

SIGMATRON

INTERNATIONAL, INC.

ANNUAL REPORT 2020

ONE SOURCE. GLOBAL OPTIONS.®

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: Industrial, Consumer 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.

SIGMATRON'S DIVERSE END-USER MARKETS

Providing 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 \$417 billion and growing. Below is the percentage of SII's net sales to the principal end-user customer markets served in FY20.



56.6%

INDUSTRIAL

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

37.7%

CONSUMER

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

5.8%

MEDICAL/LIFE SCIENCES

Operating tables, battery packs, dental equipment, sterilizers.

ON THE COVER



SigmaTron's decades long, One Source. Global Options® positioning offers our customers a dynamic and flexible global manufacturing and procurement network in four countries extending from North America to Asia.

To Our Stockholders,

SigmaTron International, Inc.'s (SII's) fiscal year 2020 can best be characterized as a volatile one—operating highs and lows paired with historic, rapidly changing, and widespread epidemiological and geopolitical events.

In the months preceding first reports of the Coronavirus SARS-CoV-2 (COVID-19), SII was already weathering headwinds fueled by U.S.-China trade tensions and certain customers' backlogged production and inventory controls. Suddenly in Q4, as our customers' programs finally restarted and gained momentum, the electronic manufacturing services (EMS) industry was hit by the unprecedented global pandemic.

FY20 FINANCIAL RESULTS

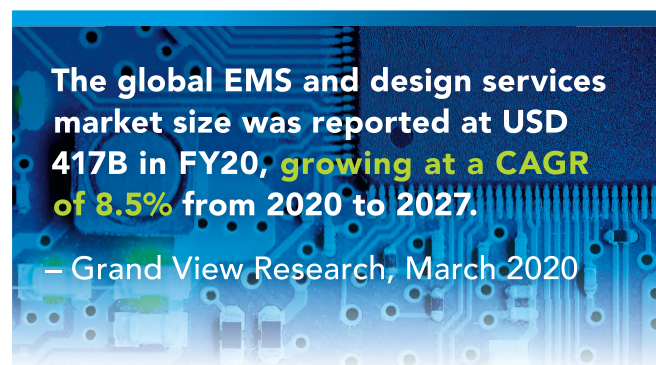
Despite the federal COVID-19 relief bill and other incentives, by Q4 FY20 the U.S. manufacturing industry faced a 5.4% contraction, the steepest decline since 1946. The Company reports that revenues decreased to \$281 million in FY20 from \$290 million in the prior fiscal year. Net income increased to \$443,102 in FY20 compared to a net loss of \$865,114 in FY19. The Company posted a pretax loss of \$172,525 for Q4 of FY20. Company revenues dropped in Q4 as a direct result of the pandemic's rapid spread in North America. In April, the Company received a \$6.3 million Paycheck Protection Program (PPP) loan under the Coronavirus Aid, Relief and Economic Security (CARES) Act. If part or all of the loan is forgiven under the program, the benefit will be recorded in the quarter in which forgiveness occurs.

EMS VERSUS COVID-19

In FY20, SII experienced pre-North American slowdowns based on advance emergency declarations in other countries where we operate. By our year-end, such widespread economic shutdowns brought new industry pressures. SII successfully managed temporary, intermittent shuttering of our divisions, all while expediting Centers for Disease Control and Prevention (CDC) worker safety recommendations.

Thanks to operating longevity in our seven global manufacturing sites, the steady hand of our tenured leadership, and the outstanding commitment of employees across SII, we proudly report five positive developments in our response to COVID-19's challenges:

- **All Customers and EMS Programs Preserved** – While certain programs slowed as plants were temporarily shuttered, we maintained manufacturing production through fiscal year-end.
- **Communications Efficacy Increased** – Building on SII's already high standards, we unified and strengthened our communications systemwide, including customers, supply chain partners, and multinational plant employees.
- **Employee Wellness Advanced** – Our global workforce is of tantamount importance, and we enhanced existing Employee Wellness plans and education in FY20. Ahead, we plan to continue local health and safety protocols including physical distancing, daily health checks, use of acrylic workspace dividers, hand sanitizer stations, and personal protective equipment.
- **Small Business Administration Loan Secured** – In FY 20 SII was granted a \$6.3 million PPP loan and leveraged this government-offered assistance that helped during the early months of the pandemic.
- **EMS Programs Rebounding** – By year-end, we noted incrementally stronger demand signals from our customers short-term.



OUR CENTRALIZED, HIGHLY VALUED SERVICE ARRAY

SII's reputation rests on customer satisfaction built around our convergent and valued global systems and tools, including our **International Procurement Office (IPO)**, Lean and Six Sigma performance philosophy, and formidable quality initiatives that benefit each of the addressable markets we serve.



Led by a Corporate Director of Quality and Compliance, managers in each facility continuously define and tailor our already high-quality standards throughout a program's lifecycle.

In FY20, we announced the expansion and new name for our highly valued **Compliance and Sustainability Center**. Our CSC specialists continuously align quality certifications while supporting customers' social and regulatory reporting that best enables an on-time launch of their products.

Amid COVID-19's temporary plant closures in Q3 and Q4, SII's IPO flexibly drove vital supply chain continuity. Even at the height of the pandemic, we remotely used our secure materials database to adapt supply network shipments. This led raw materials and parts to flow, without interruption, to scheduled production in all seven global facilities.

While FY20 supply chain lead times improved overall, we managed residual tightness; fast changing effects from new tariffs; customer forecasting swings; and certain component shortages. In response and empowered by our global ERP system, our supply chain teams identified certain team members to serve as de facto buyers and liaise with global suppliers. We will continue to expand these roles in FY21 as a support to lean material requirements planning (MRP) systemwide.

"Thanks to operating longevity in our seven global manufacturing sites, the steady hand of our tenured leadership, and the outstanding commitment of employees across SII, we proudly report a number of positive developments in our response to COVID-19's challenges."

In FY20 from hubs in the U.S. and Taiwan, **SII Information Technology (IT)** systems launched deliberate advancements that further shape our Six Sigma processes, increase production visibility and synchronize collaborative program teams across the organization.

SII IT continued prescriptive guidance that drives high technology efficiency to all customer programs and markets. From our Elk Grove Village, Illinois, headquarters and a second location in Taichung City, Taiwan, SII IT continued 24/7 visibility and differentiation while honing our EMS execution efficiencies. We furthered prior years' technologies to limit the effects of COVID-19's stay-in-place orders across divisions; no service disruptions were reported. IT led immediate upgrades to SII's Virtual Private Network to net employees' secure and remote co-working alternatives, such as enhanced instant messaging and videoconferencing. Other SII IT advancements include:

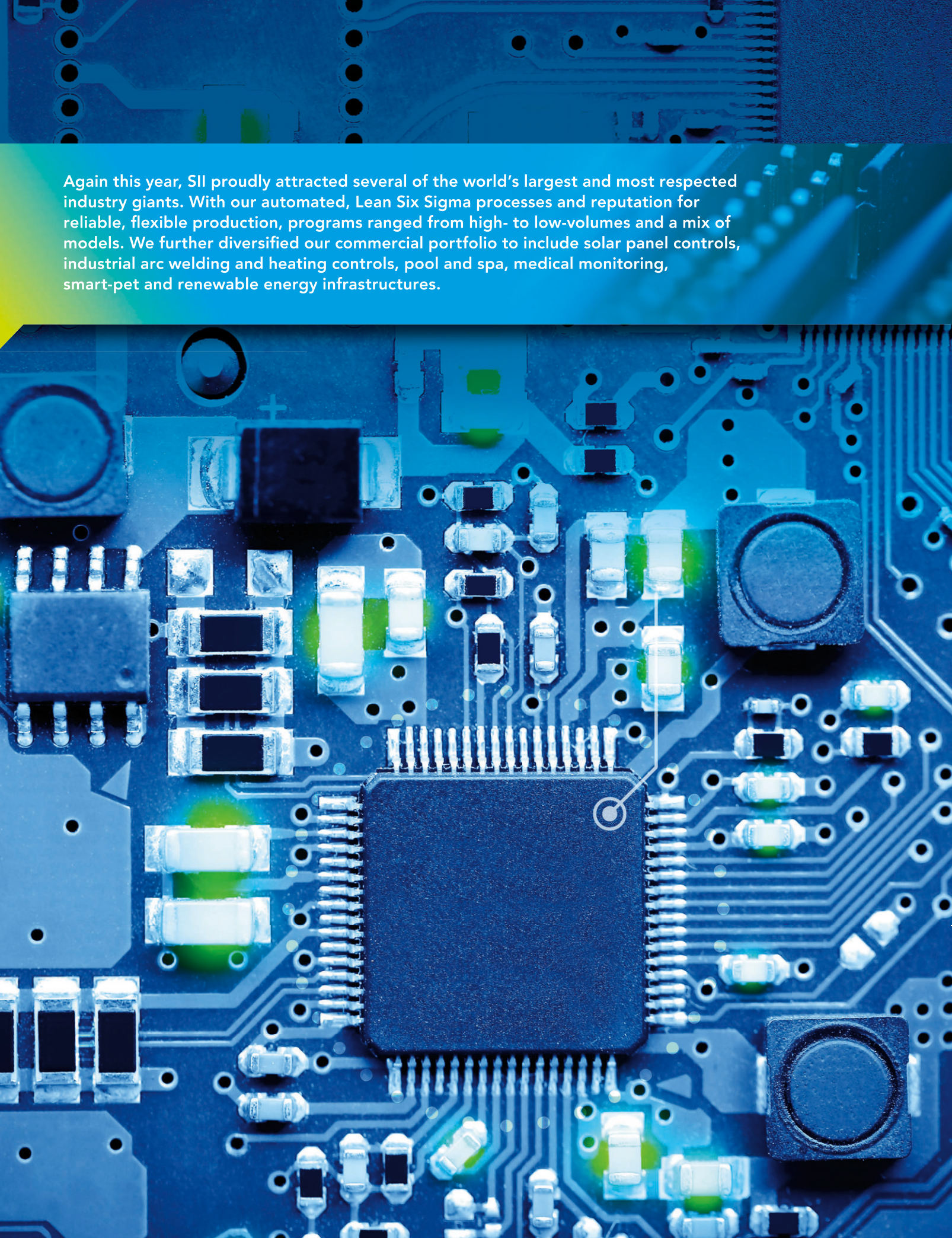
- **Strengthened Tango Interface** – We updated SII's proprietary manufacturing software's Tango interface and security while launching proprietary mobile applications to promote real-time information, increased flexibility and hardware cost savings.
- **Augmented MES, Phases II and III** – Again this year, SII IT advanced its proprietary manufacturing execution system across our global facilities balancing unique customer demands with system standardization and traceability.
- **Hardened Cybersecurity and Training** – We again invested in endpoint security solutions and employee training to further protect our hardware, software and data systems from cyberthreats and unauthorized access.
- **Enhanced Electronic Data Interchange** – SII IT added the latest office automation workflows to our existing EDI platforms, especially valued by newly onboarded suppliers and customers.

In FY21 and beyond, SII IT will continue to drive high technology, system integration and security in response to employees' and customers' needs across our global facilities.

Finally, a core focus led by a Corporate Director of Quality and Compliance with managers in each facility, **SII Quality** systems define and continuously tailor our already high-quality standards throughout a program's lifecycle.



Unique to FY20, SII responded to COVID-19 decrees and followed local health and safety protocols. We reworked shift-patterns to rotate the maximum number of employees allowed, and adapted our restocking programs for finished goods. Even at the height of the pandemic, our IPO remotely leveraged our secure materials database and adapted supply network shipments. This led raw materials and parts to flow, without interruption, to scheduled production in all seven global facilities.



Again this year, SII proudly attracted several of the world's largest and most respected industry giants. With our automated, Lean Six Sigma processes and reputation for reliable, flexible production, programs ranged from high- to low-volumes and a mix of models. We further diversified our commercial portfolio to include solar panel controls, industrial arc welding and heating controls, pool and spa, medical monitoring, smart-pet and renewable energy infrastructures.

FY20 DIVISIONAL PROGRESS – ONE SOURCE. GLOBAL OPTIONS.®

With more than a quarter century of EMS excellence, SII continued driving its core principles to new levels in FY20. We gained traction in our prior years' tactical shift in our commercial portfolio; we grew in higher margin, total solution box builds. Program-for-program, through steady, close collaborations, SII addresses the varied market forces that underlie each of our customers' increasingly complex products. We drive EMS solutions that meet pricing signals and speed opportunities for all through the outstanding resolve and ingenuity of our global workforce. This deeply ingrained commitment is manifest by SII's retention of all customers and EMS programs in FY20—despite the uncertainties caused by the global pandemic.

SIGMATRON UNITED STATES

SII offers customers world-class design, prototyping and manufacturing services from three locations in the U.S.—two operations in central North America, **Elk Grove Village (EGV)** and nearby **Elgin**, in **Illinois**, plus our West Coast operations in **Union City, California**.

In FY20, our EGV headquarters and manufacturing site earned new and important customers, in particular in the industrial market, wireless communications, and in medical/life sciences. For these, the division advanced clarity in its customer communications to support fast changing program variables and certain constrained supply lines. The result ultimately led to a desirable balance of customer products and mix.

As in prior years, EGV deliberately leaned-in to the production of sophisticated box builds and high-level assembly. The division tailored investments in technology and training for advanced capabilities such as in next-level surface mount technology (SMT) placement and inspection; automated optical inspection (AOI); 3D Solder Paste Inspection (3D SPI); and 3D x-ray inspection systems, among others. EGV also maintained all latest quality certifications including once-every-three-years surveillance audits in ISO 9001 and 13485.

Our **Design Services Center (DSC)**, in **Elgin**, continues a decades-long collaborative development model. It manages target costs for all stages of a product's lifecycle in all seven of our global manufacturing sites. We offer hardware and software engineering counsel at the component, sub-assembly and system levels. Following new product introduction (NPI) prototypes and test, our DSC flexibly speeds to market even the most complex EMS programs.

In FY20, DSC's highly valued consumer appliance programs were further diversified and flexibly ranged from high to lower volumes. Specifically, our DSC attracted design and engineering support for several of the world's largest and most respected industry giants, including end uses in solar panel controls, industrial arc welding, pool and spa.

In mid-March, **SII Union City (UC)** complied with a county order to temporarily close. Subsequently, UC was qualified for Essential Business status, and 60% of employees returned to work. Our workforce then ramped up to 80% for the duration of the state's shelter-in-place order that expired on April 30, 2020.

Again, this year UC attracted customers who seek comprehensive EMS, from quick-turn NPI through volume production. Certain customers gained other advantages from the transition of production to one or more of our lower cost regions.

Ahead in FY21, each of our U.S. operations expects momentum to incrementally rebound in the three vibrant markets that we serve. Also, SII's agile and experienced U.S. manufacturing sites will collectively focus on high-level PCBA-only assembly—one key strength in attracting new and expanded customer programs.



SIGMATRON MEXICO

For over two decades, our three facilities in **Acuña, Chihuahua** and **Tijuana, Mexico**, have leveraged the region's five decades of manufacturing experience; a strategic closeness to our U.S. manufacturing sites and warehouses; skilled labor; and critically aligned time zones and work schedules.



With over 25 years of EMS excellence, SII gained traction in our tactical shift in our commercial portfolio and grew in higher-margin, total system integration.

