**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

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# Form 10-Q

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

For the quarterly period ended July 31, 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)

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| | |
|---|---|
| Delaware<br>(State or other jurisdiction of incorporation or organization) | 36-3918470<br>(I.R.S. Employer Identification No.) |
| 2201 Landmeier Road<br>Elk Grove Village, Illinois<br>(Address of principal executive offices) | 60007<br>(Zip Code) |

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

| Title of each class | Trading Symbol | Name of each exchange on which registered |
|---|---|---|
| Common Stock $0.01 par value per share | SGMA | The NASDAQ Capital Market |

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 a "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 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 September 9, 2020: 4,242,508

SigmaTron International, Inc.

Index


| | | | Page No. |
|---|---|---|---|
| **PART 1.** | **FINANCIAL INFORMATION:** | | |
| | Item 1. | Condensed Consolidated Financial Statements<br>Condensed Consolidated Balance Sheets – July 31, 2020 (Unaudited) and April 30, 2020 | 4 |
| | | Condensed Consolidated Statements of Operations – (Unaudited) Three Months Ended July 31, 2020 and 2019 | 6 |
| | | Condensed Consolidated Statements of Changes in Stockholders' Equity – (Unaudited) Three Months Ended July 31, 2020 and 2019 | 7 |
| | | Condensed Consolidated Statements of Cash Flows – (Unaudited) Three Months Ended July 31, 2020 and 2019 | 8 |
| | | Notes to Condensed Consolidated Financial Statements – (Unaudited) | 10 |
| | Item 2. | Management's Discussion and Analysis of Financial Condition and Results of Operations | 24 |
| | Item 3. | Quantitative and Qualitative Disclosures About Market Risks | 31 |
| | Item 4. | Controls and Procedures | 31 |
| **PART II** | **OTHER INFORMATION:** | | |
| | Item 1. | Legal Proceedings | 32 |
| | Item 1A. | Risk Factors | 32 |
| | Item 2. | Unregistered Sales of Equity Securities and Use of Proceeds | 32 |
| | Item 3. | Defaults Upon Senior Securities | 32 |
| | Item 4. | Mine Safety Disclosures | 32 |
| | Item 5. | Other Information | 32 |
| | Item 6. | Exhibits | 33 |
| | | Signatures | 34 |

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

| | | July 31, 2020 (Unaudited) | | April 30, 2020 |
|---|---|---|---|---|
| **Current assets:** | | | | |
| Cash and cash equivalents | $ | 2,846,096 | $ | 6,779,445 |
| Accounts receivable, less allowance for doubtful accounts of $395,969 and $727,252 at July 31, 2020 and April 30, 2020, respectively | | 28,017,482 | | 30,804,976 |
| Inventories, net | | 85,206,598 | | 87,179,369 |
| Prepaid expenses and other assets | | 1,222,861 | | 1,510,943 |
| Refundable and prepaid income taxes | | 1,759,210 | | 1,699,970 |
| Other receivables | | 4,137,033 | | 2,642,094 |
| Total current assets | | 123,189,280 | | 130,616,797 |
| Property, machinery and equipment, net | | 33,632,655 | | 33,935,760 |
| Intangible assets, net | | 2,261,913 | | 2,350,949 |
| Deferred income taxes | | 280,764 | | 284,435 |
| Other assets | | 9,482,870 | | 8,891,090 |
| Total other long-term assets | | 12,025,547 | | 11,526,474 |
| Total assets | $ | 168,847,482 | $ | 176,079,031 |
| **Liabilities and stockholders' equity:** | | | | |
| Current liabilities: | | | | |
| Trade accounts payable | $ | 44,652,683 | $ | 55,770,953 |
| Accrued wages | | 5,202,388 | | 4,206,825 |
| Accrued expenses | | 2,596,582 | | 2,670,504 |
| Income taxes payable | | 246,124 | | 469,143 |
| Current portion of long-term debt | | 4,114,057 | | 2,878,160 |
| Current portion of finance lease obligations | | 1,772,662 | | 1,902,295 |
| Current portion of operating lease obligations | | 2,213,415 | | 2,150,161 |
| Total current liabilities | | 60,797,911 | | 70,048,041 |
| Long-term debt, less current portion | | 41,211,579 | | 38,537,064 |
| Income taxes payable | | 404,975 | | 452,619 |
| Finance lease obligations, less current portion | | 1,464,597 | | 1,884,722 |
| Operating lease obligations, less current portion | | 5,949,279 | | 5,281,811 |
| Other long-term liabilities | | 842,700 | | 810,769 |
| Deferred income taxes | | 186,079 | | 188,206 |
| Total long-term liabilities | | 50,059,209 | | 47,155,191 |
| Total liabilities | | 110,857,120 | | 117,203,232 |

| | | |
|---|---|---|
| **Commitments and contingencies** | | |
| **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, 4,257,508 and 4,242,508 shares issued and outstanding at July 31, 2020 and April 30, 2020, respectively | 42,296 | 42,265 |
| Capital in excess of par value | 23,634,711 | 23,619,513 |
| Retained earnings | 34,313,355 | 35,214,021 |
| Total stockholders' equity | 57,990,362 | 58,875,799 |
| Total liabilities and stockholders' equity | $ 168,847,482 | $ 176,079,031 |

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

**SigmaTron International, Inc.**
Condensed Consolidated Statements of Operations

| | Three Months Ended July 31, 2020 (Unaudited) | Three Months Ended July 31, 2019 (Unaudited) |
|---|---|---|
| Net sales | $ 60,524,956 | $ 74,009,981 |
| Cost of products sold | 56,252,765 | 67,049,649 |
| Gross profit | 4,272,191 | 6,960,332 |
| Selling and administrative expenses | 5,059,525 | 5,827,326 |
| Operating (loss) income | (787,334) | 1,133,006 |
| Other income | (4,098) | (66,362) |
| Interest expense | 338,264 | 591,228 |
| (Loss) income before income tax expense | (1,121,500) | 608,140 |
| Income tax (benefit) expense | (220,834) | 247,115 |
| Net (loss) income | $ (900,666) | $ 361,025 |
| (Loss) earnings per share – basic | $ (0.21) | $ 0.09 |
| (Loss) earnings per share – diluted | $ (0.21) | $ 0.09 |
| Weighted average shares of common stock outstanding Basic | 4,250,986 | 4,241,883 |
| Weighted average shares of common stock outstanding Diluted | 4,250,986 | 4,241,883 |

