UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended January 31, 2023

OR

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

For the transition period from to

Commission File Number 0-23248

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

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

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

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 May 15, 2023: 6,091,288

SigmaTron International, Inc.

Index

SigmaTron International, Inc.

Condensed Consolidated Balance Sheets

	January 31, 2023 (Unaudited)	April 30, 2022
Current assets:		
Cash and cash equivalents	$ 1,472,729	$ 3,054,643
Accounts receivable, less allowance for doubtful accounts of $100,000 at January 31, 2023 and April 30, 2022	41,487,646	41,153,248
Inventories, net	176,792,078	164,965,216
Prepaid expenses and other assets	2,013,648	2,213,895
Refundable and prepaid income taxes	1,545,451	1,238,973
Other receivables	6,277,371	6,318,164
Total current assets	229,588,923	218,944,139
Property, machinery and equipment, net	34,555,988	35,973,215
Intangible assets, net	2,174,836	12,409,478
Goodwill	-	13,320,534
Deferred income taxes	710,928	856,863
Right-of-use assets	8,780,718	10,946,764
Other assets	1,391,784	1,180,284
Total other long-term assets	13,058,266	38,713,923
Total assets	$ 277,203,177	$ 293,631,277
Liabilities and stockholders' equity:		
Current liabilities:		
Trade accounts payable	$ 69,149,077	$ 96,039,209
Accrued wages	6,731,312	9,180,582
Accrued expenses	3,606,471	3,172,922
Income taxes payable	706,532	802,556
Deferred revenue	12,004,161	11,394,820
Current portion of long-term debt	101,162,635	6,991,567
Current portion of finance lease obligations	1,643,565	1,410,675
Current portion of operating lease obligations	3,405,338	3,508,864
Total current liabilities	198,409,091	132,501,195
Long-term debt, less current portion	1,370,520	60,099,402
Income taxes payable	267,998	357,331
Deferred income taxes	363,877	578,732
Finance lease obligations, less current portion	2,959,037	2,805,135
Operating lease obligations, less current portion	5,852,319	7,903,898
Other long-term liabilities	100,946	1,051,587
Total long-term liabilities	10,914,697	72,796,085
Total liabilities	209,323,788	205,297,280

SigmaTron International, Inc.

Condensed Consolidated Balance Sheets - Continued

	January 31, 2023 (Unaudited)	April 30, 2022
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.01 par value; 500,000 shares authorized, none issued or outstanding	-	-
Common stock, $0.01 par value; 12,000,000 shares authorized, 6,071,288 and 6,026,788 shares issued and outstanding at January 31, 2023 and April 30, 2022, respectively	60,571	60,379
Capital in excess of par value	42,028,727	41,654,410
Retained earnings	25,790,091	46,619,208
Total stockholders' equity	67,879,389	88,333,997
Total liabilities and stockholders' equity	$ 277,203,177	$ 293,631,277

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 January 31, 2023 (Unaudited)	Three Months Ended January 31, 2022 (Unaudited)	Nine Months Ended January 31, 2023 (Unaudited)	Nine Months Ended January 31, 2022 (Unaudited)
Net sales	$ 93,219,753	$ 93,682,451	$ 307,469,352	$ 279,638,499
Cost of products sold	82,193,416	81,257,305	271,443,967	245,853,289
Gross profit	11,026,337	12,425,146	36,025,385	33,785,210
Selling and administrative expenses	9,154,376	7,758,582	27,260,751	20,675,353
Impairment of notes receivable and investment	-	6,300,235	-	6,300,235
Impairment of goodwill and other long-lived assets	23,096,771	-	23,096,771	-
Operating (loss) income	(21,224,810)	(1,633,671)	(14,332,137)	6,809,622
Gain on extinguishment of long-term debt	-	-	-	(6,282,973)
Other income	(496,507)	(35,813)	(568,137)	(109,516)
Interest expense, net	2,406,137	382,031	5,336,526	964,622
(Loss) income before income tax expense	(23,134,440)	(1,979,889)	(19,100,526)	12,237,489
Income tax (benefit) expense	(56,776)	744,408	1,728,591	3,014,865
Net (loss) income	$ (23,077,664)	$ (2,724,297)	$ (20,829,117)	$ 9,222,624
(Loss) earnings per share – basic	$ (3.80)	$ (0.58)	$ (3.43)	$ 2.08
(Loss) earnings per share – diluted	$ (3.80)	$ (0.58)	$ (3.43)	$ 1.97
Weighted average shares of common stock outstanding				
Basic	6,071,288	4,729,619	6,067,161	4,439,551
Weighted average shares of common stock outstanding				
Diluted	6,071,288	4,729,619	6,067,161	4,682,598

