

SIGMATRON INTERNATIONAL INC  
Form 10-Q  
September 12, 2013  
Table of Contents

**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 July 31, 2013

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 0-23248

**SIGMATRON INTERNATIONAL, INC.**

(Exact name of registrant as specified in its charter)

Edgar Filing: SIGMATRON INTERNATIONAL INC - Form 10-Q

<b>Delaware</b> (State or other jurisdiction of incorporation or organization)	<b>36-3918470</b> (I.R.S. Employer Identification No.)
<b>2201 Landmeier Road</b> <b>Elk Grove Village, Illinois</b> (Address of principal executive offices)	<b>60007</b> (Zip Code)
<b>Registrant's telephone number, including area code: (847) 956-8000</b>	

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

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

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

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input checked="" type="checkbox"/>

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

Indicate the number of shares outstanding of the registrant's common stock, \$0.01 par value, as of September 12, 2013: 3,961,232

**Table of Contents**

SigmaTron International, Inc.

Index

	Page No.
<b>PART 1. FINANCIAL INFORMATION:</b>	
Item 1. Consolidated Financial Statements	
<u>Consolidated Balance Sheets July 31, 2013 (Unaudited) and April 30, 2013</u>	3
<u>Consolidated Statements of Operations (Unaudited) Three Months Ended July 31, 2013 and 2012</u>	4
<u>Consolidated Statements of Cash Flows (Unaudited) Three Months Ended July 31, 2013 and 2012</u>	5
<u>Notes to Consolidated Financial Statements</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	16
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risks</u>	22
Item 4. <u>Controls and Procedures</u>	22
<b>PART II OTHER INFORMATION:</b>	
Item 1. <u>Legal Proceedings</u>	23
Item 1A. <u>Risk Factors</u>	23
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	23
Item 3. <u>Defaults Upon Senior Securities</u>	24
Item 4. <u>Mine Safety Disclosures</u>	24
Item 5. <u>Other Information</u>	24
Item 6. <u>Exhibits</u>	24

**Table of Contents****SigmaTron International, Inc.**

## Consolidated Balance Sheets

	July 31, 2013 (Unaudited)	April 30, 2013
<b>Current assets:</b>		
Cash	\$ 2,797,537	\$ 4,607,731
Accounts receivable, less allowance for doubtful accounts of \$150,000 at July 31, 2013 and April 30, 2013	19,520,637	19,421,252
Inventories, net	52,442,681	50,644,741
Prepaid expenses and other assets	1,586,109	1,882,680
Refundable income taxes		228,026
Deferred income taxes	1,643,788	1,630,809
Other receivables	459,619	524,268
<b>Total current assets</b>	<b>78,450,371</b>	<b>78,939,507</b>
Property, machinery and equipment, net	32,293,609	28,567,052
Intangible assets, net of amortization of \$3,049,812 and \$2,962,566 at July 31, 2013 and April 30, 2013	5,862,188	5,949,434
Goodwill	3,222,899	3,222,899
Other assets	797,045	910,025
<b>Total other long-term assets</b>	<b>9,882,132</b>	<b>10,082,358</b>
<b>Total assets</b>	<b>\$ 120,626,112</b>	<b>\$ 117,588,917</b>
<b>Liabilities and stockholders equity:</b>		
<b>Current liabilities:</b>		
Trade accounts payable	\$ 32,745,601	\$ 31,347,354
Accrued expenses	2,556,037	2,486,819
Accrued wages	3,502,698	3,633,900
Income taxes payable	101,035	
Current portion of long-term debt	99,996	99,996
Current portion of capital lease obligations	232,285	229,661
Current portion of contingent consideration	331,429	331,429
<b>Total current liabilities</b>	<b>39,569,081</b>	<b>38,129,159</b>
Long-term debt, less current portion	21,313,226	20,575,017
Capital lease obligations, less current portion	518,157	577,221
Contingent consideration, less current portion	1,728,571	1,793,571
Other long-term Liabilities	479,313	487,236
Deferred rent	1,117,363	1,096,272
Deferred income taxes	2,914,678	2,946,710
<b>Total long-term liabilities</b>	<b>28,071,308</b>	<b>27,476,027</b>
<b>Total liabilities</b>	<b>67,640,389</b>	<b>65,605,186</b>
<b>Commitments and contingencies:</b>		
<b>Stockholders equity:</b>		

## Edgar Filing: SIGMATRON INTERNATIONAL INC - Form 10-Q

Preferred stock, \$.01 par value; 500,000 shares authorized, none issued or outstanding		
Common stock, \$.01 par value; 12,000,000 shares authorized, 3,961,232 and 3,940,402 shares issued and outstanding at July 31, 2013 and April 30, 2013	39,779	39,779
Capital in excess of par value	20,395,540	20,361,012
Retained earnings	32,550,404	31,582,940
Total stockholders' equity	52,985,723	51,983,731
Total liabilities and stockholders' equity	\$ 120,626,112	\$ 117,588,917

The accompanying notes to financial statements are an integral part of these statements.

**Table of Contents****SigmaTron International, Inc.**

## Consolidated Statements Of Operations

	Three	Three
	Months Ended	Months Ended
	July 31,	July 31,
	2013	2012
	(Unaudited)	(Unaudited)
Net sales	\$ 56,166,061	\$ 47,629,229
Cost of products sold	49,877,653	42,923,331
Gross profit	6,288,408	4,705,898
Selling and administrative expenses	4,855,558	4,665,405
Operating income	1,432,850	40,493
Other income	(21,449)	
Interest expense	213,960	188,337
Income (loss) from operations before income tax expense	1,240,339	(147,844)
Income tax expense (benefit)	272,875	(54,700)
Net income (loss)	\$ 967,464	(\$93,144)
Earnings (loss) per share - basic	\$ 0.24	(\$0.02)
Earnings (loss) per share - diluted	\$ 0.24	(\$0.02)
Weighted average shares of common stock outstanding		
Basic	3,961,232	3,922,478
Weighted average shares of common stock outstanding		
Diluted	4,011,001	3,922,478

The accompanying notes to financial statements are an integral part of these statements.

