

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 31, 2021

OR

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

For the transition period from _____ to _____

Commission File Number 001-35319



Steel Connect, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

**2000 Midway Ln
Smyrna, Tennessee**
(Address of principal executive offices)

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

37167
(Zip Code)

(914) 461-1276

(Registrant's telephone number, including area code)

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

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

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

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

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

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

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

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

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

As of December 1, 2021, there were 60,437,654 shares issued and outstanding of the registrant's Common Stock, \$0.01 par value per share.

STEEL CONNECT, INC.
FORM 10-Q
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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements.

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

	October 31, 2021 (unaudited)	July 31, 2021
ASSETS		
Cash and cash equivalents	\$ 81,330	\$ 96,931
Accounts receivable, trade, net of allowance for doubtful accounts of \$44 and \$49 at October 31, 2021 and July 31, 2021, respectively	74,841	69,805
Inventories, net	18,166	16,228
Funds held for clients	6,531	8,212
Prepaid expenses and other current assets	18,491	22,222
Total current assets	199,359	213,398
Property and equipment, net	54,710	58,862
Goodwill	231,470	231,470
Other intangible assets, net	110,823	115,005
Operating lease right-of-use assets	49,941	50,836
Other assets	6,851	6,810
Total assets	\$ 653,154	\$ 676,381
LIABILITIES, CONTINGENTLY REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS' (DEFICIT) EQUITY		
Accounts payable	\$ 51,920	\$ 55,517
Accrued expenses	109,382	106,871
Funds held for clients	6,531	8,212
Current portion of long-term debt	5,611	5,602
Current lease obligations	13,259	13,690
Other current liabilities	29,366	28,101
Total current liabilities	216,069	217,993
Convertible note payable	9,729	9,343
Long-term debt, excluding current portion	356,783	358,189
Long-term lease obligations	38,338	38,927
Other long-term liabilities	10,486	10,537
Total long-term liabilities	415,336	416,996
Total liabilities	631,405	634,989
Contingently redeemable preferred stock, \$0.01 par value per share. 35,000 shares authorized, issued and outstanding at October 31, 2021 and July 31, 2021	35,180	35,180
Stockholders' equity:		
Preferred stock, \$0.01 par value per share. 4,965,000 shares authorized at October 31, 2021 and July 31, 2021; zero shares issued and outstanding at October 31, 2021 and July 31, 2021	—	—
Common stock, \$0.01 par value per share. Authorized 1,400,000,000 shares; 60,437,654 issued and outstanding shares at October 31, 2021; 63,099,496 issued and outstanding shares at July 31, 2021	605	632
Additional paid-in capital	7,478,855	7,478,638
Accumulated deficit	(7,500,251)	(7,480,220)
Accumulated other comprehensive income	7,360	7,162
Total stockholders' (deficit) equity	(13,431)	6,212
Total liabilities, contingently redeemable preferred stock and stockholders' (deficit) equity	\$ 653,154	\$ 676,381

See accompanying notes to unaudited condensed consolidated financial statements

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

	Three Months Ended October 31,	
	2021	2020
Net revenue:		
Products	\$ 81,059	\$ 105,708
Services	44,354	64,226
Total net revenue	125,413	169,934
Cost of revenue:		
Products	75,185	81,192
Services	34,948	48,274
Total cost of revenue	110,133	129,466
Gross profit	15,280	40,468
Operating expenses:		
Selling, general and administrative	22,005	26,858
Amortization of intangible assets	4,182	6,535
Total operating expenses	26,187	33,393
Operating (loss) income	(10,907)	7,075
Other income (expense):		
Interest income	4	20
Interest expense	(7,795)	(7,823)
Other losses, net	(481)	(2,019)
Total other expense, net	(8,272)	(9,822)
Loss before income taxes	(19,179)	(2,747)
Income tax expense	315	804
Net loss	(19,494)	(3,551)
Less: Preferred dividends on redeemable preferred stock	(537)	(537)
Net loss attributable to common stockholders	\$ (20,031)	\$ (4,088)
Basic and diluted net loss per share attributable to common stockholders	\$ (0.33)	\$ (0.07)
Weighted average common shares used in basic and diluted loss per share	60,307	61,893

See accompanying notes to unaudited condensed consolidated financial statements

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

	Three Months Ended October 31,	
	2021	2020
Net loss	\$ (19,494)	\$ (3,551)
Other comprehensive (loss) income:		
Foreign currency translation adjustment	198	2,973
Other comprehensive income	198	2,973
Comprehensive loss	<u>\$ (19,296)</u>	<u>\$ (578)</u>

See accompanying notes to unaudited condensed consolidated financial statements

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

	Number of Shares	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity (Deficit)
Balance at July 31, 2021	63,099,496	\$ 632	\$ 7,478,638	\$ (7,480,220)	\$ 7,162	\$ 6,212
Net loss	—	—	—	(19,494)	—	(19,494)
Preferred dividends	—	—	—	(537)	—	(537)
Issuance of common stock pursuant to employee stock purchase plan	168	—	—	—	—	—
Restricted stock grants	87,990	1	(1)	—	—	—
Restricted stock forfeitures	(2,750,000)	(28)	28	—	—	—
Share-based compensation	—	—	190	—	—	190
Other comprehensive items	—	—	—	—	198	198
Balance at October 31, 2021	<u>60,437,654</u>	<u>\$ 605</u>	<u>\$ 7,478,855</u>	<u>\$ (7,500,251)</u>	<u>\$ 7,360</u>	<u>\$ (13,431)</u>
	Number of Shares	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance at July 31, 2020	62,787,919	\$ 628	\$ 7,478,047	\$ (7,433,700)	\$ 3,843	\$ 48,818
Net loss	—	—	—	(3,551)	—	(3,551)
Preferred dividends	—	—	—	(537)	—	(537)
Issuance of common stock pursuant to employee stock purchase plan	6,982	—	3	—	—	3
Restricted stock forfeitures	(932)	—	—	—	—	—
Share-based compensation	—	—	188	—	—	188
Other comprehensive items	—	—	—	—	2,973	2,973
Balance at October 31, 2020	<u>62,793,969</u>	<u>\$ 628</u>	<u>\$ 7,478,238</u>	<u>\$ (7,437,788)</u>	<u>\$ 6,816</u>	<u>\$ 47,894</u>

See accompanying notes to unaudited condensed consolidated financial statements

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

	Three Months Ended October 31,	
	2021	2020
Cash flows from operating activities:		
Net loss	\$ (19,494)	\$ (3,551)
Adjustments to reconcile net loss to cash flows from operating activities:		
Depreciation	8,607	5,780
Amortization of intangible assets	4,182	6,535
Amortization of deferred financing costs	137	148
Accretion of debt discount	386	292
Share-based compensation	190	188
Non-cash lease expense	3,439	3,613
Other losses, net	392	3,622
Changes in operating assets and liabilities:		
Accounts receivable, net	(5,059)	12,839
Inventories, net	(1,978)	514
Prepaid expenses and other current assets	3,660	(4,473)
Accounts payable and accrued expenses	(482)	6,416
Refundable and accrued income taxes, net	(268)	503
Other assets and liabilities	(4,137)	(6,699)
Net cash (used in) provided by operating activities	<u>(10,425)</u>	<u>25,727</u>
Cash flows from investing activities:		
Additions of property and equipment	(4,742)	(1,059)
Proceeds from the disposition of property and equipment	61	—
Net cash used in investing activities	<u>(4,681)</u>	<u>(1,059)</u>
Cash flows from financing activities:		
Long-term debt repayments	(1,500)	(1,500)
Preferred dividend payments	(537)	(537)
Repayments on capital lease obligations	(18)	(17)
Proceeds from issuance of common stock	—	3
Net cash used in financing activities	<u>(2,055)</u>	<u>(2,051)</u>
Net effect of exchange rate changes on cash, cash equivalents and restricted cash	<u>(121)</u>	<u>(269)</u>
Net (decrease) increase in cash, cash equivalents and restricted cash	<u>(17,282)</u>	<u>22,348</u>
Cash, cash equivalents and restricted cash, beginning of period	105,143	94,642
Cash, cash equivalents and restricted cash, end of period	<u>\$ 87,861</u>	<u>\$ 116,990</u>
Cash and cash equivalents, end of period	\$ 81,330	\$ 104,522
Funds held for clients, end of period	6,531	12,468
Cash, cash equivalents and restricted cash, end of period	<u>\$ 87,861</u>	<u>\$ 116,990</u>

See accompanying notes to unaudited condensed consolidated financial statements

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

(1) NATURE OF OPERATIONS

Steel Connect, Inc., together with its consolidated subsidiaries (the "Company"), operates through its wholly-owned subsidiaries, IWCO Direct Holdings, Inc. ("IWCO Direct" or "Direct Marketing") and ModusLink Corporation ("ModusLink" or "Supply Chain").

IWCO Direct delivers data-driven marketing solutions for its customers. Its full range of services includes strategy, creative and execution for omnichannel marketing campaigns, along with 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.

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

Historically, the Company has financed its operations and met its capital requirements primarily through funds generated from operations, the sale of its securities, borrowings from lending institutions and sale of facilities that were not fully utilized. The Company believes it has access to adequate resources to meet its needs for normal operating costs, capital expenditures, mandatory debt redemptions and working capital for its existing business for at least twelve months from the date of this filing. These resources include current cash and cash equivalents, ModusLink's credit agreement with MidCap Financial Trust ("MidCap"), IWCO's revolving credit facility with Cerberus Business Finance, LLC ("Cerberus"), and cash, if any, provided by operating activities. The Company's expectations regarding its ability to use its existing cash and available credit facilities to continue funding its operations are based on assumptions that may prove to be inaccurate, and the Company may require capital resources sooner than currently expected. While the Company believes it will be able to access this additional liquidity based on existing information, the assumptions underlying this belief may also later prove to be inaccurate.

As of October 31, 2021 and July 31, 2021, the Company had cash and cash equivalents of \$81.3 million and \$96.9 million, respectively. As of October 31, 2021, the Company had a working capital deficit of \$16.7 million, which includes accrued pricing liabilities and certain tax related liabilities, which the Company believes will not require a significant cash outlay in the next twelve months. As of October 31, 2021, IWCO Direct had \$25.0 million available borrowing capacity under its Cerberus Credit Facility. During the three months ended October 31, 2021, IWCO Direct did not trigger any of the financial covenants in the Cerberus Credit Facility. In order to maintain compliance with the Cerberus Credit Facility's required liquidity covenant for the next twelve months, the Company has the ability and wherewithal to execute certain actions that may include, but are not limited to, reducing or delaying capital and strategic investments, and deferral of certain operating expenditures. While IWCO Direct currently expects to be in compliance in the next twelve months with all of the financial covenants, there can be no assurance that these covenants will continue to be met if the Company does not achieve its earnings and operating cash flow projections. Certain of IWCO Direct's lease agreements contain financial covenants that would require IWCO Direct to issue a letter of credit ("LOC") to the landlord in the event that IWCO Direct incurs debt that on a pro forma basis would result in IWCO Direct's net leverage exceeding 6.00x of IWCO Direct's Adjusted EBITDA. As of October 31, 2021, and through the date of this filing, IWCO Direct was in compliance with the net leverage ratio such that no LOC issuance is currently required. However, based upon IWCO Direct's covenant compliance as of the most recent balance sheet date, if IWCO Direct incurs additional debt, it would be required to issue an LOC of approximately \$3.2 million. As of October 31, 2021, ModusLink had readily available borrowing capacity under its revolving credit facility of \$8.5 million. The Company believes it will generate sufficient cash to meet its debt covenants under its credit facilities to which certain of its subsidiaries are a party and that it will be able to obtain cash through its current and future credit facilities, if needed.

Impact of COVID-19

The ongoing COVID-19 pandemic has adversely impacted, and is likely to further adversely impact, nearly all aspects of our business and markets, including our workforce and the operations of our clients, suppliers, and business partners. Beginning in March 2020, when the World Health Organization categorized COVID-19 as a pandemic and the President of the United States declared the COVID-19 outbreak a national emergency, we experienced impacts to our customers' demand, facility operations, supply chain, availability and productivity of personnel, while also working to comply with rapidly evolving international, federal, state and local restrictions and recommendations on travel and workplace health and safety. We experienced disruptions

to our business continuity as a result of temporary closures of certain of ModusLink's facilities in the third and fourth quarters of fiscal year 2020, as well as the fourth quarter of fiscal year 2021. However, these temporary closures did not have a significant impact on ModusLink's operations. Additionally, although IWCO Direct operated as an essential business, it had reduced operating levels and labor shifts due to lower sales volume during the third quarter of fiscal year 2020.

To help combat these impacts and mitigate the financial impact of the COVID-19 pandemic on our business, during fiscal year 2020 we took proactive measures by initiating cost reduction actions, including the waiver of board fees, hiring freezes, staffing and force reductions, company-wide salary reductions, bonus payment deferrals and temporary 401(k) match suspension. The temporary waiver of board fees and company-wide salary reduction actions taken in the prior fiscal year were fully restored prior to the beginning of fiscal year 2021, and the majority of salary reductions were repaid prior to the fiscal quarter ended January 31, 2021. We continue our focus on cash management and liquidity, which includes aggressive working capital management.

In addition, we aim to closely monitor the impact of COVID-19 on all aspects of our business and geographies, including its impact on our clients, employees, suppliers, vendors, business partners and distribution channels. We believe that such impacts could include, but are not limited to, the extent and severity of the impact on our customers and suppliers; the continued disruption to the demand for our businesses' products and services; the impact of the global business and economic environment on liquidity and the availability of capital; delays in payments of outstanding receivables beyond normal payment terms; supply chain disruptions; uncertain demand; and the effect of any initiatives or programs that we may undertake to address financial and operational challenges faced by our customers. The full extent to which the pandemic will directly or indirectly impact our business, results of operations and financial condition, is difficult to predict and will depend on the duration and spread of the ongoing COVID-19 pandemic (including new variants of COVID-19), its severity, the actions to contain the virus or address its impact, the timing, distribution, and efficacy of vaccines and other treatments, U.S. and foreign government actions to respond to the reduction in global economic activity, and how quickly and to what extent normal economic and operating conditions can resume. As of the filing of this Form 10-Q, all of our facilities were open and able to operate at normal capacities. We will evaluate further actions if circumstances warrant while continuing to strategically support the Company's future growth initiatives (including its Competitive Improvement Plan for IWCO Direct), sales and marketing activities and supply chain solutions and services.

