

SIGMATRON INTERNATIONAL INC

Form 10-Q

December 14, 2010

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

**Form 10-Q**

(Mark One)

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

**For the quarterly period ended October 31, 2010**

**OR**

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

**For the transition period from to**

**Commission File Number 0-23248  
SIGMATRON INTERNATIONAL, INC.  
(Exact name of registrant as specified in its charter)**

Delaware  
(State or other jurisdiction of  
incorporation or organization)

36-3918470  
(I.R.S. Employer  
Identification No.)

2201 Landmeier Road  
Elk Grove Village, Illinois  
(Address of principal executive offices)

60007  
(Zip Code)

Registrant's telephone number, including area code: (847) 956-8000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer

Accelerated filer

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

Smaller reporting  
company

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

Indicate the number of shares outstanding of the registrant's common stock, \$0.01 par value, as of December 14, 2010:  
3,823,056

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**SigmaTron International, Inc.**  
Consolidated Balance Sheets

|   | October 31,<br>2010<br>(Unaudited) | April 30,<br>2010 |
|---|------------------------------------|-------------------|
| <b>Current assets:</b>  |                                    |                   |
| Cash  | \$ 3,013,336                       | \$ 4,052,572      |
| Accounts receivable, less allowance for doubtful accounts of \$150,000 at October 31, 2010 and April 30, 2010 | 24,829,517                         | 24,929,972        |
| Inventories, net  | 49,811,073                         | 37,406,056        |
| Prepaid expenses and other assets   | 883,359                            | 928,551           |
| Deferred income taxes   | 1,846,071                          | 1,844,188         |
| Other receivables   | 120,741                            | 171,593           |
| <br>  |                                    |                   |
| Total current assets  | 80,504,097                         | 69,332,932        |
| <br>  |                                    |                   |
| Property, machinery and equipment, net  | 27,037,236                         | 25,176,664        |
| <br>  |                                    |                   |
| Other assets  | 775,771                            | 822,341           |
| Intangible assets, net of amortization of \$2,494,845 and \$2,406,329 at October 31, 2010 and April 30, 2010  | 275,155                            | 363,671           |
| <br>  |                                    |                   |
| Total assets  | \$ 108,592,259                     | \$ 95,695,608     |
| <br>  |                                    |                   |
| <b>Liabilities and stockholders equity:</b>   |                                    |                   |
| Current liabilities:  |                                    |                   |
| Trade accounts payable  | \$ 18,721,480                      | \$ 20,479,495     |
| Accrued expenses  | 2,132,680                          | 1,786,360         |
| Accrued wages   | 2,097,590                          | 2,475,552         |
| Income taxes payable  | 375,909                            | 1,288,617         |
| Notes payable buildings   | 99,996                             | 99,996            |
| Notes payable other   | 160,994                            | 160,994           |
| Capital lease obligations   | 1,058,699                          | 874,116           |
| <br>  |                                    |                   |
| Total current liabilities   | 24,647,348                         | 27,165,130        |
| <br>  |                                    |                   |
| Notes payable bank, less current portion  | 28,425,126                         | 15,125,058        |
| Notes payable buildings, less current portion   | 2,325,007                          | 2,375,005         |
| Notes payable other, less current portion   | 107,329                            | 187,826           |
| Capital lease obligations, less current portion   | 1,130,031                          | 569,240           |
| Deferred rent   | 396,622                            |                   |
| Deferred income taxes   | 2,446,722                          | 2,610,142         |

|                             |            |            |
|-----------------------------|------------|------------|
| Total long-term liabilities | 34,830,837 | 20,867,271 |
| Total liabilities           | 59,478,185 | 48,032,401 |

**Commitments and contingencies:**

**Stockholders equity:**

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

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

|                                |            |            |
|--------------------------------|------------|------------|
|                                | 38,231     | 38,226     |
| Capital in excess of par value | 19,654,183 | 19,647,359 |
| Retained earnings              | 29,421,660 | 27,977,622 |

|                           |            |            |
|---------------------------|------------|------------|
| Total stockholders equity | 49,114,074 | 47,663,207 |
|---------------------------|------------|------------|

|   |                |               |
|---|----------------|---------------|
| Total liabilities and stockholders equity | \$ 108,592,259 | \$ 95,695,608 |
|---|----------------|---------------|

