

APPLIANCES | INDUSTRIAL AND CONSUMER ELECTRONICS | FITNESS AND GAMING | TELECOMMUNICATIONS | LIFE SCIENCES

# SIGMATRON

I N T E R N A T I O N A L

2010 ANNUAL REPORT



SIGMATRON  
INTERNATIONAL:  
WHERE GLOBAL  
MANUFACTURING  
AND SERVICE  
MEET.



SigmaTron International's customer base includes markets and companies whose products are at the leading edge of innovation and growth and integral to the health of the economy worldwide.

**Life sciences and medical technology** has an ever-growing number of applications; SigmaTron manufactures advanced clinical instruments and diagnostic systems.

**Aerospace** is a new high-stakes market sector for SigmaTron, requiring equipment that meets and exceeds military requirements for documentation and tracking.

**Home appliances** essential to everyday life, including dishwashers, ranges, and washers and dryers, do their work using SigmaTron's dependable, high-quality controls.

**Fitness equipment** continues to grow in popularity; SigmaTron assembles the controls for treadmills, exercise bikes and cross trainers to meet growing market demand worldwide.

**Industrial electronics** have evolved from mechanical to increasingly advanced

electronic systems; SigmaTron manufactures motor controls, power supplies and other sophisticated controls.

**Telecom** in all its forms uses sophisticated, ever-evolving technology; customers in this growing sector look to SigmaTron for routers and other essential equipment.

**Consumer electronics** companies use SigmaTron's manufacturing expertise to produce battery back-up sump pumps and electric bicycles.

**Semiconductor** equipment requires accuracy and dependability; SigmaTron manufactures process control and yield management equipment that meets and exceeds industry standards.

**Gaming equipment** comes in increasingly sophisticated forms; SigmaTron's circuit board assemblies power slot machines, lighting displays and other gaming applications.



SigmaTron International, Inc. | Elk Grove Village, Illinois, USA | Tijuana, Mexico | Acuna, Mexico | Suzhou-Wujiang, China | Del Rio, Texas, USA | Hayward, California, USA | Taipei, Taiwan

- GLOBAL FOOTPRINT
- BOX-BUILD
- INTERNATIONAL PROCUREMENT
- SUPPLY CHAIN SOLUTIONS
- PROTOTYPE TO HIGH VOLUME
- REWORK AND REPAIR
- HIGH-TECH/BGA
- LOW-TECH/THRU-HOLE
- DFM/DFT
- CLEAN ROOM
- LCD INTEGRATION
- CONFORMAL COATING
- PARYLENE COATING
- REPAIR DEPOT



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 WWW.SGMINTL.COM  
 TAIWAN • CHINA • CALIFORNIA • MEXICO

**SIGMATRON**  
 INTERNATIONAL  
 Taiwan Branch  
 新加坡坡中區維多利亞街



## **To Our Stockholders**

Fiscal 2010 was a challenging but satisfying year for SigmaTron. We started the fiscal year with the negative trends we experienced the second half of fiscal 2009 and posted our largest quarterly operating loss during the current economic downturn in the first quarter of this fiscal year. However, during the second quarter of fiscal 2010, revenue recovered modestly from first-quarter depressed levels, and the cost reductions we put in place at the end of fiscal 2009 allowed us to post modest pre-tax profits during the second and third quarters of fiscal 2010. Then, in the fourth quarter, we watched revenue grow from the levels we saw during the second and third quarters of fiscal 2010, giving us the economies of scale we need to be successful.

Even though we ended fiscal 2010 and entered fiscal 2011 with positive momentum in revenue, our run rate from the fourth quarter annualized remains 15% below our revenue run rates before the general downturn that began in November 2008. This is further evidence that, despite the difficult time for the economy overall, we successfully reduced our cost structure while maintaining necessary customer support. Equally satisfying, we not only maintained our existing customer base but added several new customers and entered a number of new end markets. In summary, we successfully lowered our cost structure, managed challenges to liquidity, initiated new programs with our current customers, added new customers in new end markets and entered fiscal 2011 with positive momentum-satisfying indeed.

Adding to these accomplishments, as we reported in January 2010, we successfully transitioned to a new financing arrangement with Wells Fargo International Banking and Trade Solutions (Wells Fargo). Clearly, a strong relationship with a lender is critical to the potential future success of our Company. We were pleased that Wells Fargo liked what they saw in SigmaTron and proposed an arrangement that we believe offers the resources and flexibility we need to return us to a path of growth.

Following are updates on the activities at our various plants:

### **Elk Grove Village, Illinois**

Our Elk Grove Village plant had a good and active year. We added one significant new customer, and another relatively new customer has experienced rapid growth in revenue, providing Elk Grove Village with a good revenue base at the end of fiscal 2010. Also during the year, Elk Grove reaffirmed its importance as a portal to SigmaTron operations overall. Several long-term customers will continue to use Elk Grove Village to launch new products, and then move them offshore to our Mexican or Chinese plants as their products stabilize and demand grows. I am pleased that at the end of fiscal 2010 Elk Grove Village was increasing its headcount and modestly increasing its surface mount capacity, both positive signs.

### **Acuña, Mexico and Del Rio, Texas**

Our plant in Acuña, Mexico, continues to be our largest operation, and at the end of fiscal 2010 it, too, was increasing headcount and surface mount capacity. During fiscal 2010, several significant programs transferred from Elk Grove Village and Hayward to Acuña, in part because of Acuña's enhanced technical capabilities. Recent trends in the worldwide economy, including exchange rates and transportation costs, have made Mexico an attractive complement to China, and bode well for Acuña's future.

**Suzhou—Wujiang, China**

As fiscal 2010 ended, our plant in Wujiang was also increasing headcount and surface mount capacity. During the year, existing customers awarded Wujiang several new programs, and the plant also added two significant new customers that plan to release products in fiscal 2011. Our plans to expand the plant remain on hold, but if recent trends continue, we could be looking at expansion once again. To reiterate, I believe that as current and potential customers evaluate SigmaTron they will see that China and Mexico complement each other well. I am confident that China will be an important manufacturing location for many years to come.

**Hayward, California**

Our Hayward plant had a good year. Our Hayward facility possesses our highest level of technology in the areas of assembly and process. During the year, the plant was re-certified to ISO13485 for medical products and achieved the AS91 00 (B) quality standard for aeronautical production, both excellent accomplishments. We expect business to grow in both of those important markets. In addition, Hayward continues to serve as a U.S. portal to China and Tijuana, which is strategically important to our future.

**Tijuana, Mexico**

Tijuana remains our biggest challenge-unchanged from last year. Our Tijuana team did what was necessary to survive the economic downturn, and I believe they remain critical to our West Coast strategy. At the end of fiscal 2010, Tijuana saw modest revenue increases, but the operation remains below breakeven. Although several Hayward customers have directed us to transfer work to Tijuana, we need to find additional revenue going forward.

**Taipei, Taiwan**

Our international purchasing office in Taipei continues to support all of our manufacturing operations and remains an important asset. During the year, we added several new employees and relocated to larger offices.

In summary, I am satisfied with the outcome of fiscal 2010 and pleased with our positive momentum as we head into fiscal 2011. However, it is clear that the economy in the United States and worldwide remains volatile and warrants planning that is cautious and flexible. We believe that our customers, new and long-standing, reaffirm the value of our international base. New government policies will have a negative effect on the cost structures at our two U.S. operations. We do not yet completely understand the magnitude of those cost increases, but when we do, we will be able to transfer business to other SigmaTron plants offshore if necessary. Certainly, having that capability is a positive for our customers and for the Company overall.

Our fiscal 2010 results could not have been accomplished without sacrifices by our employees, Board of Directors and professional firms for which I am grateful. We had support from our customers and supply chain during this difficult time for which I am thankful. We believe we have been a flexible and responsive partner to all and hope they feel the same. I also want to thank Wells Fargo for working with us to provide the financial arrangement and stability we needed going forward. Finally, I want to thank our stockholders for their continuing support during the difficult times. We will continue to work hard in an effort to reward all of our stakeholders.

Sincerely,

**Gary R. Fairhead**  
President and Chief Executive Officer

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

**FORM 10-K**

(Mark One)

**Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.**

**For the fiscal year ended April 30, 2010.**

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

36-3918470

(State or other jurisdiction  
of incorporation or organization)

(I.R.S. Employer  
Identification Number)

2201 Landmeier Rd., Elk Grove Village, IL

60007

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: 847-956-8000  
Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Name of each exchange on which registered

Common Stock \$0.01 par value per share

The Nasdaq Capital Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
 Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.  
 Yes  No

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 Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§229.405 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 "accelerated filer" "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

The aggregate market value of the voting common equity held by non-affiliates of the registrant as of October 31, 2009 (the last business day of the registrant's most recently completed second fiscal quarter) was \$10,213,130 based on the closing sale price of \$3.30 per share as reported by Nasdaq Capital Market as of such date.

The number of outstanding shares of the registrant's Common Stock, as of July 13, 2010, was 3,822,556.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

Certain sections or portions of the definitive proxy statement of SigmaTron International, Inc., for use in connection with its 2010 annual meeting of stockholders, which the Company intends to file within 120 days of the fiscal year ended April 30, 2010, are incorporated by reference into Part III of this Form 10-K.

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## PART 1

### ITEM 1. BUSINESS

#### CAUTIONARY NOTE:

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., and AbleMex S.A. de C.V., SigmaTron International Trading Co., its wholly-owned foreign enterprise Wujiang SigmaTron Electronics Co., Ltd. (“SigmaTron China”) and its procurement branch SigmaTron Taiwan (collectively the “Company”) and other Items in this Annual Report on Form 10-K 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 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 current turmoil in the global economy and financial markets; the stability of the U.S., Mexican, Chinese and Taiwanese economic systems, labor and political 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 (“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 provides manufacturing and assembly services ranging from the assembly of individual components to the assembly and testing of box-build electronic products. The Company has the ability to produce assemblies requiring mechanical as well as electronic capabilities. The products assembled by the Company are then incorporated into finished products sold in various industries, particularly appliance, consumer electronics, gaming, fitness, industrial electronics, life sciences, semiconductor, telecommunications and automotive.

The Company operates manufacturing facilities in Elk Grove Village, Illinois; Hayward, California; Acuna and Tijuana, Mexico; and Suzhou-Wujiang, China. The Company maintains materials sourcing offices

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in Elk Grove Village, Illinois; Hayward, California; and Taipei, Taiwan. The Company also has warehouses in Del Rio, Texas.

The Company is a Delaware corporation, which was organized on November 16, 1993, and commenced operations when it became the successor to all of the assets and liabilities of SigmaTron L.P., an Illinois limited partnership, through a reorganization on February 8, 1994.

### **Products and Services**

The Company provides a broad range of manufacturing related outsourcing solutions for its customers on both a turnkey basis (material purchased by the Company) and consignment basis (material provided by the customer). These solutions incorporate the Company's knowledge and expertise in the EMS industry to provide its customers with advanced manufacturing technologies and high quality, responsive and flexible manufacturing services. The Company's EMS solutions provide services from product inception through the ultimate delivery of a finished good. Such technologies and services include the following:

*Supply Chain Management.* The Company is primarily a turnkey manufacturer and directly sources all, or a substantial portion, of the components necessary for its product assemblies, rather than receiving the raw materials from its customers on consignment. Turnkey services involve a greater investment in resources and an increased inventory risk compared to consignment services. Supply chain management includes the purchasing, management, storage and delivery of raw components required for the manufacture or assembly of a customer's product based upon the customer's orders. The Company procures components from a select group of vendors which meet its standards for timely delivery, high quality and cost effectiveness, or as directed by its customers. Raw materials used in the assembly and manufacture of printed circuit boards and electronic assemblies are generally available from several suppliers, unless restricted by the customer. 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 the flexibility needed to source inventory based on the needs of its customers.