Steel Holdings Expression of Interest

On November 19, 2020, the Company's Board of Directors (the "Board") received a preliminary, non-binding expression of interest (the "Expression of Interest") from Steel Partners Holdings L.P. ("Steel Holdings") to acquire all of the outstanding shares of common stock not already owned by Steel Holdings or its affiliates for a combination of cash and Steel Holdings 6% Series A Preferred Units, which would imply a value per share of common stock in the range of \$0.65 to \$0.72 per share. The Board has established a special committee comprised solely of independent directors (the "Acquisition Proposal Special Committee") authorized to retain independent legal and financial advisors and to review, evaluate, negotiate and approve or disapprove the Expression of Interest, and to explore alternative strategies or transactions. The Acquisition Proposal Special Committee announced on January 11, 2021 that it had retained financial advisors and legal counsel. As set forth in the Expression of Interest, the proposed transaction will be subject to the approval of the Acquisition Proposal Special Committee, as well as a non-waivable condition requiring approval of a majority of the shares outstanding of the Company not owned by Steel Holdings and its affiliates and related parties. The Board resolutions establishing the Acquisition Proposal Special Committee expressly provide that the Board will not approve the proposed transaction contemplated by the Expression of Interest or any alternative thereto without a prior favorable recommendation by the Acquisition Proposal Special Committee.

The Board has only received a proposal, which it continues to negotiate with Steel Holdings. The proposal under negotiation does not constitute a definitive offer capable of acceptance, and may be withdrawn at any time and in any manner. There can be no assurance that any definitive offer will be made, that any agreement will be executed or that the transaction proposed in the Expression of Interest or any other transaction will be approved or completed. The Company is not obligated to disclose any further developments or updates on the progress of the proposed transaction until either the Company enters into a definitive agreement or the Acquisition Proposal Special Committee determines no such transaction will be approved.

(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, 2021 (Fiscal Year 2021), which are contained in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on October 29, 2021. The results for the three months ended October 31, 2021 are not necessarily indicative of the results to be expected for the full fiscal year. The year-end condensed consolidated balance sheet data was derived from audited consolidated financial statements, but does not include all disclosures required by U.S. GAAP.

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

The Company considers events or transactions that occur after the balance sheet date but before the issuance of financial statements to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. For the three months ended October 31, 2021, the Company evaluated subsequent events for potential recognition and disclosure through the date these financial statements were filed.

Reclassification

Certain reclassifications have been made to the prior year balances to conform with current reporting. On the statement of cash flows for the three months ended October 31, 2021, the Company reclassified the non-cash portion of lease expense which totaled \$3.6 million from Other Assets and Liabilities to Non-cash Lease Expense. These reclassifications had no impact on net loss or stockholder's equity.

(3) RECENT ACCOUNTING PRONOUNCEMENTS

Adoption of New Accounting Standards

In December 2019, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes, which amends the existing guidance relating to the accounting for income taxes. This ASU is intended to simplify the accounting for income taxes by removing certain exceptions to the general principles of accounting for income taxes and to improve the consistent application of U.S. GAAP for other areas of accounting for income taxes by clarifying and amending existing guidance. The new guidance was effective for the Company's first quarter of the fiscal year ending July 31, 2022 (Fiscal Year 2022). The adoption of this new guidance did not have a material impact on the Company's consolidated financial statements.

Accounting Standards Issued and Not Yet Implemented

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, an ASU that requires measurement and recognition of expected credit losses for financial instruments, including trade receivables, based on historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. The ASU will be effective for the Company beginning in the first quarter of the fiscal year ending July 31, 2024 on a modified retrospective basis, which requires a cumulative effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. The Company is currently evaluating this guidance to determine the impact it may have on its consolidated financial statements.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which is intended to provide temporary optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships and other transactions affected by the discontinuation of the London Interbank Offered Rate, known as LIBOR, or by another reference rate expected to be discontinued. This optional guidance is effective beginning on March 12, 2020, and the Company may elect to apply the amendments prospectively through December 31, 2022. The Company is currently evaluating this guidance to determine the impact it may have on its consolidated financial statements.

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

(4) INVENTORIES, NET

The table below presents the components of Inventories, net:

	October 31, 2021	July 31, 2021
	(In thousands)	
Raw materials	\$ 17,206	\$ 15,484
Work-in-process	175	76
Finished goods	785	668
	<u>\$ 18,166</u>	<u>\$ 16,228</u>

(5) GOODWILL AND INTANGIBLE ASSETS

The Company's goodwill of \$231.5 million as of October 31, 2021 and July 31, 2021, respectively, relates to the Company's Direct Marketing reporting unit, which is the only reporting unit in the Direct Marketing reportable segment. The carrying value of goodwill is not amortized, but is tested for impairment annually as of June 30, and, additionally on an interim basis, whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Other intangible assets, net, as of October 31, 2021, include customer relationships. The trademarks and tradenames intangible assets were fully amortized as of January 31, 2021.

A summary of other intangible assets, net are reflected in the table below:

	Weighted Average Amortization Period (in years)	October 31, 2021			July 31, 2021		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
(In thousands)							
Customer relationships	15	\$ 192,730	\$ 81,907	\$ 110,823	\$ 192,730	\$ 77,725	\$ 115,005
Trademarks and tradenames	3	20,520	20,520	—	20,520	20,520	—
Total		<u>\$ 213,250</u>	<u>\$ 102,427</u>	<u>\$ 110,823</u>	<u>\$ 213,250</u>	<u>\$ 98,245</u>	<u>\$ 115,005</u>

The table below presents amortization expense recorded by the Company for other intangible assets:

	Three Months Ended October 31,	
	2021	2020
(In thousands)		
Customer relationships	\$ 4,182	\$ 4,825
Trademarks and trade names	—	1,710
Total	<u>\$ 4,182</u>	<u>\$ 6,535</u>

(6) ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

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

	October 31, 2021	July 31, 2021
Accrued Expenses		
	(In thousands)	
Accrued taxes	\$ 56,509	\$ 57,152
Accrued compensation	27,458	22,987
Accrued worker's compensation	1,805	1,818
Accrued audit, tax and legal	3,840	3,674
Accrued contract labor	1,119	930
Accrued interest	190	476
Accrued other	18,461	19,834
	<u>\$ 109,382</u>	<u>\$ 106,871</u>
Other Current Liabilities		
	(In thousands)	
Accrued pricing liabilities	\$ 10,295	\$ 10,295
Customer postage deposits	15,370	13,452
Other	3,701	4,354
	<u>\$ 29,366</u>	<u>\$ 28,101</u>

As of October 31, 2021 and July 31, 2021, the Company had accrued taxes of \$56.5 million and \$57.2 million, respectively, which reflected the Company's estimate for certain tax related liabilities. As of both October 31, 2021 and July 31, 2021, the Company had accrued pricing liabilities of approximately \$10.3 million. As previously reported by the Company, several principal adjustments were made to its historic financial statements for periods ending on or before January 31, 2012, the most significant of which related to the treatment of vendor rebates in its pricing policies. Where the retention of a rebate or a mark-up was determined to have been inconsistent with a client contract, the Company concluded that these amounts were not properly recorded as revenue. Accordingly, revenue was reduced by an equivalent amount for the period that the rebate was estimated to have been affected. A corresponding liability for the same amount was recorded in that period (referred to as accrued pricing liabilities). The Company believes that it may not ultimately be required to pay all or any of the accrued pricing liabilities based upon the expiration of statutes of limitations, and due in part to the nature of the interactions with its clients. The remaining accrued pricing liabilities as of October 31, 2021 will be derecognized when there is sufficient information for the Company to conclude that such liabilities are not subject to escheatment and have been extinguished, which may occur through payment, legal release, or other legal or factual determination. The Company has not provided for any provision for interest and or penalties related to escheatment as it has concluded that such is not probable to occur, and any potential interest and penalties cannot be reasonably estimated.

(7) RESTRUCTURING

IWCO Direct Restructuring Activities

On June 2, 2021, the Board approved a Competitive Improvement Plan ("CIP") for IWCO Direct, which addresses the changing requirements of its customers and markets it serves, as well as the current competitive landscape. The CIP seeks to expand IWCO Direct's marketing services capabilities, and upgrade its production platform to new digital and inserting technology, while reducing its overall production costs to enhance its competitive pricing capabilities. The CIP contemplates a total investment of approximately \$54 million primarily over a 24-month period. The Company estimates the CIP cost will consist of approximately: (1) \$38 million for digital press and insertion equipment, and technology build out cost (of which approximately \$34 million in lease/purchase agreements were entered into subsequent to the year ended July 31, 2021), and (2) \$16 million for severance, employee retention, facilities optimization, and other implementation costs. In addition, the Company expects to incur approximately \$12 million for non-cash accelerated depreciation expense. The cost estimates do not include amounts for potential non-cash asset impairment charges relating to facilities and equipment optimization. The timing and amount of the future costs incurred will depend on a number of factors.

Accelerated depreciation costs primarily relate to operating facilities and equipment to be sold or closed as part of the programs. Accelerated depreciation costs represent the difference between the depreciation expense to be recognized over the

revised useful life of the asset, based upon the anticipated date the site will be closed or divested or the equipment disposed of, and depreciation expense as determined utilizing the useful life prior to the restructuring actions.

As part of the CIP, the Company announced on August 23, 2021 that it will be optimizing its manufacturing footprint by closing IWCO Direct’s Little Falls, Minnesota facility. The facility is expected to close in January of 2022. The Company recognized approximately \$6.6 million of cost during the three months ended October 31, 2021 and did not incur any material costs during the fiscal year ended July 31, 2021 associated with these restructuring activities.

ModusLink Restructuring Activities

During the fiscal year ended July 31, 2021, ModusLink implemented a strategic plan to reorganize its sales function and the e-Business operations. The restructuring charges associated with this plan were incurred during the fiscal year ended July 31, 2021 and were primarily composed of employee termination costs. ModusLink did not incur any restructuring charges during the three months ended October 31, 2021. In November 2021, ModusLink amended its strategic plan to include reorganizing its supply chain operations and expects to record a restructuring charge of approximately \$1.0 million in the three months ending January 31, 2022.

The tables below present restructuring charges by type of cost for the three months ended October 31, 2021:

(in thousands)	Direct Marketing
Accelerated depreciation	\$ 4,395
Impairment of long-lived assets	70
Employee termination costs	1,985
Contractual obligations	195
Total restructuring charges	\$ 6,645

(in thousands)	Direct Marketing
Cost of revenue	\$ 6,343
Selling, general and administrative	302
	\$ 6,645

Changes to the restructuring liability during the three months ended October 31, 2021 were as follows:

(in thousands)	Employee Termination Costs	Contractual Obligations	Asset Impairment	Restructuring Liability
Balance as of July 31, 2021	\$ 1,055	\$ —	\$ —	\$ 1,055
Costs incurred	1,985	195	4,465	6,645
Non-cash relief of accrual	—	—	(4,465)	(4,465)
Change in estimates	(14)	—	—	(14)
Balance as of October 31, 2021	\$ 3,026	\$ 195	\$ —	\$ 3,221

(8) LEASES

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

	Three Months Ended October 31,	
	2021	2020
	(In thousands)	
Operating lease cost	\$ 4,001	\$ 4,228
Short-term lease expense	349	407
Variable lease cost	11	8
Interest on finance lease liabilities	1	2
	<u>\$ 4,362</u>	<u>\$ 4,645</u>

Supplemental Cash Flow Information

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

	Three Months Ended October 31,	
	2021	2020
	(In thousands)	
Cash paid for amounts included in measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 3,930	\$ 4,239
Operating cash flows from finance leases	\$ 1	\$ 2
Financing cash flows from finance leases	\$ 18	\$ 17

(9) DEBT

The components of debt and a reconciliation to the carrying amount of long-term debt is presented in the table below:

	October 31, 2021	July 31, 2021
		(In thousands)
Secured		
Cerberus Term Loan due December 15, 2022	\$ 362,830	\$ 364,330
Unsecured		
7.50% Convertible Senior Note due March 1, 2024	14,940	14,940
Credit Facilities		
Cerberus Revolving Facility	—	—
MidCap Credit Facility	—	—
Less: unamortized discounts and issuance costs	(5,647)	(6,136)
Total debt, net	<u>372,123</u>	<u>373,134</u>
Less: current portion of debt, net	(5,611)	(5,602)
Total long-term debt, net	<u>\$ 366,512</u>	<u>\$ 367,532</u>

7.50% Convertible Senior Note

On February 28, 2019, the Company entered into a 7.50% Convertible Senior Note Due 2024 Purchase Agreement (the "SPHG Note Purchase Agreement") with SPH Group Holdings LLC ("SPHG Holdings"), whereby SPHG Holdings agreed to loan the Company \$14.9 million in exchange for a 7.50% Convertible Senior Note due 2024 (the "SPHG Note"). SPHG Holdings has the right, at its option, prior to the close of business on the business day immediately preceding the SPHG Note Maturity Date, to convert the SPHG Note or a portion thereof that is \$1,000 or an integral multiple thereof, into shares of common stock (if the Company has not received a required stockholder approval) or cash, shares of common stock or a combination of cash and shares of common stock, as applicable (if the Company has received a required stockholder approval), at an initial conversion rate of 421.2655 shares of common stock, which is equivalent to an initial conversion price of approximately \$2.37 per share (subject to adjustment as provided in the SPHG Note) per \$1,000 principal amount of the SPHG Note, subject to, and in accordance with, the settlement provisions of the SPHG Note. As of October 31, 2021, the if-converted value of the SPHG Note did not exceed the

principal value of the SPHG Note. As of October 31, 2021, the remaining period over which the unamortized discount will be amortized is 28 months. As of October 31, 2021 and July 31, 2021, the net carrying value of the SPHG Note was \$9.7 million and \$9.3 million, respectively. The effective interest rate on the SPHG Note, including accretion of the discount, is 27.8%. The following tables reflect the components of the SPHG Note:

	October 31, 2021	July 31, 2021
	(In thousands)	
Carrying amount of equity component	\$ 8,200	\$ 8,200
Principal amount of note	\$ 14,940	\$ 14,940
Unamortized debt discount	(5,211)	(5,597)
Net carrying amount	<u>\$ 9,729</u>	<u>\$ 9,343</u>
	Three Months Ended October 31,	
	2021	2020
	(In thousands)	
Interest expense related to contractual interest coupon	\$ 286	\$ 286
Interest expense related to accretion of the discount	386	292
	<u>\$ 672</u>	<u>\$ 578</u>

(10) CONTINGENCIES

On April 13, 2018, a purported shareholder, Donald Reith, filed a verified complaint, *Reith v. Lichtenstein, et al.*, 2018-277 (Del. Ch.) in the Delaware Court of Chancery. The complaint alleges class and derivative claims for breach of fiduciary duty and/or aiding and abetting breach of fiduciary duty and unjust enrichment against the Board, Warren G. Lichtenstein, Glen M. Kassan, William T. Fejes, Jack L. Howard, Jeffrey J. Fenton, Philip E. Lengyel and Jeffrey S. Wald; and stockholders Steel Holdings, Steel Partners, Ltd., SPHG Holdings, Handy & Harman Ltd. ("Handy & Harman") and WHX CS Corp. (collectively, the "Steel Parties") in connection with the acquisition of \$35.0 million of the Series C Convertible Preferred Stock by SPHG Holdings and equity grants made to Messrs. Lichtenstein, Howard and Fejes on December 15, 2017 (collectively, the "Challenged Transactions"). The Company is named as a nominal defendant. The complaint alleges that although the Challenged Transactions were approved by a Special Committee consisting of the independent members of the Board (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 Annual Meeting of Stockholders in connection with seeking approval to amend the 2010 Incentive Award Plan to authorize the issuance of additional shares to accommodate certain shares underlying the equity grants. Remedies requested include rescission of the Series C Convertible Preferred Stock and equity grants, disgorgement of any unjustly obtained property or compensation and monetary damages. On June 8, 2018, defendants moved to dismiss the complaint for failure to plead demand futility and failure to state a claim. On June 28, 2019, the Court denied most of the motion to dismiss allowing the matter to proceed.

