

SIGMATRON INTERNATIONAL INC

Form 10-Q

March 14, 2011

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**Form 10-Q**

(Mark One)

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

**For the quarterly period ended January 31, 2011**

**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 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 March 14, 2011:  
3,823,056

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## Consolidated Balance Sheets

	January 31, 2011 (Unaudited)	April 30, 2010
<b>Current assets:</b>		
Cash	\$ 3,044,438	\$ 4,052,572
Accounts receivable, less allowance for doubtful accounts of \$150,000 at January 31, 2011 and April 30, 2010	22,364,310	24,929,972
Inventories, net	46,343,136	37,406,056
Prepaid expenses and other assets	1,081,529	928,551
Deferred income taxes	1,847,013	1,844,188
Other receivables	231,948	171,593
 Total current assets	 74,912,374	 69,332,932
 Property, machinery and equipment, net	 26,768,598	 25,176,664
 Other assets	 681,345	 822,341
Intangible assets, net of amortization of \$2,532,585 and \$2,406,329 at January 31, 2011 and April 30, 2010	237,415	363,671
 Total assets	 \$ 102,599,732	 \$ 95,695,608
 <b>Liabilities and stockholders equity:</b>		
Current liabilities:		
Trade accounts payable	\$ 15,053,803	\$ 20,479,495
Accrued expenses	1,906,499	1,786,360
Accrued wages	2,402,519	2,475,552
Income taxes payable	178,778	1,288,617
Notes payable buildings	99,996	99,996
Notes payable other	160,994	160,994
Capital lease obligations	999,689	874,116
 Total current liabilities	 20,802,278	 27,165,130
 Notes payable bank, less current portion	 25,897,930	 15,125,058
Notes payable buildings, less current portion	2,300,008	2,375,005
Notes payable other, less current portion	67,081	187,826
Capital lease obligations, less current portion	1,079,663	569,240
Deferred rent	634,743	
Deferred income taxes	2,446,722	2,610,142

Total long-term liabilities	32,426,147	20,867,271
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Total liabilities	53,228,425	48,032,401
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**Commitments and contingencies:**

**Stockholders' equity:**

Preferred stock, \$.01 par value; 500,000 shares authorized, none issued and outstanding

Common stock, \$.01 par value; 12,000,000 shares authorized, 3,823,056 and 3,822,556 shares issued and outstanding at January 31, 2011 and April 30, 2010

	38,231	38,226
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Additional paid in capital	19,656,597	19,647,359
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Retained earnings	29,676,479	27,977,622
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Total stockholders' equity	49,371,307	47,663,207
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Total liabilities and stockholders' equity	\$ 102,599,732	\$ 95,695,608
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The accompanying notes to financial statements are an integral part of these statements.

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## Consolidated Statements Of Operations

	Three Months Ended	Three Months Ended	Nine Months Ended	Nine Months Ended
	January 31, 2011 Unaudited	January 31, 2010 Unaudited	January 31, 2011	January 31, 2010
Net sales	\$ 36,934,982	\$ 30,599,499	\$ 113,191,548	\$ 87,493,820
Cost of products sold	33,519,936	27,219,708	100,892,328	78,570,880
Gross profit	3,415,046	3,379,791	12,299,220	8,922,940
Selling and administrative expenses	2,691,460	2,503,571	8,734,478	7,448,821
Operating income	723,586	876,220	3,564,742	1,474,119
Other (income) expense net		(2,450)	(10,122)	(22,194)
Interest expense	318,983	214,310	878,070	649,713
Income from operations before income tax expense	404,603	664,360	2,696,794	846,600
Income tax expense	149,785	248,892	997,937	316,309
Net income	\$ 254,818	\$ 415,468	\$ 1,698,857	\$ 530,291
Earnings per share basic	\$ 0.07	\$ 0.11	\$ 0.44	\$ 0.14
Earnings per share diluted	\$ 0.07	\$ 0.11	\$ 0.44	\$ 0.13
Weighted average shares of common stock outstanding Basic	3,823,056	3,822,556	3,822,971	3,822,556
Weighted average shares of common stock outstanding Diluted	3,886,181	3,873,531	3,882,066	3,853,902