The Company believes that its ability to source and procure competitively priced, quality components is critical to its ability to effectively compete. In addition to obtaining materials in North America, the Company uses its international procurement office ("IPO") in Taiwan and agents to source materials from the Far East. The Company believes its IPO allows it to more effectively manage its relationships with key suppliers in the Far East by permitting it to respond more quickly to changes in market dynamics, including fluctuations in price, availability and quality.

*Assembly and Manufacturing.* The Company's core business is the assembly of printed circuit board assemblies through the automated and manual insertion of components onto raw printed circuit boards. The Company offers its assembly services using both pin-through-hole ("PTH") and surface mount ("SMT") interconnect technologies at all of its manufacturing locations. SMT is an assembly process which allows the placement of a higher density of components directly on both sides of a printed circuit board. The SMT process is an advancement over the mature PTH technology, which normally permits electronic components to be attached to only one side of a printed circuit board by inserting the component into holes drilled through the board. The SMT process allows Original Equipment Manufacturers ("OEMs") advanced circuitry, while at the same time permitting the placement of a greater number of components on a printed circuit board without having to increase the size of the board. By allowing increasingly complex circuits to be packaged with the components in closer proximity to each other, SMT greatly enhances circuit processing speed, and, thus, board and system performance.

The Company performs PTH assembly both manually and with automated component insertion and soldering equipment. Although SMT is a more sophisticated interconnect technology, the Company intends to continue providing PTH assembly services for its customers as the Company's customers continue to require both PTH and SMT capabilities. The Company is also capable of assembling fine pitch and ball grid array ("BGA") components. BGA is used for more complex circuit boards required to perform at higher speeds.

*Manufacturing and Related Services.* The Company offers restriction of hazardous substances ("RoHS") assembly services in compliance with the European Union environmental mandate at each of its



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manufacturing locations. The Company also provides quick turnaround, turnkey prototype services at all of its locations. In Elk Grove Village, the Company offers touch screen / LCD assembly services in a clean room environment. In Acuna, Mexico, the Company offers parylene coating services. In Tijuana, Mexico, the Company offers diagnostic, repair and rework services for power supplies. In all locations, the Company offers box-build services, which integrate its printed circuit board and other manufacturing and assembly technologies into higher level sub-assemblies and end products. All manufacturing locations have ISO 9001:2008 certifications. The Hayward operation has medical ISO 13485:2003 and aerospace AS9100 certifications.

*Product Testing.* The Company has the ability to perform both in-circuit and functional testing of its assemblies and finished products. In-circuit testing verifies that the correct components have been properly inserted and that the electrical circuits are complete. Functional testing determines if a board or system assembly is performing to customer specifications. The Company seeks to provide customers with highly sophisticated testing services that are at the forefront of current test technology.

*Warehousing and Distribution.* In response to the needs of select customers, the Company has the ability to provide in-house warehousing, shipping and receiving and customer brokerage services in Del Rio, Texas for goods manufactured or assembled in Acuna, Mexico. The Company also has the ability to provide custom-tailored delivery schedules and services to fulfill the just-in-time inventory needs of its customers.

### **Markets and Customers**

The Company's customers are in the appliance, gaming, industrial electronics, fitness, life sciences, semiconductor, telecommunications, consumer electronics and automotive industries. As of April 30, 2010, the Company had approximately 105 active customers ranging from Fortune 500 companies to small, privately held enterprises.

The following table shows, for the periods indicated, the percentage of net sales to the principal end-user markets it serves.

<u>Markets</u>	<u>Typical OEM Application</u>	<u>Percent of Net Sales</u>	
		<u>Fiscal 2009 %</u>	<u>Fiscal 2010 %</u>
Appliances	Household appliance controls	40.9	47.5
Industrial Electronics	Motor controls, power supplies	27.1	23.2
Fitness	Treadmills, exercise bikes, cross trainers	18.2	13.9
Telecommunications	Routers	6.5	7.9
Gaming	Slot machines, lighting displays	2.4	3.2
Life Sciences	Clinical diagnostic systems and instruments	1.7	1.8
Semiconductor Equipment	Process control and yield management equipment for semiconductor productions	2.2	2.3
Consumer Electronics	Battery backup sump pumps, electric bikes	<u>1.0</u>	<u>0.2</u>
Total		<u>100%</u>	<u>100%</u>

For the fiscal year ended April 30, 2010, Spitfire Controls, Inc. and Life Fitness, Inc. accounted for 33.4% and 13.9%, respectively, of the Company's net sales. For the fiscal year ended April 30, 2009, Spitfire Controls, Inc. and Life Fitness, Inc. accounted for 27.5% and 18.2%, respectively, of the Company's net sales.

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Although the Company does not have long term contracts with these two customers, the Company expects that these customers will continue to account for a significant percentage of the Company's net sales, although the individual percentages may vary from period to period.

### **Sales and Marketing**

The Company markets its services through 12 independent manufacturers' representative organizations that together currently employ approximately 35 sales personnel in the United States and Canada. Independent manufacturers' representative organizations receive variable commissions based on orders received by the Company and are assigned specific accounts, not territories. The members of the Company's senior management are actively involved in sales and marketing efforts, and the Company has 5 direct sales employees.

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 and 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 each of the fiscal years ended April 30, 2010 and 2009.

In the past, the timing and rescheduling of orders has caused the Company to experience significant quarterly fluctuations in its revenue and earnings; such fluctuations may continue.

### **Mexico and China Operations**

The Company's wholly-owned subsidiary, Standard Components de Mexico, S.A, a Mexican corporation, is located in Acuna, Coahuila Mexico, a border town across the Rio Grande River from Del Rio, Texas, and is 155 miles west of San Antonio. Standard Components de Mexico, S.A. was incorporated and commenced operation in 1968 and had 928 employees at April 30, 2010. The Company's wholly-owned subsidiary, AbleMex S.A. de C.V., a Mexican corporation, is located in Tijuana, Baja California Mexico, a border town south of San Diego, California. AbleMex S.A. de C.V. was incorporated and commenced operations in 2000. The operation had 108 employees at April 30, 2010. The Company believes that one of the key benefits to having operations in Mexico is its access to cost-effective labor resources while having geographic proximity to the United States.

The Company's wholly-owned foreign enterprise, Wujiang SigmaTron Electronics Co., Ltd., is located in Wujiang, China. Wujiang is located approximately 15 miles south of Suzhou, China and 60 miles west of Shanghai, China. The Company has entered into an agreement with governmental authorities in the economic development zone of Wujiang, Jiangsu Province, Peoples Republic of China, pursuant to which the Company became the lessee of a parcel of land of approximately 100 Chinese acres. The term of the land lease is 50 years. The Company built a manufacturing plant, office space and dormitories on this site during 2004. The manufacturing plant and office space is approximately 80,000 square feet, which can be expanded if conditions require. SigmaTron China operates at this site as the Company's wholly-owned foreign enterprise. At April 30, 2010, this operation had 239 employees.

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 procurement branch. 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



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the fiscal year ended April 30, 2010 resulted in an expense of approximately \$276,000. In fiscal year 2010, the Company's U.S. operations paid approximately \$13,100,000 to its foreign subsidiaries for services provided.

The consolidated financial statements include the accounts and transactions of the Company, its wholly-owned subsidiaries, Standard Components de Mexico, S.A. and AbleMex S.A. de C.V., SigmaTron International Trading Co., its wholly-owned foreign enterprise Wujiang SigmaTron Electronics Co., Ltd. and its procurement branch, SigmaTron Taiwan. The functional currency of the Mexican subsidiaries, Chinese foreign enterprise and Taiwanese procurement branch is the U.S. dollar. Intercompany transactions are eliminated in the consolidated financial statements.

### **Competition**

The EMS industry is highly competitive and subject to rapid change. Furthermore, both large and small companies compete in the industry, and many have significantly greater financial resources, more extensive business experience and greater marketing and production capabilities than the Company. The significant competitive factors in this industry include price, quality, service, timeliness, reliability, the ability to source raw components, and manufacturing and technological capabilities. The Company believes it can competitively address all of these factors.

### **Consolidation**

As a result of consolidation and other transactions involving competitors and other companies in the Company's markets, the Company occasionally reviews potential transactions relating to its business, products and technologies. Such transactions could include mergers, acquisitions, strategic alliances, joint ventures, licensing agreements, co-promotion agreements, financing arrangements or other types of transactions. In the future, the Company may choose to enter into other transactions at any time depending on available sources of financing, and such transactions could have a material impact on the Company's business, financial condition or operations.

### **Governmental Regulations**

The Company's operations are subject to certain foreign, federal, state and local regulatory requirements relating to environmental, waste management, labor and health and safety matters. Management believes that the Company's business is operated in material compliance with all such regulations. Effective mid-2006, the Company's customers were required to be in compliance with the European Standard of RoHS directive for all of their products that ship to the European marketplace. The Company has RoHS-dedicated manufacturing capabilities at all of its manufacturing operations.

### **Backlog**

The Company's backlog as of April 30, 2010, was approximately \$99,100,000. Beginning November 2009, backlog includes forecasted orders. Our customer's forecasted orders vary in the length of time they are projected. In some cases forecasted orders extend twelve months and in some circumstances they extend for a limited number of months. The Company currently expects to ship substantially all of the April 30, 2010 backlog by the end of the 2011 fiscal year. Backlog as of April 30, 2009, totaled approximately \$36,200,000, which did not include forecasted orders. Variations in the magnitude and duration of contracts, forecasts and purchase orders received by the Company and delivery requirements generally may result in substantial fluctuations in backlog from period to period. Because customers may cancel or reschedule deliveries, backlog may not be a meaningful indicator of future revenue.

### **Employees**

The Company employed approximately 1,700 people as of April 30, 2010, including 133 engaged in engineering or engineering related services, 1,311 in manufacturing and 256 in administrative and marketing functions. The Company has reduced its total headcount by 220 employees which is 11% of its total work force in the past 16 months.



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The Company has a labor contract with Production Workers Union Local No. 10, AFL-CIO, covering the Company's workers in Elk Grove Village, Illinois which expires on November 30, 2012. The Company's Mexican subsidiary, Standard Components de Mexico S.A., has a labor contract with Sindicato De Trabajadores de la Industria Electronica, Similares y Conexos del Estado de Coahuila, C.T.M. covering the Company's workers in Acuna, Mexico which expires on January 31, 2011. The Company's subsidiary located in Tijuana Mexico, has a labor contract with Sindicato Mexico Moderno De Trabajadores De La, Baja California, C.R.O.C. The contract does not have an expiration date.

Since the time the Company commenced operations, it has not experienced any union-related work stoppages. The Company believes its relations with both unions and its other employees are good.

### **Executive Officers of the Registrants**

<u>Name</u>	<u>Age</u>	<u>Position</u>
Gary R. Fairhead	58	President and Chief Executive Officer. Gary R. Fairhead has been the President of the Company since January 1990. Gary R. Fairhead is the brother of Gregory A. Fairhead.
Linda K. Frauendorfer	49	Chief Financial Officer, Vice President Finance, Treasurer and Secretary since February 1994.
Gregory A. Fairhead	54	Executive Vice President and Assistant Secretary. Gregory A. Fairhead has been Executive Vice President since February 2000 and Assistant Secretary since 1994. Mr. Fairhead was Vice President – Acuna Operations for the Company from February 1990 to February 2000. Gregory A. Fairhead is the brother of Gary R. Fairhead.
John P. Sheehan	49	Vice President, Director of Supply Chain and Assistant Secretary since February 1994.
Daniel P. Camp	61	Vice President, Acuna Operations since 2007. Vice President – China Operations from 2003 to 2007. General Manager / Vice President of Acuna Operations from 1994 to 2003.
Rajesh B. Upadhyaya	55	Executive Vice President, West Coast Operations since 2005. Mr. Upadhyaya was the Vice President of the Fremont Operation from 2001 until 2005.
Hom-Ming Chang	50	Vice President, China Operation since 2007. Vice President – Hayward Materials / Test / IT from 2005 – 2007. Vice President of Fremont Operation from 2001 to 2005.

