

SIGMATRON INTERNATIONAL INC

Form 10-Q

March 13, 2014

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 January 31, 2014

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)

|  |   |
|--|---|
| Delaware<br>(State or other jurisdiction of<br>incorporation or organization)                  | 36-3918470<br>(I.R.S. Employer<br>Identification No.) |
| 2201 Landmeier Road<br>Elk Grove Village, Illinois<br>(Address of principal executive offices) | 60007<br>(Zip Code)                                   |

Registrant's telephone number, including area code: (847) 956-8000

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

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

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SigmaTron International, Inc.

January 31, 2014

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      Accelerated filer

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

Indicate by check mark whether the registrant is a shell company (as defined 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 March 13, 2014:  
3,983,107

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SigmaTron International, Inc.

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SigmaTron International, Inc.

Consolidated Balance Sheets

|  | January 31,<br>2014<br>(Unaudited) | April 30,<br>2013         |
|--|------------------------------------|---------------------------|
| Current assets:  |                                    |                           |
| Cash   | \$ 3,879,181                       | \$ 4,607,731              |
| Accounts receivable, less allowance for doubtful accounts of \$150,000 at January 31, 2014 and April 30, 2013    | 19,675,393                         | 19,421,252                |
| Inventories, net   | 56,192,478                         | 50,644,741                |
| Prepaid expenses and other assets  | 1,671,113                          | 1,882,680                 |
| Refundable income taxes  | -                                  | 228,026                   |
| Deferred income taxes  | 1,983,119                          | 1,630,809                 |
| Other receivables  | 79,940                             | 524,268                   |
| <b>Total current assets</b>  | <b>83,481,224</b>                  | <b>78,939,507</b>         |
| <br>Property, machinery and equipment, net   | <br>32,792,293                     | <br>28,567,052            |
| <br>Intangible assets, net of amortization of \$3,222,768 and \$2,962,566 at January 31, 2014 and April 30, 2013 | <br>5,689,232                      | <br>5,949,434             |
| Goodwill   | 3,222,899                          | 3,222,899                 |
| Other assets   | 783,171                            | 910,025                   |
| <b>Total other long-term assets</b>  | <b>9,695,302</b>                   | <b>10,082,358</b>         |
| <br><b>Total assets</b>  | <br><b>\$ 125,968,819</b>          | <br><b>\$ 117,588,917</b> |
| <br>Liabilities and stockholders' equity:  |                                    |                           |
| Current liabilities:   |                                    |                           |
| Trade accounts payable   | \$ 30,156,167                      | \$ 31,347,354             |
| Accrued taxes  | 127,433                            | -                         |
| Accrued wages  | 3,154,222                          | 3,633,900                 |
| Accrued expenses   | 2,199,033                          | 2,486,819                 |
| Current portion of long-term debt  | 150,996                            | 99,996                    |
| Current portion of capital lease obligations   | 664,358                            | 229,661                   |
| Current portion of contingent consideration  | 331,429                            | 331,429                   |

|   |            |            |
|---|------------|------------|
| Total current liabilities                       | 36,783,638 | 38,129,159 |
| Long-term debt, less current portion            | 26,864,551 | 20,575,017 |
| Capital lease obligations, less current portion | 2,106,777  | 577,221    |
| Contingent consideration, less current portion  | 1,598,571  | 1,793,571  |
| Other long-term liabilities                     | 507,219    | 487,236    |
| Deferred rent                                   | 1,158,277  | 1,096,272  |
| Deferred income taxes                           | 2,299,853  | 2,946,710  |
| Total long-term liabilities                     | 34,535,248 | 27,476,027 |

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|   |                |                |
|---|----------------|----------------|
| Total liabilities   | 71,318,886     | 65,605,186     |
| Commitments and contingencies:  |                |                |
| Stockholders' equity:   |                |                |
| Preferred stock, \$.01 par value; 500,000 shares authorized, none issued or outstanding   | -              | -              |
| Common stock, \$.01 par value; 12,000,000 shares authorized, 3,979,332 and 3,940,402 shares issued and outstanding at January 31, 2014 and April 30, 2013 | 39,960         | 39,779         |
| Capital in excess of par value  | 20,531,120     | 20,361,012     |
| Retained earnings   | 34,078,853     | 31,582,940     |
| Total stockholders' equity  | 54,649,933     | 51,983,731     |
| Total liabilities and stockholders' equity  | \$ 125,968,819 | \$ 117,588,917 |

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



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SigmaTron International, Inc.