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

**SigmaTron International, Inc.**

Condensed Consolidated Statements of Changes in Stockholders' Equity

| | For the three months ended July 31, 2020 (Unaudited) | | | | |
|---|---|---|---|---|---|
| | Preferred stock | Common stock | Capital in excess of par value | Retained earnings | Total stockholders' equity |
| Balance at May 1, 2020 | $ - | $ 42,265 | $ 23,619,513 | $ 35,214,021 | $ 58,875,799 |
| Restricted stock awards | - | 31 | 15,198 | - | 15,229 |
| Net loss | - | - | - | (900,666) | (900,666) |
| Balance at July 31, 2020 | $ - | $ 42,296 | $ 23,634,711 | $ 34,313,355 | $ 57,990,362 |

| | For the three months ended July 31, 2019 (Unaudited) | | | | |
|---|---|---|---|---|---|
| | Preferred stock | Common stock | Capital in excess of par value | Retained earnings | Total stockholders' equity |
| Balance at May 1, 2019 | $ - | $ 42,146 | $ 23,474,379 | $ 34,770,924 | $ 58,287,449 |
| Cumulative-effect adjustment for the adoption of Topic 842 | - | - | - | (5) | (5) |
| Net income | - | - | - | 361,025 | 361,025 |
| Balance at July 31, 2019 | $ - | $ 42,146 | $ 23,474,379 | $ 35,131,944 | $ 58,648,469 |

**SigmaTron International, Inc.**
Condensed Consolidated Statements of Cash Flows

| | Three Months Ended July 31, 2020 (Unaudited) | Three Months Ended July 31, 2019 (Unaudited) |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net (loss) income | $ (900,666) | $ 361,025 |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization of property, machinery and equipment | 1,265,719 | 1,235,516 |
| Amortization of right-of-use operating lease assets | (392,989) | 532,418 |
| Restricted stock expense | 15,229 | - |
| Deferred income tax expense | 1,544 | 9,286 |
| Amortization of intangible assets | 89,036 | 91,420 |
| Amortization of financing fees | 36,926 | 26,614 |
| Loss from disposal or sale of machinery and equipment | 4,242 | 51 |
| Changes in operating assets and liabilities | | |
| Accounts receivable | 2,787,494 | (487,711) |
| Inventories | 1,972,771 | 11,324,564 |
| Prepaid expenses and other assets | (190,700) | 57,808 |
| Refundable and prepaid income taxes | (59,240) | 195,046 |
| Income taxes payable | (270,663) | (66,734) |
| Trade accounts payable | (11,118,270) | (9,386,019) |
| Operating lease liabilities | 730,722 | (586,079) |
| Accrued expenses and wages | 886,244 | 763,629 |
| Net cash (used in) provided by operating activities | (5,142,601) | 4,070,834 |
| **Cash flows from investing activities** | | |
| Purchases of machinery and equipment | (966,856) | (684,667) |
| Advances on other receivables | (1,131,900) | - |
| Net cash used in investing activities | (2,098,756) | (684,667) |
| **Cash flows from financing activities** | | |
| Proceeds under equipment notes | 1,128,608 | - |
| Payments of contingent consideration | - | (57,537) |
| Payments under finance lease and sale leaseback agreements | (549,758) | (612,300) |
| Payments under equipment notes | (118,599) | (102,925) |
| Payments under building notes payable | (80,416) | (70,000) |
| Borrowings under revolving line of credit | 76,661,576 | 82,796,750 |
| Payments under revolving line of credit | (73,725,348) | (84,852,276) |
| Payments of debt financing costs | (8,055) | (5,959) |
| Net cash provided by (used in) financing activities | 3,308,008 | (2,904,247) |

| | | | | |
|---|---|---|---|---|
| **Change in cash and cash equivalents** | | (3,933,349) | | 481,920 |
| Cash and cash equivalents at beginning of period | | 6,779,445 | | 1,005,810 |
| **Cash and cash equivalents at end of period** | $ | 2,846,096 | $ | 1,487,730 |
| **Supplementary disclosures of cash flow information** | | | | |
| Cash paid for interest | $ | 338,898 | $ | 564,188 |
| Cash paid for income taxes | | 96,288 | | 162,276 |
| Financing of insurance policy | | 83,048 | | 96,556 |

**Notes to Condensed Consolidated Financial Statements**
(Unaudited)

**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.

**Note B - Basis of Presentation**

The accompanying unaudited condensed 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., Digital Appliance Controls de Mexico, S.A. de C.V., Spitfire Controls (Vietnam) Co. Ltd., Spitfire Controls (Cayman) Co. Ltd. and wholly-owned foreign enterprises Wujiang SigmaTron Electronics Co., Ltd. and SigmaTron Electronic Technology Co., Ltd. (“SigmaTron China”) and international procurement office SigmaTron Taiwan branch (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 condensed consolidated financial statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three month period ended July 31, 2020 is not necessarily indicative of the results that may be expected for the year ending April 30, 2021. The condensed consolidated balance sheet at April 30, 2020, was derived from audited annual financial statements but does not contain all of the footnotes disclosures from the annual financial statements. For further information, refer to the condensed consolidated financial statements and footnotes thereto included in the Company’s Annual Report on Form 10-K for the year ended April 30, 2020.

*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.

**Notes to Condensed Consolidated Financial Statements**
(Unaudited)

**Note B - Basis of Presentation - Continued**

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.

As further described in Note E, 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, financial condition and liquidity in fiscal year 2021 and beyond.

**Notes to Condensed Consolidated Financial Statements**
(Unaudited)

**Note C - Inventories, net**

The components of inventory consist of the following:

| | July 31, 2020 | April 30, 2020 |
|---|---|---|
| Finished products | $ 24,251,266 | $ 20,998,329 |
| Work-in-process | 5,005,217 | 5,215,280 |
| Raw materials | 57,191,430 | 62,316,122 |
| | 86,447,913 | 88,529,731 |
| Less excess and obsolescence reserve | (1,241,315) | (1,350,362) |
| | $ 85,206,598 | $ 87,179,369 |

**Note D - Earnings Per Share and Stockholders' Equity**

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

| | Three Months Ended July 31, 2020 | Three Months Ended July 31, 2019 |
|---|---|---|
| Net (loss) income | $ (900,666) | $ 361,025 |
| Weighted-average shares | | |
| Basic | 4,250,986 | 4,241,883 |
| Effect of dilutive stock options | - | - |
| Diluted | 4,250,986 | 4,241,883 |
| Basic (loss) earnings per share | $ (0.21) | $ 0.09 |
| Diluted (loss) earnings per share | $ (0.21) | $ 0.09 |

Options to purchase 513,232 and 465,232 shares of common stock were outstanding at July 31, 2020 and 2019, respectively. There were no options granted during the three month periods ended July 31, 2020 and 2019. There was no stock option expense recognized for the three month periods ended July 31, 2020 and 2019. There was no balance of unrecognized compensation expense related to the Company's stock option plans at July 31, 2020 and 2019. For the three month period ended July 31, 2020 and 2019, 299,129 and 424,484 shares, respectively, were not included in the diluted weighted average common shares outstanding calculation as they were anti-dilutive.