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 nine months ended January 31, 2023 (Unaudited)

	Preferred stock	Common stock	Capital in excess of par value	Retained earnings	Total stockholders' equity
Balance at May 1, 2022	$ -	$ 60,379	$ 41,654,410	$ 46,619,208	$ 88,333,997
Recognition of stock-based compensation	-	-	94,893	-	94,893
Restricted stock awards	-	55	49,818	-	49,873
Net income	-	-	-	1,376,675	1,376,675
Balance at July 31, 2022	$ -	$ 60,434	$ 41,799,121	$ 47,995,883	$ 89,855,438
Recognition of stock-based compensation	-	-	76,568	-	76,568
Restricted stock awards	-	36	17,769	-	17,805
Net income	-	-	-	871,872	871,872
Balance at October 31, 2022	$ -	$ 60,470	$ 41,893,458	$ 48,867,755	$ 90,821,683
Recognition of stock-based compensation	-	-	85,731	-	85,731
Restricted stock awards	-	101	49,538	-	49,639
Net loss	-	-	-	(23,077,664)	(23,077,664)
Balance at January 31, 2023	$ -	$ 60,571	$ 42,028,727	$ 25,790,091	$ 67,879,389

SigmaTron International, Inc.

Condensed Consolidated Statements of Changes in Stockholders' Equity - Continued

For the nine months ended January 31, 2022 (Unaudited)

	Preferred stock	Common stock	Capital in excess of par value	Retained earnings	Treasury stock	Total stockholders' equity
Balance at May 1, 2021	$ -	$ 42,560	$ 23,751,461	$ 36,755,040	$ -	$ 60,549,061
Recognition of stock-based compensation	-	-	20,035	-	-	20,035
Restricted stock awards	-	15	13,342	-	-	13,357
Net income	-	-	-	8,796,716	-	8,796,716
Balance at July 31, 2021	$ -	$ 42,575	$ 23,784,838	$ 45,551,756	$ -	$ 69,379,169
Recognition of stock-based compensation	-	-	122,885	-	-	122,885
Exercise of stock options	-	897	425,655	-	-	426,552
Restricted stock awards	-	37	18,524	-	-	18,561
Net income	-	-	-	3,150,205	-	3,150,205
Balance at October 31, 2021	$ -	$ 43,509	$ 24,351,902	$ 48,701,961	$ -	$ 73,097,372
Recognition of stock-based compensation	-	-	102,849	-	-	102,849
Exercise of stock options	-	614	337,846	-	-	338,460
Restricted stock awards	-	49	31,220	-	-	31,269
Issuance of stock for settlement of lease agreement	-	320	276,800	-	-	277,120
Issuance of stock for acquisition	-	24,439	25,220,738	-	-	25,245,177
Purchase of treasury stock related to acquisition	-	(8,973)	-	-	(9,259,908)	(9,268,881)
Net loss	-	-	-	(2,724,297)	-	(2,724,297)
Balance at January 31, 2022	$ -	$ 59,958	$ 50,321,355	$ 45,977,664	$ (9,259,908)	$ 87,099,069