On August 13, 2021, the Company, together with certain of its current and former directors of the Board, Warren Lichtenstein, Glen Kassan, William Fejes, Jr., Jack Howard, Jeffrey Fenton and Jeffrey Wald, as well as other named defendants (collectively, the "Defendants"), entered into a memorandum of understanding (the "MOU") with Donald Reith (the "Plaintiff") in connection with the settlement of the *Reith v. Lichtenstein, et al.*, C.A. No. 2018-0277-MTZ (Del. Ch. 2018) class and derivative action. Pursuant to the MOU, the Defendants agreed to cause their directors' and officers' liability insurance carriers to pay to the Company \$2.75 million in cash. The payment shall be paid into an escrow account within 14 business days of the later of (i) the entry of the scheduling order in connection with the stipulation of the settlement; or (ii) the date on which Plaintiff's counsel provides to the Defendants' counsel written payment and wire instructions.

Additionally, under the MOU and separate letter agreements between the Company and such individuals (the "Surrender Agreements"), Messrs. Lichtenstein, Howard and Fejes agreed to surrender to the Company an aggregate 3.3 million shares which they had initially received in December 2017 in consideration for services to the Company. The surrenders and cancellations are in the following amounts: for Mr. Lichtenstein, 1,833,333 vested shares and 300,000 unvested shares; for Mr. Howard, 916,667

vested shares and 150,000 unvested shares; and for Mr. Fejes, 100,000 vested shares. Such amounts are to be adjusted to give effect to the one-for-ten reverse stock split voted on by the Company's shareholders at the annual meeting on July 26, 2021 (if such reverse stock split is effected prior to the surrender of such shares). The surrenders and cancellations shall be completed no later than seven calendar days following final approval of the settlement by the court and the exhaustion of any appeals therefrom or the expiration of time to appeal. On August 17, 2021, Mr. Lichtenstein and Mr. Howard surrendered the shares required under their respective Surrender Agreements and all such shares were subsequently cancelled. Pursuant to the MOU, the Company has also agreed to pay the Plaintiff's counsel legal fees for this matter. The settlement requires court approval, and there can be no assurances that such approval will be granted.

(11) REVENUE RECOGNITION

Disaggregation of Revenue

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

	Three Months Ended October 31, 2021			Three Months Ended October 31, 2020		
	Direct Marketing	Supply Chain	Consolidated Total	Direct Marketing	Supply Chain	Consolidated Total
(In thousands)						
Major Goods/Service Lines						
Marketing solutions offerings	\$ 81,059	\$ —	\$ 81,059	\$ 105,708	\$ —	\$ 105
Supply chain management services	—	43,942	43,942	—	63,787	63
Other	—	412	412	—	439	—
	<u>\$ 81,059</u>	<u>\$ 44,354</u>	<u>\$ 125,413</u>	<u>\$ 105,708</u>	<u>\$ 64,226</u>	<u>\$ 169</u>
Timing of Revenue Recognition						
Goods transferred over time	\$ 81,059	\$ —	\$ 81,059	\$ 105,708	\$ —	\$ 105
Services transferred over time	—	44,354	44,354	—	64,226	64
	<u>\$ 81,059</u>	<u>\$ 44,354</u>	<u>\$ 125,413</u>	<u>\$ 105,708</u>	<u>\$ 64,226</u>	<u>\$ 169</u>

Marketing Solutions Offerings

IWCO's revenue is generated through the provision of data-driven marketing solutions, primarily through providing direct mail products to customers. Revenue related to the majority of IWCO's marketing solutions contracts, which typically consist of a single integrated performance obligation, is recognized over time as the Company performs because the products have no alternative use to the Company.

Supply Chain Management Services

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

Other

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

Contract Balances

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

- Accounts receivable when revenue is recognized prior to receipt of cash payments and if the right to such amounts is unconditional and solely based on the passage of time.
- Contract asset when the Company recognizes revenue based on efforts expended but the right to such amount is conditional upon satisfaction of another performance obligation. Contract assets are primarily comprised of fees related to marketing solutions offerings and supply chain management services. The Company's contract assets are all short-term in nature and are included in prepaid expenses and other current assets in the condensed consolidated balance sheets.
- Deferred revenue when cash payments are received or due in advance of performance. Deferred revenue is primarily comprised of fees related to supply chain management services, cloud-based software subscriptions and software maintenance and support service contracts, which are generally billed in advance. Deferred revenue also includes other offerings for which we have been paid in advance and earn the revenue when we transfer control of the product or service. The deferred revenue balance is classified as a component of other current liabilities and other long-term liabilities on the Company's condensed consolidated balance sheets.

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

	October 31, 2021	July 31, 2021
	(In thousands)	
Accounts receivable, trade, net	\$ 74,841	\$ 69,805
Contract assets	\$ 11,657	\$ 14,458
Deferred revenue - current	\$ 2,735	\$ 2,562
Deferred revenue - long-term	126	108
Total deferred revenue	<u>\$ 2,861</u>	<u>\$ 2,670</u>

Remaining Performance Obligations

Remaining performance obligations are comprised of deferred revenue. Changes in deferred revenue during the three months ended October 31, 2021 and October 31, 2020, were as follows:

	Three Months Ended October 31,	
	2021	2020
	(In thousands)	
Balance at beginning of period	\$ 2,670	\$ 2,945
Deferral of revenue	685	1,096
Recognition of deferred amounts upon satisfaction of performance obligation	(494)	(853)
Balance at end of period	<u>\$ 2,861</u>	<u>\$ 3,188</u>

We expect to recognize approximately \$2.7 million of the deferred revenue over the next twelve months and the remaining \$0.1 million beyond that time period.

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

(12) INCOME TAXES

The Company operates in multiple taxing jurisdictions, both within and outside of the United States. For the three months ended October 31, 2021, the Company was profitable in certain jurisdictions, resulting in an income tax expense using enacted rates in those jurisdictions. As of both October 31, 2021 and July 31, 2021, the total amount of the liability for unrecognized tax benefits related to federal, state and foreign taxes was approximately \$2.5 million.

On March 27, 2020, the President of the United States signed the Coronavirus Aid, Relief, and Economic Security ("CARES") Act into law, which is intended to respond to the COVID-19 pandemic and its impact on the economy, public health,

state and local governments, individuals and businesses. The CARES Act contains numerous tax provisions, including temporary changes to the future limitations on interest deductions related to Section 163(j) of the U.S. Internal Revenue Code (the "IRC").

The Company elected to defer the employer-paid portion of social security taxes, which is expected to provide the Company with approximately \$5.3 million of additional liquidity during the current calendar year, with 50% of the deferral due December 31, 2021 and the remaining 50% due December 31, 2022. The Company does not expect the provisions of the CARES Act to have a significant impact on the income tax provision, income tax payable or deferred income tax positions of the Company.

Uncertain Tax Positions

In accordance with the Company's accounting policy, interest related to unrecognized tax benefits is included in the income tax expense line of the condensed consolidated statements of operations. As of October 31, 2021 and July 31, 2021, the liabilities for interest expense related to uncertain tax positions were \$0.4 million and \$0.3 million, respectively. The Company has accrued \$0.4 million for penalties related to income tax positions. The Company expects \$0.7 million of unrecognized tax benefits and related interest to reverse in the next twelve months. The Company is subject to U.S. federal income tax and various state, local and international income taxes in numerous jurisdictions. The federal and state tax returns are generally subject to tax examinations for the tax years ended July 31, 2018 through July 31, 2021. To the extent the Company has tax attribute carryforwards, the tax year in which the attribute was generated may still be adjusted upon examination by the Internal Revenue Service or state tax authorities to the extent utilized in a future period. In addition, a number of tax years remain subject to examination by the appropriate government agencies for certain countries in the Europe and Asia regions. In Europe, the Company's 2013 through 2020 tax years remain subject to examination in most locations, while the Company's 2009 through 2020 tax years remain subject to examination in most Asia locations.

(13) LOSS PER SHARE

The following table reconciles (loss) earnings per share for the three and three months ended October 31, 2021 and 2020:

	Three Months Ended October 31,	
	2021	2020
	(In thousands, except per share data)	
Net loss	\$ (19,494)	\$ (3,551)
Less: Preferred dividends on redeemable preferred stock	(537)	(537)
Net loss attributable to common stockholders	<u>\$ (20,031)</u>	<u>\$ (4,088)</u>
Weighted average common shares outstanding	60,307	61,893
Basic net loss per share attributable to common stockholders	\$ (0.33)	\$ (0.07)
Diluted net loss per share attributable to common stockholders	\$ (0.33)	\$ (0.07)

Basic net loss per common share is calculated using the weighted average number of common shares outstanding during the period. Diluted net earnings per common share, if any, gives effect to diluted stock options (calculated based on the treasury stock method), non-vested restricted stock shares purchased under the employee stock purchase plan and shares issuable upon debt or preferred stock conversion (calculated using an as-if converted method).

For the three months ended October 31, 2021 and 2020, approximately 24.2 million and 24.3 million, respectively, common stock equivalent shares (including those related to convertible debt and preferred stock) were excluded from the denominator in the calculation of diluted net loss per share as their inclusion would have been antidilutive.

(14) COMPREHENSIVE INCOME (LOSS)

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

	Foreign Currency Items	Pension Items	Total
	(In thousands)		
Accumulated other comprehensive income (loss) as of July 31, 2021	\$ 9,762	\$ (2,600)	\$ 7
Foreign currency translation adjustment	198	—	
Net current-period other comprehensive income	198	—	
Accumulated other comprehensive income (loss) as of October 31, 2021	\$ 9,960	\$ (2,600)	\$ 7

	Foreign Currency Items	Pension Items	Total
	(In thousands)		
Accumulated other comprehensive income (loss) as of July 31, 2020	\$ 5,025	\$ (1,182)	\$ 3,843
Foreign currency translation adjustment	2,973	—	2,973
Net current-period other comprehensive income	2,973	—	2,973
Accumulated other comprehensive income (loss) as of October 31, 2020	\$ 7,998	\$ (1,182)	\$ 6,816

(15) SEGMENT INFORMATION

The Company has two operating segments which are the same as its reportable segments: Direct Marketing and Supply Chain. The Company also has Corporate-level activity, which consists primarily of costs associated with certain corporate administrative functions such as legal, finance and share-based compensation, which are not allocated to the Company's reportable segments. The Corporate-level balance sheet information includes cash and cash equivalents, debt 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. Management evaluates segment performance based on segment net revenue and operating income (loss).

Summarized financial information by operating segment is as follows:

	Three Months Ended October 31,	
	2021	2020
	(In thousands)	
Net revenue:		
Direct Marketing	\$ 81,059	\$ 105,708
Supply Chain	44,354	64,226
	\$ 125,413	\$ 169,934
Operating (loss) income:		
Direct Marketing	\$ (11,478)	\$ 4,937
Supply Chain	1,973	5,151
Total segment operating (loss) income	(9,505)	10,088
Corporate-level activity	(1,402)	(3,013)
Total operating (loss) income	(10,907)	7,075
Total other expense, net	(8,272)	(9,822)
Loss before income taxes	\$ (19,179)	\$ (2,747)

	October 31, 2021	July 31, 2021
(In thousands)		
Total assets:		
Direct Marketing	\$ 514,997	\$ 530,944
Supply Chain	93,395	101,159
Sub-total—segment assets	608,392	632,103
Corporate	44,762	44,278
	<u>\$ 653,154</u>	<u>\$ 676,381</u>

Summarized financial information of the Company's net revenue from external customers by group of services is as follows:

	Three Months Ended October 31,	
	2021	2020
(In thousands)		
Products:		
Direct Marketing	\$ 81,059	\$ 105
Services:		
Supply Chain	44,354	64
	<u>\$ 125,413</u>	<u>\$ 169</u>

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

	Three Months Ended October 31,	
	2021	2020
(In thousands)		
United States	\$ 91,506	\$ 121,483
China	15,966	19,640
Netherlands	5,649	7,795
Other	12,292	21,016
	<u>\$ 125,413</u>	<u>\$ 169,934</u>

(16) RELATED PARTY TRANSACTIONS

As of October 31, 2021, SPHG Holdings and its affiliates, including Steel Holdings, Handy & Harman Ltd. and Steel Partners Ltd., beneficially owned approximately 53.4% of our outstanding capital stock, including the if-converted value of the SPHG Note and shares of Series C Convertible Preferred Stock that vote on an as-converted basis together with our common stock. Warren G. Lichtenstein, our Interim Chief Executive Officer and the Executive Chairman of our Board, is also the Executive Chairman of Steel Holdings GP Inc. ("Steel Holdings GP"), the manager of Steel Holdings. Jack L. Howard, the President and a director of Steel Holdings GP, was appointed to the Board upon the closing of the Preferred Stock Transaction described below.

SPHG Note Transaction

On February 28, 2019, the Company entered into a SPHG Note Purchase Agreement with SPHG Holdings, whereby SPHG Holdings agreed to loan the Company \$14.9 million in exchange for the SPHG Note. As of both October 31, 2021 and July 31, 2021, SPHG Holdings held \$14.9 million principal amount of the SPHG Note. As of October 31, 2021 and July 31, 2021, the net carrying value of the SPHG Note was \$9.7 million and \$9.3 million, respectively.

Preferred Stock Transaction

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

Management Services Agreement

On June 14, 2019, the Company entered into an agreement (the "Management Services Agreement") with Steel Services Ltd. ("Steel Services"), an indirect wholly-owned subsidiary of Steel Holdings. The Management Services Agreement was effective as of June 1, 2019. Total expenses incurred related to the Management Services Agreement for the three months ended October 31, 2021 and 2020 were \$0.8 million and \$0.8 million, respectively. As of both October 31, 2021 and July 31, 2021, amounts due to Steel Services was \$0.9 million.

