakness exists in the Company s internal control over financial reporting. Due to this material weakness, management has concluded that as of the end of the period covered by this Annual Report, the Company did not maintain effective internal control over financial reporting based on the criteria in *Internal Control Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. We are actively engaged in developing and implementing a remediation plan designed to address this material weakness. Any failure to implement effective internal controls could harm our operating results or cause us to fail to meet our reporting obligations. Inadequate internal controls, among other things, could also cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our common stock, and may require us to incur additional costs to improve our internal control system.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Supply Chain business leases more than 20 sites in several countries from which we operate ModusLink, which facilities consist of office and warehouse space. These facilities are located throughout the world, including, but not limited to, facilities throughout the United States (including our corporate headquarters in Waltham, Massachusetts), in Mexico, the Netherlands,

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Czech Republic, Singapore, Japan and China. e-Business operates from its leased facilities in the Netherlands with offices in Massachusetts, Utah, Singapore and Australia. We believe that our existing facilities are suitable and adequate for our present purposes, and that new facilities will be available in the event we need additional or new space. Our Supply Chain business leases generally expire at varying dates through fiscal year 2023 and include renewals at our option. Certain facilities leased by us are subleased in whole or in part to subtenants and we are seeking to sublease additional office and warehouse space that is not currently being utilized by us.

IWCO has administrative offices in Chanhassen, MN. and has three facilities in Chanhassen, MN., one facility in Little Falls, MN., one facility in Warminster, PA. and two facilities in Hamburg PA. The IWCO leases generally expire at varying dates through fiscal year 2030 and include renewals at our option.

ITEM 3. LEGAL PROCEEDINGS

On April 13, 2018, a purported shareholder, Donald Reith, filed a verified complaint, Reith v. Lichtenstein, et al., 2018-0277 (Del. Ch.) in the Delaware Court of Chancery. 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 Company s Board of Directors, Warren Lichtenstein, Glen Kassan, William T. Fejes, Jack L. Howard, Jeffrey J. Fenton, Philip E. Lengyel and Jeffrey S. Wald; and stockholders Steel Holdings, Steel Partners, L.P., SPHG Holdings, Handy & Harman Ltd. and WHX CS Corp. (collectively, Steel Parties) in connection with the acquisition of $35 million of the Series C Preferred Stock by SPHG Holdings and equity grants made to Lichtenstein, Howard and Fejes on December 15, 2017 (collectively, 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 (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 shareholders and therefore unjustly enriched Steel Holdings, SPHG Holdings and Messrs. Lichtenstein, Howard and Fejes. The complaint also alleges that the Board made misleading disclosures in the Company s proxy statement for the 2017 Meeting 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. The motions are fully briefed, and argument is scheduled for March 5, 2019. Discovery is stayed pending a decision on the motions to dismiss. Because the litigation is at an early stage and motions to dismiss are pending, we are unable at this time to provide a calculation of potential damages or litigation loss that is probable or estimable. Although there can be no assurance as to the ultimate outcome, the Company believes it has meritorious defenses, will deny liability, and intends to defend this litigation vigorously.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

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PART II

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

Market Information

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

Fiscal Year Ended July 31, 2018	High	Low
First Quarter	$ 2.30	$ 1.50
Second Quarter	$ 2.62	$ 1.49
Third Quarter	$ 2.46	$ 1.93
Fourth Quarter	$ 2.20	$ 1.72

Fiscal Year Ended July 31, 2017	High	Low
First Quarter	$ 1.68	$ 1.21
Second Quarter	$ 2.02	$ 1.35
Third Quarter	$ 1.89	$ 1.41
Fourth Quarter	$ 1.72	$ 1.51

Stockholders

As of July 31, 2018, there were approximately 340 holders of record of common stock of the Company.

Dividends

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

Recent sales of Unregistered Securities

None.

Issuer Purchases of Equity Securities

The following table provides information about purchases by the Company of its common stock during the quarter ended

July 31, 2018.