**Table of Contents**

## SigmaTron International, Inc.

## Consolidated Statements of Cash Flows

	Three Months Ended July 31, 2013 (Unaudited)	Three Months Ended July 31, 2012 (Unaudited)
<b>Operating activities:</b>		
Net income (loss)	\$ 967,464	(\$ 93,144)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,172,137	1,189,205
Stock-based compensation	29,292	92,816
Restricted stock expense	5,236	38,907
Deferred income tax provision (benefit)	(45,011)	8,334
Amortization of intangibles	87,246	60,377
Loss from disposal or sale of machinery and equipment	1,675	
Changes in operating assets and liabilities, net of business acquisition liabilities acquired		
Accounts receivable	(99,385)	(5,592,925)
Inventories	(1,797,940)	(1,871,827)
Prepaid expenses and other assets	474,201	(905,738)
Refundable Income taxes	228,026	(104,714)
Trade accounts payable	1,365,181	2,607,696
Deferred rent	21,091	160,190
Accrued expenses and wages	(33,872)	(330,390)
Net cash provided by (used in) operating activities	2,375,341	(4,741,213)
<b>Investing activities:</b>		
Purchases of machinery and equipment	(4,900,370)	(771,427)
Cash received in conjunction with acquisition		1,142,597
Net cash (used in) provided by investing activities	(4,900,370)	371,170
<b>Financing activities:</b>		
Payments under capital lease obligations	(56,440)	(53,932)
Payments under other notes payable		(26,832)
Net changes in line of credit	763,208	5,260,111
Change in bank overdraft	33,066	
Payments under building notes payable	(24,999)	(24,999)
Net cash provided by financing activities	714,835	5,154,348
<b>Change in cash</b>	(1,810,194)	784,305
Cash at beginning of period	4,607,731	4,668,931
<b>Cash at end of period</b>	\$ 2,797,537	\$ 5,453,236
<b>Supplementary disclosures of cash flow information</b>		
Cash paid for interest	\$ 195,873	\$ 177,899
Cash paid for income taxes, net of (refunds)	4,200	18,000
Cash refunded for income taxes	(159,999)	

Edgar Filing: SIGMATRON INTERNATIONAL INC - Form 10-Q

**Non-Cash Transaction - Acquisition of Spitfire Control, Inc.**

SigmaTron International, Inc. A/R Trade forgiven	\$	\$ 15,312,904
SigmaTron International, Inc. Foreign A/R Trade forgiven		1,142,392
Contingent consideration		2,320,000
Issuance of Restricted stock		169,011
Total Cost of Acquisition	\$	\$ 18,944,307

The accompanying notes to financial statements are an integral part of these statements.



**Table of Contents**

SigmaTron International, Inc.

July 31, 2013

**Notes to Consolidated Financial Statements**

(Unaudited)

**Note A - Basis of Presentation**

The accompanying unaudited consolidated financial statements of SigmaTron International, Inc. ( SigmaTron ), SigmaTron's wholly-owned subsidiaries Standard Components de Mexico S.A., AbleMex, S.A. de C.V., Digital Appliance Controls de Mexico, S.A. de C.V., Spitfire Controls (Vietnam) Co. Ltd., Spitfire Controls (Cayman) Co. Ltd. and SigmaTron International Trading Co., wholly-owned foreign enterprises Suzhou SigmaTron Electronics Co., Ltd. and SigmaTron Electronic Technology Co., Ltd. ( SigmaTron China ) and international procurement office SigmaTron Taiwan branch (collectively, the Company ) have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X.

Accordingly, the consolidated financial statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three month period ended July 31, 2013 are not necessarily indicative of the results that may be expected for the year ending April 30, 2014. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended April 30, 2013.

On May 31, 2012, SigmaTron acquired certain assets and assumed certain liabilities of Spitfire Control, Inc. ( Spitfire ). Spitfire was a privately held Illinois corporation headquartered in Carpentersville, Illinois with captive manufacturing sites in Chihuahua, Mexico and suburban Ho Chi Minh City, Vietnam. Both manufacturing sites were among the assets acquired by the Company.

Certain reclassifications have been made to the previously reported financial statements in order to conform to the current period presentation.

**Note B - Inventories**

The components of inventory consist of the following:

	<b>July 31, 2013</b>	<b>April 30, 2013</b>
Finished products	\$ 17,724,315	\$ 13,167,117
Work-in-process	2,836,466	2,959,144
Raw materials	33,652,000	36,288,580
	54,212,781	52,414,841
Less obsolescence reserve	1,770,100	1,770,100
	\$ 52,442,681	\$ 50,644,741

**Table of Contents**

SigmaTron International, Inc.

July 31, 2013

**Notes to Consolidated Financial Statements - Continued**

(Unaudited)

**Note C - (Loss) Earnings Per Share**

The following table sets forth the computation of basic and diluted earnings per share:

	Three Months Ended July 31,	
	2013	2012
Net income (loss)	\$ 967,464	\$ (93,144)
Weighted-average shares		
Basic	3,961,232	3,922,478
Effect of dilutive stock options	49,769	0
<b>Diluted</b>	<b>4,011,001</b>	<b>3,922,478</b>
Basic earnings (loss) per share	\$ 0.24	\$ (0.02)
Diluted earnings (loss) per share	\$ 0.24	\$ (0.02)

Options to purchase 540,192 and 525,192 shares of common stock were outstanding at July 31, 2013 and 2012, respectively. There were 25,000 and 115,000 options granted during the quarter ended July 31, 2013 and 2012, respectively. The Company recognized approximately \$29,300 and \$92,800 in stock option expense for the three month period ended July 31, 2013 and 2012, respectively. The balance of unrecognized compensation cost related to the Company's stock option plans was approximately \$115,725 and \$167,100 at July 31, 2013 and 2012, respectively.

The Company issued 25,000 shares of restricted stock on June 1, 2012, of which 8,333 shares vested on June 1, 2012 and 8,333 shares vested on June 1, 2013. The Company recognized approximately \$5,250 and \$39,000 in compensation expense for the three month periods ended July 31, 2013 and 2012, respectively. The balance of unrecognized compensation expense related to the Company's restricted stock award was approximately \$11,830 and \$50,000 at July 31, 2013 and 2012, respectively.

During the quarter ended July 31, 2012 the Company issued 50,000 shares of restricted stock as additional consideration in conjunction with the May 31, 2012 Spitfire acquisition.

**Table of Contents**

SigmaTron International, Inc.

July 31, 2013

**Notes to Consolidated Financial Statements - Continued**

(Unaudited)

**Note D - Long-term Debt**

The Company has a senior secured credit facility with Wells Fargo with a credit limit up to \$30 million and an initial term through September 30, 2013. The facility allows the Company to choose among interest rates at which it may borrow funds. The interest rate is the prime rate plus one half percent (effectively, 3.75% at July 31, 2013) or LIBOR plus two and three quarter percent (effectively, 3.0% at July 31, 2013), which is paid monthly. The credit facility is collateralized by substantially all of the domestically located assets of the Company and the Company has pledged 65% of its equity ownership interest in some of its foreign entities. The Company is required to be in compliance with several financial covenants. In conjunction with the Spitfire acquisition, two of the financial covenants required by terms of the Company's senior secured credit facility were amended as of May 31, 2012. The Company was in violation of certain of its financial covenants at July 31, 2012 and received a waiver for the financial covenant violations. The Company renegotiated its financial covenants with Wells Fargo during the quarter ended October 31, 2012 and extended the credit facility through October 31, 2014. As of April 30, 2013, the Company again amended its credit agreement and renegotiated two of the financial covenants required by the terms of the Company's senior secured credit facility. At July 31, 2013, the Company was in compliance with its amended financial covenants. As of July 31, 2013, there was a \$19,263,208 outstanding balance and \$10,736,792 of unused availability under the credit facility.

