

# SIGMATRON

INTERNATIONAL, INC.

ANNUAL REPORT 2019



## ABOUT THE COMPANY

For a quarter century, SigmaTron International, Inc. (SII) continues as an Electronic Manufacturing Services (EMS) provider of printed circuit board assemblies and completely assembled box-build electronic products to customers in three diverse end-user markets: Consumer, Industrial and Medical/Life Sciences. We offer differentiated services through a global network of seven manufacturing facilities in the United States, Mexico, China and Vietnam, with a companywide International Procurement Office (IPO) in Taiwan. The Company provides superior EMS value from engineering and design services to component sourcing at internationally-competitive pricing, manufacturing, test and fulfillment.



### ON THE COVER

Again in fiscal year 2019, SigmaTron (Nasdaq: SGMA) expanded manufacturing services of mission-critical, box-build products that support global customers in each of the three markets the Company serves. Shown here is manufacturing underway for a global market leader in the medical/life sciences sector.





## TO OUR STOCKHOLDERS,

For SigmaTron International, Inc. (SII), fiscal year 2019 presented a number of strong headwinds to which the Company responded. Yet during this volatile year—ranging from labor and tariffs to supply chain variables and rising interest rates—the Company's steady hand, competitive differentiation and decades-long operating philosophy translated to program growth and stability in the customer markets we serve.

For FY19, the U.S. economy grew at 3.2%, the unemployment rate (3.6%) dropped to its lowest level since December 1969, and consumer confidence reached an 18-year high in 2018. Though the GDP held steady at 2.9% during FY19, SII plans to remain vigilant. Factors that leveled off optimism include a tapering by both the U.S. economy and U.S. corporate profits by our April 30 year-end, each amid an escalation in trade tensions between the U.S. and China.

### FY 2019 FINANCIAL RESULTS SIGNAL MOMENTUM, FUEL OPTIMISM

The Company reports FY19 revenues increased to \$290.5 million compared to \$278.1 million in the prior fiscal year. In FY19, net income increased to a net loss of \$865,114 compared to a net loss of \$3.2 million for FY18. The Company reported a solid pretax profit of \$1.7 million for its fourth quarter with a pretax profit of \$866,000 for FY19. Fourth quarter revenues increased to \$73.3 million compared to \$68.2 million for the same quarter in the prior fiscal year. These results are largely attributable to stronger revenues and pricing improvements. Included in SII's annual performance was a noncash expense for currency fluctuations of \$434,000. Also, we recorded tax allowances that were set to expire which resulted in a noncash expense of \$942,000.

### INDUSTRYWIDE GEOPOLITICAL, LABOR AND SUPPLY CHAIN FACTORS AFFECT RESULTS

With roots in the previous fiscal year and affecting all EMS customers and programs, industrywide issues slowed performance for three quarters of FY19 but were mitigated by the Company.

- **Historic Geopolitical Tensions** – U.S.-China trade renegotiations caused significant uncertainty and a number of risks to the three markets that our customers operate in and, subsequently, to SigmaTron. The U.S. had also already initiated trade talks to potentially replace NAFTA with the United States-Mexico-Canada Agreement (USMCA).
- **Rise in Mexico's Minimum Wages** – During third quarter FY19, Mexico's new president mandated significant minimum wage increases that affected our three Mexico facilities.





## SENSATA TECHNOLOGIES

### COLLABORATING WITH SENSATA TECHNOLOGIES ON HIGH-TECH ARMRESTS FOR THE HEAVY VEHICLE OFF ROAD (HVOR) MARKET

Founded in 1916, Sensata Technologies (NYSE: ST) is now a \$3.5 billion world-leading OEM of patented sensing, electrical protection, control and power management with 47,000 unique products. Internationally, products range from automotive braking systems to aircraft flight controls.

Following six months of joint new product development, Sensata's team and SigmaTron International (SII) teams in North America collaborated to manufacture a next-generation armrest for the fast growing HVOR market. These armrests are featured upgrades in internationally recognized brands of high- and medium-horsepower row croppers and sprayer tractors and the 4-wheel drive tractor shown here.

Throughout FY19, SII continued earlier manufacturing

support for dozens of Sensata products that feature high-complexity printed circuit board assemblies (PCBAs) with custom wire and harness cable assemblies. Amid SII's proprietary, integrated systems, Sensata's EMS programs pursue the highest standards of quality. Our Kanban production processes also aligned to net reduced lead times, increased production flexibility and on-time delivery.

Other noteworthy program hallmarks include continuous communications between SII and Sensata core program teams in the U.S. and Mexico to review progress and speed solutions to potential challenges. SII expects to continue leveraging expertise for Sensata in high-complexity/high mix PCBAs and box-builds in FY20 and for the long term.

- **Improving, Yet Persistent, Supply Chain Volatility** – Noted in FY18 and while tapering in FY19, fluctuations and shortages in the global components and raw materials markets continued. To respond, SII's International Procurement Office (IPO) again deployed strategies that reduced the effects and secured components for our customer programs globally.

Addressing these unique challenges head-on, the Company posted a modest pretax profit by fiscal year-end and is pleased to report at least three drivers of optimism that shape our outlook for fiscal year 2020.

- **One Source. Global Options® Positioning.** – SII continues to offer customers a dynamic and flexible global manufacturing network of seven facilities in three countries. Customers may manufacture in one or more operations, to meet EMS program goals of cost, quality and time-to-market.
- **Strength, Longevity in Customer Relationships** – Featured in FY19 and previously, the number of industry-leading customers that SII has retained for 10 or more years is growing with some as long as 33 years. Even as customers across markets faced industry challenges, SII critically responded with customized EMS solutions, further strengthening relationships long term.
- **Customer Pipeline of Expanded and New Programs** – Beginning the prior fiscal year and reported in FY19, SII attracted a number of new programs in each of the markets we serve. We expect sustained momentum to be driven by new and expanded existing programs in queue for FY20.

## DIFFERENTIATED, VALUED SERVICES: SII INFORMATION TECHNOLOGY, INTERNATIONAL PROCUREMENT OFFICE AND DESIGN SERVICES

SigmaTron's customers continue to value our service array in direct proportion to the OEM challenges they face.

### Information Technology (SII IT)

SII's IT services headquartered in **Elk Grove Village, Illinois**, and from a second location in **Taichung City, Taiwan**, provide key differentiation through proprietary systems and real-time 24/7 process visibility extending from a central point of contact. For FY19, SII IT expanded or upgraded at least six high-tech drivers of lean, agile and automated manufacturing ("smart manufacturing") benefiting each operation.

- **Increased EMS Execution Efficiencies** – To improve production output, SII IT integrated the Company's corrective and preventative action (CAPA) with existing manufacturing execution systems (MES) which connects, monitors and controls complex factory data flows.
- **Redesigned Electronic Data Interchange** – IT synthesized the electronic exchange of business documents (EDI) that aligns the Company with changes to our customers' computer systems.
- **Updated Automation Modules** – IT added automated modules such as in "first in, first out" (FIFO) picking and return to stock, along with quality control tracking systems.
- **Enhanced Tariff Tracking and Billing Systems** – Amid an escalation in U.S.-China trade tensions, our IT services instituted upgrades to our automated tariff tracking and billing systems companywide.
- **Hardened Cybersecurity** – SII IT also drove the latest safeguards 24/7 to protect against attempted theft or damage to our electronic data and to shield SII from disruption or misdirection of the services we provide.
- **Enhanced Proprietary SCORE™** – In FY19, IT began enhancements to SII SCORE, the Company's proprietary customer portal. The updates further customers' remote access to their data.



SigmaTron's investment in Surface Mount Technology netted well over 50—and growing—SMT lines. Shown is the equipment's automated wave-soldering stage for an industrial EMS program. This and other technology capabilities exemplify the higher-level automation and efficiency being driven by SII.



For over 25 years from seven manufacturing facilities in four countries, SigmaTron delivers flexible, high quality EMS programs. Our new product introduction process promotes cost savings, optimized time-to-market and field reliability for even the most technologically sophisticated customers.



## International Procurement Office (IPO)

SII's IPO located in **Taipei City, Taiwan**, offers decades of experienced supply chain services for customers in each of our global operations. We help customers navigate positive outcomes following a leveling off, yet continuation, of prior years' industrywide challenges, including:

- **Global Trade Tensions** – When the ebb and flow of geopolitical, commercial and trade tensions escalated this year, our experienced IPO assisted customers of all sizes in managing and minimizing any lasting effects.
- **Component Market Volatility** – Our IPO also helped to secure components in a tightened marketplace.
- **Tariffs on Exported Raw Materials** – We mitigated certain supply chain shocks that stemmed from 10% to 25% tariffs assessed on many exported Chinese electronic components and raw materials, many of them common in EMS programs.

From this backdrop, SII's IPO offers customers a number of key advantages:

- **Proprietary IT Systems To Streamline Tariff Administration** – We employ SII's proprietary data collection systems to both record and manage direct tariff charges flowing from suppliers, freight carriers and U.S. Customs. We aid customers by verifying costs. For certain customers, products made in SII's Mexico facilities may qualify to receive NAFTA duty-free status when entering the U.S.
- **Tools and IT Systems That Support Forecasting, Secure Materials** – Facing more than 24 months of prior supply chain volatility, our IPO responded. We offer customers added forecast visibility and tools that help secure material for current and future programs. Our Taiwan-based IPO benefits, too, from SigmaTron's integrated ERP system to effectively procure even remotely-located materials.
- **Global Options® and Manufacturing Flexibility** – Our IPO closely aligned its network of Southeast Asian suppliers to fastchanging program needs. We helped minimize the effects of rising costs, addressed uneven availability of raw materials and components, and managed other factors such as tariffs.
- **Our Taiwan-based Green Compliance Service Center (GCSC)** – Again in FY19, certain SigmaTron customers increasingly sought our GCSC's services to meet government-driven compliance regulations that pertain to the environment and human health, e.g., RoHS and REACH.

## Design Services Center (DSC)

From its hub in **Elgin, Illinois**, and serving all operations companywide, our DSC continues as a highly valued driver of Design for Manufacturability and Testability (DFx). Building upon 20-plus years of proven experience, this capability provides high quality, cost effectiveness, expedited time-to-market, and field reliability—each cited by customers as critical to EMS program wins.

During FY19, SII's DSC also moved past certain customer mandates for internal-only design to attract new and expanded programs. These include NYSE-traded market leaders in industrial products, water treatment, agriculture, home and commercial appliances, and spa. During FY20, Design Services will again target customers who value design and process efficiency.

## SIGMATRON UNITED STATES

In FY19, our strategically located manufacturing facilities in **Elk Grove Village (EGV), Illinois**, (Company headquarters) and in **Union City (UC), California**, drove flexible and efficient EMS solutions systemwide. Meeting a prior year's goal, these divisions reported a significant number of new program wins for North America and expanded business in each of the markets we serve—especially in medical/life sciences and industrial.

EGV's services for noteworthy category leaders ranged from new product introduction (NPI) and supply chain establishment for many dozens of high-level PCBA programs and complex box-builds. The operation also transitioned several new programs from early-stage to full-volume production with continuous backfilling for subsequent programs.

This facility invested in advanced technologies that support complete production, traceability and inspection with enhanced DFx and Manufacturing Bill of Materials (MBOM) lifecycle analysis that reduce costs. EGV continued its focus on high-level assembly and complete product builds, while deepening a number of long-term strategic partnerships.



## DIFFERENTIATED VALUE ACROSS DIVISIONS: SIGMATRON'S INTEGRATED IT SERVICES

Our “One Source. Global Options.®” philosophy provides SigmaTron customers with an arc of regional centers of excellence—each certified by specific industry requirements. With our proprietary manufacturing execution system (MES) and monitors in each facility, Program Managers and their Customer Focus Teams

view integrated real-time progress on our manufacturing lines. Our IT systems help to seamlessly coordinate manufacturing, monitor employee productivity and view ongoing program statistics, as well as ramp up (or down) manufacturing volumes and track finished goods.





## MILLER ELECTRIC

### SIGMATRON ADDS EMS VALUE TO NEARLY 40 INNOVATIVE WELD PROGRAMS

Miller Electric Mfg. LLC, celebrating 90 years, is the world's largest manufacturer of arc welding products and wholly owned by Illinois Tool Works (NYSE: ITW). Miller® maintains its industry-leading welding solutions through highly innovative technologies with specific focus on productivity, quality and ease of use behind very strong brands.

Beginning in fiscal year 2017, collaboration began between Miller and SigmaTron International (SII) that initially involved the transfer of a single EMS program—the redesign of a legacy model MIG category welder. Subsequently, Miller transferred nearly 40 additional programs to SII. For all Miller programs, our Acuña, Mexico facility provides manufacturing with our Elk Grove Village operation contributing seamless product management support.

For each program and at every critical stage of the EMS lifecycle, Miller benefits from SII's full range of services. Program hallmarks included our resolution of Miller's internal supply chain and PCBA documentation, with honed data now in use long term. SII provided new product introduction expertise and Bus Functional Model—the software model of an integrated circuit—among other turnkey services. For the representative product shown here and across all programs, our in-circuit and functional testing proved both right-priced and critical to final quality.

For Miller's new game-changing welding technologies, SII served as the EMS provider of choice to transition numerous "captive" programs in FY19. In FY20 we expect to continue optimizing design and manufacturing, including electro-mechanical assembly, for many new Miller innovations.



Our UC operation continued support to a number of regional customers who benefit from the West Coast's proximity to our manufacturing operations in Mexico. The operation again expanded service to a number of existing high-complexity programs for regional and global industrial, gaming and medical/life sciences customers.

## SIGMATRON MEXICO

In FY19, the Company's three Mexico plants—**Acuña, Chihuahua** and **Tijuana**—continued as effective, alternative manufacturing sites in our diverse global footprint. SigmaTron Mexico offers lower cost, experienced and high-tech manufacturing, along with ease of access to three of our regional warehouses based in Texas and California. SII Mexico provides an alternative to customers who are navigating both the direct and administrative costs of U.S.-imposed tariffs on Chinese exports that began in the first quarter of FY19.

SigmaTron Acuña, our longest established and most experienced Mexico operation, collaborated with other regions to attract new customers and to expand several existing EMS programs. SII Acuña's noteworthy growth represents all markets and in FY19 encompassed a pair of NYSE-traded leaders in the consumer and industrial sectors. The operation, along with sister operations, continues investment in advanced systems and software that include Automated Inspection Equipment (AOI), inventory management, 3D inline inspection, next level in-circuit testing, and other improvements to best support fast changing or ramped up manufacturing volumes.

SigmaTron Chihuahua also served a steady stream of existing regional programs while attracting new customers, especially industry leaders in consumer markets, and expects to launch many into production in FY20. SII Chihuahua will build on core business in the consumer sector while further diversifying into industrial markets. The operation also initiated the process for ISO 13485 (medical) certification. A nod to quality standards met in FY19, the operation was named a "Grade A-Global Supplier" by the world's second largest appliance maker.

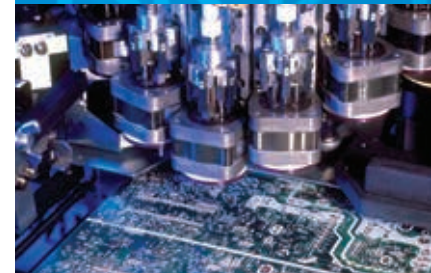
SigmaTron Tijuana (TJ) has a track record of success in EMS programs that require lower cost EMS production and high process efficiency as volumes ramp up. Building upon goals achieved the prior year, SII TJ invested in enhanced process improvements, automation and inventory management systems, each critical to customers' demands for fast changing runs. In FY19, Tijuana continued "Six-Sigma Green Belt" training, the internationally recognized, phased approach of tools and statistical methodologies to enhance manufacturing efficiency.

Looking ahead to FY20, SII Mexico's three seasoned manufacturing sites expect to remain a competitive EMS manufacturing alternative within our attractive global footprint.

## SIGMATRON ASIA

As in the prior year, SigmaTron China focused on business expansion in the Chinese market, doubling its local market revenue. Our **Suzhou, China**, operation collaborated with other global operations to expand and win high mix, low volume EMS programs. In FY19, the region built upon a 12-year average tenure with major customers—significantly expanding business in all three diverse markets we serve. In the third quarter of FY18, SII China received a "Best Supplier of the Year" award from a 100-year-old, *Fortune 500* company.

SII China managed the business amid well-publicized trade tensions between the U.S. and China, beginning in July 2018 with up to 25% tariffs imposed by the U.S. by May 2019. While these tariffs pose certain risks, particularly for shipments to the U.S., the operation will continue to pursue alternative growth opportunities regionally and internationally with businesses that ship into China from the U.S.



Surface mounting lends itself well to a high degree of automation, reducing labor costs and greatly increasing production rates. SII pursues innovative technology and continuous process enhancements that support the production of advanced, fully automated circuit assembly technologies.



As part of our customers' seamless experience, their EMS programs benefit from a Director of Quality and Compliance and a Quality Manager, both resident in every manufacturing facility. Together, they promote the highest quality standards from stations at each production stage and via Automated Optical Inspection (AOI) systems that enhance net yields and quality.

Meeting a prior fiscal year's goal, SII China achieved IATF (automotive) certification and advanced a number of quality and continuous improvement strategies to further increase productivity and reduce costs. In FY19, the operation also executed over 100 DFM analyses to support customers globally while serving the NPI stages for twice that many.

For FY20, SII China will continue to invest in next-level equipment and software systems that shorten design for DFM analysis turnarounds and align with current governmental standards and environmental rules. Also, the operation will help customers to manage forecasting uncertainties that characterize the current business environment and in FY20 will maintain its focus on customers who value quality, service and growth.

In FY19, following over two decades of service, SigmaTron's **International Procurement Office (IPO)** in **Taipei City, Taiwan**, again contributed high value for customers and provided required raw materials sourcing and components for initial program quantities and as manufacturing needs scaled up. SII's IPO helps evaluate supplier quality and manages companywide needs for comprehensive sourcing and procurement from among global component suppliers and mid-sized technology firms in Southeast Asia.

SII IPO's inventory systems offer customers buying transparency and resources that identify SII-to-customer supply chain commonalities and also manage the communications accompanying complex regional business transactions. In FY20 and beyond, we expect that our IPO will rebalance procurement efforts to offset shortened response times.

Since SII's establishment of the **Biên Hòa City, Vietnam** operation in 2005, it continues to serve EMS customers who value proven insights into the region and a strategically located, reduced-cost manufacturing operation. SigmaTron Vietnam remains a key dimension of our Asian footprint and, in FY19, was increasingly valued as an alternative offshore manufacturing locale in the region amid U.S.-China trade tensions.

Again, in FY19, the operation's highly competitive labor costs supported a number of noteworthy new programs in the consumer sector for U.S.- and Europe-based market leaders who rank first and second largest in their categories.

Receiving high marks following a pair of quality/process audits, SII Vietnam launched a number of significant EMS programs for major customers begun in FY19 with production well into FY20. In FY19, the operation redesigned a decades-in-use legacy appliance control, a portable appliance subsector program, and added business in the smart-pet consumer category. Common to each, SII Vietnam responded with minimal lead times and met aggressive time-to-market goals that included a steep, ramp up and down demand in manufactured volumes. In FY20, the operation will continue to diversify beyond its highly valued core consumer market business and plans to expand technology that supports automation and quality.

### **SERVING CUSTOMERS FROM MULTIPLE STRENGTHS**

In the year ahead, and no matter the geopolitical challenges worldwide, we will continue a disciplined pursuit of EMS excellence in each facet of our business. Our customers deserve nothing less. SII will continue to leverage a quarter century of EMS expertise paired with flexible manufacturing solutions and exceptional customer support. With this strategy and the harmonized business strengths, sharpened processes in place, and proprietary IT and supply chain systems, we are well-positioned to capture new opportunities and achieve growth in the three diverse markets we serve.

I wish to thank our more than 3,000 employees for their hard work, commitment and ingenuity in providing EMS solutions that enable customers to excel in their markets. On their behalf, I also thank our customers, supply chain partners, professional firms and our Board of Directors for their ongoing support and confidence in SigmaTron.

Sincerely,

Gary R. Fairhead  
President and Chief Executive Officer  
**SigmaTron International, Inc.**  
August 16, 2019



**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, 2019.

Or

Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number 0-23248

**SIGMATRON INTERNATIONAL, INC.**  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction  
of incorporation or organization)

36-3918470  
(I.R.S. Employer  
Identification Number)

2201 Landmeier Rd., Elk Grove Village, IL  
(Address of principal executive offices)

60007  
(Zip Code)

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

<u>Title of each class</u>	<u>Trading Symbol</u>	<u>Name of each exchange on which registered</u>
Common Stock \$0.01 par value per share	<u>SGMA</u>	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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).  Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 and non-voting common equity held by non-affiliates of the registrant as of October 31, 2018, the last business day of the registrant’s most recently completed second fiscal quarter was \$15,870,189 based on the closing sale price of \$4.25 per share as reported by Nasdaq Capital Market as of such date.

The number of outstanding shares of the registrant’s Common Stock, \$0.01 par value, as of July 19, 2019 was 4,242,508.

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

Certain sections or portions of the definitive proxy statement of SigmaTron International, Inc., for use in connection with its 2019 annual meeting of stockholders, which the Company intends to file within 120 days of the fiscal year ended April 30, 2019, are incorporated by reference into Part III of this Form 10-K.