	Total Number of Shares Repurchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Program	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs

May 1, 2018 to May 31, 2018	$
June 1, 2018 to June 30, 2018	$
July 1, 2018 to July 31, 2018	$

Stock Performance Graph

The following graph shows the yearly change in the cumulative total stockholder return on our common stock from July 31, 2013 through July 31, 2018, with the cumulative total return of the 1) NASDAQ Composite Index (U.S. companies), 2) the NASDAQ Computer Services Index, and 3) our chosen industry peer group during the same period. The graph reflects reinvestment of dividends and market capitalization weighting. Our Peer Group Index is comprised of the following publicly

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traded companies: Plexus Corp., Benchmark Electronics, Inc., Jabil Circuit, Inc., Key Tronic Corporation, IEC Electronics Corp, Egain Corp., Ingram Micro Corp. The graph assumes an investment of $100 on July 31, 2013, and the reinvestment of any dividends, if any. The comparison shown in the graph below are based upon historical data.

	Fiscal year ending July 31,					
	2013	**2014**	**2015**	**2016**	**2017**	**2018**
Steel Connect, Inc.	100.00	119.94	104.50	41.16	54.02	68.17
NASDAQ Composite XCMP	100.00	122.00	144.83	147.61	183.65	224.29
NASDAQ Computer and Data Processing (OMX)	100.00	102.71	103.29	104.90	114.02	133.11
Peer Group	100.00	104.35	101.42	115.21	148.52	143.57

The unit price performance included in this graph is not necessarily indicative of future unit price performance.

This graph is not soliciting material, is not deemed filed with the SEC and is not to be incorporated by reference in any of our filings under the Securities Act or the Exchange Act whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.

Equity Compensation Plans

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

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ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected consolidated financial information of the Company for the five years ended July 31,

2018. The following selected consolidated financial data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations in Item 7 below and our accompanying consolidated financial statements and notes to consolidated financial statements in Item 8 below. The historical results presented herein are not necessarily indicative of future results.

	Years ended July 31, 2018	2017	2016 (In thousands)	2015	2014
Consolidated Statements of Operations Data:					
Net revenue	$ 645,258	$ 436,620	$ 459,023	$ 561,673	$ 723,400
Operating loss	(8,306)	(19,761)	(40,572)	(14,339)	(5,449)
Income (loss) from continuing operations	36,715	(25,827)	(61,281)	(18,429)	(16,362)
Income (loss) from discontinued operations					80
Net income (loss)	36,715	(25,827)	(61,281)	(18,429)	(16,282)
Less: Preferred dividends on redeemable preferred stock	(1,335)				
Net income (loss) attributable to common stockholders	$ 35,380	$ (25,827)	$ (61,281)	$ (18,429)	$ (16,282)
Basic net earning (loss) per share attributable to common stockholders:	$ 0.60	$ (0.47)	$ (1.18)	$ (0.35)	$ (0.32)
Diluted net earning (loss) per share attributable to common stockholders:	$ 0.53	$ (0.47)	$ (1.18)	$ (0.35)	$ (0.32)
Weighted average common shares used in:					
Basic earnings per share	59,179	55,134	51,934	51,940	51,582
Diluted earnings per share	81,899	55,134	51,934	51,940	51,582

	July 31, 2018	2017	2016	2015	2014
Consolidated Balance Sheet Data:					
Working capital	$ (26,331)	$ 108,691	$ 125,125	$ 202,289	$ 207,174
Total assets	827,050	281,298	347,932	446,502	451,646
Long-term liabilities	393,618	69,172	67,226	90,548	81,434
Stockholders equity	107,628	62,971	85,940	144,601	171,618

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

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended. For this purpose, any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words believes, anticipates, plans, expects and similar expressions are intended to identify forward-looking statements. Factors that could cause actual results to differ materially from those reflected in the forward-looking statements include, but are not limited to, those discussed in Item 1A of this report, Risk Factors , and elsewhere in this report. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management s analysis, judgment, belief or expectation only as of the date hereof. We do not undertake any obligation to update forward-looking statements whether as a result of new information, future events or otherwise.

Overview

Steel Connect, Inc. is a diversified holding company with two wholly-owned subsidiaries, ModusLink and IWCO Direct, that have market-leading positions in supply chain management and direct marketing.

ModusLink provides comprehensive physical and digital supply chain optimization services (the Supply Chain business) that are designed to improve clients revenue, cost, sustainability and customer experience objectives. We provide services to leading companies across a wide spectrum of industries, including consumer electronics, communications, computing, medical devices, software, and retail, among others. The Supply Chain business operations are supported by a global footprint that includes more than 20 sites across North America, Europe, and the Asia Pacific region.

We operate an integrated physical and digital supply chain system infrastructure that extends from front-end order management through distribution and returns management. This end-to-end solution enables clients to link supply and demand in real-time, improve visibility and performance throughout the supply chain, and provide real-time access to information for greater collaboration and making informed business decisions. We believe that our clients can benefit from our global integrated business solution, especially given the increased usage of connected devices and digitalized solutions.