**Notes to Condensed Consolidated Financial Statements**
(Unaudited)

**Note E - Long-term Debt**

Debt and capital lease obligations consisted of the following at July 31, 2020 and April 30, 2020:

| | July 31, 2020 | April 30, 2020 |
|---|---|---|
| Debt: | | |
| Notes Payable - Banks | $ 36,424,073 | $ 33,472,125 |
| Notes Payable - Buildings | 6,842,145 | 6,922,561 |
| Notes Payable - Equipment | 2,310,287 | 1,300,278 |
| Unamortized deferred financing costs | (250,869) | (279,740) |
| Total debt | 45,325,636 | 41,415,224 |
| Less current maturities | 4,114,057 | 2,878,160 |
| Long-term debt | $ 41,211,579 | $ 38,537,064 |
| | | |
| Finance lease obligations | $ 3,237,259 | $ 3,787,017 |
| Less current maturities | 1,772,662 | 1,902,295 |
| Total finance lease obligations, less current portion | $ 1,464,597 | $ 1,884,722 |

*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 1.74% at July 31, 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.

**Notes to Condensed Consolidated Financial Statements**
(Unaudited)

**Note E - Long-term Debt - Continued**

As of July 31, 2020, there was $28,836,868 outstanding and $12,224,733 of unused availability under the U.S. Bank facility compared to an outstanding balance of $26,884,494 and $13,850,575 of unused availability at April 30, 2020. Deferred financing costs of $8,051 were capitalized during the three month period ended July 31, 2020, which are amortized over the term of the agreement. As of July 31, 2020 and April 30, 2020, the unamortized amount offset against outstanding debt was $197,236 and $218,062, respectively.

On April 23, 2020, the Company entered into a loan with U.S. Bank, as lender, pursuant to the Paycheck Protection Program under the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), as administered by the U.S. Small Business Administration (the "SBA") in the amount of $6,282,973 (the "PPP Loan"). The PPP 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 PPP Loan. The PPP Loan provides for customary events of default. Under the CARES Act, loan forgiveness may be 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 amount of loan forgiveness will be reduced if recipients terminate employees or reduce salaries during the covered period. 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 PPP 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.

On September 8, 2020, the Company and U.S. Bank entered into an amendment of the revolving credit facility. The amendment allows the Company to borrow up to the lesser of (i) the Revolving Line Cap less reserves or (ii) the Borrowing Base, but no more than 80% of the Company's Revolving Line Cap. The amendment also imposes sublimits on categories of other investments to $4,000,000.

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 10,000,000 Renminbi, approximately $1,430,000 as of July 31, 2020, and the facility is collateralized by Wujiang SigmaTron Electronics Co., Ltd.'s manufacturing building. Interest is payable monthly and the facility bears a fixed interest rate of 6.09%. The term of the facility extends to March 14, 2024. There was $1,288,512 outstanding under the facility at July 31, 2020 compared to an outstanding balance of $304,658 at April 30, 2020.

The Company is in compliance with its financial covenant as of July 31, 2020.

**Notes to Condensed Consolidated Financial Statements**
(Unaudited)

**Note E - Long-term Debt - Continued**

*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 July 31, 2020, the unamortized amount included as a reduction to long-term debt was $28,487. A final payment of approximately $4,347,778 is due on or before March 31, 2022. The outstanding balance was $4,680,000 and $4,732,000 at July, 31 2020 and April 30, 2020, 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 July 31, 2020 the unamortized amount included as a reduction to long-term debt was $25,146. A final payment of approximately $1,505,000 is due on or before March 31, 2022. The outstanding balance was $1,620,000 and $1,638,000 at July, 31 2020 and April 30, 2020, 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 $542,145 and $552,561 at July 31, 2020 and April, 30 2020, respectively.

*Notes Payable – Equipment*

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

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 June 2025, with quarterly installment payments ranging from $10,723 to $69,439 and a fixed interest rate of 8.25%.

**Notes to Condensed Consolidated Financial Statements**
(Unaudited)

**Note E - Long-term Debt - Continued**

Annual maturities of the Company's debt, net of deferred financing fees for the remaining periods as of July 31, 2020, are as follows:

| | | Bank | Building | Equipment | Total |
|---|---|---|---|---|---|
| For the remaining 9 months of the fiscal year ending April 30: | 2021 | $ 3,122,730 | $ 242,160 | $ 499,126 | $ 3,864,016 |
| For the fiscal years ending April 30: | 2022 | 31,761,962 | 6,135,090 | 654,483 | 38,551,535 |
| | 2023 | - | 47,752 | 410,201 | 457,953 |
| | 2024 | 1,288,512 | 50,571 | 330,128 | 1,669,211 |
| | 2025 | - | 53,557 | 348,313 | 401,870 |
| | 2026 | - | 56,719 | 68,036 | 124,755 |
| | Thereafter | - | 256,296 | - | 256,296 |
| | | $ 36,173,204 | $ 6,842,145 | $ 2,310,287 | $ 45,325,636 |

*Finance Lease and Sales Leaseback 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%.

**Note F - Income Tax**

The income tax benefit was $220,834 for the three month period ended July 31, 2020 compared to an income tax expense of $247,115 for the same period in the prior fiscal year. The Company's effective tax rate was 19.69% and 40.63% for the quarters ended July 31, 2020 and 2019, respectively. The decrease in income tax expense for the three month period ended July 31, 2020 compared to the same period in the previous year is due to a loss recognized in the current period as opposed to operating income recognized in the same period in the previous year. The decrease in effective tax rate is due primarily to a greater operating loss recognized in Vietnam in the previous period as compared to the current period for which no tax benefit was recorded due to a full valuation allowance.

As described in Note E, 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 July 31, 2020, the loan has not been forgiven and thus the expenses have not been disallowed for federal income tax purposes.

The Company has not changed its plans to indefinitely reinvest the earnings of the Company's foreign subsidiaries. The cumulative amount of unremitted earnings for which U.S. income taxes have not been recorded is $4,077,000 as of July 31, 2020.

**Notes to Condensed Consolidated Financial Statements**
(Unaudited)

## Note G - Commitments and Contingencies

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, results of operations or cash flows.