SigmaTron International, Inc.
Condensed Consolidated Statements of Cash Flows

	Nine Months Ended January 31, 2023 (Unaudited)	Nine Months Ended January 31, 2022 (Unaudited)
Cash flows from operating activities		
Net (loss) income	$ (20,829,117)	$ 9,222,624
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Depreciation and amortization of property, machinery and equipment	4,373,773	4,243,598
Stock-based compensation	257,192	245,769
Restricted stock expense	117,317	63,187
Impairment of notes receivable and investment	-	6,300,235
Impairment of goodwill	13,320,534	-
Impairment of intangible assets	9,527,773	-
Impairment of fixed assets	248,464	-
Deferred income tax (benefit) expense	(68,920)	754,444
Gain on extinguishment of long-term debt	-	(6,282,973)
Amortization of intangible assets	706,869	331,320
Amortization of financing fees	262,452	57,671
Gain from involuntary conversion on non-monetary assets due to fire	469,849	-
Loss from disposal or sale of machinery and equipment	15,403	17,411
Changes in operating assets and liabilities, net of acquisition		
Accounts receivable	(334,398)	(7,889,599)
Inventories	(11,826,862)	(57,955,080)
Prepaid expenses and other assets	2,221,514	1,018,385
Refundable and prepaid income taxes	(306,478)	(1,431,998)
Income taxes payable	(185,357)	(636,498)
Trade accounts payable	(26,890,132)	34,776,901
Operating lease liabilities	(2,155,105)	(2,029,446)
Accrued expenses and wages	(3,517,060)	2,208,496
Deferred revenue	609,341	8,512,477
Net cash used in operating activities	(33,982,948)	(8,473,076)
Cash flows from investing activities		
Purchases of machinery and equipment	(1,620,957)	(5,304,146)
Cash assumed from acquisition	-	508,274
Advances on notes receivable	-	(5,512,000)
Proceeds from insurance settlement	54,921	-
Net cash used in investing activities	(1,566,036)	(10,307,872)

SigmaTron International, Inc.
Condensed Consolidated Statements of Cash Flows - Continued

	Nine Months Ended January 31, 2023 (Unaudited)		Nine Months Ended January 31, 2022 (Unaudited)	
Cash flows from financing activities				
Proceeds from the exercise of common stock options		-		765,012
Proceeds under equipment notes		416,728		1,159,275
Payments under finance lease and sale leaseback agreements		(1,212,664)		(1,400,102)
Payments under equipment notes		(822,136)		(842,906)
Payments under building notes payable		(6,030,001)		(358,574)
Borrowings under term loan agreement		40,000,000		-
Payments under term loan agreement		(500,000)		-
Borrowings under revolving line of credit		356,790,439		333,976,751
Payments under revolving line of credit		(353,142,988)		(314,510,791)
Payments of debt financing costs		(1,532,308)		(74,453)
Payments of debt		-		(295,747)
Net cash provided by financing activities		33,967,070		18,418,465
Change in cash and cash equivalents		(1,581,914)		(362,483)
Cash and cash equivalents at beginning of period		3,054,643		3,509,229
Cash and cash equivalents at end of period	$	1,472,729	$	3,146,746
Supplementary disclosures of cash flow information				
Cash paid for interest	$	4,794,152	$	1,032,492
Cash paid for income taxes		2,233,996		4,293,279
Purchase of machinery and equipment financed under finance leases		1,599,456		2,076,301
Financing of insurance policy		550,698		301,190
Issuance of stock for settlement of lease agreement		-		277,120

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

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") operate in two reportable segments as an independent provider of electronic manufacturing services ("EMS") and a provider of products to the Pet Tech market. The EMS segment includes printed circuit board assemblies, electro-mechanical subassemblies and completely assembled (box-build) electronic products. The Pet Tech reportable segment offers electronic products such as the Freedom Smart Dog Collar™, a wireless geo-mapped fence and wellness system, along with apparel and accessories. In connection with the production of assembled products, the EMS segment 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; (6) assistance in obtaining product approval from governmental and other regulatory bodies and (7) compliance reporting. The EMS segment produces the Freedom Smart Dog Collar™ sold by the Pet Tech segment.