### **ITEM 1A. RISK FACTORS**

The following risk factors should be read carefully in connection with evaluating our business and the forward-looking information contained in this Annual Report on Form 10-K. Any of the following risks could materially adversely affect our business, operations, industry or financial position or our future financial performance. While the Company believes it has identified and discussed below the key risk factors affecting its business, there may be additional risks and uncertainties that are not presently known or that are not currently believed to be significant that may adversely affect its business, operations, industry, financial position and financial performance in the future.

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### ***The Company's ability to secure and maintain sufficient credit arrangements is key to its continued operations.***

There is no assurance that the Company will be able to retain or renew its credit agreements in the future. In the event the business grows rapidly, the current unstable economic climate continues for an extended period or the Company considers an acquisition, additional financing resources could be necessary in the current or future fiscal years. There is no assurance that the Company will be able to obtain equity or debt financing at acceptable terms, or at all in the future.

### ***The financial crisis and global economic slowdown could negatively impact the Company's business, results of operations and financial condition.***

The Company's sales and gross margins depend significantly on market demand for its customers' products. The uncertainty in the U.S. and global economy could result in a decline in demand for our customers' products in any industry and could result in decreasing sales levels and gross margins which could negatively impact the Company's business, results of operations and financial conditions.

### ***The Company experiences variable operating results.***

The Company's results of operations have varied and may continue to fluctuate significantly from period to period, including on a quarterly basis. Consequently, results of operations in any period should not be considered indicative of the results for any future period, and fluctuations in operating results may also result in fluctuations in the price of the Company's common stock.

The Company's quarterly and annual results may vary significantly depending on numerous factors, many of which are beyond the Company's control. Some of these factors include:

- changes in sales mix to customers
- changes in availability and cost of components
- volume of customer orders relative to capacity
- market demand and acceptance of our customers' products
- price erosion within the EMS marketplace
- capital equipment requirements needed to remain technologically competitive
- volatility of the global economy and financials markets

### ***The Company's customer base is concentrated.***

Sales to the Company's five largest customers accounted for 68% and 63% of net sales for the fiscal years ended April 30, 2010 and 2009, respectively. The Company's two largest customers accounted for 33.4% and 13.9% of net sales for the fiscal year ended April 30, 2010 compared to 27.5% and 18.2% of net sales for the fiscal year ended April 30, 2009. Significant reduction in sales to any of the Company's major customers or the loss of a major customer could have a material impact on the Company's operations. If the Company cannot replace canceled or reduced orders, sales will decline, which could have a material impact on the results of operations. There can be no assurance that the Company will retain any or all of its large customers. This risk may be further complicated by pricing pressures and intense competition prevalent in our industry.

The Company has a significant amount of trade accounts receivable from some of its customers due to customer concentration. If any of the Company's customers have financial difficulties, the Company could encounter delays or defaults in payment amounts owed. This could have a significant adverse impact on the Company's results of operations.





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***Most of the Company's customers do not commit to long-term production schedules, which makes it difficult to schedule production and achieve maximum efficiency at its manufacturing facilities and to manage inventory levels.***

The volume and timing of sales to the Company's customers may vary due to:

- customers' attempts to manage their inventory
- variation in demand for the Company's customers' products
- design changes, or
- acquisitions of or consolidations among customers

Many of the Company's customers do not commit to firm production schedules. The Company's inability to forecast the level of customer orders with certainty can make it difficult to schedule production and maximize utilization of manufacturing capacity and manage inventory levels. The Company could be required to increase or decrease staffing and more closely manage other expenses in order to meet the anticipated demand of its customers. Orders from the Company's customers could be cancelled or delivery schedules could be deferred as a result of changes in our customers' demand, adversely affecting the Company's results of operations and resulting in higher inventory levels.

***The Company and its customers may be unable to keep current with the industry's technological changes.***

The market for the Company's manufacturing services is characterized by rapidly changing technology and continuing product development. The future success of the Company's business will depend in large part upon its customers' ability to maintain and enhance their technological capabilities, develop and market manufacturing services which meet changing customer needs and successfully anticipate or respond to technological changes in manufacturing processes on a cost-effective and timely basis.

***The Company faces intense industry competition and downward pricing pressures.***

The EMS industry is highly fragmented and characterized by intense competition. Many of the Company's competitors have substantially greater experience, as well as greater manufacturing, purchasing, marketing and financial resources than the Company.

There can be no assurance that competition from existing or potential competitors will not have a material adverse impact on the Company's business, financial condition or results of operations. The introduction of lower priced competitive products, significant price reductions by the Company's competitors or significant pricing pressures from its customers could adversely affect the Company's business, financial condition, and results of operations.

***The Company has foreign operations that may pose additional risks.***

A substantial part of the Company's manufacturing operations is based in Mexico. Therefore, the Company's business and results of operations are dependent upon numerous related factors, including the stability of the Mexican economy, the political climate in Mexico and Mexico's relations with the United States, prevailing worker wages, the legal authority of the Company to own and operate its business in Mexico, and the ability to identify, hire, train and retain qualified personnel and operating management in Mexico.

The Company has an operation in China. Therefore, the Company's business and results of operations are dependent upon numerous related factors, including the stability of the Chinese economy, the political climate in China and China's relations with the United States, prevailing worker wages, the legal authority of the Company to own and operate its business in China, and the ability to identify, hire, train and retain qualified personnel and operating management in China.

The Company obtains many of its materials and components through its IPO in Taipei, Taiwan and, therefore, the Company's access to these materials and components is dependent on the continued viability of its Asian suppliers.

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### ***The Company may be unable to manage its growth.***

The Company may not effectively manage its growth and successfully integrate the management and operations of its acquisitions. Acquisitions involve significant financial and operating risks that could have a material adverse effect on the Company's results of operations.

### ***Disclosure and internal controls may not detect all errors or fraud.***

The Company's management, including the Chief Executive Officer and Chief Financial Officer, do not believe that the Company's disclosure controls and internal controls will prevent all errors and all fraud. Controls can provide only reasonable assurance that the procedures will meet the control objectives. Controls are limited in their effectiveness by human error, including faulty judgments in decision-making. Further, controls can be circumvented by collusion of two or more people or by management override of controls. Because of the limitations of a cost effective control system, error and fraud may occur and not be detected.

### ***There is a risk of fluctuation of various currencies integral to the Company's operations.***

The Company purchases some of its material components and funds some of its operations in foreign currencies. From time to time the currencies fluctuate against the U.S. dollar. Such fluctuations could have a measurable impact on the Company's results of operations and performance. The impact of currency fluctuation for the year ended April 30, 2010 resulted in an expense of approximately \$276,000. These fluctuations are expected to continue. The Company did not utilize derivatives or hedge foreign currencies to reduce the risk of such fluctuations.

### ***The availability of raw components may affect the Company's operations.***

The Company relies on numerous third-party suppliers for components used in the Company's production process. Certain of these components are available only from single sources or a limited number of suppliers. In addition, a customer's specifications may require the Company to obtain components from a single source or a small number of suppliers. The loss of any such suppliers 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. In fiscal year 2010, the Company experienced an increase in lead times for various types of components, due to increased demand. Increased demand for components and rising commodity prices have resulted in upward pricing pressure from the Company's supply chain. 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.

### ***The Company is dependent on key personnel.***

The Company depends significantly on its President and Chief Executive Officer, Gary R. Fairhead, and on other executive officers. The loss of the services of any of these key employees could have a material impact on the Company's business and results of operations. In addition, despite significant competition, continued growth and expansion of the Company's EMS business will require that it attract, motivate and retain additional skilled and experienced personnel. The inability to satisfy such requirements could have a negative impact on the Company's ability to remain competitive in the future.

### ***Favorable labor relations are important to the Company.***

The Company currently has labor union contracts with its employees constituting approximately 50% of its workforce. Although the Company believes its labor relations are good, any labor disruptions, whether union-related or otherwise, could significantly impair the Company's business, substantially increase the Company's costs or otherwise have a material impact on the Company's results of operations.



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### ***Failure to comply with environmental regulations could subject the Company to liability.***

The Company is subject to a variety of environmental regulations relating to the use, storage, discharge and disposal of hazardous chemicals used during its manufacturing process. To date, the cost to the Company of such compliance has not had a material impact on the Company's business, financial condition or results of operations. However, there can be no assurance that violations will not occur in the future as a result of human error, equipment failure or other causes. Further, the Company cannot predict the nature, scope or effect of environmental legislation or regulatory requirements that could be imposed or how existing or future laws or regulations will be administered or interpreted. Compliance with more stringent laws or regulations, as well as more vigorous enforcement policies of regulatory agencies, could require substantial expenditures by the Company and could have a material impact on the Company's business, financial condition and results of operations. Any failure by the Company to comply with present or future regulations could subject it to future liabilities or the suspension of production which could have a material negative impact on the Company's results of operations.

### ***The price of the Company's stock is volatile.***

The price of the Company's common stock historically has experienced significant volatility due to fluctuations in the Company's revenue and earnings, other factors relating to the Company's operations, the market's changing expectations for the Company's growth, overall equity market conditions and other factors unrelated to the Company's operations. In addition, the limited float of the Company's common stock and the limited number of market makers also affect the volatility of the Company's common stock. Such fluctuations are expected to continue in the future.

### ***An adverse change in the interest rates for our borrowings could adversely affect our results of operations.***

The Company pays interest on outstanding borrowings under its senior secured credit facility and certain other long term debt obligations at interest rates that fluctuate. An adverse change in the Company's interest rates could have a material adverse effect on its results of operations.

### ***Inadequate internal control over financing reporting.***

The Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley"), as well as rules subsequently implemented by the Securities and Exchange Commission and listing requirements subsequently adopted by Nasdaq in response to Sarbanes-Oxley, have required changes in corporate governance practices, internal control policies and audit committee practices of public companies. If the Company identifies and reports a material weakness in its internal controls over financial reporting, shareholders and the Company's lenders could lose confidence in the reliability of the Company's financial statements. This could have a material adverse impact on the value of the Company's stock and the Company's liquidity.

## **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

## **ITEM 2. PROPERTIES**

At April 30, 2010, the Company had manufacturing facilities located in Elk Grove Village, Illinois, Hayward, California, Acuna, and Tijuana, Mexico and Suzhou-Wujiang, China. In addition, the Company provides inventory management services through its Del Rio, Texas, warehouse facilities and materials procurement services through its Elk Grove Village, Illinois; Acuna, Mexico; Hayward, California; and Taipei, Taiwan offices.

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Certain information about the Company's manufacturing, warehouse and purchasing facilities is set forth below:

<u>Location</u>	<u>Square Feet</u>	<u>Services Offered</u>	<u>Owned/Leased</u>
Suzhou-Wujiang, China	147,500	High volume assembly, and testing of PTH and SMT, box-build, BGA	*
Hayward, CA	103,000	Assembly and testing of PTH, SMT and BGA, box-build, prototyping, warehousing	Leased
Elk Grove Village, IL	118,000	Corporate headquarters, assembly and testing of PTH, SMT and BGA, box-build, prototyping, warehousing	Owned
Acuna, Mexico	115,000	High volume assembly, and testing of PTH and SMT, box-build	Owned **
Del Rio, TX	44,000	Warehousing, portion of which is bonded	Leased
Tijuana, Mexico	67,700	High volume assembly, and testing of PTH and SMT, box-build	Leased
Taipei, Taiwan	4,685	Materials procurement, alternative sourcing assistance and quality control	Leased

\* The Company's Suzhou-Wujiang, China building is owned by the Company and the land is leased from the Chinese government for a 50 year term.

\*\* A portion of the facility is leased.