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 Months Ended January 31, 2011 Unaudited	Nine Months Ended January 31, 2010 Unaudited
<b>Operating activities:</b>		
Net income	\$ 1,698,857	\$ 530,291
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	3,457,775	3,004,229
Stock-based compensation	7,243	14,365
Deferred income taxes	(166,245)	1,083,665
Amortization of intangible assets	126,256	193,340
Loss (gain) from disposal or sale of machinery and equipment	8,637	(7,980)
Changes in operating assets and liabilities		
Accounts receivable	2,565,662	(3,383,661)
Inventories	(8,937,080)	3,942,082
Prepaid expenses and other assets	(72,337)	211,248
Income Taxes receivable		(1,273,734)
Trade accounts payable	(4,018,120)	5,941,094
Deferred rent	634,743	
Accrued expenses and payroll	47,106	(221,666)
Income taxes payable	(1,109,839)	
Net cash (used in) provided by operating activities	(5,757,342)	10,033,273
<b>Investing activities:</b>		
Purchases of machinery and equipment	(3,681,548)	(1,669,449)
Proceeds from sale of machinery and equipment		17,927
Net cash used in investing activities	(3,681,548)	(1,651,522)
<b>Financing activities:</b>		
Proceeds from the issuance of common stock	2,000	
Proceeds under capital lease obligations		1,287,407
Payments under capital lease obligations	(740,802)	(2,040,206)
Payments under term loan		(2,000,000)
Payments under other notes payable	(120,745)	(53,665)
Net proceeds (payments) under lines of credit	10,772,872	(3,701,218)
Change in bank overdraft	(1,407,572)	



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Proceeds under building notes payable		2,500,000
Payments under building notes payable	(74,997)	(2,661,438)
Net cash provided by (used in) financing activities	8,430,756	(6,669,120)
<b>Change in cash</b>	(1,008,134)	1,712,631
Cash at beginning of period	4,052,572	3,781,252
<b>Cash at end of period</b>	\$ 3,044,438	\$ 5,493,883
Supplementary disclosures of cash flow information		
Cash paid for interest	\$ 757,014	\$ 635,205
Cash paid for income taxes, net of (refunds)	1,974,509	69,557
Non Cash Financing Activity:		
The Company financed a licensing agreement through a note payable		\$ 442,732
Purchase of machinery and equipment financed under capital leases	541,468	
Purchase of machinery and equipment financed under sale lease back agreements	835,330	
The accompanying notes to financial statements are an integral part of these statements.		

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SigmaTron International, Inc.

**Notes to Condensed Consolidated Financial Statements**

(Unaudited)

January 31, 2011

**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., and SigmaTron International Trading Co., its wholly-owned foreign enterprise Wujiang SigmaTron Electronics Co. Ltd. ( SigmaTron China ) and international procurement office SigmaTron Taiwan (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, 2011 are not necessarily indicative of the results that may be expected for the year ending April 30, 2011. 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, 2010.

**Note B Inventories:**

The components of inventory consist of the following:

	January 31, 2011	April 30, 2010
Finished products	\$ 12,329,086	\$ 8,364,010
Work-in-process	2,111,136	1,925,880
Raw materials	31,902,914	27,116,166
	\$ 46,343,136	\$ 37,406,056

**Table of Contents****Note C Earnings Per Share:**

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

	Three Months Ended		Nine Months Ended	
	January 31, 2011	January 31, 2010	January 31, 2011	January 31, 2010
Net income	\$ 254,818	\$ 415,468	\$ 1,698,857	\$ 530,291
Weighted-average shares				
Basic	3,823,056	3,822,556	3,822,971	3,822,556
Effect of dilutive stock options	63,125	50,975	59,095	31,346
Diluted	3,886,181	3,873,531	3,882,066	3,853,902
Basic earnings per share	\$ 0.07	\$ 0.11	\$ 0.44	\$ 0.14
Diluted earnings per share	\$ 0.07	\$ 0.11	\$ 0.44	\$ 0.13

Options to purchase 500,807 and 502,037 shares of common stock were outstanding at January 31, 2011 and 2010, respectively. There were no options granted during the quarters ended January 31, 2011 and 2010, respectively.

