

SIGMATRON INTERNATIONAL INC

Form 10-Q

December 12, 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 October 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 (State or other jurisdiction of incorporation or organization)	36-3918470 (I.R.S. Employer Identification No.)
2201 Landmeier Road Elk Grove Village, Illinois (Address of principal executive offices)	60007 (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

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SigmaTron International, Inc.

October 31, 2014

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      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 December 10, 2014: 4,054,146

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SigmaTron International, Inc.

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SigmaTron International, Inc.

Consolidated Balance Sheets

	October 31, 2014 (Unaudited)	April 30, 2014
Current assets:		
Cash	\$ 2,273,584	\$ 5,440,319
Accounts receivable, less allowance for doubtful accounts of \$175,000 and \$150,000 at October 31, 2014 and April 30, 2014	20,476,029	19,293,791
Inventories, net	59,087,958	53,728,377
Prepaid expenses and other assets	1,817,960	1,826,254
Refundable income taxes	31,569	-
Deferred income taxes	2,571,764	2,524,993
Other receivables	190,616	356,746
 Total current assets	 86,449,480	 83,170,480
 Property, machinery and equipment, net	 33,868,615	 32,692,908
 Intangible assets, net of amortization of \$3,519,792 and \$3,309,246 at October 31, 2014 and April 30, 2014	 5,392,208	 5,602,754
Goodwill	3,222,899	3,222,899
Other assets	1,066,810	790,390
 Total other long-term assets	 9,681,917	 9,616,043
 Total assets	 \$ 130,000,012	 \$ 125,479,431
 Liabilities and stockholders' equity:		
Current liabilities:		
Trade accounts payable	\$ 30,466,623	\$ 27,141,079
Accrued wages	3,351,998	4,027,029
Accrued expenses	2,911,944	2,526,045
Income taxes payable	-	80,936
Current portion of long-term debt	2,076,019	2,126,017

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Current portion of capital lease obligations	1,203,798	765,961
Current portion of contingent consideration	275,288	331,429
Current portion of deferred rent	122,380	12,302
Total current liabilities	40,408,050	37,010,798
Long-term debt, less current portion	23,673,000	24,198,500
Capital lease obligations, less current portion	3,963,170	2,423,001
Contingent consideration, less current portion	1,353,697	1,533,571
Deferred rent, less current portion	1,084,047	1,163,819
Other long-term liabilities	549,426	525,739
Deferred income taxes	3,217,660	3,217,660
Total long-term liabilities	33,841,000	33,062,290

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Total liabilities	74,249,050	70,073,088
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, 4,054,146 and 4,012,319 shares issued and outstanding at October 31, 2014 and April 30, 2014	40,574	40,215
Capital in excess of par value	21,045,517	20,864,497
Retained earnings	34,664,871	34,501,631
Total stockholders' equity	55,750,962	55,406,343
Total liabilities and stockholders' equity	\$ 130,000,012	\$ 125,479,431

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



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SigmaTron International, Inc.

## Consolidated Statements of Operations

	Three Months Ended October 31, 2014 (Unaudited)	Three Months Ended October 31, 2013 (Unaudited)	Six Months Ended October 31, 2014 (Unaudited)	Six Months Ended October 31, 2013 (Unaudited)
Net sales	\$ 61,533,519	\$ 56,577,287	\$ 116,480,996	\$ 112,743,348
Cost of products sold	55,719,766	50,581,151	105,920,795	100,458,804
Gross profit	5,813,753	5,996,136	10,560,201	12,284,544
Selling and administrative expenses	4,847,801	4,839,754	9,362,012	9,695,312
Operating income	965,952	1,156,382	1,198,189	2,589,232
Other income	(35,818)	(29,523)	(75,694)	(50,973)
Interest expense	278,516	236,094	535,063	450,054
Income from operations before income tax expense	723,254	949,811	738,820	2,190,151
Income tax expense	576,825	165,157	575,581	438,030
Net income	\$ 146,429	\$ 784,654	\$ 163,239	\$ 1,752,121
Earnings per share - basic	\$ 0.04	\$ 0.20	\$ 0.04	\$ 0.44
Earnings per share - diluted	\$ 0.04	\$ 0.19	\$ 0.04	\$ 0.43
Weighted average shares of common stock outstanding				
Basic	4,044,240	3,961,232	4,036,387	3,961,232

Weighted average shares of common stock  
outstanding

Diluted	4,120,178	4,037,627	4,118,711	4,028,681
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The accompanying notes to the consolidated financial statements are an integral part of these statements.