**Note E - Tijuana, MX Operation Move**

During the first quarter of fiscal year 2013, the Company relocated its Tijuana, MX operation to a new facility within Tijuana, MX. The Company incurred a total of approximately \$424,000 in relocation expenses as a result of the move during fiscal year 2013, of which, approximately \$399,000 of the relocation expenses were included in cost of products sold and consist primarily of moving expenses related to equipment, the write-off of leasehold improvements and the restoration of the prior Tijuana facility. Of the total relocation expenses, approximately \$25,000 was recorded in selling and administrative expenses.

**Note F - Acquisition**

Spitfire Control, Inc.

***The Purchase Agreement***

SigmaTron signed a Purchase Agreement on May 31, 2012 with Spitfire Control, Inc., an Illinois corporation ( Seller ), regarding the acquisition of certain assets of the Seller by the Company (the Transaction ). Prior to the date of the Purchase Agreement, the Seller and its affiliates were customers and strategic partners of the Company, with such relationships dating back to 1994.

Seller, on its own and through its subsidiaries Digital Appliance Controls de Mexico, S.A. de C.V., a Mexico corporation ( DAC ), and Spitfire Controls (Cayman) Co. Ltd., a Cayman Islands exempted company ( Cayman ), their subsidiaries and Seller's affiliated entities, was engaged in the business of the design, manufacture, sale and distribution of electrical or electronic controls for appliances (the Business ).

**Table of Contents**

SigmaTron International, Inc.

July 31, 2013

**Notes to Consolidated Financial Statements - Continued**

(Unaudited)

**Note F - Acquisition - Continued**

Spitfire Control, Inc.

***The Purchase Agreement - Continued***

The acquired assets consisted of (i) all of the equity securities of DAC and Cayman and (ii) all of the assets used by or useful in the conduct of the Business. In addition, the Company also obtained from the Seller and the sole owner of Seller an agreement not to compete against the Business as it is operated by the Company after the closing of the Transaction.

In consideration, the Company agreed to pay a purchase price consisting of: (i) the satisfaction and release of the account payable of \$16,455,000 owed by Seller to the Company; (ii) future payments, which are based upon the annual post-closing performance of the Business during each of the Company's fiscal years 2013 through 2019; and (iii) the issuance of 50,000 shares of restricted common stock of SigmaTron, 12,500 of which vested upon the closing of the Transaction and 12,500 of which will vest on each of the first, second and third anniversaries of the closing of the Transaction.

In addition to the foregoing, the Company agreed to assume (i) the Seller's obligations under certain specified contracts and Governmental Authorizations (as defined in the Purchase Agreement), (ii) specified trade accounts payable and accrued expenses of the Seller as agreed upon by the parties and (iii) specified inter-company payables involving the Seller, DAC, Cayman and/or their subsidiaries and associated companies. Further, each of DAC and Cayman retained the liabilities associated with its respective operations, which is customary in transactions involving the purchase or sale of all of the equity securities of an entity. As a result, the Company indirectly acquired such liabilities through the Transaction.

***The Credit Amendment***

Concurrent with the Transaction, the Company entered into amendments of its credit facility with Wells Fargo (the Credit Amendment). The Credit Amendment modified certain financial covenant thresholds applicable to the Company, added property acquired in the Transaction as collateral for the loan to the Company, permitted the Company to acquire certain inter-company payables involving the Seller, DAC, Cayman or the subsidiaries and associated companies and permitted the Company to discharge and release the account payable owed by the Seller to the Company in partial consideration for the Transaction.

**Table of Contents**

SigmaTron International, Inc.

July 31, 2013

**Notes to Consolidated Financial Statements - Continued**

(Unaudited)

**Note F - Acquisition - Continued**

Spitfire Control, Inc.

**Reasons for the Transaction**

The Company believes its acquisition of the Business will allow a comprehensive approach to solving major appliance producers' issues with integrating electronics into their platforms. The acquisition also added two manufacturing operations in locations that the Company believes will augment the Company's international footprint. In addition, the acquisition of the Business will allow the Company to offer design services for the first time in specific markets. In conjunction with the acquisition, professional fees incurred during fiscal 2013 and 2012, were \$803,006 and \$530,565, respectively. The professional fees were recorded as selling and administrative expenses.

**Accounting**

The acquisition was recorded using the purchase method of accounting, and on the date of the acquisition, the Company assessed the fair value of the acquired assets and assumed liabilities (primarily using level 3 measurement inputs) and an allocated purchase price of \$18,944,307. The allocation of the purchase considerations was based upon estimates made by the Company with the assistance of independent valuation specialists. The revised purchase price allocation as of May 31, 2012, was as follows:

	<b>Estimated Fair Value</b>
Cash	\$ 1,142,597
Current assets	10,074,168
Property, machinery and equipment	1,400,250
Current liabilities	(3,037,607)
Customer relationships	4,690,000
Backlog	22,000
Trade names	980,000
Non-compete agreements	50,000
Patents	400,000
Goodwill	3,222,899
<b>Total Net Assets</b>	<b>\$ 18,944,307</b>

The amounts allocated to customer relationships, backlog, trade names, non-compete agreements and patents are estimated by the Company based on the analysis performed by independent valuation specialists, primarily through the use of discounted cash flow techniques. Appraisal assumptions utilized under these methods include a forecast of estimated future net cash flows, as well as discounting the future net cash flows to their present value. Acquired intangible assets are being amortized over the estimated useful lives as set forth in the following table:

**Table of Contents**

SigmaTron International, Inc.

July 31, 2013

**Notes to Consolidated Financial Statements - Continued**

(Unaudited)

**Note F - Acquisition - Continued**

Spitfire Control, Inc.

***Accounting - Continued***

	<b>Method</b>	<b>Life</b>
Customer relationships	Accelerated	15 Years
Backlog	Straight-line	1 Year
Trade names	Straight-line	20 Years
Non-compete agreements	Straight-line	7 Years
Patents	Straight-line	5 Years
Goodwill	N/A	Indefinite

The estimated asset lives are determined based on projected future economic benefits and expected life cycles of the acquired intangible assets. The amount assigned to goodwill is not being amortized, but will be tested for impairment annually or under circumstances that may indicate a potential impairment. Goodwill is deductible for federal income tax purposes over a period of 15 years.