## Consolidated Statements of Operations

|  | Three Months<br>Ended<br>January 31,<br>2014<br>(Unaudited) | Three Months<br>Ended<br>January 31,<br>2013<br>(Unaudited) | Nine Months<br>Ended<br>January 31,<br>2014<br>(Unaudited) | Nine Months<br>Ended<br>January 31,<br>2013<br>(Unaudited) |
|--|---|---|--|--|
| Net sales  | \$ 54,175,196   | \$ 46,758,568   | \$ 166,918,544   | \$ 147,117,192   |
| Cost of products sold                                      | 49,357,816  | 42,636,191  | 149,816,620  | 132,885,747  |
| Gross profit   | 4,817,380   | 4,122,377   | 17,101,924   | 14,231,445   |
| Selling and administrative expenses                        | 4,725,540   | 4,380,524   | 14,420,852   | 13,725,684   |
| Operating income (loss)                                    | 91,840  | (258,147)   | 2,681,072  | 505,761  |
| Other income   | (35,076)  | -   | (86,048)   | (500)  |
| Interest expense   | 257,098   | 220,977   | 707,152  | 626,684  |
| (Loss) income from operations before income<br>tax expense | (130,182)   | (479,124)   | 2,059,968  | (120,423)  |
| Income tax benefit   | (873,976)   | (262,348)   | (435,944)  | (293,337)  |
| Net income (loss)  | \$ 743,794  | \$ (216,776)  | \$ 2,495,912   | \$ 172,914   |
| Earnings (loss) per share - basic                          | \$ 0.19   | \$ (0.06)   | \$ 0.63  | \$ 0.04  |
| Earnings (loss) per share - diluted                        | \$ 0.18   | \$ (0.06)   | \$ 0.62  | \$ 0.04  |
| Weighted average shares of common stock<br>outstanding     |   |   |  |  |
| Basic  | 3,966,814   | 3,930,402   | 3,963,093  | 3,927,761  |

Weighted average shares of common stock  
outstanding

|         |           |           |           |           |
|---------|-----------|-----------|-----------|-----------|
| Diluted | 4,088,695 | 3,930,402 | 4,055,898 | 3,995,678 |
|---------|-----------|-----------|-----------|-----------|

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

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SigmaTron International, Inc.

## Consolidated Statements Of Cash Flows

|  | Nine<br>Months Ended<br>January 31,<br>2014<br>(Unaudited) | Nine<br>Months Ended<br>January 31,<br>2013<br>(Unaudited) |
|--|--|--|
| Operating activities:  |  |  |
| Net income   | \$ 2,495,912   | \$ 172,914   |
| Adjustments to reconcile net income<br>to net cash (used in) provided by operating activities: |  |  |
| Depreciation and amortization  | 3,602,726  | 3,279,940  |
| Stock-based compensation   | 73,115   | 157,142  |
| Restricted stock expense   | 32,016   | 60,625   |
| Deferred income taxes  | (999,167)  | 11,024   |
| Amortization of intangibles  | 260,202  | 206,453  |
| Loss from disposal or sale of machinery and equipment  | 29,725   | 378  |
| Tender offer - stock options   | 300,410  | -  |
| Changes in operating assets and liabilities, net of assets and<br>liabilities acquired         |  |  |
| Accounts receivable  | (254,141)  | (2,781,759)  |
| Inventories  | (5,547,737)  | (2,616,116)  |
| Prepaid expenses and other assets  | 782,749  | (793,009)  |
| Refundable Income taxes  | 228,026  | (688,950)  |
| Trade accounts payable   | (1,191,187)  | 2,003,224  |
| Deferred rent  | 62,005   | 336,968  |
| Accrued expenses and wages   | (942,481)  | (269,967)  |
| Income taxes payable   | 127,433  | -  |
| Net cash used in operating activities  | (940,394)  | (921,133)  |

|   |             |             |
|---|-------------|-------------|
| Investing activities:                         |             |             |
| Purchases of machinery and equipment          | (7,857,691) | (4,808,626) |
| Cash received in conjunction with acquisition | -           | 1,142,597   |
| Net cash used in investing activities         | (7,857,691) | (3,666,029) |
| Financing activities:                         |             |             |
| Proceeds from the issuance of common stock    | 65,158      | -           |
| Payment of tendered stock options             | (300,410)   | -           |
| Proceeds under sale lease back agreement      | 2,281,354   | -           |
| Payments under capital lease obligations      | (404,848)   | (238,651)   |
| Payments under notes payable agreements       | -           | (26,832)    |
| Net proceeds under lines of credit            | 5,153,281   | 4,450,869   |
| Proceeds from issuance of notes payable       | 1,275,000   | -           |