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

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**SigmaTron International, Inc.**  
Consolidated Statements Of Operations

|  | Three Months<br>Ended            | Three Months<br>Ended            | Six Months<br>Ended | Six Months<br>Ended |
|--|----------------------------------|----------------------------------|---------------------|---------------------|
|  | October 31,<br>2010<br>Unaudited | October 31,<br>2009<br>Unaudited | October 31,<br>2010 | October 31,<br>2009 |
| Net sales  | \$ 38,195,193                    | \$ 30,564,267                    | \$ 76,256,566       | \$ 56,894,321       |
| Cost of products sold                                  | 33,969,173                       | 27,280,971                       | 67,372,392          | 51,351,172          |
| <br>   |                                  |                                  |                     |                     |
| Gross profit   | 4,226,020                        | 3,283,296                        | 8,884,174           | 5,543,149           |
| Selling and administrative expenses                    | 2,989,832                        | 2,368,409                        | 6,043,018           | 4,945,250           |
| <br>   |                                  |                                  |                     |                     |
| Operating income                                       | 1,236,188                        | 914,887                          | 2,841,156           | 597,899             |
| Other (income) expense net                             | (5,970)                          | (97,441)                         | (10,122)            | (19,744)            |
| Interest expense                                       | 311,637                          | 191,307                          | 559,087             | 435,403             |
| <br>   |                                  |                                  |                     |                     |
| Income from operations before<br>income tax expense    | 930,521                          | 821,021                          | 2,292,191           | 182,240             |
| Income tax expense                                     | 344,471                          | 303,723                          | 848,152             | 67,417              |
| <br>   |                                  |                                  |                     |                     |
| Net income   | \$ 586,050                       | \$ 517,298                       | \$ 1,444,039        | \$ 114,823          |
| <br>   |                                  |                                  |                     |                     |
| Earnings per share basic                               | \$ 0.15                          | \$ 0.14                          | \$ 0.37             | \$ 0.03             |
| <br>   |                                  |                                  |                     |                     |
| Earnings per share diluted                             | \$ 0.15                          | \$ 0.13                          | \$ 0.37             | \$ 0.02             |
| <br>   |                                  |                                  |                     |                     |
| Weighted average shares of common<br>stock outstanding |                                  |                                  |                     |                     |
| Basic  | 3,823,056                        | 3,822,556                        | 3,822,928           | 3,822,556           |
| <br>   |                                  |                                  |                     |                     |
| Weighted average shares of common<br>stock outstanding |                                  |                                  |                     |                     |
| Diluted  | 3,881,139                        | 3,851,395                        | 3,879,342           | 3,839,096           |

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





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Consolidated Statements of Cash Flows

|   | Six<br>Months Ended<br>October 31,<br>2010<br>Unaudited | Six<br>Months<br>Ended<br>October 31,<br>2009<br>Unaudited |
|---|---|--|
| <b>Operating activities:</b>  |   |  |
| Net income  | \$ 1,444,039  | \$ 114,823   |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities: |   |  |
| Depreciation and amortization   | 2,473,024   | 2,010,717  |
| Stock-based compensation  | 4,828   | 11,951   |
| Provision for doubtful accounts   |   | (17,788)   |
| Provision for inventory obsolescence  |   | (62,440)   |
| Deferred income taxes   | (165,303)   | (4,661)  |
| Deferred rent   | 396,622   |  |
| Amortization of intangible assets   | 88,516  | 130,628  |
| Loss (gain) from disposal or sale of machinery and equipment                                | 784   | (7,980)  |
| Changes in operating assets and liabilities   |   |  |
| Accounts receivable   | 100,455   | (3,812,816)  |
| Inventories   | (12,405,017)  | 5,100,170  |
| Prepaid expenses and other assets   | 142,614   | 640,503  |
| Trade accounts payable  | (592,652)   | 2,737,093  |
| Accrued expenses and payroll  | (31,642)  | (72,068)   |
| Income taxes payable  | (912,708)   | (148,108)  |
| Net cash (used in) provided by operating activities   | (9,456,440)   | 6,620,024  |
| <b>Investing activities:</b>  |   |  |
| Purchases of machinery and equipment  | (3,183,798)   | (1,170,606)  |
| Proceeds from sale of machinery and equipment   |   | 8,477  |
| Net cash used in investing activities   | (3,183,798)   | (1,162,129)  |
| <b>Financing activities:</b>  |   |  |
| Proceeds from the issuance of common stock  | 2,000   |  |
| Payments under capital lease obligations  | (405,208)   | (477,471)  |
| Payments under term loan  |   | (500,000)  |
| Payments under other notes payable  | (80,497)  | (26,832)   |
| Net proceeds (payments) under lines of credit   | 13,300,068  | (3,849,405)  |
| Change in bank overdraft  | (1,165,363)   |  |
| Payments under building notes payable   | (49,998)  | (70,125)   |

