ModusLink Global Solutions Inc Form 10-Q June 09, 2011 <u>Table of Contents</u>

## **UNITED STATES**

# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

# **FORM 10-Q**

(Mark One)

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

For the quarterly period ended April 30, 2011

OR

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

For the transition period from

to

Commission File Number 000-23262

# **ModusLink Global Solutions, Inc.**

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of

incorporation or organization)

1100 Winter Street

Waltham, Massachusetts (Address of principal executive offices)

(781) 663-5001

(Registrant s telephone number, including area code)

04-2921333 (I.R.S. Employer

Identification No.)

02451 (Zip Code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes "No"

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

Large accelerated filer		Accelerated filer	х
Non-accelerated filer	" (Do not check if a smaller reporting company) that the registrant is a shall company (as defined in Rule 12)	Smaller reporting company	
mulcate by check mark whe	ther the registrant is a shell company (as defined in Rule 12)	b-2 of the Exchange Act). Tes No x	

As of June 3, 2011, there were 43,815,576 shares issued and outstanding of the registrant s Common Stock, \$.01 par value per share.

## MODUSLINK GLOBAL SOLUTIONS, INC.

#### FORM 10-Q

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## MODUSLINK GLOBAL SOLUTIONS, INC. AND SUBSIDIARIES

### CONDENSED CONSOLIDATED BALANCE SHEETS

#### (In thousands, except per share and share amounts)

#### (Unaudited)

ASSETS           Carba and cash equivalents         \$ 119,120         \$ 161,264           Available-for-sale securities         130         270           Accounts receivable, trade, net of allowance for doubtful accounts of \$777 and \$919, at April 30,         135,622         159,768           Diventories, net         83,263         74,096           Prepaid expenses and other current assets         13,803         14,226           Total current assets         351,938         409,724           Property and equipment, net         49,935         52,906           Investments in anfiliates         14,073         13,016           Goodwill         3,058         16,207           Other assets         10,402         9,760           Other assets         10,402         9,760           Other assets         \$ 435,142         \$ 525,786           Current liabilities:         \$ 435,142         \$ 525,786           Current portion of accrued restructuring         1,618         2,632           Accrued penses         \$ 435,142         \$ 525,786           Current liabilities:         \$ 435,142         \$ 5,735           Current liabilities:         \$ 435,142         \$ 5,735           Current liabilities:         \$ 435,142		April 30, 2011	July 31, 2010	
Cash and cash equivalents       \$ 119,120       \$ 161,364         Available-for-sale securities       130       270         Accounts receivable, trade, net of allowance for doubtful accounts of \$777 and \$919, at April 30,       135,622       159,768         Diventories, net       83,263       74,096         Prepaid expenses and other current assets       13,803       14,226         Total current assets       351,938       409,724         Property and equipment, net       49,935       52,006         Investments in affiliates       14,073       13,016         Godowill       3,058       16,207         Other intangible assets, net       5,736       24,173         Other assets       \$ 435,142       \$ 525,786         Current installments of obligations under capital leases       \$ 400,202       9,760         Current installments of obligations under capital leases       \$ 40,314       \$ 25,786         Current installments of obligations under capital leases       \$ 40,314       45,232         Accounts payable       11,000       132,098         Current installments of obligations under capital leases       \$ 38       \$ 400         Accured regregenes       40,314       45,729         Other current liabilities       161,80       2,632 <th>ASSETS</th> <th></th> <th></th>	ASSETS			
Available-for-sale securities       130       270         Accounts receivable, trade, net of allowance for doubtful accounts of \$777 and \$919, at April 30,       135,622       159,768         Inventories, net       83,263       74,096         Prepaid expenses and other current assets       351,938       4409,724         Total current assets       351,938       4409,724         Property and equipment, net       49,935       52,906         Investments in affiliates       14,073       13,016         Goodwill       3,058       16,207         Other intagible assets, net       5,736       24,173         Other assets       \$ 435,142       \$ 525,786 <b>LIABILITIES AND STOCKHOLDERS FQUITY</b> T         Current liabilities:       111,000       132,098         Current portion of accrued restructuring       1,618       2,632         Accounts payable       111,000       132,098         Current liabilities       7,995       4,773         Other current liabilities       16,66       1,791         Other current liabilities       162,651       187,111         Long-term portion of accrued restructuring       299       1,000         Other current liabilities of discontinued operations       1,686       1,7				