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|   |              |               |
|---|--------------|---------------|
| Net cash provided by financing activities                         | 8,069,535    | 4,185,386     |
| Change in cash  | (728,550)    | (401,776)     |
| Cash at beginning of period                                       | 4,607,731    | 4,668,931     |
| Cash at end of period   | \$ 3,879,181 | \$ 4,267,155  |
| Supplementary disclosures of cash flow information                |              |               |
| Cash paid for interest  | \$ 639,629   | \$ 594,405    |
| Cash paid for income taxes  | 4,200        | 24,310        |
| Cash refunded for income taxes                                    | 212,436      | -             |
| Purchase of machinery and equipment financed under capital leases | 2,281,354    | -             |
| 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.

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SigmaTron International, Inc.

January 31, 2014

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 wholly-owned foreign enterprises Wujiang 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 and nine month periods ended January 31, 2014 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, net

The components of inventory consist of the following:

|                           | January 31,<br>2014 | April 30,<br>2013 |
|---------------------------|---------------------|-------------------|
| Finished products         | \$ 17,130,040       | \$ 13,167,117     |
| Work-in-process           | 2,999,909           | 2,959,144         |
| Raw materials             | 37,814,998          | 36,288,580        |
|                           | 57,944,947          | 52,414,841        |
| Less obsolescence reserve | 1,752,469           | 1,770,100         |
|                           | \$ 56,192,478       | \$ 50,644,741     |

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SigmaTron International, Inc.

January 31, 2014

Notes to Consolidated Financial Statements

(Unaudited)

Note C - Earnings (loss) Per Share

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

|                                   | Three Months Ended  |              | Nine Months Ended   |            |
|-----------------------------------|---------------------|--------------|---------------------|------------|
|                                   | January 31,<br>2014 | 2013         | January 31,<br>2014 | 2013       |
| Net income (loss)                 | \$ 743,794          | \$ (216,776) | \$ 2,495,912        | \$ 172,914 |
| Weighted-average shares           |                     |              |                     |            |
| Basic                             | 3,966,814           | 3,930,402    | 3,963,093           | 3,927,761  |
| Effect of dilutive stock options  | 121,881             | -            | 92,805              | 67,917     |
| Diluted                           | 4,088,695           | 3,930,402    | 4,055,898           | 3,995,678  |
| Basic earnings (loss) per share   | \$ 0.19             | \$ (0.06)    | \$ 0.63             | \$ 0.04    |
| Diluted earnings (loss) per share | \$ 0.18             | \$ (0.06)    | \$ 0.62             | \$ 0.04    |

Options to purchase 127,042 and 525,192 shares of common stock were outstanding at January 31, 2014 and 2013, respectively. There were no options granted during the quarters ended January 31, 2014 and 2013. The Company recognized approximately \$18,885 and \$32,160 in stock option expense for the three month period ended January 31, 2014 and 2013, respectively. The Company recognized approximately \$66,400 and \$157,000 in stock option expense for the nine month period ended January 31, 2014 and 2013, respectively. The balance of unrecognized compensation cost related to the Company's stock option plans was approximately \$76,700 and \$103,000 at January 31, 2014 and 2013, respectively.



The Company offered to purchase 395,190 Eligible Options (as defined below) from Eligible Holders (as defined below) upon the terms stated in Schedule TO (“TO”) filed with the SEC on October 1, 2013. The stock options subject to the TO were those options to purchase SGMA common stock which had not expired or terminated prior to the Expiration Time (as defined below) having the grant dates and exercise prices set forth in the TO (the “Eligible Options”). Eligible Options, all of which were fully vested, were granted under the following Company stock option plans: 1993 Stock Option Plan, 2004 Employee Stock Option Plan, 2000 Directors’ Stock Option Plan and 2004 Directors’ Stock Option Plan.