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## PART I

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### ITEM 1. BUSINESS

#### CAUTIONARY NOTE:

In addition to historical financial information, this discussion of the business of SigmaTron International, Inc. (“SigmaTron”), its wholly-owned subsidiaries Standard Components de Mexico S.A., AbleMex, S.A. de C.V., Digital Appliance Controls de Mexico, S.A. de C.V., Spitfire Controls (Vietnam) Co. Ltd., Spitfire Controls (Cayman) Co. Ltd., wholly-owned foreign enterprises Wujiang SigmaTron Electronics Co., Ltd. and SigmaTron Electronic Technology Co., Ltd. (collectively, “SigmaTron China”) and international procurement office SigmaTron Taiwan branch (collectively, the “Company”) and other Items in this 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, but not necessarily limited to, the Company’s continued dependence on certain significant customers; the continued market acceptance of products and services offered by the Company and its customers; pricing pressures from the Company’s customers, suppliers and the market; the activities of competitors, some of which may have greater financial or other resources than the Company; the variability of our operating results; the impairment of long-lived assets; the variability of our customers’ requirements; the availability and cost of necessary components and materials; the ability of the Company and our customers to keep current with technological changes within our industries; regulatory compliance, including conflict minerals; the continued availability and sufficiency of our credit arrangements; changes in U.S., Mexican, Chinese, Vietnamese or Taiwanese regulations affecting the Company’s business; the turmoil in the global economy and financial markets; the stability of the U.S., Mexican, Chinese, Vietnamese and Taiwanese economic, labor and political systems and conditions; the impact of tariffs; 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, 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

SigmaTron 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.

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) manufacturing and test engineering support; (4) design services; (5) warehousing and distribution services; and (6) assistance in obtaining product approval from governmental and other regulatory bodies. The Company provides these manufacturing services through an international network of facilities located in the United States, Mexico, China, Vietnam and Taiwan.

The Company 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 industrial electronics, consumer electronics and medical/life sciences. In some instances the Company manufactures the completed finished product for its customers.

The Company operates manufacturing facilities in Elk Grove Village, Illinois United States of America (“U.S.”); Union City, California U.S.; Acuna, Chihuahua and Tijuana, Mexico; Suzhou, China; and Ho Chi Minh City, Vietnam. In addition, the Company maintains an International Procurement Office (“IPO”) in Taipei, Taiwan. The Company also provides design services in Elgin, Illinois. The Company has an information technology office in Taichung, Taiwan.

The Company’s international footprint provides our customers with flexibility within the Company to manufacture in China, Mexico, Vietnam or the U.S. We believe this strategy will continue to serve the Company well as its customers continuously evaluate their supply chain strategies.

## **Products and Services**

The Company provides a broad range of electronic and electromechanical manufacturing related outsourcing solutions for its customers. These solutions incorporate the Company’s knowledge and expertise in the EMS industry to provide its customers with an international network of manufacturing facilities, advanced manufacturing technologies, complete supply chain management, responsive and flexible customer service, as well as product design, test and engineering support. The Company’s EMS solutions are available from inception of product concept through the ultimate delivery of a finished product. Such technologies and services include the following:

***Manufacturing and Testing Services:*** The Company’s core business is the assembly and testing of all types of electronic printed circuit board assemblies (“PCBA”) and often incorporating these PCBAs into electronic modules used in all types of devices and products that depend on electronics for their operation. This assembly work utilizes state of the art manufacturing and test equipment to deliver highly reliable products to the Company’s customers. The Company supports new product introduction (“NPI”), low volume / high mix as well as high volume/ low mix assembly work at all levels of complexity. Assembly services include pin-through-hole (“PTH”) components, surface mount (“SMT”) components, including ball grid array (“BGA”), part-on-part components, conformal coating, parylene coating and others. Test services include and are not limited to, in-circuit, automated optical inspection (“AOI”), functional, burn-in, hi-pot and boundary scan. From simple component assembly through the most complicated industry testing, the Company offers most of the services required to build electronic devices commercially available in the market today.

***Design Services:*** To complement the manufacturing services it offers its customers, the Company also offers design for manufacturing (“DFM”), and design for test (“DFT”) review services to help customers ensure that the products they have designed are optimized for production and testing. The Company also offers complete product design services.

***Supply Chain Management:*** The Company provides complete supply chain management for the procurement of components needed to build customers’ products. This includes the procurement and management of all types of electronic components and related mechanical parts such as plastics and metals. The Company’s resources supporting this activity are provided both on a plant specific basis as well as globally through its IPO in Taipei, Taiwan. Each of its sites is linked together using the same Enterprise Resource Planning (“ERP”) system and custom IScore software tools with real-time on-line visibility for customer access. The Company procures material from major manufacturers and distributors of electronic parts all over the world.

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. In the past twelve months the component marketplace has experienced shortages of various components, which in some cases has delayed delivery of product to customers. The loss of any such suppliers could have a material impact on the Company’s results of operations. Further, the Company could operate at a cost disadvantage compared to competitors who have greater direct

buying power from suppliers. The Company does not enter into long-term purchase agreements with major or single-source suppliers. The Company believes that short-term purchase orders with its suppliers provides flexibility, given that the Company’s orders are based on the changing needs of its customers.

**Warehousing and Distribution:** The Company provides both in-house and third party warehousing, shipping, and customs brokerage for border crossings as part of its service offering. This includes international shipping, drop shipments to the end customer, as well as, support of inventory optimization activities such as kanban and consignment.

**Green, Sustainability, and Social Responsible Initiatives:** The Company supports initiatives that promote sustainability, green environment and social responsibility. The Company requires its supply chain to meet all government imposed requirements in these areas and helps its customers in achieving effective compliance. Those include, but are not limited to, Restrictions of Hazardous Substances (“RoHS”), Restriction of Chemicals (“REACH”) and Conflict Minerals regulations.

**Manufacturing Location and Certifications:** The Company’s manufacturing and warehousing locations are strategically located to support our customers with locations in Elk Grove Village, Illinois U.S.; Union City, California U.S.; Acuna, Chihuahua and Tijuana, Mexico; Suzhou, China and Ho Chi Minh City, Vietnam. The Company’s ability to transition manufacturing to lower cost regions without jeopardizing flexibility and service, differentiates it from many competitors. Manufacturing certifications and registrations are location specific, and include ISO 9001:2015, ISO 14001:2015, IATF 16949:2009, Medical ISO 13485:2016 and FDB Certification, Aerospace AS9100D and International Traffic in Arms Regulations (“ITAR”) certifications.

## Markets and Customers

The Company’s customers are in the industrial electronics, consumer electronics and medical/life sciences industries. As of April 30, 2019, the Company had approximately 180 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>	<b>Percent of Net Sales</b>	
		<b>Fiscal 2019 %</b>	<b>Fiscal 2018 %</b>
Industrial Electronics	Health club equipment, gaming, controls, smart grid, IOT connectivity	55.2	54.8
Consumer Electronics	Appliances/white goods, automotive-vision systems, E-writers	39.6	40.4
Medical/Life Sciences	Operating tables, battery packs, dental equipment, sterilizers	5.2	4.8
Total		<u>100%</u>	<u>100%</u>

For the fiscal year ended April 30, 2019, the Company’s largest two customers, Whirlpool Inc. and Electrolux, accounted for 15.9% and 15.8%, respectively, of the Company’s net sales. For the fiscal year ended April 30, 2018, Electrolux and Whirlpool Inc., accounted for 20.2% and 13.3%, respectively, of the Company’s net sales. The Company believes that Electrolux and Whirlpool will continue to account for a significant percentage of the Company’s net sales, although the percentage of net sales may vary from period to period.

## **Sales and Marketing**

Many of the members of the Company's senior management are actively involved in sales and marketing efforts, and the Company has four direct sales employees. The Company markets its services through five independent manufacturers' representative organizations that together currently employ 15 sales personnel in the United States and Canada. Independent manufacturers' representatives' organizations receive variable commissions based on orders received by the Company and are assigned specific accounts, not territories. In addition, the Company markets itself through its website and tradeshows.

## **Mexico, Vietnam 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 806 employees at April 30, 2019. 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 364 employees at April 30, 2019. The Company's wholly-owned subsidiary, Digital Appliance Controls de Mexico S.A., a Mexican corporation, operates in Chihuahua, Mexico, located approximately 235 miles from El Paso, Texas. Digital Appliance Controls de Mexico S.A. was incorporated and commenced operations in 1997. The operation had 513 employees at April 30, 2019. 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 enterprises, Wujiang SigmaTron Electronics Co., Ltd. and SigmaTron Electronic Technology Co., Ltd., are located in Suzhou, 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. In fiscal year 2015, the China facility expanded and added 40,000 square feet in warehouse and manufacturing. The total square footage of the facility is 202,000 and the operation had 505 employees as of April 30, 2019. Both SigmaTron China entities operate at this site.

The Company's wholly-owned subsidiary, Spitfire Controls (Vietnam) Co. Ltd. is located in Amata Industrial Park, Bien Hoa City, Dong Nai Province, Vietnam, and is 18 miles east of Ho Chi Minh City. Spitfire Controls (Vietnam) Co. Ltd. was incorporated and commenced operation in 2005 and had 392 employees as of April 30, 2019.

The Company provides funds for salaries, wages, overhead and capital expenditure items as necessary to operate its wholly-owned Mexican, Vietnamese and Chinese subsidiaries and foreign enterprises and the Taiwan IPO. The Company provides funding in U.S. Dollars, which are exchanged for Pesos, Dong, Renminbi, and New Taiwan dollars. The fluctuation of currencies from time to time, without an equal or greater increase in inflation, could have a material impact on the financial results of the Company. The impact of currency fluctuations for the fiscal year ended April 30, 2019, resulted in net foreign currency transaction losses of approximately \$433,742 compared to net foreign currency gains of \$125,000 in the prior year. In fiscal year 2019, the Company paid approximately \$53,090,000 to its foreign subsidiaries.

The consolidated financial statements as of April 30, 2019, include the accounts and transactions of SigmaTron, its wholly-owned subsidiaries, Standard Components de Mexico, S.A., AbleMex S.A. de C.V., Digital Appliance Controls de Mexico, S.A. de C.V., Spitfire Controls (Vietnam) Co. Ltd., Spitfire Controls (Cayman) Co. Ltd., wholly-owned foreign enterprises Wujiang SigmaTron Electronics Co., Ltd. and SigmaTron Electronic Technology Co., Ltd., and international procurement office, SigmaTron Taiwan Branch. The functional currency of the Company's foreign subsidiaries operations 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 compete on 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 these types of or 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 government, U.S. federal, state and local regulatory requirements relating to, among others, environmental, waste management, labor and health and safety matters. Management believes that the Company's business is operated in compliance with all such regulations, which include European regulations known as RoHS and REACH. RoHS prohibits the use of lead, mercury and certain other specified substances in products being sold into the European Union. The Company has RoHS-dedicated manufacturing capabilities at all of its manufacturing operations. REACH imposes information reporting requirements on all listed SVHCs (substances of very high concern). From time-to-time the Company's customers request REACH required information and certifications on the assemblies the Company manufactures for them. These requests require the Company to gather information from component suppliers to verify the presence and level of mass of any SVHCs greater than 0.1% in the assemblies the Company manufactures based on customer specifications. If any SVHCs are present at more than 0.1% of the mass of the item, the specific concentration and mass of the SVHC must be reported to proper authorities by the Company's customer.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") introduced reporting requirements for verification of whether the Company directly (or indirectly through suppliers of components) is purchasing the minerals or metals gold, columbite-tantalite, cassiterite, wolframite and their derivatives (tin, tungsten, and tantalum), that are being provided by sources in the conflict region of the Democratic Republic of Congo ("DRC"). Consistent with recent prior years, in May 2019, the Company filed Form SD with the Securities and Exchange Commission stating the Company's supply chain remains DRC conflict undeterminable.

The Company's costs of compliance with environmental laws, including conflict mineral reporting, is estimated to be a total of approximately \$1,600,000 for the three most recently completed fiscal years ending April 30, 2019. Additional or modified requirements may be imposed in the future. If such additional or modified requirements are imposed, or if conditions requiring remediation are found to exist, the Company may be required to incur additional expenditures.

## **Backlog**

The Company relies on forecasted orders and purchase orders (firm orders) from its customers to estimate backlog. The Company's backlog of firm orders as of April 30, 2019, and April 30, 2018, was approximately \$269,660,000 and \$219,100,000, respectively. The Company believes a significant portion of the backlog at April 30, 2019, will ship in fiscal year 2020. Because customers may cancel or reschedule deliveries, backlog may not be a meaningful indicator of future revenue. 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.

### **Employees**

The Company employed approximately 3,106 full-time employees as of April 30, 2019, including 208 engaged in engineering or engineering-related services, 2,510 in manufacturing and 388 in administrative and marketing functions.

The Company has a labor contract with Chemical & Production Workers Union Local No. 30, AFL-CIO, covering the Company's workers in Elk Grove Village, Illinois which expires on November 30, 2021. 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 February 3, 2020. 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. The Company's subsidiary located in Ho Chi Minh City, Vietnam, has a labor contract with CONG DOAN CO SO CONG TY TNHH Spitfire Controls Vietnam. The contract expires on February 5, 2020.

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

### **Available Information**

The Company's website address is [www.sigmatronintl.com](http://www.sigmatronintl.com). The Company announces material information, including press releases, analyst presentations and financial information regarding the Company, through a variety of means, including the Company's website, the Investors subpage of its website ([www.sigmatronintl.com/investors/](http://www.sigmatronintl.com/investors/)), press releases, filings with the SEC, public conference calls and social media, in order to achieve broad, non-exclusionary distribution of information to the public. The Investors subpage is accessible by clicking on the tab labeled "Investors" on the Company's website home page. The Company also uses these channels to expedite public access to time-critical information regarding the Company in advance of or in lieu of distributing a press release or a filing with the SEC disclosing the same information. Therefore, investors should look to these channels for important and time-critical information. In addition, the Company is subject to the informational requirements of the Exchange Act and files or furnishes reports, proxy statements, and other information with the SEC. Such reports and other information filed by the Company with the SEC are available free of charge on its website when such reports are simultaneously available on the SEC's website at <http://www.sec.gov>. The Company encourages investors, the media and others interested in the Company to review the information it posts on these various channels, as such information could be deemed to be material information.

The contents of the websites referred to above are not incorporated into this filing. Further, the Company's references to the URLs for these websites are intended to be inactive textual references only.

## Information about our Executive Officers

<u>Name</u>	<u>Age</u>	<u>Position</u>
Gary R. Fairhead	67	President, Chief Executive Officer and Chairman of the Board of Directors. Gary R. Fairhead has been the President of the Company and a director since January 1990 and Chairman of the Board of Directors of the Company since August 2011. Gary R. Fairhead is the brother of Gregory A. Fairhead.
Linda K. Frauendorfer	58	Chief Financial Officer, Vice President of Finance, Treasurer and Secretary since February 1994. Director of the Company since August 2011.
Gregory A. Fairhead	63	Executive Vice President and Assistant Secretary. Gregory A. Fairhead has been the 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	58	Vice President, Director of Supply Chain and Assistant Secretary since February 1994.
Daniel P. Camp	70	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	64	Executive Vice President, West Coast Operations since 2005. Mr. Upadhyaya was the Vice President of the Fremont Operations from 2001 until 2005.
Hom-Ming Chang	59	Vice President, China Operations since 2007. Vice President - Hayward Materials / Test / IT from 2005 - 2007. Vice President of Engineering Fremont Operation from 2001 to 2005.
James E. Barnes	37	Executive Vice President, Acuna and Elk Grove Village Operations since 2018. Vice President of Operations from 2014 to 2018. Director of Operations from 2011 to 2014. Senior Program Manager from 2010 to 2011. Program Manager from 2005 to 2010. Inventory Analyst from 2004 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.



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

On March 31, 2017, the Company entered into a \$35,000,000 senior secured credit facility with U.S. Bank, which expires on March 31, 2022. The credit facility is collateralized by substantially all of the Company's domestically located assets. The facility allows the Company to choose among interest rates at which it may borrow funds: the bank fixed rate of five percent or LIBOR plus one and one half percent (effectively 4.09% at April 30, 2019). Interest is due monthly. Under the senior secured credit facility, the Company may borrow up to the lesser of (i) \$35,000,000 or (ii) an amount equal to a percentage of the eligible accounts receivable plus a percentage of the eligible inventory (the "Borrowing Base").

On July 16, 2018, the Company and U.S. Bank entered into an amendment of the revolving line of credit under the senior secured credit facility. The amended revolving credit facility allows the Company to borrow up to the lesser of (i) \$45,000,000 (the "Revolving Line Cap") less reserves or (ii) the Borrowing Base, but no more than 90% of the Company's Revolving Line Cap, except that the 90% limitation will expire if the Company's actual revolving loans for 90 consecutive days after the amendment's effective date are less than 80% of the Company's Borrowing Base and the Company maintains a Fixed Charge Coverage Ratio of 1.2 to 1.0 for four consecutive quarters. The amendment also imposes sublimits on categories of inventory equal to \$10,500,000 on raw materials, \$10,000,000 on finished goods and \$28,000,000 on all eligible inventory.

On December 13, 2018, the Company and U.S. Bank entered into an amendment of the revolving credit facility. The amendment provides an exception to otherwise ineligible foreign receivables for up to \$3,000,000 of receivables paid by certain enumerated account debtors outside of the U.S. and Canada.

On March 22, 2019, the Company and U.S. Bank entered into an amendment of the revolving credit facility. The amendment allows the Company to borrow up to the lesser of (i) the Revolving Line Cap less reserves or (ii) the Borrowing Base, but no more than 95% of the Company's Revolving Line Cap until August 1, 2019 and 90% on and after August 1, 2019. As of April 30, 2019, there was \$35,727,212 outstanding and \$6,645,730 of unused availability under the U.S. Bank facility compared to an outstanding balance of \$29,279,631 and \$5,720,369 of unused availability at April 30, 2018. At April 30, 2019, the Company was in compliance with its financial covenant and other restrictive covenants under the credit facility. Deferred financing costs of \$75,083 were capitalized during the fiscal year ended April 30, 2019, which are amortized over the term of the agreement. As of April 30, 2019, and April 30, 2018, the unamortized amount offset against outstanding debt was \$209,162 and \$192,502, respectively.

On March 15, 2019, the Company's wholly-owned subsidiary, SigmaTron Electronic Technology Co., Ltd., entered into a credit facility with China Construction Bank. Under the agreement SigmaTron Electronic Technology Co., Ltd. can borrow up to 5,000,000 Renminbi, approximately \$743,000 as of April 30, 2019, and the facility is collateralized by Wujiang SigmaTron Electronics Co., Ltd.'s manufacturing building. Interest is payable monthly and the facility bears a fixed interest rate of 6.09%. The term of the facility extends to March 14, 2024. There was no outstanding balance under the facility at April 30, 2019.

The Company is in compliance with its financial covenant and other restrictive covenants and anticipates that its credit facilities, expected future cash flows from operations and leasing resources are adequate to meet its working capital requirements, and fund capital expenditures for the next 12 months. In addition, if customers delay orders, future payments are not made timely, the Company desires to expand its operations, its business grows more rapidly than expected, or the current economic climate deteriorates, additional financing resources may be necessary. There is no assurance that the Company will be able to obtain equity or debt financing at acceptable terms, or at all, in the future. There is no assurance that the Company will be able to retain or renew its credit agreements in the future, or that any retention or renewal will be on the same terms as currently exist.

***Adverse changes in the economy or political conditions 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 international economic and political environments could result in a decline in demand for our customers' products in any industry. Further, any adverse changes in tax rates and laws or trade

policies affecting our customers could result in decreasing gross margins. Any of these factors could negatively impact the Company's business, results of operations and financial condition.

***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 rising component costs
- 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 in the U.S. and international economic and financial markets

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

Sales to the Company's five largest customers accounted for 49.7% and 50.2% of net sales for the fiscal years ended April 30, 2019, and April 30, 2018, respectively. For the fiscal year ended April 30, 2019, two customers accounted for 15.9% and 15.8% of net sales of the Company, and 3.9% and 11.5%, respectively, of accounts receivable. For the fiscal year ended April 30, 2018, two customers accounted for 20.2% and 13.3% of net sales of the Company and 6.0% and 2.9%, respectively, of accounts receivable. Significant reductions 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 cancelled 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 largest customers. This risk may be further complicated by pricing pressures and intense competition prevalent in our industry.

If any of the Company's customers have financial difficulties, the Company could encounter delays or defaults in the payment of amounts owed for accounts receivable and inventory obligations. This could have a significant adverse impact on the Company's results of operations and financial condition.

***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 the Company's manufacturing facilities and 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 consolidation 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, thereby adversely affecting the Company's results of operations in any given period.

***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 our 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.

***Our customers have competitive challenges, including rapid technological changes, pricing pressure and decreasing demand from their customers, which could adversely affect their business and the Company's.***

Factors affecting the industries that utilize our customers' products could negatively impact our customers and the Company. These factors include:

- increased competition among our customers and their competitors
- the inability of our customers to develop and market their products
- recessionary periods in our customers' markets
- the potential that our customers' products become obsolete
- our customers' inability to react to rapidly changing technology

Any such factor or a combination of factors could negatively impact our customers' need for or ability to pay for our products, which could, in turn, affect the Company's results of operations.

***Adverse market conditions could reduce our future sales and earnings per share.***

Uncertainty over the erosion of global consumer confidence amidst concerns about volatile energy costs, geopolitical issues, the availability and cost of credit, declining asset values, inflation, rising unemployment, and the stability and solvency of financial institutions, financial markets, businesses, and sovereign nations has slowed global economic growth and resulted in recessions in many countries, including in the United States, Europe and certain countries in Asia over the past several years. The economic recovery of recent years is fragile and recessionary conditions may return. Any of these potential negative economic conditions may reduce demand for the Company's customers' products and adversely affect the Company's sales. Consequently, the Company's past operating results, earnings and cash flows may not be indicative of the Company's future operating results, earnings and cash flows.

