

ModusLink Global Solutions Inc
Form 10-Q
June 08, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended April 30, 2015

OR

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

For the transition period from _____ to _____

Commission File Number 001-35319

ModusLink Global Solutions, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

1601 Trapelo Road, Suite 170

Waltham, Massachusetts
(Address of principal executive offices)

(781) 663-5000

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

02451
(Zip Code)

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant 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

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

Large accelerated filer Accelerated filer

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

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

As of May 31, 2015, there were 52,269,680 shares issued and outstanding of the registrant's Common Stock, \$0.01 par value per share.

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MODUSLINK GLOBAL SOLUTIONS, INC.

FORM 10-Q

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	April 30, 2015	July 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 151,425	\$ 183,515
Trading securities	74,835	22,793
Accounts receivable, trade, net of allowance for doubtful accounts of \$54 and \$63 at April 30, 2015 and July 31, 2014, respectively	121,689	123,948
Inventories	65,746	65,269
Prepaid expenses and other current assets	25,180	10,243
Total current assets	438,875	405,768
Property and equipment, net	23,764	25,126
Investments in affiliates	2,278	7,172
Goodwill	3,058	3,058
Other intangible assets, net		667
Other assets	7,600	9,855
Total assets	\$ 475,575	\$ 451,646
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 162,001	\$ 105,045
Accrued restructuring	2,469	2,246
Accrued expenses	37,608	39,544
Other current liabilities	36,733	51,759
Total current liabilities	238,811	198,594
Long-term portion of accrued restructuring		39
Notes payable	76,696	73,391
Other long-term liabilities	8,022	8,004
Long-term liabilities	84,718	81,434
Total liabilities	323,529	280,028

Stockholders' equity:

Preferred stock, \$0.01 par value per share. Authorized 5,000,000 shares; zero issued or outstanding shares at April 30, 2015 and July 31, 2014

Common stock, \$0.01 par value per share. Authorized 1,400,000,000 shares; 52,190,790 issued and outstanding shares at April 30, 2015; 52,100,763 issued and outstanding shares at July 31, 2014

	522	521
Additional paid-in capital	7,451,879	7,450,541
Accumulated deficit	(7,306,852)	(7,293,412)
Accumulated other comprehensive income	6,497	13,968
Total stockholders' equity	152,046	171,618
Total liabilities and stockholders' equity	\$ 475,575	\$ 451,646

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		Nine Months Ended	
	April 30,		April 30,	
	2015	2014	2015	2014
Net revenue	\$ 106,234	\$ 173,274	\$ 441,988	\$ 558,700
Cost of revenue	97,222	157,575	397,544	498,426
Gross profit	9,012	15,699	44,444	60,274
Operating expenses				
Selling, general and administrative	14,439	17,100	44,600	54,787
Amortization of intangible assets	131	269	667	829
Impairment of long-lived assets				500
Restructuring, net	1,994	3,468	4,936	5,440
Total operating expenses	16,564	20,837	50,203	61,556
Operating loss	(7,552)	(5,138)	(5,759)	(1,282)
Other income (expense):				
Interest income	247	159	666	326
Interest expense	(2,613)	(2,049)	(7,899)	(2,461)
Other gains, net	3,523	(507)	6,761	(316)
Impairment of investments in affiliates	(5,017)	(1,243)	(5,017)	(1,420)
Total other income (expense)	(3,860)	(3,640)	(5,489)	(3,871)
Loss from continuing operations before income taxes	(11,412)	(8,778)	(11,248)	(5,153)
Income tax expense	694	700	2,400	2,590
Equity in (gains) losses of affiliates, net of tax			(208)	134
Loss from continuing operations	(12,106)	(9,478)	(13,440)	(7,877)
Discontinued operations, net of income taxes:				
Income from discontinued operations				80
Net loss	\$ (12,106)	\$ (9,478)	\$ (13,440)	\$ (7,797)
Basic and diluted net income per share:				
Loss from continuing operations	\$ (0.23)	\$ (0.18)	\$ (0.26)	\$ (0.15)

Income from discontinued operations

Net loss	\$ (0.23)	\$ (0.18)	\$ (0.26)	\$ (0.15)
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Weighted average common shares used in:

Basic earnings per share	51,750	51,498	51,917	51,502
Diluted earnings per share	51,750	51,498	51,917	51,502

See accompanying notes to unaudited condensed consolidated financial statements

Table of Contents**MODUSLINK GLOBAL SOLUTIONS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)****(in thousands)****(unaudited)**

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2015	2014	2015	2014
Net loss	\$ (12,106)	\$ (9,478)	\$ (13,440)	\$ (7,797)
Other comprehensive income:				
Foreign currency translation adjustment	493	1,277	(6,661)	1,219
Pension liability adjustments, net of tax		(1,164)	(811)	(914)
Net unrealized holding gain on securities, net of tax	7	11	1	7
Other comprehensive income (loss)	500	124	(7,471)	312
Comprehensive loss	\$ (11,606)	\$ (9,354)	\$ (20,911)	\$ (7,485)