This year, SII Mexico experienced significant renewed interest with many new programs awarded. In addition to expanding its business in the consumer appliance market, the facilities gained a number of medical and industrial programs. These include EMS for renewable energy infrastructures, medical monitoring and measurement equipment. Current customer end uses include construction motor and solar grid controls manufactured with non-wettable parts. To ensure the highest quality, SII Mexico maintained all quality certifications (including automotive and medical). We also advanced efficiency by adding latest SMT and new state-of-the-art In-Circuit Test (ICT) platforms, with inline, 3D AOI and 3D SPI.

In FY20, SII Mexico proudly advanced its Lean Six Sigma process automation vis-à-vis leadership training and other continuous improvements, with benefits continuing into FY21. These further enhanced the site's reputation for adaptive production that ranges from high- to low-volumes and a mix of models.

"SII Information Technology continued prescriptive guidance that drives high technology efficiency to all customer programs and markets, balancing unique customer demands with system standardization and traceability."

Beginning in Q4 FY20, two of our Mexico facilities complied with a COVID-19 decree that required a temporary shutdown. We immediately responded with regional protocols to address and protect employee health and safety in anticipation of phased reopening. Also, shift-patterns were reworked to rotate the maximum number of employees allowed, and we adapted our restocking programs for finished goods.

SII Mexico's mitigations reflect the outstanding commitment of our employees and resulted in no program being lost. By fiscal year-end, government officials eased restrictions with only one April decree extended to mid-May. We expect steady improvements in Mexico's handling of the pandemic will help the operations return to former levels by Q1 of FY21. We plan to continue all employee wellness protocols.

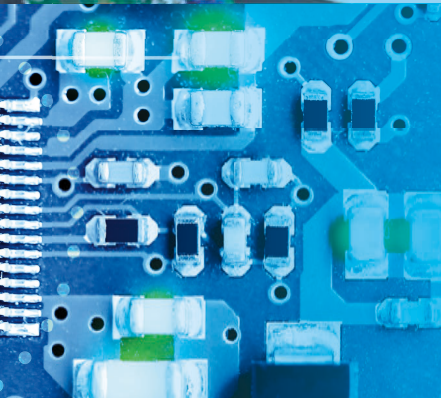
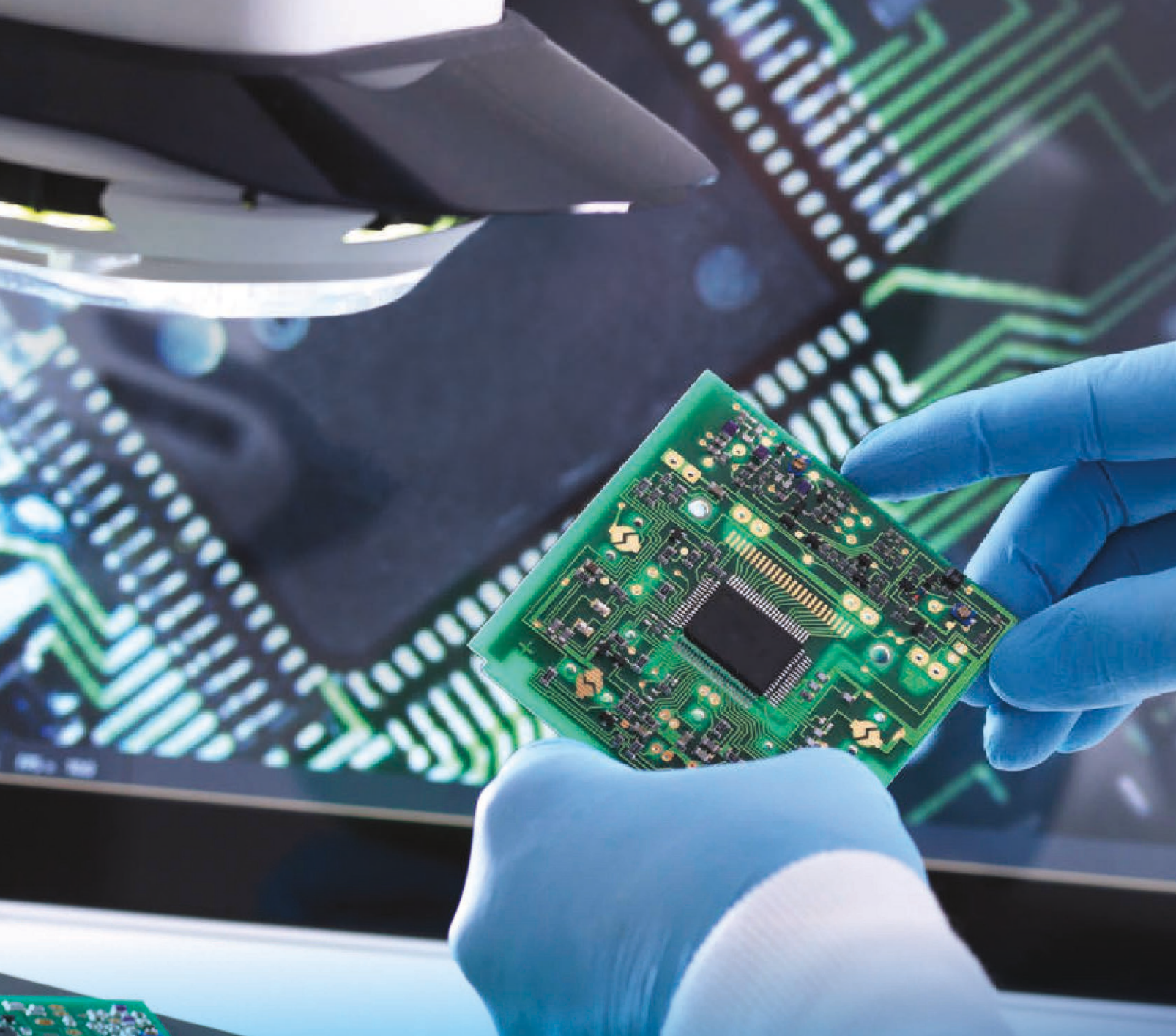
SIGMATRON ASIA

SII's four Asian manufacturing and support service locations extend from **Suzhou, China**, to **Biên Hòa City, Vietnam**, and **Taipei City** to **Taichung City, Taiwan**.

For Suzhou, in the months preceding the announcement of the global pandemic, the division mitigated U.S.-China trade tensions that continue. While China's export business slowed by 30%, it was offset by a 20% growth in local business. Namely, Suzhou has and will continue to capitalize on local businesses who seek U.S.-owned EMS to build and sell their projects in China. This step helps to reduce, yet by no means eliminates, the ongoing effects of new import tariffs.

Our China operation was closed for one week after the Lunar New Year. Suzhou resumed operations in mid-February with employee protections in place. Less than a month after the announcement of COVID-19, all health protocols were met. SII's IPO ensured materials flow; labor capacity and production returned to pre-pandemic levels. For FY21, we will remain compliant with operating guidelines for workplace safety.

Suzhou again attracted new consumer (including IoT), automotive and industrial EMS programs. From NPIs, these progressed to manufacturing and involve a 50-year old Swiss metal technology firm and a fast growing, multinational solar manufacturer. Again, Suzhou was designated a "Best Supplier of the Year" by a multibillion-dollar, industrial category leader. We maintained all quality certifications and also advanced IATF 16949 (automotive) compliance; full certification is expected as production begins.



Our Information Technology (IT) systems launched deliberate advancements that further shape our Six Sigma processes, increase production visibility and synchronize collaborative program teams across the organization. In FY20, SII continued investments in technology and training for advanced capabilities such as in next-level surface mount technology (SMT) placement and inspection; automated optical inspection (AOI) and 3D Solder Paste and x-ray systems. Program-for-program, our close collaborations address the varied market forces that underlie our customers' increasingly complex products.



"SII's reputation rests on **customer satisfaction** built around our **convergent and valued global systems and tools**, including our **IPO, Lean and Six Sigma performance**, and **quality initiatives** that benefit each of the addressable markets we serve."

The division further invested in fully automatic, functional testing, AOI and 3D SPI, and also enhanced its conformal coating capabilities. SII China refined plant floor efficiency and added newly configured, SMT chip shooters.

In the year ahead, SII China will remain adaptable by scaling output up or down; respond to any challenges brought by changing U.S.-China trade policies; and attract new customers across markets.

SII established its **Biên Hòa City, Vietnam**, operations in 2005, and since then, the region has expanded manufacturing at 11% each year—maintaining its status as an industrial hub. Today, manufacturing constitutes 25% of Vietnam's GDP, with government capital committed to modernized transportation and power in its industrial zones.

Amid continued U.S.-China trade tensions this year, Biên Hòa City was again valued as an alternative off-shore manufacturing site; it remains a key dimension of our regional footprint. SII Vietnam offers stable trade policies, attractive labor costs and close proximity to our Southeast Asia supply chains.

For FY20, we followed the same protocols as in SII China but had no COVID-19 mandates in place that affected the operation; it remained in full production the entire period. SII Vietnam again expanded business for its highly valued consumer appliance programs based in the U.S. and Europe that include noteworthy 100-year-old global market category leaders. In addition, Biên Hòa City again diversified production with a further lean-in to new markets, such as industrial heating controls and the smart-pet category.

A MEASURED LOOK AHEAD TO FY21

In the current operating environment, we surmise that many businesses were pleased to see Q3 and Q4 of FY20 come to a close. As SII and all EMS anticipate a fully reopened economy, our One Source. Global Options. strategy will continue unchanged as a conduit to our future success. Indeed, amid the unexpected, SII addressed formidable obstacles and offered the steady hand of our informed and tenured management, plus the commitment of our innovative and dedicated employees. For customers continuing to equilibrate from COVID-19's impact, we remain at-the-ready with over 25 years longevity in the places where we operate. Many thanked us for our exceptional support services during this unprecedented time, and we remain proud of what we accomplished. It bears repeating: In the wake of such uncertainty and extraordinary dedication, not a single customer or program was lost.

I wish to thank all those who help SII to be more productive: our customers, professional and supply chain partners and our Board of Directors. We especially acknowledge our employees for their stellar commitment to the Company during this historic and difficult period.

Despite a hit to our Q4 in FY20, the U.S. reported that 95% of the GDP remained intact with 85% of the GDP being factually domestic. Looking ahead, we expect there may be volatile periods caused by the continuing pandemic. Yet, we remain cautiously optimistic that the economy is moving in a positive direction and that our revenue and opportunities will steadily improve during FY21.

Sincerely,

Gary R. Fairhead
President and Chief Executive Officer
SigmaTron International, Inc.
August 21, 2020

One Source. Global Options.®

For an EMS provider its size, SigmaTron provides an extraordinary global footprint. With globally aligned locations in the U.S. and lower-cost manufacturing options in Asia and Mexico, our right blend of talent and technology tackles the most complex OEM programs, yet is flexible enough to partner closely with customers to meticulously drive programs from beginning to end. From our decades-experienced International Procurement Office in Taiwan, to our proprietary IT infrastructure and local Customer Focus Teams (CFTs), our rapid response provides single-source efficiency that relentlessly meets the market demands of our increasingly sophisticated customers.

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

Compliance and Sustainability Center
Taipei City, Taiwan

MEXICO

Manufacturing

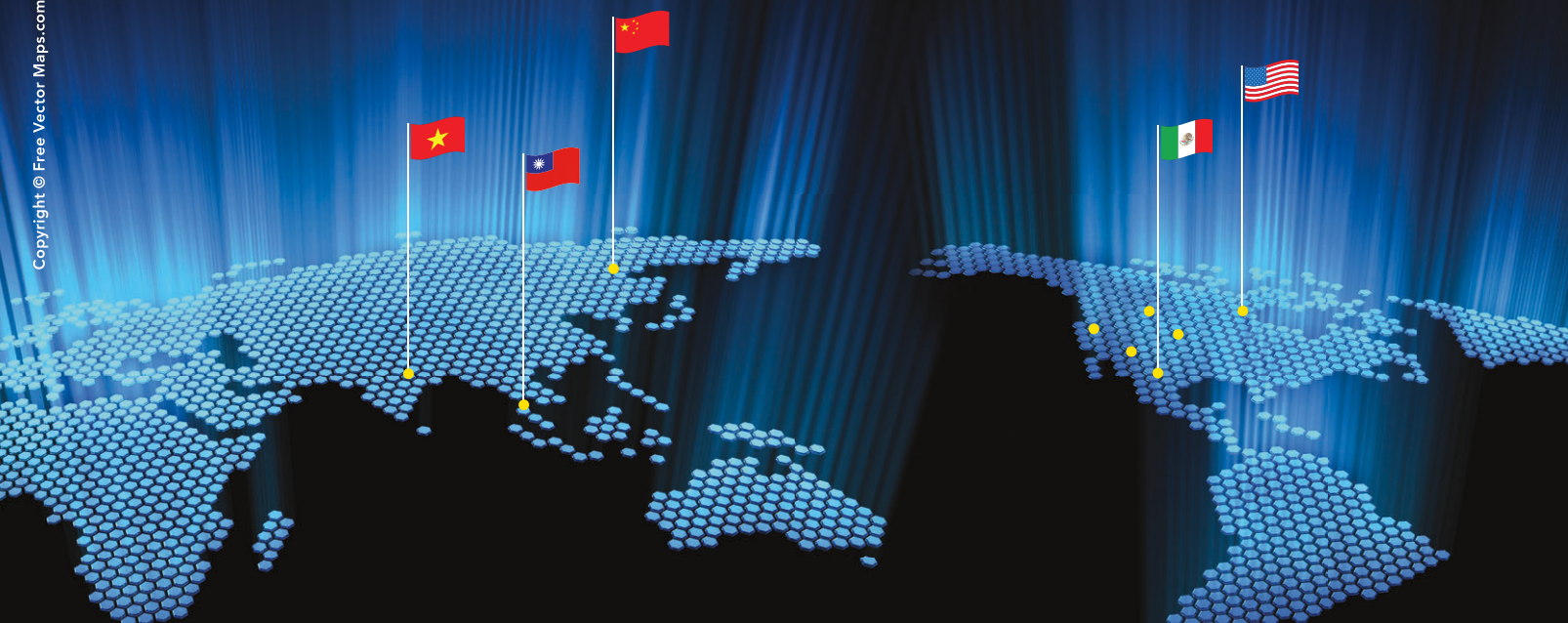
SigmaTron International, Inc.
Mexico Operations

- *Acuña Operations*
- *Chihuahua Operations*
- *Tijuana Operations*

Information Technology Offices

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

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



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 of
Operations and Global Accounts

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^{1,3}

Partner,
Rieck and Crotty, P.C.

Dilip S. Vyas^{2,3,4}

Independent Consultant

Paul J. Plante^{1,2}

President and Owner
Florida Fresh Vending, LLC

Bruce J. Mantia²

Retired Partner
Ernst & Young LLP

Barry R. Horek^{1,3}

Retired Partner
Ernst & Young LLP

¹ Member of the Audit Committee

² Member of the
Compensation Committee

³ Member of the
Nominating Committee

⁴ Lead Director

CORPORATE INFORMATION

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Corporate Counsel

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**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.

**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, 2020.

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 | SGMA | 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, 2019, the last business day of the registrant’s most recently completed second fiscal quarter was \$15,628,096 based on the closing sale price of \$4.18 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 August 6, 2020 was 4,257,508.

DOCUMENTS INCORPORATED BY REFERENCE

Certain sections or portions of the definitive proxy statement of SigmaTron International, Inc., for use in connection with its 2020 annual meeting of stockholders, which the Company intends to file within 120 days of the fiscal year ended April 30, 2020, are incorporated by reference into Part III of this Form 10-K.