***Customer relationships with start-up companies present more risk.***

A small portion of the Company's current customer base is comprised of start-up companies. Customer relationships with start-up companies may present heightened risk due to the lack of product history. Slow market acceptance of their products could result in demand fluctuations causing inventory levels to rise. Further, the current economic environment could make it difficult for such emerging companies to obtain additional funding. This may result in additional credit risk including, but not limited to, the collection of trade account receivables and payment for their inventory. If the Company does not have adequate allowances recorded, the results of operations may be negatively affected.

***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 greater experience, as well as greater manufacturing, purchasing, marketing and financial resources than the Company. Competition from existing or potential new competitors may 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.***

The Company has substantial manufacturing operations in multiple countries. Therefore, the Company's foreign businesses and results of operations are dependent upon numerous related factors, including the stability of the foreign economies, the political climate, relations with the United States, prevailing worker wages, the legal authority of the Company to operate and expand its business in a foreign country, and the ability to identify, hire, train and retain qualified personnel and operating management in Mexico, China and Vietnam.

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

Approximately 13.0% and 14.0% of the total non-current consolidated assets of the Company are located in foreign jurisdictions outside the United States as of April 30, 2019 and 2018, respectively.

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

The Company's disclosure controls and internal 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. Therefore, the Company's management, including the Chief Executive Officer and Chief Financial Officer, cannot conclude with certainty that the Company's disclosure controls and internal controls will prevent all errors and all fraud.

***Inadequate internal control over financial reporting could result in a reduction in the value of our common stock.***

If the Company identifies and reports a material weakness in its internal control 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.

***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 material impact on the Company's results of operations and performance. The impact of currency fluctuations for the fiscal year ended April 30, 2019, resulted in net foreign currency transaction losses of \$433,742 compared to net foreign currency gain of approximately \$125,000 in the prior year. These fluctuations are expected to continue and could have a negative impact on the Company's results of operations. The Company did not, and is not expected to, utilize derivatives or hedge foreign currencies to reduce the risk of such fluctuations.

***The availability of raw components or an increase in their price may affect the Company's operations and profits.***

The Company relies on numerous third-party suppliers for components used in the Company's production process. Certain of these components are available only from single-sources or a limited number of suppliers. In addition, a customer's specifications may require the Company to obtain components from a single-source or a small number of suppliers. The loss of any such suppliers could have a material impact on the Company's results of operations. Further, the Company could operate at a cost disadvantage compared to competitors who have greater buying power from suppliers. The Company does not enter into long-term purchase agreements with major or single-source suppliers, but the Company frequently places cancellable scheduled purchase orders with suppliers that extend out as far as one year. The current component market place remains volatile. During the last two quarters of fiscal year 2019, lead times were generally shortened but lead times for certain select

components can still exceed 24 to 36 weeks. The Company's orders for components are always based on the changing needs of its customers.

***The Company depends on management and skilled personnel.***

The Company depends significantly on its President/CEO and other executive officers. The Company's employees generally are not bound by employment agreements and the Company cannot assure that it will retain its executive officers or skilled personnel. 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 the Company attract, motivate and retain additional skilled and experienced personnel. The Company's future growth depends on the contributions and abilities of key executives and skilled, experienced employees. The Company's future growth also depends on its ability to recruit and retain high-quality employees. A failure to obtain or retain the number of skilled employees necessary to support the Company's efforts, a loss of key employees or a significant shortage of skilled, experienced employees could jeopardize its ability to meet its growth targets.

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

The Company currently has labor union contracts with its employees constituting approximately 48% of its workforce for fiscal years 2019 and 2018. 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.

***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.

***Conflict minerals regulations may cause the Company to incur additional expenses and could increase the cost of components contained in its products and adversely affect its inventory supply chain.***

The Dodd-Frank Act, and the rules promulgated by the Securities and Exchange Commission ("SEC") thereunder, require the Company to determine and report annually whether any conflict minerals contained in our products originated from the DRC or an adjoining country. The Dodd-Frank Act and these rules could affect our ability to source components that contain conflict minerals at acceptable prices and could impact the availability of conflict minerals, since there may be only a limited number of suppliers of conflict-free conflict minerals. Our customers may require that our products contain only conflict-free conflict minerals, and our revenues and margins may be negatively impacted if we are unable to meet this requirement at a reasonable price or are unable to pass through any increased costs associated with meeting this requirement. Additionally, the Company may suffer reputational harm with our customers and other stakeholders if our products are not conflict-free. The Company could incur significant costs in the event we are unable to manufacture products that contain only conflict-free conflict minerals or to the extent that we are required to make changes to products, processes, or sources of supply due to the foregoing requirements or pressures.

***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.

***Changes in securities laws and regulations may increase costs.***

The Sarbanes-Oxley Act of 2002, as well as rules subsequently implemented by the SEC and listing requirements subsequently adopted by Nasdaq in response to Sarbanes-Oxley, have required changes in corporate governance practices, internal control policies and securities disclosure and compliance practices of public companies. More recently the Dodd-Frank Act requires changes to our corporate governance, compliance practices and securities disclosures. Compliance following the implementation of these rules has increased our legal, financial and accounting costs. The Company expects increased costs related to these new regulations to continue, including, but not limited to, legal, financial and accounting costs. These developments may result in the Company having difficulty in attracting and retaining qualified members of the board or qualified officers. Further, the costs associated with the compliance with and implementation of procedures under these laws and related rules could have a material impact on the Company's results of operations.

***Any litigation, even where a claim is without merit, could result in substantial costs and diversion of resources.***

In the past, the Company has been notified of claims relating to various matters including intellectual property rights, contractual matters, labor issues or other matters arising in the ordinary course of business. In the event of any such claim, the Company may be required to spend a significant amount of money and resources, even where the claim is without merit. Accordingly, the resolution of such disputes, even those encountered in the ordinary course of business, could have a material adverse effect on the Company's business, consolidated financial conditions and results of operations.

***If the security of the Company's systems is breached or otherwise subjected to unauthorized access, the Company's reputation may be severely harmed and it may be exposed to liability.***

The Company's system stores confidential information which includes its financial information, its customers' proprietary email distribution lists, product information, supplier information, and other critical data. Any accidental or willful security breach or other unauthorized access could expose the Company to liability for the loss of such information, adverse regulatory action by federal and state governments, time-consuming and expensive litigation and other possible liabilities as well as negative publicity, which could severely damage the Company's reputation. If security measures are breached because of third-party action, employee error, malfeasance or otherwise, or if design flaws in its software are exposed and exploited, and, as a result, a third party obtains unauthorized access to any of the Company's customer data, its relationships with its customers may be severely damaged, and the Company could incur significant liability. Because techniques used to obtain unauthorized access or to sabotage systems change frequently and generally are not recognized until they are launched against a target, the Company and its third-party hosting facilities may be unable to anticipate these techniques or to implement adequate preventive measures. In addition, many states have enacted laws requiring companies to notify customers of data security breaches involving their data. These mandatory disclosures regarding a security breach often lead to widespread negative publicity, which may cause the Company's customers to lose confidence in the effectiveness of its data security measures. Any security breach whether



actual or perceived, could harm the Company's reputation, could cause it to lose customers and may negatively impact its ability to acquire new customers.

With the increased use of technologies such as the Internet to conduct business, a company is susceptible to operational, information security and related risks. In general, cyber incidents can result from deliberate attacks or unintentional events. Cyberattacks include, but are not limited to, gaining unauthorized access to digital systems (e.g., through "hacking" or malicious software coding) for purposes of misappropriating assets or sensitive information, corrupting data, or causing operational disruption (e.g., ransomware attacks). Cyberattacks may also be carried out in a manner that does not require gaining unauthorized access, such as causing denial-of-service attacks on websites (i.e., efforts to make network services unavailable to intended users). Cyber incidents affecting the Company or its service providers have the ability to cause disruptions and impact business operations, potentially resulting in financial losses, interference with the Company's ability to conduct business in the ordinary course, violations of applicable privacy and other laws, regulatory fines, penalties, reputational damage, reimbursement or other compensation costs, additional compliance costs and, in extreme cases, have caused companies to cease doing business. Cyber events also can affect counterparties or entities with which the Company does business, governmental and other regulatory authorities, banks, insurance companies and other financial institutions, among others. In addition, substantial costs may be incurred in order to prevent any cyber incidents in the future. While the Company has established risk management systems to prevent such cyber incidents, there are inherent limitations in such systems including the possibility that the Company has not prepared for certain risks that have not been or are not possible to have been identified. Further, the Company may be able to influence, but cannot control, the cyber security plans and systems put in place by its service providers or any other third parties whose operations may affect the Company. The Company could be negatively impacted as a result.

***Changes in U.S. trade policy, including the imposition of tariffs and the resulting consequences, may have a material adverse impact on our business and results of operations.***

The U.S. government has indicated its intent to adopt a new approach to trade policy and in some cases to renegotiate, or potentially terminate, certain existing bilateral or multi-lateral trade agreements. It has also initiated tariffs on certain foreign goods, including steel and aluminum and other raw materials utilized by the Company. Changes in U.S. trade policy could result in one or more of the U.S.' trading partners adopting responsive trade policy making it more difficult or costly for the Company to import our products from those countries. This in turn could require us to increase prices to our customers which may reduce demand, or, if we are unable to increase prices, result in a lower margin on products sold.

China and the European Union have imposed tariffs on U.S. products in retaliation for new U.S. tariffs. Additional tariffs could be imposed by China and the European Union in response to proposed increased tariffs on products imported from China and the European Union. There is also a concern that the imposition of additional tariffs by the United States could result in the adoption of additional tariffs by other countries. The resulting trade war could have a significant adverse effect on world trade and the world economy. To the extent that trade tariffs and other restrictions imposed by the United States increase the price of, or limit the amount of steel, aluminum and other raw materials utilized by the Company imported into the United States, the costs of our raw materials may be adversely affected and the demand from our customers for products and services may be diminished, which could adversely affect our revenues and profitability.

We cannot predict future trade policy or the terms of any renegotiated trade agreements and their impact on our business. The adoption and expansion of trade restrictions, the occurrence of a trade war, or other governmental action related to tariffs or trade agreements or policies has the potential to adversely impact demand for our products, our costs, our customers, our suppliers, and the U.S. economy, which in turn could adversely impact our business, financial condition and results of operations.

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

None.

## ITEM 2. PROPERTIES

At April 30, 2019, the Company, operating in one business segment as an independent EMS provider, had manufacturing facilities located in Elk Grove Village, Illinois U.S., Union City, California U.S., Acuna, Chihuahua and Tijuana, Mexico, Ho Chi Minh City, Vietnam and Suzhou, China. In addition, the Company provides materials procurement services through its Elk Grove Village, Illinois U.S., Union City, California U.S, and Taipei, Taiwan offices. The Company provides design services in Elgin, Illinois U.S. The Company has an information technology office in Taichung, Taiwan.

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

Location	Square Feet	Services Offered	Owned/Leased
Suzhou, China	202,000	Electronic and electromechanical manufacturing solutions	* ***
Elk Grove Village, IL	124,300	Corporate headquarters and electronic and electromechanical manufacturing solutions	Owned
Union City, CA	117,000	Electronic and electromechanical manufacturing solutions	Leased
Acuna, Mexico	115,000	Electronic and electromechanical manufacturing solutions	Owned **
Chihuahua, Mexico	113,000	Electronic and electromechanical manufacturing solutions	Leased
Tijuana, Mexico	112,100	Electronic and electromechanical manufacturing solutions	Leased
Ho Chi Minh City, Vietnam	24,475	Electronic and electromechanical manufacturing solutions	Leased
Del Rio, TX	44,000	Warehousing and distribution	Leased
Taipei, Taiwan	4,685	International procurement office	Leased
Taichung, Taiwan	1,650	Information technology office	Leased
Elgin, IL	45,000	Design services	Owned
San Diego, CA	30,240	Warehousing and distribution	Leased

\*The Company's Suzhou, 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 and the Company has an option to purchase it.

\*\*\*Total square footage includes 70,000 square feet of dormitories.

The Union City and San Diego, California, Tijuana and Chihuahua, Mexico, Ho Chi Minh City, Vietnam and Del Rio, Texas properties are occupied pursuant to leases of the premises. The lease agreements for the Del Rio, Texas properties expire December 2019. The lease agreement for the San Diego, California property expires August 2019. The lease agreement for the Union City, California property expires March 2021. The Chihuahua, Mexico lease expires July 2021. The Tijuana, Mexico lease expires November 2023. The lease agreement for the Ho Chi Minh City, Vietnam property expires July 2020. The Company's manufacturing facilities located in Acuna, Mexico, Elgin, Illinois and Elk Grove Village, Illinois are owned by the Company, except for a portion of the facility in Acuna, Mexico, which is leased. The Company has an option to buy the leased portion of the facility in Acuna, Mexico. The properties in Elk Grove Village, Illinois and Elgin, Illinois are financed under separate mortgage loan agreements. The Company leases the IPO office in Taipei, Taiwan to coordinate Far East purchasing activities. The Company leases the information technology office in Taichung, Taiwan. 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**

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. MINE SAFETY DISCLOSURES**

Not applicable.

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## **PART II**

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### **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.

As of July 19, 2019, there were approximately 36 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 1,476 beneficial owners of the Company's common stock.

## **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” as well as the Company’s audited financial statements and notes thereto, including Note N, filed herewith and all such information is incorporated herein by reference.

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

As a smaller reporting company, as defined in Rule 10(f)(1) of Regulation S-K under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), the Company is 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 business of SigmaTron International, Inc. (“SigmaTron”), its wholly-owned subsidiaries Standard Components de Mexico S.A., AbleMex, S.A. de C.V., Digital Appliance Controls de Mexico, S.A. de C.V., Spitfire Controls (Vietnam) Co. Ltd., Spitfire Controls (Cayman) Co. Ltd., wholly-owned foreign enterprises Wujiang SigmaTron Electronics Co., Ltd. and SigmaTron Electronic Technology Co., Ltd. (collectively, “SigmaTron China”) and international procurement office SigmaTron Taiwan branch (collectively, the “Company”) and other Items in this 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, but not necessarily limited to, the Company’s continued dependence on certain significant customers; the continued market acceptance of products and services offered by the Company and its customers; pricing pressures from the Company’s customers, suppliers and the market; the activities of competitors, some of which may have greater financial or other resources than the Company; the variability of our operating results; the impairment of long-lived assets; the variability of our customers’ requirements; the availability and cost of necessary components and materials; the ability of the Company and our customers to keep current with technological changes within our industries; regulatory compliance, including conflict minerals; the continued availability and sufficiency of our credit arrangements; changes in U.S., Mexican, Chinese, Vietnamese or Taiwanese regulations affecting the Company’s business; the turmoil in the global economy and financial markets; the stability of the U.S., Mexican, Chinese, Vietnamese and Taiwanese economic, labor and political systems and conditions; the impacts of tariffs; 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, 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 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) manufacturing and test engineering support; (4) design services; (5) warehousing and distribution services; and (6) assistance in obtaining product approval from governmental and other regulatory bodies. The Company provides these manufacturing services through an international network of facilities located in the United States, Mexico, China, Vietnam and Taiwan.



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

Sales can be a misleading indicator of the Company's financial performance. Sales levels can vary considerably among customers and products depending on the type of services (turnkey versus consignment) rendered by the Company and the demand by customers. Consignment orders require the Company to perform manufacturing services on components and other materials supplied by a customer, and the Company charges only for its labor, overhead and manufacturing costs, plus a profit. In the case of turnkey orders, the Company provides, in addition to manufacturing services, the components and other materials used in assembly. Turnkey contracts, in general, have a higher dollar volume of sales for each given assembly, owing to inclusion of the cost of components and other materials in net sales and cost of goods sold. Variations in the number of turnkey orders compared to consignment orders can lead to significant fluctuations in the Company's revenue and gross margin levels. Consignment orders accounted for less than 1% of the Company's revenues for each of the fiscal years ended April 30, 2019 and April 30, 2018.

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

As the Company enters fiscal 2020, uncertainty remains pervasive in the market. The trade war with China weighs heavily on the Company's operations. Customers are continuing to re-evaluate their supply chains and the uncertainty regarding trade policy remains a difficult variable to manage. The Company has seen the electronic component marketplace calm down modestly. The primary change is a shortening of lead-time for some components, which assists in lowering inventory and reacting more efficiently to the volatility of customer demand requirements.

The Company believes it is heading into fiscal year 2020 with a solid plan and some appealing new opportunities ahead of it. Current customers are launching new programs and several new customers are starting to ramp production. However, the labor markets remain tight. The Company's focus will remain on reducing inventory levels and increasing cash flows as the trade volatility remains. The Company is optimistic regarding the fiscal year ahead of it and if the trade wars are resolved, it would appear that there is some additional upside available for fiscal year 2020.

#### **Critical Accounting Policies:**

*Management Estimates and Uncertainties* - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and 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, lower of cost or market adjustment for inventory, contingent consideration, deferred taxes, uncertain tax positions, valuation allowance for deferred taxes and valuation of goodwill and long-lived assets. Actual results could materially differ from these estimates.

*Revenue Recognition* - The Company recognizes revenue when control of the promised goods or services are transferred to its customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. The Company's primary performance obligation to its customers is the production of finished goods electronic assembly products pursuant to purchase orders. The Company has

concluded that control of the products it sells and transfers to its customers and an enforceable right to receive payment is customarily established at the point in time when the finished goods are shipped to its customers, or in some cases delivered pursuant to the specified shipping terms of each customer arrangement. With respect to consignment arrangements, control transfers and revenue is recognized at the point in time when the goods are shipped to the customer from the consignment location or when delivered to the customer (pursuant to agreed upon shipping terms). In those limited instances where finished goods delivered to the customer location are stored in a segregated area which are not controlled by the customer (title transfer, etc.) until they are pulled from the segregated area and consumed by the Company's customer, revenue is recognized upon consumption. For tooling services, the Company's performance obligation is satisfied at the point in time when the customer takes possession of dies or molds. For engineering, design, and testing services, the Company's performance obligations are satisfied over time as the respective services are rendered as its customers simultaneously derive value from the Company's performance. From the time that a customer purchase order is received and contract is established, the Company's performance obligations are typically fulfilled within a few weeks. The Company does not have any performance obligations that require more than one year to fulfill.

Each customer purchase order sets forth the transaction price for the products and services purchased under that arrangement. The Company evaluates the credit worthiness of its customers and exercises judgment to recognize revenue based upon the amount the Company expects to be paid for each sales transaction it enters into with its customers. Some customer arrangements include variable consideration, such as volume rebates, some of which depend upon the Company's customers meeting specified performance criteria, such as a purchasing level over a period of time. The Company exercises judgment to estimate the most likely amount of variable consideration at each reporting date.

*Inventories* - Inventories are valued at cost. Cost is determined by an average cost method and the Company allocates labor and overhead to work-in-process and finished goods. In the event of an inventory write-down, the Company records expense to state the inventory at lower of cost or net realizable value. 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. 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. For convenience, the Company records these inventory reserves against the inventory cost through a contra asset rather than through a new cost basis. Upon a subsequent sale or disposal of the impaired inventory, the corresponding reserve is relieved to ensure the cost basis of the inventory reflects any reductions. Actual results differing from these estimates could significantly affect the Company's inventories and cost of products sold as the inventory is sold or otherwise relieved.

*Intangible Assets* - Intangible assets are comprised of finite life intangible assets including patents, trade names, backlog, non-compete agreements, and customer relationships. Finite life intangible assets are amortized on a straight line basis over their estimated useful lives of 5 years for patents, 20 years for trade names, 1 year for backlog and 7 years for non-compete agreements except for customer relationships which are amortized on an accelerated basis over their estimated useful life of 15 years.

*Impairment of Long-Lived Assets* - The Company reviews long-lived assets, including amortizable intangible assets, for impairment. Property, machinery and equipment and finite life intangible assets are reviewed whenever events or changes in circumstances occur that indicate possible impairment. If events or changes in circumstances occur that indicate possible impairment, the Company first performs an impairment review based on an undiscounted cash flow analysis at the lowest level at which cash flows of the long-lived assets are largely independent of other groups of its assets and liabilities. This analysis requires management judgment with respect to changes in technology, the continued success of product lines, and future volume, revenue and expense growth rates. If the carrying value exceeds the undiscounted cash flows, the Company records an impairment, if any, for the difference between the estimated fair value of the asset group and its carrying value. The Company further conducts annual reviews for idle and underutilized equipment, and reviews business plans for possible impairment. In the fourth quarter of fiscal year 2018, the Company determined that the carrying value of the trade name intangible asset was not recoverable and recorded a fourth quarter charge of \$690,107 for the entire carrying amount. The Company's analysis for fiscal year 2019 did not indicate that any of its other long-lived assets were impaired.

*Income Tax* - The Company's income tax expense, deferred tax assets and liabilities and reserves for unrecognized tax benefits reflect management's best assessment of estimated future taxes to be paid. The Company is subject to income taxes in both the U.S. and several foreign jurisdictions. Significant judgments and estimates by management are required in determining the consolidated income tax expense assessment.

Deferred income tax assets and liabilities are determined based on differences between financial reporting and tax basis of assets and liabilities, and are measured using the enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse. In evaluating the Company's ability to recover its deferred tax assets within the jurisdiction from which they arise, the Company considers all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent financial operations. In projecting future taxable income, the Company begins with historical results and changes in accounting policies, and incorporates assumptions including the amount of future state, federal and foreign pre-tax operating income, the reversal of temporary differences, and the implementation of feasible and prudent tax planning strategies. These assumptions require significant judgment and estimates by management about the forecasts of future taxable income and are consistent with the plans and estimates the Company uses to manage the underlying businesses. In evaluating the objective evidence that historical results provide, the Company considers three years of cumulative operating income and/or loss. Valuation allowances are established when necessary to reduce deferred income tax assets to an amount more likely than not to be realized. The Company's valuation allowance was \$1,294,605 and \$78,100 as of April 30, 2019 and April 30, 2018, respectively.