The Hayward, California and Tijuana, Mexico properties and a portion of the Del Rio, Texas properties are occupied pursuant to leases of the premises. The lease agreements for the Del Rio, Texas, expire April 2011 and December 2015. The lease agreement for the California property expires September 2010. The Tijuana, Mexico leases expire June 2011. The Company's manufacturing facilities located in Acuna, Mexico and Elk Grove Village, Illinois are owned by the Company, except for a portion of the facility in Mexico, which is leased. The Company has an option to buy the leased facility in Acuna, Mexico. The property in Elk Grove Village, Illinois is financed under a separate mortgage loan agreement, the final payment on which is January 2015. The Company leases the IPO office in Taipei, Taiwan to coordinate Far East purchasing activities. The Company believes its current facilities are adequate to meet its current needs. In addition, the Company believes it can find alternative facilities to meet its needs in the future, if required.

### **ITEM 3. LEGAL PROCEEDINGS**

As of April 30, 2010, 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 are 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 4. RESERVED**



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**PART II**

**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

**Market Information**

The Company's common stock is traded on the NASDAQ Capital Market System under the symbol SGMA. The following table sets forth the range of quarterly high and low sales price information for the common stock for the periods ended April 30, 2010, and 2009.

Common Stock as Reported by NASDAQ		
Period	High	Low
Fiscal 2010:		
Fourth Quarter	\$ 7.44	\$ 5.44
Third Quarter	6.85	3.15
Second Quarter	3.79	2.05
First Quarter	2.44	1.41
Fiscal 2009:		
Fourth Quarter	\$ 2.60	\$ 1.27
Third Quarter	3.48	1.58
Second Quarter	7.15	2.82
First Quarter	7.29	5.00

As of July 13, 2010, there were approximately 61 holders of record of the Company's common stock, which does not include shareholders whose stock is held through securities position listings. The Company estimates there to be approximately 1,246 beneficial owners of the Company's common stock.

**Dividend Information**

The Company has not paid cash dividends on its common stock since completing its February 1994 initial public offering and does not intend to pay any dividends in the foreseeable future. So long as any indebtedness remains unpaid under the Company's revolving loan facility, the Company is prohibited from paying or declaring any dividends on any of its capital stock, except stock dividends, without the written consent of the lender under the facility.

**Equity Compensation Plan Information**

For information concerning securities authorized for issuance under our equity compensation plans, see Part III, Item 12 of this Annual Report, under the caption "Security Ownership of Certain Beneficial Owners and Management and Related Stockholders Matters" and that information is incorporated herein by reference.

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### **ITEM 6. SELECTED FINANCIAL DATA**

As a smaller reporting company, as defined in Rule 12b-2 of the Securities Exchange Act of 1934, as amended (The “Exchange Act”), we are not required to provide the information required by this item.

### **ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

In addition to historical financial information, this discussion of the analysis of financial condition and results of operations of SigmaTron International, Inc., its wholly-owned subsidiaries Standard Components de Mexico S.A., and AbleMex S.A. de C.V., SigmaTron International Trading Co., its wholly-owned foreign enterprise Wujiang SigmaTron Electronics Co., Ltd. (“SigmaTron China”) and its procurement branch SigmaTron Taiwan (collectively the “Company”) contains 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 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 current turmoil in the global economy and financial markets; the stability of the U.S., Mexican, Chinese and Taiwanese economic systems, labor and political 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 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 number of suppliers. In addition, a customer’s specifications may require the Company to obtain components from a single source or a small number of suppliers. The loss of any such suppliers 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. In fiscal year 2010, the Company has experienced an increase in lead times for various types of components, due to increased demand. The Company does not enter into long-term purchase agreements with the majority of its major or single-sourced suppliers. The Company believes short-term purchase orders with its suppliers provides flexibility needed to source inventory based on the needs of its customers.

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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 and 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 year ended April 30, 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. Short-term customer demands remain volatile. The Company experienced an increase in demand in the third and fourth quarters of fiscal year 2010 and it expects continued momentum heading into the first quarter of fiscal year 2011.

### **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 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. 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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*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 September 2006, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Codification (“ASC” or the “Codification”) 820-10 Fair Value Measurements and Disclosures (formerly SFAS 157, “Fair Value Measurements”), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. In November 2007, the FASB agreed to a one-year deferral of the effective date of ASC 820-10 for all non-financial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. There was no significant impact from adoption of ASC 820-10 for non-financial assets and liabilities on the Company’s financial statements.

In December 2007, the FASB issued ASC 810-10 Consolidation (formerly SFAS 160, “Noncontrolling Interest in Consolidated Financial Statements, an amendment of Accounting Research Bulletin No. 51”), which establishes accounting reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent’s ownership interest, and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. ASC 810-10 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. ASC 810-10 is effective for fiscal years beginning after December 15, 2008. There was no significant impact from adoption of ASC 810-10 on the Company’s consolidated results of operations and financial condition.

### **Results of Operations:**

#### FISCAL YEAR ENDED APRIL 30, 2010 COMPARED TO FISCAL YEAR ENDED APRIL 30, 2009

Net sales decreased 8.4% to \$122,476,340 in fiscal year 2010 from \$133,744,642 in the prior year. The Company’s sales decreased in fiscal year 2010 in the consumer and industrial electronics, fitness, life sciences, and semiconductor marketplaces as compared to the prior year. The decrease in sales for these marketplaces was partially offset by an increase in sales in the appliance, telecommunications and gaming marketplaces. The decrease in revenue for the fiscal year 2010 is a result of our customers’ decreased demand for product in the first and second quarters of fiscal year 2010 based on their forecast, which the Company believes is attributable to the global economic slowdown. The Company experienced an increase in demand in the third and fourth quarters of fiscal year 2010.

The Company’s sales in a particular industry are driven by the fluctuating forecasts and end-market demand of the customers within that industry. Sales to customers are subject to variations from period to period depending on customer order cancellations, the life cycle of customer products and product transition. Sales to the Company’s five largest customers accounted for 68% and 63% of net sales for fiscal years 2010 and 2009, respectively.

Gross profit decreased to \$13,757,237 or 11.2% of net sales in fiscal year 2010 compared to \$15,974,903 or 11.9% of net sales in the prior year. The decrease in the Company’s gross profit is due to decreased revenue levels, decreased plant capacity utilization and increasing commodity prices. The increasing commodity prices and demand for raw components has resulted in upward pricing pressure from the Company’s supply chain. There can be no assurance that sales levels and gross margins will not decrease in future quarters. Customer pricing pressures continue at all locations.

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Selling and administrative expenses decreased in fiscal year 2010 to \$10,826,880 or 8.8% of net sales compared to \$11,591,440 or 8.7% of net sales in fiscal year 2009. The decrease in total dollars for fiscal year 2010 is primarily due to a decrease in salaries, travel, amortization and other selling and administrative expenses totaling approximately \$1,300,000. This decrease in total dollars was partially offset by an increase of \$535,000 in depreciation expense, banks fees and bonus expense. The increase in selling and administrative expense as a percentage of net sales is due to the decreased sales volume in fiscal year 2010 compared to fiscal year 2009.

During fiscal 2010, the Company filed an insurance claim due to damage incurred at one of its buildings. The claim was settled in April 2010 and the Company recorded a gain from this involuntary conversion of \$1,233,830 which is included in other income on the consolidated statement of income for the year ended April 30, 2010. The insurance proceeds not representing the reimbursement of expenses are classified as an investing cash flow in the statement of cash flows for the year ended April 30, 2010. The Company does not anticipate any additional proceeds, gains or losses to be recorded related to this settlement.

Interest expense decreased to \$821,263 in fiscal year 2010 compared to \$1,710,817 in fiscal year 2009. The interest expense decreased due to decreased borrowings under its banking agreements, capital leases and lower interest rates. Interest expense for fiscal year 2011 may increase if interest rates or borrowings increase during fiscal year 2011.

In fiscal year 2010, income tax expense was \$1,120,786 compared to \$936,278 in income tax expense in fiscal year 2009. The effective tax rate for the year ended April 30, 2010 and 2009 was 33.3% and 32.0%, respectively.

The Company reported net income of \$2,244,543 in fiscal year 2010 compared to a net income of \$1,955,847 for fiscal year 2009. Basic and diluted earnings per share were \$0.59 and \$0.58 respectively for fiscal year 2010 compared to basic and diluted earnings per share of \$0.51 for the year ended April 30, 2009.

### **Liquidity and Capital Resources:**

#### ***Operating Activities.***

Cash flow provided by operating activities was \$8,061,036 for the year ended April 30, 2010, compared to \$10,136,480 for the prior fiscal year. Cash flow provided by operating activities in fiscal year 2010 was primarily the result of net income adjusted for the non-cash effect of depreciation and amortization and an increase in trade accounts payable. Trade accounts payable increased due to increased purchases of raw material. Net cash provided by operations in fiscal year 2010 was partially offset by an increase in accounts receivable of \$8,144,893 due to increased sales volume in the fourth quarter of fiscal 2010 and timing of cash receipts from a significant customer. The Company's inventories increased by \$1,358,301 due to increased demand for product in the fourth quarter of fiscal year 2010.

Cash flow provided by operating activities was \$10,136,480 for the year ended April 30, 2009. Cash flow provided by operating activities in fiscal year 2009 was primarily the result of a \$9,944,685 decrease in accounts receivable, a reduction in inventory levels, the results of the non-cash effect of depreciation and amortization and net income. Net cash provided by operations in fiscal year 2009 was partially offset by a \$9,898,407 reduction in accounts payable. The decrease in accounts payable and accounts receivable was due to payments in the ordinary course of business, coupled with the Company's reduced sales in fiscal year 2009. The decrease in inventory was the result of our customers' decreased demand for product based on their forecasts, which we believe was attributable to the global economic slowdown and financial crisis. The Company's working capital requirements decreased primarily as a result of the decrease in sales volume during fiscal 2009.

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### ***Investing Activities.***

During fiscal 2010, the Company filed an insurance claim due to damage incurred at one of its buildings. The claim was settled in April 2010 and the Company recorded a gain from this involuntary conversion of \$1,233,830 which is included in other income on the consolidated statement of income for the year ended April 30, 2010. These insurance proceeds are classified as an investing cash flow in the statement of cash flows for the year ended April 30, 2010. The Company does not anticipate any additional proceeds, gains or losses to be recorded related to this settlement.

In fiscal year 2010, the Company purchased approximately \$3,000,000 in machinery and equipment for various operating facilities. Approximately \$440,000 of the purchases is a financed licensing agreement for software through a note payable. The Company anticipates that it will make additional machinery and equipment purchases in fiscal year 2011 of approximately \$4.5 million.

In fiscal year 2009, the Company purchased approximately \$1,180,000 in machinery and equipment. The Company executed a five year capital lease to finance approximately \$360,000 for certain purchases made during fiscal year 2009.

### ***Financing Activities.***

Cash used in financing activities was \$6,444,673 for the year ended April 30, 2010, compared to \$9,386,202 in fiscal year 2009. Cash used in financing activities was primarily the result of net payments made to reduce the balance outstanding under the Company's banking agreements and lease agreements.

### ***Debt:***

Through January 2010, the Company had a revolving credit facility with Bank of America under which the Company could borrow up to the lesser of: (i) \$32 million; or (ii) an amount equal to the sum of 85% of the eligible receivable borrowing base and the lesser of \$16 million or 50% of the eligible inventory borrowing base. The revolving credit facility was due to expire on September 30, 2010. The outstanding balance on this revolving credit line was \$18,746,696 at April 30, 2009. In October 2009, the Company conducted a strategic review of its financing arrangements to determine the best long-term alternatives. Based on that evaluation, the Company decided to reduce the overall size of its credit facility to \$25 million. Effective October 31, 2009, the Company was in violation of a financial covenant under its agreements with Bank of America. In December 2009, Bank of America provided a forbearance on the covenant violation until January 8, 2010 to allow the Company to transition to a new bank. On January 8, 2010, the Company entered into a \$25 million senior secured credit facility with Wells Fargo International Banking and Trade Solutions (IBTS) ("Wells Fargo"). The term of the credit facility extends for two years, through January 8, 2012, and allows the Company to choose the interest rates at which it may borrow funds. The interest rate can be the prime rate plus one half percent (3.75% at April 30, 2010) or LIBOR plus two and three quarter percent (3.1% at April 30, 2010). At no time can LIBOR be less than .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. The Company was in compliance with its financial covenants at April 30, 2010. As of April 30, 2010, there was \$15,125,058 outstanding under the credit facility and approximately \$9,800,000 of unused availability.