|  |                     |                     |
|--|---------------------|---------------------|
| Net cash provided by (used in) financing activities                                      | 11,601,002          | (4,923,833)         |
| <b>Change in cash</b>  | (1,039,236)         | 534,062             |
| Cash at beginning of period  | 4,052,572           | 3,781,252           |
| <b>Cash at end of period</b>   | <b>\$ 3,013,336</b> | <b>\$ 4,315,314</b> |
| Supplementary disclosures of cash flow information                                       |                     |                     |
| Cash paid for interest   | \$ 462,969          | \$ 440,410          |
| Cash paid for income taxes, net of (refunds)   | 1,760,679           | 69,057              |
| Purchase of machinery and equipment financed under capital leases                        | 315,252             |                     |
| Purchase of machinery and equipment financed under sale lease back agreements            | 835,330             |                     |
| Non Cash Financing Activity:   |                     |                     |
| The Company financed a licensing agreement through a note payable                        |                     | \$ 442,732          |
| The accompanying notes to financial statements are an integral part of these statements. |                     |                     |

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SigmaTron International, Inc.

**Notes to Condensed Consolidated Financial Statements**

(Unaudited)

October 31, 2010

**Note A Basis of Presentation:**

The accompanying unaudited consolidated financial statements of SigmaTron International, Inc. ( SigmaTron ), SigmaTron s wholly-owned subsidiaries Standard Components de Mexico S.A., AbleMex, S.A. de C.V., and SigmaTron International Trading Co., its wholly-owned foreign enterprise Wujiang SigmaTron Electronics Co. Ltd. ( SigmaTron China ) and international procurement office SigmaTron Taiwan (collectively, the Company ) have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X.

Accordingly, the consolidated financial statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. The Company has evaluated subsequent events through December 14, 2010, which is the date the financial statements were issued. Operating results for the three and six month periods ended October 31, 2010 are not necessarily indicative of the results that may be expected for the year ending April 30, 2011. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company s Annual Report on Form 10-K for the year ended April 30, 2010.

**Note B Inventories:**

The components of inventory consist of the following:

|                   | October 31,<br>2010 | April 30,<br>2010 |
|-------------------|---------------------|-------------------|
| Finished products | \$ 12,362,184       | \$ 8,364,010      |
| Work-in-process   | 2,210,200           | 1,925,880         |
| Raw materials     | 35,238,689          | 27,116,166        |
|                   | \$ 49,811,073       | \$ 37,406,056     |

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

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

|                                  | Three Months Ended     |                     | Six Months Ended       |                     |
|----------------------------------|------------------------|---------------------|------------------------|---------------------|
|                                  | October<br>31,<br>2010 | October 31,<br>2009 | October<br>31,<br>2010 | October 31,<br>2009 |
| Net income                       | \$ 586,050             | \$ 517,298          | \$ 1,444,039           | \$ 114,823          |
| Weighted-average shares          |                        |                     |                        |                     |
| Basic                            | 3,823,056              | 3,822,556           | 3,822,928              | 3,822,556           |
| Effect of dilutive stock options | 58,083                 | 28,839              | 56,414                 | 16,540              |
| Diluted                          | 3,881,139              | 3,851,395           | 3,879,342              | 3,839,096           |
| Basic earnings per share         | \$ 0.15                | \$ 0.14             | \$ 0.37                | \$ 0.03             |
| Diluted earnings per share       | \$ 0.15                | \$ 0.13             | \$ 0.37                | \$ 0.02             |

Options to purchase 500,807 and 503,707 shares of common stock were outstanding at October 31, 2010 and 2009, respectively. There were no options granted during the quarters ended October 31, 2010 and 2009, respectively.

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

During the second fiscal quarter of 2011, the Company relocated its Hayward, CA operation to Union City, CA. The Company incurred relocation expenses as a result of the move. The relocation expenses after tax for the three and six month periods ended October 31, 2010 were \$421,713 and \$555,588, respectively. Net income adjusted on a pro-forma basis to exclude relocation expenses for the three and six month periods ended October 31, 2010 was \$1,007,763 and \$1,999,627, respectively. The Non-GAAP basic and diluted earnings per share, as adjusted, for the first and second quarters of fiscal 2011 equated to \$0.26 and \$0.51, respectively.