The calculation of the Company's tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in a multitude of jurisdictions across its global operations. Changes in tax laws and rates could also affect recorded deferred tax assets and liabilities in the future. Except as noted below, management is not aware of any such changes that would have a material effect on the Company's results of operations, cash flows or financial position.

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

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

*Reclassifications* - Certain reclassifications have been made to the previously reported 2018 financial statements to conform to the 2019 presentation. There was no change to net income.

**New Accounting Standards:**

See Note B – Summary of Significant Accounting Policies in the consolidated financial statements.

## Results of Operations:

FISCAL YEAR ENDED APRIL 30, 2019 COMPARED  
TO FISCAL YEAR ENDED APRIL 30, 2018

The following table sets forth the percentage relationships of expense items to net sales for the years indicated:

	Fiscal Years	
	2019	2018
Net sales	100.0%	100.0%
Operating expenses:		
Cost of products sold	90.9	90.4
Selling and administrative expenses	8.0	8.3
Impairment of goodwill and intangible asset	-	1.4
Loss on settlement of receivable and disposal of related assets	-	0.9
Total operating expenses	98.9	101.0
Operating income (loss)	1.1%	(1.0%)

Net sales increased 4.5% to \$290,553,951 in fiscal year 2019 from \$278,131,709 in the prior year. The Company's sales increased in fiscal year 2019 in industrial electronics and medical/life science marketplaces as compared to the prior year. The increase in sales dollars for these marketplaces was partially offset by a decrease in sales dollars in the consumer electronics marketplace. Revenues started an upward trend during the fourth fiscal quarter of fiscal year 2019.

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 49.7% and 50.2% of net sales for fiscal years 2019 and 2018, respectively.

Gross profit decreased to \$26,341,769, or 9.1% of net sales, in fiscal year 2019 compared to \$26,602,918 or 9.6% of net sales, in the prior fiscal year. The decrease in gross profit dollars for fiscal year 2019 was primarily the result of margin pressures from both customers and vendors and product mix. Margin pressures continue from both customers and vendors. However, price increases were implemented in fiscal year 2019 for some customers.

Selling and administrative expenses increased in fiscal year 2019 to \$23,263,117, or 8.0% of net sales compared to \$23,089,939, or 8.3% of net sales, in fiscal year 2018. The increase in selling and administrative dollars was attributable to sales salaries, bad debt expense, general insurance, accounting professional fees and financing fees. The increase in the foregoing selling and administrative expenses were partially offset by a decrease in legal professional fees, bonus expense and other general administrative expenses. Selling and administrative expenses decreased as a percent of net sales due to an increase in net sales in fiscal year 2019 compared to the prior year.

During fiscal year 2018, the Company recorded a goodwill and intangible asset impairment in the amount of \$3,913,006 and the write off of the account receivable and note receivable related to a customer in the amount of \$2,509,423. See Note E - Related Parties and Note G - Intangible Asset.

Other income increased in fiscal year 2019 to \$200,946 compared to other income of \$144,574 in the prior fiscal year. The increase in other income is due to the Company recording in fiscal year 2019 an earn-out based



on sales by Wagz in the amount of \$91,920 to other income. However, the \$91,920 was reserved as bad debt at April 30, 2019.

Interest expense, net, increased to \$2,413,297 in fiscal year 2019 compared to \$1,537,446 in fiscal year 2018. Interest expense increased primarily due to the increased borrowings under the Company's banking arrangements and mortgage obligations.

In fiscal year 2019, the Company had an income tax expense of \$1,731,415 compared to an income tax benefit of \$1,060,452 in fiscal year 2018. The effective rate for the fiscal years ended April 30, 2019 and April 30, 2018 was 199.86% and 24.6%, respectively. The increase in income tax expense as well as the accompanying change in the effective tax rate is the result of the valuation allowance established on certain deferred tax assets related to foreign net operating loss carryforwards that more likely than not will not be realized based on projected income in those jurisdictions and the impact of foreign currency remeasurement.

The Company reported a net loss of \$865,114 in fiscal year 2019 compared to a net loss of \$3,241,870 for fiscal year 2018. Basic and diluted loss per share for fiscal year 2019 were \$0.20 each, compared to basic and diluted loss per share of \$0.77 each for the fiscal year ended April 30, 2018.

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

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

Cash flow used in operating activities was \$1,619,500 for the fiscal year ended April 30, 2019, compared to cash flow used in operating activities of \$4,968,479 for the prior fiscal year. Cash flow used in operating activities was primarily the result of an increase in accounts receivable in the amount of \$5,134,297, a decrease in accounts payable of \$3,699,388 and the reported net loss. The increase in accounts receivable is the result of increased sales and the timing of payments. Cash flow used in operating activities was partially offset by a decrease in inventory.

Cash flow used in operating activities was \$4,968,479 for the fiscal year ended April 30, 2018. Cash flow used in operating activities was primarily the result of an increase in inventory in the amount of \$13,415,555. The increase in inventory is the result of an increase in customer orders and in some cases orders being pushed out. Further, capacity issues in the component industry made it difficult to obtain some components to complete assemblies for shipping. Cash flow used in operating activities was partially offset by the result of an increase in accounts payable, a decrease in prepaid expenses and other assets.

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

In fiscal year 2019, the Company purchased in cash \$2,361,629 in machinery and equipment to be used in the ordinary course of business. The Company has received forecasts from current customers for increased business that would require additional investment in capital equipment and facilities. To the extent that these forecasts come to fruition, the Company anticipates that it will make additional machinery and equipment purchases up to \$6,000,000 in fiscal year 2020. The Company anticipates purchases will be funded by lease transactions. However, there is no assurance that such increased business will be obtained or that the Company will be able to obtain funding or leases at acceptable terms, if at all, in the future.

In fiscal year 2018, the Company purchased in cash \$3,731,370 in machinery and equipment to be used in the ordinary course of business. The Company purchases were funded by the bank line of credit and lease transactions.

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

Cash provided by financing activities was \$3,265,340 for the fiscal year ended April 30, 2019, compared to cash provided by financing activities of \$6,676,729 in fiscal year 2018. Cash provided by financing activities was primarily the result of net borrowings under the line of credit.

Cash provided by financing activities was \$6,676,729 for the fiscal year ended April 30, 2018. Cash provided by financing activities was primarily the result of net borrowings under the line of credit and proceeds under building notes. Proceeds under building notes was due to the mortgage agreements on December 21, 2017 with U.S. Bank to refinance the Company's corporate headquarters and its manufacturing facility in Elk Grove Village, Illinois and the Company's engineering and design center in Elgin, Illinois.

***Financing Summary.***

Debt and capital lease obligations consisted of the following at April 30, 2019 and April 30, 2018:

	<u>2019</u>	<u>2018</u>
Debt:		
Notes Payable - Banks	\$ 35,727,212	\$ 29,279,631
Notes Payable - Buildings	6,650,000	6,930,000
Notes Payable - Equipment	1,328,753	1,548,770
Unamortized deferred financing costs	<u>(303,310)</u>	<u>(319,332)</u>
Total debt	43,402,655	37,439,069
Less current maturities	<u>691,701</u>	<u>655,190</u>
Long-term debt	<u>\$ 42,710,954</u>	<u>\$ 36,783,879</u>
Capital lease obligations	<u>\$ 4,802,158</u>	<u>\$ 6,618,384</u>
Less current maturities	<u>1,939,374</u>	<u>2,320,538</u>
Total capital lease obligations, less current portion	<u>\$ 2,862,784</u>	<u>\$ 4,297,846</u>

***Notes Payable - Banks***

On March 31, 2017, the Company entered into a \$35,000,000 senior secured credit facility with U.S. Bank, which expires on March 31, 2022. The credit facility is collateralized by substantially all of the Company's domestically located assets. The facility allows the Company to choose among interest rates at which it may borrow funds: the bank fixed rate of five percent or LIBOR plus one and one half percent (effectively 4.09% at April 30, 2019). Interest is due monthly. Under the senior secured credit facility, the Company may borrow up to the lesser of (i) \$35,000,000 or (ii) an amount equal to a percentage of the eligible accounts receivable plus a percentage of the eligible inventory (the "Borrowing Base").

On July 16, 2018, the Company and U.S. Bank entered into an amendment of the revolving line of credit under the senior secured credit facility. The amended revolving credit facility allows the Company to borrow up to the lesser of (i) \$45,000,000 (the "Revolving Line Cap") less reserves or (ii) the Borrowing Base, but no more than 90% of the Company's Revolving Line Cap, except that the 90% limitation will expire if the Company's actual revolving loans for 90 consecutive days after the amendment's effective date are less than 80% of the Company's Borrowing Base and the Company maintains a Fixed Charge Coverage Ratio of 1.2 to 1.0 for four consecutive quarters. The amendment also imposes sublimits on categories of inventory equal to \$10,500,000 on raw materials, \$10,000,000 on finished goods and \$28,000,000 on all eligible inventory.

On December 13, 2018, the Company and U.S. Bank entered into an amendment of the revolving credit facility. The amendment provides an exception to otherwise ineligible foreign receivables for up to \$3,000,000 of receivables paid by certain enumerated account debtors outside of the U.S. and Canada.

On March 22, 2019, the Company and U.S. Bank entered into an amendment of the revolving credit facility. The amendment allows the Company to borrow up to the lesser of (i) the Revolving Line Cap less reserves or (ii) the Borrowing Base, but no more than 95% of the Company's Revolving Line Cap until August 1, 2019 and 90% on and after August 1, 2019. As of April 30, 2019, there was \$35,727,212 outstanding and \$6,645,730 of unused availability under the U.S. Bank facility compared to an outstanding balance of \$29,279,631 and

\$5,720,369 of unused availability at April 30, 2018. At April 30, 2019, the Company was in compliance with its financial covenant and other restrictive covenants under the credit facility. Deferred financing costs of \$75,083 were capitalized during the fiscal year ended April 30, 2019, which are amortized over the term of the agreement. As of April 30, 2019 and April 30, 2018, the unamortized amount offset against outstanding debt was \$209,162 and \$192,502, respectively.

On March 15, 2019, the Company's wholly-owned subsidiary, SigmaTron Electronic Technology Co., Ltd., entered into a credit facility with China Construction Bank. Under the agreement SigmaTron Electronic Technology Co., Ltd. can borrow up to 5,000,000 Renminbi, approximately \$743,000 as of April 30, 2019, and the facility is collateralized by Wujiang SigmaTron Electronics Co., Ltd.'s manufacturing building. Interest is payable monthly and the facility bears a fixed interest rate of 6.09%. The term of the facility extends to March 14, 2024. There was no outstanding balance under the facility at April 30, 2019.

#### *Notes Payable - Buildings*

The Company entered into a mortgage agreement on December 21, 2017, in the amount of \$5,200,000, with U.S. Bank to refinance the property that serves as the Company's corporate headquarters and its Illinois manufacturing facility in Elk Grove Village, Illinois. The note requires the Company to pay monthly principal payments in the amount of \$17,333, bears interest at a fixed rate of 4.0% per year and is payable over a fifty-one month period. Deferred financing costs of \$74,066 were capitalized in fiscal year 2018 which are amortized over the term of the agreement. As of April 30, 2019, the unamortized amount included as a reduction to long-term debt was \$49,852. A final payment of approximately \$4,347,778 is due on or before March 31, 2022. The outstanding balance was \$4,940,000 and \$5,148,000 at April, 30 2019 and April 30, 2018, respectively.

The Company entered into a mortgage agreement on December 21, 2017, in the amount of \$1,800,000, with U.S. Bank to refinance the property that serves as the Company's engineering and design center in Elgin, Illinois. The note requires the Company to pay monthly principal payments in the amount of \$6,000, bears interest at a fixed rate of 4.0% per year and is payable over a fifty-one month period. Deferred financing costs of \$65,381 were capitalized in the fiscal year 2018 which are amortized over the term of the agreement. As of April 30, 2019 the unamortized amount included as a reduction to long-term debt was \$44,006. A final payment of approximately \$1,505,000 is due on or before March 31, 2022. The outstanding balance was \$1,710,000 and \$1,782,000 at April, 30 2019 and April 30, 2018, respectively.

#### *Notes Payable - Equipment*

The Company routinely enters into secured note agreements with Engencap Fin S.A. DE C.V. to finance the purchase of equipment. The terms of these secured note agreements mature from November 2021 through May 2023, with quarterly installment payments ranging from \$11,045 to \$37,941 and a fixed interest rate ranging from 6.65% to 8.00%.

#### *Capital Lease and Sale Leaseback Obligations*

From October 2013 through January 2019, the Company entered into various capital lease and sale leaseback agreements with a gross cost of \$13,034,503. The terms of the lease agreements mature through January 2023 with monthly installment payments ranging from \$1,455 to \$40,173 and a fixed interest rate ranging from 3.75% to 8.00%. The net book value of the equipment under these leases was \$8,884,475 and \$9,344,724 at April 30, 2019 and April 30, 2018, respectively.

#### *Operating Leases*

In September 2010, the Company entered into a real estate lease agreement in Union City, California, to rent approximately 117,000 square feet of manufacturing and office space. Under the terms of the lease agreement, the Company receives incentives over the life of the lease, which extends through March 2021. The amount of the deferred rent income recorded for fiscal year ended April 30, 2019 and April 30, 2018 was \$128,505 and \$103,599, respectively. In addition, the landlord provided the Company tenant incentives of \$418,000, which

are being amortized over the life of the lease. The balance of deferred rent at April 30, 2019, was \$318,568 compared to \$447,073 at April 30, 2018.

On May 31, 2012, the Company entered into a lease agreement in Tijuana, Mexico, to rent approximately 112,000 square feet of manufacturing and office space. Under the terms of the lease agreement, the Company receives incentives over the life of the lease, which expired in November 2018. The amount of the deferred rent income for the fiscal year ended April 30, 2019 and April 30, 2018 was \$85,527 and \$139,437, respectively. The balance of deferred rent at April 30, 2019, was \$0 compared to \$85,527 at April 30, 2018.

#### *Other*

The Company provides funds for salaries, wages, overhead and capital expenditure items as necessary to operate its wholly-owned Mexican, Vietnamese and Chinese subsidiaries and the Taiwan IPO. The Company provides funding in U.S. Dollars, which are exchanged for Pesos, Dong, Renminbi, and New Taiwan dollars. The fluctuation of currencies from time to time, without an equal or greater increase in inflation, could have a material impact on the financial results of the Company. The impact of currency fluctuations for the fiscal year ended April 30, 2019, resulted in net foreign currency transaction losses of approximately \$433,742 compared to net foreign currency gains of \$125,000 in the prior year. In fiscal year 2019, the Company paid approximately \$53,090,000 to its foreign subsidiaries.

The Company anticipates that its credit facilities, cash flow from operations and leasing resources are adequate to meet its working capital requirements and capital expenditures for fiscal year 2020. In addition, in the event the Company desires to expand its operations, its business grows more rapidly than expected, the current economic climate deteriorates, customers delay payments, or the Company desires to consummate an acquisition, additional financing resources may 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 on acceptable terms, or at all, in the future. There is no assurance that the Company will be able to retain or renew its credit agreements in the future, or that any retention or renewal will be on the same terms as currently exist.

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

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

The Company has no off-balance sheet transactions.

#### **Tabular Disclosure of Contractual Obligations:**

As a smaller reporting company, as defined in Rule 10(f)(1) of Regulation S-K under the Exchange Act, the Company is 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 10(f)(1) of Regulation S-K under the Exchange Act, the Company is 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**

None.

#### **ITEM 9A. CONTROLS AND PROCEDURES**

##### **Disclosure Controls:**



The Company's management, including its President and Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of its disclosure controls and procedures (as defined under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Rules 13a-15(e) and 15(d)-15(e) thereunder) as of April 30, 2019. The Company's disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives and its President and Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective at the reasonable assurance level as of April 30, 2019.

#### **Internal Controls:**

The Company's 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). The Company's internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with U.S. GAAP. Under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, the Company conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission. On May 14, 2013, COSO issued an updated version of its Internal Control - Integrated Framework (the "2013 Framework") which officially superseded the 1992 Framework on December 15, 2014. Originally issued in 1992, the framework helps organizations design, implement and evaluate the effectiveness of internal control concepts and simplify their use and application. Neither COSO, the Securities and Exchange Commission or any other regulatory body has mandated adoption of the 2013 Framework by a specified date. The Company implemented the 2013 Framework in the fourth fiscal quarter of 2018. Based on the Company's evaluation, management concluded that its internal controls over financial reporting were effective at the reasonable assurance level as of April 30, 2019.

This annual 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 the 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 the Company's internal control over financial reporting during the fiscal year ended April 30, 2019, that has materially affected or is reasonably likely to materially affect its internal control over financial reporting.

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

Not Applicable.

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### **PART III**

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#### **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, 2019.

#### **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, 2019.

#### **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, 2019.

#### **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, 2019.

#### **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, 2019.

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### **PART IV**

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#### **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.

(a)(2)

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

(a)(3) and (b)

The exhibits required by Item 601 of Regulations S-K are listed in the Index to Exhibits filed as part of this Annual Report on Form 10-K beginning on Page 31.

#### **ITEM 16. FORM 10-K SUMMARY**

None.

## Index to Exhibits

- 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. (P)(Rule 311)
- 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.\* (P)(Rule 311)
- 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.\* (P)(Rule 311)
- 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.\* (P)(Rule 311)
- 10.4 2004 Employee Stock Option Plan, incorporated herein by reference to Appendix B to the Company's 2004 Proxy Statement filed on August 16, 2004. \*
- 10.5 SigmaTron International, Inc. 2011 Employee Stock Option Plan dated September 16, 2011, incorporated herein by reference to Exhibit 10.14 to the Company's Registration Statement on Form S-8 filed on December 14, 2011.\*
- 10.6 Purchase Agreement between SigmaTron International, Inc., and its nominees and Spitfire Control, Inc., dated as of May 31, 2012, incorporated herein by reference to Exhibit 2.1 to the Company's Form 8-K filed on June 4, 2012.
- 10.7 SigmaTron International, Inc. 2013 Employee Stock Purchase Plan dated September 20, 2013, incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K filed on September 25, 2013.\*
- 10.8 SigmaTron International, Inc. 2013 Non-Employee Director Restricted Stock Plan dated September 20, 2013, incorporated herein by reference to Exhibit 10.2 to the Company's Form 8-K filed on September 25, 2013.\*
- 10.9 Mortgage and Assignment of Rents and Leases executed as of October 24, 2013, by SigmaTron International, Inc., to Wells Fargo Bank, National Association, incorporated herein by reference to Exhibit 10.18 to the Company's Form 10-Q filed on December 13, 2013.
- 10.10 Master Lease Agreement # 2170 entered into between Associated Bank, National Association, a national banking association and SigmaTron International, Inc., dated October 3, 2013, incorporated herein by reference to Exhibit 10.20 to the Company's Form 10-Q filed on December 13, 2013.
- 10.11 SigmaTron International, Inc. Amended and Restated Change in Control Severance Payment Plan dated March 11, 2014, incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K/A filed on March 14, 2014.\*

- 10.12 Master Lease Number 81344 entered into between CIT Finance LLC and SigmaTron International, Inc., dated March 6, 2014, incorporated herein by reference to Exhibit 10.17 to the Company's Form 10-K filed on July 24, 2014.
- 10.13 Schedule # 1217927 to Master Lease Agreement Number 81344 entered into between CIT Finance LLC and SigmaTron International, Inc. dated May 7, 2014, incorporated herein by reference to Exhibit 10.1 to the Company's Form 10-Q filed on September 11, 2014.
- 10.14 Schedule # 1223197 to Master Lease Agreement Number 81344 entered into by and between CIT Finance LLC and SigmaTron International, Inc. dated August 1, 2014, incorporated herein by reference to Exhibit 10.1 to the Company's Form 10-Q filed on December 12, 2014.
- 10.15 Lease No. 003 is an attachment to Master Lease No. 2170 dated October 17, 2013 by and between Associated Bank, National Association and SigmaTron International, Inc. dated September 22, 2014, incorporated herein by reference to Exhibit 10.2 to the Company's Form 10-Q filed on December 12, 2014.
- 10.16 Lease No. 004 is an attachment to Master Lease No. 2170 dated October 17, 2013 by and between Associated Bank, National Association and SigmaTron International, Inc. dated September 22, 2014, incorporated herein by reference to Exhibit 10.3 to the Company's Form 10-Q filed on December 12, 2014.
- 10.17 Lease No. 005 is an attachment to Master Lease No. 2170 dated October 17, 2013 by and between Associated Bank, National Association and SigmaTron International, Inc. dated September 22, 2014, incorporated herein by reference to Exhibit 10.4 to the Company's Form 10-Q filed on December 12, 2014.
- 10.18 Schedule # 1246045 to Master Lease Agreement Number 81344 entered into by and between CIT Finance LLC and SigmaTron International, Inc. dated October 27, 2014, incorporated herein by reference to Exhibit 10.5 to the Company's Form 10-Q filed on December 12, 2014.
- 10.19 First Amendment to Third Amended and Restated Credit Agreement entered into as of March 7, 2015, by and between SigmaTron International, Inc. and Wells Fargo Bank, National Association, incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K filed on March 12, 2015.
- 10.20 Lease No. 006 is an attachment to Master Lease No. 2170 dated October 17, 2013 by and between Associated Bank, National Association and SigmaTron International, Inc. dated January 16, 2015, incorporated herein by reference to Exhibit 10.1 to the Company's Form 10-Q filed on March 16, 2015.
- 10.21 Schedule # 1284094 to Master Lease Agreement Number 81344 entered into by and between CIT Finance LLC and SigmaTron International, Inc. dated June 2, 2015, incorporated herein by reference to Exhibit 10.29 to the Company's Form 10-K filed on July 24, 2015.
- 10.22 Lease No. 007 is an attachment to Master Lease No. 2170 dated October 17, 2013 by and between Association Bank, National Association and SigmaTron International, Inc. dated December 22, 2015, incorporated herein by reference to Exhibit 10.1 to the Company's Form 10-Q filed on March 15, 2016.
- 10.23 SigmaTron International, Inc. Employee Bonus Plan for Fiscal Year 2017 dated June 2, 2016, incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K filed on June 6, 2016.\*
- 10.24 SigmaTron International, Inc. 2013 Employee Stock Purchase Plan disclosed on Form 8-K dated September 20, 2013, has been terminated effective as of August 15, 2016, incorporated herein by reference to the Company's Form 8-K filed on August 15, 2016.\*