Through January 7, 2010, the Company also had a term loan with Bank of America with an outstanding balance at January 7, 2010 and April 30, 2009 of \$1,500,000 and \$2,000,000, respectively. The term loan required quarterly principal payments of \$250,000 due each quarter through the quarter ending June 30, 2011 and interest payable monthly throughout the term of the loan. On January 8, 2010, the Company repaid this debt using proceeds from the mortgage loan credit facility from Wells Fargo.

On November 19, 2003, the Company purchased the property that serves as the Company's corporate headquarters and its Midwestern manufacturing facility. The Company executed a mortgage with Bank of America in the amount of \$3,600,000, which had an April 30, 2009 balance of \$2,661,438. On January 8, 2010, the Company entered into a mortgage agreement in the amount of \$2,500,000 with Wells Fargo to refinance the property. The note bears interest at a fixed rate of 6.42% per year and is payable in sixty monthly



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installments. A final payment of approximately \$2,000,000 is due on or before January 8, 2015. The Company repaid the prior Bank of America mortgage, the outstanding obligations under which equaled \$2,565,413 as of January 8, 2010, using proceeds from the Wells Fargo mortgage and credit facility.

Through January 7, 2010, the Company had capital leases with Bank of America with an outstanding balance at January 7, 2010 and April 30, 2009 of \$1,287,407 and \$1,669,616, respectively. On January 8, 2010, the Company repaid the Bank of America capital leases using proceeds from the credit facility with Wells Fargo. On January 19, 2010, the Company entered into a leasing transaction with Wells Fargo Equipment Finance, Inc. to finance \$1,287,407 of equipment and paid down the Wells Fargo credit facility by the same amount. 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 April 30, 2010, the balance outstanding of Wells Fargo leases was \$1,076,574. The Company has other capital leases in the amount of \$366,780 and \$773,140 at April 30, 2010 and 2009, respectively.

The Company anticipates that its new credit facilities, cash flow from operations and leasing resources will be adequate to meet its working capital requirements and capital expenditures for the balance of fiscal year 2011. There is no assurance that the Company will be able to retain or renew its credit agreements in the future. In the event the business grows rapidly, the current economic climate continues for an extended period or the Company considers an acquisition, additional financing resources could be necessary in the current unstable or future fiscal years. There is no assurance that the Company will be able to obtain equity or debt financing at acceptable terms, or at all in the future.

The 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 procurement branch. 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 fiscal year ended April 30, 2010 resulted in an expense of approximately \$276,000. In fiscal year 2010, the Company's U.S. operations paid approximately \$13,100,000 to its foreign subsidiaries for services provided.

The impact of inflation for the past three fiscal years has been minimal.

### **Off-balance Sheet Transactions:**

The Company has no off-balance sheet transactions.

### **Contractual Obligations and Commercial Commitments:**

As a smaller reporting company, as defined in Rule 12b-2 of the Exchange Act, we are not required to provide the information required by this item.

### **ITEM 7A. 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 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The response to this item is included in Item 15(a) of this Report.

### **ITEM 9. CHANGES AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

Not applicable.



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### **ITEM 9A(T). 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 in Exchange Act Rules 13a-15(e) and 15-(d)-15(e)) as of April 30, 2010. Disclosure controls 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 this evaluation, our President and Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of April 30, 2010.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation, our management concluded that our internal control over financial reporting was effective as of April 30, 2010. This report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

There has been no change in our internal control over financial reporting during the quarter ended April 30, 2010, that has materially affected or is reasonably likely to materially affect, our internal control over financial reporting.

### **ITEM 9B. OTHER INFORMATION**

Not Applicable.

## **PART III**

### **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information required under this item is incorporated herein by reference to the Company's definitive proxy statement, to be filed with the Securities and Exchange Commission not later than 120 days after the close of the Company's fiscal year ended April 30, 2010.

### **ITEM 11. EXECUTIVE COMPENSATION**

The information required under this item is incorporated herein by reference to the Company's definitive proxy statement, to be filed with the Securities and Exchange Commission not later than 120 days after the close of the Company's fiscal year ended April 30, 2010.

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**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information required under this item is incorporated herein by reference to the Company's definitive proxy statement, to be filed with the Securities and Exchange Commission not later than 120 days after the close of the Company's fiscal year ended April 30, 2010.

**ITEM 13. CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE**

The information required under this item is incorporated herein by reference to the Company's definitive proxy statement, to be filed with the Securities and Exchange Commission not later than 120 days after the close of the Company's fiscal year ended April 30, 2010.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information required under this item is incorporated herein by reference to the Company's definitive proxy statement, to be filed with the Securities and Exchange Commission not later than 120 days after the close of the Company's fiscal year ended April 30, 2010.

**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

- (a) 1 The financial statements are listed in the Index to Financial Statements filed as part of this Annual Report on Form 10-K beginning on Page F-1.



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### **Index to Exhibits**

(a) 2

- 3.1 Certificate of Incorporation of the Company, incorporated herein by reference to Exhibit 3.1 to Registration Statement on Form S-1, File No. 33-72100, dated February 9, 1994.
- 3.2 Amended and Restated By-laws of the Company, adopted on September 24, 1999, incorporated herein by reference to Exhibit 3.2 to the Company's Form 10-K for the fiscal year ended April 30, 2000.
- 10.1 Form of 1993 Stock Option Plan, incorporated herein by reference to Exhibit 10.4 to the Company's Registration Statement on Form S-1, File No. 33-72100.\*
- 10.2 Form of Incentive Stock Option Agreement for the Company's 1993 Stock Option Plan, incorporated herein by reference to Exhibit 10.5 to the Company's Registration Statement on Form S-1, File No. 33-72100.\*
- 10.3 Form of Non-Statutory Stock Option Agreement for the Company's 1993 stock Option Plan, incorporated herein by reference to Exhibit 10.6 to the Company's Registration Statement on Form S-1, File No. 33-72100.\*
- 10.4 2000 Outside Directors' Stock Option Plan, incorporated herein by reference to Appendix 1 to the Company's 2000 Proxy Statement filed on August 21, 2000.\*
- 10.5 2004 Directors' Stock Option Plan, incorporated herein by reference to Appendix C to the Company's 2004 Proxy Statement filed on August 16, 2004.\*
- 10.6 2004 Employee Stock Option Plan, incorporated herein by reference to Appendix B to the Company's 2004 Proxy Statement filed on August 16, 2004.\*
- 10.7 Change in Control Plan dated May 30, 2002, incorporated herein by reference to Exhibit 10.15 to the Company's Form 10-K for the fiscal year ended April 30, 2005.\*
- 10.8 Credit Agreement between SigmaTron International, Inc. and Wells Fargo International Banking and Trade Solutions (IBTS), dated January 8, 2010, incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K filed on January 14, 2010.
- 10.9 Revolving Line of Credit Note issued by SigmaTron International, Inc. to Wells Fargo International Banking and Trade Solutions (IBTS), dated January 8, 2010 incorporated herein by reference to Exhibit 10.2 to the Company's Form 8-K filed on January 14, 2010.
- 10.10 Promissory Note issued by SigmaTron International, Inc. to Wells Fargo International Banking and Trade Solutions (IBTS), dated January 8, 2010, incorporated herein by reference to Exhibit 10.3 to the Company's Form 8-K filed on January 14, 2010.
- 21.0 Subsidiaries of the Registrant, incorporated herein by reference to the Company's Form 10-K for the fiscal year ended April 30, 2007, filed on July 24, 2007.
- 23.1 Consent of BDO USA, LLP.\*\*
- 24.0 Power of Attorney of Directors and Executive Officers (included on the signature page of this Form 10-K for the fiscal year ended April 30, 2010).\*\*
- 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.\*\*

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- 31.2 Certification of Principal Financial Officer of the Company Pursuant to Rule 13a-14(a) under the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*\*
- 32.1 Certification by the Principal Executive Officer of SigmaTron International, Inc. Pursuant to Rule 13a-14(b) under the Exchange Act and Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).\*\*
- 32.2 Certification by the Principal Financial Officer of SigmaTron International, Inc. Pursuant to Rule 13a-14(b) under the Exchange Act and Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).\*\*
- 99.1 Forbearance Agreement, dated December 11, 2009, by and between SigmaTron International, Inc. and Bank of America, incorporated herein by reference to Exhibit 99.1 to the Company's Form 10-Q filed on December 15, 2009.

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\* Indicates management contract or compensatory plan.

\*\* Filed herewith

(c) Exhibits

The Company hereby files as exhibits to this Report the exhibits listed in Item 15(a)(3) above, which are attached hereto or incorporated herein.

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### SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

By: /s/ Gary R. Fairhead  
Gary R. Fairhead, President and Chief Executive Officer,  
Principal Executive Officer and Director  
Dated: July 16, 2010

KNOW ALL PERSONS BY THESE PRESENTS, that the undersigned directors and officers of SigmaTron International, Inc., a Delaware corporation, which is filing an Annual Report on Form 10-K with the Securities and Exchange Commission under the provisions of the Securities Exchange Act of 1934 as amended, hereby constitute and appoint Gary R. Fairhead and Linda K. Frauendorfer, and each of them, each of their true and lawful attorneys-in fact and agents, with full power of substitution and resubstitution, for him and in his name, place and stead, in all capacities, to sign any or all amendments to the report to be filed with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as each of them might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities, and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ John P. Chen</u> John P. Chen	Chairman of the Board of Directors	July 16, 2010
<u>/s/ Gary R. Fairhead</u> Gary R. Fairhead	President and Chief Executive Officer, (Principal Executive Officer) and Director	July 16, 2010
<u>/s/ Linda K. Frauendorfer</u> Linda K. Frauendorfer	Chief Financial Officer, Secretary and Treasurer (Principal Financial Officer and Principal Accounting Officer)	July 16, 2010
<u>/s/ Thomas W. Rieck</u> Thomas W. Rieck	Director	July 16, 2010
<u>/s/ Dilip S. Vyas</u> Dilip S. Vyas	Director	July 16, 2010
<u>/s/ Carl A. Zemenick</u> Carl A. Zemenick	Director	July 16, 2010



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INDEX TO FINANCIAL STATEMENTS

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Financial statement schedules are omitted because they are not applicable or required.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**Board of Directors and Stockholders**

**SigmaTron International, Inc.**

**Elk Grove, Illinois**

We have audited the accompanying consolidated balance sheets of SigmaTron International, Inc. as of April 30, 2010 and 2009 and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of SigmaTron International, Inc. at April 30, 2010 and 2009 and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ BDO USA, LLP

Chicago, Illinois

July 16, 2010

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**SigmaTron International, Inc. and Subsidiaries**  
**CONSOLIDATED BALANCE SHEETS**  
**April 30,**

**ASSETS**

	<u>2010</u>	<u>2009</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 4,052,572	\$ 3,781,252
Accounts receivable, less allowance for doubtful accounts of \$150,000 and \$167,788 at April 30, 2010 and 2009, respectively	24,929,972	16,785,079
Inventories, net	37,406,056	36,230,555
Prepaid expenses and other assets	928,551	923,911
Deferred income taxes	1,844,188	1,560,425
Other receivables	<u>171,593</u>	<u>341,310</u>
 Total current assets	 69,332,932	 59,622,532
 <b>PROPERTY, MACHINERY AND EQUIPMENT, NET</b>	 25,176,664	 26,200,578
 <b>LONG-TERM ASSETS</b>		
Other assets	822,341	699,379
Intangible assets, net of amortization of \$2,406,329 and \$2,161,113 at April 30, 2010 and 2009, respectively	<u>363,671</u>	<u>608,887</u>
 Total long-term assets	 <u>1,186,012</u>	 <u>1,308,266</u>
 <b>TOTAL ASSETS</b>	 <u>\$95,695,608</u>	 <u>\$87,131,376</u>

The accompanying notes are an integral part of these statements.