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|   | Non-GAAP Reconciliation                         |  |
|---|---|--|
|   | Three<br>Months<br>Ended<br>October<br>31, 2010 | Six Months<br>Ended<br>October<br>31, 2010 |
| <b>Income Reconciliation:</b>   |   |  |
| Net income before relocation expenses   | \$ 1,007,763                                    | \$ 1,999,627                               |
| Relocation expenses net of taxes  | 421,713   | 555,588                                    |
| Net income  | \$ 586,050                                      | \$ 1,444,039                               |
| <b>EPS Reconciliation:</b>  |   |  |
| Net income per common share assuming dilution before relocation expenses          | \$ 0.26   | \$ 0.51                                    |
| Net income per common share assuming dilution before relocation expenses          | \$ (0.11)                                       | \$ (0.14)                                  |
| Net income per common share assuming dilution                                     | \$ 0.15   | \$ 0.37                                    |
| Weighted average number of common equivalent shares outstanding assuming dilution | 3,881,139                                       | 3,879,342                                  |

**Note E Financing Transaction:**

In January 2010, the Company entered into a senior secured credit facility with Wells Fargo Bank, National Association ( Wells Fargo ), with a credit limit up to \$25 million. The term of the credit facility extends for two years, through January 8, 2012, and allows the Company to choose among interest rates at which it may borrow funds. The interest rate can be the prime rate plus one half percent (3.75% at October 31, 2010) or LIBOR plus two and three quarter percent (3.1% at October 31, 2010). The LIBOR rate has a floor of .35%. The credit facility is collateralized by substantially all of the domestically located assets of the Company and requires the Company to be in compliance with several financial covenants. In August 2010, the Company and Wells Fargo increased the Company's senior secured credit facility from \$25 million to \$30 million. The Company was in compliance with its financial covenants at October 31, 2010. As of October 31, 2010, there was a \$28,425,126 outstanding balance under the credit facility and approximately \$1,570,000 of unused availability.

**Note F Critical Accounting Policies:**

*Management Estimates and Uncertainties* - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ( GAAP ) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates made in preparing the consolidated financial statements include

depreciation and amortization periods, the allowance for doubtful accounts, reserves for inventory and valuation of long-lived assets. Actual results could materially differ from these estimates.

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*Revenue Recognition* - Revenues from sales of the Company's electronic manufacturing services business are recognized when the product is shipped to the customer. In general, it is the Company's policy to recognize revenue and related costs when the order has been shipped from our facilities, which is also the same point that title passes under the terms of the purchase order except for consignment inventory. Consignment inventory is shipped from the Company to an independent warehouse for storage or shipped directly to the customer and stored in a segregated part of the customer's own facility. Upon the customer's request for inventory, the consignment inventory is shipped to the customer if the inventory was stored off-site or transferred from the segregated part of the customer's facility for consumption, or use, by the customer. The Company recognizes revenue upon such transfer. The Company from time to time may ship an order from its facilities which is also the same point that title passes under the terms of the purchase order and invoice the customer at the end of the calendar month. This is done only in special circumstances to accommodate a specific customer. The Company does not earn a fee for storing the consignment inventory. The Company generally provides a 90 day warranty for workmanship only and does not have any installation, acceptance or sales incentives, although the Company has negotiated longer warranty terms in certain instances. The Company assembles and tests assemblies based on customers' specifications. Historically, the amount of returns for workmanship issues has been de minimis under the Company's standard or extended warranties.