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PART I

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 direct and indirect 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 the Company’s operating results; the results of long-lived assets impairment testing; the ability to achieve the expected benefits of acquisitions; the collection of aged account receivables; the variability of the Company’s customers’ requirements; the availability and cost of necessary components and materials; the ability of the Company and its customers to keep current with technological changes within its industries; regulatory compliance, including conflict minerals; the continued availability and sufficiency of the Company’s credit arrangements, including the phase-out of LIBOR; the ability to meet the Company’s financial covenant; 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 spread of COVID-19 (commonly known as “Coronavirus”) which has threatened the Company’s financial stability by causing a decrease in consumer revenues, caused a disruption to the Company’s global supply chain, caused plant closings or reduced operations thus reducing output at those facilities; the stability of the U.S., Mexican, Chinese, Vietnamese and Taiwanese economic, labor and political systems and conditions; currency exchange fluctuations; and the ability of the Company to manage its growth. These and other factors which may affect the Company’s future business and results of operations are identified throughout the Company’s Annual Report on Form 10-K, and as risk factors, 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 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, Coahuila, Mexico (“MX”); Chihuahua, Chihuahua, MX; and Tijuana, Baja California, MX; Suzhou, Jiangsu Province, China; and Ho Chi Minh City, Dong Nai Province, Vietnam. In addition, the Company maintains an International Procurement Office (“IPO”) in Taipei, Taiwan. The Company also provides design services in Elgin, Illinois and warehousing services in Del Rio, Texas; El Paso, Texas; and San Diego, California. 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.

Recent Developments

On June 4, 2020, SigmaTron and Wagz, Inc. (“Wagz”), a privately held company in the pet technology (“Pet Tech”) market, announced that they have executed a Letter of Intent (“LOI”) relating to a proposed business combination. Subject to the terms and conditions set forth in the LOI, SigmaTron expects to issue approximately 2,270,000 shares of SigmaTron common stock that would result in the stockholders of Wagz owning in the aggregate approximately one-third of the combined company. The potential benefits to the Company from that transaction were summarized in the June 4, 2020 announcement. The parties expect the transaction to close by the end of October 2020 and it remains subject to achievement of certain milestones and satisfaction of conditions by both parties prior to closing including finalizing a material definitive agreement and the Company raising additional capital that it projects will be needed for the expanded operations in the amount of approximately or not less than \$7,500,000.

A pandemic of respiratory disease (abbreviated “COVID-19”) began to spread globally, including to the United States, in early 2020. On March 11, 2020, the World Health Organization (WHO) declared COVID-19 to be a public health emergency of international concern. The full impact of the COVID-19 outbreak is inherently uncertain at the time of this report. The COVID-19 outbreak has resulted in travel restrictions and in some cases, prohibitions of non-essential activities, disruption and shutdown of certain businesses and greater uncertainty in global financial markets. The Company cannot predict the extent to which the COVID-19 outbreak will impact its business or operating results, which is highly dependent on inherently uncertain future developments, including the severity and duration of the COVID-19 outbreak and the actions taken by governments and businesses in relation to COVID-19 containment. The Company has adopted several measures in response to the COVID-19 outbreak. The Company has been able to continue to meet the needs of its customers. For more information on the potential impact of the COVID-19 pandemic on the Company, see “Item 1A. Risk Factors – The ongoing COVID-19 global pandemic and measures taken in response thereto have adversely affected the Company’s results of operations and its financial condition, and the full impact of the pandemic will depend on future developments, which are highly uncertain and cannot be predicted.”

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 assembly and test complexity. 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. 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.

Government Compliance, 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 Locations 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, 2020, the Company had approximately 190 active customers ranging from Fortune 500 companies to small, privately held enterprises.

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

| <u>Markets</u> | <u>Typical OEM Application</u> | <u>Percent of Net Sales</u> | |
|------------------------|---|-----------------------------|----------------------|
| | | <u>Fiscal 2020 %</u> | <u>Fiscal 2019 %</u> |
| Industrial Electronics | Health club equipment, gaming, controls, smart grid, IOT connectivity, welding equipment, food processing equipment, solar energy devices | 56.5 | 55.2 |
| Consumer Electronics | Appliances/white goods, automotive-vision systems, E-writers | 37.7 | 39.6 |
| Medical/Life Sciences | Operating tables, battery packs, dental equipment, sterilizers | 5.8 | 5.2 |
| Total | | <u>100%</u> | <u>100%</u> |

For the fiscal year ended April 30, 2020, the Company's largest two customers, Whirlpool Inc. and Electrolux accounted for 16.7% and 14.1%, respectively, of the Company's net sales. For the fiscal year ended April 30, 2019, Whirlpool Inc. and Electrolux accounted for 15.9% and 15.8%, respectively, of the Company's net sales. The Company believes that Whirlpool Inc. and Electrolux 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.

The majority of sales are made to U.S. based customers and denominated in USD. The following geographic data includes net sales based on the country location of the Company's operation providing the electronic manufacturing service for the year ended April 30, 2020 and 2019:

| <u>Location</u> | <u>Net Sales Fiscal 2020</u> | | <u>Net Sales Fiscal 2019</u> | |
|-----------------|------------------------------|--------------------|------------------------------|--------------------|
| United States | \$ | 75,443,339 | \$ | 70,637,601 |
| Mexico | | 146,922,207 | | 147,985,643 |
| China | | 45,198,018 | | 60,884,385 |
| Vietnam | | 13,478,918 | | 11,046,322 |
| Total | \$ | <u>281,042,482</u> | \$ | <u>290,553,951</u> |

Approximately 16% of the total assets of the Company are located in foreign jurisdictions outside the United States as of April 30, 2020, 10% and 4% of the total assets were located in China and Mexico, respectively, and 2% in other foreign locations. As of April 30, 2019, approximately 13% of the total assets were located in foreign jurisdictions, 8% and 4% were located in China and Mexico, respectively, and 1% in other foreign locations.

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 six independent manufacturers' representative organizations that together currently employ 16 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 tradeshow.

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 operations in 1968 and had 814 employees at April 30, 2020. 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 352 employees at April 30, 2020. 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 564 employees at April 30, 2020. 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 216,950 and the operation had 464 employees as of April 30, 2020. 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 325 employees as of April 30, 2020.

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, 2020, resulted in net foreign currency transaction losses of approximately \$285,654 compared to net foreign currency losses of \$433,742 in the prior year. In fiscal year 2020, the Company paid approximately \$60,510,000 to its foreign subsidiaries for manufacturing services. All intercompany balances have been eliminated upon consolidation.

The consolidated financial statements as of April 30, 2020, 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 Restriction of Hazardous Substances ("RoHS") and Registration, Evaluation, Authorization and Restriction of Chemicals ("REACH"). 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 substances of very high concerns ("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") and contributing conflict. Consistent with recent prior years, in May 2020, 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 \$1,700,000 for the three most recently completed fiscal years ending April 30, 2020. 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, 2020, and April 30, 2019, was approximately \$272,550,000 and \$269,660,000, respectively. The Company believes a significant portion of the backlog at April 30, 2020, will ship in fiscal year 2021. 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 3,065 full-time employees of which approximately 535 were located in the U.S. as of April 30, 2020. There were 205 engaged in engineering or engineering-related services, 2,512 in manufacturing and 348 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 7, 2022. 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 April 30, 2022.

Since the time the Company commenced operations, it has not experienced any union-related work stoppages.

Available Information

The Company's website address is www.sigmatronintl.com. The Company announces material information, including press releases 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/), press releases, filings with the SEC 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 | 68 | 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 | 59 | Chief Financial Officer, Vice President of Finance, Treasurer and Secretary since February 1994. Director of the Company since August 2011. |
| Gregory A. Fairhead | 64 | 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 | 59 | Vice President, Director of Supply Chain and Assistant Secretary since February 1994. |
| Daniel P. Camp | 71 | 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 | 65 | 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 | 60 | 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 | 38 | Executive Vice President, Operations and Global Accounts 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 ongoing COVID-19 global pandemic and measures taken in response thereto have adversely affected the Company's results of operations and its financial condition, and the full impact of the pandemic will depend on future developments, which are highly uncertain and cannot be predicted.

The COVID-19 pandemic has materially and adversely impacted the worldwide economy and financial markets, which could lead to a prolonged economic recession. In response, the federal and state governments in the U.S. have taken unprecedented monetary and fiscal policy actions across all sectors of the U.S. economy, and there is significant uncertainty as to the timing of stabilization and recovery. The Company's business, results of operations, and financial condition were adversely affected by the COVID-19 pandemic in the fourth quarter of fiscal year 2020, especially beginning in mid-March, and such impact continues into the first quarter of fiscal year 2021. The COVID-19 pandemic and both public and private measures taken to contain it have negatively affected the Company's business, results of operations, financial condition, and liquidity, all of which may continue or worsen. The following are some of the issues that the Company continues to face:

- *Prolonged recessionary concerns.* The COVID-19 pandemic has resulted in a significant reduction of economic activity in the U.S., as well as a significant increase in unemployment, which could lead to a prolonged economic recession;
- *Interruptions in the operations of industries in which the Company's products are used, including EMS.* Consumer and business discretionary spending has been significantly curtailed and may worsen, all of which adversely impacts some of the Company's customers' businesses, financial condition, and liquidity; even when certain government and regulatory restrictions are lifted, consumer discretionary spending, and demand for the Company's customers' products, may continue to be challenged due to uncertainty in the marketplace;
- *The Company's facilities have been affected by the COVID-19 pandemic.* The Company has experienced plant closings or reduced operations in the following locations: Elk Grove Village, Illinois U.S., Union City, California U.S., Suzhou, China; Acuna, Coahuila MX; Chihuahua, Chihuahua MX; and Tijuana, Baja California MX. While all of the Company's facilities are currently operational, it has experienced and continues to experience employee absences that negatively affect production capabilities, revenues, and cash flow. The Company has and will continue to take actions to manage its expenses and to conserve its financial resources;
- *Actual and potential delays in customer payments, defaults on the Company's customer credit arrangements; or other failures by third parties such as suppliers, and distributors to meet their obligations to the Company due to their economic circumstances.* The financial markets have also been adversely impacted by the COVID-19 pandemic, potentially causing operational cash flow issues for the Company, and potentially causing similar issues for the Company's customers, including, but not limited to, affecting their ability to meet their payment obligations to us;
- *Adapting business practices.* The Company has and will continue to take actions to manage its expenses and to conserve its financial resources. The spread of COVID-19 has caused the Company to modify its business practices, particularly with respect to its liquidity position and near-term cost structure. The Company's future strategies, prospects, and plans for growth may also be negatively impacted by the COVID-19 pandemic;
- *Potential impact on the Company's ability to meet obligations under credit facilities.* The pandemic could impact the Company's ability to meet its obligations under its credit agreement and other outstanding debt, which may require the Company to seek covenant relief for a limited period of time. Although there can be no assurance that such relief would be available, if such relief is available, the Company's lenders may, in exchange, increase the

cost of borrowing, apply more stringent covenants, restrict merger and acquisition activity, and require other terms and conditions that may limit its business and financing activities; and

- *Interruptions in manufacturing or distribution of the Company's products.* Outbreaks in the communities in which the Company operates could affect its ability to operate its manufacturing or distribution activities, and the Company's suppliers could experience similar interruptions.

The full extent to which COVID-19 impacts the Company's business, results of operations and financial condition will depend on future developments, which are highly uncertain and cannot be predicted, including, but not limited to, the duration and spread of the outbreak within the U.S., China, Mexico, Vietnam and Taiwan, its severity, the actions to contain the virus or treat its impact, and how quickly and to what extent normal economic and operating conditions can resume. Even after COVID-19 has subsided, the Company may continue to experience materially adverse impacts to its business as a result of its global economic impact, including any recession that has occurred or may occur in the future. There are no comparable recent events which may provide guidance as to the effect of the spread of COVID-19, and, as a result, the ultimate impact of COVID-19, or a similar health epidemic or pandemic, is highly uncertain and subject to change. The Company does not yet know the full extent of the impacts on its business, its operations or the global economy as a whole. However, the effects could have a material impact on the Company's results of operations. While it continues to monitor the business metrics that it has historically used to predict its financial performance, it is uncertain as to whether these metrics will continue to function as they have in the past.

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 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.

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.

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.

The Company's customer base is concentrated.

Sales to the Company's five largest customers accounted for 51.4% and 49.7% of net sales for the fiscal years ended April 30, 2020, and April 30, 2019, respectively. For the fiscal year ended April 30, 2020, two customers accounted for 16.7% and 14.1% of net sales of the Company, and 3.6% and 5.0%, respectively, of 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. 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.

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'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 2.33% at April 30, 2020). Interest is due monthly.

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 (i) 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 (ii) 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 of \$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 April 23, 2020, the Company entered into a loan with U.S. Bank, as lender, pursuant to the Paycheck Protection Program of the CARES Act as administered by the U.S. Small Business Administration (the “SBA”) in the amount of \$6,282,973. The loan, in the form of a promissory note, matures on April 23, 2022. No additional collateral or guarantees were provided by the Company for the loan. The PPP loan provides for customary events of default. Under the CARES Act, loan forgiveness is available for the sum of documented payroll costs, rent payments, mortgage interest and covered utilities during the 24-week period beginning on the date of loan disbursement. The Company may be required to repay any portion of the outstanding principal that is not forgiven, along with accrued interest, and it cannot provide any assurance that it will be eligible for loan forgiveness, or that any amount of the PPP Loan will ultimately be forgiven by the SBA. All aspects of the PPP loan are subject to review by the SBA, including without limitation, the Company’s eligibility for and the size of the loan. The review procedures have not been made public. The Company cannot predict the outcome of that review nor be assured that all or any part of the loan will be forgiven. To the extent that all or part of the PPP loan is not forgiven, the Company will be required to make payments, including interest accruing at an annual interest rate of 1.0% beginning on the date of disbursement

On July 15, 2020 and August 7, 2020, the Company and U.S. Bank entered into amendments of the revolving credit facility. The amendments revise the Fixed Charge Coverage Ratio.

As of April 30, 2020, there was \$26,884,494 outstanding and \$13,850,575 of unused availability under the U.S. Bank facility compared to an outstanding balance of \$35,727,212 and \$6,645,730 of unused availability at April 30, 2019.

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 \$709,000 as of April 30, 2020, and the facility is collateralized by Wujiang SigmaTron Electronic 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. As of April 30, 2020 the outstanding balance under the facility was \$304,658. 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 as of April 30, 2020.

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 have returned. 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.

The Company may not be entitled to forgiveness of its recently received Paycheck Protection Program Loan (“PPP loan”), and its application for the PPP loan could in the future be determined to have been impermissible.

On April 23, 2020 the Company received proceeds of \$6,282,973 from a loan under the PPP of the CARES Act, which it has used to retain current employees, maintain payroll and make lease and utility payments. The PPP loan matures on April 23, 2022 if not forgiven and bears annual interest at a rate of 1.0%. Due to the size of the PPP loan, it is subject to review, which introduces an additional layer of uncertainty.

Under the CARES Act, small businesses may apply for a PPP loan if they employ no more than 500 employees, or are a business in an industry that has an employee-based size standard established by the SBA that is greater than 500 employees. The Company operates under NAICS Code 334418 where the minimum employee threshold is 750. In establishing eligibility for a PPP loan, the Company has considered its U.S. Resident

headcount based on the SBA rules in place at the time of the application, which the Company believes is within the eligibility threshold.