Historically, a significant portion of our revenue from our Supply Chain business has been generated from clients in the computer and software markets. These markets, while large in size, are mature and, as a result, gross margins in these markets tend to be lower than other markets the Company operates in. To address this, in addition to the computer and software markets, we have expanded our sales focus to include additional markets such as communications and consumer electronics, with a long-term focus on expanding in growth industries, such as the connected home, and connected healthcare, among others. We believe these markets, and other verticals we operate in, may experience faster growth than our historical markets, and represent opportunities to realize higher gross margins on the services we offer. Companies in these markets often have significant need for a supply chain partner who will be an extension to their business models. We believe the scope of our service offerings, including value-added warehousing and distribution, repair and recovery, aftersales, returns management, financial management, entitlement management, contact center support, material planning and factory supply, and e-Business will increase the overall value of the supply chain solutions we deliver to our existing clients and to new clients.

As a large portion of the Supply Chain business revenue comes from outsourcing services provided to clients such as retail products and consumer electronics companies, our operating performance has been and may continue to be adversely affected by declines in the overall performance within these sectors and uncertainty affecting the world economy. In addition, the drop in consumer demand for products of certain clients has had and may continue to have the effect of reducing our volumes and adversely affecting our revenue, gross margin and overall operating performance. Additionally, the markets for our supply chain services are generally very competitive, though we believe we have a compelling and differentiated offering due to the value-added services we provide, our commitment to client management, and our global reach. We also face pressure from our clients to continually realize efficiency gains in order to help our clients maintain their profitability objectives. Increased competition and client demands for efficiency improvements may result in price reductions, reduced gross margins and, in some cases, loss of market share. In addition, our profitability varies based on the types of services we provide and the regions in which we perform them. Therefore, the mix of revenue derived from our various services and locations can impact our gross margin results. Also, form factor changes, which we describe as the reduction in the amount of materials and product components used in our clients completed packaged product, can also have the effect of reducing our revenue and gross margin opportunities. As a result of these competitive and client pressures the gross margins in our supply chain business are low.

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

As a leading provider of data-driven direct marketing solutions, IWCO Direct s products and services help clients create more effective marketing offers and communications across all marketing channels to create new and more loyal customers. With a nearly 50-year legacy of printing and mailing services, the Company s full range of expanded marketing services includes strategy, creative, and execution for omnichannel marketing campaigns, along with one of the industry s most sophisticated postal logistics strategies for direct mail. Through Mail-Gard®, IWCO Direct offers business continuity and disaster recovery services to protect against unexpected business interruptions, along with providing print and mail outsourcing services.

IWCO Direct s services include (a) development of direct mail and omnichannel marketing strategies (b) creative services to design direct mail, email, and online marketing (c) printing and compiling of direct mail pieces into envelopes ready for mailing (d) commingling services to sort mail produced for various customers, by destination to achieve optimized postal savings (e) and business continuity and disaster recovery services for critical communications to protect against unexpected business interruptions. The major markets served by IWCO Direct include financial services, Multiple-System Operations (MSO) (cable or direct-broadcast satellite TV systems), insurance and to a lesser extent subscription/services, healthcare, travel/hospitality and other. Direct mail is a critical piece of marketing for most of its current customers who use direct mail to acquire new customers. Management believes that direct mail will remain an important part of its customer s budgets for the foreseeable future, based on its proven ability to enhance results when used as part of an omnichannel marketing strategy.

The printing, mailing, and marketing services industries are highly competitive and are expected to remain so. The printing industry has more than 40,000 companies in the U.S. and IWCO Direct is the largest printer in the direct mail category, according to the December 2017 PI 400, an annual ranking of all printers by industry trade publication, Printing Impressions. While the printing industry as a whole is experiencing a shift from paper-based to digital content, direct mail continues to drive the highest response rate for campaigns designed to acquire new customers, according to the Data and Marketing Association s (DMA) 2018 Response Rate Report. IWCO Direct is expanding its services to provide omnichannel marketing solutions to leverage its leadership role in acquisition marketing for direct mail to include digital marketing campaigns that complement direct mail to drive a higher response across all channels. Significant downward pricing pressure, a significant shift from paper-based to digital marketing for acquisition marketing, availability of paper and price increases for this raw material, the ability to acquire and retain a skilled work force and/or regulatory issues that impact use of consumer data for marketing could adversely affect IWCO Direct s earnings. IWCO Direct s business is not typically subject to seasonal buying patterns.