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

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

**New Accounting Standards:**

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

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

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

In addition to historical financial information, this discussion of the business of SigmaTron International, Inc., its wholly-owned subsidiaries Standard Components de Mexico S.A., AbleMex S.A. de C.V., and SigmaTron International Trading Co., and its wholly-owned foreign enterprise Wujiang SigmaTron Electronics Co., Ltd. (SigmaTron China) and international procurement office SigmaTron Taiwan (collectively the Company) and other Items in this Quarterly Report on Form 10-Q contain forward-looking statements concerning the Company's business or results of operations. Words such as continue, anticipate, will, expect, believe, plan, and similar expressions identify forward-looking statements. These forward-looking statements are based on the current expectations of the Company. Because these forward-looking statements involve risks and uncertainties, the Company's plans, actions and actual results could differ materially. Such statements should be evaluated in the context of the risks and uncertainties inherent in the Company's business including, but not necessarily limited to, the Company's continued dependence on certain significant customers; the continued market acceptance of products and services offered by the Company and its customers; pricing pressures from our customers, suppliers and the market; the activities of competitors, some of which may have greater financial or other resources than the Company; the variability of our operating results; the results of long-lived assets impairment testing; the variability of our customers' requirements; the availability and cost of necessary components and materials; the ability of the Company and our customers to keep current with technological changes within our industries; regulatory compliance; the continued availability and sufficiency of our credit arrangements; changes in U.S., Mexican, Chinese or Taiwanese regulations affecting the Company's business; the turmoil in the global economy and financial markets; the stability of the U.S., Mexican, Chinese and Taiwanese economic, labor and political systems and conditions; currency exchange fluctuations; the expenses and savings from the relocation of our Hayward, California facility to Union City, California; and the ability of the Company to manage its growth. These and other factors which may affect the Company's future business and results of operations are identified throughout the Company's Annual Report on Form 10-K and as risk factors and may be detailed from time to time in the Company's filings with the Securities and Exchange Commission. These statements speak as of the date of such filings, and the Company undertakes no obligation to update such statements in light of future events or otherwise unless otherwise required by law.

**Overview:**

The Company operates in one business segment as an independent provider of electronic manufacturing services (EMS), which includes printed circuit board assemblies and completely assembled (box-build) electronic products. In connection with the production of assembled products, the Company also provides services to its customers, including (1) automatic and manual assembly and testing of products; (2) material sourcing and procurement; (3) design, manufacturing and test engineering support; (4) warehousing and shipment services; and (5) assistance in obtaining product approval from governmental and other regulatory bodies. The Company provides these manufacturing services through an international network of facilities located in the United States, Mexico, China and Taiwan. The Company relies on numerous third-party suppliers for components used in the Company's production process. Certain of these components are available only from single sources or a limited number of suppliers. In addition, a customer's specifications may require the Company to obtain components from a single source or a small number of suppliers. The loss of any such suppliers or increases in component cost could have a material impact on the Company's results of operations. The Company could operate at a cost disadvantage compared to competitors who have greater direct buying power from suppliers. During the past several months the Company has experienced an increase in lead times for various types of components and raw material classes, due to increased demand and vendor capacity issues. The Company does not enter into long-term purchase agreements with the majority of its major or single-source suppliers. The Company believes short-term purchase



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orders with its suppliers provide flexibility needed to source inventory based on the needs of its customers. Sales can be a misleading indicator of the Company's financial performance. Sales levels can vary considerably among customers and products depending on the type of services (consignment or turnkey) rendered by the Company and the demand by customers. Consignment orders require the Company to perform manufacturing services on components and other materials supplied by a customer, and the Company charges only for its labor, overhead and manufacturing costs, plus a profit. In the case of turnkey orders, the Company provides, in addition to manufacturing services, the components and other materials used in assembly. Turnkey contracts, in general, have a higher dollar volume of sales for each given assembly, owing to inclusion of the cost of components and other materials in net sales and cost of goods sold. Variations in the number of turnkey orders compared to consignment orders can lead to significant fluctuations in the Company's revenue levels. However, the Company does not believe that such variations are a meaningful indicator of the Company's gross margins. Consignment orders accounted for less than 5% of the Company's revenues for the six months ended October 31, 2010 and 2009.

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

**Results of Operations:**

**Net Sales**

Net sales increased for the three month period ended October 31, 2010 to \$38,195,193 from \$30,564,267 for the three month period ended October 31, 2009. Net sales increased for the six months ended October 31, 2010 to \$76,256,566 from \$56,894,321 for the same period in the prior fiscal year. Sales volume increased for the three and six month periods ended October 31, 2010 as compared to the same period in the prior year in the industrial electronics, fitness, telecommunications, semiconductor equipment and gaming marketplaces. The increase in sales for these marketplaces was partially offset by a decrease in sales in the life sciences marketplaces. The increase in revenue for the three and six month periods ended October 31, 2010 is a result of our existing customers' increased demand for product and the addition of some new customer programs ramping up.

**Gross Profit**

Gross profit increased during the three month period ended October 31, 2010 to \$4,226,020 or 11.1% of net sales, compared to \$3,283,296 or 10.7% of net sales for the same period in the prior fiscal year. Gross profit increased for the six month period ended October 31, 2010 to \$8,884,174 or 11.7% of net sales, compared to \$5,543,149 or 9.7% of net sales for the same period in the prior fiscal year. The increase in gross margin in total dollars and as a percent of sales for the three and six month periods ended October 31, 2010 compared to the prior periods is due to increased revenue levels, the mix of product shipped to various customers and continuing efforts to control operational costs. There can be no assurance that sales levels and gross margins will not decrease in future quarters. Pricing pressures continue at all locations.