(17) FAIR VALUE MEASUREMENTS

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

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

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

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

The carrying value of cash and cash equivalents, accounts receivable, restricted cash, accounts payable, current liabilities and the revolving line of credit approximate fair value because of the short maturity of these instruments. We believe that the carrying value of our long-term debt approximates fair value because the stated interest rates of this debt is consistent with current market rates. The carrying value of capital lease obligations approximates fair value, as estimated by using discounted future cash flows based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

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

The following tables present the Company's financial assets measured at fair value on a recurring basis as of October 31, 2021 and July 31, 2021, classified by fair value hierarchy:

(In thousands)	October 31, 2021	Fair Value Measurements at Reporting Date Using		
		Level 1	Level 2	Level 3
Assets:				
Money market funds	\$ 42,327	\$ 42,327	\$ —	\$ —

(In thousands)	July 31, 2021	Fair Value Measurements at Reporting Date Using		
		Level 1	Level 2	Level 3
Assets:				
Money market funds	\$ 42,327	\$ 42,327	\$ —	\$ —

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

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

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

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

Fair Value of Financial Instruments

The Company's financial instruments not measured at fair value on a recurring basis include cash and cash equivalents, accounts receivable, customer deposits, accounts payable, restricted cash and debt, and are reflected in the consolidated financial statements at carrying value. With the exception of the SPHG Note and long-term debt, carrying value approximates fair value for these items due to their short-term nature. The Company believes that the carrying value of the liability component of the SPHG Note and our long-term debt approximates fair value because the stated interest rates of this debt is consistent with current market rates. Included in cash and cash equivalents in the accompanying condensed consolidated balance sheets are money market funds. These are valued at quoted market prices in active markets.

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

The matters discussed in this report contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Section 27A of the Securities Act of 1933, as amended, that involve risks and uncertainties. All statements other than statements of historical information provided herein may be deemed to be forward-looking statements. Without limiting the foregoing, the words "believes," "anticipates," "plans," "expects" and similar expressions are intended to identify forward-looking statements. Factors that could cause actual results to differ materially from those reflected in the forward-looking statements include, but are not limited to, those risks discussed elsewhere in this report and the risks discussed in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission (the "SEC") on October 29, 2021, and other subsequent reports filed with or furnished to the SEC. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis, judgment, belief or expectation only as of the date hereof. The Company undertakes no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after the date hereof, except as required by law.

The following discussion and analysis of our financial condition and results of operations should be read together with our consolidated financial statements and related notes included in Part I, Item 1 of this quarterly report.

Overview

Steel Connect, Inc. (the "Company") is a diversified holding company with two wholly-owned subsidiaries, IWCO Direct Holdings, Inc. ("IWCO Direct" or "Direct Marketing") and ModusLink Corporation ("ModusLink" or "Supply Chain"), which serve the direct marketing and supply chain management markets, respectively.

IWCO Direct is a provider of data-driven marketing solutions, driving response across all marketing channels and measurable improvements to its customers' return on marketing investment. With a more than 50-year legacy of printing and mailing services, IWCO Direct's full range of expanded marketing services includes strategy, creative services, 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, and (e) 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 operators (cable or direct-broadcast satellite TV systems), insurance, as well as subscription/services, healthcare, travel/hospitality, retail, not-for-profit, and others. Direct mail is a critical piece of marketing for most of IWCO Direct's clients, who use direct mail to acquire new customers, deepen the sales cycle, and maintain customer loyalty. Management believes that direct mail will remain an important part of its customers' strategy for the foreseeable future, based on its proven ability to enhance results when used as part of an omnichannel marketing strategy.

ModusLink is an end-to-end global supply chain solutions and e-commerce provider 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, an expansive global footprint and world-class technology. ModusLink 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 in various countries, including numerous sites throughout North America, Europe and Asia.

Customers

Historically, a limited number of key clients have accounted for a significant percentage of the Company's revenue. For the three months ended October 31, 2021 and 2020, the Company's ten largest clients accounted for approximately 47% and 55% of consolidated net revenue, respectively. No client accounted for more than 10% of the Company's consolidated net revenue for three months ended October 31, 2021. One client from the computing market accounted for 15% of the Company's consolidated net revenue for three months ended October 31, 2020. In general, the Company does not have any agreements which obligate any client to buy a minimum amount of services from it or designate it as an exclusive service provider. Consequently, the Company's net revenue is subject to demand variability by our clients. The level and timing of orders placed by the Company's clients vary for a variety of reasons, including seasonal buying by end-users, the introduction of new technologies and general economic

conditions. By diversifying into new markets and improving the operational support structure for its clients, the Company expects to offset the adverse financial impact such factors may bring about.

Impact of COVID-19

The ongoing COVID-19 pandemic has adversely impacted, and is likely to further adversely impact, nearly all aspects of our business and markets, including our workforce and the operations of our clients, suppliers, and business partners. Beginning in March 2020, when the World Health Organization categorized COVID-19 as a pandemic and the President of the United States declared the COVID-19 outbreak a national emergency, we experienced impacts to our customers' demand, facility operations, supply chain, availability and productivity of personnel, while also working to comply with rapidly evolving international, federal, state and local restrictions and recommendations on travel and workplace health and safety. We experienced disruptions to our business continuity as a result of temporary closures of certain of ModusLink's facilities in the third and fourth quarters of fiscal year 2020, as well as the fourth quarter of fiscal year 2021. However, these temporary closures did not have a significant impact on ModusLink's operations. Additionally, although IWCO Direct operated as an essential business, it had reduced operating levels and labor shifts due to lower sales volume during the third quarter of fiscal year 2020.

To help combat these impacts and mitigate the financial impact of the COVID-19 pandemic on our business, during fiscal year 2020 we took proactive measures by initiating cost reduction actions, including the waiver of board fees, hiring freezes, staffing and force reductions, company-wide salary reductions, bonus payment deferrals and temporary 401(k) match suspension. The temporary waiver of board fees and company-wide salary reduction actions taken in the prior fiscal year were fully restored prior to the beginning of fiscal year 2021, and the majority of salary reductions were repaid prior to the fiscal quarter ended January 31, 2021. We continue our focus on cash management and liquidity, which includes aggressive working capital management.

In addition, we aim to closely monitor the impact of COVID-19 on all aspects of our business and geographies, including its impact on our clients, employees, suppliers, vendors, business partners and distribution channels. We believe that such impacts could include, but are not limited to, the extent and severity of the impact on our customers and suppliers; the continued disruption to the demand for our businesses' products and services; the impact of the global business and economic environment on liquidity and the availability of capital; delays in payments of outstanding receivables beyond normal payment terms; supply chain disruptions; uncertain demand; and the effect of any initiatives or programs that we may undertake to address financial and operational challenges faced by our customers. The full extent to which the pandemic will directly or indirectly impact our business, results of operations and financial condition, is difficult to predict and will depend on the duration and spread of the ongoing COVID-19 pandemic (including new variants of COVID-19), its severity, the actions to contain the virus or address its impact, the timing, distribution, and efficacy of vaccines and other treatments, U.S. and foreign government actions to respond to the reduction in global economic activity, and how quickly and to what extent normal economic and operating conditions can resume. As of the filing of this Form 10-Q, all of our facilities were open and able to operate at normal capacities. We will evaluate further actions if circumstances warrant while continuing to strategically support the Company's future growth initiatives (including its Competitive Improvement Plan for IWCO Direct), sales and marketing activities and supply chain solutions and services.

Recent Developments

Steel Holdings Expression of Interest

On November 19, 2020, the Company's Board of Directors (the "Board") received a preliminary, non-binding expression of interest (the "Expression of Interest") from Steel Partners Holdings L.P. ("Steel Holdings") to acquire all of the outstanding shares of common stock not already owned by Steel Holdings or its affiliates for a combination of cash and Steel Holdings 6% Series A Preferred Units, which would imply a value per share of common stock in the range of \$0.65 to \$0.72 per share. The Board has established a special committee comprised solely of independent directors (the "Acquisition Proposal Special Committee") authorized to retain independent legal and financial advisors and to review, evaluate, negotiate and approve or disapprove the Expression of Interest, and to explore alternative strategies or transactions. The Acquisition Proposal Special Committee announced on January 11, 2021 that it had retained financial advisors and legal counsel. As set forth in the Expression of Interest, the proposed transaction will be subject to the approval of the Acquisition Proposal Special Committee, as well as a non-waivable condition requiring approval of a majority of the shares outstanding of the Company not owned by Steel Holdings and its affiliates and related parties. The Board resolutions establishing the Acquisition Proposal Special Committee expressly provide that the Board will not approve the proposed transaction contemplated by the Expression of Interest or any alternative thereto without a prior favorable recommendation by the Acquisition Proposal Special Committee.

The Board has only received a proposal, which it continues to negotiate with Steel Holdings. The proposal under negotiation does not constitute a definitive offer capable of acceptance, and may be withdrawn at any time and in any manner.

There can be no assurance that any definitive offer will be made, that any agreement will be executed or that the transaction proposed in the Expression of Interest or any other transaction will be approved or completed. The Company is not obligated to disclose any further developments or updates on the progress of the proposed transaction until either the Company enters into a definitive agreement or the Acquisition Proposal Special Committee determines no such transaction will be approved.

IWCO Direct's Competitive Improvement Plan

On June 2, 2021, the Board approved a Competitive Improvement Plan (“CIP”) for IWCO Direct, which addresses the changing requirements of its customers and markets it serves, as well as the current competitive landscape. The CIP seeks to expand IWCO Direct’s marketing services capabilities, and upgrade its production platform to new digital and inserting technology, while reducing its overall production costs to enhance its competitive pricing capabilities. The CIP contemplates a total investment of approximately \$54 million primarily over a 24-month period. The Company estimates the CIP cost will consist of approximately: (1) \$38 million for digital press and insertion equipment, and technology build out cost (of which approximately \$34 million in lease/purchase agreements were entered into subsequent to the year ended July 31, 2021), and (2) \$16 million for severance, employee retention, facilities optimization, and other implementation costs. In addition, the Company expects to incur approximately \$12 million for non-cash accelerated depreciation expense. The cost estimates do not include amounts for potential non-cash asset impairment charges relating to facilities and equipment optimization. The timing and amount of the future costs incurred will depend on a number of factors. Refer to Note 7 for further details of costs recognized in the three months ended October 31, 2021.

Basis of Presentation

The Company has two operating segments which are the same as its reportable segments: Direct Marketing and Supply Chain. The Company also has Corporate-level activity, which consists primarily of costs associated with certain corporate administrative functions such as legal, finance and share-based compensation, which are not allocated to the Company’s reportable segments. The Corporate-level balance sheet information includes cash and cash equivalents, debt 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

Three months ended October 31, 2021 compared to the three months ended October 31, 2020

Net Revenue:

	Three Months Ended October 31, 2021	As a % of Total Net Revenue		Three Months Ended October 31, 2020	As a % of Total Net Revenue		\$ Change		% Change
(In thousands)									
Direct Marketing	\$ 81,059	64.6 %		\$ 105,708	62.2 %		\$ (24,649)		(23.3) %
Supply Chain	44,354	35.4 %		64,226	37.8 %		(19,872)		(30.9) %
Total	\$ 125,413	100.0 %		\$ 169,934	100.0 %		\$ (44,521)		(26.2) %

Net revenue decreased by approximately \$44.5 million during the three months ended October 31, 2021, as compared to the same period in the prior year. During the three months ended October 31, 2021, net revenue for the Direct Marketing segment decreased by approximately \$24.6 million primarily due: (1) approximately \$18.5 million of lower sales volume from clients who will be exiting and (2) approximately \$10.1 million for reduced volume from a client in the insurance industry. These decreases were partially offset by approximately \$4.0 million of higher sales volume across all other clients. The client exits in the year ended July 31, 2021 are expected to result in further decreases of Direct Marketing’s net revenue for the remainder of the fiscal year ending July 31, 2022.

During the three months ended October 31, 2021, net revenue for the Supply Chain segment, net revenues decreased by approximately \$19.9 million. This decrease in net revenue was primarily driven by lower volume associated with clients in the computing and consumer electronics markets which have been negatively impacted by global market shortage of semiconductor and other electrical component supplies. Fluctuations in foreign currency exchange rates had an insignificant impact on the Supply Chain segment’s net revenues for the three months ended October 31, 2021, as compared to the same period in the prior year.

Cost of Revenue:

	Three Months Ended October 31, 2021	As a % of Segment Net Revenue		Three Months Ended October 31, 2020	As a % of Segment Net Revenue		\$ Change	% Change
(In thousands)								
Direct Marketing	\$ 75,185	92.8 %		\$ 81,192	76.8 %		\$ (6,007)	(7.4) %
Supply Chain	34,948	78.8 %		48,274	75.2 %		(13,326)	(27.6) %
Total	\$ 110,133	87.8 %		\$ 129,466	76.2 %		\$ (19,333)	(14.9) %

Cost of revenue consists primarily of expenses related to the cost of materials purchased in connection with the provision of direct marketing and supply chain management services, as well as costs for salaries and benefits, depreciation expense, severance, contract labor, consulting, paper for direct mailing, fulfillment and shipping, and applicable facilities costs. Cost of revenue for the three months ended October 31, 2021 included materials procured on behalf of our Supply Chain clients of \$19.1 million, as compared to \$30.4 million for the same period in the prior year, a decrease of \$11.3 million. Total cost of revenue decreased by \$19.3 million for the three months ended October 31, 2021, as compared to the same period in the prior year, primarily due to decreased material and labor costs in both segments, partially offset by restructuring costs in Direct Marketing. Gross margin percentage for the current quarter decreased to 12.2%, as compared to 23.8% in the prior year quarter.

Direct Marketing's cost of revenue decreased by \$6.0 million during the three months ended October 31, 2021, as compared to the same period in the prior year. The decrease was primarily due to decreased material costs due to lower volume, partially offset by \$6.6 million of restructuring charges associated with the CIP. The Direct Marketing segment's gross margin percentage decreased by 1600 basis points to 7.2% for the three months ended October 31, 2021, as compared to 23.2% for the same period in the prior year. The decrease in Direct Marketing segment's gross margin percentage is primarily due to: (1) restructuring charges for the CIP and (2) decreased revenues associated with lower average price-per-package.

Supply Chain's cost of revenue decreased by \$13.3 million during the three months ended October 31, 2021, as compared to the same period in the prior year. The decrease was primarily due to lower materials and labor costs as a result of lower sales volume associated with clients in the computing and consumer electronics markets. The Supply Chain segment's gross margin percentage decreased by 360 basis points to 21.2% for the three months ended October 31, 2021, as compared to 24.8% for the same period in the prior year, primarily due to lower revenues, not completely offset by the decreased materials and labor costs. Fluctuations in foreign currency exchange rates had an insignificant impact on Supply Chain's gross margin for the three months ended October 31, 2021.