“Eligible Holders” were: (a) those current or former employees, including all officers, who hold Eligible Options as of the Expiration Time; and (b) all current or former directors of the Company who hold Eligible Options as of the Expiration Time. “Expiration Time” means 11:59 p.m., Eastern Time, on October 29, 2013.

The Company offered to pay a cash amount ranging from \$0.18 to \$1.35 per Eligible Option, totaling up to \$301,500, as specifically set forth in the TO. Each Eligible Holder who participated in the TO received cash payment (subject to tax and other withholding for employees) for each properly tendered Eligible Option promptly following the Expiration Time.

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SigmaTron International, Inc.

January 31, 2014

Notes to Consolidated Financial Statements

(Unaudited)

Note C - Earnings (loss) Per Share - Continued

The Company made this offer subject to the terms and conditions stated in the TO and 394,200 Eligible Options were tendered and purchased for a total cash payment of \$300,410.

The Company issued 25,000 shares of restricted stock on June 1, 2012, of which 8,333 vested in June 2012 and 8,333 vested in June 2013. The Company recognized approximately \$3,400 and \$10,900 in compensation expense for the three month period ended January 31, 2014 and 2013, respectively. The Company recognized approximately \$12,000 and \$61,000 in compensation expense for the nine month period ended January 31, 2014 and 2013, respectively. There was no issuance of restricted stock during the quarters ended January 31, 2014 and 2013. The balance of unrecognized compensation expense related to the Company's restricted stock award was approximately \$5,100 and \$28,000 at January 31, 2014 and 2013, 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.

On October 1, 2013, the Company granted 1,500 shares to each non-employee director pursuant to the 2013 Non-Employee Director Restricted Stock Plan. A total of 7,500 restricted shares were granted and the shares vest in six months from the date of grant. The Company recognized approximately \$20,000 in compensation expense for the quarter ended January 31, 2014. The balance of unrecognized compensation expense related to the 7,500 shares of restricted stock was approximately \$12,900 at January 31, 2014.

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SigmaTron International, Inc.

January 31, 2014

Notes to Consolidated Financial Statements

(Unaudited)

Note D - Long-term Debt

The Company has a senior secured credit facility with Wells Fargo with a credit limit up to \$30,000,000 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 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 Spitfire acquisition, two of the financial covenants required by terms of the senior secured credit facility were amended as of May 31, 2012. During the quarter ended October 31, 2013, the Company renewed its senior secured credit facility. The facility was revised to extend the term of the agreement to October 31, 2015, amend its capital expenditure covenant, terminate the unused line fee and reduced its borrowing interest rates. The facility allows the Company to choose among interest rates at which it may borrow funds. The interest rate is prime rate (effective, 3.25% at January 31, 2014) or LIBOR plus two and a one half percent (effectively, 2.75% at January 31, 2014), which is paid monthly. At January 31, 2014, the Company was in compliance with its amended financial covenants. As of January 31, 2014, there was a \$23,653,281 outstanding balance and \$6,346,719 of unused availability under the credit facility agreement.

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 during the first quarter of fiscal 2013 as a result of the move. 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.



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SigmaTron International, Inc.

January 31, 2014

Notes to Consolidated Financial Statements

(Unaudited)

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”).

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.

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SigmaTron International, Inc.

January 31, 2014

Notes to Consolidated Financial Statements

(Unaudited)

Note F - Acquisition - Continued

Spitfire Control, Inc.

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.

Reasons for the Transaction

The Company believes its acquisition of the Business allows 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 augmented the Company’s international footprint. In addition, the acquisition of the Business allows 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

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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:

|                                   | Estimated<br>Fair Value |
|-----------------------------------|-------------------------|
| 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               |
| Total Net Assets                  | \$ 18,944,307           |



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SigmaTron International, Inc.

January 31, 2014

Notes to Consolidated Financial Statements

(Unaudited)

Note F - Acquisition - Continued

Spitfire Control, Inc.

Accounting - Continued

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:

|                        | Method        | Life       |
|------------------------|---------------|------------|
| 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 made four quarterly payments of \$65,000 each in fiscal 2013 and two quarterly payments of \$65,000 each in fiscal 2014. 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 an adjustment to selling and administrative expenses, as well as 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 or during the first nine months of fiscal 2014. 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.