Accounts receivable, trade, net of allowance for doubtful accounts of \$777 and \$919, at April 30, 2011 and July 31, 2010, respectively 159,768 Inventories, net 83,263 74,096 Prepaid expenses and other current assets 13,803 14,226 Total current assets 351,938 409,724 Property and equipment, net 49,935 52,906 Investments in affiliates 14,073 13,016 Goodwill 35,736 24,173 Other assets 5,736 24,173 Other assets 1,618 2,632 Accrued income taxes 4,8 Accrued expenses 40,314 45,729 Other asset 11,618 2,625 I 187,111 Long-term portion of accrued restructuring 299 1,000 Obligations under capital leases, less current installments 3 2,99 Other long-term insbilities 162,651 187,111 Long-term portion of accrued restructuring 299 1,000 Obligations under capital leases, less current installments 3,29 Nother long-term insbilities 6, discontinued operations 2,241 3,289 Stockholders equipty Preferred stock, \$0,01 par value per share. Authorized 1,400,000,000 shares; t3,824,651 issued and outstanding shares at April 30, 2011; 44,039,938 issued and 43,729,338 outstanding shares at 3,010 Accumulated leficit (7,161,145) (7,121,015)	Cash and cash equivalents	\$ 119,120	\$ 161,364	
2011 and July 31, 2010, respectively       155,622       159,768         Inventories, net       83,263       74,096         Prepaid expenses and other current assets       351,938       409,724         Total current assets       351,938       409,724         Property and equipment, net       49,935       52,906         Investments in affiliates       14,073       13,016         Goodwill       3,058       16,207         Other intangible assets, net       5,736       24,173         Other assets       10,402       9,760         Total assets       \$ 435,142       \$ 525,786         Current liabilities:       111,000       132,098         Current installments of obligations under capital leases       \$ 38       \$ 40         Accounts payable       111,000       132,098         Current liabilities:       148       2,652         Current liabilities       40,314       45,735         Accrued expenses       40,314       45,735         Accrued expenses       40,314       45,735         Other current liabilities       166,66       1,791         Total assets       162,651       187,111         Long-term portion of accrued restructuring       16,62       15,6	Available-for-sale securities	130	270	
Inventories, net       83,263       74,096         Prepaid expenses and other current assets       13,803       14,226         Total current assets       351,938       409,724         Property and equipment, net       49,935       52,906         Investments in affiliates       14,073       113,016         Goodwill       3,058       16,207         Other installighte assets, net       5,736       24,173         Other assets       \$ 435,142       \$ 525,786         Current installments of obligations under capital leases       \$ 435,142       \$ 525,786         Current installments of obligations under capital leases       \$ 38       \$ 40         Accounts payable       111,000       132,098       \$ 26,032         Current installments of obligations under capital leases       \$ 38       \$ 40         Accounts payable       11,000       132,098       \$ 290         Current installments of obligations under capital leases       \$ 38       \$ 40         Accounts payable       11,000       132,098       \$ 26,522         Current installments of obligations under capital leases       \$ 38       \$ 40         Accounts payable       16,618       2,652       \$ 7995         Other current liabilitices				
Prepaid expenses and other current assets         13,803         14,226           Total current assets         351,938         409,724           Property and equipment, net         49,935         52,906           Investments in affiliates         14,073         13,016           Goodwill         3,058         16,207           Other intangible assets, net         5,736         24,173           Other assets         \$ 435,142         \$ 525,786           LIABILITIES AND STOCKHOLDERS EQUITY         Current liabilities:         \$ 435,142         \$ 525,786           Current not installments of obligations under capital leases         \$ 38         \$ 40           Accounts payable         111,000         132,098           Current liabilities:         16,618         2,632           Accrued expenses         40,314         45,729           Other current liabilities         7,995         4,773           Current liabilities of discontinue operations         1,618         2,632           Accrued expenses         40,314         45,729           Other current liabilities         162,651         187,111           Long-term portion of accrued restructuring         299         1,000           Obligations under capital leases, less current installments <td< td=""><td></td><td>,</td><td>,</td></td<>		,	,	
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Current liabilities of discontinued operations1,6861,791Total current liabilities162,651187,111Long-term portion of accrued restructuring2991,000Obligations under capital leases, less current installments329Other long-term liabilities16,12215,656Non-current liabilities of discontinued operations2,2413,289Stockholders equity:2913Preferred stock, \$0.01 par value per share. Authorized 5,000,000 shares; zero issued or outstanding at April 30, 2011 and July 31, 2010438440Common stock, \$0.01 par value per share. Authorized 1,400,000,000 shares; 43,824,651 issued and 43,729,338 outstanding shares at July 31, 2010438440Additional paid-in capital7,386,2487,427,031(1,992)Accumulated deficit(7,161,145)(7,121,015)	1	,	,	