Selling, General and Administrative Expenses:

	Three Months Ended October 31, 2021	As a % of Segment Net Revenue		Three Months Ended October 31, 2020	As a % of Segment Net Revenue		\$ Change	% Change
(In thousands)								
Direct Marketing	\$ 13,170	16.2 %		\$ 13,044	12.3 %		\$ 126	1.0 %
Supply Chain	7,433	16.8 %		10,801	16.8 %		(3,368)	(31.2)%
Sub-total	20,603	16.4 %		23,845	14.0 %		(3,242)	(13.6)%
Corporate-level activity	1,402			3,013			(1,611)	(53.5)%
Total	\$ 22,005	17.5 %		\$ 26,858	15.8 %		\$ (4,853)	(18.1)%

Selling, general and administrative expenses consist primarily of compensation and employee-related costs, sales commissions and incentive plans, information technology expenses, travel expenses, facilities costs, consulting fees, fees for professional services, depreciation expense, marketing expenses, share-based compensation expense, transaction costs, restructuring and public reporting costs. Selling, general and administrative expenses during the three months ended October 31, 2021 decreased by approximately \$4.9 million, as compared to the same period in the prior year.

Selling, general and administrative expenses for the Direct Marketing segment did not change significantly as compared to the same period in the prior year.

Selling, general and administrative expenses for the Supply Chain segment decreased primarily due to a decrease in restructuring and professional expenses that were incurred in the prior year period. Corporate-level activity decreased primarily due to a decrease in professional fees. Fluctuations in foreign currency exchange rates had an insignificant impact on selling, general and administrative expenses for the three months ended October 31, 2021.

Amortization of Intangible Assets:

During the three months ended October 31, 2021 and 2020, intangible asset amortization expense totaled \$4.2 million and \$6.5 million, respectively. Intangible asset amortization expense decreased \$2.4 million primarily due to trademarks and tradenames being fully amortized during the prior year.

Interest Expense:

Total interest expense during the three months ended October 31, 2021 did not change significantly as compared to the same period in the prior year.

Other Losses, Net:

Other losses, net are primarily composed of foreign exchange losses. The Company recorded \$0.5 million and \$1.7 million of foreign exchange losses during the three months ended October 31, 2021 and 2020, respectively.

Income Tax Expense:

During the three months ended October 31, 2021, the Company recorded income tax expense of approximately \$0.3 million, as compared to income tax expense of \$0.8 million for the same period in the prior fiscal year. The decrease in income tax expense is primarily due to lower taxable income in foreign jurisdictions, as compared to the prior year.

The Company provides for income tax expense related to federal, state and foreign income taxes. The Company continues to maintain a full valuation allowance against its deferred tax assets in the U.S. and certain of its foreign subsidiaries due to the uncertainty of realizing such benefits.

Liquidity and Capital Resources*Anticipated Sources and Uses of Cash Flow*

Historically, the Company has financed its operations and met its capital requirements primarily through funds generated from operations, the sale of its securities, borrowings from lending institutions and sale of facilities that were not fully utilized. The following table summarizes our liquidity:

	October 31, 2021
	(In thousands)
Cash and cash equivalents	\$ 81,330
Readily available borrowing capacity under Cerberus Credit Facility	25,000
Readily available borrowing capacity under Midcap Credit Facility	8,474
	<u>\$ 114,804</u>

Certain of IWCO Direct's lease agreements contain financial covenants that would require IWCO Direct to issue a letter of credit ("LOC") to the landlord in the event that IWCO Direct incurs debt that on a pro forma basis would result in IWCO Direct's net leverage exceeding 6.00x IWCO Direct's adjusted EBITDA. As of October 31, 2021, and through the date of this filing, IWCO Direct was in compliance with the net leverage ratio such that no LOC issuance is currently required. However, based on IWCO Direct's covenant compliance as of the most recent balance sheet date, if IWCO Direct incurs additional debt, it would be required to issue an LOC of approximately \$3.2 million.

Due to the changes reflected in the U.S. Tax Cuts and Jobs Act in December 2017 ("U.S. Tax Reform"), there is no U.S. tax payable upon repatriating the undistributed earnings of foreign subsidiaries considered not subject to permanent investment. Foreign withholding taxes would range from 0% to 10% on any repatriated funds. For the Company, earnings and profits have been calculated at each subsidiary. The Company's foreign subsidiaries are in an overall net deficit for earnings and profits purposes. As such, no adjustment was made to U.S. taxable income in the three months ended October 31, 2021 relating to this aspect of the U.S. Tax Reform. In future years, the Company will be able to repatriate its foreign earnings without incurring additional U.S. tax as a result of a 100% dividends received deduction. The Company believes that any future withholding taxes or state taxes associated with such a repatriation would be minor.

Consolidated working capital deficit was \$16.7 million as of October 31, 2021, as compared to \$4.6 million at July 31, 2021. Included in the working capital deficit were cash and cash equivalents of \$81.3 million as of October 31, 2021 and \$96.9

million at July 31, 2021. The increase in the working capital deficit was primarily driven by lower cash and cash equivalents, due to its usage in operating activities and capital expenditures. Sources and uses of cash for the three months ended October 31, 2021, as compared to the same period in the prior year, are as follows:

	Three Months Ended October 31,	
	2021	2020
	(In thousands)	
Net cash (used in) provided by operating activities	\$ (10,425)	\$ 25,727
Net cash used in investing activities	\$ (4,681)	\$ (1,059)
Net cash used in financing activities	\$ (2,055)	\$ (2,051)

Operating Activities: We used cash of \$10.4 million from operating activities during the three months ended October 31, 2021, a decrease of \$36.2 million compared with \$25.7 million generated during the three months ended October 31, 2020. The decrease was primarily due lower gross profits and a reduction in working capital. The Company's cash flows related to operating activities are dependent on several factors, including profitability, accounts receivable collections, effective inventory management practices and optimization of the credit terms of certain vendors of the Company, the market for outsourcing services, overall performance of the technology sector impacting the Supply Chain segment and the strength of the Direct Marketing segment.

Investing Activities: Net cash used in investing activities was \$4.7 million and \$1.1 million during the three months ended October 31, 2021 and 2020, respectively, and was primarily related to capital expenditures. The increase was primarily due to reduced capital spending in the prior year as the result of the COVID-19 pandemic.

Financing Activities: Net cash used in financing activities was \$2.1 million during both the three months ended October 31, 2021 and 2020, and primarily consisted of \$1.5 million in long-term debt payments and \$0.5 million of preferred dividend payments in both periods.

IWCO Direct's Competitive Improvement Plan

On June 2, 2021, the Board approved a Competitive Improvement Plan ("CIP") for IWCO Direct, which addresses the changing requirements of its customers and markets it serves, as well as the current competitive landscape. The CIP seeks to expand IWCO Direct's marketing services capabilities, and upgrade its production platform to new digital and inserting technology, while reducing its overall production costs to enhance its competitive pricing capabilities. The CIP contemplates a total investment of approximately \$54 million primarily over a 24-month period. The Company estimates the CIP cost will consist of approximately: (1) \$38 million for digital press and insertion equipment, and technology build out cost (of which approximately \$34 million in lease/purchase agreements were entered into subsequent to the year ended July 31, 2021), and (2) \$16 million for severance, employee retention, facilities optimization, and other implementation costs. In addition, the Company expects to incur approximately \$12 million for non-cash accelerated depreciation expense. The cost estimates do not include amounts for potential non-cash asset impairment charges relating to facilities and equipment optimization. The timing and amount of the future costs incurred will depend on a number of factors.

Debt and Financing Arrangements

As of October 31, 2021 outstanding debt consisted of the following:

	October 31, 2021
	(In thousands)
Cerberus Term Loan due December 15, 2022	\$ 362,830
7.50% Convertible Note due March 1, 2024	14,940
	<u>\$ 377,770</u>

Cerberus Credit Facility

The Cerberus Credit Facility consists of a term loan facility (the "Cerberus Term Loan") and a \$25 million revolving credit facility (the "Revolving Facility") (together the "Cerberus Credit Facility") which matures on December 15, 2022. IWCO Direct intends to refinance the Cerberus Credit Facility, however its ability to refinance this debt is not guaranteed. IWCO Direct's ability to refinance this debt will depend on the capital and credit markets and our financial condition at such time. IWCO Direct 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 its debt obligations and have a material adverse effect on the Company's financial condition and liquidity.

During the three months ended October 31, 2021, IWCO Direct did not trigger any of the financial covenants in the Cerberus Credit Facility. In order to maintain compliance with the Cerberus Credit Facility's required liquidity covenant for the next twelve months, the Company has the ability and wherewithal to execute certain actions that may include, but are not limited to, reducing or delaying capital and strategic investments, and deferral of certain operating and capital expenditures. While IWCO Direct currently expects to be in compliance in the next twelve months with all of the financial covenants, there can be no assurance that these covenants will continue to be met if the Company does not achieve its earnings and operating cash flow projections.

MidCap Credit Facility

ModusLink's revolving credit and security agreement with MidCap Financial Trust which expires on December 31, 2022, provides for a maximum credit commitment of \$12.5 million and a sublimit of \$5.0 million for letters of credit. ModusLink intends to refinance this revolving credit agreement. ModusLink's ability to refinance this revolving credit agreement will depend on the capital and credit markets and our financial condition at such time. As of and during the fiscal year ended July 31, 2021, ModusLink was in compliance with all financial covenants in the MidCap Credit Agreement. ModusLink believes it will remain in compliance with the MidCap Credit Agreement's covenants for the next twelve months.

Steel Connect, Inc.

The Company believes it has access to adequate resources to meet its needs for normal operating costs, debt obligations and working capital for at least the next twelve months; however, there can be no assurances that the Company and its operating businesses will continue to have access to their lines of credit if their financial performance does not satisfy the financial covenants set forth in their respective financing agreements, which could also result in the acceleration of their debt obligations by their respective lenders, adversely affecting liquidity.

Off-Balance Sheet Arrangements

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

Contractual Obligations

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

Critical Accounting Policies Update

During the three months ended October 31, 2021, other than the adoption of accounting standards updates discussed in the Condensed Consolidated Financial Statements, there have been no significant changes to the items that we disclosed as our critical accounting policies and estimates in the "Critical Accounting Policies" section of Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended July 31, 2021.

The Company's Condensed Consolidated Financial Statements are prepared in conformity with U.S. generally accepted accounting principles, which require us to make estimates and assumptions that affect the amounts reported in the financial statements. The critical accounting policies and estimates that we believe are most critical to the portrayal of our financial condition and results of operations are reported in the "Critical Accounting Policies" section of Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended July 31, 2021.

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

The carrying value of goodwill is not amortized, but is tested for impairment annually as of June 30, and, additionally on an interim basis, whenever events or changes in circumstances indicate that the carrying value may not be recoverable. As of October 31, 2021, the Company did not identify any indicators of impairment of its goodwill, other intangible assets and long-lived assets. During the three months ended April 30, 2021, IWCO was informed by two significant customers that they would be transitioning their direct marketing services to other providers by the end of the fiscal year ending July 31, 2021 and another customer that it would have significantly lower volumes of sales in at least the fiscal quarter ending July 31, 2021. In connection with its quarterly close procedures, the Company assessed the anticipated negative impact on revenue and earnings from these

changes in demand, along with the previously reported notification of another significant customer transitioning its direct marketing services to another company, and determined these factors were indicators that goodwill and other long-lived assets may be impaired. As a result, the Company performed an interim impairment test of Direct Marketing's goodwill and other long-lived assets as of April 30, 2021. The Company determined that the goodwill was impaired, and recorded a non-cash impairment charge of \$25.7 million for the three months ended April 30, 2021.

The fair value of the Direct Marketing reporting unit was calculated using a discounted cash flow model (a form of the income approach) using the Company's current projections, which are subject to various risks and uncertainties associated with its forecasted revenue, expenses and cash flows, as well as the duration and expected impact on its business from the COVID-19 pandemic. The Company's significant assumptions in the analysis include, but are not limited to, future cash flow projections, the weighted average cost of capital, the terminal growth rate and the tax rate. The Company's estimates of future cash flows are based on current economic climates, recent operating results and planned business strategies. These estimates could be negatively affected by decreased customer demand for IWCO's services, changes in regulations, further economic downturns, increased customer attrition or an inability to execute IWCO's business strategies. Future cash flow estimates are, by their nature, subjective, and actual results may differ materially from the Company's estimates. If the Company's ongoing cash flow projections are not met, the Company may have to record impairment charges in future periods.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

An evaluation was performed under the supervision and with the participation of our management, including the Interim Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as such terms are defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of the end of the period covered by this report. "Disclosure controls and procedures" means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives. Based upon that evaluation, management, including the Interim Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls were effective as of October 31, 2021.

Changes in Internal Control over Financial Reporting

Despite the fact that many of our employees are working remotely due to the COVID-19 pandemic, these remote work arrangements have not resulted in changes in our internal controls over financial reporting (as defined in Rule 13(a)-15(f) or Rule 15d-15(f) of the Exchange Act); however, we are continually monitoring and assessing the COVID-19 situation on our internal controls to minimize the impact on their design and operating effectiveness.

There have been no changes in our internal control over financial reporting during the quarter ended October 31, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

The information set forth under Note 10 - "Contingencies" to Condensed Consolidated Financial Statements, included in Part I, Item 1 of this Report, is incorporated herein by reference. For an additional discussion of certain risks associated with legal proceedings, also see Part I, Item 1A, Risk Factors, of our Annual Report on Form 10-K for the fiscal year ended July 31, 2021.

Item 1A. Risk Factors.

In addition to the risks and uncertainties discussed in this quarterly report on Form 10-Q, particularly those disclosed in Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, see "Risk Factors" in the Company's Annual Report on Form 10-K for fiscal year ended July 31, 2021. There have been no material changes from the risk factors previously disclosed under the heading "Risk Factors" in the Company's Annual Report on Form 10-K for the fiscal year ended July 31, 2021, except as set forth below:

Changes in tax rates, laws or regulations, including U.S. government tax reform, could have a negative impact on the results of future operations.

The Company is subject to taxation in the U.S. and foreign jurisdictions. Changes in various tax laws can and do occur. For example, on December 22, 2017, the U.S. Tax Cuts and Jobs Act (the "Act") was enacted. The Act made substantial changes to the IRC, some of which could have an adverse effect on our business. Among other things, the Act (i) reduces the U.S. corporate income tax rate from 35% to 21% beginning in 2018, (ii) limits annual deductions for interest net expense to no more than 30% of our "adjusted taxable income," plus 100% of our business interest income for the year and (iii) permits a taxpayer to offset only 80% (rather than 100%) of its taxable income with any U.S. net operating losses ("NOLs") generated for taxable years beginning after 2017. The U.S. Department of the Treasury has broad authority to issue regulations and interpretative guidance that may significantly impact how we will apply the law and impact our results of operations in the period issued. While the U.S. Department of the Treasury has issued some proposed regulations since the enactment of the Act, additional guidance is likely forthcoming.