**Note D Hayward, CA Operation Move:**

During the second fiscal quarter of 2011, the Company relocated its Hayward, CA operation to Union City, CA. The Company incurred relocation expenses as a result of the move. The relocation expenses after tax for the nine month period ended January 31, 2011 was \$562,206. Net income adjusted on a non-GAAP basis to exclude relocation expenses for the nine month period ended January 31, 2011 was \$2,261,063. The non-GAAP basic and diluted earnings per share, as adjusted, for the nine month period ended January 31, 2011 was \$0.58. The Company believes the relocation expense is a onetime event and the non-GAAP disclosure provides meaningful information regarding the Company's results of operations.

In September 2010, the Company entered into a 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 recorded for the three and nine month periods ending January 31, 2011, was \$129,933 and \$216,554, respectively.

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## non-GAAP Reconciliation

Nine Months  
Ended  
January 31, 2011

**Income Reconciliation:**

Net income before relocation expenses	\$ 2,261,063
Relocation expenses net of taxes	562,206
Net income	\$ 1,698,857

**EPS Reconciliation:**

Income per common share assuming dilution before relocation expenses	\$ 0.58
Net income per common share assuming dilution of relocation expenses	\$ (0.14)
Net income per common share assuming dilution	\$ 0.44

Weighted average number of common equivalent shares outstanding assuming dilution	3,882,066
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**Note E Financing Transaction:**

In January 2010, the Company entered into a senior secured credit facility with Wells Fargo Bank ( Wells Fargo ), with a credit limit up to \$25 million. The term of the credit facility initially extended for two years, through January 8, 2012, and allows the Company to choose among interest rates at which it may borrow funds. The interest rate can be the prime rate plus one half percent (3.75% at January 31, 2011) or LIBOR plus two and three quarter percent (3.1% at January 31, 2011), which is paid monthly. The LIBOR rate has a floor of .35%. The credit facility is collateralized by substantially all of the domestically located assets of the Company and requires the Company to be in compliance with several financial covenants. In August 2010, the Company and Wells Fargo increased the Company's senior secured credit facility from \$25 million to \$30 million. On January 31, 2011, the Company and Wells Fargo agreed to extend the term of its credit facility through September 30, 2013 and amend a financial covenant. The Company was in compliance with its financial covenants at January 31, 2011. As of January 31, 2011, there was a \$25,897,930 outstanding balance under the credit facility and approximately \$4,100,000 of unused availability.

On November 29, 2010, the Company entered into a capital lease to purchase equipment with Wells Fargo Equipment Finance, Inc. 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%. The net book value at January 31, 2011 was \$220,795. At January 31, 2011, the balance outstanding on all Wells Fargo capital leases was \$1,888,616.

**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 ( GAAP ) requires management to make estimates and assumptions that affect the reported amounts of assets and

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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 product is shipped to the customer. In general, it is the Company's policy to recognize revenue and related costs when the order has been shipped from our facilities, which is also the same point that title passes under the terms of the purchase order except for consignment inventory. Consignment inventory 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 inventory, the consignment 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 transfer. The Company from time to time may ship an order 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. The Company does not earn a fee for storing the consignment inventory. The Company generally provides a 90 day warranty for workmanship only and does not have any installation, acceptance or sales incentives, although the Company has negotiated longer warranty terms in certain instances. The Company assembles and tests assemblies based on customers' specifications. Historically, the amount of returns for workmanship issues has been de minimis under the Company's standard or extended warranties.

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

**Impairment of Long-Lived Assets** The Company reviews long-lived assets, including amortizable intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An asset is considered impaired if its carrying amount exceeds the future undiscounted net cash flow the asset is expected to generate. If such asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair market value.

### **New Accounting Standards:**

In January 2010, the Financial Accounting Standards Board (FASB) issued update No. 2010-06 (ASU 2010-06), which provides updated guidance on disclosure requirements under Accounting Standards Codification (ASC) 820 Fair Value Measurements and Disclosures (formerly SFAS 157, Fair Value Measures). We have adopted ASU 2010-06 as of May 1, 2010. The adoption did not have a significant impact on the Company's consolidated financial statements.

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Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a significant impact on our consolidated financial statements upon adoption.