Under the CARES Act, forgiveness of a PPP loan is available for the sum of documented payroll costs, covered rent payments, covered mortgage interest and covered utilities during the 24-week period beginning on the date of loan approval. The Company may be required to repay any portion of the outstanding principal that is not forgiven, along with accrued interest, and it cannot provide any assurance that it will be eligible for loan forgiveness, or that any amount of the PPP loan will ultimately be forgiven by the SBA. If the loan is not forgiven, the Company will be required to pay the lender equal monthly payments of principal and interest as required to fully amortize by April 23, 2022 any principal amount outstanding on the PPP loan. In order to apply for the PPP loan, the Company was required to certify, that the current economic uncertainty, including, among other factors, the short term customer demand reduction, made the PPP loan request necessary to support its ongoing operations. The Company made this certification in good faith after analyzing, among other things, the continued employment of its entire U.S. workforce, certain obvious “work-from-home” limitations associated with the nature of its business, and its ability to meet fixed cost obligations, in light of customer concerns. Furthermore, the Company considered its classification as a “smaller reporting company” under SEC rules and its need for additional funding to continue operations, and its lack of ability to currently access alternative forms of capital in the current market environment to fund working capital requirements. Based on this analysis, it believes that it satisfied all eligibility criteria for the PPP loan, and that the receipt of the PPP loan is consistent with the broad objectives of the CARES Act. If, despite the Company’s actions and certification that it satisfied all eligibility requirements for the PPP loan, it is later determined that it violated applicable laws or was otherwise ineligible to receive the PPP loan, it may be required to repay the PPP loan in its entirety in a lump sum or be subject to additional penalties, which could also result in adverse publicity and damage to the Company’s reputation. If these events were to transpire, they could have a material adverse effect on the Company’s business, results of operations and financial condition.

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.

The Company may not be able to achieve the expected benefits of the proposed business combination between the Company and Wagz (the “acquisition”), including anticipated revenue and cost synergies, and costs associated with achieving synergies or integrating Wagz may exceed its expectations.

The Company may not be able to achieve the expected benefits of the Wagz acquisition, including anticipated revenue and cost synergies. There can be no assurance that the Wagz acquisition will be beneficial to the Company. Moreover, the Company may not be able to integrate the assets acquired in the Wagz acquisition or achieve our expected cost synergies without increases in costs or other difficulties. Although Wagz will be a stand-alone operation of SigmaTron, the integration process may be complex, costly and time-consuming. The Company expects to incur expenses in connection with the integration of the Wagz acquisition. While it is anticipated that certain expenses will be incurred to achieve operational synergies, such expenses are difficult to estimate accurately, and may exceed current estimates. Accordingly, the benefits from the Wagz acquisition may be offset by costs incurred or delays in integrating the businesses. Any unexpected costs or delays incurred in connection with the integration of the Wagz acquisition could have an adverse effect on the Company's business, results of operations, financial condition and prospects, as well as the market price of its common stock.

The overall integration of the businesses may result in material unanticipated problems, expenses, liabilities, competitive responses, loss of customer relationships, and diversion of management's attention. In addition, even if the operations of the Company's business and Wagz's business are integrated successfully, the Company may not realize the full benefits of the Wagz acquisition, including the synergies, cost savings or sales or growth opportunities that it expects. These benefits may not be achieved within the anticipated time frame, or at all.

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.

The phase-out of the London Interbank Offered Rate (LIBOR), or the replacement of LIBOR with a different reference rate or modification of the method used to calculate LIBOR, may adversely affect interest rates which may have an adverse impact on the Company.

LIBOR is the basic rate of interest used in lending between banks on the London interbank market and is widely used as a reference for setting the interest rate on loans globally. The Company uses LIBOR as a reference rate in its senior secured credit facility. The interest rate for the Company's senior secured credit facility is calculated using LIBOR. The Company's revolving credit facility contains a stated minimum value for LIBOR, and as of April 30, 2020, the Company had \$26,884,494 in outstanding indebtedness indexed to LIBOR.

In July 2017, the United Kingdom's Financial Conduct Authority, which regulates LIBOR, announced that it intends to stop compelling banks to submit LIBOR rates after 2021. It is unclear whether LIBOR will cease to exist at that time or if new methods of calculating LIBOR will be established such that it continues to exist after 2021. The Alternative Reference Rates Committee ("ARRC") has proposed that the Secured Overnight Financing Rate ("SOFR") as the rate that represents best practice as the alternative to LIBOR for use in financial and other derivatives contracts that are currently indexed to United States dollar LIBOR. ARRC has proposed a paced market transition plan to SOFR from LIBOR and organizations are currently working on industry wide and company specific transition plans as it relates to financial and other derivative contracts exposed to LIBOR. Uncertainty exists as to the transition process and broad acceptance of SOFR as the primary alternative to LIBOR. At this time, due to a lack of consensus existing as to what rate or rates may become accepted alternatives to LIBOR, it is impossible to predict the effect of any such alternatives on the Company's liquidity. However, if LIBOR ceases to exist or a new method of calculating LIBOR is adopted, the Company may need to renegotiate its credit agreements that utilize LIBOR as a factor in determining the interest rate to replace LIBOR with the new standard that is established. In addition, these changes may have an adverse impact on the value of or interest earned on any LIBOR-based marketable securities, loans and derivatives that are included in the Company's financial assets and liabilities, which may have a material adverse effect on its financial condition 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.

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. Lead times have recently 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.

Most of the Company's customers production schedules are volatile, 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.

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 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.

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, 2020, resulted in net foreign currency transaction losses of \$285,654 compared to net foreign currency losses of approximately \$434,000 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 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, the ability to identify, hire, train and retain qualified personnel and operating management in Mexico, China and Vietnam, and the Company's ability to manage disruptions resulting from foreign government lockdowns and other actions taken in response to the COVID-19 pandemic.

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 16% of the total assets of the Company are located in foreign jurisdictions outside the United States as of April 30, 2020, of which 10% and 4% of the total assets were located in China and Mexico, respectively, and 2% in other foreign locations. As of April 30, 2019, approximately 13% of the total assets were located in foreign jurisdictions, of which 8% and 4% were located in China and Mexico, respectively, and 1% in other foreign locations.

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 46% and 48% of its workforce for fiscal years 2020 and 2019, respectively. 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.

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.

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.

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.

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.

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 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.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

At April 30, 2020, 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 material procurement services through all its locations. 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 | 216,950 | 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 | 121,000 | Electronic and electromechanical manufacturing solutions | Leased |
| Tijuana, Mexico | 112,100 | Electronic and electromechanical manufacturing solutions | Leased |
| El Paso, TX | 18,200 | Warehousing and distribution | Leased |
| Elgin, IL | 45,000 | Design services | Owned |
| Del Rio, TX | 28,000 | Warehousing and distribution | Owned |
| Del Rio, TX | 16,000 | Warehousing and distribution | Leased |
| San Diego, CA | 30,240 | Warehousing and distribution | Leased |
| Ho Chi Minh City, Vietnam | 24,475 | Electronic and electromechanical manufacturing solutions | Leased |
| Taipei, Taiwan | 4,685 | International procurement office | Leased |
| Taichung, Taiwan | 1,650 | Information technology office | 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 ending on July 15, 2053.

**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 El Paso, Texas properties are occupied pursuant to leases of the premises. The lease agreement for the El Paso, Texas property expires January 2030. The lease agreement for the San Diego, California property expires August 2024. 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, Del Rio, Texas, 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 Del Rio, Texas, 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.

PART II

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

Market Information

The Company's common stock is traded on the NASDAQ Capital Market System under the symbol SGMA.

As of August 6, 2020, there were approximately 35 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 1,302 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 direct and indirect 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 the Company’s operating results; the results of long-lived assets impairment testing; the ability to achieve the expected benefits of acquisitions; the collection of aged account receivables; the variability of the Company’s customers’ requirements; the availability and cost of necessary components and materials; the ability of the Company and its customers to keep current with technological changes within its industries; regulatory compliance, including conflict minerals; the continued availability and sufficiency of the Company’s credit arrangements, including the phase-out of LIBOR; the ability to meet the Company’s financial covenant; 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 spread of COVID-19 (commonly known as “Coronavirus”) which has threatened the Company’s financial stability by causing a decrease in consumer revenues, caused a disruption to the Company’s global supply chain, caused plant closings or reduced operations thus reducing output at those facilities; the stability of the U.S., Mexican, Chinese, Vietnamese and Taiwanese economic, labor and political systems and conditions; currency exchange fluctuations; and the ability of the Company to manage its growth. These and other factors which may affect the Company’s future business and results of operations are identified throughout the Company’s Annual Report on Form 10-K, and as risk factors, may be detailed from time to time in the Company’s filings with the Securities and Exchange Commission. These statements speak as of the date of such filings, and the Company undertakes no obligation to update such statements in light of future events or otherwise unless otherwise required by law.

Overview

The Company operates in one business segment as an independent provider of EMS, which includes printed circuit board assemblies and completely assembled (box-build) electronic products. In connection with the production of assembled products, the Company also provides services to its customers, including (1) automatic and manual assembly and testing of products; (2) material sourcing and procurement; (3) 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. 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, 2020 and April 30, 2019.

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.

Factors Affecting Results

COVID-19. The COVID-19 pandemic, including closures and other steps taken by governmental authorities in response to the virus, has had a significant impact on the Company's businesses. The Company reported a pre-tax loss of \$172,525 in the fourth quarter of fiscal year 2020 and a pre-tax profit of \$1,093,134 for the fiscal year. Through March 2020, sales were up year over year. In April 2020, sales were down approximately 30%, as compared to April 2019. In addition, operating expenses were also down significantly in April 2020, as compared to April 2019, as certain variable expenses decreased with sales.

PPP Loan and CARES Act. During the fourth fiscal quarter the Company received a \$6,282,973 PPP loan. The Company received the PPP loan under the CARES Act. The Company believes it met the requirements for eligibility. When part or all of the loan is forgiven under the program, that benefit will be recorded in the quarter in which the forgiveness occurs. During the fourth quarter the Company had operational interruptions and incurred significant expenses related to the COVID pandemic at all of its operations. In some locations the interruptions and expenses were worse than others.

For more information on the potential impact of the COVID-19 pandemic on the Company, see "Item 1A. Risk Factors – The ongoing COVID-19 global pandemic and measures taken in response thereto have adversely affected the Company's results of operations and its financial condition, and the full impact of the pandemic will depend on future developments, which are highly uncertain and cannot be predicted."

One of several disappointments tied to the COVID pandemic is that the Company was approaching the fourth quarter with significant momentum and a strong backlog. During the pandemic, the Company has seen several customers with an unexpected and un-forecasted uptick in demand while others had a precipitous drop in demand. It is difficult to predict how these various markets will sort themselves out over the next several quarters but the Company is cautiously optimistic that things are heading in the right direction. The Company believes its backlog and resultant revenue stream have recently started an upward trend. This is primarily based

on the Company's customers' orders and backlog. While the economic recovery seems fragile at this time, it does appear that it is trending in a positive direction for the second half of calendar year 2020.

Recent Developments

On June 4, 2020, SigmaTron and Wagz, Inc. ("Wagz"), a privately held company in the pet technology ("Pet Tech") market, announced that they have executed a Letter of Intent ("LOI") relating to a proposed business combination. Subject to the terms and conditions set forth in the LOI, SigmaTron expects to issue approximately 2,270,000 shares of SigmaTron common stock that would result in the stockholders of Wagz owning in the aggregate approximately one-third of the combined company. The potential benefits to the Company from that transaction were summarized in the June 4, 2020 announcement. The parties expect the transaction to close by the end of October 2020 and it remains subject to achievement of certain milestones and satisfaction of conditions by both parties prior to closing including finalizing a material definitive agreement and the Company raising additional capital that it projects will be needed for the expanded operations in the amount of approximately or not less than \$7,500,000.

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, deferred income, deferred taxes, uncertain tax positions, valuation allowance for deferred taxes and valuation of 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. Of the Company's raw materials inventory, a substantial portion has been purchased to fulfill committed future orders or for which the Company is contractually entitled to recover its costs from its customers. For the remaining raw materials inventory, a provision for excess and obsolete inventories is recorded 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 non-compete agreements and customer relationships. Finite life intangible assets are amortized on a straight line basis over their estimated useful lives of 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. The Company's analysis for fiscal year 2020 and 2019 did not indicate that any of its other long-lived assets were impaired. For more information on the potential impact of the COVID-19 pandemic on the Company, see "Item 1A. Risk Factors – The ongoing COVID-19 global pandemic and measures taken in response thereto have adversely affected the Company's results of operations and its financial condition, and the full impact of the pandemic will depend on future developments, which are highly uncertain and cannot be predicted."

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 \$989,194 and \$1,294,605

as of April 30, 2020 and April 30, 2019, respectively. The reduction in valuation allowance is attributable to a reduction of underlying NOL carryforwards in China to offset current year income and NOL carryforwards in Vietnam, pursuant to a recently concluded examination by the Vietnam tax authorities.

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.

New Accounting Standards:

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

Results of Operations:

FISCAL YEAR ENDED APRIL 30, 2020 COMPARED
TO FISCAL YEAR ENDED APRIL 30, 2019

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

| | Fiscal Years | |
|-------------------------------------|--------------|--------|
| | 2020 | 2019 |
| Net sales | 100.0% | 100.0% |
| Operating expenses: | | |
| Cost of products sold | 91.1 | 90.9 |
| Selling and administrative expenses | 7.9 | 8.0 |
| Total operating expenses | 99.0 | 98.9 |
| Operating income | 1.0% | 1.1% |

Net sales decreased 3.3% to \$281,042,482 in fiscal year 2020 from \$290,553,951 in the prior year. The Company's sales decreased in fiscal year 2020 in consumer electronics and industrial electronics compared to the prior year. The decrease in sales dollars for these marketplaces was partially offset by an increase in sales dollars in the medical/life science marketplace. In the fourth quarter of fiscal 2020 sales were negatively impacted by the COVID-19 pandemic due to temporary closings of several of the Company's manufacturing operations.

Gross profit decreased to \$25,104,890, or 8.9% of net sales, in fiscal year 2020 compared to \$26,341,769 or 9.1% of net sales, in the prior fiscal year. The decrease in gross profit dollars for fiscal year 2020 was primarily the result of decreased sales.

Selling and administrative expenses decreased in fiscal year 2020 to \$22,292,309, or 7.9% of net sales compared to \$23,263,117, or 8.0% of net sales, in fiscal year 2019. The decrease in selling and administrative dollars was attributable to sales salaries, bad debt expense, financing fees and other professional fees. The decrease in the foregoing selling and administrative expenses were partially offset by an increase in legal fees, bonus expense and other general administrative expenses. Selling and administrative expenses decreased as a percent of net sales due to a decrease in total selling and administrative dollars in fiscal year 2020 compared to the prior year.

Interest expense, net, decreased to \$1,839,060 in fiscal year 2020 compared to \$2,413,297 in fiscal year 2019. Interest expense decreased primarily due to the decreased borrowings under the Company's banking arrangements and mortgage obligations.

In fiscal year 2020, the Company reported income tax expense of \$650,032 compared to an income tax expense of \$1,731,415 in fiscal year 2019. The effective rate for the fiscal years ended April 30, 2020 and April 30, 2019 was 59.47% and 199.86%, respectively. The decrease in income tax expense and effective tax rate is due primarily to the valuation allowance established on certain deferred tax assets related to foreign net operating loss carryforwards in the previous year.