The current U.S. presidential administration has various proposals that, if enacted, would cause significant changes to existing tax law, in particular, an increase in U.S. federal income taxes on corporations and the tax rate on foreign earnings. Additionally, longstanding international tax norms that determine each country's jurisdiction to tax cross-border international trade are subject to potential evolution. In connection with the Base Erosion and Profit Shifting Integrated Framework provided by Organization for Economic Cooperation and Development ("OECD"), the OECD recently reached an agreement to align countries on a minimum corporate tax rate and expand taxing rights of market countries. As a result of this agreement, the determination of multi-jurisdictional taxation rights and the rate of tax applicable to certain types of income may be subject to potential change. There can be no assurance that future changes to federal and state tax laws in the U.S. and foreign income tax laws will not be proposed or enacted that could materially or adversely impact our business or financial results. If and when any or all of these changes are put into effect, they could result in tax increases where we do business both in and outside of the United States, and could have a material adverse effect on the results of our operations.

The various United States federal government orders and regulations directing employers to require their employees to be vaccinated could lead to labor disruptions, which could have a material adverse effect on our business and results of operations.

On September 9, 2021, U.S. President Joseph R. Biden announced plans for the federal Occupational Safety and Health Administration ("OSHA") to issue an Emergency Temporary Standard ("ETS") mandating that all employers with more than 100 employees ensure their workers are either fully vaccinated against COVID-19 or produce, on a weekly basis, a negative COVID test (the "vaccine mandate"). On November 4, 2021, OSHA issued the ETS, which will require covered employers to comply with the vaccine mandate beginning January 4, 2022 or face substantial penalties for non-compliance. Currently, the implementation of the vaccine mandate has been blocked by a federal appeals court, subject to the resolution of ongoing litigation challenging the constitutionality of the rules. In addition to the vaccine mandate, it is possible that additional mandates may be announced by foreign or local jurisdictions that could impact our workforce and operations. As a company with more than 100 employees, unless these new regulations are overturned, we would thus be required to comply with the vaccine mandate.

Although we cannot predict with certainty the impact that the potential vaccine mandate and any other related measures may have on our workforce and operations, these mandates may result in increased operating costs, labor disruptions or employee attrition, which could be material. If we lose employees, it may be difficult in the current competitive labor market to find replacement employees, and this could have an adverse effect on future revenues and costs, which could be material. In addition, additional uncertainty could be caused by competing and potentially conflicting laws and regulations, such as the recent executive order issued by the Governor of Texas prohibiting vaccine mandates. Furthermore, these measures may further disrupt the national supply chain, all of which could have a material adverse effect on our business, financial condition and results of operations.

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

- a. None.
- b. None.

- c. For information regarding the disposition of shares of common stock to the Company in connection with the proposed settlement of *Reith v. Lichtenstein, et al.*, 2018-277 (Del. Ch.) in the Delaware Court of Chancery, see Note 9 - "Contingencies" to Condensed Consolidated Financial Statements, included in Part I, Item 1 of this Report.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Note applicable.

Item 5. Other Information.

Item 1.01 Entry into a Material Definitive Agreement.

On December 10, 2021, the Company entered into an indemnification agreement (collectively, the "Indemnification Agreements") with each of the directors and certain executive officers of the Company (collectively, the "Indemnitees") to expound upon the indemnification protections provided under the Company's Fourth Amended and Restated Bylaws (the "Bylaws") and Delaware law. The Indemnification Agreements require the Company to indemnify the Indemnitees to the fullest extent permitted by applicable law against expenses, judgments, fines and other amounts actually and reasonably incurred in connection with any action or proceeding arising out of their service as a director or executive officer, subject to certain exceptions. The Company may enter into substantially similar Indemnification Agreements with new directors, and certain other executive officers in the future. The foregoing summary of the Indemnification Agreements does not purport to be complete and is qualified in its entirety by reference to the actual text of the Indemnification Agreements, a form of which is filed herewith as Exhibit 10.2.

Item 6. Exhibits.

Exhibit Number	Description
10.1*	Form of Equity Grant Surrender and Cancellation Agreement, between the Registrant and each of Messrs. Lichtenstein and Howard (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed August 19, 2021).
10.2*	Form of Indemnification Agreement by and between the Company and its directors and officers.
31.1*	Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1±	Certification of the Principal Executive Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2±	Certification of the Principal Financial Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101*	The following financial information from Steel Connect, Inc.'s Quarterly Report Form 10-Q for the quarter ended October 31, 2021 formatted in Inline XBRL: (i) Unaudited Condensed Consolidated Balance Sheets as of October 31, 2021 and July 31, 2021, (ii) Unaudited Condensed Consolidated Statements of Operations for the three months ended October 31, 2021 and 2020 (iii) Unaudited Condensed Consolidated Statements of Comprehensive Loss for the three months ended October 31, 2021 and 2020, (iv) Unaudited Condensed Consolidated Statements of Stockholders' (Deficit) Equity for the three months ended October 31, 2021 and 2020, (v) Unaudited Condensed Consolidated Statements of Cash Flows for the three months ended October 31, 2021 and 2020 and (vi) Notes to Unaudited Condensed Consolidated Financial Statements.
104*	Cover Page Interactive Data File (embedded within the Inline XBRL document)

* Filed herewith.

± Furnished herewith.

SIGNATURES

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

STEEL CONNECT, INC.

Date: December 13, 2021

By: _____ /S/ JASON WONG
Jason Wong
Chief Financial Officer
(Principal Financial Officer and Authorized Signatory)

[FORM OF] INDEMNITY AGREEMENT

THIS INDEMNITY AGREEMENT (this “*Agreement*”) is made as of [●], 2021, by and between Steel Connect, Inc., a Delaware corporation (the “*Company*”), and [●] (“*Indemnitee*”).

RECITALS

WHEREAS, the Company believes that, in order to attract and retain highly qualified persons to serve as directors or in other capacities, including as officers, it must provide such persons with adequate protection through indemnification against the risk of claims and actions against them arising out of their services to and activities on behalf of the Company;

WHEREAS, the Certificate of Incorporation (as amended and/or restated from time to time, the “*Charter*”) and the Bylaws (as amended and/or restated from time to time, the “*Bylaws*”) of the Company require indemnification of the officers and directors of the Company;

WHEREAS, Indemnitee may also be entitled to indemnification pursuant to applicable provisions of the Delaware General Corporation Law (as may be amended from time to time, “*DGCL*”);

WHEREAS, the Charter, Bylaws and the DGCL expressly provide that the indemnification provisions set forth therein are not exclusive, and thereby contemplate that contracts may be entered into between the Company and members of the Board of Directors of the Company (the “*Board*”), officers and other persons with respect to indemnification, hold harmless, advancement and reimbursement rights;

WHEREAS, the Company desires and has requested Indemnitee to serve as a director of the Company and, in order to induce Indemnitee to serve as a director of the Company, the Company is willing to grant Indemnitee the indemnification provided for herein;

WHEREAS, Indemnitee is willing to so serve on the basis that such indemnification be provided; and

WHEREAS, the parties by this Agreement desire to set forth their agreement regarding indemnification and the advancement of expenses.

NOW, THEREFORE, in consideration of the mutual covenants and agreements set forth below, and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto, intending to be legally bound, hereby agree as follows:

TERMS AND CONDITIONS

1. **SERVICES TO THE COMPANY.** In consideration of, among other things, the Company’s covenants and obligations hereunder, Indemnitee will serve or continue to serve as an officer, director, advisor, key employee or in any other capacity of the Company, as applicable, for so long as Indemnitee is duly elected or appointed or retained or until Indemnitee tenders Indemnitee’s resignation or until Indemnitee is removed. Notwithstanding anything in the foregoing to the contrary, this Agreement shall continue in full force and effect after Indemnitee has ceased to serve as a director, officer, advisor, key employee or in any other capacity of the Company, as provided in Section 14. This Agreement, however, shall not impose any obligation on Indemnitee or the Company to continue Indemnitee’s service to the Company

beyond any period otherwise required by law or by other agreements or commitments of the parties, if any.

2. **DEFINITIONS.** As used in this Agreement:

(a) References to “**agent**” shall mean any person who is or was a director, officer or employee of the Company or a subsidiary of the Company or any other person authorized by the Company to act for the Company, including such person serving in such capacity as a director, officer, employee, fiduciary or other official of another corporation, partnership, limited liability company, joint venture, trust or other enterprise at the request of, for the convenience of, or to represent the interests of the Company or a subsidiary of the Company.

(b)(i)A “**change in control**” shall be deemed to occur upon the earliest to occur after the date of this Agreement of any of the following: (A) any Person (as defined below) becomes the beneficial owner (as defined below), directly or indirectly, of securities of the Company representing twenty percent (20%) or more of the combined voting power of the Company's then outstanding securities; (B) during any period of two (2) consecutive years (not including any period prior to the execution of this Agreement), individuals who at the beginning of such period constitute the Board of Directors of the Company, and any new director (other than a director designated by a person who has entered into an agreement with the Company to effect a transaction described in Sections 2(b)(i)(A), 2(b)(i)(C) or 2(b)(i)(D) or a director whose initial nomination for, or assumption of office as, a member of the Board of Directors of the Company occurs as a result of an actual or threatened solicitation of proxies or consents for the election or removal of one or more directors by any person or group other than a solicitation for the election of one or more directors by or on behalf of the Board of Directors of the Company) whose election by the Board of Directors of the Company or nomination for election by the Company's stockholders was approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute at least a majority of the total number of directors constituting the Board of Directors of the Company; (C) the effective date of a merger or consolidation of the Company with any other entity, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity (or the parent entity of such surviving entity)) at least 50% of the combined voting power of the voting securities of the surviving entity (or such parent entity) outstanding immediately after such merger or consolidation and with the power to elect at least a majority of the board of directors or other governing body of such surviving entity or such parent entity; (D) the approval by the stockholders of the Company of a dissolution or complete liquidation of the Company or an agreement for the sale, lease, exchange or other disposition by the Company of all or substantially all of the assets of the Company and its subsidiaries, taken as a whole; and (E) there occurs any other event of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A (or a response to any similar item on any similar schedule or form) promulgated under the Exchange Act (as defined below), whether or not the Company is then subject to such reporting requirement.

For purposes of this Section 2(b)(i), the following terms shall have the following meanings:

(I) “**person**” shall have the meaning as set forth in Sections 13(d) and 14(d) of the Exchange Act; provided, however, that person shall exclude (a) the Company, (b) any trustee or other fiduciary holding securities under an employee benefit plan of the Company,

and (c) any corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company.

(II) “**beneficial owner**” shall have the meaning given to such term in Rule 13d-3 under the Exchange Act.

(c) “**Corporate Status**” describes the status of a person who is or was a director, officer, trustee, general partner, manager, managing member, fiduciary, employee or agent of the Company or of any other Enterprise (as defined below) which such person is or was serving at the request of the Company.

(d) “**Delaware Court**” shall mean the Court of Chancery of the State of Delaware.

(e) “**Enterprise**” shall mean the Company and any other corporation, constituent entity (including any constituent of a constituent) absorbed in a consolidation, merger or division transaction to which the Company (or any of its wholly owned subsidiaries) is a party, limited liability company, partnership, joint venture, trust, employee benefit plan or other enterprise of which Indemnitee is or was serving at the request of the Company as a director, officer, trustee, general partner, managing member, fiduciary, employee or agent, including as a deemed fiduciary thereto.

(f) “**Exchange Act**” shall mean the Securities Exchange Act of 1934, as amended.

(g) “**Expenses**” shall be broadly construed and shall include, without limitation, all direct and indirect costs, fees and expenses of any type or nature whatsoever, including, without limitation, all reasonable attorneys’ fees and costs, retainers, court costs, transcript costs, fees and costs of experts, witness fees, travel expenses, fees of private investigators and professional advisors, duplicating costs, printing and binding costs, telephone charges, postage, delivery service fees, fax transmission charges, secretarial services and all other disbursements, obligations or expenses in connection with prosecuting, defending, preparing to prosecute or defend, investigating, being or preparing to be a witness in, settlement or appeal of, or otherwise participating in, a Proceeding (as defined below), including reasonable compensation for time spent by Indemnitee for which he or she is not otherwise compensated by the Company or any third party. Expenses also shall include Expenses incurred in connection with any appeal resulting from any Proceeding (as defined below), including without limitation the principal, premium, security for, and other costs relating to any cost bond, supersedeas bond, or other appeal bond or its equivalent. “Expenses,” however, shall not include amounts paid in settlement by Indemnitee or the amount of judgments or fines against Indemnitee.

(h) References to “**fines**” shall include, without limitation, any excise tax assessed on Indemnitee with respect to any employee benefit plan or related trust or funding mechanism (whether in the form of ERISA excise taxes or other excise taxes assessed by the United States Internal Revenue Service, penalties assessed by the United States Department of Labor, restitutions to such a plan or trust or other funding mechanism or to a participant or beneficiary of such plan, trust or other funding mechanism or otherwise); references to “**servicing at the request of the Company**” shall include any service as a director, officer, employee, agent or fiduciary of the Company which imposes duties on, or involves services by, such director, officer, employee, agent or fiduciary with respect to an employee benefit plan, its participants or beneficiaries, including as a deemed fiduciary thereto; and if Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in the best interests of the participants and

beneficiaries of an employee benefit plan, Indemnitee shall be deemed to have acted in a manner “**not opposed to the best interests of the Company**” as referred to in this Agreement.

(i) “**Independent Counsel**” shall mean a law firm or a member of a law firm with significant experience in matters of corporation law and that neither presently is, nor in the past five years has been, retained to represent: (i) the Company or Indemnitee in any matter material to either such party (other than with respect to matters concerning Indemnitee under this Agreement, or of other indemnitees under similar indemnification agreements); or (ii) any other party to the Proceeding (as defined below) giving rise to a claim for indemnification hereunder. Notwithstanding the foregoing, the term “Independent Counsel” shall not include any person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or Indemnitee in an action to determine Indemnitee’s rights under this Agreement.

(j) The term “**Person**” shall have the meaning as set forth in Sections 13(d) and 14(d) of the Exchange Act as in effect on the date hereof; provided, however, that “Person” shall exclude: (i) the Company; (ii) any subsidiaries (as defined below) of the Company; (iii) any employment benefit plan of the Company or of a subsidiary (as defined below) of the Company or of any entity owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company; and (iv) any trustee or other fiduciary holding securities under an employee benefit plan of the Company or of a subsidiary (as defined below) of the Company or of an entity owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company.