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**SigmaTron International, Inc. and Subsidiaries**  
**CONSOLIDATED BALANCE SHEETS — CONTINUED**  
**April 30,**

**LIABILITIES AND STOCKHOLDERS' EQUITY**

	<u>2010</u>	<u>2009</u>
<b>CURRENT LIABILITIES</b>		
Trade accounts payable	\$20,479,495	\$10,531,553
Accrued expenses	1,786,360	1,602,913
Accrued payroll	2,475,552	1,555,736
Income taxes payable	1,288,617	272,750
Notes payable — bank	—	1,000,000
Notes payable — buildings	99,996	140,250
Notes payable — other	160,994	—
Capital lease obligations	874,116	951,983
	<hr/>	<hr/>
Total current liabilities	27,165,130	16,055,185
<b>NOTES PAYABLE — BANK, LESS CURRENT PORTION</b>	15,125,058	19,746,696
<b>NOTES PAYABLE — BUILDINGS, LESS CURRENT PORTION</b>	2,375,005	2,521,188
<b>NOTES PAYABLE — OTHER, LESS CURRENT PORTION</b>	187,826	—
<b>CAPITAL LEASE OBLIGATIONS, LESS CURRENT PORTION</b>	569,240	1,490,773
<b>DEFERRED INCOME TAXES</b>	2,610,142	1,915,649
	<hr/>	<hr/>
Total liabilities	48,032,401	41,729,491
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock, \$.01 par value; 500,000 shares authorized, none issued and outstanding	—	—
Common stock, \$.01 par value; 12,000,000 shares authorized, 3,822,556 shares issued and outstanding at April 30, 2010 and 2009	38,226	38,226
Capital in excess of par value	19,647,359	19,630,580
Retained earnings	27,977,622	25,733,079
	<hr/>	<hr/>
Total stockholders' equity	47,663,207	45,401,885
	<hr/>	<hr/>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u>\$95,695,608</u>	<u>\$87,131,376</u>

The accompanying notes are an integral part of these statements.

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**SigmaTron International, Inc. and Subsidiaries**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**Years ended April 30,**

	<u>2010</u>	<u>2009</u>
Net sales	\$122,476,340	\$133,744,642
Cost of products sold	<u>108,719,103</u>	<u>117,769,739</u>
Gross profit	13,757,237	15,974,903
Selling and administrative expenses	<u>10,826,880</u>	<u>11,591,440</u>
Operating income	2,930,357	4,383,463
Other income	(1,256,235)	(219,479)
Interest expense	<u>821,263</u>	<u>1,710,817</u>
Income before income tax expense	3,365,329	2,892,125
Income tax expense	<u>1,120,786</u>	<u>936,278</u>
<b>NET INCOME</b>	<b><u>\$ 2,244,543</u></b>	<b><u>\$ 1,955,847</u></b>
Earnings per common share		
Basic	<u>\$ 0.59</u>	<u>\$ 0.51</u>
Diluted	<u>\$ 0.58</u>	<u>\$ 0.51</u>
Weighted-average shares of common stock outstanding		
Basic	<u>3,822,556</u>	<u>3,822,556</u>
Diluted	<u>3,863,505</u>	<u>3,859,526</u>

The accompanying notes are an integral part of these statements.

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**SigmaTron International, Inc. and Subsidiaries**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**Two years ended April 30, 2010 and 2009**

	<u>Preferred stock</u>	<u>Common stock</u>	<u>Capital in excess of par value</u>	<u>Retained earnings</u>	<u>Total stockholders' equity</u>
Balance at April 30, 2008	\$ —	\$38,226	\$19,599,501	\$23,777,232	\$43,414,959
Stock-based compensation	—	—	31,079	—	31,079
Net income	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,955,847</u>	<u>1,955,847</u>
Balance at April 30, 2009	—	38,226	19,630,580	25,733,079	45,401,885
Stock-based compensation	—	—	16,779	—	16,779
Net income	<u>—</u>	<u>—</u>	<u>—</u>	<u>2,244,543</u>	<u>2,244,543</u>
Balance at April 30, 2010	<u>\$ —</u>	<u>\$38,226</u>	<u>\$19,647,359</u>	<u>\$27,977,622</u>	<u>\$47,663,207</u>

The accompanying notes are an integral part of these statement.

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### **SigmaTron International, Inc. and Subsidiaries CONSOLIDATED STATEMENTS OF CASH FLOWS Years ended April 30,**

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities		
Net income	\$ 2,244,543	\$ 1,955,847
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	4,007,026	4,035,804
Stock-based compensation	16,779	31,079
Provision for doubtful accounts	—	17,788
Provision for inventory obsolescence	182,800	157,000
Deferred income tax expense (benefit)	410,730	(518,981)
Amortization of intangible assets	245,216	349,182
Amortization of financing fees	40,511	—
Insurance gain	(1,233,830)	—
Loss from disposal or sale of machinery and equipment	38,493	279,521
Changes in operating assets and liabilities		
Accounts receivable	(8,144,893)	9,944,685
Inventories	(1,358,301)	5,759,215
Prepaid expenses and other assets	1,604	147,945
Trade accounts payable	9,491,228	(9,898,407)
Accrued expenses and wages	1,103,263	(1,722,331)
Income taxes	1,015,867	(401,867)
Net cash provided by operating activities	8,061,036	10,136,480
Cash flows from investing activities		
Proceeds from insurance	1,233,830	—
Proceeds from sale of machinery and equipment	—	18,052
Purchases of machinery and equipment	(2,578,873)	(820,705)
Net cash used in investing activities	(1,345,043)	(802,653)
Cash flows from financing activities		
Payments of financing fees	(243,073)	—
Proceeds under capital lease obligations	1,287,407	—
Payments under capital lease obligations	(2,286,807)	(1,637,494)
Payments under other notes payable	(93,912)	—
Proceeds under building notes payable	2,500,000	—
Payments under building notes payable	(2,686,437)	(326,934)
Payments under term loan	(2,000,000)	(1,000,000)
Net payments under lines of credit	(3,621,638)	(7,129,559)
Change in bank overdraft	699,787	707,785
Net cash used in financing activities	(6,444,673)	(9,386,202)

<b>INCREASE (DECREASE) IN CASH</b>	271,320	(52,375)
Cash and cash equivalents at beginning of year	<u>3,781,252</u>	<u>3,833,627</u>
Cash and cash equivalents at end of year	<u>\$ 4,052,572</u>	<u>\$ 3,781,252</u>
Supplementary disclosures of cash flow information		
Cash paid for interest	\$ 818,453	\$ 1,810,000
Cash paid for income taxes, net of (refunds)	(548,028)	1,560,243
Purchase of machinery and equipment financed under capital lease obligations	—	358,627
Non Cash Financing Activity:		
The Company financed a licensing agreement through a note payable	\$ 442,732	—

The accompanying notes are an integral part of these statements.

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### **SigmaTron International, Inc. and Subsidiaries** **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** **April 30, 2010 and 2009**

#### **NOTE A — DESCRIPTION OF THE BUSINESS**

SigmaTron International, Inc. and its subsidiaries (the “Company”) operate 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 North America, China and Taiwan. Approximately 10% of the consolidated non-current assets of the Company are located in foreign jurisdictions outside the United States as of April 30, 2010 and 2009.

#### **NOTE B — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### ***Consolidation Policy***

The consolidated financial statements include the accounts and transactions of the Company, its wholly-owned subsidiaries, Standard Components de Mexico, S.A., and AbleMex S.A. de C.V., SigmaTron International Trading Co., its wholly-owned foreign enterprise Wujiang SigmaTron Electronics Co. Ltd. (“SigmaTron China”), and its procurement branch, SigmaTron Taiwan. The functional currency of the Mexican and Chinese subsidiaries and procurement branch is the U.S. dollar. Intercompany transactions are eliminated in the consolidated financial statements. The impact of currency fluctuation for the fiscal year ended April 30, 2010 resulted in an expense of approximately \$276,000 and for the fiscal year ending April 30, 2009, was approximately \$135,000 in income. The transactions are recorded in other income.

##### ***Use of Estimates***

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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.

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**SigmaTron International, Inc. and Subsidiaries**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED**  
**April 30, 2010 and 2009**

**NOTE B — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — Continued**

*Cash and Cash Equivalents*

Cash and cash equivalents include cash and all highly liquid short-term investments maturing within three months of the purchase date.

*Accounts Receivable*

The majority of the Company's accounts receivable are due from companies in the consumer electronics, gaming, fitness, industrial electronics, life sciences, semiconductor, telecommunications, appliance and automotive industries. Credit is extended based on evaluation of a customer's financial condition, and, generally, collateral is not required. Accounts receivable are due in accordance with agreed upon terms, and are stated at amounts due from customers net of an allowance for doubtful accounts. Accounts outstanding longer than the contractual payments terms are considered past due. The Company writes off accounts receivable when they are determined to be uncollectible.

*Allowance for Doubtful Accounts*

The Company's allowance for doubtful accounts relates to receivables not expected to be collected from our customers. This allowance is based on management's assessment of specific customer balances, considering the age of receivables and financial stability of the customer and a five year average of prior uncollectible amounts. If there is an adverse change in the financial condition of the Company's customers, or if actual defaults are higher than provided for, an addition to the allowance may be necessary.

*Inventories*

Inventories are valued at the lower of cost or market. Cost is determined by the first-in, first-out method. The Company establishes inventory reserves for valuation, shrinkage, and excess and obsolete inventory. 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. and Subsidiaries**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED**

**April 30, 2010 and 2009**

**NOTE B — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — Continued**

***Inventory Policies***

The Company's inventories include parts and components that may be specialized in nature or subject to customers' future usage requirements. The Company has programs to minimize the required inventories on hand and actively monitors customer purchase orders, forecasts and backlog. The Company uses estimated allowances to reduce recorded amounts to market values; such estimates could change in the future.

***Property, Machinery and Equipment***

Property, machinery and equipment are valued at cost. The Company provides for depreciation and amortization using the straight-line method over the estimated useful life of the assets:

Buildings	20 years
Machinery and equipment	5-12 years
Office equipment and software	3-5 years
Tools and dies	12 months
Leasehold improvements	term of lease

***Deferred Financing Costs***

Deferred financing cost consist of costs incurred to obtain the Company's long-term debt and are amortized using the straight-line method over the term of the related debt. Deferred financing fees of \$202,562 and \$0, net of accumulated amortization of \$40,511 and \$0 as of April 30, 2010 and 2009, respectively are classified in other assets on the Company's balance sheet.

***Income Taxes***

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 will 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.

***Earnings per Share***

Basic earnings per share are computed by dividing income (loss) available to common stockholders (the numerator) by the weighted-average number of common shares outstanding (the denominator) for the period. The computation of diluted earnings per share is similar to the

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### **SigmaTron International, Inc. and Subsidiaries**

#### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED**

**April 30, 2010 and 2009**

#### **NOTE B — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — Continued**

computation of basic earnings per share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potentially dilutive common stock equivalents such as stock options had been exercised. At April 30, 2010 and 2009, there were 400,190 and 413,090 anti-dilutive common stock equivalents, respectively, which have been excluded from the calculation of diluted earnings per share.