**Table of Contents****Selling and Administrative Expenses**

Selling and administrative expenses increased to \$2,989,832 for the three month period ended October 31, 2010 compared to \$2,368,409 in the same period in the prior fiscal year; however, the percentage of net sales represented by such expenses remained constant, at 7.8% of net sales, for each such period. Selling and administrative expenses increased to \$6,043,018 for the six month period ended October 31, 2010 compared to \$4,945,250 in the same period in the prior fiscal year; however, the percentage of net sales represented by such expenses dropped to 7.9% of net sales from 8.7% of net sales, during those respective periods. The increase in total dollars of such expenses for the three month and six month periods ended October 31, 2010, was approximately \$882,200 and \$1,306,500 respectively, and is primarily due to a restoration of salary reductions previously implemented in response to the downturn in business, bonus expense, travel and professional fees. The increase in selling and administrative expenses in total dollars for the three and six month periods ended October 31, 2010 was partially offset by a decrease of approximately \$260,750 and \$208,700 respectively, in amortization expense, insurance and other selling and administrative expenses.

**Interest Expense**

Interest expense increased to \$311,637 for the three month period ended October 31, 2010 compared to \$191,307 for the same period in the prior year. Interest expense for the six month periods ended October 31, 2010 was \$559,087 compared to \$435,403 for the same period in the prior year. The additional interest expense was attributable to the Company's increased borrowings under its banking agreements, capital lease obligations, deferred financing costs and higher interest rates under its senior secured credit facility and mortgage. Interest expense for future quarters in fiscal year 2011 may increase if interest rates or borrowings, or both, continue to increase.

**Taxes**

The income tax expense from operations was \$344,471 for the three month period ended October 31, 2010 compared to \$303,723 for the same period in the prior fiscal year. Income tax expense from operations was \$848,152 for the six month period ended October 31, 2010 compared to \$67,417 for the same period in the prior fiscal period. The Company's effective tax rate was 37% for the six month periods ended October 31, 2010 and 2009.

**Net Income**

Net income from operations increased to \$586,050 for the three month period ended October 31, 2010 compared to \$517,298 for the same period in the prior year. Net income from operations increased to \$1,444,039 for the six months ended October 31, 2010 compared to \$114,823 in the same period last year. Basic and diluted earnings per share for the second fiscal quarter of 2011 were both \$0.15 compared to basic and diluted earnings per share of \$0.14 and \$0.13, respectively, for the same period in the prior year. Basic and diluted earnings per share for the six months ended October 31, 2010 were both \$0.37 compared to basic and diluted earnings per share of \$0.03 and \$0.02, respectively, for the same period in the prior year.

During the second fiscal quarter of 2011, the Company relocated its Hayward, CA operation to Union City, CA. The Company incurred relocation expenses as a result of the move. Net income adjusted on a pro-forma basis to exclude relocation expenses for the three and six month periods ended October 31, 2010 was \$1,007,763 and \$1,999,627, respectively. The Non-GAAP basic and diluted earnings per share, as adjusted, for the first and second quarters of fiscal 2011 equated to \$0.26 and \$0.51, respectively (see the *Non-GAAP Reconciliation on page 8*).

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**Liquidity and Capital Resources:**

***Operating Activities.***

Cash flow used in operating activities was \$9,456,440 for the six months ended October 31, 2010, compared to cash flow provided by operating activities of \$6,620,024 for the same period in the prior year. During the first six months of fiscal year 2011, cash flow used in operating activities was primarily the result of an increase in inventories of \$12,405,017 due to inventory purchases to support increased demand for specific customers, rising inventory levels for other customers delaying shipments and the start up of new customer programs. Net cash used in operating activities was partially offset by net income, the non-cash effect of depreciation and amortization, a decrease in income taxes payable, accounts payable and accounts receivable. The change in accounts payable and accounts receivable is due to timing of payments in the ordinary course of business.

Cash flow provided by operating activities was \$6,620,024 for the six months ended October 31, 2009. During the first six months of fiscal year 2010, cash flow provided by operating activities was a result of net income, the non-cash effect of depreciation and amortization, a decrease in inventory and an increase in accounts payable. The decrease in inventory of \$5,100,170 was the result of the slowing of inventory receipts due to customers' decreased demand for product based on their forecasts, which we believe was attributable to the global economic slowdown and financial crisis. Net cash provided by operations was partially offset by a \$3,812,816 increase in accounts receivable. The increase in accounts receivable was due to the timing of payments from a significant customer.