- 10.25 Lease No. 009, entered into July 15, 2016, is an attachment to Master Lease No. 2170 dated October 17, 2013 by and between Associated Bank, National Association and SigmaTron International, Inc., incorporated herein by reference to Exhibit 10.1 to the Company's Form 10-Q filed on September 13, 2016.
- 10.26 Lease No. 010, entered into August 8, 2016, is an attachment to Master Lease No. 2170 dated October 17, 2013 by and between Associated Bank, National Association and SigmaTron International, Inc., incorporated herein by reference to Exhibit 10.1 to the Company's Form 10-Q filed on December 12, 2016.
- 10.27 Promissory Note, entered into November 1, 2016, by and between ENGENCAP FIN, S.A. DE C.V., SOFOM, E.N.R. and SigmaTron International, Inc., incorporated herein by reference to Exhibit 10.1 to the Company's Form 10-Q filed on March 14, 2017.
- 10.28 SigmaTron International, Inc. Employee Bonus Plan for Fiscal Year 2018 dated April 21, 2017, incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K filed on April 25, 2017\*
- 10.29 Promissory Note, entered into January 5, 2017, by and between ENGENCAP FIN, S.A. DE C.V., SOFOM, E.N.R. and SigmaTron International, Inc., incorporated herein by reference to Exhibit 10.29 to the Company's Form 10-K filed on July 24, 2017.
- 10.30 Lease No. 011, entered into May 8, 2017, is an attachment to Master Lease No. 2170 dated October 17, 2013 by and between Associated Bank, National Association and SigmaTron International, Inc., incorporated herein by reference to Exhibit 10.30 to the Company's Form 10-K filed on July 24, 2017.
- 10.31 Lease No. 012, entered into May 8, 2017, is an attachment to Master Lease No. 2170 dated October 17, 2013 by and between Associated Bank, National Association and SigmaTron International, Inc., incorporated herein by reference to Exhibit 10.31 to the Company's Form 10-K filed on July 24, 2017.
- 10.32 Loan and Security Agreement between SigmaTron International, Inc. and U.S. Bank National Association dated March 31, 2017, incorporated herein by reference to Exhibit 10.32 to the Company's Form 10-K filed on July 24, 2017.
- 10.33 Promissory Note, entered into June 1, 2017, by and between ENGENCAP FIN, S.A. DE C.V., SOFOM, E.N.R. AND SigmaTron International, Inc., incorporated herein by reference to Exhibit 10.1 to the Company's Form 10-Q filed on September 13, 2017.
- 10.34 Lease No. 013, entered into July 6, 2017, is an attachment to Master Lease No. 2170 dated October 17, 2013 by and between Associated Bank, National Association and SigmaTron International, Inc., incorporated herein by reference to Exhibit 10.2 to the Company's Form 10-Q filed on September 13, 2017.
- 10.35 Lease No. 1, entered into September 13, 2017, is an attachment to Master Lease No. 2017389 dated August 15, 2017 by and between First American Commercial Bancorp, Inc. and SigmaTron International, Inc., incorporated herein by reference to Exhibit 10.1 to the Company's Form 10-Q filed on December 12, 2017.
- 10.36 Lease No. 2, entered into October 9, 2017, is an attachment to Master Lease No. 2017389 dated August 15, 2017 by and between First American Commercial Bancorp, Inc. and SigmaTron International, Inc., incorporated herein by reference to Exhibit 10.2 to the Company's Form 10-Q filed on December 12, 2017.

- 10.37 Promissory Note, entered into October 12, 2017, by and between ENGENCAP FIN, S.A. DE C.V., SOFOM, E.N.R. and SigmaTron International, Inc., incorporated herein by reference to Exhibit 10.3 to the Company's Form 10-Q filed on December 12, 2017.
- 10.38 Real Property mortgage (Cook County, Illinois) made as of the 21<sup>st</sup> day of December, 2017, is made and executed by SigmaTron International, Inc. ("Mortgagor") and U.S. Bank National Association ("Lender"), incorporated herein by reference to Exhibit 10.1 to the Company's Form 10-Q filed on March 14, 2018.
- 10.39 Real Property mortgage (Kane County, Illinois) made as of the 21<sup>st</sup> day of December, 2017, is made and executed by SigmaTron International, Inc. ("Mortgagor") and U.S. Bank National Association ("Lender"), incorporated herein by reference to Exhibit 10.2 to the Company's Form 10-Q filed on March 14, 2018.
- 10.40 Lease No. 3, entered into December 20, 2017, is an attachment to Master Lease No. 2017389 dated August 15, 2017 by and between First American Commercial Bancorp, Inc. and SigmaTron International, Inc., incorporated herein by reference to Exhibit 10.3 to the Company's Form 10-Q filed on March 14, 2018.
- 10.41 Lease No. 4, entered into January 9, 2018, is an attachment to Master Lease No. 2017389 dated August 15, 2017 by and between First American Commercial Bancorp, Inc. and SigmaTron International, Inc., incorporated herein by reference to Exhibit 10.4 to the Company's Form 10-Q filed on March 14, 2018.
- 10.42 Asset Purchase Agreement effective April 30, 2018 between SigmaTron International, Inc. and Wagz, Inc., incorporated herein by reference to Exhibit 99.1 to the Company's Form 8-K/A filed on May 4, 2018.
- 10.43 SigmaTron International, Inc. Employee Bonus Plan for Fiscal Year 2019 dated July 12, 2018, incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K filed on July 16, 2018.\*
- 10.44 Amendment No.1 to Amended and Restated Loan and Security Agreement entered into as of July 16, 2018, by and between SigmaTron International, Inc., and U.S. Bank National Association incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K filed on July 17, 2018.
- 10.45 Lease No. 5, entered into March 15, 2018, is an attachment to Master Lease No. 2017389 dated August 15, 2017 by and between First American Commercial Bancorp, Inc. and SigmaTron International, Inc., incorporated herein by reference to Exhibit 10.45 to the Company's Form 10-K filed on July 24, 2018.
- 10.46 Lease No. 6, entered into April 20, 2018, is an attachment to Master Lease No. 2017389 dated August 15, 2017 by and between First American Commercial Bancorp, Inc. and SigmaTron International, Inc., incorporated herein by reference to Exhibit 10.46 to the Company's Form 10-K filed on July 24, 2018.
- 10.47 Promissory Note, entered into May 1, 2018, by and between ENGENCAP FIN, S.A. DE C.V., SOFOM, E.N.R. and SigmaTron International, Inc., incorporated herein by reference to Exhibit 10.1 to the Company's Form 10-Q filed on September 13, 2018.
- 10.48 SigmaTron International, Inc. 2018 Non-Employee Director Restricted Stock Plan dated September 21, 2018, incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K filed on September 24, 2018.\*



- 10.49      Lease No. 7, entered into October 17, 2018, is an attachment to Master Lease No. 2017389 dated August 15, 2017 by and between First American Commercial Bancorp, Inc. and SigmaTron International, Inc., incorporated herein by reference to Exhibit 10.1 to the Company's Form 10-Q filed on December 12, 2018.
- 10.50      Lease No. 8, entered into January 25, 2019, is an attachment to Master Lease No. 2017389 dated August 15, 2017 by and between First American Commercial Bancorp, Inc. and SigmaTron International, Inc., incorporated herein by reference to Exhibit 10.1 to the Company's Form 10-Q filed on March 15, 2019.
- 10.51      Lease No. 9, entered into January 25, 2019, is an attachment to Master Lease No. 2017389 dated August 15, 2017 by and between First American Commercial Bancorp, Inc. and SigmaTron International, Inc., incorporated herein by reference to Exhibit 10.2 to the Company's Form 10-Q filed on March 15, 2019.
- 10.52      SigmaTron International, Inc. Employee Bonus Plan for Fiscal Year 2020 dated July 12, 2019, incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K filed on July 15, 2019.\*
- 21.0      Subsidiaries of the Registrant, incorporated herein by reference to Exhibit 21 to the Company's Form 10-K for the fiscal year ended April 30, 2014, filed on July 24, 2014.
- 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, 2019).\*\*
- 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.\*\*
- 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).\*\*

101.INS XBRL Instance Document  
101.SCH XBRL Taxonomy Extension Scheme Document  
101.CAL XBRL Taxonomy Extension Calculation Linkbase Document  
101.DEF XBRL Taxonomy Extension Definition Linkbase Document  
101.LAB XBRL Taxonomy Extension Label Linkbase Document  
101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

\* 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.

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 24, 2019

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/ Gary R. Fairhead</u> Gary R. Fairhead	Chairman of the Board of Directors, President and Chief Executive Officer, (Principal Executive Officer) and Director	July 24, 2019
<u>/s/ Linda K. Frauendorfer</u> Linda K. Frauendorfer	Chief Financial Officer, Secretary and Treasurer (Principal Financial Officer and Principal Accounting Officer) and Director	July 24, 2019
<u>/s/ Thomas W. Rieck</u> Thomas W. Rieck	Director	July 24, 2019
<u>/s/ Dilip S. Vyas</u> Dilip S. Vyas	Director	July 24, 2019
<u>/s/ Paul J. Plante</u> Paul J. Plante	Director	July 24, 2019
<u>/s/ Barry R. Horek</u> Barry R. Horek	Director	July 24, 2019
<u>/s/ Bruce J. Mantia</u> Bruce J. Mantia	Director	July 24, 2019

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## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**Stockholders and Board of Directors  
SigmaTron International, Inc.  
Elk Grove Village, Illinois**

### **Opinion on the Consolidated Financial Statements**

We have audited the accompanying consolidated balance sheets of Sigmatron International, Inc. and subsidiaries (the “Company”) as of April 30, 2019 and 2018, the related consolidated statements of operations, stockholders’ equity, and cash flows for each of the years then ended, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at April 30, 2019 and 2018, and the results of their operations and their cash flows for each of the years then ended, in conformity with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting 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.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

BDO USA, LLP

We have served as the Company’s auditor since 2006.

Chicago, Illinois  
July 24, 2019

**SigmaTron International, Inc. and Subsidiaries**  
**CONSOLIDATED BALANCE SHEETS**  
**APRIL 30, 2019 and 2018**

<b>ASSETS</b>	<u>2019</u>	<u>2018</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,005,810	\$ 1,721,599
Accounts receivable, less allowance for doubtful accounts of \$631,283 and \$300,000 at April 30, 2019 and 2018, respectively	31,441,381	26,638,367
Inventories, net	85,579,575	86,929,793
Prepaid expenses and other assets	2,436,894	1,948,748
Refundable and prepaid income taxes	1,339,739	1,655,409
Other receivables	<u>1,741,890</u>	<u>1,135,810</u>
Total current assets	<u>123,545,289</u>	<u>120,029,726</u>
<b>PROPERTY, MACHINERY AND EQUIPMENT, NET</b>	<u>33,232,769</u>	<u>35,288,997</u>
<b>OTHER LONG-TERM ASSETS</b>		
Intangible assets, net	2,713,360	3,088,085
Deferred income taxes	384,022	1,109,681
Other assets	<u>1,589,325</u>	<u>1,713,481</u>
Total other long-term assets	<u>4,686,707</u>	<u>5,911,247</u>
<b>TOTAL ASSETS</b>	<u>\$ 161,464,765</u>	<u>\$ 161,229,970</u>

The accompanying notes are an integral part of these statements.



**SigmaTron International, Inc. and Subsidiaries**  
**CONSOLIDATED BALANCE SHEETS – CONTINUED**  
**APRIL 30, 2019 and 2018**

<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>2019</b>	<b>2018</b>
<b>CURRENT LIABILITIES</b>		
Trade accounts payable	\$ 45,627,014	\$ 49,326,402
Accrued expenses	2,410,311	2,930,792
Accrued wages	4,680,399	3,730,755
Income taxes payable	60,921	-
Current portion of long-term debt	691,701	655,190
Current portion of capital lease obligations	1,939,374	2,320,538
Contingent consideration	57,537	213,460
Current portion of deferred rent	139,509	201,349
<b>Total current liabilities</b>	<b>55,606,766</b>	<b>59,378,486</b>
Long-term debt,		
less current portion	42,710,954	36,783,879
Capital lease obligations,		
less current portion	2,862,784	4,297,846
Income taxes payable	500,263	498,000
Other long-term liabilities	1,155,907	1,130,557
Deferred rent, less current portion	179,059	331,251
Deferred income taxes	161,583	-
<b>Total long-term liabilities</b>	<b>47,570,550</b>	<b>43,041,533</b>
<b>Total liabilities</b>	<b>103,177,316</b>	<b>102,420,019</b>
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock, \$.01 par value; 500,000 shares authorized, none issued or outstanding	-	-
Common stock, \$.01 par value; 12,000,000 shares authorized, 4,240,008 and 4,215,258 shares issued and outstanding at April 30, 2019 and 2018, respectively	42,146	41,896
Capital in excess of par value	23,474,379	23,132,017
Retained earnings	34,770,924	35,636,038
<b>Total stockholders' equity</b>	<b>58,287,449</b>	<b>58,809,951</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 161,464,765</b>	<b>\$ 161,229,970</b>

The accompanying notes are an integral part of these statements.

**SigmaTron International, Inc. and Subsidiaries**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**Years ended April 30, 2019 and 2018**

	2019	2018
Net sales	\$ 290,553,951	\$ 278,131,709
Cost of products sold	<u>264,212,182</u>	<u>251,528,791</u>
Gross profit	26,341,769	26,602,918
Selling and administrative expenses	23,263,117	23,089,939
Impairment of goodwill and intangible asset	-	3,913,006
Loss on settlement of receivable and disposal of related assets	-	2,509,423
	<u>3,078,652</u>	<u>(2,909,450)</u>
Operating income (loss)	3,078,652	(2,909,450)
Other income	(200,946)	(144,574)
Interest expense	<u>2,413,297</u>	<u>1,537,446</u>
Income (loss) before income taxes	866,301	(4,302,322)
Income tax expense (benefit)	<u>1,731,415</u>	<u>(1,060,452)</u>
<b>NET LOSS</b>	<u>\$ (865,114)</u>	<u>\$ (3,241,870)</u>
Loss per common share		
Basic	<u>\$ (0.20)</u>	<u>\$ (0.77)</u>
Diluted	<u>\$ (0.20)</u>	<u>\$ (0.77)</u>
Weighted-average shares of common stock outstanding		
Basic	<u>4,228,592</u>	<u>4,205,483</u>
Diluted	<u>4,228,592</u>	<u>4,205,483</u>

The accompanying notes are an integral part of these statements.

**SigmaTron International, Inc. and Subsidiaries**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**Years ended April 30, 2019 and 2018**

	Preferred stock	Common stock	Capital in excess of par value	Retained earnings	Total stockholders' equity
Balance at May 1, 2017	\$ -	41,702	22,952,535	38,877,908	61,872,145
Recognition of stock-based compensation	-	-	83,659	-	83,659
Exercise of stock options	-	194	95,823	-	96,017
Net loss	-	-	-	(3,241,870)	(3,241,870)
Balance at April 30, 2018	<u>-</u>	<u>41,896</u>	<u>23,132,017</u>	<u>35,636,038</u>	<u>58,809,951</u>
Recognition of stock-based compensation	-	-	166,612	-	166,612
Restricted stock awards	-	250	175,750	-	176,000
Net loss	-	-	-	(865,114)	(865,114)
Balance at April 30, 2019	<u>\$ -</u>	<u>\$ 42,146</u>	<u>\$ 23,474,379</u>	<u>\$ 34,770,924</u>	<u>\$ 58,287,449</u>

The accompanying notes are an integral part of these statements.

**SigmaTron International, Inc. and Subsidiaries**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**Years ended April 30, 2019 and 2018**

	2019	2018 (As Revised)
Cash flows from operating activities		
Net loss	\$ (865,114)	\$ (3,241,870)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	5,007,440	5,118,297
Stock-based compensation	166,612	83,659
Restricted stock expense	176,000	-
Provision for doubtful accounts	331,283	200,000
Provision for inventory obsolescence	268,234	-
Loss on settlement of receivable and disposal of related assets	-	2,509,423
Impairment of goodwill	-	3,222,899
Impairment of intangible asset	-	690,107
Deferred income tax expense (benefit)	887,242	(2,234,885)
Amortization of intangible assets	374,725	435,043
Amortization of financing fees	91,104	63,669
Fair value adjustment of contingent consideration	40,324	(84,344)
Loss from disposal or sale of machinery and equipment	5,086	20,011
Changes in operating assets and liabilities		
Accounts receivable	(5,134,297)	(1,716,793)
Inventories	1,081,984	(13,415,555)
Prepaid expenses and other assets	(766,635)	1,509,675
Refundable and prepaid income taxes	315,670	(1,315,618)
Income taxes payable	63,184	428,132
Trade accounts payable	(3,699,388)	3,166,007
Deferred rent	(214,032)	(243,036)
Accrued expenses and wages	251,078	(163,300)
Net cash used in operating activities	(1,619,500)	(4,968,479)
Cash flows from investing activities		
Purchases of machinery and equipment	(2,361,629)	(3,731,370)
Proceeds from insurance settlement	-	251,395
Net cash used in investing activities	(2,361,629)	(3,479,975)
Cash flows from financing activities		
Advances on notes receivable	-	(880,000)
Proceeds from the exercise of common stock options	-	96,017
Proceeds under equipment note	182,557	943,136
Payments of contingent consideration	(196,247)	(226,014)
Payments under capital lease and sale leaseback agreements	(2,410,895)	(2,144,866)
Payments under equipment note	(402,574)	(297,328)
Proceeds under building notes payable	-	7,000,000
Payments under building notes payable	(280,000)	(3,741,000)
Borrowings under revolving line of credit	333,607,697	334,944,553
Payments under revolving line of credit	(327,160,115)	(328,843,351)
Payments of debt financing costs	(75,083)	(174,418)
Net cash provided by financing activities	3,265,340	6,676,729
<b>Change in cash</b>	<b>(715,789)</b>	<b>(1,771,725)</b>

**SigmaTron International, Inc. and Subsidiaries**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS – CONTINUED**  
**Years ended April 30, 2019 and 2018**

Cash and cash equivalents at beginning of year	1,721,599	3,493,324
Cash and cash equivalents at end of year	<u>\$ 1,005,810</u>	<u>\$ 1,721,599</u>
	<u>2019</u>	<u>2018</u>
<b>Supplementary disclosures of cash flow information</b>		
Cash paid for interest	\$ 2,272,487	\$ 1,435,067
Cash paid for income taxes	645,049	2,053,779
Purchase of machinery and equipment financed under capital leases	617,470	3,687,221
Financing of insurance policy	203,435	152,730

The accompanying notes are an integral part of these statements.

**SigmaTron International, Inc. and Subsidiaries**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**April 30, 2019 and 2018**

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**NOTE A - DESCRIPTION OF THE BUSINESS**

SigmaTron International, Inc., its subsidiaries, foreign enterprises and international procurement office (collectively, 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) manufacturing and test engineering support; (4) design services; (5) warehousing and distribution services; and (6) assistance in obtaining product approval from governmental and other regulatory bodies. As of April 30, 2019, the Company provided these manufacturing services through an international network of facilities located in the United States, Mexico, China, Vietnam and Taiwan. Approximately 13.0% and 14.0% of the total non-current consolidated assets of the Company are located in foreign jurisdictions outside the United States as of April 30, 2019 and 2018, respectively.

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**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Consolidation Policy*

The consolidated financial statements include the accounts and transactions of SigmaTron International, Inc. (“SigmaTron”), its wholly-owned subsidiaries, Standard Components de Mexico, S.A., AbleMex S.A. de C.V., Digital Appliance Controls de Mexico, S.A. de C.V., Spitfire Controls (Vietnam) Co. Ltd., Spitfire Controls (Cayman) Co. Ltd. and SigmaTron International Trading Co., wholly-owned foreign enterprises Suzhou SigmaTron Electronics Co. Ltd., and SigmaTron Electronic Technology Co., Ltd. (collectively, “SigmaTron China”), and its international procurement office, SigmaTron Taiwan. The functional currency of the Mexican, Vietnamese and Chinese subsidiaries and procurement branch is the U.S. Dollar. Intercompany transactions are eliminated in the consolidated financial statements. The impact of currency fluctuations for the fiscal year ended April 30, 2019, resulted in net foreign currency transaction losses of approximately \$433,742 compared to net foreign currency gains of \$125,000 in the prior year.

*Use of Estimates*

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and 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, lower of cost or net realizable value for inventory, contingent consideration, deferred taxes, uncertain tax positions, valuation allowance for deferred taxes and valuation of long-lived assets. Actual results could materially differ from these estimates.