#### ***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.

#### ***Shipping and Handling Costs***

The Company records shipping and handling costs within selling and administrative expenses. Customers are typically invoiced for shipping costs. Shipping and handling costs were not material to the financial statements for fiscal years 2010 or 2009.

#### ***Fair Value of Financial Instruments***

The Company's financial instruments include receivables, debt, accounts payable, and accrued expenses. The fair values of financial instruments are not materially different from their carrying values, due to the short-term nature of receivables, accounts payable and accrued expenses and the market interest rates charged on the Company's long-term debt.

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**SigmaTron International, Inc. and Subsidiaries**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED**  
**April 30, 2010 and 2009**

**NOTE B — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — Continued**

*Impairment of Long-Lived Assets*

The Company reviews its long-lived 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.

*Intangibles Assets*

The following are the changes in the carrying amount of intangible assets, net of accumulated amortization:

	<u>Customer Relationship</u>
Balance as of April 30, 2008	\$ 958,069
Amortization expense 2009	<u>(349,182)</u>
Balance as of April 30, 2009	608,887
Amortization expense 2010	<u>(245,216)</u>
Balance as of April 30, 2010	<u>\$ 363,671</u>
Amortization period	8 years

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**SigmaTron International, Inc. and Subsidiaries**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED**  
**April 30, 2010 and 2009**

**NOTE B — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — Continued**

*Intangibles Assets — Continued*

The estimated intangible amortization expenses for the next five years are as follows:

Years Ended April 30,	
2011	\$163,998
2012	112,746
2013	75,850
2014	11,077
2015	—
	<u>          </u>
	<u>\$363,671</u>

The Company's intangible assets include customer lists and are amortized utilizing accelerated amortization methods.

*Stock Incentive Plans*

Under the Company's stock option plans, options to acquire shares of common stock have been made available for grant to certain employees and directors. Each option granted has an exercise price of not less than 100% of the market value of the common stock on the date of grant. The contractual life of each option is generally 10 years. The vesting of the grants varies according to the individual options granted. The Company measures the cost of employee services received in exchange for an equity award based on the grant date fair value and records that cost over the respective vesting period of the award.

*New Accounting Standards*

In September 2006, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Codification ("ASC" or the "Codification") 820-10 Fair Value Measurements and Disclosures (formerly SFAS 157, "Fair Value Measurements"), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. In November 2007, the FASB agreed to a one-year deferral of the effective date of ASC 820-10 for all non-financial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. There was no significant impact from adoption of ASC 820-10 for non-financial assets and liabilities on the Company's financial statements.

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**SigmaTron International, Inc. and Subsidiaries**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED**

**April 30, 2010 and 2009**

**NOTE B — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — Continued**

*New Accounting Standards — Continued*

In December 2007, the FASB issued ASC 810-10 Consolidation (formerly SFAS 160, “Noncontrolling Interest in Consolidated Financial Statements, an amendment of Accounting Research Bulletin No. 51”), which establishes accounting reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent’s ownership interest, and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. ASC 810-10 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. ASC 810-10 is effective for fiscal years beginning after December 15, 2008. There was no significant impact from adoption of ASC 810-10 on the Company’s consolidated results of operations and financial condition.

**NOTE C — ALLOWANCE FOR DOUBTFUL ACCOUNTS**

Changes in the Company’s allowance for doubtful accounts are as follows:

	<u>2010</u>	<u>2009</u>
Beginning balance	\$167,788	\$213,000
Bad debt expense	—	17,788
Write-offs	<u>(17,788)</u>	<u>(63,000)</u>
	<u>\$150,000</u>	<u>\$167,788</u>

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**SigmaTron International, Inc. and Subsidiaries**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED**  
**April 30, 2010 and 2009**

**NOTE D — INVENTORIES**

Inventories consist of the following at April 30:

	<u>2010</u>	<u>2009</u>
Finished products	\$ 8,364,010	\$11,644,129
Work in process	1,925,880	2,391,559
Raw materials	<u>29,013,486</u>	<u>23,993,727</u>
	39,303,376	38,029,415
Less obsolescence reserve	<u>1,897,320</u>	<u>1,798,860</u>
	<u>\$37,406,056</u>	<u>\$36,230,555</u>

Changes in the Company's inventory obsolescence reserve are as follows:

	<u>2010</u>	<u>2009</u>
Beginning balance	\$1,798,860	\$1,723,019
Provision for obsolescence	182,800	157,000
Write-offs	<u>(84,340)</u>	<u>(81,159)</u>
	<u>\$1,897,320</u>	<u>\$1,798,860</u>

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**SigmaTron International, Inc. and Subsidiaries**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED**  
**April 30, 2010 and 2009**

**NOTE E — PROPERTY, MACHINERY AND EQUIPMENT, NET**

Property, machinery and equipment consist of the following at April 30:

	2010	2009
Land and buildings	<u>\$12,145,447</u>	<u>\$12,021,913</u>
Machinery and equipment	41,724,734	38,670,381
Office equipment and software	4,541,291	3,947,899
Tools and dies	295,095	288,598
Leasehold improvements	3,345,106	3,089,065
Equipment under capital leases	<u>3,748,580</u>	<u>4,899,539</u>
	65,800,253	62,917,395
Less accumulated depreciation and amortization, including amortization of assets under capital leases of \$1,126,162 and \$1,218,393 at April 30, 2010 and 2009, respectively	<u>40,623,589</u>	<u>36,716,817</u>
Property, machinery and equipment, net	<u>\$25,176,664</u>	<u>\$26,200,578</u>

Depreciation and amortization expense was \$4,007,026 and \$4,035,804 for the years ended April 30, 2010 and 2009, respectively.

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### **SigmaTron International, Inc. and Subsidiaries** **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED** **April 30, 2010 and 2009**

#### **NOTE F — LONG — TERM DEBT**

##### ***Note Payable — Bank***

Through January 7, 2010, the Company had a revolving credit facility with Bank of America under which the Company could borrow up to the lesser of: (i) \$32 million; or (ii) an amount equal to the sum of 85% of the eligible receivable borrowing base and the lesser of \$16 million or 50% of the eligible inventory borrowing base. The revolving credit facility was due to expire on September 30, 2010. The outstanding balance on this revolving credit line was \$18,746,696 at April 30, 2009. In October 2009, the Company conducted a strategic review of its financing arrangements to determine the best long-term alternatives. Based on that evaluation, the Company decided to reduce the overall size of its credit facility to \$25 million. Effective October 31, 2009, the Company was in violation of a financial covenant under its agreements with Bank of America. In December 2009, Bank of America provided a forbearance on the covenant violation until January 8, 2010 to allow the Company to transition to a new bank. On January 8, 2010, the Company entered into a \$25 million senior secured credit facility with Wells Fargo International Banking and Trade Solutions (IBTS) (“Wells Fargo”). The term of the credit facility extends for two years, through January 8, 2012, and allows the Company to choose the interest rates at which it may borrow funds. The interest rate can be the prime rate plus one half percent (3.75% at April 30, 2010) or LIBOR plus two and three quarter percent (3.1% at April 30, 2010). At no time can LIBOR be less than .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. The Company was in compliance with its financial covenants at April 30, 2010. As of April 30, 2010, there was \$15,125,058 outstanding under the senior secured credit facility and approximately \$9,800,000 of unused availability.

Through January 7, 2010, the Company also had a term loan with Bank of America with an outstanding balance at January 7, 2010 and April 30, 2009 of \$1,500,000 and \$2,000,000, respectively. The term loan required quarterly principal payments of \$250,000 due each quarter through the quarter ending June 30, 2011 and interest payable monthly throughout the term of the loan. On January 8, 2010, the Company repaid this debt using proceeds from the credit facility from Wells Fargo.

##### ***Capital Lease Obligations***

Through January 7, 2010, the Company had capital leases with Bank of America with an outstanding balance at January 7, 2010 and April 30, 2009 of \$1,287,407 and \$1,669,616, respectively. On January 8, 2010, the Company repaid the Bank of America capital leases using proceeds from the credit facility with Wells Fargo. On January 19, 2010, the Company entered into a leasing transaction with Wells Fargo Equipment Finance, Inc. to finance \$1,287,407 of



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**SigmaTron International, Inc. and Subsidiaries**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED**  
**April 30, 2010 and 2009**

**NOTE F — LONG TERM DEBT — Continued**

*Capital Lease Obligations — Continued*

equipment and paid down the Wells Fargo credit facility by the same amount. 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 April 30, 2010, the balance outstanding of Wells Fargo leases was \$1,076,574. The Company has other capital leases in the amount of \$366,780 and \$773,140 at April 30, 2010 and 2009, respectively.

*Note Payable — Buildings*

On November 19, 2003, the Company purchased the property that serves as the Company's corporate headquarters and its Midwestern manufacturing facility. The Company executed a mortgage with Bank of America in the amount of \$3,600,000, which had an April 30, 2009 balance of \$2,661,438. On January 8, 2010 the Company entered into a mortgage agreement in the amount of \$2,500,000 with Wells Fargo to refinance the property. The Promissory 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 Company repaid the prior Bank of America mortgage, the outstanding obligations under which equaled \$2,565,413 as of January 8, 2010, using proceeds from the Wells Fargo mortgage and credit facility.

*Other Debt*

In October 2009, the Company entered into a financial licensing agreement for software. The term of the note payable is for 36 months, with monthly payments of approximately \$13,415, and no interest is payable under the agreement. At April 30, 2010, there was \$348,820 outstanding under the note payable.

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**SigmaTron International, Inc. and Subsidiaries**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED**  
**April 30, 2010 and 2009**

**NOTE F — LONG TERM DEBT — Continued**

*Other Debt — Continued*

The aggregate amount of debt maturing (excluding capital lease obligations) in each of the next five fiscal years is as follows:

<u>Fiscal Year</u>	
2011	\$ 260,990
2012	15,386,048
2013	126,828
2014	99,996
2015	2,075,017
Thereafter	<u>—</u>
	<u>\$17,948,879</u>

**NOTE G — ACCRUED EXPENSES AND WAGES**

Accrued expenses and wages consist of the following at April 30:

	<u>2010</u>	<u>2009</u>
Wages	\$1,800,552	\$1,555,736
Bonuses	675,000	—
Interest payable	55,831	41,101
Commissions	45,339	36,514
Professional fees	247,287	228,161
Foreign payroll accruals	870,080	708,433
Other	<u>567,823</u>	<u>588,704</u>
	<u>\$4,261,912</u>	<u>\$3,158,649</u>

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**SigmaTron International, Inc. and Subsidiaries**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED**  
**April 30, 2010 and 2009**

**NOTE H — INCOME TAXES**

The income tax provision (benefit) for the years ended April 30 consists of the following:

	<u>2010</u>	<u>2009</u>
Current		
Federal	\$ 393,250	\$1,037,422
State	67,007	179,311
Foreign	249,799	238,526
Deferred		
Federal	358,076	(452,450)
State	<u>52,654</u>	<u>(66,531)</u>
	<u>\$1,120,786</u>	<u>\$ 936,278</u>

The differences between the income tax provision and the amounts computed by applying the statutory Federal income tax rates to income before income tax expense for the years ended April 30 are as follows:

	<u>2010</u>	<u>2009</u>
Income tax at		
Federal rate	\$1,144,212	\$ 983,322
State income tax, net of federal	55,108	51,814
Differential in foreign and federal tax rates	(124,734)	(113,246)
Other, net	<u>46,200</u>	<u>14,388</u>
	<u>\$1,120,786</u>	<u>\$ 936,278</u>

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**SigmaTron International, Inc. and Subsidiaries**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED**  
**April 30, 2010 and 2009**

**NOTE H — INCOME TAX — Continued**

U.S. and foreign income before income tax expense for the years ended April 30 are as follows:

	2010	2009
U.S.	\$2,263,760	\$1,857,492
Foreign	<u>1,101,569</u>	<u>1,034,633</u>
Total	<u>\$3,365,329</u>	<u>\$2,892,125</u>

Significant temporary differences that result in deferred tax assets and (liabilities) at April 30, are as follows:

	2010	2009
Allowance for doubtful accounts	\$ 58,499	\$ 65,436
Inventory obsolescence reserve	739,945	701,546
Accruals not currently deductible	732,673	461,619
Inventory	<u>381,834</u>	<u>402,765</u>
Current deferred tax asset	1,912,951	1,631,366
Prepaid insurance	<u>(68,763)</u>	<u>(70,941)</u>
Current deferred tax liability	<u>(68,763)</u>	<u>(70,941)</u>
Net current deferred tax asset	<u>\$1,844,188</u>	<u>\$1,560,425</u>
Intangible assets	<u>\$ (141,830)</u>	<u>\$ (237,463)</u>
Machinery and equipment	(2,517,676)	(1,670,023)
Other	<u>49,364</u>	<u>(8,163)</u>
Net long-term deferred tax liability	<u>\$(2,610,142)</u>	<u>\$(1,915,649)</u>

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**SigmaTron International, Inc. and Subsidiaries**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED**  
**April 30, 2010 and 2009**

**NOTE H — INCOME TAX — Continued**

The Company's wholly-owned foreign enterprise, SigmaTron China, is subject to a reduction in income taxes within China due to its foreign investment. The reduction in taxes is for a five year period commencing in January 2005, but not in effect after December 31, 2009.