The Company reported a net income of \$443,102 in fiscal year 2020 compared to a net loss of \$865,114 for fiscal year 2019. Basic and diluted earnings per share for fiscal year 2020 were \$0.10 each, compared to basic and diluted loss per share of \$0.20 each for the fiscal year ended April 30, 2019.

Liquidity and Capital Resources:

Operating Activities.

Cash flow provided by operating activities was \$15,454,294 for the fiscal year ended April 30, 2020, compared to cash flow used in operating activities of \$1,619,500 for the prior fiscal year. Cash flow provided by operating activities was primarily the result of net income and an increase in accounts payable in the amount of \$10,143,939. The increase in accounts payable is the result of more favorable payment terms with vendors. Cash flow provided by operating activities was partially offset by an increase in prepaid expenses and other assets.

Cash flow used in operating activities was \$1,619,500 for the fiscal year ended April 30, 2019. 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 was the result of increased sales and the timing of payments. Cash flow used in operating activities was partially offset by a decrease in inventory.

Investing Activities.

In fiscal year 2020, the Company purchased in cash \$4,646,325 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 \$4,570,000 in fiscal year 2021. 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 2019, the Company purchased in cash \$2,361,629 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 used in financing activities was \$4,265,834 for the fiscal year ended April 30, 2020. Cash used in financing activities was primarily the result of net payments under the line of credit offset by the proceeds from the PPP loan of \$6,282,973.

Cash provided by financing activities was \$3,265,340 for the fiscal year ended April 30, 2019. Cash provided by financing activities was primarily the result of net borrowings under the line of credit.

Financing Summary.

Debt and finance lease obligations consisted of the following at April 30, 2020 and April 30, 2019:

| | <u>2020</u> | <u>2019</u> |
|---|----------------------|----------------------|
| Debt: | | |
| Notes Payable - Banks | \$ 33,472,125 | \$ 35,727,212 |
| Notes Payable - Buildings | 6,922,561 | 6,650,000 |
| Notes Payable - Equipment | 1,300,278 | 1,328,753 |
| Unamortized deferred financing costs | <u>(279,740)</u> | <u>(303,310)</u> |
| Total debt | 41,415,224 | 43,402,655 |
| Less current maturities | <u>2,878,160</u> | <u>691,701</u> |
| Long-term debt | <u>\$ 38,537,064</u> | <u>\$ 42,710,954</u> |
| | | |
| Finance lease obligations | \$ 3,787,017 | \$ 4,802,158 |
| Less current maturities | <u>1,902,295</u> | <u>1,939,374</u> |
| Total finance lease obligations, less current portion | <u>\$ 1,884,722</u> | <u>\$ 2,862,784</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 2.33% at April 30, 2020). Interest is due monthly.

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 (i) 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 (ii) 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 of \$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 April 23, 2020, the Company entered into a loan with U.S. Bank, as lender, pursuant to the Paycheck Protection Program of the CARES Act as administered by the U.S. Small Business Administration (the "SBA") in the amount of \$6,282,973. The loan, in the form of a promissory note, matures on April 23, 2022. No additional collateral or guarantees were provided by the Company for the loan. The PPP loan provides for customary events of default. Under the CARES Act, loan forgiveness is available for the sum of documented payroll costs, rent payments, mortgage interest and covered utilities during the 24-week period beginning on the date of loan disbursement. The Company may be required to repay any portion of the outstanding principal that is not forgiven, along with accrued interest, and it cannot provide any assurance that it will be eligible for loan forgiveness, or that any amount of the PPP Loan will ultimately be forgiven by the SBA. All aspects of the PPP loan are subject to review by the SBA, including without limitation, the Company's eligibility for and the size of the loan. The review procedures have not been made public. The Company cannot predict the outcome of that review nor be assured that all or any part of the loan will be forgiven. To the extent that all or part of the

PPP loan is not forgiven, the Company will be required to make payments, including interest accruing at an annual interest rate of 1.0% beginning on the date of disbursement

On July 15, 2020 and August 7, 2020, the Company and U.S. Bank entered into amendments of the revolving credit facility. The amendments revise the Fixed Charge Coverage Ratio.

As of April 30, 2020, there was \$26,884,494 outstanding and \$13,850,575 of unused availability under the U.S. Bank facility compared to an outstanding balance of \$35,727,212 and \$6,645,730 of unused availability at April 30, 2019. Deferred financing costs of \$97,611 were capitalized during the fiscal year ended April 30, 2020, which are amortized over the term of the agreement. As of April 30, 2020 and April 30, 2019, the unamortized amount offset against outstanding debt was \$218,062 and \$209,162, 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 \$709,000 as of April 30, 2020, and the facility is collateralized by Wujiang SigmaTron Electronic 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. As of April 30, 2020 the outstanding balance under the facility was \$304,658. 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, 2020, the unamortized amount included as a reduction to long-term debt was \$32,760. A final payment of approximately \$4,347,778 is due on or before March 31, 2022. The outstanding balance was \$4,732,000 and \$4,940,000 at April, 30 2020 and April 30, 2019, 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, 2020 the unamortized amount included as a reduction to long-term debt was \$28,918. A final payment of approximately \$1,505,000 is due on or before March 31, 2022. The outstanding balance was \$1,638,000 and \$1,710,000 at April, 30 2020 and April 30, 2019, respectively.

The Company entered into a mortgage agreement on March 3, 2020, in the amount of \$556,000, with The Bank and Trust SSB to purchase the property that serves as the Company's warehousing and distribution center in Del Rio, Texas. The note requires the Company to pay monthly installment payments in the amount of \$6,103, bears interest at a fixed rate of 5.75% per year and is payable over a 120 month period. The outstanding balance was \$552,561 at April, 30 2020.

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%.

The Company routinely enters into secured note agreements with FGI Equipment Finance LLC to finance the purchase of equipment. The terms of these secured note agreements mature from March 2025 through April 2025, with quarterly installment payments ranging from \$10,723 to \$12,856 and a fixed interest rate of 8.25%.

Finance Lease Obligations

The Company enters into various finance lease agreements. The terms of the lease agreements mature through November 2023, with monthly installment payments ranging from \$1,455 to \$40,173 and a fixed interest rate ranging from 3.75% to 12.73%.

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, 2020, resulted in net foreign currency transaction losses of \$285,654 compared to net foreign currency losses of approximately \$434,000 in the prior year. In fiscal year 2020, the Company paid approximately \$60,510,000 to its foreign subsidiaries for manufacturing services. All intercompany balances have been eliminated upon consolidation.

The Company expects that the significant disruption in business activity and the financial markets created by the COVID-19 global pandemic will impact several sources of its liquidity, and is therefore continuously and critically reviewing its liquidity and anticipated capital requirements. For more information on the potential impact of the COVID-19 pandemic on the Company, see “Item 1A. Risk Factors – The ongoing COVID-19 global pandemic and measures taken in response thereto have adversely affected the Company’s results of operations and its financial condition, and the full impact of the pandemic will depend on future developments, which are highly uncertain and cannot be predicted.”

The Company is in compliance with its financial covenant and other restrictive covenants as of April 30, 2020.

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

Evaluation of Disclosure Controls and Procedures:

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, 2020. 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, 2020.

Management, including our Chief Executive Officer and Chief Financial Officer, believes the consolidated financial statements included in this Annual Report on Form 10-K fairly represent in all material respects our financial condition, results of operations and cash flows at and for the periods presented in accordance with GAAP.

Management's Report on Internal Control Over Financial Reporting:

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 (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment, management believes that, as of April 30, 2020, our internal control over financial reporting was effective.

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 quarter ended April 30, 2020, that has materially affected or is reasonably likely to materially affect its internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

Not Applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required under this item is incorporated herein by reference to the Company's definitive proxy statement, to be filed with the Securities and Exchange Commission not later than 120 days after the close of the Company's fiscal year ended April 30, 2020.

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, 2020.

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, 2020.

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, 2020.

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, 2020.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1)

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

(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 36.

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 21st 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 21st 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.*
- 10.53 Lease No. 10, entered into August 20, 2019, in an attachment to Maser 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 11, 2019.
- 10.54 Lease No. 11 entered into October 10, 2019, in 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' Form 10-Q filed on December 11, 2019.
- 10.55 Sigmatron International, Inc. 2019 Employee Stock Option Plan dated September 13, 2019, incorporated herein by reference to Exhibit 10.1 to the Company' Form 8-K filed on September 17, 2019.*
- 10.56 Promissory Note , entered into February 18, 2020, by and between FGI Equipment Finance LLC and SigmaTron International, Inc.**
- 10.57 Promissory Note , entered into March 16, 2020, by and between FGI Equipment Finance LLC and SigmaTron International, Inc.**
- 10.58 Lease No. 12 entered into April 15, 2020, in an attachment to Master Lease No. 2017389 dated August 15, 2017 by and between First American Commercial Bancorp, Inc. and SigmaTron International, Inc.**
- 10.59 SigmaTron International, Inc., Employee Bonus Plan for Fiscal Year 2021 dated April 17, 2020, incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K filed on April 20, 2020.*
- 10.60 U.S. Bank SBA Payroll Loan Agreement dated April 23, 2020 by and between SigmaTron International, Incorporation, incorporated here by reference to Exhibit 10.1 to the Company's Form 8-K filed on April 24, 2020.
- 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, 2020).**
- 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: August 12, 2020

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 | August 12, 2020 |
| <u>/s/ Linda K. Frauendorfer</u> Linda K. Frauendorfer | Chief Financial Officer, Secretary and Treasurer (Principal Financial Officer and Principal Accounting Officer) and Director | August 12, 2020 |
| <u>/s/ Thomas W. Rieck</u> Thomas W. Rieck | Director | August 12, 2020 |
| <u>/s/ Dilip S. Vyas</u> Dilip S. Vyas | Director | August 12, 2020 |
| <u>/s/ Paul J. Plante</u> Paul J. Plante | Director | August 12, 2020 |
| <u>/s/ Barry R. Horek</u> Barry R. Horek | Director | August 12, 2020 |
| <u>/s/ Bruce J. Mantia</u> Bruce J. Mantia | Director | August 12, 2020 |

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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. (the “Company”) as of April 30, 2020 and 2019, 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, 2020 and 2019, 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.

Change in Accounting Method Related to Leases

As discussed in Note B to the consolidated financial statements, the Company changed its method of accounting for leases effective May 1, 2019 due to the adoption of Accounting Standards Codification Topic 842, *Leases*.

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
August 12, 2020

SigmaTron International, Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEETS
APRIL 30, 2020 and 2019

| ASSETS | <u>2020</u> | <u>2019</u> |
|---|-----------------------|-----------------------|
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 6,779,445 | \$ 1,005,810 |
| Accounts receivable, less allowance for doubtful accounts of \$727,252 and \$631,283 at April 30, 2020 and 2019, respectively | 30,804,976 | 31,441,381 |
| Inventories, net | 87,179,369 | 85,579,575 |
| Prepaid expenses and other assets | 1,510,943 | 2,436,894 |
| Refundable and prepaid income taxes | 1,699,970 | 1,339,739 |
| Other receivables | <u>2,642,094</u> | <u>1,741,890</u> |
| Total current assets | <u>130,616,797</u> | <u>123,545,289</u> |
| PROPERTY, MACHINERY AND EQUIPMENT, NET | <u>33,935,760</u> | <u>33,232,769</u> |
| OTHER LONG-TERM ASSETS | | |
| Intangible assets, net | 2,350,949 | 2,713,360 |
| Deferred income taxes | 284,435 | 384,022 |
| Other assets | <u>8,891,090</u> | <u>1,589,325</u> |
| Total other long-term assets | <u>11,526,474</u> | <u>4,686,707</u> |
| TOTAL ASSETS | <u>\$ 176,079,031</u> | <u>\$ 161,464,765</u> |

The accompanying notes are an integral part of these statements.

SigmaTron International, Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEETS – CONTINUED
APRIL 30, 2020 and 2019

| LIABILITIES AND STOCKHOLDERS' EQUITY | 2020 | 2019 |
|---|-----------------------|-----------------------|
| CURRENT LIABILITIES | | |
| Trade accounts payable | \$ 55,770,953 | \$ 45,627,014 |
| Accrued expenses | 2,670,504 | 2,410,311 |
| Accrued wages | 4,206,825 | 4,680,399 |
| Income taxes payable | 469,143 | 60,921 |
| Current portion of long-term debt | 2,878,160 | 691,701 |
| Current portion of finance lease obligations | 1,902,295 | 1,939,374 |
| Current portion of operating lease obligations | 2,150,161 | - |
| Contingent consideration | - | 57,537 |
| Current portion of deferred rent | - | 139,509 |
| Total current liabilities | <u>70,048,041</u> | <u>55,606,766</u> |
| Long-term debt, | | |
| less current portion | 38,537,064 | 42,710,954 |
| Finance lease obligations, | | |
| less current portion | 1,884,722 | 2,862,784 |
| Operating lease obligations, | | |
| less current portion | 5,281,811 | - |
| Income taxes payable | 452,619 | 500,263 |
| Other long-term liabilities | 810,769 | 1,155,907 |
| Deferred rent, less current portion | - | 179,059 |
| Deferred income taxes | <u>188,206</u> | <u>161,583</u> |
| Total long-term liabilities | <u>47,155,191</u> | <u>47,570,550</u> |
| Total liabilities | <u>117,203,232</u> | <u>103,177,316</u> |
| STOCKHOLDERS' EQUITY | | |
| Preferred stock, \$.01 par value; 500,000 shares authorized, none issued or outstanding | - | - |
| Common stock, \$.01 par value; 12,000,000 shares authorized, 4,242,508 and 4,240,008 shares issued and outstanding at April 30, 2020 and 2019, respectively | 42,265 | 42,146 |
| Capital in excess of par value | 23,619,513 | 23,474,379 |
| Retained earnings | <u>35,214,021</u> | <u>34,770,924</u> |
| Total stockholders' equity | <u>58,875,799</u> | <u>58,287,449</u> |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | <u>\$ 176,079,031</u> | <u>\$ 161,464,765</u> |

The accompanying notes are an integral part of these statements.