*Cash and Cash Equivalents*

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

**SigmaTron International, Inc. and Subsidiaries**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**  
**April 30, 2019 and 2018**

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

*Accounts Receivable*

The majority of the Company's accounts receivable are due from companies in the industrial electronics, consumer electronics and medical/life sciences 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.

The Company has arrangements with various financial institutions to sell certain eligible accounts receivable balances from specific customers without recourse. The accounts receivable balances sold are at the election of the Company. The Company incurred fees for such sales, which are reflected as selling and administrative expenses on the Company's income statement and were not material for the fiscal year ended April 30, 2019 or April 30, 2018. The accounts receivable balances are derecognized at the time of sale, as the Company does not have continuing involvement after the point of sale. During the years ended April 30, 2019 and April 30, 2018, the Company sold without recourse trade receivables of approximately \$77,000,000 and \$78,000,000, respectively. Cash proceeds from these agreements are reflected as operating activities included in the change in accounts receivable in the Company's consolidated statements of cash flows.

*Allowance for Doubtful Accounts*

The Company's allowance for doubtful accounts relates to receivables not expected to be collected from its 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 cost. Cost is determined by an average cost method and the Company allocates labor and overhead to work-in-process and finished goods. In the event of an inventory write-down, the Company records expense to state the inventory at lower of cost or net realizable value. The Company establishes inventory reserves for shrinkage and excess and obsolete inventory. The Company records provisions for inventory shrinkage based on historical experience to account for unmeasured usage or loss. 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. For convenience, the Company records these inventory reserves against the inventory cost through a contra asset rather than through a new cost basis. Upon a subsequent sale or disposal of the impaired inventory, the corresponding reserve is relieved to ensure the cost basis of the inventory reflects any reductions. Actual results differing from these estimates could significantly affect the Company's inventories and cost of products sold as the inventory is sold or otherwise relieved.



**SigmaTron International, Inc. and Subsidiaries**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**  
**April 30, 2019 and 2018**

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

*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	lesser of lease term or useful life

Expenses for repairs and maintenance are charged to selling and administrative expenses as incurred.

*Deferred Financing Costs*

Deferred financing costs consist of costs incurred to obtain the Company's long-term debt and are amortized using the effective interest method over the term of the related debt. Deferred financing fees of \$303,310 and \$319,332 net of accumulated amortization of \$166,689 and \$75,585, respectively, as of April 30, 2019 and April 30, 2018, respectively, are deducted from long term debt on the Company's balance sheet.

*Income Taxes*

The Company's income tax expense, deferred tax assets and liabilities and reserves for unrecognized tax benefits reflect management's best assessment of estimated future taxes to be paid. The Company is subject to income taxes in both the U.S. and several foreign jurisdictions. Significant judgments and estimates by management are required in determining the consolidated income tax expense assessment.

Deferred income tax assets and liabilities are determined based on differences between financial reporting and tax basis of assets and liabilities, and are measured using the enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse. In evaluating the Company's ability to recover its deferred tax assets within the jurisdiction from which they arise, the Company considers all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent financial operations. In projecting future taxable income, the Company begins with historical results and changes in accounting policies, and incorporates assumptions including the amount of future state, federal and foreign pre-tax operating income, the reversal of temporary differences, and the implementation of feasible and prudent tax planning strategies. These assumptions require significant judgment and estimates by management about the forecasts of future taxable income and are consistent with the plans and estimates the Company uses to manage the underlying businesses. In evaluating the objective evidence that historical results provide, the Company considers three years of cumulative operating income and/or loss. Valuation allowances are established when necessary to reduce deferred income tax assets to an amount more likely than not to be realized.

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

The calculation of the Company's tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in a multitude of jurisdictions across its global operations. Changes in tax laws and rates could also affect recorded deferred tax assets and liabilities in the future. Except as noted below, management is not aware of any such changes that would have a material effect on the Company's results of operations, cash flows or financial position.

**SigmaTron International, Inc. and Subsidiaries**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**  
**April 30, 2019 and 2018**

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

*Income Taxes - Continued*

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

*Earnings per Share*

Basic earnings per share are computed by dividing net income (loss) (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 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 and restricted stock, had been exercised or vested. There were 53,309 and 109,402 anti-dilutive common stock equivalents at April 30, 2019 and April 30, 2018, respectively, which have been excluded from the calculation of diluted earnings per share.

	<b>Fiscal Years Ended</b>	
	<b>April 30,</b>	
	<b>2019</b>	<b>2018</b>
Net loss	\$ (865,114)	\$ (3,241,870)
Weighted-average shares		
Basic	4,228,592	4,205,483
Effect of dilutive stock options	-	-
Diluted	4,228,592	4,205,483
Basic loss per share	\$ (0.20)	\$ (0.77)
Diluted loss per share	\$ (0.20)	\$ (0.77)

*Revenue Recognition*

The Company recognizes revenue when control of the promised goods or services are transferred to its customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. The Company's primary performance obligation to its customers is the production of finished goods electronic assembly products pursuant to purchase orders. The Company has concluded that control of the products it sells and transfers to its customers and an enforceable right to receive payment is customarily established at the point in time when the finished goods are shipped to its customers, or in some cases delivered pursuant to the specified shipping terms of each customer arrangement. With respect to consignment arrangements, control transfers and revenue is recognized at the point in time when the goods are shipped to the customer from the consignment location or when delivered to the customer (pursuant to agreed upon shipping terms). In those limited instances where finished goods delivered to the customer location are stored in a segregated area which are not controlled by the customer (title transfer, etc.) until they are pulled from the segregated area and consumed by the Company's customer, revenue is recognized upon consumption. For tooling services, the Company's performance obligation is satisfied at the point in time when the customer takes possession of dies or molds. For engineering, design, and testing services, the Company's performance obligations are satisfied over time as the respective services are rendered as its customers

**SigmaTron International, Inc. and Subsidiaries**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**  
**April 30, 2019 and 2018**

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

*Revenue Recognition - Continued*

simultaneously derive value from the Company’s performance. From the time that a customer purchase order is received and contract is established, the Company’s performance obligations are typically fulfilled within a few weeks. The Company does not have any performance obligations that require more than one year to fulfill.

Each customer purchase order sets forth the transaction price for the products and services purchased under that arrangement. The Company evaluates the credit worthiness of its customers and exercises judgment to recognize revenue based upon the amount the Company expects to be paid for each sales transaction it enters into with its customers. Some customer arrangements include variable consideration, such as volume rebates, some of which depend upon the Company’s customers meeting specified performance criteria, such as a purchasing level over a period of time. The Company exercises judgment to estimate the most likely amount of variable consideration at each reporting date.

The Company’s typical payment terms are 30 days and its sales arrangements do not contain any significant financing component for its customers. The Company’s customer arrangements do not generate contract assets or liabilities that are material to the consolidated financial statements. The Company generally provides a warranty for workmanship, unless the assembly was designed by the Company, in which case it warrants assembly/design. The Company assembles and tests assemblies based on customers’ specifications prior to shipment. Historically, the amount of returns for workmanship issues has been de minimis under the Company’s standard or extended warranties. The Company does not provide its customers the option to purchase additional warranties and, therefore, the Company’s warranties are not considered a separate service or performance obligation.

The Company utilizes the practical expedient to treat shipping and handling activities after the customer obtains control as fulfillment activities. The Company records shipping and handling costs as selling and administrative expenses and costs are accrued when revenue is recognized.

The Company pays sales commissions to its sales representatives which may be considered as incremental costs to obtain a contract. However, since the recoverability period is less than one year, the Company utilizes the practical expedient provided by the new revenue recognition accounting standard that allows an entity to expense the costs of obtaining a contract as incurred.

During the twelve months of fiscal year 2019, no revenues were recognized from performance obligations satisfied or partially satisfied in previous periods and no amounts were allocated to performance obligations that remain unsatisfied or partially unsatisfied at April 30, 2019. The Company is electing not to disclose the value of the remaining unsatisfied performance obligation with a duration of one year or less as permitted by the practical expedient in ASU 2014-09, “*Revenue from Contracts with Customers*.” The Company had no material remaining unsatisfied performance obligations as of April 30, 2019, with an expected duration of greater than one year.

The following table presents the Company’s revenue disaggregated by the principal end-user markets it serves:

	<u>Year Ended April 30,</u>	
<u>Net trade sales by end-market</u>	<u>2019</u>	<u>2018</u>
Industrial Electronics	\$ 160,435,562	\$ 152,166,932
Consumer Electronics	115,099,199	112,480,023
Medical / Life Sciences	15,019,190	13,484,754
Total Net Trade Sales	<u>\$ 290,553,951</u>	<u>\$ 278,131,709</u>

**SigmaTron International, Inc. and Subsidiaries**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**  
**April 30, 2019 and 2018**

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

*Shipping and Handling Costs*

The Company records shipping and handling costs for goods shipped to customers as selling and administrative expenses. Customers are typically invoiced for shipping costs and such amounts are included in net sales. Shipping and handling costs were not material to the financial statements for fiscal years 2019 or 2018.

*Fair Value Measurements*

Fair value measurements are determined based upon the exit price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants exclusive of any transaction costs. The Company utilizes a fair value hierarchy based upon the observability of inputs used in valuation techniques as follows:

Level 1: Observable inputs such as quoted prices in active markets;

Level 2: Inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and

Level 3: Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

*Fair Value of Financial Instruments*

The Company's financial instruments include cash and cash equivalents, accounts receivable, note receivable, other receivables, accounts payable and accrued expenses which approximate fair value at April 30, 2019 and April 30, 2018, due to their short-term nature. The carrying amounts of the Company's debt obligations approximate fair value based on future payments discounted at current interest rates for similar obligations or interest rates which fluctuate with the market.

The Company measured the contingent consideration included in the fiscal 2013 Spitfire Control, Inc. acquisition under the fair value standard (primarily using level 3 measurement inputs). The contingent consideration was measured and reported at fair value at each period end. The Company currently does not have any other non-financial assets and non-financial liabilities that are required to be measured at fair value on a recurring basis.

The Company entered into an Asset Purchase Agreement with Wagz, Inc. ("Wagz") whereby the Company sold assets to Wagz for \$350,000 cash, 600,000 shares of Wagz Class C Common Stock and an earn-out based on sales by Wagz generated from use of the assets through July 31, 2022. The earn-out is \$6.00 per unit of a product specified in the asset purchase agreement and any upgrade to such product. The fair value of the non-cash consideration at April 30, 2019, is \$600,000 for the 600,000 shares of Wagz common stock.

**SigmaTron International, Inc. and Subsidiaries**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**  
**April 30, 2019 and 2018**

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

*Goodwill*

Goodwill represents the purchase price in excess of the fair value of assets acquired in business combinations. Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 350, “Intangibles – Goodwill and Other,” requires the Company to assess goodwill and other indefinite-lived intangible assets for impairment at least annually in the absence of an indicator of possible impairment and immediately upon an indicator of possible impairment. The Company is permitted the option to first assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the fair value of any reporting unit is less than its corresponding carrying value. If, after assessing the totality of events and circumstances, the Company concludes that it is not more likely than not that the fair value of any reporting unit is less than its corresponding carrying value, then the Company is not required to take further action. However, if the Company concludes otherwise, then it is required to perform a quantitative impairment test, including computing the fair value of the reporting unit and comparing that value to its carrying value (the “step 2” requirement). If the fair value is less than its carrying value, a second step of the test is required to determine if recorded goodwill is impaired. The Company also has the option to bypass the qualitative assessment for goodwill in any period and proceed directly to performing the quantitative impairment test. The Company will be able to resume performing the qualitative assessment in any subsequent period.

For fiscal year 2018, the Company early adopted the guidance contained in Accounting Standards Update (ASU) No. 2017-04, “Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment,” which removes the step 2 requirement to perform a hypothetical purchase price allocation to measure goodwill impairment. Beginning with the Company’s February 1, 2018 goodwill impairment testing, goodwill impairment is the amount by which the Company’s single reporting unit carrying value exceeds its fair value, not to exceed the recorded amount of goodwill. To estimate the fair value of the Company’s equity, the Company used both a market approach based on the guideline companies’ method, and an income approach based on a discounted cash flow analysis. The value indicated by both methods was weighted to arrive at a concluded value. The Company’s fiscal year 2018 assessment concluded that the carrying value of the Company’s equity was greater than the fair value of the Company by an amount greater than the recorded amount of the goodwill and the Company recognized a full goodwill impairment charge of \$3,222,899.

*Intangible Assets*

Intangible assets are comprised of finite life intangible assets including patents, trade names, backlog, non-compete agreements, and customer relationships. Finite life intangible assets are amortized on a straight line basis over their estimated useful lives of 5 years for patents, 20 years for trade names, 1 year for backlog and 7 years for non-compete agreements except for customer relationships which are amortized on an accelerated basis over their estimated useful life of 15 years.

**SigmaTron International, Inc. and Subsidiaries**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**  
**April 30, 2019 and 2018**

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

*Impairment of Long-Lived Assets*

The Company reviews long-lived assets, including amortizable intangible assets, for impairment in accordance with FASB AC 360: *Property, Plant and Equipment*. Property, machinery and equipment and finite life intangible assets are reviewed whenever events or changes in circumstances occur that indicate possible impairment. If events or changes in circumstances occur that indicate possible impairment, the Company first performs an impairment review based on an undiscounted cash flow analysis at the lowest level at which cash flows of the long-lived assets are largely independent of other groups of its assets and liabilities. This analysis requires management judgment with respect to changes in technology, the continued success of product lines, and future volume, revenue and expense growth rates. If the carrying value exceeds the undiscounted cash flows, the Company records an impairment, if any, for the difference between the estimated fair value of the asset group and its carrying value. The Company further conducts annual reviews for idle and underutilized equipment, and reviews business plans for possible impairment. In the fourth quarter of fiscal year 2018, the Company determined that the carrying value of the trade name intangible asset was not recoverable and recorded a fourth quarter charge of \$690,107 for the entire carrying amount. The Company's analysis for fiscal year 2019 did not indicate that any of its other long-lived assets were impaired.

*Settlement of Receivable, Related Sale of Assets and Investments*

As more fully described in Note E – Related Parties, the Company has recorded an investment in Wagz, a privately held company whose equity does not have a readily determinable fair value. As permitted by ASC 321, *Investments - Equity Securities*, paragraph 321-35-2, the Company has elected to carry its investment in Wagz equity at its cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for identical or a similar investment of the same issuer until the investment no longer qualifies to be measured under paragraph 321-35-2. The balance at fiscal year ended April 30, 2018 was \$600,000 which is recorded under other assets. At April 30, 2019, the Company continued to recognize the fair value of the Wagz common stock at \$600,000; it reduced the fair market of the Wagz inventory by \$109,046 and it reserved as bad debt the Wagz total account receivable of \$331,283.

*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.

*Reclassifications*

Certain reclassifications have been made to the previously reported 2018 financial statements to conform to the 2019 presentation. There was no change to net income.

*Revision of Previously Issued Financial Statements*

During the quarter ended April 30, 2019, the Company identified mechanical errors in its calculation of borrowings and payments under its revolving line of credit presented in the consolidated statement of cash flows. The Company assessed the materiality of these errors considering both qualitative and quantitative factors and determined that for the year ended April 30, 2018, the three month periods ended July 31, 2018 and July 31, 2017, the six month periods ended October 31, 2018 and October 31, 2017, and the nine month periods ended January 31, 2019 and January 31, 2018, the errors were immaterial. The Company decided to correct these immaterial errors as revisions to previously issued financial statements and will revise the Forms 10-Q when filed in succeeding periods of the next fiscal year.

**SigmaTron International, Inc. and Subsidiaries**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**  
**April 30, 2019 and 2018**

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

*Revision of Previously Issued Financial Statements - Continued*

The errors had no impact to total cash flows from financing activities, net loss or net loss per share, or the consolidated balance sheets or statements of operations or stockholders' equity.

The effect of the revisions on the Company's previously issued consolidated statements of cash flows for the year ended April 30, 2018 are as follows:

	<b>Year Ended April 30, 2018</b>		
	<b>As Previously Reported</b>	<b>Adjustments</b>	<b>As Revised</b>
Cash flows from financing activities			
Advances on notes receivable	\$ (880,000)	\$ -	\$ (880,000)
Proceeds from the exercise of common stock options	96,017	-	96,017
Proceeds under equipment note	943,136	-	943,136
Payments of contingent consideration	(226,014)	-	(226,014)
Payments under capital lease and sale leaseback agreements	(2,144,866)	-	(2,144,866)
Payments under equipment note	(297,328)	-	(297,328)
Proceeds under building notes payable	7,000,000	-	7,000,000
Payments under building notes payable	(3,741,000)	-	(3,741,000)
Borrowings under revolving line of credit	15,912,446	319,032,107	334,944,553
Payments under revolving line of credit	(9,811,244)	(319,032,107)	(328,843,351)
Payments of financing fees	(174,418)	-	(174,418)
Net cash provided by financing activities	<b>\$ 6,676,729</b>	<b>\$ -</b>	<b>\$ 6,676,729</b>



**SigmaTron International, Inc. and Subsidiaries**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**  
**April 30, 2019 and 2018**

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

*Revision of Previously Issued Financial Statements - Continued*

The effects of the revisions on the line items within the Company's unaudited condensed consolidated statements of cash flows for the three month periods ended July 31, 2018 and 2017, six month periods ended October 31, 2018 and 2017, and nine month periods ended January 31, 2019 and 2018 are as follows:

	Three months Ended July 31, 2018			Three months Ended July 31, 2017		
	As Previously Reported	Adjustments	As Revised	As Previously Reported	Adjustments	As Revised
Cash flows from financing activities						
Proceeds from the exercise of common stock options	\$ -	\$ -	\$ -	\$ 25,542	\$ -	\$ 25,542
Proceeds under equipment note	182,557	-	182,557	636,100	-	636,100
Payments of contingent consideration	(55,075)	-	(55,075)	(45,875)	-	(45,875)
Payments under capital lease and sale leaseback agreements	(643,290)	-	(643,290)	(442,472)	-	(442,472)
Payments under equipment note	(93,798)	-	(93,798)	(46,640)	-	(46,640)
Proceeds under building notes payable	-	-	-	-	-	-
Payments under building notes payable	(70,000)	-	(70,000)	(41,250)	-	(41,250)
Borrowings under revolving line of credit	5,100,005	77,379,006	82,479,011	2,676,851	85,564,315	88,241,166
Payments under revolving line of credit	(177,896)	(77,379,006)	(77,556,902)	(858,971)	(85,564,315)	(86,423,286)
Payments of financing fees	(11,100)	-	(11,100)	(14,631)	-	(14,631)
Net cash provided by financing activities	\$ 4,231,403	\$ -	\$ 4,231,403	\$ 1,888,654	\$ -	\$ 1,888,654

	Six months Ended October 31, 2018			Six months Ended October 31, 2017		
	As Previously Reported	Adjustments	As Revised	As Previously Reported	Adjustments	As Revised
Cash flows from financing activities						
Advances on notes receivable	\$ -	\$ -	\$ -	\$ (315,000)	\$ -	\$ (315,000)
Proceeds from the exercise of common stock options	-	-	-	42,940	-	42,940
Proceeds under equipment note	182,557	-	182,557	943,136	-	943,136
Payments of contingent consideration	(55,075)	-	(55,075)	(112,151)	-	(112,151)
Payments under capital lease and sale leaseback agreements	(1,246,334)	-	(1,246,334)	(966,579)	-	(966,579)
Payments under equipment note	(196,723)	-	(196,723)	(125,085)	-	(125,085)
Proceeds under building notes payable	-	-	-	-	-	-
Payments under building notes payable	(140,000)	-	(140,000)	(82,500)	-	(82,500)
Borrowings under revolving line of credit	10,690,386	161,469,547	172,159,933	9,298,262	166,947,747	176,246,009
Payments under revolving line of credit	(3,785,780)	(161,469,547)	(165,255,327)	(3,675,691)	(166,947,747)	(170,623,438)
Payments of financing fees	(24,197)	-	(24,197)	(14,632)	-	(14,632)
Net cash provided by financing activities	\$ 5,424,834	\$ -	\$ 5,424,834	\$ 4,992,700	\$ -	\$ 4,992,700

**SigmaTron International, Inc. and Subsidiaries**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**  
**April 30, 2019 and 2018**

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

*Revision of Previously Issued Financial Statements - Continued*

	Nine months Ended January 31, 2019			Nine months Ended January 31, 2018		
	As Previously Reported	Adjustments	As Revised	As Previously Reported	Adjustments	As Revised
Cash flows from financing activities						
Advances on notes receivable	\$ -	\$ -	\$ -	(630,000)	\$ -	(630,000)
Proceeds from the exercise of common stock options	-	-	-	96,017	-	96,017
Proceeds under equipment note	182,557	-	182,557	943,136	-	943,136
Payments of contingent consideration	(156,881)	-	(156,881)	(175,269)	-	(175,269)
Payments under capital lease and sale leaseback agreements	(1,783,543)	-	(1,783,543)	(1,536,508)	-	(1,536,508)
Payments under equipment note	(299,648)	-	(299,648)	(203,531)	-	(203,531)
Proceeds under building notes payable	-	-	-	7,000,000	-	7,000,000
Payments under building notes payable	(210,000)	-	(210,000)	(3,671,000)	-	(3,671,000)
Borrowings under revolving line of credit	14,963,270	242,144,025	257,107,295	15,613,799	245,691,562	261,305,361
Payments under revolving line of credit	(5,856,146)	(242,144,025)	(248,000,171)	(7,345,462)	(245,691,562)	(253,037,024)
Payments of financing fees	(51,198)	-	(51,198)	(151,926)	-	(151,926)
Net cash provided by financing activities	\$ <b>6,788,411</b>	\$ -	\$ <b>6,788,411</b>	\$ <b>9,939,256</b>	\$ -	\$ <b>9,939,256</b>

*New Accounting Standards*

In May 2014, the FASB issued Accounting Standards Update (“ASU”) No. 2014-09, “*Revenue from Contracts with Customers (Topic 606)*” which supersedes the revenue recognition requirements in ASC 605, “*Revenue Recognition.*” The guidance requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to a customer, and replaces most existing revenue recognition guidance in U.S. GAAP. The Company adopted the ASU on May 1, 2018 using the modified retrospective transition method. Under the modified retrospective transition method, the cumulative effect of applying ASC 606 to all contracts that are not completed as of the date of adoption is recorded as an adjustment to the opening balance of retained earnings (if applicable) while the comparative periods are not restated and continue to be reported under the accounting standards in effect for those periods. The Company has determined that the amount of revenue from contracts with customers under the new revenue recognition standard is the same as under prior accounting standards. Accordingly, the Company did not record an adjustment to the beginning balance of retained earnings as a result of adopting ASC 606.