**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., its wholly-owned subsidiaries Standard Components de Mexico S.A., AbleMex S.A. de C.V., and SigmaTron International Trading Co., and its wholly-owned foreign enterprise Wujiang SigmaTron Electronics Co., Ltd. (SigmaTron China) and international procurement office SigmaTron Taiwan (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 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; the continued availability and sufficiency of our credit arrangements; changes in U.S., Mexican, Chinese 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 and Taiwanese economic, labor and political systems and conditions; currency exchange fluctuations; the expenses and savings from the relocation of our Hayward, California facility to Union City, California; 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 (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) automatic and manual assembly and testing of products; (2) material sourcing and procurement; (3) design, manufacturing and test engineering support; (4) warehousing and shipment services; and (5) 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 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

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number of suppliers. The Company does not enter into long-term purchase agreements with the majority of its major or single-source suppliers. The Company believes short-term purchase orders with its suppliers provide flexibility needed to source inventory based on the needs of its customers. In addition, a customer's specifications may require the Company to obtain components from a single source or a small number of suppliers. The loss of any such suppliers or increases in component cost could have a material impact on the Company's results of operations. The Company could operate at a cost disadvantage compared to competitors who have greater direct buying power from suppliers. During the past several months the Company has experienced an increase in lead times for various types of components and raw material classes, due to vendor capacity issues. Going forward the Company expects continued pressure on its margins as raw material costs continue to increase and the Company has limited or delayed ability to pass along the increases to its customers. The Company will continue to work with our customers and vendors in efforts to reduce cost and to try to minimize the effect on margins. It also needs to grow revenue, diversify its markets served, which should help it manage the situation. However, some of its new programs will not be significant revenue contributors until later this calendar year.

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 or 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 levels. However, the Company does not believe that such variations are a meaningful indicator of the Company's gross margins. Consignment orders accounted for less than 5% of the Company's revenues for the nine months ended January 31, 2011 and 2010.

In the past, the timing and rescheduling of orders have caused the Company to experience significant quarterly fluctuations in its revenues and earnings, and the Company expects such fluctuations to continue. The uncertainty associated with the worldwide economy in general, and the United States economy specifically makes forecasting difficult, such difficulty is expected to continue for the balance of fiscal year 2011. The Company experienced an increase in demand during the quarter ended January 31, 2011 and the first nine months of fiscal year 2011 compared to the same period in the prior fiscal year. During the third fiscal quarter of 2011 revenues were lower than anticipated due to new programs with existing and new customers being delayed for various reasons, including customary calendar year end slow down due to the holidays and customers adjusting inventory levels.

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**Results of Operations:**

**Net Sales**

Net sales increased for the three month period ended January 31, 2011 to \$36,934,982 from \$30,599,499 for the three month period ended January 31, 2010. Net sales increased for the nine months ended January 31, 2011 to \$113,191,548 from \$87,493,820 for the same period in the prior fiscal year. Sales volume increased for the three and nine month periods ended January 31, 2011 as compared to the same period in the prior year in the industrial electronics, fitness, telecommunications, semiconductor equipment and gaming marketplaces. The increase in sales for these marketplaces was partially offset by a decrease in sales in the consumer electronics, appliance and life sciences marketplaces. The increase in revenue for the three and nine month periods ended January 31, 2011 is a result of our existing customers' increased demand for product and the addition of some new customer programs ramping up compared to the previous fiscal year. During the third fiscal quarter of 2011, revenues were lower than anticipated due to new programs with existing and new customers being delayed for various reasons, including customary calendar year end slow down due to the holidays and customers adjusting inventory levels.

**Gross Profit**

Gross profit increased during the three month period ended January 31, 2011 to \$3,415,046 or 9.2% of net sales, compared to \$3,379,791 or 11.1% of net sales for the same period in the prior fiscal year. Gross profit as a percent of net sales decreased for the three month period ended January 31, 2011 compared to the prior fiscal year. The decrease is a result of currency exchange losses of \$229,459 due to the weakening dollar. The gross profit was also impacted by price concessions to customers. Gross profit increased for the nine month period ended January 31, 2011 to \$12,299,220 or 10.9% of net sales, compared to \$8,922,940 or 10.2% of net sales for the same period in the prior fiscal year. The increase in gross profit in total dollars and as a percent of net sales for the nine month periods ended January 31, 2011 compared to the prior periods is due to increased revenue levels, the mix of product shipped to various customers and continuing efforts to control operational costs. There can be no assurance that sales levels and gross margins will not decrease in future quarters. Going forward the Company expects continued pressure on its margins as raw material costs continue to increase and the Company has limited or delayed ability to pass along the increases to its customers. The Company will continue to work with our customers and vendors in efforts to reduce cost and to try to minimize the effect on margins.