IWCO is ISO/IEC 27001 Information Security Management System (ISMS) certified through BSI, reflecting its commitment to data security. IWCO has administrative offices in Chanhassen, MN. and has three facilities in Chanhassen MN., one facility in Little Falls, MN., one facility in Warminster, PA. and two facilities in Hamburg, PA..

Management evaluates operating performance based on net revenue, operating income (loss) and net income (loss) and a measure that we refer to as Adjusted EBITDA, defined as net income (loss) excluding net charges related to interest income, interest expense, income tax expense, depreciation, amortization of intangible assets, SEC inquiry and financial restatement costs, SEC penalties on resolution, strategic consulting and other related professional fees, executive severance and employee retention, restructuring, non-cash charge related to a fair value step-up to work-in-process inventory, share-based compensation, impairment of goodwill and long-lived assets, unrealized foreign exchange gains and losses, net, other non-operating gains and losses, net, and gains and losses on investments in affiliates and impairments. Among the key factors that will influence our performance are successful execution and implementation of our strategic initiatives, global economic conditions, especially in the technology sector, financial services, MSO and insurance.

We have developed plans and will continue to monitor plans to address process improvements and realize other efficiencies throughout our global footprint with a goal to reduce cost, remove waste and improve our overall gross margins. There can be no assurance that these actions will improve gross margins. For the years ended July 31, 2018, 2017 and 2016, our gross margin percentage was 15.7%, 8.3% and 5.4%, respectively. Increased competition as well as industry consolidation and/or low demand for our clients products and services may hinder our ability to maintain or improve our gross margins, profitability and cash flows. We must continue to focus on margin improvement, through implementation of our strategic initiatives, cost reductions and asset and employee productivity gains in order to improve the profitability of our business and maintain our competitive position. We generally manage margin and pricing pressures in several ways, including efforts to target new markets, expand and enhance our service offerings, improve the efficiency of our processes and to lower our infrastructure costs. We seek to lower our cost to service clients by moving work to lower-cost venues, consolidating and leveraging our global facility footprint, drive process and efficiency reforms and other actions designed to improve the productivity of our operations.

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Historically, a limited number of key clients had accounted for a significant percentage of our revenue. For the fiscal year ended July 31, 2018, 2017 and 2016, the Company s 10 largest clients accounted for approximately 44%, 70% and 71% of consolidated net revenue, respectively. No clients accounted for more than 10% of the Company s consolidated net revenue for the fiscal year ended July 31, 2018. In general, we do not have any agreements which obligate any client to buy a minimum amount of services from us or designate us as an exclusive service provider. Consequently, our net revenue is subject to demand variability by our clients. The level and timing of orders placed by our clients vary for a variety of reasons, including seasonal buying by end-users, the introduction of new technologies and general economic conditions. By diversifying into new markets and improving the operational support structure for our clients, we expect to offset the adverse financial impact such factors may bring about.

For the fiscal year ended July 31, 2018, the Company reported net revenue of $645.3 million, an operating loss of $8.3 million, a loss before income taxes of $35.3 million and a net income of $36.7 million. For the fiscal year ended July 31, 2017, the Company reported net revenue of $436.6 million, an operating loss of $19.8 million, a loss before income taxes of $24.4 million and a net loss of $25.8 million. For the fiscal year ended July 31, 2016, the Company reported net revenue of $459.0 million, an operating loss of $40.6 million, a loss before income taxes of $56.6 million and a net loss of $61.3 million. At July 31, 2018, we had cash and cash equivalents of $92.1 million, and negative working capital of $(26.3) million. The decline in working capital during the current year was primarily driven by the reclassification of the Company s convertible notes from long-term to current and the additional liabilities assumed as a result of the IWCO acquisition.

Management is utilizing the following strategies to continue to increase shareholder value: (1) continuing to implement improvements throughout all of the Company s operations to increase sales and operating efficiencies, (2) supporting profitable revenue growth both internally and potentially through acquisitions and (3) evaluating from time to time and as appropriate, strategic alternatives with respect to its businesses and/or assets and capital raising opportunities. The Company continues to examine all of its options and strategies, including acquisitions, divestitures and other corporate transactions, to increase cash flow and stockholder value.