SigmaTron International, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF OPERATIONS
Years ended April 30, 2020 and 2019

| | 2020 | 2019 |
|---|--------------------------|----------------------------|
| Net sales | \$ 281,042,482 | \$ 290,553,951 |
| Cost of products sold | <u>255,937,592</u> | <u>264,212,182</u> |
| Gross profit | 25,104,890 | 26,341,769 |
| Selling and administrative expenses | <u>22,292,309</u> | <u>23,263,117</u> |
| Operating income | 2,812,581 | 3,078,652 |
| Other income | (119,613) | (200,946) |
| Interest expense | <u>1,839,060</u> | <u>2,413,297</u> |
| Income before income taxes | 1,093,134 | 866,301 |
| Income tax expense | <u>650,032</u> | <u>1,731,415</u> |
| NET INCOME (LOSS) | <u>\$ 443,102</u> | <u>\$ (865,114)</u> |
| Earnings (loss) per common share | | |
| Basic | <u>\$ 0.10</u> | <u>\$ (0.20)</u> |
| Diluted | <u><u>\$ 0.10</u></u> | <u><u>\$ (0.20)</u></u> |
| Weighted-average shares of common stock outstanding | | |
| Basic | <u>4,242,351</u> | <u>4,228,592</u> |
| Diluted | <u>4,270,050</u> | <u>4,228,592</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, 2020 and 2019

| | Preferred stock | Common stock | Capital in excess of par value | Retained earnings | Total stockholders' equity |
|--|--------------------|------------------|--------------------------------------|----------------------|----------------------------------|
| Balance at May 1, 2018 | \$ - | 41,896 | 23,132,017 | 35,636,038 | 58,809,951 |
| 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> |
| Cumulative-effect adjustment for the adoption of Topic 842 | - | - | - | (5) | (5) |
| Recognition of stock-based compensation | - | - | 90,432 | - | 90,432 |
| Restricted stock awards | - | 119 | 54,702 | - | 54,821 |
| Net income | - | - | - | 443,102 | 443,102 |
| Balance at April 30, 2020 | <u>\$ -</u> | <u>\$ 42,265</u> | <u>\$ 23,619,513</u> | <u>\$ 35,214,021</u> | <u>\$ 58,875,799</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, 2020 and 2019

| | 2020 | 2019 |
|---|--------------------|--------------------|
| Cash flows from operating activities | | |
| Net income (loss) | \$ 443,102 | \$ (865,114) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities | | |
| Depreciation and amortization of property, machinery and equipment | 4,947,200 | 5,007,440 |
| Amortization of right-of-use operating lease assets | 2,088,108 | - |
| Stock-based compensation | 90,432 | 166,612 |
| Restricted stock expense | 54,821 | 176,000 |
| Provision for doubtful accounts | 95,969 | 331,283 |
| Provision for inventory obsolescence | 221,499 | 268,234 |
| Deferred income tax expense | 126,210 | 887,242 |
| Amortization of intangible assets | 362,411 | 374,725 |
| Amortization of financing fees | 121,181 | 91,104 |
| Fair value adjustment of contingent consideration | - | 40,324 |
| Loss from disposal or sale of machinery and equipment | 80,678 | 5,086 |
| Changes in operating assets and liabilities | | |
| Accounts receivable | 540,436 | (5,134,297) |
| Inventories | (1,821,293) | 1,081,984 |
| Prepaid expenses and other assets | (2,366,279) | (766,635) |
| Refundable and prepaid income taxes | (360,231) | 315,670 |
| Income taxes payable | 360,578 | 63,184 |
| Trade accounts payable | 10,143,939 | (3,699,388) |
| Deferred rent | - | (214,032) |
| Operating lease liabilities | 1,103,636 | - |
| Accrued expenses and wages | (778,103) | 251,078 |
| Net cash provided by (used in) operating activities | <u>15,454,294</u> | <u>(1,619,500)</u> |
| Cash flows from investing activities | | |
| Purchases of machinery and equipment | (4,646,325) | (2,361,629) |
| Advances on other receivables | (768,500) | - |
| Net cash used in investing activities | <u>(5,414,825)</u> | <u>(2,361,629)</u> |
| Cash flows from financing activities | | |
| Proceeds under equipment note | 383,226 | 182,557 |
| Payments of contingent consideration | (57,537) | (196,247) |
| Payments under finance lease and sale leaseback agreements | (2,099,685) | (2,410,895) |
| Payments under equipment note | (411,701) | (402,574) |
| Proceeds under building notes payable | 556,000 | - |
| Payments under building notes payable | (283,439) | (280,000) |
| Borrowings under revolving line of credit | 323,132,190 | 333,607,697 |
| Payments under revolving line of credit | (331,670,250) | (327,160,115) |
| Proceeds under PPP loan note payable | 6,282,973 | - |
| Payments of debt financing costs | (97,611) | (75,083) |
| Net cash (used in) provided by financing activities | <u>(4,265,834)</u> | <u>3,265,340</u> |
| Change in cash and cash equivalents | <u>5,773,635</u> | <u>(715,789)</u> |

SigmaTron International, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS – CONTINUED
Years ended April 30, 2020 and 2019

| | | |
|--|---------------------|---------------------|
| Cash and cash equivalents at beginning of year | 1,005,810 | 1,721,599 |
| Cash and cash equivalents at end of year | <u>\$ 6,779,445</u> | <u>\$ 1,005,810</u> |
| | <u>2020</u> | <u>2019</u> |
| Supplementary disclosures of cash flow information | | |
| Cash paid for interest | \$ 1,841,381 | \$ 2,272,487 |
| Cash paid for income taxes | 827,630 | 645,049 |
| Purchase of machinery and equipment financed under finance leases | 1,084,543 | 617,470 |
| Financing of insurance policy | 219,584 | 203,435 |

The accompanying notes are an integral part of these statements.

SigmaTron International, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 2020 and 2019

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, 2020, the Company provided these manufacturing services through an international network of facilities located in the United States, Mexico, China, Vietnam and Taiwan. Approximately 16% of the total assets of the Company are located in foreign jurisdictions outside the United States as of April 30, 2020, of which 10% and 4% of the assets were located in China and Mexico, respectively, and 2% in other foreign locations. As of April 30, 2019, approximately 13% of the total assets were located in foreign jurisdictions, of which 8% and 4% were located in China and Mexico, respectively, and 1% in other foreign locations.

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, 2020, resulted in net foreign currency transaction losses of approximately \$285,654 compared to net foreign currency losses of \$433,742 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, deferred income, 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, 2020 and 2019

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, 2020 or April 30, 2019. 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, 2020 and April 30, 2019, the Company sold without recourse trade receivables of approximately \$85,000,000 and \$77,000,000, 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. Of the Company's raw materials inventory, a substantial portion has been purchased to fulfill committed future orders or for which the Company is contractually entitled to recover its costs from its customers. For the remaining raw materials inventory, a provision for excess and obsolete inventories is recorded 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, 2020 and 2019

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 \$279,740 and \$303,310 net of accumulated amortization of \$277,518 and \$166,689, respectively, as of April 30, 2020 and April 30, 2019, respectively, are deducted from long term debt on the Company's balance sheet.

COVID-19 and CARES Act

A pandemic of respiratory disease (abbreviated "COVID-19") began to spread globally, including to the United States, in early 2020. On March 11, 2020, the World Health Organization (WHO) declared COVID-19 to be a public health emergency of international concern. The full impact of the COVID-19 outbreak is inherently uncertain at the time of this report. The COVID-19 outbreak has resulted in travel restrictions and in some cases, prohibitions of non-essential activities, disruption and shutdown of certain businesses and greater uncertainty in global financial markets. The full extent to which COVID-19 impacts the Company's business, results of operations and financial condition will depend on future developments, which are highly uncertain and cannot be predicted, including, but not limited to, the duration and spread of the outbreak within the U.S., China, Mexico, Vietnam and Taiwan, its severity, the actions to contain the virus or treat its impact, and how quickly and to what extent normal economic and operating conditions can resume.

Even after COVID-19 has subsided, the Company may continue to experience materially adverse impacts to its business as a result of its global economic impact, including any recession that has occurred or may occur in the future. There are no comparable recent events which may provide guidance as to the effect of the spread of COVID-19, and, as a result, the ultimate impact of COVID-19, or a similar health epidemic or pandemic, is highly uncertain and subject to change. The Company has adopted several measures in response to the COVID-19 outbreak. To date, the Company has been able to continue to meet the needs of its customers. Although the Company cannot estimate the length or gravity of the impact of the COVID-19 outbreak at this time, if the pandemic continues, it will have a material adverse effect on the Company's results of future operations, financial position, and liquidity in fiscal year 2021.

On March 27, 2020, President Trump signed into law the "Coronavirus Aid, Relief, and Economic Security (CARES) Act." The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer side social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations, increased limitations on qualified charitable contributions, and technical corrections to tax depreciation methods for qualified improvement property. It also appropriated funds for the SBA Paycheck Protection Program loans that are forgivable in certain situations to promote continued employment, as well as Economic Injury Disaster Loans to provide liquidity to small businesses harmed by COVID-19.

SigmaTron International, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED
April 30, 2020 and 2019

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

COVID-19 and CARES Act - Continued

As further described in Note H, the Company has applied for, and has received, funds under the Paycheck Protection in the amount of \$6,282,973. The application for these funds required the Company to, in good faith, certify that the current economic uncertainty made the loan request necessary to support the ongoing operations of the Company. This certification further requires the Company to take into account its current business activity and its ability to access other sources of liquidity sufficient to support ongoing operations in a manner that is not significantly detrimental to the business. The receipt of these funds, and the forgiveness of the loan attendant to these funds, is dependent on the Company having initially qualified for the loan and qualifying for the forgiveness of such loan based on its future adherence to the forgiveness criteria.

Due to the size of the PPP Loan, it is subject to review, which introduces a layer of uncertainty. If, despite the Company's actions and certification that it satisfied all eligibility requirements for the PPP, it is later determined that it violated applicable laws or was otherwise ineligible to receive the PPP, the Company may be required to repay the PPP in its entirety in a lump sum or be subject to additional penalties, which could also result in adverse publicity and damage to the Company's reputation. If these events were to transpire, they could have a material adverse effect on the Company's business, results of operations and financial condition.

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.

SigmaTron International, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED
April 30, 2020 and 2019

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Income Taxes - Continued

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.

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 232,821 and 53,309 anti-dilutive common stock equivalents at April 30, 2020 and April 30, 2019, respectively, which have been excluded from the calculation of diluted earnings per share.

| | Fiscal Years Ended | |
|-----------------------------------|--------------------|--------------|
| | April 30, | |
| | 2020 | 2019 |
| Net income (loss) | \$ 443,102 | \$ (865,114) |
| Weighted-average shares | | |
| Basic | 4,242,351 | 4,228,592 |
| Effect of dilutive stock options | 27,699 | - |
| Diluted | 4,270,050 | 4,228,592 |
| Basic earnings (loss) per share | \$ 0.10 | \$ (0.20) |
| Diluted earnings (loss) per share | \$ 0.10 | \$ (0.20) |

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

SigmaTron International, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED
April 30, 2020 and 2019

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Revenue Recognition - Continued

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, which accounted for less than 1% of the Company's revenue. 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.

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 fiscal year 2020, 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, 2020. 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, 2020, with an expected duration of greater than one year.

SigmaTron International, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED
April 30, 2020 and 2019

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Revenue Recognition - Continued

The majority of sales are made to U.S. based customers. The following table presents the Company’s revenue disaggregated by the principal end-user markets it serves:

| <u>Net sales by end-market</u> | <u>Year Ended April 30,</u> | |
|--------------------------------|-----------------------------|-----------------------|
| | <u>2020</u> | <u>2019</u> |
| Industrial Electronics | \$ 158,972,238 | \$ 160,435,562 |
| Consumer Electronics | 105,903,419 | 115,099,199 |
| Medical / Life Sciences | 16,166,825 | 15,019,190 |
| Total Net Sales | <u>\$ 281,042,482</u> | <u>\$ 290,553,951</u> |

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 2020 or 2019.

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, 2020 and April 30, 2019, 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.

On April 30, 2018, the Company entered into an Asset Purchase Agreement with Wagz, Inc. (“Wagz”), whereby the Company sold certain assets to Wagz for \$350,000 cash, in exchange for 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 the most recent financing transaction, a level 3 input. As of April 30, 2020, and April 30, 2019 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.

SigmaTron International, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED
April 30, 2020 and 2019

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fair Value of Financial Instruments - Continued

On June 4, 2020, SigmaTron and Wagz, Inc. (“Wagz”), a privately held company in the pet technology (“Pet Tech”) market, announced that they have executed a Letter of Intent (“LOI”) relating to a proposed business combination. Subject to the terms and conditions set forth in the LOI, SigmaTron expects to issue approximately 2,270,000 shares of SigmaTron common stock that would result in the stockholders of Wagz owning in the aggregate approximately one-third of the combined company. The potential benefits to the Company from that transaction were summarized in the June 4, 2020 announcement. The parties expect the transaction to close by the end of October 2020 and it remains subject to achievement of certain milestones and satisfaction of conditions by both parties prior to closing including finalizing a material definitive agreement and the Company raising additional capital that it projects will be needed for the expanded operations in the amount of approximately or not less than \$7,500,000.

Intangible Assets

Intangible assets are comprised of finite life intangible assets including non-compete agreements and customer relationships. Finite life intangible assets are amortized on a straight line basis over their estimated useful lives of 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 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 of its long-lived asset groups for possible impairment. The Company’s analysis for fiscal year 2020 and 2019 did not indicate that any of its other long-lived assets were impaired. The Company has yet to experience significant supply chain interruptions or material cancellations of orders; however, the potential impact of future disruptions, continued economic uncertainty over COVID-19 may have a significant adverse impact on the timing of delivery of customer orders and the levels of future customer orders. It is reasonably possible that these potential adverse impacts may result in the recognition of material impairments or other related charges in future periods.

Investment in Wagz

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. 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. At April 30, 2020, the Company continued to recognize the fair value of the Wagz common stock at \$600,000; the reduction in the fair market of the Wagz inventory by \$109,046 and the reserve as bad debt for the Wagz total account receivable of \$331,283.

SigmaTron International, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED
April 30, 2020 and 2019

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Investment in Wagz - Continued

On May 29, 2020, Wagz entered into a Convertible Secured Promissory Note with the Company in the principal sum of up to \$4,052,478. The outstanding principal amount of the Note shall be due and payable on the earliest to occur of (1) August 31, 2021; (2) upon the closing of a sale of all or substantially all of the assets or common stock of Wagz, or (3) an event of default, (the Maturity Date). Interest is payable at the rate of four percent (4%) per annum and is payable on the Maturity Date. At April 30, 2020, \$768,500 was outstanding under other receivables.

On June 4, 2020, the Company and Wagz announced that they have executed a LOI relating to a proposed business combination. Subject to the terms and conditions set forth in the LOI, the Company expects to issue approximately 2,270,000 shares of its common stock that would result in the stockholders of Wagz owning in the aggregate approximately one-third of the combined company. The parties expect the transaction to close by the end of October 2020 and the acquisition remains subject to achievement of certain milestones and satisfaction of conditions by both parties prior to closing such as finalizing a material definitive agreement and the Company raising of additional capital that it projects will be needed for the expanded operations in the amount of at least \$7,500,000.

Stock Incentive Plans

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

New Accounting Standards

In February 2016, the FASB issued ASU 2016-02, as amended, *Leases (Topic 842)*, which requires a lessee to record a right-of-use asset and a lease liability for all leases with a term greater than twelve months regardless of whether the lease is classified as an operating lease or a financing lease.

Effective May 1, 2019, the Company adopted the new standard under the modified retrospective approach, applying the current-period adjustment method. Under the transition guidance of the modified retrospective approach there are a number of optional practical expedients made available to simplify the transition of the new standard. The Company has elected the following:

- The condensed consolidated balance sheets for reporting periods beginning on or after May 1, 2019 are presented under the new guidance, while prior period amounts are not adjusted and continue to be reported in accordance with ASC Topic 840, *Leases*. The Company recognized a cumulative effect adjustment to the opening balance of retained earnings in the period of adoption of \$5.
- The Company has elected to utilize the package of practical expedients permitted under the transition guidance in the standard, which allowed the Company to not reassess (i) whether any expired or existing contracts contain leases, (ii) historical lease classification, and (iii) initial direct costs.
- The Company has elected to combine lease and non-lease components as a single component for all asset classes.
- The Company has elected to not assess whether existing or expired land easements that were not previously accounted for as leases under Topic 840 are or contain a lease under this Topic.
- The Company has elected to keep leases with an initial term of 12 months or less off of the balance sheet.