**Selling and Administrative Expenses**

Selling and administrative expenses increased to \$2,691,460 for the three month period ended January 31, 2011 compared to \$2,503,571 in the same period in the prior fiscal year; however, the percentage of net sales represented by such expenses dropped to 7.3% of net sales from 8.2% of net sales, during those respective periods. Selling and administrative expenses increased to \$8,734,478 for the nine month period ended January 31, 2011 compared to \$7,448,821 in the same period in the prior fiscal year; however, the percentage of net sales represented by such expenses dropped to 7.7% of net sales from 8.5% of net sales, during those respective periods. The increase in total dollars of such expenses for the three month and nine month periods ended January 31, 2011, was approximately \$447,550 and \$1,595,189, respectively, and is primarily due to a restoration of salary reductions previously implemented in response to the downturn in business. Bonus expense, insurance, travel and professional fees also increased for the three and nine month periods ended January 31, 2011. The increase in selling and administrative expenses in total dollars for the three and nine month periods



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ended January 31, 2011 was partially offset by a decrease of approximately \$259,660 and \$309,530, respectively, in amortization expense, bank fees and other selling and administrative expenses.

**Interest Expense**

Interest expense increased to \$318,983 for the three month period ended January 31, 2011 compared to \$214,310 for the same period in the prior year. Interest expense for the nine month period ended January 31, 2011 was \$878,070 compared to \$649,713 for the same period in the prior year. The additional interest expense was attributable to the Company's increased borrowings under its banking agreements, capital lease obligations, deferred financing costs and higher interest rates under its senior secured credit facility and mortgage. Interest expense for future quarters may increase if interest rates or borrowings, or both, continue to increase.

**Taxes**

The income tax expense from operations was \$149,785 for the three month period ended January 31, 2011 compared to \$248,892 for the same period in the prior fiscal year. Income tax expense from operations was \$997,937 for the nine month period ended January 31, 2011 compared to \$316,309 for the same period in the prior fiscal period. The Company's effective tax rate was 37% for the nine month periods ended January 31, 2011 and 2010.

**Net Income**

Net income decreased to \$254,818 for the three month period ended January 31, 2011 compared to \$415,468 for the same period in the prior year. Net income increased to \$1,698,857 for the nine months ended January 31, 2011 compared to \$530,291 in the same period last year. Basic and diluted earnings per share for the third fiscal quarter of 2011 were both \$0.07 compared to basic and diluted earnings per share of \$0.11 for the same period in the prior year. Basic and diluted earnings per share for the nine months ended January 31, 2011 were both \$0.44 compared to basic and diluted earnings per share of \$0.14 and \$0.13, respectively, for the same period in the prior year.

During the second fiscal quarter of 2011, the Company relocated its Hayward, CA operation to Union City, CA. The Company incurred relocation expenses as a result of the move. The relocation expenses after tax for the nine month period ended January 31, 2011 was \$562,206. Net income adjusted on a non-GAAP basis to exclude relocation expenses for the nine month period ended January 31, 2011 was \$2,261,063. The non-GAAP basic and diluted earnings per share, as adjusted, for the nine month period ended January 31, 2011 was \$0.58. (See the ***non-GAAP Reconciliation on page 8***).

**Liquidity and Capital Resources:**

***Operating Activities.***

Cash flow used in operating activities was \$5,757,342 for the nine months ended January 31, 2011, compared to cash flow provided by operating activities of \$10,033,273 for the same period in the prior year. During the first nine months of fiscal year 2011, cash flow used in operating activities was primarily the result of an increase in inventories of \$8,937,080 due to raw material purchases to support increased demand for specific customers, rising inventory levels for other customers delaying shipments and the start up of new customer programs. Net cash used in operating activities was partially offset by net income, the non-cash effect of depreciation and amortization, a decrease in

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income taxes payable, accounts payable and accounts receivable. The change in accounts payable and accounts receivable is due to timing of payments in the ordinary course of business.