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SigmaTron International, Inc.

## Consolidated Statements of Cash Flows

	Six Months Ended October 31, 2014 (Unaudited)	Six Months Ended October 31, 2013 (Unaudited)
Cash flows from operating activities		
Net income	\$ 163,239	\$ 1,752,121
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation	2,462,245	2,386,867
Stock-based compensation	42,805	54,236
Amortization of intangibles	210,546	173,724
Restricted stock expense	12,000	8,599
Employee stock purchases	84,453	-
Provision for doubtful accounts	25,000	-
Deferred income tax benefit	(46,771)	(37,029)
Loss from disposal or sale of machinery and equipment	5,141	1,675
Tender offer - stock options	-	300,410
Changes in assets and liabilities		
Accounts receivable	(1,207,238)	541,183
Inventories	(5,359,581)	157,306
Prepaid expenses and other assets	(101,995)	345,915
Income taxes payable/refundable	(112,505)	201,655
Trade accounts payable	3,325,544	(3,844,814)
Deferred rent	30,306	42,182
Accrued expenses and wages	(501,460)	178,920

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Net cash (used in) provided by operating activities	(968,271)	2,262,950
Cash flows from investing activities		
Purchases of machinery and equipment	(2,317,007)	(6,344,654)
Net cash used in investing activities	(2,317,007)	(6,344,654)
Cash flows from financing activities		
Payment of tendered stock options	-	(300,410)
Proceeds from the exercise of common stock options	42,121	-
Proceeds under sale leaseback agreements	1,102,317	2,281,354
Payments under capital lease and sale leaseback agreements	(450,397)	(155,153)
Proceeds under building notes payable	-	1,275,000
Payments under building notes payable	(75,498)	(49,998)
Borrowings under lines of credit	77,978,706	70,196,798

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Payments under lines of credit	(78,478,706)	(68,696,798)
Net cash provided by financing activities	118,543	4,550,793
Change in cash	(3,166,735)	469,089
Cash at beginning of period	5,440,319	4,607,731
Cash at end of period	\$ 2,273,584	\$ 5,076,820
Supplementary disclosures of cash flow information		
Cash paid for interest	\$ 506,629	\$ 211,843
Cash paid for income taxes	108,610	-
Cash refunded for income taxes	-	(52,437)
Purchase of machinery and equipment financed under a capital leases	1,326,086	-
Purchase of machinery and equipment financed under sale leaseback agreements	1,102,617	-

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

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SigmaTron International, Inc.

October 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 six month periods ended October 31, 2014 are not necessarily indicative of the results that may be expected for the year ending April 30, 2015. 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, 2014.

Note B - Inventories, net

The components of inventory consist of the following:

	October 31, 2014	April 30, 2014
Finished products	\$ 22,559,774	\$ 18,553,112
Work-in-process	3,123,614	3,126,596
Raw materials	35,122,312	33,853,653
	60,805,700	55,533,361
Less obsolescence reserve	1,717,742	1,804,984
	\$ 59,087,958	\$ 53,728,377

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Notes to Consolidated Financial Statements

(Unaudited)

Note C - Earnings Per Share

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

	Three Months Ended October 31,		Six Months Ended October 31,	
	2014	2013	2014	2013
Net income	\$ 146,429	\$ 784,654	\$ 163,239	\$ 1,752,121
Weighted-average shares				
Basic	4,044,240	3,961,232	4,036,387	3,961,232
Effect of dilutive stock options	75,938	76,395	82,324	67,449
Diluted	4,120,178	4,037,627	4,118,711	4,028,681
Basic earnings per share	\$ 0.04	\$ 0.20	\$ 0.04	\$ 0.44
Diluted earnings per share	\$ 0.04	\$ 0.19	\$ 0.04	\$ 0.43

Options to purchase 90,354 and 145,142 shares of common stock were outstanding at October 31, 2014 and 2013, respectively. There were no options granted during the quarter ended October 31, 2014 and 20,000 options were granted in the quarter ended October 31, 2013. The Company recognized \$4,559 and \$18,185 in stock option expense for the three month period ended October 31, 2014 and 2013, respectively. There were no options granted during the six month period ended October 31, 2014 and 20,000 options were granted during the six month period ended October 31, 2013. The Company recognized \$22,931 and \$47,500 in stock option expense for the six months ended October



31, 2014 and 2013, respectively. The balance of unrecognized compensation expense related to the Company's stock option plans was approximately \$30,680 and \$95,600 at October 31, 2014 and 2013, respectively.