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Long-term portion of accrued restructuring2991,000Obligations under capital leases, less current installments329Other long-term liabilities16,12215,656Non-current liabilities of discontinued operations2,2413,289Stockholders equity:2329Preferred stock, \$0.01 par value per share. Authorized 5,000,000 shares; zero issued or outstanding at April 30, 2011 and July 31, 201055Common stock, \$0.01 par value per share. Authorized 1,400,000,000 shares; 43,824,651 issued and outstanding shares at April 30, 2011; 44,039,938 issued and 43,729,338 outstanding shares at July 31, 2010438440Additional paid-in capital7,386,2487,427,0317,386,2487,427,031Treasury stock, at cost 310,600 shares at July 31, 2010(1,992)(1,914)(1,145)(7,121,015)	Current liabilities of discontinued operations	1,686	1,791	
Obligations under capital leases, less current installments329Other long-term liabilities16,12215,656Non-current liabilities of discontinued operations2,2413,289Stockholders equity:233Preferred stock, \$0.01 par value per share. Authorized 5,000,000 shares; zero issued or outstanding at April 30, 2011 and July 31, 2010Common stock, \$0.01 par value per share. Authorized 1,400,000,000 shares; 43,824,651 issued and outstanding shares at April 30, 2011; 44,039,938 issued and 43,729,338 outstanding shares at July 31, 2010438440Additional paid-in capital7,386,2487,427,031-Treasury stock, at cost 310,600 shares at July 31, 2010(1,992)Accumulated deficit(7,161,145)(7,121,015)	Total current liabilities	162,651	187,111	
Obligations under capital leases, less current installments329Other long-term liabilities16,12215,656Non-current liabilities of discontinued operations2,2413,289Stockholders equity:233Preferred stock, \$0.01 par value per share. Authorized 5,000,000 shares; zero issued or outstanding at April 30, 2011 and July 31, 2010Common stock, \$0.01 par value per share. Authorized 1,400,000,000 shares; 43,824,651 issued and outstanding shares at April 30, 2011; 44,039,938 issued and 43,729,338 outstanding shares at July 31, 2010438440Additional paid-in capital7,386,2487,427,031-Treasury stock, at cost 310,600 shares at July 31, 2010(1,992)Accumulated deficit(7,161,145)(7,121,015)	Long-term portion of accrued restructuring	299	1,000	
Other long-term liabilities16,12215,656Non-current liabilities of discontinued operations2,2413,289Stockholders equity:23,289Preferred stock, \$0.01 par value per share. Authorized 5,000,000 shares; zero issued or outstanding at April 30, 2011 and July 31, 2010-Common stock, \$0.01 par value per share. Authorized 1,400,000,000 shares; 43,824,651 issued and outstanding shares at April 30, 2011; 44,039,938 issued and 43,729,338 outstanding shares at July 31, 2010438440Additional paid-in capital7,386,2487,427,031-Treasury stock, at cost 310,600 shares at July 31, 2010(1,992)-Accumulated deficit(7,161,145)(7,121,015)		3	,	
Non-current liabilities of discontinued operations2,2413,289Stockholders equity:Preferred stock, \$0.01 par value per share. Authorized 5,000,000 shares; zero issued or outstanding at April 30, 2011 and July 31, 2010Common stock, \$0.01 par value per share. Authorized 1,400,000,000 shares; 43,824,651 issued and outstanding shares at April 30, 2011; 44,039,938 issued and 43,729,338 outstanding shares at July 31, 2010438440Additional paid-in capital7,386,2487,427,031Treasury stock, at cost 310,600 shares at July 31, 2010(1,992)Accumulated deficit(7,161,145)(7,121,015)		16,122	15,656	
Stockholdersequity:Preferred stock, \$0.01 par value per share. Authorized 5,000,000 shares; zero issued or outstanding at April 30, 2011 and July 31, 2010Common stock, \$0.01 par value per share. Authorized 1,400,000,000 shares; 43,824,651 issued and outstanding shares at April 30, 2011; 44,039,938 issued and 43,729,338 outstanding shares at July 31, 2010438Additional paid-in capital7,386,2487,427,031Treasury stock, at cost 310,600 shares at July 31, 2010(1,992)Accumulated deficit(7,161,145)(7,121,015)		2,241	3,289	
Preferred stock, \$0.01 par value per share. Authorized 5,000,000 shares; zero issued or outstanding at April 30, 2011 and July 31, 2010Common stock, \$0.01 par value per share. Authorized 1,400,000,000 shares; 43,824,651 issued and outstanding shares at April 30, 2011; 44,039,938 issued and 43,729,338 outstanding shares at July 31, 2010438440Additional paid-in capital7,386,2487,427,031Treasury stock, at cost 310,600 shares at July 31, 2010(1,992)Accumulated deficit(7,161,145)(7,121,015)				
Common stock, \$0.01 par value per share. Authorized 1,400,000,000 shares; 43,824,651 issued and outstanding shares at April 30, 2011; 44,039,938 issued and 43,729,338 outstanding shares at July 31, 2010438440Additional paid-in capital7,386,2487,427,031Treasury stock, at cost 310,600 shares at July 31, 2010(1,992)Accumulated deficit(7,161,145)(7,121,015)	Preferred stock, \$0.01 par value per share. Authorized 5,000,000 shares; zero issued or outstanding			
July 31, 2010       438       440         Additional paid-in capital       7,386,248       7,427,031         Treasury stock, at cost 310,600 shares at July 31, 2010       (1,992)         Accumulated deficit       (7,161,145)       (7,121,015)	Common stock, \$0.01 par value per share. Authorized 1,400,000,000 shares; 43,824,651 issued and			
Additional paid-in capital       7,386,248       7,427,031         Treasury stock, at cost 310,600 shares at July 31, 2010       (1,992)         Accumulated deficit       (7,161,145)       (7,121,015)		438	440	
Treasury stock, at cost 310,600 shares at July 31, 2010         (1,992)           Accumulated deficit         (7,161,145)         (7,121,015)				
Accumulated deficit (7,161,145) (7,121,015)		.,		
		(7.161.145)		
	Accumulated other comprehensive income	28,285	14,237	