Basis of Presentation

The Company has five operating segments: Americas; Asia; Europe; Direct Marketing; and e-Business. Direct Marketing is a new operating segment representing IWCO, which was acquired on December 15, 2017. Based on the information provided to the Company s chief operating decision-maker (CODM) for purposes of making decisions about allocating resources and assessing performance and quantitative thresholds, the Company has determined that it has five reportable segments: Americas, Asia, Europe, Direct Marketing and e-Business. In the past the All Other category has completely been comprised of the e-Business operating segment. The Company also has Corporate-level activity, which consists primarily of costs associated with certain corporate administrative functions such as legal, finance, share-based compensation and acquisition costs which are not allocated to the Company s reportable segments. The Corporate-level balance sheet information includes cash and cash equivalents, Notes payables and other assets and liabilities which are not identifiable to the operations of the Company s operating segments. All significant intra-segment amounts have been eliminated.

Results of Operations

Fiscal Year 2018 compared to Fiscal Year 2017

Net Revenue:

	Twelve Months Ended July 31, 2018	As a % of Total Net Revenue	Twelve Months Ended July 31, 2017	As a % of Total Net Revenue	$ Change	% Change
			(In thousands)			
Americas	$ 56,320	8.7%	$ 92,324	21.1%	$ (36,004)	(39.0%)
Asia	146,664	22.7%	158,048	36.2%	(11,384)	(7.2%)
Europe	119,403	18.5%	159,085	36.4%	(39,682)	(24.9%)
Direct Marketing	299,358	46.4%		0.0%	299,358	
e-Business	23,513	3.7%	27,163	6.3%	(3,650)	(13.4%)
Total	$ 645,258	100.0%	$ 436,620	100.0%	$ 208,638	47.8%

Net revenue increased by approximately $208.6 million during the year ended July 31, 2018, as compared to the same period in the prior year. This change in net revenue was driven by the increase in revenue associated with the acquisition of IWCO, offset

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by decreased revenues from ModusLink clients in the consumer electronics industries. IWCO and ModusLink s revenues are reported as Products and Services revenues, respectively, on the Consolidated Statements of Operations. Fluctuations in foreign currency exchange rates had an insignificant impact on net revenues for the year ended July 31, 2018, as compared to the prior year.

During the year ended July 31, 2018, net revenue in the Americas region decreased by approximately $36.0 million. This decrease in net revenue was primarily driven by decrease in revenues from a ModusLink aftermarket services program related to the repair and refurbishment of mobile devices and clients in the consumer products industry. Within the Asia region, the net revenue decrease of approximately $11.4 million primarily resulted from lower ModusLink revenues from programs in the consumer electronics market. Within the Europe region, net revenue decreased by approximately $39.7 million primarily due to lower ModusLink revenues from clients in the consumer electronics industry. Net revenue for e-Business decreased by approximately $3.7 million primarily due to lower revenues from clients in the consumer electronics industry.

Cost of Revenue:

	Twelve Months Ended July 31, 2018	As a % of Segment Net Revenue	Twelve Months Ended July 31, 2017	As a % of Segment Net Revenue	$ Change	% Change
			(In thousands)			
Americas	$ 59,045	104.8%	$ 91,622	99.2%	$ (32,577)	(35.6%)
Asia	115,703	78.9%	131,760	83.4%	(16,057)	(12.2%)
Europe	117,176	98.1%	151,305	95.1%	(34,129)	(22.6%)
Direct Marketing	230,021	76.8%			230,021	
e-Business	22,054	93.8%	25,568	94.1%	(3,514)	(13.7%)
Total	$ 543,999	84.3%	$ 400,255	91.7%	$ 143,744	35.9%