The Company issued 25,000 shares of restricted stock on June 1, 2012, of which 8,330 vested in June 2012, 8,330 vested in June 2013 and 8,340 vested in June 2014. The Company recognized \$0 and approximately \$3,400 in compensation expense for the three month period ended October 31, 2014 and 2013, respectively. The Company recognized \$0 and approximately \$8,600 in compensation expense for the six months ended October 31, 2014 and 2013, respectively. There was no issuance of restricted stock to employees during the three and six month periods ended October 31, 2014 and 2013, respectively. The balance of unrecognized compensation expense related to the Company's restricted stock award was \$0 and approximately \$8,500 and at October 31, 2014 and 2013, respectively.

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 vested six months from the date of grant. The Company recognized approximately \$6,800 in compensation expense for the three and six months ended October 31, 2013. At October 31, 2014 there was no unrecognized compensation expense related to the issuance of those 7,500 shares of restricted stock.

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SigmaTron International, Inc.

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Notes to Consolidated Financial Statements

(Unaudited)

Note C - Earnings Per Share - Continued

On October 1, 2014, the Company granted 1,750 shares to each non-employee director pursuant to the 2013 Non-Employee Director Restricted Stock Plan. A total of 8,750 restricted shares were granted and the shares vest in six months from the date of grant. The Company recognized \$10,254 in compensation expense for the three and six months ended October 31, 2014. The balance of unrecognized compensation expense related to the 8,750 shares of restricted stock was approximately \$49,950 at October 31, 2014.

The Company implemented an employee stock purchase plan ("ESPP") for all eligible employees on February 1, 2014. The ESPP reserved 500,000 shares of common stock for issuance to employees. In addition, the number of shares of common stock reserved for issuance under the plan automatically increases on the first day of the Company's fiscal years by 25,000 shares. For the three months ended October 31, 2014, 5,839 shares were issued under the ESPP and the Company recorded \$10,208 in compensation expense. For the six months ended October 31, 2014, 9,629 shares were issued under the ESPP and the Company recorded \$19,874 in compensation expense. During the three and six months ended October 31, 2014, the Company recorded \$34,684 and \$84,336, respectively to stockholders' equity relating to purchases under the ESPP.

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 October 29, 2013, 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 held Eligible Options as of October 29, 2013; and (b) all current or former directors of the Company who held Eligible Options as of 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 October 29, 2013.

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 as of October 31, 2013.

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SigmaTron International, Inc.

October 31, 2014

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(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 it had 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. 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.

On October 31, 2014, the Company and Wells Fargo, N.A. extended the senior secured credit facility to October 31, 2017. Pursuant to the agreement, financial covenants were amended, an unused line fee was added, and the borrowing interest rate was changed. The facility allows the Company to choose among interest rates at which it may borrow funds. The interest rate is the prime rate (effectively 3.25% at October 31, 2014) or LIBOR plus two and one quarter percent (effectively 2.50% at October 31, 2014). Interest is paid monthly. Under the senior secured credit facility, the Company may borrow up to the lesser of (i) \$30,000,000 or (ii) an amount equal to the sum of 85% of the receivable borrowing base plus a percentage of the inventory borrowing base. Further, in specific circumstances, the Company is entitled to an over advance of up to \$5,000,000; however at no time can the borrowings under the credit facility exceed \$30,000,000. As of October 31, 2014, there was a \$22,500,000 outstanding balance and \$7,500,000 of unused availability under the credit facility agreement. At October 31, 2014, the Company was in compliance with its financial covenants.

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 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 Company expects to refinance the mortgage agreement prior to January 8, 2015. The outstanding balance as of October 31, 2014 was \$2,025,019.

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, 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 October 31, 2014 was \$1,224,000.

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SigmaTron International, Inc.

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Notes to Consolidated Financial Statements

(Unaudited)

Note E - Goodwill and Other Intangible Assets

Goodwill

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

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

Other Intangible Assets

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

Weighted Average Remaining Amortization Period (Years)	Gross Carrying Amount	Accumulated 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	12.5	4,690,000	398,787
Backlog	-	22,000	22,000
Trade names	17.5	980,000	118,407
Non-compete agreements	4.5	50,000	17,255
Patents	2.5	400,000	193,343
Total		\$ 8,912,000	\$ 3,519,792

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SigmaTron International, Inc.