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Notes to Consolidated Financial Statements

(Unaudited)

Note F - Acquisition - Continued

Spitfire Control, Inc.

Accounting - Continued

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

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 nine month periods ended January 31, 2013 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.

Nine Months  
Ended  
January 31,

2013

|                   |                |
|-------------------|----------------|
| Net sales         | \$ 147,897,254 |
| Net income        | 337,566        |
| Income per share: |                |
| Basic             | \$ 0.08        |
| Diluted           | \$ 0.08        |

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(Unaudited)

Note G - Goodwill and Other Intangible Assets

Goodwill

The change in carrying amount of goodwill for the three months ended January 31, 2014, are as follows:

|                             | Total        |
|-----------------------------|--------------|
| Balance at April 30, 2013   | \$ 3,222,899 |
| Changes in carrying amount  | -            |
| Balance at January 31, 2014 | \$ 3,222,899 |

Other Intangible Assets

Intangible assets subject to amortization are summarized as of January 31, 2014 as follows:

| Weighted Average<br>Remaining<br>Amortization<br>Period (Years) | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization |
|---|-----------------------------|-----------------------------|
|---|-----------------------------|-----------------------------|

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|  |       |              |              |
|--|-------|--------------|--------------|
| Other intangible assets – Able         | -     | \$ 375,000   | \$ 375,000   |
| Customer relationships – Able          | -     | 2,395,000    | 2,395,000    |
| Spitfire:                              |       |              |              |
| Non-contractual customer relationships | 13.33 | 4,690,000    | 203,868      |
| Backlog                                | -     | 22,000       | 22,000       |
| Trade names                            | 18.33 | 980,000      | 81,660       |
| Non-compete agreements                 | 5.33  | 50,000       | 11,900       |
| Patents                                | 3.33  | 400,000      | 133,340      |
| Total                                  |       | \$ 8,912,000 | \$ 3,222,768 |

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Notes to Consolidated Financial Statements

(Unaudited)

Intangible assets subject to amortization are summarized as of April 30, 2013 as follows:

|  | Weighted Average<br>Remaining<br>Amortization<br>Period (Years) | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization |
|--|---|-----------------------------|-----------------------------|
| Other intangible assets – Able             | -   | \$ 375,000                  | \$ 375,000                  |
| Customer relationships – Able<br>Spitfire: | 0.2   | 2,395,000                   | 2,383,923                   |
| Non-contractual customer relationships     | 14.10   | 4,690,000                   | 58,685                      |
| Backlog                                    | 0.1   | 22,000                      | 20,163                      |
| Trade names                                | 19.10   | 980,000                     | 44,913                      |
| Non-compete agreements                     | 6.10  | 50,000                      | 6,545                       |
| Patents                                    | 4.10  | 400,000                     | 73,337                      |
| Total                                      |   | \$ 8,912,000                | \$ 2,962,566                |

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

|  |      |           |
|--|------|-----------|
| For the remaining 6 months of the fiscal year ending April 30: | 2014 | \$ 86,478 |
| For the fiscal year ending April 30:                           | 2015 | 428,610   |

|            |              |
|------------|--------------|
| 2016       | 470,899      |
| 2017       | 490,010      |
| 2018       | 435,043      |
| 2019       | 423,721      |
| Thereafter | 3,354,471    |
|            | \$ 5,689,232 |



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SigmaTron International, Inc.

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Notes to Consolidated Financial Statements

(Unaudited)

Note H - Mexican Tax Reform

In December 2013 the Mexican federal income tax law changes were enacted eliminating the statutory income tax rate reduction scheduled to start in 2014, and leaving the 30% statutory income tax rate in effect for future years. In addition the Entrepreneurial Tax of Unique Rate (flat tax) was repealed as of January 31, 2014. The Company has revalued its deferred income tax assets and liabilities as a result of the tax reform, which resulted in a net discrete tax benefit for the period of approximately \$798,000.

Note I - Critical Accounting Policies

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.

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.

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Note I - Critical Accounting Policies - Continued

**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 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 will perform its annual goodwill impairment test as of February 1, 2014 to determine if an impairment exist 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.

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Notes to Consolidated Financial Statements

(Unaudited)

Note I - Critical Accounting Policies - Continued

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.