Cost of revenue consists primarily of expenses related to the cost of materials purchased in connection with the provision of supply chain management and direct marketing services as well as costs for salaries and benefits, contract labor, consulting, paper for direct mailing, fulfillment and shipping, and applicable facilities costs. Cost of revenue for the twelve months ended July 31, 2018 included materials procured on behalf of our supply-chain clients of $194.6 million, as compared to $250.6 million for the same period in the prior year, a decrease of $56.0 million. Total cost of revenue increased by $143.7 million for the twelve months ended July 31, 2018, as compared to the same period in the prior year, primarily due to an increase in cost of revenue associated with the acquisition of IWCO, offset by the lower material and labor costs associated with lower volume from clients in the consumer electronics and consumer products industries. IWCO and ModusLink s cost of revenues are reported as Products and Services cost of revenues, respectively, on the Consolidated Statements of Operations. Gross margin percentage for the current year increased to 15.7% from 8.3% in the prior year, primarily due to the acquisition of IWCO which was negatively impacted by a $7.2 million non-cash charge related to a fair value step-up to work-in-process inventory, partially offset by a reduction in revenues and related costs in the Americas, Asia and Europe. For the twelve months ended July 31, 2018, the Company s gross margin percentages within the Americas, Asia, Europe and Direct Marketing segments were -4.8%, 21.1%, 1.9% and 23.2%, respectively, as compared to gross margin percentages within the Americas, Asia and Europe segments of 0.8%, 16.6% and 4.9%, respectively, for the same period of the prior year. Fluctuations in foreign currency exchange rates had an insignificant impact on gross margin for the twelve months ended July 31, 2018.

In the Americas, the -5.6 percentage point decline in gross margin, from 0.8% to -4.8%, was primarily due to unfavorable shift in volumes from clients in the consumer electronics and consumer products industries which lead to the absorption of fixed over head costs, partially offset by a corresponding declines in material costs and a reduction in force. In Asia, the 4.5 percentage point increase in gross margin, from 16.6% to 21.1%, was primarily due to product mix and favorable contract terms obtained from a client that has exited the region, despite a decline in revenues. In Europe, the -3.0 percentage point decrease in gross margin, from 4.9% to 1.9%, was attributable to an unfavorable revenue mix associated with clients in the consumer electronics market. The gross margin for e-Business was 6.2% for the twelve months ended July 31, 2018 as compared to 5.9% for the same period of the prior year. This increase of 0.3 percentage points was due to a favorable revenue mix primarily associated with clients in the consumer products and computing industries.

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Selling, General and Administrative Expenses:

	Twelve Months Ended July 31, 2018	As a % of Segment Net Revenue	Twelve Months Ended July 31, 2017	As a % of Segment Net Revenue	$ Change	% Change
			(In thousands)			
Americas	$ 6,560	11.6%	$ 10,706	11.6%	$ (4,146)	(38.7%)
Asia	17,247	11.8%	19,850	12.6%	(2,603)	(13.1%)
Europe	12,299	10.3%	16,165	10.2%	(3,866)	(23.9%)
Direct Marketing	38,312	12.8%			38,312	
e-Business	7,624	32.4%	2,592	9.5%	5,032	194.1%
Sub-total	82,042	12.7%	49,313	11.3%	32,729	66.4%
Corporate-level activity	19,659		4,846		14,813	305.7%
Total	$ 101,701	15.8%	$ 54,159	12.4%	$ 47,542	87.8%

Selling, general and administrative expenses consist primarily of compensation and employee-related costs, sales commissions and incentive plans, information technology expenses, travel expenses, facilities costs, consulting fees, fees for professional services, depreciation expense, marketing expenses, share-based compensation expense, transaction costs and public reporting costs. Excluding the Direct Marketing segment, the selling, general and administrative expenses for the all other operating segments during the twelve months ended July 31, 2018 decreased by $5.6 million compared to the same period in the prior year. This represents management s concerted efforts to reduce costs as revenues for the operating segments have decreased. Corporate-level activity increased primarily due to higher professional fees associated with the acquisition of IWCO ($2.2 million), higher share-based compensation expense ($10.8 million) which are recorded as a part of Corporate-level activity. Fluctuations in foreign currency exchange rates had an insignificant impact on selling, general and administrative expenses for the twelve months ended July 31, 2018.

Amortization of Intangible Assets:

The intangible asset amortization of $20.3 million, during the twelve months ended July 31, 2018, relates to amortizable intangible assets acquired by the Company in connection with its acquisition of IWCO. Acquired intangible assets include trademarks, tradenames and customer relationships. The trademarks and tradenames intangible asset are being amortized on a straight line basis over a 3 year estimated useful life. The customer relationship intangible asset are being amortized on a double-declining basis over an estimated useful life of 15 years.

Restructuring, net:

	Twelve Months Ended July 31, 2018	As a % of Segment Net Revenue	Twelve Months Ended July 31, 2017	As a % of Segment Net Revenue	$ Change	% Change
			(In thousands)			
Americas	$ 257	0.5%	$ 338	0.4%	$ (81)	(24.0%)
Asia	1	0.0%	818	0.5%	(817)	