October 31, 2014

Notes to Consolidated Financial Statements

(Unaudited)

Note E - Goodwill and Other Intangible Assets - Continued

Intangible assets subject to amortization are summarized as of April 30, 2014, as follows:

	Weighted Average Remaining Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization
Other intangible assets – Able	-	\$ 375,000	\$ 375,000
Customer relationships – Able	-	2,395,000	2,395,000
Spitfire:			
Non-contractual customer relationships	13.1	4,690,000	256,311
Backlog	-	22,000	22,000
Trade names	18.1	980,000	93,909
Non-compete agreements	5.1	50,000	13,685
Patents	3.1	400,000	153,341
Total		\$ 8,912,000	\$ 3,309,246

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



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For the remaining 6 months of the fiscal year ending April 30:	2015	\$ 218,064
For the fiscal year ending April 30:	2016	470,899
	2017	490,010
	2018	435,043
	2019	423,721
	Thereafter	3,354,471
		\$ 5,392,208

Amortization expense was \$109,032 and \$86,748 for the three months ended October 31, 2014 and 2013, respectively. Amortization expense was \$210,546 and 173,724 for the six month periods ended October 31, 2014 and 2013, respectively.

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SigmaTron International, Inc.

October 31, 2014

Notes to Consolidated Financial Statements

(Unaudited)

Note F - 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 its 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, except for products with proprietary design, and does not have any installation, acceptance or sales incentives (although the Company has negotiated longer warranty terms in certain instances). The warranty period for proprietary design varies based on specific design specifications. 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 calculated as average cost. 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.

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SigmaTron International, Inc.

October 31, 2014

Notes to Consolidated Financial Statements

(Unaudited)

Note F - Critical Accounting Policies - Continued

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 performed its annual goodwill impairment test as of February 1, 2014 and determined that no impairment existed as of that date.

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 reviews 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.

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SigmaTron International, Inc.

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Notes to Consolidated Financial Statements

(Unaudited)

Note F - Critical Accounting Policies - Continued

During the second quarter of fiscal year 2015, the Company received distributions from two of its subsidiaries based in Mexico, Acuna in the amount of \$2,041,432 and Tijuana in the amount of \$965,394. The U.S. income tax on these distributions of \$333,128 was reflected in the Company's tax provision for the fiscal year ended April 30, 2014. The distribution from the foreign subsidiaries based in Mexico does not change the Company's intentions to indefinitely reinvest the income from the Company's foreign subsidiaries.

During the second quarter of fiscal year 2015, the Company recorded a discrete tax expense of \$529,257 related to the inability to realize the tax benefit of a foreign tax credit that was generated in the period. The Company's estimate of cumulative taxable income during the foreign tax credit carryforward period are insufficient to support that the tax benefit from the foreign tax credit is more likely than not to be realized.

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:

In April 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360)." ASU 2014-08 amends the requirements for reporting discontinued operations and requires additional disclosures about discontinued operations. Under the new guidance, only disposals representing a strategic shift in operations or that have a major effect on the Company's operations and financial results should be presented as discontinued operations. This new accounting guidance is effective for annual periods beginning after December 15, 2014. The Company is currently evaluating the impact of adopting ASU 2014-08 on the Company's results of operations or

financial condition.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers." This ASU is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. This ASU is effective for annual reporting periods beginning after December 15, 2016 and early adoption is not permitted. Accordingly, we will adopt this ASU on May 1, 2017. Companies may use either a full retrospective or modified retrospective approach to adopt this ASU and we are currently evaluating which transition approach to use and the full impact this ASU will have on our future consolidated financial statements.

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Notes to Consolidated Financial Statements

(Unaudited)

Note F - Critical Accounting Policies - Continued

In August 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-15, Presentation of Financial Statements – Going Concern (Subtopic 205-40). The amendments in this ASU provide guidance about management’s responsibility to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern and to provide related footnote disclosures. An entity’s management should evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity’s ability to continue as a going concern within one year after the date that the financial statements are issued (or are available to be issued, when applicable). ASU 2014-15 is effective for the Company beginning with the annual reporting for Fiscal 2016, and reports for interim and annual periods thereafter. Early adoption is permitted. The Company is evaluating the impact of adoption of this ASU, but does not expect the adoption to have a material impact on its 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., 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 the Company's 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. 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, 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) automatic and manual assembly and testing of products; (2) material sourcing and procurement; (3) manufacturing and test engineering support; (4) design services; (5) warehousing and distribution 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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SigmaTron International, Inc.

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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 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 and six months ended October 31, 2014 and 2013, respectively.