(k) The term “**Proceeding**” shall include any threatened, pending or completed action, suit, arbitration, mediation, alternate dispute resolution mechanism, investigation (whether formal or informal), inquiry, administrative hearing or any other actual, threatened or completed proceeding, whether brought by or in the right of the Company or otherwise and whether of a civil (including intentional or unintentional tort claims), criminal, administrative or investigative or related nature, in which Indemnitee was, is, will or might be involved as a party or as a participant (including as a witness, deponent or otherwise) by reason of the fact that Indemnitee is or was a director or officer of the Company, by reason of any action (or failure to act) taken by Indemnitee or of any action (or failure to act) on Indemnitee’s part while acting as a director or officer of the Company, or by reason of the fact that Indemnitee is or was serving at the request of the Company as a director, officer, trustee, general partner, managing member, fiduciary, employee or agent of any other Enterprise, in each case whether or not serving in such capacity at the time any liability or expense is incurred for which indemnification, reimbursement, or advancement of expenses can be provided under this Agreement.

(l) The term “**subsidiary**,” with respect to any Person, shall mean any corporation, limited liability company, partnership, joint venture, trust or other entity of which a majority of the voting power of the voting equity securities or equity interest is owned, directly or indirectly, by that Person.

3. INDEMNITY IN THIRD-PARTY PROCEEDINGS. To the fullest extent permitted by applicable law, the Company shall indemnify and hold harmless Indemnitee in accordance with the provisions of this Section 3 if Indemnitee was, is, or is threatened to be made, a party to or a participant (as a witness, deponent or otherwise) in any Proceeding (other than a Proceeding by or in the right of the Company to procure a judgment in its favor, which is addressed in Section 4 below) by reason of Indemnitee’s Corporate Status. Pursuant to this Section 3, Indemnitee shall be indemnified and held harmless to the fullest extent permitted by applicable law against all Expenses, judgments, liabilities, fines, penalties and amounts paid in

settlement (including all interest, assessments and other charges paid or payable in connection with or in respect of such Expenses, judgments, liabilities, fines, penalties and amounts paid in settlement) actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection with such Proceeding or any claim, issue or matter therein, if Indemnitee acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Company and, in the case of a criminal Proceeding, had no reasonable cause to believe that Indemnitee's conduct was unlawful.

4. INDEMNITY IN PROCEEDINGS BY OR IN THE RIGHT OF THE COMPANY. To the fullest extent permitted by applicable law, the Company shall indemnify and hold harmless Indemnitee in accordance with the provisions of this Section 4 if Indemnitee was, is, or is threatened to be made, a party to or a participant (as a witness, deponent or otherwise) in any Proceeding by or in the right of the Company to procure a judgment in its favor by reason of Indemnitee's Corporate Status. Pursuant to this Section 4, Indemnitee shall be indemnified and held harmless to the fullest extent permitted by applicable law against all Expenses actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection with such Proceeding or any claim, issue or matter therein, if Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in or not opposed to the best interests of the Company.

No indemnification for Expenses shall be made under this Section 4 in respect of any claim, issue or matter as to which Indemnitee shall have been finally adjudged by a court to be liable to the Company, unless and only to the extent that the Delaware Court or any other court in which the Proceeding was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, Indemnitee is fairly and reasonably entitled to indemnification for such Expenses which the Delaware Court or such other court shall deem proper.

5. INDEMNIFICATION FOR EXPENSES OF A PARTY WHO IS WHOLLY OR PARTLY SUCCESSFUL. Notwithstanding any other provisions of this Agreement to the contrary, to the extent that Indemnitee was or is, by reason of Indemnitee's Corporate Status, a party to (or a participant in) and is successful, on the merits or otherwise, in any Proceeding or in defense of any claim, issue or matter therein, in whole or in part, the Company shall, to the fullest extent permitted by applicable law, indemnify and hold harmless Indemnitee against all Expenses actually and reasonably incurred by Indemnitee in connection therewith. If Indemnitee is not wholly successful in such Proceeding but is successful, on the merits or otherwise, as to one or more but less than all claims, issues or matters in such Proceeding, the Company shall, to the fullest extent permitted by applicable law, indemnify and hold harmless Indemnitee against all Expenses actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection with each successfully resolved claim, issue or matter. If Indemnitee is not wholly successful in such Proceeding, the Company also shall, to the fullest extent permitted by applicable law, indemnify and hold harmless Indemnitee against all Expenses reasonably incurred in connection with a claim, issue or matter related to any claim, issue, or matter on which Indemnitee was successful. For purposes of this Section 5 and without limitation, the termination of any claim, issue or matter in such a Proceeding by dismissal (with or without prejudice), motion for summary judgment, settlement (with or without court approval), or upon a plea of nolo contendere or its equivalent shall be deemed, to the fullest extent permitted by law, to be a successful result as to such claim, issue or matter.

6. INDEMNIFICATION FOR EXPENSES OF A WITNESS. Notwithstanding any other provision of this Agreement to the contrary, to the extent that Indemnitee is, by reason of Indemnitee's Corporate Status, a witness or deponent in any Proceeding (including, without limitation, any Proceeding to which Indemnitee was or is not a party or threatened to be made a

party), Indemnitee shall, to the fullest extent permitted by applicable law, be indemnified and held harmless against all Expenses actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection therewith.

7. ADDITIONAL INDEMNIFICATION AND HOLD HARMLESS RIGHTS. Notwithstanding any limitation in Sections 3, 4 or 5, the Company shall, to the fullest extent permitted by applicable law, indemnify and hold harmless Indemnitee if Indemnitee is a party to or threatened to be made a party to any Proceeding (including a Proceeding by or in the right of the Company to procure a judgment in its favor) against all Expenses, judgments, liabilities, fines, penalties and amounts paid in settlement (including all interest, assessments and other charges paid or payable in connection with or in respect of such Expenses, judgments, liabilities, fines, penalties and amounts paid in settlement) actually and reasonably incurred by Indemnitee in connection with the Proceeding.

8. CONTRIBUTION IN THE EVENT OF JOINT LIABILITY.

(a) To the fullest extent permissible under applicable law, if the indemnification or hold harmless rights provided for in this Agreement are unavailable to Indemnitee in whole or in part for any reason whatsoever, the Company, in lieu of indemnifying, holding harmless or exonerating Indemnitee, shall pay, in the first instance, the entire amount incurred by Indemnitee, whether for judgments, liabilities, fines, penalties, amounts paid or to be paid in settlement and/or for Expenses, in connection with any Proceeding without requiring Indemnitee to contribute to such payment.

(b) Without the prior consent of Indemnitee, the Company shall not enter into any settlement of any Proceeding in which the Company is jointly liable with Indemnitee (or would be if joined in such Proceeding) unless such settlement provides for a full and final release of all claims asserted against Indemnitee without any admission of liability or other wrongdoing on the part of Indemnitee.

(c) The Company hereby agrees, to the fullest extent permissible under applicable law, to fully indemnify and hold harmless Indemnitee from any claims for contribution which may be brought by officers, directors or employees of the Company other than Indemnitee who may be jointly liable with Indemnitee with respect to such claim.

9. EXCLUSIONS. Notwithstanding any provision in this Agreement, the Company shall not be obligated under this Agreement to make any indemnification, advance expenses or hold harmless payment in connection with any claim made against Indemnitee:

(a) for which payment has actually been received by or on behalf of Indemnitee under any insurance policy, contract, agreement or other indemnity or advancement provision, except with respect to any excess beyond the amount actually received under any such insurance policy, contract, agreement, other indemnity or advancement provision or otherwise; provided, however, that payment made to Indemnitee pursuant to an insurance policy purchased and maintained by Indemnitee at his or her own expense of any amounts otherwise indemnifiable or obligated to be made pursuant to this Agreement shall not reduce the Company's obligations to Indemnitee pursuant to this Agreement;

(b) for an accounting of profits made from the purchase and sale (or sale and purchase) by Indemnitee of securities of the Company within the meaning of Section 16(b) of the Exchange Act (or any successor rule) or similar provisions of state statutory law or common law; or

(c) in connection with any Proceeding (or any part of any Proceeding) initiated by Indemnatee, including any Proceeding (or any part of any Proceeding) initiated by Indemnatee against the Company or its directors, officers, employees or other indemnitees (including any agent), unless (i) such indemnification is expressly required to be made by law or (ii) the Proceeding (or part thereof) was authorized in the first instance by the Board of Directors of the Company. Indemnatee shall seek payments or advances from the Company in connection with a Proceeding initiated by Indemnatee only to the extent that such payments or advances are unavailable from any insurance policy of the Company covering Indemnatee.

10. ADVANCES OF EXPENSES; DEFENSE OF CLAIM.

To the fullest extent permitted by the DGCL, the Company shall pay the Expenses incurred by Indemnatee in connection with any Proceeding within thirty (30) days after the receipt by the Company of a statement or statements requesting such advances from time to time, prior to the final disposition of any Proceeding. Advances shall be unsecured and interest free. Advances shall be made without regard to Indemnatee's ability to repay the Expenses and without regard to Indemnatee's ultimate entitlement to be indemnified or held harmless under the other provisions of this Agreement. Advances shall include any and all reasonable Expenses incurred pursuing a Proceeding to enforce this right of advancement, including Expenses incurred preparing and forwarding statements to the Company to support the advances claimed. Such payments of Expenses in advance of the final disposition of the Proceeding shall be made only upon the Company's receipt of an undertaking, by or on behalf of Indemnatee, to repay the advanced amounts to the extent that it is ultimately determined that Indemnatee is not entitled to be indemnified or held harmless by the Company under the provisions of this Agreement, the Charter, the Bylaws, applicable law or otherwise. The execution and delivery by Indemnatee of this Agreement shall constitute such undertaking and no further undertaking shall be required. The Company agrees that for the purposes of any advancement of Expenses for which Indemnatee has made a written demand in accordance with this Agreement, all Expenses included in such demand that are certified by affidavit of Indemnatee's counsel as being reasonable shall be presumed conclusively to be reasonable. This Section 10(a) shall not apply to any claim made by Indemnatee for which an indemnification or hold harmless payment is excluded pursuant to Section 9.

11. PROCEDURE FOR NOTIFICATION AND APPLICATION FOR INDEMNIFICATION.

(a) Promptly after receipt by Indemnatee of notice of the commencement of any Proceeding, Indemnatee shall, if a claim in respect thereof is to be made against the Company hereunder, notify the Company in writing of the commencement thereof. The failure to promptly notify the Company of the commencement of the Proceeding, or of Indemnatee's request for indemnification, will not relieve the Company from any liability that it may have to Indemnatee hereunder, except to the extent the Company is actually and materially prejudiced in its defense of such Proceeding as a result of such failure; *provided*, however, that notice will be deemed to have been given without any action on the part of Indemnatee in the event the Company is a party to the same Proceeding. To obtain indemnification under this Agreement, Indemnatee shall submit to the Company a written request therefor, including such documentation and information as is reasonably available to Indemnatee and is reasonably necessary to enable the Company to determine whether and to what extent Indemnatee is entitled to indemnification.

(b) With respect to any action, suit or proceeding of which the Company is so notified as provided in this Agreement, the Company shall, subject to the last two sentences of this paragraph, be entitled to assume the defense of such action, suit or proceeding, with counsel reasonably acceptable to Indemnatee, upon the delivery to Indemnatee of written notice of its

election to do so. Notwithstanding anything in Section 10 of this Agreement to the contrary, after delivery of such notice, approval of such counsel by Indemnitee and the retention of such counsel by the Company to assume the defense of such action, suit or proceeding, the Company will not be liable to Indemnitee under this Agreement for any subsequently-incurred fees of separate counsel engaged by Indemnitee with respect to the same action, suit or proceeding unless the employment of separate counsel by Indemnitee has been previously authorized in writing by the Company; provided, however, that if Indemnitee, after consultation with his or her counsel, shall have concluded in good faith (with written notice of such conclusion being given to the Company) that, in the conduct of any such defense, there is or is reasonably likely to be a conflict of interest or material disagreement on a position between the Company and Indemnitee with respect to a significant issue, and such conclusion is confirmed in writing by the Company's outside counsel regularly employed by it in connection with corporate matters, then the Company will not be entitled, without the written consent of Indemnitee, to assume such defense and the fees and expenses of counsel shall be at the expense of the Company; and provided further, that if the Company fails to retain counsel to assume the defense of such action, suit or proceeding, then Indemnitee shall be entitled to retain her or his own counsel and all Expenses related to such counsel shall be borne by the Company. Regardless of any provision in this Agreement, Indemnitee shall have the right to employ counsel in any Proceeding at Indemnitee's personal expense. In addition, the Company will not be entitled, without the written consent of Indemnitee, to assume the defense of any claim brought by or in the right of the Company.

(c) To the fullest extent permitted by the DGCL, the Company's assumption of the defense of a Proceeding in accordance with Section 11(b) will constitute an irrevocable acknowledgement by the Company that any loss and liability suffered by Indemnitee and Expenses (including attorneys' fees), judgments, fines and amounts paid in settlement by or for the account of Indemnitee incurred in connection therewith are indemnifiable by the Company under this Agreement.

(d) The determination whether to grant Indemnitee's indemnification request shall be made promptly and in any event within sixty (60) days following the Company's receipt of a request for indemnification in accordance with Section 11(a). If the Company determines that Indemnitee is entitled to such indemnification or, as contemplated by paragraph 11(c) the Company has acknowledged such entitlement, the Company will make payment to Indemnitee of the indemnifiable amount within such sixty (60) day period. If the Company is not deemed to have so acknowledged such entitlement or the Company's determination of whether to grant Indemnitee's indemnification request shall not have been made within such sixty (60) day period, the requisite determination of entitlement to indemnification shall, subject to Section 9, nonetheless be deemed to have been made and Indemnitee shall be entitled to such indemnification, absent (i) a misstatement by Indemnitee of a material fact, or an omission of a material fact necessary to make Indemnitee's statement not materially misleading, in connection with the request for indemnification, or (ii) a prohibition of such indemnification under the DGCL.

(e) In the event that (i) the Company determines that Indemnitee is not entitled to indemnification under this Agreement, (ii) the Company denies a request for indemnification, in whole or in part, or fails to respond or make a determination of entitlement to indemnification within sixty (60) days following receipt of a request for indemnification as described above, (iii) payment of indemnification is not made within such sixty (60) day period, (iv) advancement of Expenses is not timely made in accordance with Section 10, or (v) the Company or any other person takes or threatens to take any action to declare this Agreement void or unenforceable, or institutes any litigation or other Proceeding designed to deny, or to recover from, Indemnitee the benefits provided or intended to be provided to Indemnitee hereunder, Indemnitee shall be entitled to an adjudication in any court of competent jurisdiction of his or her entitlement to such

indemnification or advancement of Expenses. Indemnitee's Expenses (including attorneys' fees) incurred in connection with successfully establishing Indemnitee's right to indemnification or advancement of Expenses, in whole or in part, in any such Proceeding or otherwise shall also be indemnified by the Company to the fullest extent permitted by the DGCL.