The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date. Adjustments to all deferred tax balances are reflected in continuing operations, including those that arise by charge or credit to other categories, when those adjustments reflect enacted changes in tax laws, tax rates, or tax status.

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.

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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 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," "believe," "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 the Company's Annual Report on Form 10-K 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.

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

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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 than consignment orders due 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 January 31, 2014 and 2013.

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. In the second fiscal quarter of 2014 the Company believed there could be a shift in demand for product as customers try to manage their inventory for calendar 2013 year end. Sales increased in the third fiscal quarter of 2014 compared to the same period prior year, however; sales decreased from the previous fiscal quarter. The decrease in revenue appears primarily attributable to an adjustment of customer production schedules related to calendar year-end inventory levels and softer sales for some customers. Pricing pressures tied to the nature of the economy continue and the Company anticipates the economy will continue to be volatile and choppy for the short-term. On a more positive note, the Company continues to build its partnerships with customers and has added several new customers that should positively impact fiscal 2015. The Company's modest expansion plans remain on-track and the Company will continue to build infrastructure to support future growth. The Company's Elk Grove Village plant achieved medical ISO 13485 during the third quarter of fiscal 2014, which the Company believes will open up new opportunities and markets for them. The Company believes it remains well positioned to leverage its strengths as it pursues new opportunities.

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 its customers with cost effective designs as control solutions 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.

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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 \$424,000 in relocation expenses during the first quarter of fiscal 2013 as a result of the move. 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.

Results of Operations:

Net Sales

Net sales increased for the three month period ended January 31, 2014 to \$54,175,196 from \$46,758,568 for the three month period ended January 31, 2013. Net sales increased for the nine month period ended January 31, 2014 to \$166,918,544 from \$147,117,192 for the same period in the prior fiscal year. Sales volume increased for the three and nine month periods ended January 31, 2014 as compared to the same period in the prior fiscal year in the appliance, consumer electronics, medical/life sciences, and semiconductor equipment marketplace. The increase in sales for these marketplaces was partially offset by a decrease in sales in the industrial electronics, gaming and fitness marketplaces. The increase in revenue for the three and nine month periods ended January 31, 2014 is a result of increased sales to customers arising out of the Spitfire acquisition, as well as several existing customers' increased demand for product.

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 decrease in revenues in the third fiscal quarter of 2014 compared to the second fiscal quarter in the same fiscal year appears primarily attributable to an adjustment of customer production schedules related to calendar year-end inventory levels and softer sales for some customers. Pricing pressures tied to the nature of the economy continue and the Company anticipates the economy will continue to be volatile and choppy for the short-term.

## Gross Profit

Gross profit increased during the three month period ended January 31, 2014 to \$4,817,380 or 8.9% of net sales, compared to \$4,122,377 or 8.8% of net sales for the same period in the prior fiscal year. Gross profit increased for the nine month period ended January 31, 2014 to \$17,101,924 or 10.2% of net sales, compared to \$14,231,445 or 9.7% of net sales for the same period in the prior fiscal year. The increase in gross profit for the three and nine month periods ended January 31, 2014 was primarily the result of increased sales to customers arising out of the Spitfire acquisition, as well as, increased sales revenue from other existing customers. The increase in gross profit as a percent of net sales is the result of increased revenues and plant capacity utilization. The increase in gross profit for the nine month period ended January 31, 2014 was partially offset by a foreign currency loss of \$76,264.

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Selling and Administrative Expenses

Selling and administrative expenses increased to \$4,725,540 or 8.7% of net sales for the three month period ended January 31, 2014, compared to \$4,380,524 or 9.4% of net sales for the same period in the prior fiscal year. The net increase for the three month period ended January 31, 2014 was approximately \$345,000. Bonus expense, legal fees and purchasing and accounting salaries accounted for approximately \$424,000 of additional selling and administrative expense for the quarter ended January 31, 2014. The increase in the foregoing selling and administrative expense were partially offset by a decrease in sales salaries, commissions and other professional fees. Selling and administrative expenses increased to \$14,420,852 or 8.6% of net sales for the nine month period ended January 31, 2014 compared to \$13,725,684 or 9.3% of net sales for the same period in the prior fiscal year. The increase for the nine month period ended January 31, 2014 was primarily due to increased bonus expense and accounting salaries. The increase in the foregoing selling and administrative expenses were partially offset by a decrease in legal and accounting fees.