The Company continued to experience volatile demand from its customer base, but revenue was more in line with the Company's expectations after lower-than-anticipated first fiscal quarter revenue. From the Company's perspective, the general economy remains sluggish and volatile and margin pressures continue. However, the Company remains cautiously optimistic going forward as several new customers are scheduled to begin production with the Company in the third and fourth quarters of fiscal 2015. These customers will continue to help the Company diversify the markets it serves and hopefully will help stabilize its revenue base. While the Company expects to continue to encounter volatile customer demand for the balance of fiscal 2015, it will continue its efforts to best manage that environment while positioning the Company for growth.

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 is currently the primary market for the Spitfire division, it has applications that the Company believes can be used worldwide. The Company provided manufacturing solutions for Spitfire since 1994, and was a strategic partner to Spitfire as it developed its original equipment manufacturer electronic controls business.

The Company's international footprint provides our customers with flexibility within the Company to manufacture in China, Mexico, Vietnam or the U.S. We believe this strategy has continued to serve the Company well during these uncertain economic times as its customers continuously evaluate their supply chain strategies.

In fiscal years 2014 and 2013, the Company continued to see a trend of Chinese costs increasing, thereby making Mexico a more cost-competitive manufacturing location to service North America. Indications suggest that this trend will continue.

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Results of Operations:

Net Sales

Net sales increased for the three month period ended October 31, 2014 to \$61,533,519 from \$56,577,287 for the three month period ended October 31, 2013. Net sales increased for the six month period ended October 31, 2014 to \$116,480,996 from \$112,743,348 for the same period in the prior fiscal year. Sales volume increased for the three and six month periods ended October 31, 2014 as compared to the prior year in the appliance marketplace. The increase in sales for this marketplace was partially offset by a decrease in sales in the industrial electronics, fitness, gaming and medical/life sciences marketplaces. The Company continued to experience volatile demand from its customer base, but revenue was more in line with the Company's expectations after lower-than-anticipated first fiscal quarter revenue. The Company remains cautiously optimistic going forward as several new customers are scheduled to begin production with the Company in the third and fourth quarters of fiscal 2015. These customers will continue to diversify the markets the Company serves and hopefully will help stabilize its revenue base. While the Company expects to continue to encounter volatile customer demand for the balance of fiscal 2015, it will continue its efforts to best manage that environment while positioning the Company for growth.

Gross Profit

Gross profit decreased during the three month period ended October 31, 2014 to \$5,813,753 or 9.4% of net sales compared to \$5,996,136 or 10.5 % of net sales for the same period in the prior fiscal year. Gross profit decreased for the six month period ended October 31, 2014 to \$10,560,201 or 9.1% of net sales compared to \$12,284,544 or 10.9% of net sales for the same period in the prior fiscal year. The decrease in gross profit for the three and six month period ended October 31, 2014 was primarily the result of continuing pricing pressures, which the Company expects to continue.

Selling and Administrative Expenses

Selling and administrative expenses increased to \$4,847,801 or 7.9% of net sales for the three month period ended October 31, 2014 compared to \$4,839,754 or 8.6% of net sales for the same period in the prior fiscal year. The net increase for the three month period ended October 31, 2014 was approximately \$8,000. Commission expense, legal

fees and IT salaries increased approximately \$182,500 for the three months ended October 31, 2014. The increase in the foregoing selling and administrative expenses was partially offset by a decrease in general office salaries, sales and bonus expense. Selling and administrative expenses decreased to \$9,362,012 or 8.0% of net sales for the six month period ended October 31, 2014 compared to \$9,695,312 or 8.6% of net sales for the same period in the prior fiscal year. The decrease for the six month period ended October 31, 2014 was primarily from decreases in sales salaries, amortization expense and bonus expense. The decrease in the foregoing selling and administrative expenses was partially offset by an increase in legal fees and purchasing, accounting and IT salaries.

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Interest Expense

Interest expense increased to \$278,516 for the three month period ended October 31, 2014 compared to \$236,094 for the same period in the prior fiscal year. Interest expenses for the six month period ended October 31, 2014 was \$535,063 compared to \$450,054 for the same period in the prior fiscal year. The increase in interest expense for the three and six month periods ended October 31, 2014 was due to increased borrowings under the Company's banking arrangements and capital lease obligations. Interest expense for future quarters may fluctuate depending on interest rates or borrowings levels.