***Investing Activities.***

During the first six months of fiscal year 2011, the Company purchased approximately \$4,300,000 in machinery and equipment to be used in the ordinary course of business. Of the total purchases approximately \$315,000 and \$835,000 of equipment purchases in the first six months of fiscal year 2011 is financed under a capital lease and a sale lease back agreement, respectively. The balance of the purchases was funded by working capital. The Company expects to make additional machinery and equipment purchases of approximately \$1,500,000 during the balance of fiscal year 2011.

During the first six months of fiscal year 2010, the Company purchased approximately \$1,200,000 in machinery and equipment in the ordinary course of business. Approximately \$440,000 of the equipment purchases in the first six months of fiscal year 2010 was a financed licensing agreement for software through a note payable.

***Financing Activities.***

Cash provided by financing activities was \$11,601,002 for the six months ended October 31, 2010, compared to cash used in financing activities of \$4,923,833 for the same period in the prior fiscal year. Cash provided by financing activities was primarily the result of increased borrowings of \$13,300,068 under the credit facility. The additional working capital was required to support the increase in inventory.

**Table of Contents*****Financing Transactions.***

In January 2010, the Company entered into a senior secured credit facility with Wells Fargo Bank, National Association ( Wells Fargo ), with a credit limit up to \$25 million. The term of the credit facility extends for two years, through January 8, 2012, and allows the Company to choose among interest rates at which it may borrow funds. The interest rate can be the prime rate plus one half percent (3.75% at October 31, 2010) or LIBOR plus two and three quarter percent (3.1% at October 31, 2010). The LIBOR rate has a floor of 0.35%. The credit facility is collateralized by substantially all of the domestically located assets of the Company and requires the Company to be in compliance with several financial covenants. In August 2010, the Company and Wells Fargo increased the Company s senior secured credit facility from \$25 million to \$30 million. The Company was in compliance with its financial covenants at October 31, 2010. As of October 31, 2010, there was a \$28,425,126 outstanding balance under the credit facility and approximately \$1,570,000 of unused availability.

The Company entered into a mortgage agreement on January 8, 2010, in the amount of \$2,500,000 with Wells Fargo to refinance the property that serves as the Company s corporate headquarters and its Illinois manufacturing facility. The note bears interest at a fixed rate of 6.42% per year and is payable in sixty monthly installments. A final payment of approximately \$2,000,000 is due on or before January 8, 2015. The outstanding balance as of October 31, 2010 was \$2,425,003. At October 31, 2009, there was \$2,591,313 outstanding under a mortgage agreement with Bank of America.

On January 19, 2010, the Company entered into a leasing transaction with Wells Fargo Equipment Finance, Inc. to refinance \$1,287,407 of equipment. The term of the lease financing agreement extends to January 18, 2012 with monthly payments of \$55,872 and a fixed interest rate of 4.29%. At October 31, 2010, the net book value of the equipment was \$1,770,719.

On August 20, 2010 and October 26, 2010, the Company entered into two capital leasing transactions to purchase equipment (a lease finance agreement and a sale lease back agreement) with Wells Fargo Equipment Finance, Inc. totaling \$1,150,582. The term of the lease finance agreement of \$315,252 extends to September 2016 with monthly payments of \$4,973 and a fixed interest rate of 4.28%. The term under the sale lease back agreement of \$835,330 extends to August 2016 with monthly payments of \$13,207 and a fixed interest rate of 4.36%. The net book value at October 31, 2010 for the equipment under the lease finance agreement and sale lease back agreement was \$313,063 and \$800,818, respectively. At October 31, 2010, the balance outstanding of Wells Fargo leases was \$1,937,988. At October 31, 2009, there was a \$1,417,093 outstanding balance under capital leases with Bank of America. The Company has other capital leases with balances outstanding in the amount of \$250,742 and \$548,192 at October 31, 2010 and 2009, respectively.

The Company provides funds for salaries, wages, overhead and capital expenditure items as necessary to operate its wholly-owned Mexican and Chinese subsidiaries and the Taiwan international procurement office. The Company provides funding in U.S. dollars, which are exchanged for Pesos, Renminbi, and New Taiwan dollars as needed. The fluctuation of currencies from time to time, without an equal or greater increase in inflation, could have a material impact on the financial results of the Company. The impact of currency fluctuation for the six months ended October 31, 2010, resulted in a loss of approximately \$11,900. During the first six months of fiscal year 2011, the Company s U.S. operations paid approximately \$7,530,000 to its foreign subsidiaries for services provided.