Interest Expense

Interest expense increased to \$257,098 for the three month period ended January 31, 2014 compared to \$220,977 for the same period in the prior fiscal year. Interest expense for the nine month period ended January 31, 2014 was \$707,152 compared to \$626,684 for the same period in the prior fiscal year. The increase in interest expense for the three and nine month periods ended January 31, 2014 was due to increased borrowings under the Company's banking arrangements and capital lease obligations. Interest expense for future quarters may increase if interest rates or borrowings, or both, increase.

Taxes

The income tax benefit from operations was \$873,976 for the three month period ended January 31, 2014 compared to an income tax benefit of \$262,348 for the same period in the prior fiscal year. The income tax benefit from operations was \$435,944 for the nine month period ended January 31, 2014 compared to income tax benefit of \$293,337 for the same period in the prior year.

The income tax benefit increased for the three and nine month period ended January 31, 2014 compared to the same period in the prior year. In December 2013 the Mexican federal income tax law changes were enacted eliminating the statutory income tax rate reduction scheduled to start in 2014, and leaving the 30% statutory income tax rate in effect for future years. In addition the Entrepreneurial Tax of Unique Rate (flat tax) was repealed as of January 2014. The Company has revalued its deferred income tax assets and liabilities as a result of the tax reform, which resulted in a net discrete tax benefit for the period of approximately \$798,000.

#### Net Income

Net income from operations was \$743,794 for the three month period ended January 31, 2014 compared to net loss of \$216,776 for the same period in the prior fiscal year. Net income from operations increased to \$2,495,912 for the nine month period ended January 31, 2014 compared to \$172,914 for the same period in the prior fiscal year. Basic and diluted earnings per share for the third fiscal quarter of 2014 were each \$0.19 and \$0.18, respectively compared to basic and diluted loss per share of \$0.06 for the same period in the prior fiscal year. Basic and diluted earnings per share for the nine month period ended January 31, 2014 were \$0.63 and \$0.62, respectively compared to basic and diluted earnings per share of \$0.04 for the same period in the prior fiscal year.

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Liquidity and Capital Resources:

Operating Activities.

Cash flow used in operating activities was \$940,394 for the nine months ended January 31, 2014, compared to cash flow used in activities of \$921,133 for the same period in the prior fiscal year. During the first nine months of fiscal year 2014, cash flow used in operating activities was primarily the result of increased inventory in the amount of \$5,547,737 and a reduction in accounts payable of \$1,191,187. The increase in inventory is primarily due to additional customer orders and the reduction in trade accounts payable was in the ordinary course of business. Net cash used in operating activities was partially offset by net income, exclusive of depreciation and amortization.

Cash flow used in operating activities was \$921,133 for the nine months ended January 31, 2013, compared to cash flow provided by operating activities of \$4,570,497 for the same period in the prior fiscal year. During the first nine months of fiscal year 2013, cash flow used in operating activities was the result of an increase of inventories of \$2,616,116 and accounts receivable of \$2,781,759, primarily related to additional sales volume resulting from the Spitfire acquisition. Net cash used in operating activities was partially offset by net income, exclusive of depreciation and amortization, stock-based compensation expense, an increase in trade accounts payable and deferred rent expenses.

Investing Activities.

During the first nine months of fiscal year 2014, the Company purchased \$7,857,691 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 \$5,500,000 during the balance of fiscal year 2014 and the first fiscal quarter of 2015. 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 nine months of fiscal year 2013, the Company purchased \$4,808,626 in machinery and equipment to be used in the ordinary course of business. The Company made additional machinery and equipment purchases of \$2,362,417 during the balance of fiscal year 2013. The purchases were funded by lease transactions and its bank line of credit. The Company received approximately \$1,142,000 in cash in conjunction with the Spitfire Transaction.

Financing Activities.

Cash provided by financing activities was \$8,069,535 for the nine months ended January 31, 2014, compared to cash provided by financing activities of \$4,185,386 for the same period in the prior fiscal year. Cash provided by financing activities was primarily the result of increased borrowings under the credit facility of \$5,153,281, proceeds received from a sales leaseback transaction for machinery and equipment and obtaining a mortgage of the Company's facility in Elgin, Illinois.