Total stockholders equity	253,826	318,701
Total liabilities and stockholders equity	\$ 435,142	\$ 525,786

See accompanying notes to unaudited condensed consolidated financial statements

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#### MODUSLINK GLOBAL SOLUTIONS INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

#### (In thousands, except per share amounts)

#### (Unaudited)

		Three Months Ended April 30,		Nine Months Ended April 30,		
	2011	2010	2011	2010		
Net revenue	\$ 207,140	\$ 213,697	\$677,668	\$ 695,864		
Cost of revenue	186,906	189,090	611,689	603,708		
Gross profit	20,234	24,607	65,979	92,156		
Operating expenses:						
Selling, general and administrative	20,788	21,395	63,797	68,270		
Amortization of intangible assets	1,062	1,657	4,420	4,628		
Impairment of goodwill and intangible assets			27,166			
Restructuring and other, net		260	1,201	425		
Total operating expenses	21,850	23,312	96,584	73,323		
Operating income (loss)	(1,616)	1,295	(30,605)	18,833		
Other income (expense):						
Interest income	62	49	191	252		
Interest expense	(108)	(130)	(350)	(416)		
Other losses, net	(1,641)	(1,153)	(3,938)	(1,732)		
Equity in losses of affiliates and impairments	(401)	(211)	(1,417)	(1,923)		
Total other income (expense)	(2,088)	(1,445)	(5,514)	(3,819)		
Income (loss) from continuing operations before income taxes	(3,704)	(150)	(36,119)	15,014		
Income tax expense	1,331	942	3,772	4,997		
Income (loss) from continuing operations	(5,035)	(1,092)	(39,891)	10,017		
Discontinued operations, net of income taxes:						
Loss from discontinued operations	(91)	(2,334)	(239)	(2,319)		
Net income (loss)	\$ (5,126)	\$ (3,426)	\$ (40,130)	\$ 7,698		
Basic and diluted earnings (loss) per share:						
Income (loss) from continuing operations	\$ (0.12)	\$ (0.03)	\$ (0.92)	\$ 0.22		
Income (loss) from discontinued operations	\$	\$ (0.05)	\$ (0.01)	\$ (0.05)		
Net income (loss)	\$ (0.12)	\$ (0.08)	\$ (0.93)	\$ 0.17		
Shares used in computing basic earnings per share:	43,303	43,730	43,289	44,256		
Shares used in computing diluted earnings per share:	43,303	43,730	43,289	44,408		

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See accompanying notes to unaudited condensed consolidated financial statements

#### MODUSLINK GLOBAL SOLUTIONS, INC. AND SUBSIDIARIES

#### CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

#### (in thousands)

#### (Unaudited)

	Nine Months Ended April 30,	
	2011	2010
Cash flows from operating activities of continuing operations:		
Net income (loss)	\$ (40,130)	\$ 7,698
Loss from discontinued operations	(239)	(2,319)
Income (loss) from continuing operations	(39,891)	10,017
Adjustments to reconcile income (loss) from continuing operations to net cash provided by continuing operations:		
Depreciation	12,321	12,668
Impairment of goodwill and intangible assets	27,166	
Amortization of intangible assets	4,420	4,628
Share-based compensation	2,619	3,296
Non-operating losses, net	3,938	1,732
Equity in losses of affiliates and impairments	1,417	1,923
Changes in operating assets and liabilities, excluding effects from acquisition:		
Trade accounts receivable, net	32,333	24,204
Inventories	(4,336)	949