See accompanying notes to unaudited condensed consolidated financial statements

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MODUSLINK GLOBAL SOLUTIONS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Nine Months Ended April 30,	
	2015	2014
Cash flows from operating activities of continuing operations:		
Net loss	\$ (13,440)	\$ (7,797)
Income from discontinued operations		80
Loss from continuing operations	(13,440)	(7,877)
Adjustments to reconcile loss from continuing operations to net cash used in operating activities of continuing operations:		
Depreciation	6,632	10,198
Amortization of intangible assets	667	829
Amortization of deferred financing costs	415	1,113
Accretion of debt discount	3,305	418
Impairment of long-lived assets		500
Share-based compensation	1,297	1,663
Non-operating (gains) losses, net	(6,761)	316
Equity in (gains) losses of affiliates and impairments	4,809	1,554
Changes in operating assets and liabilities:		
Trade accounts receivable, net	(3,519)	3,876
Inventories	(4,030)	(343)
Prepaid expenses and other current assets	(15,589)	(1,927)
Accounts payable, accrued restructuring and accrued expenses	57,611	(9,008)
Refundable and accrued income taxes, net	2,993	243
Other assets and liabilities	16,929	(2,144)
Net cash provided by (used in) operating activities of continuing operations	51,319	(589)
Cash flows from investing activities of continuing operations:		
Additions to property and equipment	(6,894)	(3,142)
Purchase of trading securities	(69,221)	
Investments in affiliates	(323)	(584)
Proceeds from investments in affiliates	408	
Net cash used in investing activities of continuing operations	(76,030)	(3,726)
Cash flows from financing activities of continuing operations:		
Repayments on capital lease obligations	(151)	(81)

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Net repayments of revolving line of credit	(4,453)	
Proceeds from issuance of common stock	42	505
Proceeds from issuance of convertible notes, net of transaction costs of \$3,430		96,570
Net cash provided by (used in) financing activities of continuing operations	(4,562)	96,994
Cash flows from discontinued operations:		
Operating cash flows		(324)
Net cash used in discontinued operations		(324)
Net effect of exchange rate changes on cash and cash equivalents	(2,817)	283
Net decrease in cash and cash equivalents	(32,090)	92,638
Cash and cash equivalents at beginning of period	183,515	77,916
Cash and cash equivalents at end of period	\$ 151,425	\$ 170,554

See accompanying notes to unaudited condensed consolidated financial statements

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MODUSLINK GLOBAL SOLUTIONS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

(1) NATURE OF OPERATIONS

ModusLink Global Solutions, Inc. (together with its consolidated subsidiaries, ModusLink Global Solutions or the Company), through its wholly-owned subsidiaries, ModusLink Corporation (ModusLink) and ModusLink PTS, Inc. (ModusLink PTS), executes comprehensive supply chain and logistics services (the Supply Chain Business) that are designed to improve clients' revenue, cost, sustainability and customer experience objectives. ModusLink Global Solutions provides services to leading companies in consumer electronics, communications, computing, medical devices, software, and retail. The Company's operations are supported by a global footprint that includes more than 25 sites across North America, Europe and the Asia Pacific region.

The Company previously operated under the names CMGI, Inc. and CMG Information Services, Inc. and was incorporated in Delaware in 1986.

(2) BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of a normal recurring nature) considered necessary for fair presentation have been included. These unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements and related notes for the year ended July 31, 2014, which are contained in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) on October 14, 2014. The results for the three and nine months ended April 30, 2015 are not necessarily indicative of the results to be expected for the full fiscal year. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

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

The Company considers events or transactions that occur after the balance sheet date but before the issuance of financial statements to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. For the period ended April 30, 2015, the Company evaluated subsequent events for potential recognition and disclosure through the date these financial statements were filed.

During the quarter ended January 31, 2015, the Company commenced a reverse split of the Company's common stock, immediately followed by a forward stock split of the Company's common stock, which was intended to reduce the costs associated with servicing stockholder accounts holding relatively small numbers of shares of the Company's common stock. The ratio for the reverse stock split as approved by the Company's Board of Directors, and by the Company's stockholders at the December 9, 2014 Annual Meeting of Stockholders, was fixed at 1-for-100 and the ratio for the forward stock split was fixed at 100-for-1. The reverse/forward split did not change the authorized number of shares of Common Stock or in the par value of such shares. No fractional shares were issued in connection

with the reverse/forward split.

(3) RECENT ACCOUNTING PRONOUNCEMENTS

In April 2014, the FASB issued ASU No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, which amends ASC 205, Presentation of Financial Statements, and ASC 360, Property, Plant and Equipment. This ASU defines a discontinued operation as a component or group of components that is disposed of or meets the criteria as held for sale and represents a strategic shift that has or will have a major effect on an entity's operations and financial results. This ASU requires additional disclosures about discontinued operations and new disclosures for components of an entity that are held for sale or disposed of and are individually significant but do not qualify for presentation as a discontinued operation. The requirements are effective prospectively starting with our first quarter of fiscal year 2016, and is related to presentation only. Early adoption is permitted but only for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued or available for issue. The Company made the decision to early-adopt this ASU and its adoption did not have a material effect on the Company's consolidated financial statements.

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In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements in ASC 605, Revenue Recognition. This ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The effective date will be the first quarter of fiscal year 2018 using one of two retrospective application methods or a cumulative effect approach. The Company is evaluating the potential effects on the consolidated financial statements.