## Note H - Critical Accounting Policies

*Management Estimates and Uncertainties* - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates made in preparing the consolidated financial statements include depreciation and amortization periods, the allowance for doubtful accounts, reserves for inventory, lower of cost or 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.

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 of the Company's long-lived assets or other related charges in future periods.

*Revenue Recognition* - The following table presents the Company's revenue disaggregated by the principal end-user markets it serves:

| | Three Months Ended July 31, | | | |
|---|---|---|---|---|
| Net trade sales by | | 2020 | | 2019 |
| Industrial Electronics | $ | 36,617,258 | $ | 42,848,712 |
| Consumer Electronics | | 21,168,239 | | 26,659,187 |
| Medical / Life Sciences | | 2,739,459 | | 4,502,082 |
| Total Net Trade Sales | $ | 60,524,956 | $ | 74,009,981 |

During the three month period ending July 31, 2020, no revenues were recognized from performance obligations satisfied or partially satisfied in previous periods and no amounts were allocated to

**Notes to Condensed Consolidated Financial Statements**
(Unaudited)

**Note H - Critical Accounting Policies - Continued**

performance obligations that remain unsatisfied or partially unsatisfied at July 31, 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 July 31, 2020, with an expected duration of greater than one year.

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

Deferred income tax assets and liabilities are determined based on differences between financial reporting and tax basis of assets and liabilities, and are measured using the enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse. In evaluating the Company's ability to recover its deferred tax assets within the jurisdiction from which they arise, the Company considers all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent financial operations. In projecting future taxable income, the Company begins with historical results and changes in accounting policies, and incorporates assumptions including the amount of future state, federal and foreign pre-tax operating income, the reversal of temporary differences, and the implementation of feasible and prudent tax planning strategies. These assumptions require significant judgment and estimates by management about the forecasts of future taxable income and are consistent with the plans and estimates the Company uses to manage the underlying businesses. In evaluating the objective evidence that historical results provide, the Company considers three years of cumulative operating income and/or loss. Valuation allowances are established when necessary to reduce deferred income tax assets to an amount more likely than not to be realized. The Company's valuation allowance was $1,023,489 and $ 989,194 as of July 31, 2020 and April 30, 2020, respectively.

*Investment in Wagz* - As more fully described in Note I - 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 July 31, 2020 and April 30, 2020, the Company continued to recognize the fair value of the Wagz common stock at $600,000.

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 July 31, 2020, $2,297,779 was outstanding under other receivables compared to $768,500 at April 30, 2020.

**Notes to Condensed Consolidated Financial Statements**
(Unaudited)

**Note H - Critical Accounting Policies - Continued**

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.

**New Accounting Standards:**

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

**Notes to Condensed Consolidated Financial Statements**
(Unaudited)

**Note H - Critical Accounting Policies - Continued**

new guidance and has not determined the impact this ASU may have on its consolidated financial statements.

**Note I - 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.

**Note J – 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

**Notes to Condensed Consolidated Financial Statements**
(Unaudited)

**Note J - Leases - Continued**

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.

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

| | Classification | July 31, 2020 | April 30, 2020 |
|---|---|---|---|
| Operating Leases: | | | |
| Right-of-use Assets | Other assets | $ 7,962,685 | $ 7,235,166 |
| Operating lease current liabilities | Current portion of operating lease obligations | 2,213,415 | 2,150,161 |
| Operating lease noncurrent liabilities | Operating lease obligations, less current portion | 5,949,279 | 5,281,811 |
| Finance Leases: | | | |
| Right-of-use Assets | Property, plant and equipment | 5,867,019 | 6,443,954 |
| Finance lease current liabilities | Current portion of finance lease obligations | 1,772,662 | 1,902,295 |
| Finance lease noncurrent liabilities | Finance lease obligations, less current portion | 1,464,597 | 1,884,722 |

**Notes to Condensed Consolidated Financial Statements**
(Unaudited)

**Note J - Leases - Continued**

The components of lease expense for the three month period ended July 31, 2020 and 2019, are as follows:

| | Classification | Three Months Ended July 31, 2020 | Three Months Ended July 31, 2019 |
|---|---|---|---|
| Operating Leases: | | | |
| Operating lease cost | Operating expenses | 373,696 | 594,494 |
| Variable lease cost | Operating expenses | 78,347 | 73,897 |
| Short term lease cost | Operating expenses | 1,350 | 1,350 |
| Finance Leases: | | | |
| Amortization of right-of-use assets | Operating expenses | 419,693 | 347,375 |
| Interest expense | Interest expense | 66,358 | 67,786 |
| Total | | 939,444 | 1,084,902 |

The weighted average lease term and discount rates for the three month period ended July 31, 2020 and 2019, are as follows:

| | July 31, 2020 | July 31, 2019 |
|---|---|---|
| Operating Leases: | | |
| Weighted average remaining lease term (months) | 59.30 | 41.10 |
| Weighted average discount rate | 3.1% | 3.8% |
| Finance Leases: | | |
| Weighted average remaining lease term (months) | 24.43 | 28.63 |
| Weighted average discount rate | 7.6% | 5.9% |

**Notes to Condensed Consolidated Financial Statements**
(Unaudited)

**Note J - Leases - Continued**

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

| | Operating | Finance |
|---|---|---|
| For the remaining 9 months of the fiscal year ending April 30: | | |
| 2021 | $ 1,855,572 | $ 1,502,802 |
| For the fiscal years ending April 30: | | |
| 2022 | 1,623,526 | 1,374,628 |
| 2023 | 1,528,798 | 498,307 |
| 2024 | 1,812,484 | 167,721 |
| 2025 | 630,276 | - |
| 2026 | 776,763 | - |
| Thereafter | 199,354 | - |
| Total undiscounted lease payments | 8,426,773 | 3,543,458 |
| Present value discount, less interest | 264,079 | 306,199 |
| Lease liability | $ 8,162,694 | $ 3,237,259 |

Supplemental disclosures of cash flow information related to leases for the three month period ended July 31, 2020 and 2019 are as follows:

| Other Information | Three Months Ended July 31, 2020 | Three Months Ended July 31, 2019 |
|---|---|---|
| Cash paid for amounts included in the measurement of lease liabilities | | |
| Operating cash flows from finance leases | 66,358 | 67,786 |
| Operating cash flows from operating leases | 54,021 | 62,155 |
| Financing cash flows from finance leases | 549,758 | 612,300 |
| Supplemental non-cash information on lease labilities arising from obtaining right-of-use assets: | | |
| Right-of-use assets obtained in exchange for new finance lease liabilities | - | - |
| Right-of-use assets obtained in exchange for operating lease liabilities | 334,530 | - |

## 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. ("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 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 direct and indirect risks and uncertainties inherent in the Company's business including, but not necessarily limited to, the risks inherent in any merger and business combination of two companies, 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 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 the three month periods ended July 31, 2020 and July 31, 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.