The Company's estimate of the fair value of the contingent consideration (\$2,320,000 as of the acquisition date) was based on expected operating results of the Business through fiscal 2019 and the specific terms of when such consideration would be earned. Those terms provide for additional consideration to be paid to Seller or its owner based on a percentage of sales and pre-tax profits over those years in excess of certain minimums. The Company discounted expected payments by its weighted average cost of capital of 11.5%. Payments are to be made quarterly each year and adjusted after each year end audit. The Company has made three quarterly payments of \$65,000 each in fiscal 2013. As of April 30, 2013, the Company had not changed its estimated aggregate consideration expected to be earned under this arrangement. Any changes in the Company's estimate will be reflected as a change in the contingent consideration liability and as additional or credits to selling and administrative expenses, as will changes in the current fair value caused by the continual decrease in the discount period between the current balance sheet date and the estimated payout dates. Such fair value changes were not material during fiscal 2013. The value of the 50,000 shares of restricted stock issued as part of the purchase price was \$169,011 based on the trading price of the Company's common stock on the acquisition date discounted by 15% to account for the restrictions associated with that issuance.

Due to the acquisition of Spitfire, effective June 1, 2012, the Company discontinued selling to Spitfire and instead began selling directly to Spitfire's former customers.

***Pro Forma Results***

The results of the Business for the period June 1, 2012 through July 31, 2012 have been included in the consolidated financial statement for the three month period ended July 31, 2012 and includes sales of \$3,966,521 and a net loss of \$568,594.

**Table of Contents**

SigmaTron International, Inc.

July 31, 2013

**Notes to Consolidated Financial Statements - Continued**

(Unaudited)

**Note F - Acquisition - Continued**

Spitfire Control, Inc.

**Accounting - Continued**

While the results of Spitfire have been included in the condensed consolidated financial statements of the Company for the period subsequent to the acquisition, the following unaudited pro forma condensed combined results of operations for the three months ended July 31, 2012 are based on the historical financial statements of the Company and Spitfire giving effect to the business combination as if it had occurred on May 1, 2012. Therefore, this pro forma data includes adjustments to sales, amortization, depreciation, compensation expense and tax expense. This data is not necessarily indicative of the results of operations that would have been generated if the transaction had occurred on May 1, 2012. Moreover, this data is not intended to be indicative of future results of operations.

	<b>Three Months Ended July 31, 2012</b>
Net sales	\$ 48,409,291
Net income (loss)	71,508
Income (loss) per share:	
Basic	\$ 0.02
Diluted	\$ 0.02

**Note G Goodwill and Other Intangible Assets***Goodwill*

The changes in carrying amount of goodwill for the three months ended July 31, 2013, are as follows:

	<b>Total</b>
Balance at April 30, 2013	\$ 3,222,899
Changes in carrying amount	0
Balance at July 31, 2013	\$ 3,222,899

**Table of Contents**

SigmaTron International, Inc.

July 31, 2013

**Notes to Consolidated Financial Statements - Continued**

(Unaudited)

**Note G - Goodwill and Other Intangible Assets - Continued***Other Intangible Assets*

Intangible assets subject to amortization are summarized as of July 31, 2013 as follows:

*Goodwill*

		<b>Weighted Average Remaining Amortization Period (Years)</b>	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>
Other intangible assets	Able		\$ 375,000	\$ 375,000
Customer relationships	Able		2,395,000	2,395,000
<b>Spitfire:</b>				
Non-contractual customer relationships		13.8	4,690,000	98,982
Backlog			22,000	22,000
Trade names		18.8	980,000	57,162
Non-compete agreements		5.8	50,000	8,330
Patents		3.8	400,000	93,338
<b>Total</b>			<b>\$ 8,912,000</b>	<b>\$ 3,049,812</b>

Estimated aggregate amortization expense for our intangible assets, which become fully amortized in 2032, for the remaining periods is as follows:

For the remaining 9 months of the fiscal year ending April 30:	2014	\$ 247,288
For the fiscal year ended April 30:	2015	428,610
	2016	470,899
	2017	490,010
	2018	435,043
	Thereafter	3,790,338
		<b>\$ 5,862,188</b>

**Note H Critical Accounting Policies**



## Edgar Filing: SIGMATRON INTERNATIONAL INC - Form 10-Q

*Management Estimates and Uncertainties* - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ( U.S. GAAP ) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates made in preparing the consolidated financial statements include depreciation and amortization periods, the allowance for doubtful accounts, reserves for inventory and valuation of long-lived assets. Actual results could materially differ from these estimates.

**Table of Contents**

SigmaTron International, Inc.

July 31, 2013

**Notes to Consolidated Financial Statements - Continued**

(Unaudited)

**Note H - Critical Accounting Policies - Continued**

*Revenue Recognition* - Revenues from sales of the Company's electronic manufacturing services business are recognized when the finished good product is shipped to the customer. In general, and except for consignment inventory, it is the Company's policy to recognize revenue and related costs when the finished goods have been shipped from our facilities, which is also the same point that title passes under the terms of the purchase order. Finished goods inventory for certain customers is shipped from the Company to an independent warehouse for storage or shipped directly to the customer and stored in a segregated part of the customer's own facility. Upon the customer's request for finished goods inventory, the inventory is shipped to the customer if the inventory was stored off-site, or transferred from the segregated part of the customer's facility for consumption or use by the customer. The Company recognizes revenue upon such shipment or transfer. The Company does not earn a fee for such arrangements. The Company from time to time may ship finished goods from its facilities, which is also the same point that title passes under the terms of the purchase order, and invoice the customer at the end of the calendar month. This is done only in special circumstances to accommodate a specific customer. Further, from time to time customers request the Company hold finished goods after they have been invoiced to consolidate finished goods for shipping purposes. The Company generally provides a 90 day warranty for workmanship only and does not have any installation, acceptance or sales incentives (although the Company has negotiated longer warranty terms in certain instances). The Company assembles and tests assemblies based on customers' specifications. Historically, the amount of returns for workmanship issues has been de minimis under the Company's standard or extended warranties.

*Inventories* - Inventories are valued at the lower of cost or market. Cost is determined by the first-in, first-out method. In the event of an inventory write-down, the Company records expense to state the inventory at lower of cost or market. The Company establishes inventory reserves for valuation, shrinkage, and excess and obsolete inventory. The Company records provisions for inventory shrinkage based on historical experience to account for unmeasured usage or loss. Actual results differing from these estimates could significantly affect the Company's inventories and cost of products sold. The Company records provisions for excess and obsolete inventories for the difference between the cost of inventory and its estimated realizable value based on assumptions about future product demand and market conditions. Actual product demand or market conditions could be different than that projected by management.