**SigmaTron International, Inc. and Subsidiaries**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**  
**April 30, 2019 and 2018**

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

*New Accounting Standards - Continued*

In February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842)”, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). This update requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase of the leased asset by the lessee. This classification will determine whether the lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. This update is effective for annual periods beginning after December 15, 2018, using a modified retrospective approach, with early adoption permitted.

ASC 842 will be effective for the Company on May 1, 2019. There are a number of optional practical expedients made available to simplify the transition of the new standard. The Company has made the following elections:

- to adopt the optional transition method defined within ASU 2018-11 and not restate comparative prior periods but instead recognize a cumulative effect adjustment to the opening balance of retained earnings in the period of adoption;
- to elect the package of three practical expedients addressing whether a contract contains a lease, lease classification and initial direct costs;
- to combine lease and non-lease components as a single component for all asset classes;
- to use a portfolio approach to determine the incremental borrowing rate; and
- to apply the short-term lease exception to leases that, at the commencement date, have a lease term of 12 months or less and do not include an option to purchase the underlying asset that the lessee is reasonably certain to exercise.

During fiscal year 2019, the Company made progress on implementing the new standard which included surveying the Company’s businesses, assessing the Company’s portfolio of leases and compiling a central repository of active leases. The Company evaluated key policy elections and considerations under the standard which the Company will utilize to develop an internal policy to address the new standard requirements. The Company continues to assess the impact on its accounting policies, internal control processes and related disclosures required under the new guidance, as well as its process to determine the actual amount of the required transition adjustment to reflect the balance of the right of use asset and lease liability. These conclusions may change as the Company continues to evaluate the new standard or if there are any changes in the Company’s lease portfolio. The Company does not currently believe that the standard will have a material impact on its results of operations or cash flows.

In June 2016, the FASB issued ASU No. 2016-13, “*Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.*” ASU 2016-13 introduces a new forward-looking approach, based on expected losses, to estimate credit losses on certain types of financial instruments, including trade receivables. The estimate of expected credit losses will require entities to incorporate considerations of historical information, current information and reasonable and supportable forecasts. This ASU also expands the disclosure requirements to enable users of financial statements to understand the entity’s assumptions, models and methods for estimating expected credit losses. For public business entities, ASU 2016-13 is effective for annual and interim reporting periods beginning after December 15, 2019, and the guidance is to be applied using the modified-retrospective approach. Earlier adoption is permitted for annual and interim reporting periods beginning after December 15, 2018. The Company is currently evaluating the new guidance and has not determined the impact this ASU may have on its consolidated financial statements.

On May 1, 2018, the Company adopted the guidance contained in ASU 2016-15, “*Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments.*” The amendments in ASU 2016-15 are applied using a retrospective transition method to each period presented. The Company has evaluated each of the eight specific issues addressed by ASU 2016-15. During the fiscal year ended April 30, 2018, the Company received cash

**SigmaTron International, Inc. and Subsidiaries**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**  
**April 30, 2019 and 2018**

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

*New Accounting Standards - Continued*

settlement of insurance claims related to equipment damaged by a fire and including replacement of inventory and clean-up costs at one of its subsidiaries. The Company has classified these receipts as cash flows from operating activities for the fiscal year ended April 30, 2018. As a result of the adoption of this guidance in fiscal year 2019, the Company reclassified \$251,395 of cash receipts related to this insurance settlement from cash flows from operations to cash flows from investing activities in its statements of cash flows for the fiscal year ended April 30, 2018.

In February 2018, the FASB issued ASU No. 2018-02, “*Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.*” The guidance permits entities to reclassify tax effects stranded in Accumulated Other Comprehensive Income as a result of tax reform to retained earnings. This new guidance is effective for annual and interim periods in fiscal years beginning after December 15, 2018. Early adoption is permitted in annual and interim periods and can be applied retrospectively or in the period of adoption. The Company adopted this ASU in the first quarter of its fiscal year ending April 30, 2019 and it had no impact on its consolidated financial statements.

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**NOTE C - ALLOWANCE FOR DOUBTFUL ACCOUNTS**

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

	<u>2019</u>	<u>2018</u>
Beginning Balance	\$ 300,000	\$ 100,000
Bad debt expense	331,283	200,000
Write-offs	-	-
	<u>\$ 631,283</u>	<u>\$ 300,000</u>

**SigmaTron International, Inc. and Subsidiaries**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**  
**April 30, 2019 and 2018**

**NOTE D - INVENTORIES**

Inventories consist of the following at April 30:

	<u>2019</u>	<u>2018</u>
Finished products	\$ 20,682,669	\$ 20,404,849
Work-in-process	3,037,810	2,075,465
Raw materials	63,203,068	65,652,411
	<u>86,923,547</u>	<u>88,132,725</u>
Less obsolescence reserve	1,343,972	1,202,932
	<u>\$ 85,579,575</u>	<u>\$ 86,929,793</u>

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

	<u>2019</u>	<u>2018</u>
Beginning balance	\$ 1,202,932	\$ 1,264,924
Provision for obsolescence	268,234	-
Write-offs	(127,194)	(61,992)
	<u>\$ 1,343,972</u>	<u>\$ 1,202,932</u>

**NOTE E - RELATED PARTIES**

In March, 2015, two of the Company's executive officers invested in a start-up customer, Petzila, Inc. ("Petzila"). The executive officers' investments constituted less than 2% (individually and in aggregate) of the outstanding beneficial ownership of Petzila, according to information provided by Petzila to the executive officers.

On April 30, 2018, the Company foreclosed on its security interest and held a public sale of the assets in accordance with the requirements of Article 9 of the California Uniform Commercial Code. The Company acquired all of the assets of Petzila as the winning bidder at the public sale by a credit bid of \$3,500,000, the aggregate amount of Petzila's liability to the company. Concurrent with the foreclosure sale, the Company entered into an Asset Purchase Agreement with Wagz, Inc. (Wagz) whereby the Company sold the assets to Wagz for \$350,000 cash, 600,000 shares of Wagz common stock and an earn-out based on sales by Wagz generated from use of the assets through July 31, 2022. The earn-out is \$6.00 per unit of a product specified in the asset purchase agreement and any upgrade to such product.

The fair value of the non-cash consideration consisted of \$600,000 for the 600,000 shares of Wagz common stock which is recorded within other assets. The Company determined the fair value of the equity using the price per common share received by Wagz in a recent financing transaction, a level 3 input. The Company did not assign any value to the earn-out because any receipts from the earn-out are highly uncertain and contingent upon Wagz selling the product specified in the asset purchase agreement between the Company and Wagz. Accordingly, the Company recognized the fair value of the assets received from Wagz and derecognized the receivables from Petzila. The fair value of the assets received from Wagz was approximately \$950,000; therefore, the Company recognized a loss of approximately \$2,509,423 in its consolidated statement of operations for the fiscal year ended April 30, 2018.

**SigmaTron International, Inc. and Subsidiaries**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**  
**April 30, 2019 and 2018**

**NOTE F - PROPERTY, MACHINERY AND EQUIPMENT, NET**

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

	<u>2019</u>	<u>2018</u>
Land and buildings	\$ 17,158,071	\$ 17,072,098
Machinery and equipment	66,390,457	61,746,650
Office equipment and software	11,008,826	10,670,918
Leasehold improvements	2,733,372	2,673,100
Equipment under capital leases	<u>10,164,067</u>	<u>12,417,034</u>
	107,454,793	104,579,800
Less accumulated depreciation and amortization, including amortization of assets under capital leases of \$2,644,661 and \$3,072,310 at April 30, 2019 and 2018, respectively	<u>74,222,024</u>	<u>69,290,803</u>
Property, machinery and equipment, net	<u>\$ 33,232,769</u>	<u>\$ 35,288,997</u>

Depreciation and amortization expense of property, machinery and equipment was \$5,007,440 and \$5,118,297 for the fiscal years ended April 30, 2019 and April 30, 2018, respectively.

**SigmaTron International, Inc. and Subsidiaries**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**  
**April 30, 2019 and 2018**

**NOTE G - INTANGIBLE ASSETS**

*Intangible Assets*

Intangible assets subject to amortization are summarized as of April 30, 2019 and April 30, 2018, as follows:

	April 30, 2019		April 30, 2018	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Spitfire:				
Non-contractual customer relationship	4,690,000	1,977,255	4,690,000	1,609,670
Non-compete agreements	50,000	49,385	50,000	42,245
Total	\$ 4,740,000	\$ 2,026,640	\$ 4,740,000	\$ 1,651,915

Estimated aggregate amortization expense for the Company's intangible assets, which become fully amortized in 2032, for the remaining fiscal years is as follows:

For the fiscal years ending April 30:

2020	\$ 362,410
2021	354,203
2022	346,582
2023	339,128
2024	331,842
Thereafter	979,195
	\$ 2,713,360

Amortization expense was \$374,725 and \$435,043 for the years ended April 30, 2019 and April 30, 2018, respectively.

In conjunction with the May 2012 acquisition of Spitfire Control, Inc., an estimate of the fair value of the contingent consideration, \$2,320,000, was recorded based on expected operating results through fiscal year 2019 and the specific terms of when such consideration would be earned. Those terms provided for additional consideration to be paid based on a percentage of sales and pre-tax profits over those years in excess of certain minimums. Payments were made quarterly each year and adjusted after each year-end audit. The Company adjusted the estimated remaining payments expected to be paid under the agreement, which resulted in an increase of \$40,324 for the fiscal year ended April 30, 2019. Any change in the Company's estimate is reflected as a change in the contingent consideration liability and as additional charges or credits to selling and administrative expenses. This was measured and reported as a level 3 fair value at each period end. The Company made payments totaling \$196,247 and \$226,014 for the fiscal years ended April 30, 2019 and April 30, 2018, respectively. As of April 30, 2019, the contingent consideration liability was \$57,537 compared to \$213,460 at April 30, 2018.

**SigmaTron International, Inc. and Subsidiaries**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**  
**April 30, 2019 and 2018**

**NOTE H - LONG-TERM DEBT**

Debt and capital lease obligations consisted of the following at April 30, 2019 and April 30, 2018:

	<u>2019</u>	<u>2018</u>
Debt:		
Notes Payable - Banks	\$ 35,727,212	\$ 29,279,631
Notes Payable - Buildings	6,650,000	6,930,000
Notes Payable - Equipment	1,328,753	1,548,770
Unamortized deferred financing costs	<u>(303,310)</u>	<u>(319,332)</u>
Total debt	43,402,655	37,439,069
Less current maturities	<u>691,701</u>	<u>655,190</u>
Long-term debt	<u>\$ 42,710,954</u>	<u>\$ 36,783,879</u>
Capital lease and sale leaseback obligations	<u>\$ 4,802,158</u>	<u>\$ 6,618,384</u>
Less current maturities	<u>1,939,374</u>	<u>2,320,538</u>
Total capital lease obligations, less current portion	<u>\$ 2,862,784</u>	<u>\$ 4,297,846</u>

**Notes Payable - Banks**

On March 31, 2017, the Company entered into a \$35,000,000 senior secured credit facility with U.S. Bank, which expires on March 31, 2022. The credit facility is collateralized by substantially all of the Company's domestically located assets. The facility allows the Company to choose among interest rates at which it may borrow funds: the bank fixed rate of five percent or LIBOR plus one and one half percent (effectively 4.09% at April 30, 2019). Interest is due monthly. Under the senior secured credit facility, the Company may borrow up to the lesser of (i) \$35,000,000 or (ii) an amount equal to a percentage of the eligible accounts receivable plus a percentage of the eligible inventory (the "Borrowing Base").

On July 16, 2018, the Company and U.S. Bank entered into an amendment of the revolving line of credit under the senior secured credit facility. The amended revolving credit facility allows the Company to borrow up to the lesser of (i) \$45,000,000 (the "Revolving Line Cap") less reserves or (ii) the Borrowing Base, but no more than 90% of the Company's Revolving Line Cap, except that the 90% limitation will expire if the Company's actual revolving loans for 90 consecutive days after the amendment's effective date are less than 80% of the Company's Borrowing Base and the Company maintains a Fixed Charge Coverage Ratio of 1.2 to 1.0 for four consecutive quarters. The amendment also imposes sublimits on categories of inventory equal to \$10,500,000 on raw materials, \$10,000,000 on finished goods and \$28,000,000 on all eligible inventory.

On December 13, 2018, the Company and U.S. Bank entered into an amendment of the revolving credit facility. The amendment provides an exception to otherwise ineligible foreign receivables for up to \$3,000,000 of receivables paid by certain enumerated account debtors outside of the U.S. and Canada.

On March 22, 2019, the Company and U.S. Bank entered into an amendment of the revolving credit facility. The amendment allows the Company to borrow up to the lesser of (i) the Revolving Line Cap less reserves or (ii) the Borrowing Base, but no more than 95% of the Company's Revolving Line Cap until August 1, 2019 and 90% on and after August 1, 2019. As of April 30, 2019, there was \$35,727,212 outstanding and \$6,645,730 of unused availability under the U.S. Bank facility compared to an outstanding balance of \$29,279,631 and \$5,720,369 of unused availability at April 30, 2018. At April 30, 2019, the Company was in compliance with its financial covenant and other restrictive



**SigmaTron International, Inc. and Subsidiaries**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**  
**April 30, 2019 and 2018**

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**NOTE H - LONG-TERM DEBT - Continued**

*Notes Payable – Banks - Continued*

covenants under the credit facility. Deferred financing costs of \$75,083 were capitalized during the fiscal year ended April 30, 2019, which are amortized over the term of the agreement. As of April 30, 2019 and April 30, 2018, the unamortized amount offset against outstanding debt was \$209,162 and \$192,502, respectively.

On March 15, 2019, the Company's wholly-owned subsidiary, SigmaTron Electronic Technology Co., Ltd., entered into a credit facility with China Construction Bank. Under the agreement SigmaTron Electronic Technology Co., Ltd. can borrow up to 5,000,000 Renminbi, approximately \$743,000 as of April 30, 2019, and the facility is collateralized by Wujiang SigmaTron Electronics Co., Ltd.'s manufacturing building. Interest is payable monthly and the facility bears a fixed interest rate of 6.09%. The term of the facility extends to March 14, 2024. There was no outstanding balance under the facility at April 30, 2019.

The Company is in compliance with its financial covenant and other restrictive covenants and anticipates that its credit facilities, expected future cash flows from operations and leasing resources are adequate to meet its working capital requirements, and fund capital expenditures for the next 12 months. In addition, if customers delay orders, future payments are not made timely, the Company desires to expand its operations, its business grows more rapidly than expected, or the current economic climate deteriorates, additional financing resources may be necessary. There is no assurance that the Company will be able to obtain equity or debt financing at acceptable terms, or at all, in the future. There is no assurance that the Company will be able to retain or renew its credit agreements in the future, or that any retention or renewal will be on the same terms as currently exist

*Notes Payable - Buildings*

The Company entered into a mortgage agreement on December 21, 2017, in the amount of \$5,200,000, with U.S. Bank to refinance the property that serves as the Company's corporate headquarters and its Illinois manufacturing facility in Elk Grove Village, Illinois. The note requires the Company to pay monthly principal payments in the amount of \$17,333, bears interest at a fixed rate of 4.0% per year and is payable over a fifty-one month period. Deferred financing costs of \$74,066 were capitalized in fiscal year 2018 which are amortized over the term of the agreement. As of April 30, 2019, the unamortized amount included as a reduction to long-term debt was \$49,852. A final payment of approximately \$4,347,778 is due on or before March 31, 2022. The outstanding balance was \$4,940,000 and \$5,148,000 at April, 30 2019 and April 30, 2018, respectively.

The Company entered into a mortgage agreement on December 21, 2017, in the amount of \$1,800,000, with U.S. Bank to refinance the property that serves as the Company's engineering and design center in Elgin, Illinois. The note requires the Company to pay monthly principal payments in the amount of \$6,000, bears interest at a fixed rate of 4.0% per year and is payable over a fifty-one month period. Deferred financing costs of \$65,381 were capitalized in the fiscal year 2018 which are amortized over the term of the agreement. As of April 30, 2019 the unamortized amount included as a reduction to long-term debt was \$44,006. A final payment of approximately \$1,505,000 is due on or before March 31, 2022. The outstanding balance was \$1,710,000 and \$1,782,000 at April, 30 2019 and April 30, 2018, respectively.

**SigmaTron International, Inc. and Subsidiaries**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**  
**April 30, 2019 and 2018**

**NOTE H - LONG-TERM DEBT - Continued**

*Notes Payable - Equipment*

The Company routinely enters into secured note agreements with Engencap Fin S.A. DE C.V. to finance the purchase of equipment. The terms of these secured note agreements extend to November 2021 through May 2023, with quarterly installment payments ranging from \$11,045 to \$37,941 and a fixed interest rate ranging from 6.65% to 8.00%.

Annual maturities of the Company's debt, net of deferred financing fees for each of the next five years and thereafter, as of April 30, 2019, are as follows:

<u>Fiscal Year</u>	<u>Bank</u>	<u>Building</u>	<u>Equipment</u>	<u>Total</u>
2020	\$ -	\$ 280,000	\$ 411,701	\$ 691,701
2021	-	280,000	411,701	691,701
2022	35,727,212	5,786,689	381,852	41,895,753
2023	-	-	114,372	114,372
2024	-	-	9,128	9,128
	<u>\$ 35,727,212</u>	<u>\$ 6,346,689</u>	<u>\$ 1,328,754</u>	<u>\$ 43,402,655</u>

*Capital Lease and Sale Leaseback Obligations*

The Company enters into various capital lease and sales leaseback agreements. The terms of the lease agreements mature through January 2023, with monthly installment payments ranging from \$1,455 to \$40,173 and a fixed interest rate ranging from 3.75% to 8.00%.

Annual future minimum obligations under capital leases and sale leaseback agreements for each of the next five fiscal years and thereafter, as of April 30, 2019, are as follows:

<u>Fiscal Year</u>	<u>Total</u>
2020	\$ 2,215,849
2021	1,792,747
2022	1,049,198
2023	133,819
2024	-
Total minimum lease payments	<u>5,191,613</u>
Less: Amounts representing interest	<u>389,455</u>
Present value of net minimum lease payments	<u>\$ 4,802,158</u>

**SigmaTron International, Inc. and Subsidiaries**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**  
**April 30, 2019 and 2018**

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**NOTE H - LONG-TERM DEBT - Continued**

*Other Long-Term Liabilities*

As of April 30, 2019 and April 30, 2018, the Company had recorded \$1,155,907 and \$1,130,557, respectively, for seniority premiums and \$1,067,686 and \$1,052,082, respectively, for retirement accounts related to benefits for employees of the Company's foreign subsidiaries.