The Company has identified uncertain tax positions taken or expected to be taken in the Company's tax returns. The Company has not recognized the benefit for those positions in its consolidation financial statements. A reconciliation of the beginning and ending amount of unrecognized tax benefits, excluding interest and penalties, is as follows:

	<u>2010</u>	<u>2009</u>
Balance at May 1,	\$ 72,115	\$145,591
Additions based on tax positions related to current year	—	—
Additions for tax positions in prior years	1,672	2,248
Reductions for tax positions of prior years	<u>(23,749)</u>	<u>(75,724)</u>
Balance at April 30,	<u>\$ 50,038</u>	<u>\$ 72,115</u>

The entire amount of the consolidated worldwide liability for uncertain tax positions could affect the Company's effective tax rate upon favorable resolution of the uncertain tax positions. As the Company expects these uncertain tax positions to be resolved within the next twelve months, the full amount is classified as a current liability within income tax payable as of April 30, 2010

Interest related to tax positions taken in the Company's tax returns are recorded in income tax expense in the Consolidated Statements of Operations. The Company did not record penalties, if any, in the Consolidated Statements of Operations.

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**SigmaTron International, Inc. and Subsidiaries**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED**

**April 30, 2010 and 2009**

**NOTE H — INCOME TAX — Continued**

The Company files a U.S. income tax return and tax returns in various states. The Company's subsidiaries also file tax returns in various foreign jurisdictions. In addition to the U.S., the Company's major taxing jurisdictions include China and Mexico. In the U.S., fiscal years 2007 through 2010 are open under the statute of limitations. The Company's Chinese enterprise operated under a tax holiday, resulting in no uncertain tax positions for that entity for the 2005 and 2006 tax year. The Company's Chinese enterprise operates under a 50% tax holiday for tax years 2007 through 2009, which tax years are open under the statute of limitations. In Mexico, tax years from 2006 through 2010 remain open.

**NOTE I — 401(k) RETIREMENT SAVINGS PLAN**

The Company sponsors 401(k) retirement savings plans, which are available to all non-union U.S. employees. The Company may elect to match participant contributions up to \$300 annually. The Company contributed \$72,612 and \$95,569 to the plans during the fiscal years ended April 30, 2010 and 2009, respectively. The Company paid total expenses of \$9,900 and \$9,400 for the fiscal years ended April 30, 2010 and 2009, respectively, relating to costs associated with the administration of the plans.

**NOTE J — OTHER INCOME**

During fiscal 2010, the Company filed an insurance claim due to damage incurred at one of its buildings. The claim was settled in April 2010 and the Company recorded a gain from this involuntary conversion of \$1,233,830 which is included in other income on the consolidated statement of income for the year ended April 30, 2010. The insurance proceeds not representing the reimbursement of expenses are classified as an investing cash flow in the statement of cash flows for the year ended April 30, 2010. The Company does not anticipate any additional proceeds, gains or losses to be recorded related to this settlement.

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**SigmaTron International, Inc. and Subsidiaries**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED**

**April 30, 2010 and 2009**

**NOTE K — MAJOR CUSTOMERS AND CONCENTRATION OF CREDIT RISK**

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of uncollateralized accounts receivable. For the fiscal year ended April 30, 2010, two customers accounted for 33.4% and 13.9% of net sales of the Company, respectively, and 49.3% and 4.9% of accounts receivable as of April 30, 2010, respectively. For the year ended April 30, 2009, two customers accounted for 27.5% and 18.2% of net sales of the Company, and 49.1% and 6.9% of accounts receivable at April 30, 2009.

**NOTE L — LEASES**

The Company leases certain facilities under various operating leases. The Company also leases various machinery and equipment under capital leases.

Future minimum lease payments under leases with terms of one year or more are as follows at April 30, 2010:

Years ending April 30,	Capital leases	Operating leases
2011	\$ 931,310	\$1,493,520
2012	579,907	1,173,185
2013	—	503,151
2014	—	87,444
2015	—	87,444
Thereafter	—	7,200
	1,511,217	<u>\$3,351,944</u>
Less amounts representing interest	<u>67,861</u>	
	1,443,356	
Less current portion	<u>874,116</u>	
	<u>\$ 569,240</u>	

Rent expense incurred under operating leases was approximately \$1,566,000 and \$1,533,000 for the years ended April 30, 2010 and 2009, respectively.

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**SigmaTron International, Inc. and Subsidiaries**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED**

**April 30, 2010 and 2009**

**NOTE M — STOCK OPTIONS**

The Company has stock option plans (“Option Plans”) under which certain employees and non-employee directors may acquire up to 1,603,500 shares of common stock. Options available for grant under the employee plans total 1,207,500, with the non-employee director plans allowing for a total of 396,000 options available for grant. At April 30, 2010, the Company has 55,134 shares available for future issuance to employees under the employee plan and none under the non-employee director plan. The Option Plans are interpreted and administered by the Compensation Committee of the Board of Directors. The maximum term of options granted under the Option Plans is generally 10 years. Options granted under the Option Plans are either incentive stock options or nonqualified options. Options forfeited under the Option Plans are available for reissuance. Options granted under these plans are granted at an exercise price equal to the fair market value of a share of the Company’s common stock on the date of grant.

There were no options granted during fiscal year 2010. The weighted-average grant date fair value of the options granted during fiscal year 2009 was \$5.40.

The fair value of each option grant is estimated on the grant date using the Black-Scholes option pricing model with the following assumptions:

	<u>2010</u>	<u>2009</u>
Expected dividend yield	N/A	0%
Expected stock price volatility	N/A	.750
Average risk-free interest rate	N/A	1.70%
Weighted-average expected life of options	N/A	6.5 years

Option-valuation models require the input of highly subjective assumptions. Because the Company’s stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management’s opinion the existing method does not necessarily provide a reliable single measure of the fair value of the Company’s stock options. The Company used the U.S. Treasury yield in effect at the time of the option grant to calculate the risk-free interest rate. The weighted-average expected life of options was calculated using the simplified method, due to limited history. The expected dividend, volatility and forfeitures rates of options are based on historical experience and expected future results.



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**SigmaTron International, Inc. and Subsidiaries**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED**  
**April 30, 2010 and 2009**

**NOTE M — STOCK OPTIONS — Continued**

The table below summarizes option activity through April 30, 2010:

	Number of options	Weighted- average exercise price	Number of options exercisable at end of year
Outstanding at April 30, 2008	<u>498,707</u>	\$ 7.92	<u>477,847</u>
Options granted during 2009	<u>5,000</u>	5.40	
Outstanding at April 30, 2009	503,707	7.89	496,671
Options expired during 2010	<u>(1,670)</u>	5.63	
Outstanding at April 30, 2010	<u>502,037</u>	7.90	498,910

Intrinsic value is calculated as the difference between the market price of the Company's common stock and the exercise price of the underlying options. During the fiscal years ended April 30, 2010 and 2009, the aggregate intrinsic value of options exercised was \$0. The aggregate intrinsic value of in the money options outstanding was \$377,594 as of April 30, 2010.

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**SigmaTron International, Inc. and Subsidiaries**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED**  
**April 30, 2010 and 2009**

**NOTE M — STOCK OPTIONS — Continued**

Information with respect to stock options outstanding and stock options exercisable at April 30, 2010, follows:

Range of exercise prices	Options outstanding		
	Number outstanding at April 30, 2010	Weighted-average remaining contractual life	Weighted- average exercise price
\$2.20 — 5.40	106,845	2.92 years	\$ 2.60
9.17 — 11.56	395,192	5.82 years	9.34
	<u>502,037</u>		<u>\$ 7.90</u>

  

Range of exercise prices	Options exercisable	
	Number exercisable at April 30, 2010	Weighted- average exercise price
\$2.20 — 5.40	104,345	\$ 2.53
9.17 — 11.56	394,565	9.18
	<u>498,910</u>	<u>\$ 7.79</u>

The Company did not grant any options in fiscal year 2010 and granted 5,000 options to non-executive employees in fiscal year 2009. The Company recognized approximately \$17,000 and \$31,000 in stock compensation expense in fiscal years 2010 and 2009, respectively.

As of April 30, 2010, there was approximately \$12,100 of unrecognized compensation cost related to the Company's stock option plans, which is being amortized over a four year vesting period using a straight-line basis.

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**SigmaTron International, Inc. and Subsidiaries**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED**  
**April 30, 2010 and 2009**

**NOTE N — SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)**

The following is a summary of unaudited quarterly financial data for fiscal year 2010:

	<u>First quarter</u>	<u>Second quarter</u>	<u>Third quarter</u>	<u>Fourth quarter</u>
2010				
Net sales	\$26,330,054	\$30,564,267	\$30,599,499	\$34,982,520
(Loss) income before income tax expense	(638,781)	821,021	664,360	2,518,729
Net (loss) income	(402,475)	517,298	415,468	1,714,252
(Loss) earnings per share—Basic	\$ (0.11)	\$ 0.14	\$ 0.11	\$ 0.45
(Loss) earnings per share-Diluted	\$ (0.11)	\$ 0.13	\$ 0.12	\$ 0.44
Total shares—Basic	3,822,556	3,822,556	3,822,556	3,822,556
Total shares—Diluted	3,822,556	3,851,395	3,873,531	3,883,645

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**SigmaTron International, Inc. and Subsidiaries**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED**  
**April 30, 2010 and 2009**

**NOTE N — SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED) — Continued**

The following is a summary of unaudited quarterly financial data for fiscal year 2009:

	<u>First quarter</u>	<u>Second quarter</u>	<u>Third quarter</u>	<u>Fourth quarter</u>
2009				
Net sales	\$38,478,118	\$41,132,728	\$26,970,927	\$27,162,869
Income (loss) before income tax expense	977,903	2,070,389	(160,585)	4,418
Net income (loss)	579,324	1,505,316	(265,458)	136,665
Earnings (loss) per share—Basic	\$ 0.15	\$ 0.39	\$ (0.07)	\$ 0.04
Earnings (loss) per share—Diluted	\$ 0.15	\$ 0.39	\$ (0.07)	\$ 0.04
Total shares—Basic	3,822,556	3,822,556	3,822,556	3,822,556
Total shares—Diluted	3,884,075	3,874,643	3,822,556	3,822,556

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**SigmaTron International, Inc. and Subsidiaries**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED**  
**April 30, 2010 and 2009**

**NOTE O — LITIGATION**

As of April 30, 2010, 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 are 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.