*Goodwill* - Goodwill represents the purchase price in excess of the fair value of assets acquired in business combinations. The Company assesses goodwill for impairment at least annually in the absence of an indicator of possible impairment and immediately upon an indicator of possible impairment. The Company is permitted the option to first assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the fair value of any reporting unit is less than its corresponding carrying value. If, after assessing the totality of events and circumstances, the Company concludes that it is not more likely than not that the fair value of any reporting unit is less than its corresponding carrying value then the Company is not required to take further action. However, if the Company concludes otherwise, then it is required to perform a quantitative impairment test, including computing the fair value of the reporting unit and comparing that value to its carrying value. If the fair value is less than its carrying value, a second

**Table of Contents**

SigmaTron International, Inc.

July 31, 2013

**Notes to Consolidated Financial Statements - Continued**

(Unaudited)

**Note H - Critical Accounting Policies - Continued**

step of the test is required to determine if recorded goodwill is impaired. The Company also has the option to bypass the qualitative assessment for goodwill in any period and proceed directly to performing the quantitative impairment test. The Company will be able to resume performing the qualitative assessment in any subsequent period. The Company performed its annual goodwill impairment test as of February 1, 2013 and determined that no impairment existed as of the date of the impairment test.

*Impairment of Long-Lived Assets* - The Company reviews long-lived assets, including amortizable intangible assets for impairment. Property, machinery and equipment and finite life intangible assets are reviewed whenever events or changes in circumstances occur that indicate possible impairment. If events or changes in circumstances occur that indicate possible impairment, the Company's impairment review is based on an undiscounted cash flow analysis at the lowest level at which cash flows of the long-lived assets are largely independent of other groups of its assets and liabilities. This analysis requires management judgment with respect to changes in technology, the continued success of product lines, and future volume, revenue and expense growth rates. The Company conducts annual reviews for idle and underutilized equipment, and review business plans for possible impairment. Impairment occurs when the carrying value of the assets exceeds the future undiscounted cash flows expected to be earned by the use of the asset group. When impairment is indicated, the estimated future cash flows are then discounted to determine the estimated fair value of the asset or asset group and an impairment charge is recorded for the difference between the carrying value and the estimated fair value.

*Income Tax* - Deferred income tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities, and are measured using the enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse. Valuation allowances are established when necessary to reduce deferred income tax assets to an amount more likely than not to be realized.

A tax benefit from an uncertain tax position may only be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits.

The Company adjusts its tax liabilities when its judgment changes as a result of the evaluation of new information not previously available. Due to the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from its current estimate of the tax liabilities. These differences will be reflected as increase or decreases to income tax expense in the period in which they are determined.

**New Accounting Standards:**

There are no recent accounting standards that had, or are expected to have, a significant effect on these consolidated financial statements.

---

**Table of Contents**

SigmaTron International, Inc.

July 31, 2013

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

In addition to historical financial information, this discussion of the business of SigmaTron International, Inc. (SigmaTron), its wholly-owned subsidiaries Standard Components de Mexico S.A., AbleMex, S.A. de C.V., Digital Appliance Controls de Mexico, S.A. de C.V., Spitfire Controls (Vietnam) Co. Ltd., Spitfire Controls (Cayman) Co. Ltd. and SigmaTron International Trading Co., wholly-owned foreign enterprises Wujiang SigmaTron Electronics Co., Ltd. and SigmaTron Electronic Technology Co., Ltd. (collectively, SigmaTron China) and international procurement office SigmaTron Taiwan branch (collectively, the Company) and other Items in this Quarterly Report on Form 10-Q contain forward-looking statements concerning the Company's business or results of operations. Words such as continue, anticipate, will, expect, plan, and similar expressions identify forward-looking statements. These forward-looking statements are based on the current expectations of the Company. Because these forward-looking statements involve risks and uncertainties, the Company's plans, actions and actual results could differ materially. Such statements should be evaluated in the context of the risks and uncertainties inherent in the Company's business including, but not necessarily limited to, the Company's continued dependence on certain significant customers; the continued market acceptance of products and services offered by the Company and its customers; pricing pressures from our customers, suppliers and the market; the activities of competitors, some of which may have greater financial or other resources than the Company; the variability of our operating results; the results of long-lived assets and goodwill impairment testing; the variability of our customers' requirements; the availability and cost of necessary components and materials; the ability of the Company and our customers to keep current with technological changes within our industries; regulatory compliance, including conflict minerals; the continued availability and sufficiency of our credit arrangements; changes in U.S., Mexican, Chinese, Vietnamese or Taiwanese regulations affecting the Company's business; the turmoil in the global economy and financial markets; the stability of the U.S., Mexican, Chinese, Vietnamese and Taiwanese economic, labor and political systems and conditions; currency exchange fluctuations; and the ability of the Company to manage its growth, including its integration of the Spitfire operation acquired in May 2012. These and other factors which may affect the Company's future business and results of operations are identified throughout this Annual Report and as risk factors, and may be detailed from time to time in the Company's filings with the Securities and Exchange Commission. These statements speak as of the date of such filings, and the Company undertakes no obligation to update such statements in light of future events or otherwise unless otherwise required by law.

**Overview:**

The Company operates in one business segment as an independent provider of electronic manufacturing services (EMS), which includes printed circuit board assemblies and completely assembled (box-build) electronic products. In connection with the production of assembled products, the Company also provides services to its customers, including: (1) automated and manual assembly and testing of products; (2) material sourcing and procurement; (3) manufacturing and test engineering support; (4) design services; (5) warehousing and shipment services; and (6) assistance in obtaining product approval from governmental and other regulatory bodies. The Company provides these manufacturing services through an international network of facilities located in the United States, Mexico, China, Vietnam and Taiwan.

**Table of Contents**

SigmaTron International, Inc.

July 31, 2013

The Company relies on numerous third-party suppliers for components used in the Company's production process. Certain of these components are available only from single sources or a limited number of suppliers. In addition, a customer's specifications may require the Company to obtain components from a single source or a small number of suppliers. The loss of any such suppliers could have a material impact on the Company's results of operations. Further, the Company could operate at a cost disadvantage compared to competitors who have greater direct buying power from suppliers. The Company does not enter into long-term purchase agreements with major or single-source suppliers. The Company believes that short-term purchase orders with its suppliers provides flexibility, given that the Company's orders are based on the changing needs of its customers.

Sales can be a misleading indicator of the Company's financial performance. Sales levels can vary considerably among customers and products depending on the type of services (consignment versus turnkey) rendered by the Company and the demand by customers. Consignment orders require the Company to perform manufacturing services on components and other materials supplied by a customer, and the Company charges only for its labor, overhead and manufacturing costs, plus a profit. In the case of turnkey orders, the Company provides, in addition to manufacturing services, the components and other materials used in assembly. Turnkey contracts, in general, have a higher dollar volume of sales for each given assembly, owing to inclusion of the cost of components and other materials in net sales and cost of goods sold. Variations in the number of turnkey orders compared to consignment orders can lead to significant fluctuations in the Company's revenue and gross margin levels. Consignment orders accounted for less than 5% of the Company's revenues for the three months ended July 31, 2013 and 2012.