Taxes

The income tax expense was \$576,825 for the three month period ended October 31, 2014 compared to an income tax expense of \$165,157 for the same period in the prior fiscal year. During the second fiscal quarter the Company recorded \$529,257 in income tax expense as a discrete item related to its inability to utilize a foreign tax credit resulting from a dividend repatriation. The distribution from its foreign subsidiaries does not change the Company's intentions to indefinitely reinvest income from the Company foreign subsidiaries. The income tax expense was \$575,581 for the six month period ended October 31, 2014 compared to income tax expense of \$438,030 for the same period in the prior year.

Net Income

Net income decreased to \$146,429 for the three month period ended October 31, 2014 compared to net income of \$784,654 for the same period in the prior fiscal year. Net income decreased to \$163,239 for the six month period ended October 31, 2014 compared to \$1,752,121 for the same period in the prior fiscal year. Basic and diluted earnings per share for the second quarter of 2014 were each \$0.04 compared to basic and diluted earnings per share of \$0.20 and \$0.19, respectively, for the same period in the prior fiscal year. Basic and diluted earnings per share for the six month period ended October 31, 2014 were each \$0.04 compared to basic and diluted earnings per share of \$0.44 and \$0.43, respectively, for the same period in the prior fiscal year.

Liquidity and Capital Resources:

Operating Activities.

Cash flow used in operating activities was \$968,271 for the six months ended October 31, 2014, compared to cash flow provided by operating activities of \$2,262,950 for the same period in the prior fiscal year. During the first six months of fiscal year 2015, cash flow used in operating activities was primarily the result of increased inventories of \$5,359,581, due to a slower demand for product than forecasted and the startup of new customer programs during the period. Net cash used in operating activities was partially offset by an increase in trade accounts payable of \$3,325,544, and the result of net income and the non-cash effects of depreciation and amortization. The increase in accounts payable resulted without any changes to payments to vendors in the ordinary course of business.

Cash flow provided by operating activities was \$2,262,950 for the six months ended October 31, 2013. During the first six 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 a decrease of \$541,183 in trade accounts receivable. Net cash provided by operating activities was partially offset by a decrease in accounts payable. The decrease in accounts payable of \$3,844,814 was due to timing of payments to vendors in the ordinary course of business.



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Investing Activities.

During the first six months of fiscal year 2015, the Company purchased approximately \$2,317,007 in machinery and equipment to be used in the ordinary course of business. The Company has received forecasts from current customers for increased business that would require additional investment in capital equipment and facilities. To the extent that these forecasts come to fruition, the Company anticipates that it will make additional machinery and equipment purchases and potentially expand manufacturing operations in Mexico and China in fiscal year 2015 in the amount of approximately \$12,000,000. The Company anticipates purchases and expansions will be funded by lease transactions, its senior secured credit facility or raising capital from other sources.

During the first six months of fiscal year 2014, the Company purchased \$6,344,654 in machinery and equipment to be used in the ordinary course of business. The Company made additional machinery and equipment purchases of \$2,021,000 during the balance of fiscal year 2014.

Financing Activities.

Cash provided by financing activities was \$118,543 for the six months ended October 31, 2014. Cash provided by financing activities was primarily the result of sale leaseback agreements for machinery and equipment.

Cash provided by financing activities was \$4,550,793 for the six months ended October 31, 2013.

Cash provided by financing activities was primarily the result of increased borrowings under the credit facility, a sales leaseback transaction for machinery and equipment and obtaining a mortgage of the Company's facility in Elgin, Illinois.

Financing Summary.

The Company has a senior secured credit facility with Wells Fargo with a credit limit up to \$30,000,000 and it had 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. 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.

On October 31, 2014, the Company and Wells Fargo, N.A. extended the senior secured credit facility to October 31, 2017. Pursuant to the agreement, financial covenants were amended, an unused line fee was added, and the borrowing interest rate was changed. The facility allows the Company to choose among interest rates at which it may borrow funds. The interest rate is the prime rate (effectively 3.25% at October 31, 2014) or LIBOR plus two and one quarter percent (effectively 2.50% at October 31, 2014). Interest is paid monthly. Under the senior secured credit facility, the Company may borrow up to the lesser of (i) \$30,000,000 or (ii) an amount equal to the sum of 85% of the receivable borrowing base plus a percentage of the inventory borrowing base. Further, in specific circumstances, the Company is entitled to an over advance of up to \$5,000,000; however at no time can the borrowings under the credit facility exceed \$30,000,000. As of October 31, 2014, there was a \$22,500,000 outstanding balance and \$7,500,000 of unused availability under the credit facility agreement. At October 31, 2014, the Company was in compliance with its financial covenants.