SigmaTron International, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED
April 30, 2020 and 2019

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

New Accounting Standards - Continued

Upon adoption, the Company recorded Right-of-use ("ROU") assets and lease liabilities relating to operating leases of \$6,017,771 and \$6,290,289, respectively. The changes did not have a material impact on our results of operations or cash flows. The discount rates used to calculate the ROU assets and lease liabilities as of the effective date were based on the remaining lease terms as of the effective date. See Note M - Leases, for the impact on the financial statements and related disclosures from the adoption of this standard.

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, as amended by ASU 2019-04 and ASU 2019-05, 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 small reporting companies, ASU 2016-13 is effective for annual and interim reporting periods beginning after December 15, 2022, 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.

In December 2019, the FASB issued ASU 2019-12, "*Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*", which simplifies accounting for income taxes by removing certain exceptions to intra-period allocations, investments, calculations in interim periods and to improve consistent application. ASU 2019-12 is effective for annual and interim reporting periods beginning after December 15, 2020. The Company is currently evaluating the new guidance and has not determined the impact this ASU may have on its consolidated financial statements.

In March 2020, the FASB issued ASU 2020-04, "*Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*", which provides optional guidance for a period of time to ease the potential burden in accounting for the transition from reference rates that are expected to be discontinued. Regulators and market participants in various jurisdictions have undertaken efforts to eliminate certain reference rates and introduce new reference rates that are based on a larger and more liquid population of observable transactions. The changes provide optional expedients and exceptions for applying US GAAP to contract, hedging relationships and other transactions affected by reference rate reform. ASU 2020-04 is effective for all entities as of March 12, 2020 and can be adopted no later than December 31, 2022. The Company is currently evaluating the new guidance and has not determined the impact this ASU may have on its consolidated financial statements.

NOTE C - ALLOWANCE FOR DOUBTFUL ACCOUNTS

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

| | <u>2020</u> | <u>2019</u> |
|-------------------|-------------------|-------------------|
| Beginning Balance | \$ 631,283 | \$ 300,000 |
| Bad debt expense | 95,969 | 331,283 |
| Write-offs | - | - |
| | <u>\$ 727,252</u> | <u>\$ 631,283</u> |

SigmaTron International, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED
April 30, 2020 and 2019

NOTE D - INVENTORIES

Inventories consist of the following at April 30:

| | <u>2020</u> | <u>2019</u> |
|---------------------------|----------------------|----------------------|
| Finished products | \$ 20,998,329 | \$ 20,682,669 |
| Work-in-process | 5,215,280 | 3,037,810 |
| Raw materials | 62,316,122 | 63,203,068 |
| | <u>88,529,731</u> | <u>86,923,547</u> |
| Less obsolescence reserve | 1,350,362 | 1,343,972 |
| | <u>\$ 87,179,369</u> | <u>\$ 85,579,575</u> |

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

| | <u>2020</u> | <u>2019</u> |
|----------------------------|---------------------|---------------------|
| Beginning balance | \$ 1,343,972 | \$ 1,202,932 |
| Provision for obsolescence | 221,499 | 268,234 |
| Write-offs | (215,109) | (127,194) |
| | <u>\$ 1,350,362</u> | <u>\$ 1,343,972</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 the most 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.

SigmaTron International, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED
April 30, 2020 and 2019

NOTE F - PROPERTY, MACHINERY AND EQUIPMENT, NET

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

| | <u>2020</u> | <u>2019</u> |
|--|----------------------|----------------------|
| Land and buildings | \$ 18,297,353 | \$ 17,158,071 |
| Machinery and equipment | 71,490,678 | 66,390,457 |
| Office equipment and software | 11,574,938 | 11,008,826 |
| Leasehold improvements | 2,818,161 | 2,733,372 |
| Equipment under finance leases | <u>8,739,177</u> | <u>10,164,067</u> |
| | 112,920,307 | 107,454,793 |
| Less accumulated depreciation and amortization, including accumulated amortization of assets under finance leases of \$2,295,223 and \$2,644,661 at April 30, 2020 and 2019, respectively | <u>78,984,547</u> | <u>74,222,024</u> |
| Property, machinery and equipment, net | <u>\$ 33,935,760</u> | <u>\$ 33,232,769</u> |

Depreciation and amortization expense of property, machinery and equipment was \$4,947,200 and \$5,007,440 for the fiscal years ended April 30, 2020 and April 30, 2019, respectively.

SigmaTron International, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED
April 30, 2020 and 2019

NOTE G - INTANGIBLE ASSETS

Intangible Assets

Intangible assets subject to amortization are summarized as of April 30, 2020 and April 30, 2019, as follows:

| | April 30, 2020 | | April 30, 2019 | |
|---------------------------------------|-----------------------|---------------------|-----------------------|---------------------|
| | Gross | Accumulated | Gross | Accumulated |
| | Carrying | Amortization | Carrying | Amortization |
| | Amount | Amount | Amount | Amount |
| Spitfire: | | | | |
| Non-contractual customer relationship | 4,690,000 | 2,339,051 | 4,690,000 | 1,977,255 |
| Non-compete agreements | 50,000 | 50,000 | 50,000 | 49,385 |
| Total | <u>\$ 4,740,000</u> | <u>\$ 2,389,051</u> | <u>\$ 4,740,000</u> | <u>\$ 2,026,640</u> |

Estimated aggregate amortization expense for the Company's intangible assets, which become fully amortized in 2027, for the remaining fiscal years is as follows:

For the fiscal years ending April 30:

| | | |
|------------|-----------|------------------|
| 2021 | \$ | 354,203 |
| 2022 | | 346,582 |
| 2023 | | 339,128 |
| 2024 | | 331,842 |
| 2025 | | 324,702 |
| Thereafter | | 654,492 |
| | <u>\$</u> | <u>2,350,949</u> |

Amortization expense was \$362,411 and \$374,725 for the years ended April 30, 2020 and April 30, 2019, respectively.

SigmaTron International, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED
April 30, 2020 and 2019

NOTE H - LONG-TERM DEBT

Debt and finance lease obligations consisted of the following at April 30, 2020 and April 30, 2019:

| | <u>2020</u> | <u>2019</u> |
|---|----------------------|----------------------|
| Debt: | | |
| Notes Payable - Banks | \$ 33,472,125 | \$ 35,727,212 |
| Notes Payable - Buildings | 6,922,561 | 6,650,000 |
| Notes Payable - Equipment | 1,300,278 | 1,328,753 |
| Unamortized deferred financing costs | <u>(279,740)</u> | <u>(303,310)</u> |
| Total debt | 41,415,224 | 43,402,655 |
| Less current maturities | <u>2,878,160</u> | <u>691,701</u> |
| Long-term debt | <u>\$ 38,537,064</u> | <u>\$ 42,710,954</u> |
| Finance lease obligations | <u>\$ 3,787,017</u> | <u>\$ 4,802,158</u> |
| Less current maturities | <u>1,902,295</u> | <u>1,939,374</u> |
| Total finance lease obligations, less current portion | <u>\$ 1,884,722</u> | <u>\$ 2,862,784</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 2.33% at April 30, 2020). Interest is due monthly.

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 (i) 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 (ii) 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 of \$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 April 23, 2020, the Company entered into a loan with U.S. Bank, as lender, pursuant to the Paycheck Protection Program of the CARES Act as administered by the SBA in the amount of \$6,282,973. The loan, in the form of a promissory note, matures on April 23, 2022. No additional collateral or guarantees were provided by the Company for the loan. The PPP loan provides for customary events of default. Under the CARES Act, loan forgiveness is available for the sum of documented payroll costs, rent payments, mortgage interest and covered utilities during the 24-week period beginning on the date of loan disbursement. The Company may be required to repay any portion of the outstanding principal that is not forgiven, along with accrued interest, and it cannot provide any assurance that it will be eligible for loan forgiveness, or that any amount of the PPP Loan will ultimately be forgiven by the SBA. All aspects of the PPP loan are subject to review by the SBA, including without limitation, the Company's eligibility for

SigmaTron International, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED
April 30, 2020 and 2019

NOTE H - LONG-TERM DEBT - Continued

Notes Payable – Banks - Continued

and the size of the loan. The review procedures have not been made public. The Company cannot predict the outcome of that review nor be assured that all or any part of the loan will be forgiven. To the extent that all or part of the PPP loan is not forgiven, the Company will be required to make payments, including interest accruing at an annual interest rate of 1.0% beginning on the date of disbursement.

On July 15, 2020 and August 7, 2020, the Company and U.S. Bank entered into amendments of the revolving credit facility. The amendments revise the Fixed Charge Coverage Ratio.

As of April 30, 2020, there was \$26,884,494 outstanding and \$13,850,575 of unused availability under the U.S. Bank facility compared to an outstanding balance of \$35,727,212 and \$6,645,730 of unused availability at April 30, 2019. Deferred financing costs of \$97,611 were capitalized during the fiscal year ended April 30, 2020, which are amortized over the term of the agreement. As of April 30, 2020 and April 30, 2019, the unamortized amount offset against outstanding debt was \$218,062 and \$209,162, 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 \$709,000 as of April 30, 2020, and the facility is collateralized by Wujiang SigmaTron Electronic 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. As of April 30, 2020, the outstanding balance under the facility was \$304,658. 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 as of April 30, 2020.

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, 2020, the unamortized amount included as a reduction to long-term debt was \$32,760. A final payment of approximately \$4,347,778 is due on or before March 31, 2022. The outstanding balance was \$4,732,000 and \$4,940,000 at April 30, 2020 and April 30, 2019, 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, 2020 the unamortized amount included as a reduction to long-term debt was \$28,918. A final payment of approximately \$1,505,000 is due on or before March 31, 2022. The outstanding balance was \$1,638,000 and \$1,710,000 at April 30, 2020 and April 30, 2019, respectively.

The Company entered into a mortgage agreement on March 3, 2020, in the amount of \$556,000, with The Bank and Trust SSB to purchase the property that serves as the Company's warehousing and distribution center in Del Rio, Texas. The note requires the Company to pay monthly installment payments in the amount of \$6,103, bears interest

SigmaTron International, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED
April 30, 2020 and 2019

NOTE H - LONG-TERM DEBT - Continued

Notes Payable – Buildings - Continued

at a fixed rate of 5.75% per year and is payable over a 120 month period. The outstanding balance was \$552,561 at April 30, 2020.

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%.

The Company routinely enters into secured note agreements with FGI Equipment Finance LLC to finance the purchase of equipment. The terms of these secured note agreements mature from March 2025 through April 2025, with quarterly installment payments ranging from \$10,723 to \$12,856 and a fixed interest rate of 8.25%.

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, 2020, are as follows:

| <u>Fiscal Year</u> | <u>Bank</u> | <u>Building</u> | <u>Equipment</u> | <u>Total</u> |
|--------------------|----------------------|---------------------|---------------------|----------------------|
| 2021 | \$ 2,079,218 | \$ 322,576 | \$ 476,366 | \$ 2,878,160 |
| 2022 | 4,203,755 | 6,135,090 | 452,018 | 10,790,863 |
| 2023 | 26,604,754 | 47,752 | 190,508 | 26,843,014 |
| 2024 | 304,658 | 50,571 | 91,742 | 446,971 |
| 2025 | - | 53,557 | 89,644 | 143,201 |
| Thereafter | - | 313,015 | - | 313,015 |
| | <u>\$ 33,192,385</u> | <u>\$ 6,922,561</u> | <u>\$ 1,300,278</u> | <u>\$ 41,415,224</u> |

SigmaTron International, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED
April 30, 2020 and 2019

NOTE H - LONG-TERM DEBT - Continued

Finance Lease Obligations

The Company enters into various finance lease and sales leaseback agreements. The terms of the lease agreements mature through November 2023, with monthly installment payments ranging from \$1,455 to \$40,173 and a fixed interest rate ranging from 3.75% to 12.73%.

Annual future minimum obligations under finance leases and sale leaseback agreements for each of the next five fiscal years and thereafter, as of April 30, 2020, are as follows:

| <u>Fiscal Year</u> | <u>Total</u> |
|---|---------------------|
| 2021 | \$ 2,118,178 |
| 2022 | 1,374,628 |
| 2023 | 498,307 |
| 2024 | 167,721 |
| 2025 | - |
| Total minimum lease payments | <u>4,158,834</u> |
| Less: Amounts representing interest | <u>371,817</u> |
| Present value of net minimum lease payments | <u>\$ 3,787,017</u> |

Other Long-Term Liabilities

As of April 30, 2020 and April 30, 2019 the Company had recorded \$810,769 and \$1,155,907, respectively, for seniority premiums of which \$717,528 and \$1,067,686, respectively, were for retirement accounts related to benefits for employees of the Company's foreign subsidiaries.

SigmaTron International, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED
April 30, 2020 and 2019

NOTE I - ACCRUED EXPENSES AND WAGES

Accrued expenses consist of the following at April 30:

| | <u>2020</u> | <u>2019</u> |
|-------------------|---------------------|---------------------|
| Interest | \$ 77,750 | \$ 171,551 |
| Commissions | 115,385 | 176,135 |
| Professional fees | 730,146 | 351,575 |
| Other - Purchases | 450,000 | 183,148 |
| Other | <u>1,297,223</u> | <u>1,527,902</u> |
| | <u>\$ 2,670,504</u> | <u>\$ 2,410,311</u> |

Accrued wages consist of the following at April 30:

| | <u>2020</u> | <u>2019</u> |
|----------------|---------------------|---------------------|
| Domestic wages | \$ 1,809,572 | \$ 2,030,155 |
| Bonuses | 241,480 | 194,354 |
| Foreign wages | <u>2,155,773</u> | <u>2,455,890</u> |
| | <u>\$ 4,206,825</u> | <u>\$ 4,680,399</u> |

SigmaTron International, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED
April 30, 2020 and 2019

NOTE J - INCOME TAX

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

| | <u>2020</u> | <u>2019</u> |
|----------|---------------------|--------------------|
| Domestic | \$ (131,058) | \$ 2,400,998 |
| Foreign | <u>1,224,192</u> | <u>(1,534,697)</u> |
| | <u>\$ 1,093,134</u> | <u>\$ 866,301</u> |

Income Tax Provision

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

| | <u>2020</u> | <u>2019</u> |
|-----------------|-------------------|---------------------|
| Current | | |
| Federal | \$ (160,490) | \$ 285,351 |
| State | (311) | 27,577 |
| Foreign | <u>684,623</u> | <u>531,245</u> |
| Total Current | 523,822 | 844,173 |
| Deferred | | |
| Federal | 23,565 | 458,572 |
| State | 3,058 | 134,287 |
| Foreign | <u>99,587</u> | <u>294,383</u> |
| Total Deferred | 126,210 | 887,242 |
| Income tax | <u>\$ 650,032</u> | <u>\$ 1,731,415</u> |

SigmaTron International, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED
April 30, 2020 and 2019

NOTE J - INCOME TAX - Continued

Income Tax Provision - Continued

The difference between the income tax expense 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>2020</u> | <u>2019</u> |
|-------------------------------------|-------------------|---------------------|
| U.S Federal Provision: | | |
| At statutory rate | \$ 229,558 | \$ 181,922 |
| State taxes | 30 | 127,245 |
| Foreign tax differential | 216,033 | 75,990 |
| Impact of state tax rate change | 2,139 | 626 |
| Foreign valuation allowance | (305,411) | 1,216,504 |
| Impact of foreign permanent items | 400,179 | 62,544 |
| Foreign currency exchange gain/loss | 183,177 | 156,119 |
| Foreign inflation adjustment | (75,673) | (96,749) |
| Stock based compensation | <u>-</u> | <u>7,214</u> |
| Provision for income taxes | <u>\$ 650,032</u> | <u>\$ 1,731,415</u> |