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**NOTE I - ACCRUED EXPENSES AND WAGES**

Accrued expenses consist of the following at April 30:

	<u>2019</u>	<u>2018</u>
Interest	\$ 171,551	\$ 121,845
Commissions	176,135	187,936
Professional fees	351,575	322,377
Other - Purchases	183,148	156,634
Other	<u>1,527,902</u>	<u>2,142,000</u>
	<u>\$ 2,410,311</u>	<u>\$ 2,930,792</u>

Accrued wages consist of the following at April 30:

	<u>2019</u>	<u>2018</u>
Domestic wages	\$ 2,030,155	\$ 1,945,142
Bonuses	194,354	467,306
Foreign wages	<u>2,455,890</u>	<u>1,318,307</u>
	<u>\$ 4,680,399</u>	<u>\$ 3,730,755</u>

**SigmaTron International, Inc. and Subsidiaries**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**  
**April 30, 2019 and 2018**

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**NOTE J - INCOME TAX**

U.S. and foreign income (loss) before income tax expense (benefit) for the fiscal years ended April 30 are as follows:

	<u>2019</u>	<u>2018</u>
Domestic	\$ 2,400,998	\$ (5,906,596)
Foreign	<u>(1,534,697)</u>	<u>1,604,274</u>
	<u>\$ 866,301</u>	<u>\$ (4,302,322)</u>

***Income Tax Provision***

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

	<u>2019</u>	<u>2018</u>
<b>Current</b>		
Federal	\$ 285,351	\$ 433,291
State	27,577	28,296
Foreign	<u>531,245</u>	<u>712,846</u>
Total Current	844,173	1,174,433
<b>Deferred</b>		
Federal	458,572	(1,551,921)
State	134,287	(240,647)
Foreign	<u>294,383</u>	<u>(442,317)</u>
Total Deferred	887,242	(2,234,885)
Income tax	<u>\$ 1,731,415</u>	<u>\$ (1,060,452)</u>

**SigmaTron International, Inc. and Subsidiaries**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**  
**April 30, 2019 and 2018**

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**NOTE J - INCOME TAX - Continued**

*Income Tax Provision - Continued*

The difference between the income tax expense (benefit) and the amounts computed by applying the statutory Federal income tax rates to income before tax expense for the fiscal years ended April 30 are as follows:

	<u>2019</u>	<u>2018</u>
<b>U.S Federal Provision:</b>		
At statutory rate	\$ 181,922	\$ (1,325,872)
State taxes	127,245	(151,508)
Foreign tax differential	75,990	60,302
Impact of state tax rate change	626	3,670
Foreign valuation allowance	1,216,504	-
Impact of foreign permanent items	62,544	23,106
Tax law changes	-	581,222
Foreign currency exchange gain/loss	156,119	(172,062)
Foreign inflation adjustment	(96,749)	(129,227)
Stock based compensation	<u>7,214</u>	<u>49,917</u>
Provision for income taxes	<u>\$ 1,731,415</u>	<u>\$ (1,060,452)</u>

**SigmaTron International, Inc. and Subsidiaries**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**  
**April 30, 2019 and 2018**

**NOTE J - INCOME TAX - Continued**

*Deferred Tax Assets and Liabilities*

Deferred income taxes reflect the net tax effects of loss and credit carryforwards and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the deferred tax assets and liabilities for federal, state and foreign income taxes are as follows:

	<u>2019</u>	<u>2018</u>
<b>Deferred Tax Assets</b>		
Federal, foreign & state NOL carryforwards	\$ 1,196,341	\$ 730,561
Foreign tax credit	78,100	78,100
Reserves and accruals	657,471	598,364
Stock based compensation	360,065	314,221
Inventory	962,525	869,471
Other intangibles	778,744	834,512
Deferred rent	83,233	114,171
Allowance for doubtful accounts	162,492	76,500
Other DTA	12,717	-
Federal benefit of state	5,822	-
Total Gross Deferred Tax Assets	<u>4,297,510</u>	<u>3,615,900</u>
Less: Valuation allowance	<u>(1,294,605)</u>	<u>(78,100)</u>
Net Deferred Tax Assets	<u>\$ 3,002,905</u>	<u>\$ 3,537,800</u>
<b>Deferred Tax Liabilities</b>		
Other assets	\$ -	\$ (3,485)
Property, machinery & equipment	(2,615,868)	(2,198,332)
Prepays	(164,598)	(203,924)
Federal benefit of state	-	(22,378)
Total Deferred Tax Liabilities	<u>\$ (2,780,466)</u>	<u>\$ (2,428,119)</u>
Deferred Tax Asset	\$ 384,022	\$ 1,109,681
Deferred Tax Liability	<u>(161,583)</u>	<u>-</u>
Net Deferred Tax Asset (Liability)	<u>\$ 222,439</u>	<u>\$ 1,109,681</u>

On December 22, 2017, the U.S. Government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act makes broad and complex changes to the U.S. tax code, including, but not limited to: (1) reducing the U.S. federal corporate tax rate from 35% to 21%; (2) changing rules related to uses and limitations of net operating loss carryforwards created in tax years beginning after December 31, 2017; (3) bonus depreciation that will allow for full expensing of qualified property; (4) creating a new limitation on deductible interest expense; (5) eliminating the corporate alternative minimum tax; and (6) new tax rules related to foreign operations.

**SigmaTron International, Inc. and Subsidiaries**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**  
**April 30, 2019 and 2018**

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**NOTE J - INCOME TAX - Continued**

*Deferred Tax Assets and Liabilities - Continued*

Due to the Tax Act, the SEC staff issued Staff Accounting Bulletin 118 (“SAB 118”), which provides guidance on accounting for the tax effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting under ASC 740. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Tax Act for which the accounting under ASC 740 is complete. To the extent that a company’s accounting for certain income tax effects of the Tax Act is incomplete but it is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the Tax Act.

Due to the timing of the enactment and the complexity involved in applying the provisions of the Tax Act, the Company made reasonable estimates for certain effects of the Tax Act and recorded provisional amounts in its financial statements as of April 30, 2018. The Company completed its accounting for the tax effects of the Tax Act in fiscal year 2019 with no material changes to the provisional estimates recorded in prior periods.

As of April 30, 2019, the Company does not have a net operating loss carryforward for federal income tax purposes. The Company has state net operating loss carry-forwards totaling approximately \$51,000 at April 30, 2019, that will begin to expire in fiscal year April 30, 2025. The Company has foreign net operating loss carryforwards of \$5,149,000 as of April 30, 2019, which will begin to expire in 2023. The Company recognizes a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion, or all, of a deferred tax asset will not be realized. With the exception of its foreign tax credits and foreign net operating losses described below, the Company determined it is more likely than not that it will realize its deferred tax assets due to the reversal of deferred tax liabilities and forecast of future earnings. The Company has established a valuation allowance of \$78,100 related to its foreign tax credit carry-forward. The Company’s estimate of cumulative taxable income during the foreign tax credit carryforward period is insufficient to support that the tax benefit from the foreign tax credit is more likely than not to be realized. The Company has also established a valuation allowance of \$1,216,505 on its net operating loss carryforwards and other deferred tax assets at one of its Chinese subsidiaries and its Vietnam subsidiaries. Based on historical losses and forecasted future earnings the Company has determined that the tax benefit from such assets are not more likely than not to be realized.

As a result of the Tax Act, the historic undistributed earnings of the Company’s foreign subsidiaries will be taxed in the U.S. via the one-time repatriation tax in fiscal year 2018. As a result of this transition tax, the Company may repatriate its cash and cash equivalents held by its foreign subsidiaries without such funds being subject to further U.S. income tax liability. Certain unrepatriated foreign earnings remain subject to local country withholding taxes upon repatriation. The Company continues to apply its permanent reinvestment assertion on the cumulative amount of unremitted earnings of \$9,141,000 as of April 30, 2019, from its foreign subsidiaries.

*Unrecognized Tax Benefits*

The Company has not identified any uncertain tax positions or expects any to be taken in the Company’s tax returns. For the fiscal years ended April 30, 2019 and April 30, 2018, the amount of consolidated worldwide liability for uncertain tax positions that impacted the Company’s effective tax rate was \$0 for each year.

*Other*

Interest and penalties related to tax positions taken in the Company’s tax returns are recorded in income tax expense and miscellaneous selling, general and administrative expense, respectively, in the consolidated statements of operations. For the fiscal years ended April 30, 2019 and April 30, 2018, the amount included in the Company’s balance sheet for such liabilities was \$0 for each year.

**SigmaTron International, Inc. and Subsidiaries**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**  
**April 30, 2019 and 2018**

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**NOTE J - INCOME TAX - Continued**

*Other - Continued*

The Company is subject to taxation in the U.S. and various state and foreign jurisdictions. With few exceptions, the Company is no longer subject to state, local or foreign examinations by tax authorities for tax years before fiscal year 2015. The Internal Revenue Service previously concluded an audit of the Company's fiscal year 2013 tax return, and a no change letter was issued.

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**NOTE K - 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 per participant annually. The Company contributed \$96,086 and \$90,744 to the plans during the fiscal years ended April 30, 2019 and April 30, 2018, respectively. The Company incurred total expenses of \$11,750 and \$12,700 for the fiscal years ended April 30, 2019 and April 30, 2018, respectively, relating to costs associated with the administration of the plans.

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**NOTE L - 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, 2019, two customers accounted for 15.9% and 15.8% of net sales of the Company, and 3.9% and 11.5%, respectively, of accounts receivable at April 30, 2019. For the fiscal year ended April 30, 2018, two customers accounted for 20.2% and 13.3% of net sales of the Company and 6.0% and 2.9%, respectively, of accounts receivable at April 30, 2018. Further, the Company has \$661,115 in cash in China as of April 30, 2019. Effective May 1, 2015, China implemented a deposit insurance program to insure up to approximately \$81,000 in deposits under certain circumstances. Funds above this amount are not insured by a guaranteed deposit insurance system.



**SigmaTron International, Inc. and Subsidiaries**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**  
**April 30, 2019 and 2018**

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**NOTE M - OPERATING LEASE COMMITMENTS**

The Company leases certain facilities and office space under various operating leases expiring at various dates through April 2024.

Future minimum lease payments under leases with terms of one year or more are as follows:

<u>Years ending April 30,</u>	<u>Operating Leases</u>
2020	\$ 1,808,984
2021	1,387,697
2022	757,738
2023	736,385
2024	<u>42,000</u>
Total future minimum lease payments	<u>\$ 4,732,804</u>

Rent expense incurred under operating leases was \$2,427,658 and \$2,391,328 for the fiscal years ended April 30, 2019 and April 30, 2018, respectively.

In September 2010, the Company entered into a real estate lease agreement in Union City, California, to rent approximately 117,000 square feet of manufacturing and office space. Under the terms of the lease agreement, the Company receives incentives over the life of the lease, which extends through March 2021. The amount of the deferred rent income recorded for fiscal years ended April 30, 2019 and April 30, 2018 was \$128,505 and \$103,599, respectively. In addition, the landlord provided the Company tenant incentives of \$418,000, which are being amortized over the life of the lease. The balance of deferred rent at April 30, 2019, was \$318,568 compared to \$447,073 at April 30, 2018.

On May 31, 2012, the Company entered into a lease agreement in Tijuana, Mexico, to rent approximately 112,000 square feet of manufacturing and office space. Under the terms of the lease agreement, the Company receives incentives over the life of the lease, which expired in November 2018. The amount of the deferred rent income for the fiscal years ended April 30, 2019 and April 30, 2018 was \$85,527 and \$139,437, respectively. The balance of deferred rent at April 30, 2019, was \$0 compared to \$85,527 at April 30, 2018.

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**NOTE N - STOCK COMPENSATION AND EQUITY TRANSACTIONS**

The Company has stock option plans (“Option Plans”) under which certain employees and non-employee directors may acquire shares of common stock. All Option Plans have been approved by the Company’s shareholders. At April 30, 2019, the Company does not have shares available for future issuance to employees under the employee plans and none are available under the non-employee director plans. 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. Each option under the Option Plans is exercisable for one share of stock. 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.

**SigmaTron International, Inc. and Subsidiaries**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**  
**April 30, 2019 and 2018**

**NOTE N - STOCK COMPENSATION AND EQUITY TRANSACTIONS - Continued**

The Company granted 117,914 options to employees in fiscal year 2019. The Company recognized approximately \$166,612 in compensation expense in fiscal year 2019. The balance of unrecognized compensation expense was \$0 at April 30, 2019.

In October 2017, the Company issued 12,500 shares of restricted stock pursuant to the 2013 Non-Employee Director Restricted Stock Plan, which fully vested on April 1, 2018. In October 2018, the Company issued 12,500 shares of restricted stock pursuant to the 2018 Non-Employee Director Restricted Stock Plan, which fully vested on April 1, 2019. The Company recognized \$176,000 in compensation expense in fiscal year 2019. The balance of unrecognized compensation expense related to the Company's restricted stock award was \$0 at April 30, 2019.

The table below summarizes option activity through April 30, 2019:

	Number of securities to be issued upon exercise of outstanding options	Weighted- average exercise price	Number of options exercisable at end of year
Outstanding at April 30, 2017	366,763	5.85	269,863
Options exercised during 2018	(19,445)	4.94	
Outstanding at April 30, 2018	347,318	5.90	347,318
Options granted during 2019	117,914	3.20	
Outstanding at April 30, 2019	<u>465,232</u>	\$ 5.22	465,232

Intrinsic value is calculated as the positive 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, 2019 and April 30, 2018, the aggregate intrinsic value of options exercised was \$0 and \$35,820, respectively. As of April 30, 2019 and April 30, 2018, the aggregate intrinsic value of the options outstanding was \$0 and \$305,396, respectively.

Information with respect to stock options outstanding and exercisable at April 30, 2019 follows:

	Options outstanding and exercisable		
	Number outstanding at April 30, 2019	Weighted-average remaining contract life	Weighted- average exercise price
<u>Range of exercise prices</u>			
\$ 3.20-6.45	<u>465,232</u>	6.68 years	\$ <u>5.22</u>
	<u>465,232</u>		\$ <u>5.22</u>

As of April 30, 2019, there were no non-vested stock options.

**SigmaTron International, Inc. and Subsidiaries**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**  
**April 30, 2019 and 2018**

**NOTE O - SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)**

The following is a summary of unaudited quarterly financial data for fiscal year 2019:

<u>2019</u>	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>
Net sales	\$ 71,414,057	\$ 77,001,091	\$ 68,852,050	\$ 73,286,753
Gross profit	5,789,056	6,694,085	5,529,120	8,329,508
(Loss) income before income taxes (1)	(723,613)	402,051	(601,133)	1,788,996
Net (loss) income (2)	(526,607)	(723,941)	(595,526)	980,960
(Loss) earnings per share Basic	\$ (0.12)	\$ (0.18)	\$ (0.14)	\$ 0.23
(Loss) earnings per share Diluted	\$ (0.12)	\$ (0.17)	\$ (0.14)	\$ 0.23
Weighted average shares- Basic	4,223,657	4,230,008	4,230,008	4,230,766
Weighted average shares- Diluted	4,223,657	4,230,008	4,230,008	4,233,266

- 1.) The Company records inventory reserves for valuation and shrinkage throughout the year based on historical data. In the fourth quarter of fiscal year 2019 physical inventory results were completed resulting in an increase in income before income taxes of approximately \$1,900,000.

The aggregate after-tax effect for the above adjustments in the fourth quarter of fiscal year 2019 was an increase to basic earnings per share of \$0.25.

- 2.) The Company recorded a discrete expense of approximately \$457,000 during the second quarter related to a valuation allowance recorded on Net Operating Loss carryforwards at two of its foreign subsidiaries.

The aggregate after-tax effect for the above adjustments in the second quarter of fiscal year 2019 was an increase to basic earnings per share of \$0.19.

**SigmaTron International, Inc. and Subsidiaries**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**  
**April 30, 2019 and 2018**

**NOTE O - SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED) - Continued**

The following is a summary of unaudited quarterly financial data for fiscal year 2018:

<u>2018</u>	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>
Net sales	\$ 71,224,293	\$ 72,959,074	\$ 65,733,723	\$ 68,214,619
Gross profit	6,757,054	7,103,568	5,897,340	6,844,956
Income (loss) before income taxes (1), (2)	580,845	1,151,454	(115,872)	(5,918,749)
Net income (loss)	382,882	736,115	31,338	(4,392,205)
Earnings (loss) per share Basic	\$ 0.09	\$ 0.17	\$ 0.01	\$ (1.04)
Earnings (loss) per share Diluted	\$ 0.09	\$ 0.17	\$ 0.01	\$ (1.04)
Weighted average shares- Basic	4,195,985	4,201,442	4,209,566	4,215,258
Weighted average shares- Diluted	4,269,501	4,326,854	4,356,509	4,215,258

- 1.) The Company records inventory reserves for valuation and shrinkage throughout the year based on historical data. In the fourth quarter of fiscal year 2018 physical inventory results were completed resulting in an increase in income before income taxes of approximately \$1,500,000.
- 2.) The Company recognized a full goodwill impairment charge of \$3,222,899, an impairment of intangible assets in the amount of \$690,107 and the write off of the account receivable and note receivable related to Petzila in the amount of \$2,509,423.

The aggregate after-tax effect for the above adjustments in the fourth quarter of fiscal year 2018 was a decrease to basic earnings (loss) per share of \$0.55.

**SigmaTron International, Inc. and Subsidiaries**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**  
**April 30, 2019 and 2018**

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**NOTE P - LITIGATION**

From time to time the Company is involved in legal proceedings, claims, or investigations that are incidental to 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 these legal proceedings or claims will have any material adverse impact on its future consolidated financial position or results of operations.



## UNITED STATES

**Manufacturing/Design**  
 SigmaTron International, Inc.  
 Corporate Headquarters  
 Midwest Operations  
 Elk Grove Village, Illinois

West Coast Operations  
 Union City, California

Design Services Center  
 Elgin, Illinois

**Warehouses**  
 Del Rio, Texas  
 El Paso, Texas  
 San Diego, California

## ASIA

**Manufacturing/  
 Value-Added Services**  
 SigmaTron International, Inc.  
 China Operations  
 Suzhou, China

SigmaTron International, Inc.  
 Vietnam Operations  
 Biên Hòa City, Vietnam

**International  
 Procurement Office**  
 SigmaTron International, Inc.  
 Taiwan Procurement Office  
 Taipei City, Taiwan

## MEXICO

**Manufacturing**  
 SigmaTron International, Inc.  
 Mexico Operations:  
 Acuña Operations  
 Chihuahua Operations  
 Tijuana Operations

## ONE SOURCE. GLOBAL OPTIONS.®

For an EMS provider its size, SigmaTron provides an extraordinary global footprint. With strategic locations in the U.S. and lower-cost manufacturing options in Asia and Mexico, our operation is large enough to embrace the most complex programs, yet flexible enough to partner closely with our customers as we drive programs from beginning to end. From our decades-experienced International Procurement Office in Taiwan to our proprietary IT infrastructure with local Customer Focus Teams (CFTs), we respond in real time and provide single-source efficiency that meets the market demands of our increasingly sophisticated customers.

### Information Technology Offices

SigmaTron International, Inc.  
 U.S. Information Technology  
 Elk Grove Village, Illinois

SigmaTron International, Inc.  
 Asia Information Technology  
 Taichung City, Taiwan

## SIGMATRON'S INDUSTRY-SPECIFIC EXPERTISE: OUR DIVERSE, END-USER MARKETS SERVED

Providing a global network of manufacturing options to diverse markets is our reality today and for the future. Whether new or established, our customers represent industry sectors that are crucial in today's global EMS and design services markets valued at \$348 billion and growing. Below is the percentage of SII's net sales to the principal end-user customer markets served in FY19.

55.2%



### INDUSTRIAL

Gaming, controls, smart grid, welding equipment, IOT connectivity.

39.6%



### CONSUMER

Automotive-vision systems, appliances/white goods, E-writers.

5.2%



### MEDICAL/LIFE SCIENCES

Operating tables, battery packs, dental equipment, sterilizers.



**CORPORATE OFFICES**  
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Elk Grove Village, IL 60007

**Tel** 847.956.8000  
**Fax** 847.956.9801

**INVESTOR RELATIONS**  
800.700.9095

[www.sigmatronintl.com](http://www.sigmatronintl.com)

## OFFICERS

### **Gary R. Fairhead\***

Chairman of the Board,  
President and  
Chief Executive Officer

### **Linda K. Frauendorfer\***

Chief Financial Officer,  
Vice President, Finance,  
Treasurer and Secretary

### **Gregory A. Fairhead\***

Executive Vice President  
and Assistant Secretary

### **John P. Sheehan\***

Vice President,  
Director of Supply Chain  
and Assistant Secretary

### **Daniel P. Camp\***

Vice President,  
Acuña Operations

### **Rajesh B. Upadhyaya\***

Executive Vice President,  
West Coast Operations

### **Hom-Ming Chang\***

Vice President,  
China Operations

### **Curtis W. Campbell**

Vice President of Sales,  
West Coast Operations

### **Yousef M. Heidari**

Vice President,  
Engineering

### **Dennis P. McNamara**

Vice President,  
Engineering

### **James E. Barnes\***

Executive Vice President,  
Elk Grove Village and Acuña

### **Thomas F. Rovtar**

Vice President,  
Information Technology

### **Keith D. Wheaton**

Vice President,  
Business Development  
West Coast Operations

\*Executive Officers

## BOARD OF DIRECTORS

### **Gary R. Fairhead**

Chairman of the Board,  
President and Chief  
Executive Officer,  
SigmaTron International, Inc.

### **Linda K. Frauendorfer**

Chief Financial Officer,  
Vice President, Finance,  
Treasurer and Secretary  
SigmaTron International, Inc.

### **Thomas W. Rieck<sup>1,3</sup>**

Partner,  
Rieck and Crotty, P.C.

### **Dilip S. Vyas<sup>2,3,4</sup>**

Independent Consultant

### **Paul J. Plante<sup>1,2</sup>**

President and Owner  
Florida Fresh Vending, LLC

### **Bruce J. Mantia<sup>2</sup>**

Retired Partner  
Ernst & Young LLP

### **Barry R. Horek<sup>1,3</sup>**

Retired Partner  
Ernst & Young LLP

<sup>1</sup> Member of the Audit Committee

<sup>2</sup> Member of the  
Compensation Committee

<sup>3</sup> Member of the  
Nominating Committee

<sup>4</sup> Lead Director

## CORPORATE INFORMATION

### **SEC Counsel**

Greenberg Traurig, LLP  
77 West Wacker Drive  
Chicago, Illinois 60601

### **Corporate Counsel**

Howard & Howard  
Attorneys PLLC  
200 South Michigan Avenue  
Chicago, Illinois 60604

### **Independent**

#### **Public Accountants**

BDO USA, LLP  
330 North Wabash Avenue  
Chicago, Illinois 60611

#### **Form 10-K**

If you would like a free copy of  
the Form 10-K report filed with  
the Securities and Exchange  
Commission, please call  
Linda K. Frauendorfer at the  
SigmaTron corporate office,  
1.800.700.9095.

#### **Stock Transfer Agent and Registrar**

American Stock Transfer &  
Trust Company, LLC  
6201 15th Avenue  
Brooklyn, New York 11219

#### **Stock Information**

The Company's common stock  
has been trading on the Nasdaq  
System under the symbol SGMA  
since the Company's initial public  
offering in February 1994.

The Company has 4 million  
shares of common stock  
outstanding.

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.