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The Company entered into a mortgage agreement on January 8, 2010, in the amount of \$2,500,000, with Wells Fargo, N.A. to refinance the property that serves as the Company's corporate headquarters and its Illinois manufacturing facility. The Wells Fargo, N.A. 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 Company expects to refinance the mortgage prior to January 8, 2015. The outstanding balance as of October 31, 2014 was \$2,025,019.

On 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 October 31, 2014, \$109,486 and \$266,248 was outstanding under the lease finance and sale leaseback agreements, respectively. The net book value at October 31, 2014 of the equipment under the lease finance agreement and sale leaseback agreement was \$207,978 and \$516,194, respectively.

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 three and six month periods ended October 31, 2014 was \$8,142 and \$16,285, respectively. In addition, the landlord provided the Company tenant incentives of \$418,000, which are being amortized over the life 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 October 31, 2014, the balance outstanding under the capital lease agreement was \$82,683. The net book value of the equipment under this lease at October 31, 2014 was \$150,102.

On May 31, 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 the three and six month periods ended October 31, 2014 was \$23,295 and \$23,295, respectively.

On 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 Spitfire's design capabilities which allows 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.

On October 3, 2013, the Company entered into two capital leases (sale leaseback agreements) with Associated Bank, National Association in the amount of \$2,281,355 to finance equipment purchased in June 2012. The term of the first agreement, with an initial principal amount of \$2,201,637, 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 October 31, 2014, \$1,753,478

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SigmaTron International, Inc.

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and \$63,490 was outstanding under the first and second agreements, respectively. The net book value at October 31, 2014 of the equipment under each of the two agreements was \$1,828,245 and \$64,770.

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, 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 October 31, 2014 was \$1,224,000.

On March 6, 2014, the Company entered into a capital lease agreement with CIT Finance LLC to purchase equipment in the amount of \$589,082. The term of the lease extends to March 2019 with monthly payments of \$10,441 and a fixed interest rate of 5.65%. At October 31, 2014, the balance outstanding under the capital lease agreement was \$534,646. The net book value of the equipment under the lease as of October 31, 2014 was \$548,793.

On May 7, 2014, the Company entered into a capital lease agreement with CIT Finance LLC to purchase equipment in the amount of \$108,971. The term of the lease extends to May 2019 with monthly payments of \$1,931 and a fixed interest rate of 5.65%. At October 31, 2014, the balance outstanding under the capital lease was \$101,811. The net book value of the equipment under the lease as of October 31, 2014 was \$104,430.

On August 1, 2014, the Company entered into a capital lease agreement with CIT Finance LLC to purchase equipment in the amount of \$609,179. The term of the lease extends to July 2019 with monthly payments of \$10,797 and a fixed interest rate of 5.65%. At October 31, 2014, the balance outstanding under the capital lease was \$585,279. The net book value of the equipment under the lease as of October 31, 2014 was \$592,257.

On September 22, 2014, the Company entered into a sale leaseback agreement with Associated Bank, National Association in the amount of \$664,676 to finance equipment purchases. The term of lease extends to August 2019 with monthly payments of \$12,163 and a fixed interest rate of 3.87%. At October 31, 2014, the balance outstanding under the lease was \$642,455. The net book value of the equipment under the lease as of October 31, 2014 was \$594,762.

On September 22, 2014, the Company entered into a sale leaseback agreement with Associated Bank, National Association in the amount of \$437,641 to finance equipment purchases. The term of lease extends to August 2019 with monthly payments of \$8,008 and a fixed interest rate of 3.87%. At October 31, 2014, the balance outstanding under the lease was \$423,010. The net book value of the equipment under the lease as of October 31, 2014 was \$414,103.

On September 22, 2014, the Company entered into a capital lease agreement with Associated Bank, National Association in the amount of \$106,346 to finance equipment purchases. The term of lease extends to August 2019 with monthly payments of \$1,947 and a fixed interest rate of 3.89%. At October 31, 2014, the balance outstanding under the lease was \$102,791. The net book value of the equipment under the lease as of October 31, 2014 was \$104,131.

On October 27, 2014, the Company entered into a capital lease agreement with CIT Finance LLC to purchase equipment in the amount of \$501,590. The term of lease extends to October 2019 with monthly payments of \$8,890 and a fixed interest rate of 5.65%. At October 31, 2014, the balance

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outstanding under the lease was \$501,590. The net book value of the equipment under the lease as of October 31, 2014 was \$491,359.