In the past, the timing of production and delivery of orders has caused the Company to experience significant quarterly fluctuations in its revenues and earnings. The uncertainty associated with the worldwide economy in general, and the United States economy specifically, makes forecasting difficult. The Company has seen signs of a slowdown in demand at the beginning of its second quarter of fiscal 2014. However, the Company has not lost any customers or specific programs. The overall market remains difficult and the Company continues to experience pricing pressures.

On May 31, 2012, the Company acquired certain assets and assumed certain liabilities of Spitfire. Spitfire was a privately held Illinois corporation with captive manufacturing sites in Chihuahua, Mexico and suburban Ho Chi Minh City, Vietnam. Both manufacturing sites were among the assets acquired by the Company. Spitfire was an original equipment manufacturer of electronic controls, with a focus on the major appliance (white goods) industry. Although North America was its primary market, Spitfire's applications can be used worldwide. The Company provided manufacturing solutions for Spitfire since 1994, and was a strategic partner to Spitfire as it developed its OEM electronic controls business.

The Company's Spitfire division provides cost effective designs as control solutions for its customers, primarily in high volume applications of domestic cooking ranges, dishwashers, refrigerators, and portable appliances. It is a member of the Association of Home Appliance Manufacturers (AHAM), as well as other industry related trade associations and is ISO 9001-2008 certified. The acquisition has enabled the Company to offer design services for the first time in specific markets.

Due to the acquisition of Spitfire, effective June 1, 2012, the Company discontinued selling to Spitfire. The Company instead began selling directly to Spitfire's former customers.

During the first quarter of fiscal year 2013, the Company relocated its Tijuana, MX operation to a new facility within Tijuana, MX. The Company incurred a total of approximately \$417,420 in relocation expenses to date, as a result of the move. For the first quarter ended July 31, 2012, relocation expenses of approximately \$391,750 are included in cost of products sold and consist primarily of moving expenses related to equipment, the write-off of leasehold improvements and the restoration of the prior Tijuana facility.

**Table of Contents**

SigmaTron International, Inc.

July 31, 2013

**Results of Operations:**

Net Sales

Net sales increased for the three month period ended July 31, 2013 to \$56,166,061 from \$47,629,229 for the three month period ended July 31, 2012. Sales volume increased for the three month period ended July 31, 2013 as compared to the same period in the prior fiscal year in the appliance, consumer electronics and medical/life sciences marketplaces. The increase in sales for these marketplaces was partially offset by a decrease in sales in the fitness, telecommunications, gaming, industrial electronics and semiconductor equipment marketplaces. The increase in revenue for the three month period ended July 31, 2013 is a result of sales to customers arising out of the Spitfire acquisition, as well as our existing customers' increased demand for product and the addition of new customers. The Company has seen signs of a slowdown in demand at the beginning of its second quarter of fiscal year 2014 and anticipates an overall sluggish and volatile economy without sustained growth.

Gross Profit

Gross profit increased during the three month period ended July 31, 2013 to \$6,288,408 or 11.2% of net sales, compared to \$4,705,898 or 9.9% of net sales for the same period in the prior fiscal year. The increase in gross profit for the three month period ended July 31, 2013 was primarily the result of sales to customers arising out of the Spitfire acquisition, as well as increased sales revenue from our existing customers and the addition of new customers and programs. The Company saw improved performance from the two manufacturing facilities obtained through the Spitfire acquisition due to achieving economies of scale. The Company experienced steady performance from its other operations. During the first quarter of fiscal 2013 the Company incurred one-time expenses of approximately \$392,000 in relocation expenses for its Tijuana Mexico operation.

Selling and Administrative Expenses

Selling and administrative expenses increased to \$4,855,558 or 8.6% of net sales for the three month period ended July 31, 2013, compared to \$4,665,405 or 9.8% of net sales for the same period in the prior fiscal year. The net increase for the three month period ended July 31, 2013 was \$190,153. Of the increase noted above, \$453,751 was for salaries and other administrative expenses attributable to Spitfire operations. In addition, general insurance and bonus expenses increased by approximately \$88,500 for the three month period ended July 31, 2013 compared to the same period in the prior fiscal year. The increase in the foregoing selling and administrative expenses were partially offset by a decrease in legal, accounting, and other professional fee expenses related to the Spitfire acquisition in fiscal 2013.

---

**Table of Contents**

SigmaTron International, Inc.

July 31, 2013

**Interest Expense**

Interest expense increased to \$213,960 for the three month period ended July 31, 2013 compared to \$188,337 for the same period in the prior fiscal year. The increase in interest expense for the three month period ended July 31, 2013 was due to increased borrowings under the Company's banking arrangements during the quarter. Interest expense for future quarters may increase if interest rates or borrowings, or both, increase.

**Taxes**

The income tax expense from operations was \$272,875 for the three month period ended July 31, 2013 compared to an income tax benefit of \$54,700 for the same period in the prior fiscal year. The income tax expense for the three month period ended July 31, 2013 is a result of pre-tax income for the period compared to a pre-tax loss for the quarter ended July 31, 2012. The Company's effective tax rate was 22% and 37% for the quarter ended July 31, 2013 and 2012, respectively. The decrease in the effective tax rate between periods was driven by a higher level of pre-tax income by foreign subsidiaries, which are subject to lower statutory tax rates.

**Net Income/Loss**

Net income from operations was \$967,464 for the three month period ended July 31, 2013 compared to net loss of \$93,144 for the same period in the prior fiscal year. The Company incurred approximately \$589,000 of one-time expenses related to the Spitfire acquisition and approximately \$392,000 of one-time expenses related to the relocation of its Tijuana Mexican operation during the first quarter of fiscal year 2013. Basic and diluted earnings per share for the first fiscal quarter of 2014 were each \$0.24 compared to basic and diluted loss per share of \$0.02 for the same period in the prior fiscal year.

**Liquidity and Capital Resources:**

***Operating Activities.***

Cash flow provided by operating activities was \$2,375,341 for the three months ended July 31, 2013, compared to cash flow used in operating activities of \$4,741,213 for the same period in the prior fiscal year. During the first three months of fiscal year 2014, cash flow provided by operating activities was primarily the result of net income, the non-cash effects of depreciation and amortization, stock-based compensation expense and an increase of \$1,365,181 in trade accounts payable. The increase in accounts payable was due to timing of payments in the ordinary course of business. Net cash provided by operating activities was partially offset by an increase in inventories and accounts receivable. The increase in accounts receivable of \$99,385 and inventories of \$1,797,940 was primarily related to increased customer orders during the period.