(f) Indemnitee shall be presumed to be entitled to indemnification under this Agreement upon submission of a request therefor in accordance with Section 11 of this Agreement. The Company shall have the burden of proof in overcoming such presumption, and such presumption shall be used as a basis for a determination of entitlement to indemnification unless the Company overcomes such presumption by clear and convincing evidence.

(g) If there is a change in control of the Company, upon written request by Indemnitee for indemnification pursuant to Section 11(a), any determination, if required by the DGCL, with respect to Indemnitee's entitlement thereto shall be made by Independent Counsel selected by Indemnitee with the consent of the Company (such consent not to be unreasonably withheld, conditioned or delayed) in a written opinion, a copy of which shall be delivered to the Company and Indemnitee, and the Company agrees to pay the fees and expenses of the Independent Counsel.

12. SECURITY. Notwithstanding anything herein to the contrary, to the extent requested by Indemnitee and approved by the Board, the Company may at any time and from time to time provide security to Indemnitee for the Company's obligations hereunder through an irrevocable bank line of credit, funded trust or other collateral. Any such security, once provided to Indemnitee, may not be revoked or released without the prior written consent of Indemnitee.

13. NON-EXCLUSIVITY; SURVIVAL OF RIGHTS; INSURANCE; SUBROGATION.

(a) The rights of Indemnitee as provided by this Agreement shall not be deemed exclusive of any other rights to which Indemnitee may at any time be entitled under applicable law, the Charter, the Bylaws, any agreement, a vote of stockholders or a resolution of directors, or otherwise. No amendment, alteration or repeal of this Agreement or of any provision hereof shall limit or restrict any right of Indemnitee under this Agreement in respect of any Proceeding (regardless of when such Proceeding is first threatened, commenced or completed) or claim, issue or matter therein arising out of, or related to, any action taken or omitted by such Indemnitee in Indemnitee's Corporate Status prior to such amendment, alteration or repeal. To the extent that a change in applicable law, whether by statute or judicial decision, permits greater indemnification, hold harmless rights or advancement of Expenses than would be afforded currently under the Charter, the Bylaws or this Agreement, it is the intent of the parties hereto that Indemnitee shall enjoy by this Agreement the greater benefits so afforded by such change. No right or remedy herein conferred is intended to be exclusive of any other right or remedy, and every other right and remedy shall be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other right or remedy.

(b) The DGCL permits the Company to purchase and maintain insurance on behalf of Indemnitee against any liability asserted against Indemnitee or incurred by or on behalf of Indemnitee or in such capacity as a director, officer or employee of the Company or as an agent of another Enterprise, or arising out of Indemnitee's status as such, whether or not the Company would have the power to indemnify Indemnitee against such liability under the DGCL, as it may then be in effect. The purchase, establishment, and maintenance of any such insurance shall not in any way limit or affect the rights and obligations of the Company or of Indemnitee

under this Agreement except as expressly provided herein, and the execution and delivery of this Agreement by the Company and Indemnitee shall not in any way limit or affect the rights and obligations of the Company or the other party or parties thereto with respect to any such insurance.

(c) To the extent that the Company maintains an insurance policy or policies providing liability insurance for directors, officers, or employees of the Company or agents of any other Enterprise, Indemnitee shall be covered by such policy or policies in accordance with its or their terms to the maximum extent of the coverage available for any such director, officer, or employee of the Company or any agent of any such other Enterprise under such policy or policies. If, at the time the Company receives notice from any source of a Proceeding as to which Indemnitee is a party or a participant (as a witness, deponent or otherwise), the Company has director and officer liability or similar insurance in effect, the Company shall give prompt notice of such Proceeding to the insurers in accordance with the procedures set forth in the respective policies. The Company shall thereafter take all necessary or desirable action to cause such insurers to pay, on behalf of Indemnitee, all amounts payable as a result of such Proceeding in accordance with the terms of such policies. Upon request, the Company will provide to Indemnitee copies of all directors' and officers' liability insurance applications, binders, policies, declarations, endorsements and other related materials.

(d) In the event of any payment under this Agreement, the Company, to the fullest extent permitted by law, shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee, who shall execute all papers required and take all action necessary to secure such rights, including execution of such documents as are necessary to enable the Company to bring suit to enforce such rights.

(e) The Company's obligation to indemnify, hold harmless, or advance Expenses hereunder to Indemnitee who is or was serving at the request of the Company as a director, officer, trustee, partner, manager, managing member, fiduciary, employee or agent of any other Enterprise shall be reduced by any amount Indemnitee has actually received as indemnification or hold harmless payments or advancement of expenses from such Enterprise. Notwithstanding any other provision of this Agreement to the contrary, (i) Indemnitee shall have no obligation to reduce, offset, allocate, pursue or apportion any indemnification, hold harmless, advancement, contribution or insurance coverage among multiple parties possessing such duties to Indemnitee prior to the Company's satisfaction and performance of all its obligations under this Agreement, and (ii) the Company shall perform fully its obligations under this Agreement without regard to whether Indemnitee holds, may pursue or has pursued any indemnification, advancement, hold harmless, contribution or insurance coverage rights against any person or entity other than the Company.

14. **SECTION 409A OF THE CODE.** If Indemnitee's right to payment or reimbursement of indemnification or expenses pursuant to this Agreement would not be exempt from Section 409A of the Internal Revenue Code of 1986, as amended (the "**Code**") pursuant to Treasury Regulation Section 1.0409A-1(b)(10), then (a) the payment or reimbursement of indemnification and expenses provided or advanced to or for Indemnitee pursuant to this Agreement in one taxable year shall not affect the amount of indemnification and expenses provided or advanced to or for Indemnitee in any other taxable year, (b) any reimbursement to Indemnitee of expenses under this Agreement shall be paid to Indemnitee on or before the last day of Indemnitee's taxable year following the taxable year in which the expense was incurred and (c) the right to advancement, reimbursement or payment of indemnification and expenses under this Agreement may not be liquidated or exchanged for any other benefit. In addition, to the extent that this Agreement is subject to Section 409A of the Code, this Agreement shall be interpreted and enforced so as to avoid any tax, penalty or interest under Section 409A of the

Code. For purposes of this Section 14, "Expenses" shall be deemed to include, in addition to those items included in the definition thereof in Section 2, any liability, loss, judgment, fine and amounts paid in settlement.

15. DURATION OF AGREEMENT. All agreements and obligations of the Company contained herein shall continue during the period Indemnitee serves as a director or officer of the Company or as a director, officer, trustee, partner, manager, managing member, fiduciary, employee or agent of any other corporation, partnership, joint venture, trust, employee benefit plan or other Enterprise which Indemnitee serves at the request of the Company, and shall continue thereafter so long as Indemnitee shall be subject to any possible Proceeding by reason of Indemnitee's Corporate Status, whether or not Indemnitee is acting in any such capacity at the time any liability or expense is incurred for which indemnification or advancement can be provided under this Agreement.

16. SEVERABILITY. If any provision or provisions of this Agreement shall be held to be invalid, illegal or unenforceable for any reason whatsoever: (a) the validity, legality and enforceability of the remaining provisions of this Agreement (including, without limitation, each portion of any Section, paragraph or sentence of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that is not itself invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby and shall remain enforceable to the fullest extent permitted by law; (b) such provision or provisions shall be deemed reformed to the extent necessary to conform to applicable law and to give the maximum effect to the intent of the parties hereto; and (c) to the fullest extent possible, the provisions of this Agreement (including, without limitation, each portion of any Section, paragraph or sentence of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that is not itself invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested thereby.

17. ENFORCEMENT AND BINDING EFFECT.

(a) The Company expressly confirms and agrees that it has entered into this Agreement and assumed the obligations imposed on it hereby in order to induce Indemnitee to serve as a director, officer or key employee of the Company, and the Company acknowledges that Indemnitee is relying upon this Agreement in serving as a director, officer or key employee of the Company or as an agent of another Enterprise.

(b) Without limiting any of the rights of Indemnitee under the Charter or Bylaws (which rights shall continue in full force and effect and shall be in addition to the rights provided hereunder), this Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior agreements and understandings, oral, written and implied, between the parties hereto with respect to the subject matter hereof.

(c) The indemnification, hold harmless, and advancement of expenses rights provided by or granted pursuant to this Agreement shall be binding upon and be enforceable by the parties hereto and their respective successors and assigns (including any direct or indirect successor by purchase, merger, consolidation, division or otherwise to all or substantially all of the business and/or assets of the Company), shall continue as to an Indemnitee who has ceased to be a director, officer, or employee of the Company or agent of any other Enterprise, and shall inure to the benefit of Indemnitee and Indemnitee's spouse, assigns, heirs, devisees, executors and administrators and other legal representatives.

(d) The Company shall require and cause any successor (whether direct or indirect by purchase, merger, consolidation or otherwise) to all, substantially all or a substantial

part, of the business and/or assets of the Company, by written agreement in form and substance satisfactory to Indemnitee, expressly to assume and agree to perform this Agreement to the fullest extent permitted by law.

(e) The Company and Indemnitee agree herein that a monetary remedy for breach of this Agreement, at some later date, may be inadequate, impracticable and difficult of proof, and further agree that such breach may cause Indemnitee irreparable harm. Accordingly, the parties hereto agree that Indemnitee may, to the fullest extent permitted by law, enforce this Agreement by seeking, among other things, injunctive relief and/or specific performance hereof, without any necessity of showing actual damage or irreparable harm and that by seeking injunctive relief and/or specific performance, Indemnitee shall not be precluded from seeking or obtaining any other relief to which Indemnitee may be entitled. The Company and Indemnitee further agree that Indemnitee shall, to the fullest extent permitted by law, be entitled to such specific performance and injunctive relief, including temporary restraining orders, preliminary injunctions and permanent injunctions, without the necessity of posting bonds or other undertaking in connection therewith. The Company acknowledges that in the absence of a waiver, a bond or undertaking may be required of Indemnitee by a court of competent jurisdiction. The Company hereby waives any such requirement of such a bond or undertaking to the fullest extent permitted by law.

18. MODIFICATION AND WAIVER. No supplement, modification or amendment of this Agreement shall be binding unless executed in writing by the Company and Indemnitee. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions of this Agreement nor shall any waiver constitute a continuing waiver.

19. NOTICES. All notices, requests, demands and other communications under this Agreement shall be in writing and shall be deemed to have been duly given (i) if delivered by hand and receipted for by the party to whom said notice or other communication shall have been directed, or (ii) mailed by certified or registered mail with postage prepaid, on the third (3rd) business day after the date on which it is so mailed:

(a) If to Indemnitee, at the address indicated on the signature page of this Agreement, or such other address as Indemnitee shall provide in writing to the Company.

(b) If to the Company, to:

Steel Connect, Inc.
2000 Midway Lane
Smyrna, TN 37167
Attention: General Counsel
E-mail: jmartin@steelpartners.com

or to any other address as may have been furnished to Indemnitee in writing by the Company.

20. NOTICE BY THE COMPANY. If the Indemnitee is the subject of, or is, to the knowledge of the Company, implicated in any way during an investigation, whether formal or informal, that is related to Indemnitee's Corporate Status and that reasonably could lead to a Proceeding for which indemnification can be provided under this Agreement, the Company shall notify the Indemnitee of such investigation and shall share (to the extent legally permissible) with Indemnitee any information it has provided to any third parties concerning the investigation ("Shared Information"). By executing this Agreement, Indemnitee agrees that such Shared Information may be material non-public information and that Indemnitee is thus obligated to hold such information in confidence and not disclose it publicly; provided, however, that

Indemnitee may use the Shared Information and disclose such Shared Information to Indemnitee's legal counsel and third parties, in each case solely in connection with defending Indemnitee from legal liability.

21. APPLICABLE LAW AND CONSENT TO JURISDICTION. This Agreement and the legal relations among the parties shall be governed by, and construed and enforced in accordance with, the laws of the State of Delaware, without regard to its conflict of laws rules. To the fullest extent permitted by law, the Company and Indemnitee hereby irrevocably and unconditionally: (a) agree that any action or proceeding arising out of or in connection with this Agreement shall be brought only in the Delaware Court and not in any other state or federal court in the United States of America or any court in any other country; (b) consent to submit to the exclusive jurisdiction of the Delaware Court for purposes of any action or proceeding arising out of or in connection with this Agreement; (c) waive any objection to the laying of venue of any such action or proceeding in the Delaware Court; and (d) waive, and agree not to plead or to make, any claim that any such action or proceeding brought in the Delaware Court has been brought in an improper or inconvenient forum, or is subject (in whole or in part) to a jury trial. To the fullest extent permitted by law, the parties hereby agree that the mailing of process and other papers in connection with any such action or proceeding in the manner provided by Section 19 or in such other manner as may be permitted by law, shall be valid and sufficient service thereof.

22. IDENTICAL COUNTERPARTS. This Agreement may be executed in one or more counterparts, each of which shall for all purposes be deemed to be an original but all of which together shall constitute one and the same Agreement. Only one such counterpart signed by the party against whom enforceability is sought needs to be produced to evidence the existence of this Agreement.

23. MISCELLANEOUS. Use of the masculine pronoun shall be deemed to include usage of the feminine pronoun where appropriate. The headings of the paragraphs of this Agreement are inserted for convenience only and shall not be deemed to constitute part of this Agreement or to affect the construction thereof.

24. ADDITIONAL ACTS. If for the validation of any of the provisions in this Agreement any act, resolution, approval or other procedure is required to the fullest extent permitted by law, the Company undertakes to cause such act, resolution, approval or other procedure to be affected or adopted in a manner that will enable the Company to fulfill its obligations under this Agreement.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties hereto have caused this Indemnity Agreement to be signed as of the day and year first above written.

STEEL CONNECT, INC.

By: _____

Name:

Title:

INDEMNITEE

By: _____

Name:

Address:

[Signature page to Indemnity Agreement]

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

I, Warren Lichtenstein, certify that:

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

Date: December 13, 2021

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

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

I, Jason Wong, certify that:

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

Date: December 13, 2021

By: _____ /S/ JASON WONG
Jason Wong
Chief Financial Officer
(Principal Financial Officer)

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

In connection with the Quarterly Report on Form 10-Q of Steel Connect, Inc. (the "Company") for the fiscal quarter ended October 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Warren Lichtenstein, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

Date: December 13, 2021

By: _____ /S/ WARREN LICHTENSTEIN

Warren Lichtenstein
Interim Chief Executive Officer
(Principal Executive Officer)

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

In connection with the Quarterly Report on Form 10-Q of Steel Connect, Inc. (the "Company") for the fiscal quarter ended October 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Jason Wong, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

Date: December 13, 2021

By: _____ /S/ JASON WONG
Jason Wong
Chief Financial Officer
(Principal Financial Officer)