As previously reported in the Company's fiscal year 2020 press release and 10-K, SigmaTron is reporting a pre-tax loss for the first quarter of fiscal year 2021. Over the past two quarters the Company experienced a v-shaped curve in terms of revenue. February was close to expected, March saw a 10% drop, April and May had a 30% or higher drop, June had a significant rebound where the Company was 10% below expectations and finally in July the revenue line showed a full recovery in terms of revenue. The May loss was greater than the loss for the quarter so the Company was slightly above breakeven for the last two months of the quarter. During the first quarter, results were negatively affected by the revenue reduction and also continuing manufacturing inefficiencies caused by COVID, especially in Mexico. Several of the Company's plants were shut down while it still incurred the labor costs and as they reopened, the Company experienced significant inefficiencies. None of this is a surprise given the far-reaching effects of the pandemic.

The second fiscal quarter is more encouraging. The backlog for the second fiscal quarter is strong and while several major customers continue to be negatively affected by the pandemic, others have benefitted and are making up for those customers with lower than expected revenue. It is difficult to predict how things will go after the second quarter given the continuing volatile nature of the pandemic.

As reported at fiscal 2020 year-end, the Company elected to account for its PPP Loan by using loan accounting. As of the end of our first quarter, the Company is not able to apply for forgiveness of the loan. Accordingly, there is no effect from any potential loan forgiveness reflected in the first fiscal quarter results. Once the procedure to apply for forgiveness is finalized by the government, the Company will decide what makes the most sense in terms of applying for the forgiveness of the entire loan.

As previously reported, the Company and Wagz, Inc. entered into a Letter of Intent under which Wagz would be acquired by the end of August 2020. To date that has not happened but both companies are continuing to work towards closing the transaction by the end of our second fiscal quarter.

The current trend for the Company is positive and heading in the right direction. Uncertainty remains regarding the general economy because of the pandemic and the election. The Company continues to add new customers and is working on several significant new opportunities.

**Results of Operations:**

The following table sets forth selective financial data as a percentage of net sales for the periods indicated.

| | Three Months Ended July 31, 2020 (Unaudited) | Three Months Ended July 31, 2019 (Unaudited) |
|---|---|---|
| Net sales | 100.0% | 100.0% |
| Operating expenses: | | |
| Cost of products sold | 92.9 | 90.6 |
| Selling and administrative expenses | 8.4 | 7.9 |
| Total operating expenses | 101.3 | 98.5 |
| Operating (loss) income | (1.3%) | 1.5% |

Net Sales

Net sales decreased for the three month period ended July 31, 2020, to $60,524,956 from $74,009,981for the three month period ended July 31, 2019. The Company's sales decreased for the three month period ended July 31, 2020, as compared to the prior year in the consumer electronics, industrial electronics and medical/life science marketplaces. Sales decreased by approximately 20% due to the COVID pandemic.

Gross Profit

Gross profit dollars decreased during the three month period ended July 31, 2020, to $4,272,191 or 7.1% of net sales compared to $6,960,332 or 9.4% of net sales for the same period in the prior fiscal year. The decrease in gross profit for the three month period ended July 31, 2020, was primarily the result of decreased sales due to the COVID pandemic.

Selling and Administrative Expenses

Selling and administrative expenses decreased to $5,059,525 or 8.4% of net sales for the three month period ended July 31, 2020, compared to $5,827,326 or 7.9% of net sales for the same period in the prior fiscal year. The net decrease in selling and administrative expenses for the three month period ended July 31, 2020, was attributable to sales salaries, financing fees and bonus expense. The decrease in the foregoing selling and administrative expenses was partially offset by an increase in legal professional fees.

Interest Expense

Interest expense decreased to $338,264 for the three month period ended July 31, 2020, compared to $591,228 for the same period in the prior fiscal year. The decrease in interest expense for the three month period ended July 31, 2020, was due to the decreased borrowings under the Company's banking arrangements and mortgage obligations.

Income Tax Expense

The income tax benefit was $220,834 for the three month period ended July 31, 2020, compared to an income tax expense of $247,115 for the same period in the prior fiscal year. The Company's effective tax rate was 19.69% and 40.63% for the quarters ended July 31, 2020 and 2019, respectively. The decrease in income tax expense for the three month period ended July 31, 2020 compared to the same period in the previous year is due to a loss recognized in the current period as opposed to operating income recognized in the same period in the previous year. The decrease in effective tax rate is due primarily to a greater operating loss recognized in Vietnam in the previous period as compared to the current period for which no tax benefit was recorded due to a full valuation allowance.

Net Income

Net income decreased to a net loss of $900,666 for the three month period ended July 31, 2020, compared to net income of $361,025 for the same period in the prior fiscal year. Basic and diluted loss per share for the first quarter of fiscal year 2021 were $0.21, compared to basic and diluted earnings per share of $0.09 for the same period in the prior fiscal year.

**Liquidity and Capital Resources:**

***Operating Activities.***

Cash flow used in operating activities was $5,142,601 for the three months ended July 31, 2020. During the first three months of fiscal year 2021, cash flow used in operating activities was primarily the result of net loss, a decrease in accounts payable of $11,118,270. The decrease in accounts payable was primarily the result of the timing of payments. Cash flow used in operating activities was partially offset by the result of a decrease in accounts receivable and inventory of $2,787,494 and $1,972,771, respectively.

Cash flow provided by operating activities was $4,070,834 for the three months ended July 31, 2019. During the first three months of fiscal year 2020, cash flow provided by operating activities was primarily the result of net income, a decrease in inventory of $11,324,564 and an increase in accrued expenses and wages. The decrease in inventory was primarily the result of increased sales and the implementation of an inventory reduction program. Cash flow provided by operating activities was partially offset by the result of a decrease in accounts payable of $9,386,019.

***Investing Activities.***

For the three months ended July 31, 2020, the Company purchased $966,856 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 in fiscal year 2021. The Company anticipates future purchases will be funded by lease transactions.

During the first three months of fiscal year 2020, the Company purchased $684,667 in machinery and equipment used in the ordinary course of business. The Company made additional machinery and equipment purchases of $3,961,658 during the balance of fiscal year 2020.

***Financing Activities.***

Cash provided by financing activities of $3,308,008 for the three months ended July 31, 2020, was primarily the result of net borrowings under the line of credit.

Cash used in financing activities of $2,904,247 for the three months ended July 31, 2019, was primarily the result of net payments under the line of credit.

***Financing Summary.***

*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 1.74% at July 31, 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.