Cash provided by financing activities was \$4,185,386 for the nine months ended January 31, 2013, compared to cash used in financing activities of \$1,892,866 for the same period in the prior fiscal year. Cash provided by financing activities was primarily the result of increased borrowings of \$4,450,869 under the credit facility. The additional borrowings were required to support the purchases of machinery and equipment and the increase in both accounts receivable and inventory.



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SigmaTron International, Inc.

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Financing Summary.

The Company has a senior secured credit facility with Wells Fargo with a credit limit up to \$30,000,000 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 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 Spitfire acquisition, two of the financial covenants required by terms of the senior secured credit facility were amended as of May 31, 2012. During the quarter ended October 31, 2013, the Company renewed its senior secured credit facility. The facility was revised to extend the term of the agreement to October 31, 2015, amend its capital expenditure covenant, terminate the unused line fee and reduced its borrowing interest rates. The facility allows the Company to choose among interest rates at which it may borrow funds. The interest rate is prime rate (effective, 3.25% at January 31, 2014) or LIBOR plus two and a half percent (effectively, 2.75% at January 31, 2014), which is paid monthly. At January 31, 2014, the Company was in compliance with its amended financial covenants. As of January 31, 2014, there was a \$23,653,281 outstanding balance and \$6,346,719 of unused availability under the credit facility agreement.

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 January 31, 2014 was \$2,100,016.

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 January 31, 2014, \$149,875 and \$374,115 was outstanding under the lease finance and sale leaseback agreements, respectively. The net book value at January 31, 2014 of the equipment under each of the lease finance agreement and sale leaseback agreement was \$227,682 and \$567,778, respectively.



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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 in fiscal year 2014 was \$12,318. In addition, the landlord provided the Company tenant incentives of \$418,000, which are being amortized over the term of the lease.

In November 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 January 31, 2014, the balance outstanding under the capital lease agreement was \$111,628. The net book value of the equipment under this lease at January 31, 2014 was \$164,240.

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 in fiscal year 2014 was \$74,323.

In May 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. Concurrent with the acquisition, the Company amended its credit facility with Wells Fargo. The amendment modified certain financial covenant thresholds applicable to the Company, added property acquired in the acquisition 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.

On October 3, 2013, the Company entered into two capital leases (sale leaseback agreements) with Associated Bank, National Association to finance equipment purchased in June 2012 in the amount of \$2,281,355. The term of the first agreement, with an initial principal amount of \$2,201,638, extends to September 2018 with monthly payments of \$40,173 and a fixed interest rate of 3.75%. The term of the second agreement, with an initial principal payment amount of \$79,717, extends to September 2018 with monthly payments of \$1,455 and a fixed interest rate of 3.75%. At January 31, 2014, \$2,060,895 and \$74,621 was outstanding under the first and second agreements, respectively. The net book value at January 31, 2014 of the equipment under each of the two agreements was \$1,965,148 and \$69,752, respectively.

The Company entered into a mortgage agreement on October 24, 2013, in the amount of \$1,275,000, with Wells Fargo to finance the property that serves as the Company's engineering and design center in Elgin, Illinois. The Wells Fargo note requires the Company to pay monthly principal payments in the amount of \$4,250 and bears interest at a fixed rate of 4.5% per year and is payable over a sixty month period. A final payment of approximately \$1,030,000 is due on or before October 2018. The outstanding balance as of January 31, 2014 was \$1,262,250.

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

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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 nine month period ended January 31, 2014 resulted in a foreign currency loss of approximately \$76,264. During the first nine months of fiscal year 2014, the Company's U.S. operations paid approximately \$40,965,000 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 \$13,600,000.

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 in the short-term. In the event the Company expands its operations, its business grows rapidly, the current economic climate deteriorates, customers delay payments, or the Company considers an acquisition, additional financing resources would 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. 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.

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 January 31, 2014. 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.

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Internal Controls:

There has been no change in our internal control over financial reporting during the quarter ended January 31, 2014, 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 January 31, 2014, 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.

None.

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).

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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).

101.INSXBRL Instance Document

101.SCHXBRL Taxonomy Extension Scheme Document

101.CALXBRL Taxonomy Extension Calculation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LABXBRL Taxonomy Extension Label Linkbase Document

101.PREXBRL Taxonomy Extension Presentation Linkbase Document

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