Cash flow provided by operating activities was \$10,033,273 for the nine months ended January 31, 2010. During the first nine months of fiscal year 2010, cash flow provided by operating activities was a result of net income adjusted for the non-cash effect of depreciation and amortization, a decrease in inventory and an increase in accounts payable and net income. The decrease in inventory of \$3,942,082 during the first nine months of fiscal year 2010 was the result of the slowing of inventory receipts due to customers' decreased demand for product based on their forecasts, which we believe was attributable to the global economic slowdown and financial crisis. Net cash provided by operations during the first nine months of fiscal year 2010 was partially offset by a \$3,383,661 increase in accounts receivable. The increase in accounts receivable was due to the timing of payments from a significant customer.

***Investing Activities.***

During the first nine months of fiscal year 2011, the Company purchased approximately \$5,100,000 in machinery and equipment to be used in the ordinary course of business. Of the total purchases, approximately \$541,500 and \$835,000 of equipment purchases in the first nine months of fiscal year 2011 is financed under a capital lease and a sale lease back agreement, respectively. The balance of the purchases was funded by working capital. The Company expects to make additional machinery and equipment purchases of approximately \$500,000 during the balance of fiscal year 2011.

During the first nine months of fiscal year 2010, the Company purchased approximately \$2,000,000 in machinery and equipment in the ordinary course of business. Approximately \$440,000 of the equipment purchases in the first nine months of fiscal year 2010 was a financed licensing agreement for software through a note payable.

***Financing Activities.***

Cash provided by financing activities was \$8,430,756 for the nine months ended January 31, 2011, compared to cash used in financing activities of \$6,669,120 for the same period in the prior fiscal year. Cash provided by financing activities was primarily the result of increased borrowings of \$10,772,872 under the credit facility. The additional working capital was required to support the increase in inventory.

***Financing Transactions.***

In January 2010, the Company entered into a senior secured credit facility with Wells Fargo Bank ( Wells Fargo ), with a credit limit up to \$25 million. The term of the credit facility initially extended for two years, through January 8, 2012, and allows the Company to choose among interest rates at which it may borrow funds. The interest rate can be the prime rate plus one half percent (3.75% at January 31, 2011) or LIBOR plus two and three quarter percent (3.1% at January 31, 2011), which is paid monthly. The LIBOR rate has a floor of .35%. The credit facility is collateralized by substantially all of the domestically located assets of the Company and requires the Company to be in compliance with several financial covenants. In August 2010, the Company and Wells Fargo increased the Company's senior secured credit facility from \$25 million to \$30 million. On January 31, 2011, the Company and Wells Fargo agreed to extend the term of its credit facility through September 30, 2013 and amend a financial covenant. The Company was in compliance with its financial covenants at January 31, 2011. As of January 31, 2011, there was a \$25,897,930 outstanding balance under the credit facility and approximately \$4,100,000 of unused availability.

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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 to refinance the property that serves as the Company's corporate headquarters and its Illinois manufacturing facility. The note bears interest at a fixed rate of 6.42% per year and is payable in sixty monthly installments. A final payment of approximately \$2,000,000 is due on or before January 8, 2015. The outstanding balance as of January 31, 2011 was \$2,400,004. As of January 8, 2010, the Company repaid the prior Bank of America mortgage which equaled \$2,565,413, using proceeds from the Wells Fargo mortgage and senior secured credit facility.

On January 19, 2010, the Company entered into a leasing transaction with Wells Fargo Equipment Finance, Inc. to refinance \$1,287,407 of equipment. The term of the lease financing agreement extends to January 18, 2012 with monthly payments of \$55,872 and a fixed interest rate of 4.29%. At January 31, 2011, the net book value of the equipment was \$1,714,670.

On August 20, 2010 and October 26, 2010, the Company entered into two capital leasing transactions to purchase equipment (a lease finance agreement and a sale lease back agreement) with Wells Fargo Equipment Finance, Inc. totaling \$1,150,582. The term of the lease finance agreement of \$315,252 extends to September 2016 with monthly payments of \$4,973 and a fixed interest rate of 4.28%. The term under the sale lease back agreement of \$835,330 extends to August 2016 with monthly payments of \$13,207 and a fixed interest rate of 4.36%. The net book value at January 31, 2011 for the equipment under the lease finance agreement and sale lease back agreement was \$306,495 and \$783,416, respectively.

On November 29, 2010, the Company entered into a capital lease to purchase equipment with Wells Fargo Equipment Finance, Inc. 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%. The net book value at January 31, 2011 was \$220,795. At January 31, 2011, the total balance outstanding on all Wells Fargo capital leases was \$1,888,615.