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

**Off-balance Sheet Transactions:**

The Company has no off-balance sheet transactions.

**Contractual Obligations and Commercial Commitments:**

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

**Item 3. Quantitative and Qualitative Disclosures About Market Risks.**

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

**Item 4. Controls and Procedures.**

Our management, including our President and Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined under the Securities Exchange Act of 1934, as amended (the Exchange Act), Rules 13a-15(e) and 15(d)-15(e)) as of October 31, 2010. Our disclosure controls are designed to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with U.S. GAAP. Our disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports filed by the Company under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our management, including our President and Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Based on this evaluation, our President and Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of October 31, 2010.

There has been no change in our internal control over financial reporting during the quarter ended October 31, 2010, that has materially affected or is reasonably likely to materially affect, our internal control over financial reporting.

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**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings.**

As of October 31, 2010, the Company was not a party to any material legal proceedings.

From time to time the Company is involved in legal proceedings, claims or investigations that are incidental to the conduct of the Company's business. In future periods, the Company could be subjected to cash cost or non-cash charges to earnings if any of these matters is resolved on unfavorable terms. However, although the ultimate outcome of any legal matter cannot be predicted with certainty, based on present information, including management's assessment of the merits of any particular claim, the Company does not expect that these legal proceedings or claims will have any material adverse impact on its future consolidated financial position or results of operations.

**Item 1A. Risk Factors.**

The information presented below includes any material changes to the description of the risk factors affecting our business as previously disclosed in Item 1A. to Part 1 of our Annual Report on Form 10-K for the fiscal year ended April 30, 2010.

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

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

reduced sales,

increased operating costs,

customers' inability to accurately forecast orders,

increased inventory carrying costs,

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

limiting the Company's access to affordable financing.

**Sales:**

If the current worldwide challenging economic condition continues, many of the Company's customers may delay or reduce their orders. In addition, many of the Company's customers may rely on credit financing in order to operate their businesses. If the negative conditions in the global credit markets reduce our customers' access to credit, orders may decrease, which could result in lower revenue.

**Operating Costs:**

If the Company's suppliers have difficulty obtaining credit required to finance their businesses, they may become unable to continue to manufacture, or supply the components used to manufacture, our customers' products. These disruptions could decrease the Company's revenue and increase operating costs, which could adversely affect the Company's results of operations and financial condition.

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**Inventory Carrying Costs:**

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

**Uncollectible Accounts:**

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

**Access to Credit:**

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

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

None.

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

None.

**Item 4. Removed and Reserved.**

**Item 5. Other Information.**

None.

**Item 6. Exhibits.**

(a) Exhibits:

- 10.11 Third Amendment to the Credit Agreement between SigmaTron International, Inc. and Wells Fargo Bank, National Association, dated August 6, 2010, filed as Exhibit 10.11.
- 31.1 Certification of Principal Executive Officer of the Company Pursuant to Rule 13a-14(a) under the Exchange Act, as adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).
- 31.2 Certification of Principal Financial Officer of the Company Pursuant to Rule 13a-14(a) under the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).

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- 32.1 Certification by the Principal Executive Officer of SigmaTron International, Inc. Pursuant to Rule 13a-14(b) under the Exchange Act and Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).
- 32.2 Certification by the Principal Financial Officer of SigmaTron International, Inc. Pursuant to Rule 13a-14(b) under the Exchange Act and Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).
- 99.1 SigmaTron International, Inc. press release dated September 13, 2010, filed as Exhibit 99.1 to the Company's Form 8-K filed on September 13, 2010, and incorporated herein by reference.
- 99.2 SigmaTron International, Inc. Employee and Director Bonus Plan dated November 1, 2010, filed as Exhibit 10.1 to the Company's Form 8-K filed on November 4, 2010, and incorporated herein by reference.
- 99.3 SigmaTron International, Inc. 2011 Officer Bonus Plan dated November 1, 2010, filed as Exhibit 10.2 to the Company's Form 8-K filed on November 4, 2010, and incorporated herein by reference.



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**SIGNATURES:**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.  
SIGMATRON INTERNATIONAL, INC.

/s/ Gary R. Fairhead December 14, 2010

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

/s/ Linda K. Frauendorfer December 14, 2010

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