SigmaTron International, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED
April 30, 2020 and 2019

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>2020</u> | <u>2019</u> |
|--|-----------------------|-----------------------|
| Deferred Tax Assets | | |
| Federal, foreign & state NOL carryforwards | \$ 904,074 | \$ 1,196,341 |
| Foreign tax credit | 78,100 | 78,100 |
| Reserves and accruals | 748,977 | 657,471 |
| Stock based compensation | 402,394 | 360,065 |
| Inventory | 948,029 | 962,525 |
| Other intangibles | 722,192 | 778,744 |
| Lease liabilities | 1,936,772 | 83,233 |
| Allowance for doubtful accounts | 189,522 | 162,492 |
| Other DTA | 13,043 | 12,717 |
| Federal benefit of state | 6,464 | 5,822 |
| Total gross deferred tax assets | <u>5,949,567</u> | <u>4,297,510</u> |
| Less: valuation allowance | <u>(989,194)</u> | <u>(1,294,605)</u> |
| Net deferred tax assets | <u>\$ 4,960,373</u> | <u>\$ 3,002,905</u> |
| Deferred Tax Liabilities | | |
| Property, machinery & equipment | \$ (2,780,770) | \$ (2,615,868) |
| Prepays | (197,890) | (164,598) |
| Lease right-of-use assets | <u>(1,885,484)</u> | <u>-</u> |
| Total deferred tax liabilities | <u>\$ (4,864,144)</u> | <u>\$ (2,780,466)</u> |
| Deferred tax asset | \$ 284,435 | \$ 384,022 |
| Deferred tax liability | <u>(188,206)</u> | <u>(161,583)</u> |
| Net deferred tax (liability) asset | <u>\$ 96,229</u> | <u>\$ 222,439</u> |

SigmaTron International, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED
April 30, 2020 and 2019

NOTE J - INCOME TAX - Continued

Deferred Tax Assets and Liabilities - Continued

The CARES Act was signed into law by the President of the U.S. on March 27, 2020. This legislation is aimed at providing relief for individuals and businesses impacted by the Coronavirus outbreak. The CARES Act includes several significant business tax provisions that, among other things, would eliminate the taxable income limit for certain net operating losses (NOL), allow businesses to carry back NOLs arising in 2018, 2019, and 2020 to the five prior tax years, accelerate refunds of corporate Alternative Minimum Tax credits, temporarily increase the business interest limitation under section 163(j), and allow for deferral of payroll taxes.

The CARES Act also established the Paycheck Protection Program (“PPP”), to be administered by the SBA, whereby certain businesses are eligible for a loan to fund payroll expenses, rent, and related costs. The PPP loan may be forgiven if the funds are used for payroll and other qualified expenses within certain limits. As described in Note H, the Company received a PPP Loan under the CARES Act of \$6,282,963. For federal income tax purposes, the CARES Act expressly provides that any forgiveness or cancellation of all or part of such loans will not be treated as income for tax purposes. It is expected, however, that if the loan is deemed forgiven any deductions for the covered expenses that gave rise to the loan forgiveness will be disallowed to prevent a double tax benefit. As of April 30, 2020 the loan has not been forgiven and thus the expenses have not been disallowed for federal income tax purposes.

Pursuant to the CARES Act, the Company will carry back its fiscal year 2018 NOL to prior tax years when it was subject to a 34.00% U.S. statutory income tax rate. It previously used this NOL to offset income generated in fiscal year 2019, at which time it was subject to a 21.00% U.S. statutory income tax rate. The Company’s fiscal year 2020 income tax provision includes an estimated \$95,000 tax benefit and income tax receivable amount related to the NOL carryback. The Company continues to evaluate the impact of the CARES Act and subsequent guidance on its overall tax position.

As of April 30, 2019, the Company does not have a NOL carryforward for federal income tax purposes. The Company has state NOL carry-forwards totaling approximately \$104,000 at April 30, 2020, that will begin to expire in fiscal year April 30, 2025. The Company has foreign NOL carryforwards of \$3,839,611 as of April 30, 2020, 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 NOL 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 \$911,094 on its NOL 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.

Cash and cash equivalents held internationally may be subject to foreign withholding taxes if repatriated to the U.S. Absent meeting an exception, unrepatriated foreign earnings generally 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 \$3,307,000 as of April 30, 2020, from its foreign subsidiaries.

SigmaTron International, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED
April 30, 2020 and 2019

NOTE J - INCOME TAX - Continued

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, 2020 and April 30, 2019, the amount of consolidated worldwide liability for uncertain tax positions that impacted the Company's effective tax rate was \$0.

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, 2020 and April 30, 2019, the amount included in the Company's balance sheet for such liabilities was \$0.

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. Vietnam tax authorities recently concluded an examination of years 2009-2018 years and assessed an additional amount due totaling \$153,000.

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 25.0% of the first 5.0% participant contributions up to \$2,000.00 per participant annually. The Company contributed \$201,819 and \$96,086 to the plans during the fiscal years ended April 30, 2020 and April 30, 2019, respectively. The Company incurred total expenses of \$8,250 and \$11,750 for the fiscal years ended April 30, 2020 and April 30, 2019, respectively, relating to costs associated with the administration of the plans.

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, 2020, two customers accounted for 16.7% and 14.1% of net sales of the Company, and 3.6% and 5.0%, respectively, of accounts receivable at April 30, 2020. 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. Further, the Company has \$355,324 in cash in China as of April 30, 2020. 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. Under the Federal Deposit Insurance Corporation ("FDIC") program deposit insurance insures up to \$250,000.

SigmaTron International, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED
April 30, 2020 and 2019

NOTE M - LEASES

The Company leases office and storage space, vehicles and other equipment under non-cancellable operating leases with initial terms typically ranging from 1 to 5 years. At contract inception, the Company reviews the facts and circumstances of the arrangement to determine if the contract is or contains a lease. The Company follows the guidance in Topic 842 to evaluate whether the contract has an identified asset; if the Company has the right to obtain substantially all economic benefits from the asset; and if the Company has the right to direct the use of the underlying asset. When determining if a contract has an identified asset, the Company considers both explicit and implicit assets, and whether the supplier has the right to substitute the asset. When determining if the Company has the right to direct the use of an underlying asset, the Company considers if they have the right to direct how and for what purpose the asset is used throughout the period of use and if they control the decision-making rights over the asset.

The Company's lease terms may include options to extend or terminate the lease. The Company exercises judgment to determine the term of those leases when extension or termination options are present and include such options in the calculation of the lease term when it is reasonably certain that it will exercise those options.

The Company has elected to include both lease and non-lease components in the determination of lease payments. Payments made to a lessor for items such as taxes, insurance, common area maintenance, or other costs commonly referred to as executory costs, are also included in lease payments if they are fixed. The fixed portion of these payments are included in the calculation of the lease liability, while any variable portion would be recognized as variable lease expenses, when incurred. Variable payments made to third parties for these, or similar costs, such as utilities, are not included in the calculation of lease payments.

At commencement, lease-related assets and liabilities are measured at the present value of future lease payments over the lease term. As most of the Company's leases do not provide an implicit rate, the Company exercises judgment in determining the incremental borrowing rate based on the information available at when the lease commences to measure the present value of future payments.

Operating lease expense is recognized on a straight-line basis over the lease term. Finance lease cost includes amortization, which is recognized on a straight-line basis over the expected life of the leased asset, and interest expense, which is recognized following an effective interest rate method.

Operating leases are included in other assets, current operating lease obligations, and operating lease obligations (less current portion) on the Company's consolidated balance sheet. Finance leases are included in property, plant and equipment and current and long-term portion of finance lease obligations on the Company's consolidated balance sheet. Short term leases with an initial term of 12 months or less are not presented on the balance sheet with expense recognized as incurred.

SigmaTron International, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED
April 30, 2020 and 2019

NOTE M - LEASES – Continued

The following table presents lease assets and liabilities and their balance sheet classification:

| | Classification | April 30, 2020 |
|--|---|-------------------|
| Operating Leases: | | |
| Right-of-use Assets | Other assets | \$ 7,235,166 |
| Operating lease current liabilities | Current portion of operating lease obligations | 2,150,161 |
| Operating lease noncurrent liabilities | Operating lease obligations, less current portion | 5,281,811 |
| Finance Leases: | | |
| Right-of-use Assets | Property, plant and equipment | 6,443,954 |
| Finance lease current liabilities | Current portion of finance lease obligations | 1,902,295 |
| Finance lease noncurrent liabilities | Finance lease obligations, less current portion | 1,884,722 |

The components of lease expense for the fiscal year ended April 30, 2020, are as follows:

| | Classification | April 30, 2020 |
|-------------------------------------|--------------------|-------------------|
| Operating Leases: | | |
| Operating lease cost | Operating expenses | 2,483,385 |
| Variable lease cost | Operating expenses | 300,274 |
| Short term lease cost | Operating expenses | 5,400 |
| Finance Leases: | | |
| Amortization of right-of-use assets | Operating expenses | 451,870 |
| Interest expense | Interest expense | 275,217 |
| Total | | <u>3,516,146</u> |

The weighted average lease term and discount rates are as follows:

| | April 30, 2020 |
|--|-------------------|
| Operating Leases: | |
| Weighted average remaining lease term (months) | 52.7 |
| Weighted average discount rate | 3.8% |
| Finance Leases: | |
| Weighted average remaining lease term (months) | 26.27 |
| Weighted average discount rate | 7.4% |

SigmaTron International, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED
April 30, 2020 and 2019

NOTE M - LEASES – Continued

Future payments due under leases reconciled to lease liabilities are as follows:

| | <u>Operating Leases</u> | <u>Finance Leases</u> |
|---------------------------------------|-------------------------|-----------------------|
| For the fiscal years ending April 30: | | |
| 2021 | 2,295,166 | 2,118,178 |
| 2022 | 1,652,790 | 1,374,628 |
| 2023 | 1,669,822 | 498,307 |
| 2024 | 1,161,702 | 167,721 |
| 2025 | 506,151 | - |
| Thereafter | <u>487,123</u> | <u>-</u> |
| Total undiscounted lease payments | 7,772,754 | 4,158,834 |
| Present value discount, less interest | <u>340,782</u> | <u>371,817</u> |
| Lease liability | \$ 7,431,972 | \$ 3,787,017 |

Supplemental disclosures of cash flow information related to leases as of fiscal year ended April 30, 2020 are as follows:

| Other Information | <u>April 30,</u> |
|--|------------------|
| | <u>2020</u> |
| Cash paid for amounts included in the measurement of lease liabilities | |
| Operating cash flows from finance leases | 275,217 |
| Operating cash flows from operating leases | 275,654 |
| Financing cash flows from finance leases | 2,099,685 |
| Supplemental non-cash information on lease liabilities arising from obtaining right-of-use assets: | |
| Right-of-use assets obtained in exchange for new finance lease liabilities | 1,084,543 |
| Right-of-use assets obtained in exchange for operating lease liabilities | 3,305,503 |

The future minimum lease payments due under operating and capital leases and sale leaseback arrangements under the previous leases standard as of April 30, 2019, were as follows:

| <u>Fiscal Year</u> | <u>Operating leases</u> | <u>Capital leases and sale leaseback</u> |
|------------------------|-------------------------|--|
| Years Ending April 30, | | |
| 2020 | \$ 1,808,984 | \$ 2,215,849 |
| 2021 | 1,387,697 | 1,792,747 |
| 2022 | 757,738 | 1,049,198 |
| 2023 | 736,385 | 133,819 |
| 2024 | <u>42,000</u> | <u>-</u> |
| Total | <u>\$ 4,732,804</u> | <u>\$ 5,191,613</u> |

SigmaTron International, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED
April 30, 2020 and 2019

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, 2020, the Company has 102,000 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 using the Black-Scholes option pricing model.

The Company granted 48,000 options to employees in fiscal year 2020, which vested immediately. The Company recognized approximately \$90,432 in compensation expense in fiscal year 2020. The balance of unrecognized compensation expense was \$0 at April 30, 2020.

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 December 2019, the Company issued 15,000 shares of restricted stock pursuant to the 2018 Non-Employee Director Restricted Stock Plan, which fully vests on June 1, 2020. The Company recognized \$54,821 in compensation expense in fiscal year 2020. The balance of unrecognized compensation expense related to the Company’s restricted stock award was \$15,229 at April 30, 2020. 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, 2020:

| | 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, 2018 | 347,318 | 5.90 | 347,318 |
| Options granted during 2019 | 117,914 | 3.20 | |
| Outstanding at April 30, 2019 | 465,232 | 5.22 | 465,232 |
| Options granted during 2020 | 48,000 | 4.28 | |
| Outstanding at April 30, 2020 | <u>513,232</u> | <u>\$ 5.13</u> | <u>513,232</u> |

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. As of April 30, 2020 and April 30, 2019, there was no aggregate intrinsic value of the options outstanding.

SigmaTron International, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED
April 30, 2020 and 2019

NOTE N - STOCK COMPENSATION AND EQUITY TRANSACTIONS – Continued

Information with respect to stock options outstanding and exercisable at April 30, 2020 follows:

| | <u>Options outstanding and exercisable</u> | | |
|---------------------------------|---|---|---|
| <u>Range of exercise prices</u> | <u>Number outstanding at April 30, 2020</u> | <u>Weighted-average remaining contract life</u> | <u>Weighted- average exercise price</u> |
| \$ 3.20-6.45 | <u>513,232</u> | 6.04 years | <u>\$ 5.13</u> |
| | <u>513,232</u> | | <u>\$ 5.13</u> |

As of April 30, 2020, there were no non-vested stock options.

SigmaTron International, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED
April 30, 2020 and 2019

NOTE O - SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

The following is a summary of unaudited quarterly financial data for fiscal year 2020:

| <u>2020</u> | <u>First Quarter</u> | <u>Second Quarter</u> | <u>Third Quarter</u> | <u>Fourth Quarter</u> |
|---------------------------------------|--------------------------|---------------------------|--------------------------|---------------------------|
| Net sales | \$ 74,009,981 | \$ 74,855,312 | \$ 67,407,268 | \$ 64,769,921 |
| Gross profit | 6,960,332 | 7,129,486 | 5,521,777 | 5,493,295 |
| Income (loss) before income taxes (1) | 608,140 | 977,289 | (319,770) | (172,525) |
| Net income (loss) | 361,025 | 661,183 | (217,039) | (362,067) |
| Earnings (loss) per share Basic | \$ 0.09 | \$ 0.15 | \$ (0.05) | \$ (0.09) |
| Earnings (loss) per share Diluted | \$ 0.09 | \$ 0.15 | \$ (0.05) | \$ (0.09) |
| Weighted average shares- Basic | 4,241,883 | 4,242,508 | 4,242,508 | 4,242,508 |
| Weighted average shares- Diluted | 4,241,883 | 4,278,901 | 4,242,508 | 4,242,508 |

- 1.) The Company records inventory reserves for valuation and shrinkage throughout the year based on historical data. In the fourth quarter of fiscal year 2020 physical inventory results were completed resulting in an increase in income before income taxes of approximately \$530,000.

The aggregate after-tax effect for the above adjustments in the fourth quarter of fiscal year 2020 was an increase to basic earnings per share of \$0.05.

SigmaTron International, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED
April 30, 2020 and 2019

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

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

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

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.

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