As of July 31, 2020, there was $28,836,868 outstanding and $12,224,733 of unused availability under the U.S. Bank facility compared to an outstanding balance of $26,884,494 and $13,850,575 of unused availability at April 30, 2020. Deferred financing costs of $8,051 were capitalized during the three month period ended July 31, 2020, which are amortized over the term of the agreement. As of July 31, 2020 and April 30, 2020, the unamortized amount offset against outstanding debt was $197,236 and $218,062, respectively.

On April 23, 2020, the Company entered into a loan with U.S. Bank, as lender, pursuant to the Paycheck Protection Program under the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), as administered by the U.S. Small Business Administration (the "SBA") in the amount of $6,282,973 (the "PPP Loan"). The PPP 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 PPP Loan. The PPP Loan provides for customary events of default. Under the CARES Act, loan forgiveness may be 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 amount of loan forgiveness will be reduced if recipients terminate employees or reduce salaries during the covered period. 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 PPP 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.

On September 8, 2020, the Company and U.S. Bank entered into an amendment of the revolving credit facility. The amendment allows the Company to borrow up to the lesser of (i) the Revolving Line Cap less reserves or (ii) the Borrowing Base, but no more than 80% of the Company's Revolving Line Cap. The amendment also imposes sublimits on categories of other investments to $4,000,000.

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 10,000,000 Renminbi, approximately $1,430,000 as of July 31, 2020, and the facility is collateralized by Wujiang SigmaTron Electronics Co., Ltd.'s manufacturing building. Interest is payable monthly and the facility bears a fixed interest rate of 6.09%. The term of the facility extends to March 14, 2024. There was $1,288,512 outstanding under the facility at July 31, 2020 compared to an outstanding balance of $304,658 at 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 July 31, 2020, the unamortized amount included as a reduction to long-term debt was $28,487. A final payment of approximately $4,347,778 is due on or before March 31, 2022. The outstanding balance was $4,680,000 and $4,732,000 at July, 31 2020 and April 30, 2020, 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 July 31, 2020 the unamortized amount included as a reduction to long-term debt was $25,146. A final payment of approximately $1,505,000 is due on or before March 31, 2022. The outstanding balance was $1,620,000 and $1,638,000 at July, 31 2020 and April 30, 2020, 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 $542,145 and $552,561 at July 31, 2020 and April, 30 2020, respectively.

*Notes Payable – Equipment*

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

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 June 2025, with quarterly installment payments ranging from $10,723 to $69,439 and a fixed interest rate of 8.25%.

*Finance Lease and Sales Leaseback 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%.

*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 three month period ended July 31, 2020, resulted in net foreign currency transaction losses of $145,670 compared to net foreign currency losses of approximately $109,000 for the same period in the prior year. During the first three months of fiscal year 2021, the Company paid approximately $13,460,000 to its foreign subsidiaries for manufacturing services. All intercompany balances have been eliminated upon consolidation.

The Company has not changed its plans to indefinitely reinvest the earnings of the Company's foreign subsidiaries. The cumulative amount of unremitted earnings for which U.S. income taxes have not been recorded is $4,077,000 as of July 31, 2020.

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 Note B - Basis of Presentation.

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 Item 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 3. Quantitative and Qualitative Disclosures About Market Risks.

As a smaller reporting company, as defined in Item 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 4. Controls and Procedures.

**Disclosure Controls:**

The Company's management, including its President and Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of its disclosure controls and procedures (as defined under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Rules 13a-15(e) and 15(d)-15(e) thereunder) as of July 31, 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 July 31, 2020.

**Internal Controls:**

There has been no change in the Company's internal control over financial reporting during the three months ended July 31, 2020, that has materially affected or is reasonably likely to materially affect, its internal control over financial reporting. 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.

## PART II – OTHER INFORMATION

### Item 1. Legal Proceedings.

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, results of operations or cash flows.

### Item 1A. Risk Factors.

As a smaller reporting company, as defined in Item 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 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

### Item 3. Defaults Upon Senior Securities.

None.

### Item 4. Mine Safety Disclosures.

Not applicable.

### Item 5. Other Information.

The information contained in the Company's Current Report on Form 8-K filed on September 9, 2020 with respect to the 6th Amendment (as defined therein) is incorporated herein by reference.

**Item 6. Exhibits.**

| | |
|---|---|
| 10.1 | Promissory Note, entered into May 26, 2020, by and between FGI Equipment Finance LLC and SigmaTron International, Inc. |
| 10.2 | Amendment No. 6 to Amended and Restated Loan and Security Agreement entered into as of July 15, 2020, 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 September 9, 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 (18 U.S.C. 1350). |
| 31.2 | Certification of Principal Financial Officer of the Company Pursuant to Rule 13a-14(a) under the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350). |
| 32.1 | Certification by the Principal Executive Officer of SigmaTron International, Inc. Pursuant to Rule 13a-14(b) under the Exchange Act and Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350). |
| 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 |

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 | September 11, 2020 |
| Gary R. Fairhead<br>President and CEO (Principal Executive Officer) | Date |
| /s/ Linda K. Frauendorfer | September 11, 2020 |
| Linda K. Frauendorfer<br>Chief Financial Officer, Secretary and Treasurer<br>(Principal Financial Officer and Principal<br>Accounting Officer) | Date |

**Exhibit 10.1**

# PROMISSORY NOTE

**May 26, 2020**

FOR VALUE RECEIVED, ***SigmaTron International, Inc.***, a Delaware corporation, located at 2201 Landemeier Road, Elk Grove Village, IL 60007, United States of America ("**Maker**") promises, jointly and severally if more than one, to pay to the order of FGI Equipment Finance LLC or any subsequent holder hereof (each, a "**Payee**") at its office located at 777 Yamato Road, Office 135, Boca Raton, FL 33431 or at such other place as Payee may designate as follows:

(a) the principal sum of ***One Million One Hundred Twenty-Eight Thousand Six Hundred Eight and 15/100 United States Dollars*** **($1,128,608.15)**, and