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. The fluctuation of currencies from 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 six month period ended October 31, 2014 resulted in a foreign currency loss of approximately \$74,135 compared to a foreign currency loss of approximately \$88,000 for the same period in the prior year. During the first six months of fiscal year 2015, the Company's U.S. operations paid approximately \$25,910,000 to its foreign subsidiaries for services provided.

During the second quarter of fiscal year 2015, the Company received distributions from two of its subsidiaries based in Mexico, Acuna in the amount of \$2,041,432 and Tijuana in the amount of \$965,394. The U.S. income tax on these distributions of \$333,128 was reflected in the Company's tax provision for the fiscal year ended April 30, 2014. The distribution from the foreign subsidiaries based in Mexico does not change the Company's intentions to indefinitely reinvest the income from the Company's foreign subsidiaries.

During the second quarter of fiscal year 2015, the Company recorded a discrete tax expense of \$529,257 related to the inability to realize the tax benefit of a foreign tax credit that was generated in the period. The Company's estimate of cumulative taxable income during the foreign tax credit carryforward period are insufficient to support that the tax benefit from the foreign tax credit is more likely than not to be realized.

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 \$14,000,000. The Company's intent is to keep unrepatriated funds indefinitely reinvested outside of the United States and current plans do not demonstrate a need to fund U.S. operations.

The Company anticipates that its credit facilities, cash flow from operations and leasing resources are adequate to meet its working capital requirements and capital expenditures for fiscal year 2015 at the Company's current level of

business. The Company has received forecasts from current customers for increased business that would require additional investment in inventory, capital equipment and facilities. To the extent that these forecasts come to fruition, the Company intends to meet any increased capital requirements by seeking an increase in its secured line of credit or raising capital from other sources of debt or equity. In addition, in the event the Company expands its operations, its business grows rapidly, the current economic climate deteriorates, customers delay payments, or the Company consummates 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 its credit agreements in the future, or that any retention or renewal will be on the same terms as currently exist.



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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 October 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.

Internal Controls:

There has been no change in our internal control over financial reporting during the three months ended October 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.

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PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

As of October 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, 2014.

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, 2013 and 2014, 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, and June 10, 2014, which information is incorporated herein by reference. The remaining shares will vest and be sold in one additional installment of 12,500 shares on 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, 8,330 shares were sold in each of June, 2012 and June, 2013, and 8,340 shares were sold in June 2014, 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, and June 10, 2014, which information is incorporated herein by reference.

Item 3. Defaults Upon Senior Securities.

None.

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SigmaTron International, Inc.

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Item 4.Mine Safety Disclosures.

Not applicable.

Item 5.Other Information.

None.

Item 6.Exhibits.

10.1This Schedule # 1223197 to Master Lease Agreement Number 81344 entered into by and between CIT Finance LLC and SigmaTron International, Inc. dated August 1, 2014.

10.2This Lease No. 003 is an attachment to Master Lease No. 2170 dated October 17, 2013 by and between Associated Bank, National Association and SigmaTron International, Inc. dated September 22, 2014.

10.3This Lease No. 004 is an attachment to Master Lease No. 2170 dated October 17, 2013 by and between Associated Bank, National Association and SigmaTron International, Inc. dated September 22, 2014.

10.4This Lease No. 005 is an attachment to Master Lease No. 2170 dated October 17, 2013 by and between Associated Bank, National Association and SigmaTron International, Inc. dated September 22, 2014.

10.5This Schedule # 1246045 to Master Lease Agreement Number 81344 entered into by and between CIT Finance LLC and SigmaTron International, Inc. dated October 27, 2014.

10.6 Third Amended and Restated Credit Agreement entered into as of October 31, 2014, by and between SigmaTron International, Inc., and Wells Fargo Bank, National Association, incorporated by herein by reference to Exhibit 10.1 to the Company's current report on Form 8-K filed on December 10, 2014.

10.7 Second Amended and Restated Promissory Note dated November 24, 2014 issued by the Company to Wells Fargo Bank, National Association, incorporated by reference to Exhibit 10.2 to the Company's current report on Form 8-K filed on December 10, 2014.

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).

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SigmaTron International, Inc.

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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.DEFBRL Taxonomy Extension Definition Linkbase Document

101.LABXBRL Taxonomy Extension Label Linkbase Document

101.PREXBRL Taxonomy Extension Presentation Linkbase Document

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SigmaTron International, Inc.

October 31, 2014

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

December 12, 2014

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

Date

/s/ Linda K. Frauendorfer

December 12, 2014

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

Date