The Company has two other capital leases with balances outstanding in the amount of \$190,737 and \$458,421 at January 31, 2011 and 2010, respectively.

The Company provides funds for salaries, wages, overhead and capital expenditure items as necessary to operate its wholly-owned Mexican and Chinese subsidiaries and the Taiwan international procurement office. The Company provides funding in U.S. dollars, which are exchanged for Pesos, Renminbi, and New Taiwan Dollars as needed. 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 nine months ended January 31, 2011, resulted in a loss of approximately \$241,300. During the first nine months of fiscal year 2011, the Company's U.S. operations paid approximately \$11,880,000 to its foreign subsidiaries for services provided.

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

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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 Rule 12b-2 of 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 Rule 12b-2 of the Exchange Act, we are not required to provide the information required by this item.

**Item 4. Controls and Procedures.**

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, 2011. 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. Our disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports filed by the Company under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our management, including our President and Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Based on management's evaluation, our President and Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of January 31, 2011.

There has been no change in our internal control over financial reporting during the quarter ended January 31, 2011, that has materially affected or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings.**

As of January 31, 2011, 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.

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**Item 1A. Risk Factors.**

The information presented below includes any 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, 2010.

***The Company's business could be adversely affected by worldwide economic conditions.***

The current challenging worldwide economic conditions could adversely affect the Company's business and/or operating results through:

reduced sales,

increased operating costs,

customers' inability to accurately forecast orders,

increased inventory carrying costs,

increased risk of uncollectible customer accounts receivable and unpaid customer inventory obligations,

limiting the Company's access to affordable financing.

**Sales:**

In the past, the timing and rescheduling of orders have caused the Company to experience significant quarterly fluctuations in its revenues and earnings, and the Company expects such fluctuations to continue. The uncertainty associated with the worldwide economy in general, and the United States economy specifically makes forecasting difficult in the short-term and such difficulty is expected to continue for the balance of fiscal year 2011.

**Operating Costs:**

The Company relies on numerous third-party suppliers for components used in the Company's production process. Certain of these components are available only from single sources or a limited number of suppliers. In addition, a customer's specifications may require the Company to obtain components from a single source or a smaller number of suppliers. The loss of any such suppliers could have a material impact on the Company's result of operations. Further, the Company could operate at a cost disadvantage compared to competitors who have greater direct buying power from suppliers. In fiscal year 2011, the Company experienced an increased in lead times for various types of components due to industry-wide shortages of electronic components and the shortages may continue to occur due to increased demand. Increased demand for components and rising commodity prices have resulted in upward pricing pressures from the Company's supply chain, which has and could continue to affect its results of operations. 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 needs of its customers, which constantly change.

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**Inventory Carrying Costs:**

The current economic environment and market instability make it increasingly difficult for the Company's customers to accurately forecast future order trends. This condition could result in customers pushing back their product order acceptance schedules, which could result in increased inventory carrying costs. The increased carrying costs could have a negative impact on the Company's financial results.

**Uncollectible Accounts:**

The Company could suffer significant losses if a customer is unable to pay its accounts receivable or if the customer is unable to pay for its inventory procured by the Company on its behalf. An increase in uncollectible accounts receivable or customers' inability to pay the Company for inventory obligations would have a negative impact on the Company's financial results.

**Access to Credit:**

If credit markets continue to tighten, the Company's bank could be unwilling to extend the Company's credit facility. The Company's ability to finance its operations could be negatively affected in such an event. (See the ***Financing Transactions on page 14***).

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

None.

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

None.

**Item 4. Removed and Reserved.**

**Item 5. Other Information.**

None.

**Item 6. Exhibits.**

- (a) Exhibits:
- 31.1 Certification of Principal Executive Officer of the Company Pursuant to Rule 13a-14(a) under the Exchange Act, as adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).
  - 31.2 Certification of Principal Financial Officer of the Company Pursuant to Rule 13a-14(a) under the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).
  - 32.1 Certification by the Principal Executive Officer of SigmaTron International, Inc. Pursuant to Rule 13a-14(b) under the Exchange Act and Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).

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- 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).

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**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

March 14, 2011

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

Date

/s/ Linda K. Frauendorfer

March 14, 2011

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

Date