Cash flow used in operating activities was \$4,741,213 for the three months ended July 31, 2012. During the first three months of fiscal year 2013, cash flow used in operating activities was primarily the result of an increase in inventory and accounts receivable. The increase in inventory of \$1,871,827 was primarily related to the Spitfire acquisition and increased customer orders. The increase in accounts receivable of \$5,592,925 was due to increased sales volume from both existing customers and sales to customers due to the Spitfire acquisition. Net cash used in operating activities was partially offset by an increase in accounts payable, the non cash effects of depreciation, amortization, stock compensation and related expenses.

**Table of Contents**

SigmaTron International, Inc.

July 31, 2013

***Investing Activities.***

During the first three months of fiscal year 2014, the Company purchased approximately \$4,900,000 in machinery and equipment to be used in the ordinary course of business. The Company expects to make additional machinery and equipment purchases of approximately \$8,500,000 during the balance of fiscal year 2014. The Company anticipates the purchases will be funded by lease transactions and its bank line of credit. The purchases in fiscal year 2014 are to upgrade existing equipment capabilities and to add capacity.

During the first three months of fiscal year 2013, investing activities consisted of purchases of approximately \$771,400 in machinery and equipment to be used in the ordinary course of business. The Company received approximately \$1,142,600 in cash in conjunction with the Spitfire Transaction.

***Financing Activities.***

Cash provided by financing activities was \$714,835 for the three months ended July 31, 2013, compared to cash provided by financing activities of \$5,154,348 for the same period in the prior fiscal year. Cash provided by financing activities was primarily the result of increased borrowings of \$763,208 under the credit facility. The additional borrowings were required to support the purchases of machinery and equipment and the increase inventory.

Cash provided by financing activities was \$5,154,348 for the three months ended July 31, 2012. Cash provided by financing activities was primarily the result of increased borrowings of \$5,260,111 under the credit facility. The additional borrowings were required to support increased inventories, driven by customer demand, accounts payable related to the Spitfire acquisition and an increase in accounts receivable in the ordinary course of business.

***Financing Summary***

The Company has a senior secured credit facility with Wells Fargo with a credit limit up to \$30 million and an initial term through September 30, 2013. The facility allows the Company to choose among interest rates at which it may borrow funds. The interest rate is the prime rate plus one half percent (effectively, 3.75% at July 31, 2013) or LIBOR plus two and three quarter percent (effectively, 3.0% at July 31, 2013), which is paid monthly. The credit facility is collateralized by substantially all of the domestically located assets of the Company and the Company has pledged 65% of its equity ownership interest in some of its foreign entities. The Company is required to be in compliance with several financial covenants. In conjunction with the Spitfire acquisition, two of the financial covenants required by terms of the Company's senior secured credit facility were amended as of May 31, 2012. The Company was in violation of certain of its financial covenants at July 31, 2012 and received a waiver for the financial covenant violations. The Company renegotiated its financial covenants with Wells Fargo during the quarter ended October 31, 2012 and extended the credit facility through October 31, 2014. As of April 30, 2013, the Company again amended its credit agreement and renegotiated two of the financial covenants required by the terms of the Company's senior secured credit facility. At July 31, 2013, the Company was in compliance with its amended financial covenants. As of July 31, 2013, there was a \$19,263,208 outstanding balance and \$10,736,792 of unused availability under the credit facility.



**Table of Contents**

SigmaTron International, Inc.

July 31, 2013

The Company entered into a mortgage agreement on January 8, 2010, in the amount of \$2,500,000, with Wells Fargo to refinance the property that serves as the Company's corporate headquarters and its Illinois manufacturing facility. The Company repaid the prior Bank of America mortgage, which equaled \$2,565,413, as of January 8, 2010, using proceeds from the Wells Fargo mortgage and senior secured credit facility. The Wells Fargo note bears interest at a fixed rate of 6.42% per year and is amortized over a sixty month period. A final payment of approximately \$2,000,000 is due on or before January 8, 2015. The outstanding balance as of July 31, 2013 was \$2,150,014.

In August 20, 2010 and October 26, 2010, the Company entered into two capital leasing transactions (a lease finance agreement and a sale leaseback agreement) with Wells Fargo Equipment Finance, Inc., to purchase equipment totaling \$1,150,582. The term of the lease finance agreement, with an initial principal amount of \$315,252, extends to September 2016 with monthly payments of \$4,973 and a fixed interest rate of 4.28%. The term of the sale leaseback agreement, with an initial principal payment amount of \$835,330, extends to August 2016 with monthly payments of \$13,207 and a fixed interest rate of 4.36%. At July 31, 2013, \$176,072 and \$444,039 was outstanding under the lease finance and sale leaseback agreements, respectively. The net book value at July 31, 2013 of the equipment under each of the lease finance agreement and sale leaseback agreement was \$240,817 and \$609,388, respectively.

In November 29, 2010, the Company entered into a capital lease with Wells Fargo Equipment Finance, Inc., to purchase equipment totaling \$226,216. The term of the lease agreement extends to October 2016 with monthly payments of \$3,627 and a fixed interest rate of 4.99%. At July 31, 2013, the balance outstanding under the capital lease agreement was \$130,331. The net book value of the equipment under this lease at July 31, 2013 was \$173,666.

In September 2010, the Company entered into a real estate lease agreement in Union City, CA, to rent 116,993 square feet of manufacturing and office space. Under the terms of the lease agreement, the Company receives incentives over the life of the lease, which extends through March 2021. The amount of the deferred rent income recorded for the first quarter of fiscal year 2014 was \$4,106. In addition, the landlord provided the Company tenant incentives of \$418,000, which are being amortized over the life of the lease.

In May 2012, the Company entered into a lease agreement in Tijuana, MX, to rent 112,000 square feet of manufacturing and office space. Under the terms of the lease agreement, the Company receives incentives over the life of the lease, which extends through November 2018. The amount of the deferred rent expense recorded for the first quarter of fiscal year 2014 was \$25,197.

In May 31, 2012, the Company completed the acquisition of Spitfire, an OEM of electronic controls, with a focus on the major appliance industry. The acquisition added two manufacturing operations in locations that augment the Company's footprint and add Spitfire's design capabilities which allow the Company to offer design service for the first time in specific markets. In conjunction with the Spitfire acquisition, the Company recorded goodwill and other intangible assets of \$3,222,899 and \$6,142,000, respectively.