(b) interest on the unpaid principal balance from June 1st, 2020 through and including the dates of payment, at a fixed interest rate of Eight point Twenty Five percent (8.25%) per annum (the "**Contract Rate**") in Twenty (20) consecutive quarterly installments of principal and interest as follows:

| Periodic Installment | | Amount |
|---|---|---|
| 20 | @ | $69,438.97 |

(each, a "**Periodic Installment**") plus any outstanding and unpaid accrued interest and any and all other amounts due hereunder and under the other Debt Documents (as defined below). For the period from the date hereof through but not including the date of the first Periodic Installment, Maker shall pay Payee interests on the unpaid principal balance in the amount of ***One Thousand Two Hundred Ninety-Three and 20/100 United States Dollars*** **($1,293.20)**; such payment shall be due and payable on June 1st, 2020. The first Periodic Installment, plus (as applicable) interest accrued at the Contract Rate on the unpaid principal balance hereunder for the period from June 1st, 2020 through but not including the starting date covered by such first Periodic Installment, shall be due and payable on September 1st, 2020 and the following Periodic Installments including the final installment shall be due and payable on the first day of December, March, June and September of each succeeding year (each, a "**Payment Date**"), with the last Payment Date being June 1, 2025. All payments shall be applied: first, to interest due and unpaid hereunder and under the other Debt Documents; second, to all other amounts (other than principal) due and unpaid hereunder and under the other Debt Documents, and then to principal due hereunder and under the other Debt Documents. The acceptance by Payee of any payment which is less than payment in full of all amounts due and owing at such time shall not constitute a waiver of Payee's right to receive payment in full at such time or at any prior or subsequent time. Interest shall be calculated on the basis of a 365-day year (or a 366-day leap year, as applicable) and will be charged at the Contract Rate for each calendar day on which any principal is outstanding. The payment of any Periodic Installment after its due date shall result in a corresponding decrease in the portion of the Periodic Installment credited to the remaining unpaid principal balance. The payment of any Periodic Installment prior to its due date shall result in a corresponding increase in the portion of the Periodic Installment credited to the remaining unpaid principal balance.

All amounts due hereunder and under the other Debt Documents are payable in the lawful currency of the United States of America. Maker hereby expressly authorizes Payee to insert the date value is actually given in the blank space on the face hereof and on all related documents pertaining hereto.

This Note is secured by that certain Master Security Agreement dated February 4th, 2020 (the "**Master Agreement**") and may also be secured by a security agreement, chattel mortgage, pledge agreement or like instrument (each of which is hereinafter called a "**Security Agreement**", and collectively with the Master Agreement and any other document or agreement related thereto or to this Note, the "**Debt Documents**"), in each case signed by Maker or one of its subsidiaries in favor of Payee.

**Conditions Precedent to Funding.** Payee's obligation to make the loan evidenced by this Note is subject to the satisfaction of all the following conditions precedent no later than the date hereof, each in form and substance satisfactory to Payee at its sole discretion: (i) Payee shall have received the Collateral Schedule describing the Collateral that secures this Note (the "**Collateral Schedule Collateral**"), duly executed by Maker; (ii) Payee shall have a first priority perfected security interest in the Collateral Schedule Collateral; (iii) no Event of Default (as defined in the Security Agreement) or event which with the passage of time or the giving of notice would become an Event of Default (a "**Default**") has occurred under the Debt Documents; and (iv) as of the date hereof, there will have been no adverse change (as determined by Payee in its sole discretion) in the business prospects or projections, operations, management, financial or other conditions of the Maker or any Guarantor since the date of the Master Agreement. If any such condition precedent is not so satisfied by the date hereof, Payee shall have no obligation to make the loan contemplated under this Note or any other Debt Documents related to this Note.

Time is of the essence hereof. If Payee does not receive from Maker payment in full of any Periodic Installment or any other sum due under this Note or any other Debt Document is not received within ten (10) days after its due date: (i) Maker agrees to pay a late fee equal to four percent (4.00%) on such late Periodic Installment or other sum, but not exceeding any lawful maximum, plus such other costs, fees and expenses that Maker may owe as a result of such late payment; and (ii) interests on the due and unpaid Periodic Installment, together with all accrued interest thereon and any other due and unpaid sum payable under this Note or any other Debt Document, shall accrue penalty interests payable at demand at the lesser of 12.25% per annum or the highest rate not prohibited by applicable law until all such amounts are paid; provided that, before delay on payment constitutes an event of default hereunder, Maker shall have 10 days after receipt of notice from Payee to cure such default. However, if an Event of Default (as defined in the Security Agreement) occurs and is continuing, then the entire principal sum remaining unpaid, together with all accrued interest thereon and any other sum payable under this Note or any other Debt Document, at the election of Payee, shall immediately become due and payable, or, with respect to an Event of Default arising under Section 5(viii)(E) of the Master Agreement, shall become automatically due and payable, in each case, with interest thereon at the lesser of 12.25% per annum or the highest rate not prohibited by applicable law from the date of such accelerated maturity until paid (both before and after any judgment). The application of such 12.25% interest rate shall not be interpreted or deemed to extend any cure period set forth in this Note or any other Debt Document, cure any default or otherwise limit Payee's right or remedies hereunder or under any Debt Document.

Maker may prepay in full, but not in part, all outstanding amounts hereunder before they are due on any scheduled Payment Date upon at least thirty (30) days' prior written notice to Payee. Payee is authorized and entitled to apply any amounts paid by Maker as a prepayment of indebtedness to delinquent interest or other amounts (other than principal) due and owing from Maker to Payee hereunder and under any other Debt Documents before application of such funds to principal outstanding hereunder.

If Maker makes a prepayment of this Note for any reason, Maker shall pay irrevocably and in full to Payee (i) all outstanding principal amounts, (ii) all accrued interest, (iii) the Break-Funding Costs (as defined below), (iv) the Prepayment Fee (as defined below) and (v) any and all other amounts due hereunder or under the other Debt Documents. Maker specifically acknowledges that, to the fullest extent allowed by applicable law, it shall be liable for the Break-Funding Costs and the Prepayment Fee on any acceleration hereof or under the other Debt Documents. In the event of an acceleration hereof or under the other Debt Documents, the Break-Funding Costs and the Prepayment Fee shall be determined as if (a) Maker prepaid this Note in full immediately before such acceleration and (b) the prepayment notice referred to above was received by Payee thirty (30) days prior to such date.