The Company provides funds for salaries, wages, overhead and capital expenditure items as necessary to operate its wholly-owned Mexican, Vietnam and Chinese subsidiaries and the Taiwan international procurement office. The Company provides funding, as needed, in U.S. dollars, which are exchanged for Pesos, Dong, Renminbi, and New Taiwan dollars as applicable. The fluctuation of currencies from

**Table of Contents**

SigmaTron International, Inc.

July 31, 2013

time to time, without an equal or greater increase in inflation, could have a material impact on the financial results of the Company. The impact of currency fluctuation for the period ended July 31, 2013 resulted in a foreign currency gain of approximately \$8,000. During the first three months of fiscal year 2014, the Company's U.S. operations paid approximately \$14,464,000 to its foreign subsidiaries for services provided.

The Company has not recorded U.S. income taxes for a significant portion of undistributed earnings of the Company's foreign subsidiaries, since these earnings have been, and under current plans will continue to be, permanently reinvested in these foreign subsidiaries. The cumulative amount of unremitted earnings for which U.S. income taxes have not been recorded is approximately \$10,000,000.

The Company anticipates that its credit facilities, cash flow from operations and leasing resources will be adequate to meet its working capital requirements and capital expenditures for the next twelve months. There is no assurance that the Company will be able to retain or renew its credit agreements in the future, or that any retention or renewal will be on the same terms as currently exist. In the event the business grows rapidly, the current economic climate deteriorates, customers delay payments, or the Company considers an acquisition, additional financing resources could be necessary in the current or future fiscal years. There is no assurance that the Company will be able to obtain equity or debt financing at acceptable terms, or at all, in the future.

The impact of inflation on the Company's net sales, revenues and incomes from continuing operations for the past two fiscal years has been minimal.

**Off-balance Sheet Transactions:**

The Company has no off-balance sheet transactions.

**Contractual Obligations and Commercial Commitments:**

As a smaller reporting company, as defined in Item 10(f)(1) of Regulation S-K under the Exchange Act, we are not required to provide the information required by this item.

**Item 3. Quantitative and Qualitative Disclosures About Market Risks.**

As a smaller reporting company, as defined in Item 10(f)(1) of Regulation S-K under the Exchange Act, we are not required to provide the information required by this item.

**Item 4. Controls and Procedures.**

**Disclosure Controls:**

Our management, including our President and Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined under the Securities Exchange Act of 1934, as amended (the Exchange Act), Rules 13a-15(e) and 15(d)-15(e)) as of July 31, 2013. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives and our President and Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective at the reasonable assurance level as of the end of the period covered by this report.

**Table of Contents**

SigmaTron International, Inc.

July 31, 2013

**Internal Controls:**

There has been no change in our internal control over financial reporting during the quarter ended July 31, 2013, that has materially affected or is reasonably likely to materially affect, our internal control over financial reporting. Our internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with U.S. GAAP.

**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings.**

As of July 31, 2013, the Company was not a party to any material legal proceedings.

From time to time the Company is involved in legal proceedings, claims or investigations that are incidental to the conduct of the Company's business. In future periods, the Company could be subjected to cash cost or non-cash charges to earnings if any of these matters is resolved on unfavorable terms. However, although the ultimate outcome of any legal matter cannot be predicted with certainty, based on present information, including management's assessment of the merits of any particular claim, the Company does not expect that these legal proceedings or claims will have any material adverse impact on its future consolidated financial position or results of operations.

**Item 1A. Risk Factors.**

There have been no material changes to the description of the risk factors affecting our business as previously disclosed in Item 1A. to Part 1 of our Annual Report on Form 10-K for the fiscal year ended April 30, 2013.

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

As discussed in the Current Report on Form 8-K filed on June 4, 2012 (the Report), the Company agreed to sell a total of 50,000 shares of the Company's common stock to Gregory Jay Ramsey in connection with the closing of the Spitfire Transaction, which served as partial consideration for the Acquired Assets (as such term is defined in the Report). The information contained in the Report with respect to such sale is incorporated herein by reference. Of the total, 12,500 shares were sold in each of June, 2012 and June, 2013, each in an unregistered sale, in accordance with and under Rule 506 under the Securities Act of 1933, as amended. The facts related to the Company's reliance on Rule 506 are contained in the Company's Form D filed with the Commission on June 25, 2012 and updated on June 17, 2013, which information is incorporated herein by reference. The remaining shares will vest and be sold in two additional installments of 12,500 shares each, on May 31, 2014 and May 31, 2015, and no event will accelerate the vesting thereof. The unvested shares may be forfeited in limited circumstances, as described in the Report.

The Company hired Peter Sognefest as an employee in connection with the Spitfire Transaction and agreed to sell a total of 25,000 shares of the Company's common stock to Mr. Sognefest in connection with Mr. Sognefest's hiring, and in partial consideration for his services rendered and to be rendered to the Company as an employee. Of the total, 8,333 shares were sold in each of June, 2012 and June,

---

**Table of Contents**

SigmaTron International, Inc.

July 31, 2013

2013, each in an unregistered sale, in accordance with and under Rule 506 under the Securities Act of 1933, as amended. The facts related to the Company's reliance on Rule 506 are contained in the Company's Form D filed with the Commission on June 25, 2012 and updated on June 17, 2013 which information is incorporated herein by reference. The remaining shares will vest and be sold in one final installment of 8,333 shares on May 31, 2014, and no event will accelerate the vesting thereof. The unvested shares may be forfeited in limited circumstances, including but not limited to the termination of Mr. Sognefest's employment for cause.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**Item 5. Other Information.**

None.

**Item 6. Exhibits.**

31.1	Certification of Principal Executive Officer of the Company Pursuant to Rule 13a-14(a) under the Exchange Act, as adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).
31.2	Certification of Principal Financial Officer of the Company Pursuant to Rule 13a-14(a) under the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).
32.1	Certification by the Principal Executive Officer of SigmaTron International, Inc. Pursuant to Rule 13a-14(b) under the Exchange Act and Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).
32.2	Certification by the Principal Financial Officer of SigmaTron International, Inc. Pursuant to Rule 13a-14(b) under the Exchange Act and Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).
99.4	Eighth Amendment to Amended and Restated Credit Agreement between SigmaTron International, Inc., and Wells Fargo Bank, National Association, dated April 30, 2013.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Scheme Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document



**Table of Contents**

SigmaTron International, Inc.

July 31, 2013

Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

**Table of Contents**

SigmaTron International, Inc.

July 31, 2013

**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.

SIGMATRON INTERNATIONAL, INC.

/s/ Gary R. Fairhead  
Gary R. Fairhead  
President and CEO (Principal Executive Officer)

September 12, 2013  
Date

/s/ Linda K. Frauendorfer  
Linda K. Frauendorfer  
Chief Financial Officer, Secretary and Treasurer  
(Principal Financial Officer and Principal  
Accounting Officer)

September 12, 2013  
Date