For purposes hereof, the term "**Prepayment Fee**" shall be an amount equal to an additional sum equal to the following percentage of remaining principal balance for prepayments occurring in the indicated period: five percent (5.0%) (for prepayments occurring prior to the first anniversary of the date hereof); four percent (4.0%) (for prepayments occurring on and thereafter and prior to the second anniversary of the date hereof); three percent (3.0%) (for prepayments occurring on and thereafter and prior to the third anniversary of the date hereof); and two percent (2%) (for prepayments occurring any time thereafter). For the purposes hereof, the term "**Break-Funding Costs**" means the amounts that would be payable to Payee if Payee incurs in additional costs and expenses as a result of the interruption of the term of this Note, which shall be equal to (i) the net present value of the remaining scheduled principal and interest payments through the end of the term of this Note (including any balloon or other amount of principal payable that but for the prepayment of this Note would be payable on or prior to the scheduled maturity date hereof), at the LIBOR Rate (as defined below) published on the date of execution of this Note, less (ii) the net present value of the remaining scheduled principal and interest payments through the end of the term of this Note (including any balloon or other amount of principal payable that but for the prepayment of this Note would be payable on or prior to the scheduled maturity date hereof), at the LIBOR Rate published on the date of the prepayment, provided however that the Break-Funding Costs shall be deemed zero if the calculation results in a negative number. Por purposes hereof, the term "**LIBOR Rate**" means on the applicable determination date, the rate applicable in the London interbank market for deposits in United States Dollars for a period of three months, as published in the Wall Street Journal or, in its absence, on Page 3750 of the *Telerate Service* (or any other page that replaces Page 3750), as of 11:00 a.m., London time, on the date that is two business days prior to the applicable payment date, or if the LIBOR Rate ceases to be published, the interest rate that replaces it published in the Wall Street Journal or, failing that, on Page 3750 of the *Telerate Service* (or any other page that replaces Page 3750).

Maker hereby consents to any and all extensions of time, renewals, waivers or modifications of, and all substitutions or releases of, security or of any party primarily or secondarily liable on this Note or any other Debt Document or any term and provision of either, which may be made, granted or consented to by Payee, and agrees that suit may be brought and maintained against Maker and/or any and all sureties, endorsers, guarantors or any others who may at any time become liable for payments and performance under this Note and any other Debt Documents, at the election of Payee without joinder of any other as a party thereto, and that Payee shall not be required first to foreclose, proceed against, or exhaust any security hereof in order to enforce payment of this Note. Maker hereby waives presentment, demand for payment, notice of nonpayment, protest, notice of protest, notice of dishonor, and all other notices in connection herewith, as well as filing of suit (if permitted by law) and diligence in collecting this Note or enforcing any of the security hereof, and agrees to pay (if permitted by law) all expenses incurred in collection, including Payee's actual attorneys' fees.

The consent to jurisdiction, jury trial waiver and usury provisions contained in the Master Agreement are hereby incorporated by reference as if fully set forth herein. The laws of the State of New York shall govern all matters arising out of, in connection with or relating to this Note and any related Debt Documents, without limitation, validity, interpretation, construction, performance and enforcement thereof (including, without limitation, any claims sounding in contract or tort law arising out of the subject matter hereof and any determinations with respect to post-judgment interest).

This Note and the other Debt Documents constitute the entire agreement of Maker and Payee with respect to the subject matter hereof and supersede all prior understandings, agreements and representations, express or implied.

No variation or modification of this Note, or any waiver of any of its provisions or conditions, shall be valid unless in writing and signed by an authorized representative of Maker and Payee. Any such waiver, consent, modification or change shall be effective only in the specific instance and for the specific purpose given.

**Payment Authorization**. Payee is hereby directed and authorized by Maker to advance and/or apply the proceeds of the loan as evidenced by this Note following the instructions set forth below:

Amount to be advanced: ***One Million Fifty-Nine Thousand One Hundred Sixty-Nine and 18/100 United States Dollars*** **($1,059,169.18)**.

Beneficiary: SigmaTron International, Inc.
Bank Name: U.S. Bank National Association
Account Number: 1-993-8124-9549
ABA: 071 904 779

Payee is hereby irrevocably authorized and directed by Maker to apply from the proceeds of the loan evidenced by this Note, the sum of ***Sixty-Nine Thousand Four Hundred Thirty-Eight and 97/100 United States Dollars*** **($69,438.97)**, to constitute and deliver to Payee the Security Deposit pursuant to the terms of Collateral Schedule No. **3** that is part of the Debt Documents.

Any provision in this Note or any of the other Debt Documents which is in conflict with any statute, law or applicable rule shall be deemed omitted, modified or altered to conform thereto.

***SigmaTron International, Inc.***

| | |
|---|---|
| By: | /s/ Gary R. Fairhead |
| Name: | Gary R. Fairhead |
| Title: | Chairman of the Board, CEO and President |
| Federal Tax ID #: | 363918470 |
| Address: | 2201 Landmeier Road, Elk Grove Village, IL 60007. |

**EXHIBIT 31.1**

**Certification of Principal Executive Officer of
SigmaTron International, Inc.
Pursuant to Rule 13a-14(a) under the Exchange Act,
as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Gary R. Fairhead, President and Chief Executive Officer of SigmaTron International, Inc., certify that:

1. I have reviewed the Quarterly Report on Form 10-Q of SigmaTron International, Inc. for the quarter ended July 31, 2020 (this "report");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 11, 2020

/s/ Gary R. Fairhead

Gary R. Fairhead
President and Chief Executive Officer of
SigmaTron International, Inc.

**EXHIBIT 31.2**

**Certification of Principal Financial Officer of SigmaTron International, Inc. Pursuant to Rule 13a-14(a) under the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Linda K. Frauendorfer, Chief Financial Officer, Secretary and Treasurer of SigmaTron International, Inc., certify that:

1. I have reviewed the Quarterly Report on Form 10-Q of SigmaTron International, Inc. for the quarter ended July 31, 2020 (this "report");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 11, 2020

/s/ Linda K. Frauendorfer

Linda K. Frauendorfer
Chief Financial Officer, Secretary and
Treasurer of SigmaTron International, Inc.

**EXHIBIT 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)**

I, Gary R. Fairhead, am President and Chief Executive Officer of SigmaTron International, Inc. (the "Company").

This certification is being furnished pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") and 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in connection with the filing of the Company's Quarterly Report on Form 10-Q for the quarter ended July 31, 2020 (the "Report").

I hereby certify that to the best of my knowledge:

(a) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act (15 U.S.C. 78 m(a) or 78o(d)); and

(b) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: September 11, 2020

/s/ Gary R. Fairhead
Gary R. Fairhead
President and Chief Executive Officer of
SigmaTron International, Inc.

SigmaTron International, Inc.
July 31, 2020

**EXHIBIT 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)**

I, Linda K. Frauendorfer, am Chief Financial Officer, Secretary and Treasurer of SigmaTron International, Inc. (the "Company").

This certification is being furnished pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") and 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in connection with the filing of the Company's Quarterly Report on Form 10-Q for the quarter ended July 31, 2020 (the "Report").

I hereby certify that to the best of my knowledge:

(a) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act (15 U.S.C. 78 m(a) or 78o(d)); and

(b) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: September 11, 2020

/s/ Linda K. Frauendorfer
Linda K. Frauendorfer
Chief Financial Officer, Secretary and
Treasurer of SigmaTron International, Inc.