On March 2, 2023, the Company received the Event of Default and Reservation of Rights notice from each of JPM ("JPM Notice") and the TCW Lenders and Agent ("TWC Notice" together with the JPM Notice, the "Notices"). The Notices indicated the occurrence of certain events of default under the JPM Credit Agreement and the Term Loan Agreement. See Note E – Long-term Debt, for more information.

On April 28, 2023, the Company entered into (i) a Waiver, Consent and Amendment No. 1 to the JPM Credit Agreement ("JPM Waiver") with Wagz and JPM, as lender, which waived certain events of default under and amended certain terms of the JPM Credit Agreement and (ii) a Waiver, Consent and Amendment No. 1 to the Credit Agreement ("TCW Waiver") with Wagz, the financial institutions identified therein (the "TCW Lenders") and TCW Asset Management Company LLC as administrative agent for the TCW Lenders (in such capacity, the "Agent" and collectively with the TCW Lenders and JPM, the "Lender Parties"), which waived certain events of default under and amended certain terms of the Term Loan Agreement (together with the JPM Credit Agreement the "Credit Agreements"). See Note E – Long-term Debt, for more information.

In connection with the Waivers, the Company decided to exit its active involvement in the Pet Tech business that is conducted by Wagz through the sale by the Company of a majority stake in Wagz, effective April 1, 2023. See Note M – Subsequent Events, for more information.

Note B - Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of SigmaTron International, Inc. ("SigmaTron"), its wholly-owned subsidiaries, Standard Components de Mexico, S.A., AbleMex S.A. de C.V., Digital Appliance Controls de Mexico, S.A. de C.V., Spitfire Controls (Vietnam) Co. Ltd., Spitfire Controls (Cayman) Co. Ltd., and Wagz, Inc., wholly-owned foreign enterprises Wujiang SigmaTron Electronics Co. Ltd., and Wujiang SigmaTron Electronic Technology Co., Ltd. (collectively, "SigmaTron China"), and its international procurement office, SigmaTron International Inc. 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 8 of Regulation S-X.

Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note B - Basis of Presentation - Continued

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 and nine month periods ended January 31, 2023 is not necessarily indicative of the results that may be expected for the year ending April 30, 2023. The condensed consolidated balance sheet at April 30, 2022, was derived from audited annual financial statements but does not contain all of the footnote 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, 2022.

Note C - Inventories, net

The components of inventory consist of the following:

	January 31, 2023	April 30, 2022
Finished products	$ 25,813,698	$ 22,175,641
Work-in-process	4,941,065	5,907,766
Raw materials	148,935,813	140,118,156
	179,690,576	168,201,563
Less excess and obsolescence reserve	(2,898,498)	(3,236,347)
	$ 176,792,078	$ 164,965,216

Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note D - Earnings Per Share and Stockholders' Equity

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

	Three Months Ended		Nine Months Ended	
	January 31, 2023	January 31, 2022	January 31, 2023	January 31, 2022
Net (loss) income	$ (23,077,664)	$ (2,724,297)	$ (20,829,117)	$ 9,222,624
Weighted-average shares				
Basic	6,071,288	4,729,619	6,067,161	4,439,551
Effect of dilutive stock options	-	-	-	243,047
Diluted	6,071,288	4,729,619	6,067,161	4,682,598
Basic (loss) earnings per share	$ (3.80)	$ (0.58)	$ (3.43)	$ 2.08
Diluted (loss) earnings per share	$ (3.80)	$ (0.58)	$ (3.43)	$ 1.97

Options to purchase 508,519 and 464,144 shares of common stock were outstanding and exercisable at January 31, 2023 and 2022, respectively. There were no options granted during the three and nine month periods ended January 31, 2023 and 102,000 options were granted during the nine month period ended January 31, 2022. There was $85,731 and $102,849 stock option expense recognized for the three month periods ended January 31, 2023 and 2022, respectively. There was $257,192 and $245,769 stock option expense recognized for the nine month periods ended January 31, 2023 and 2022, respectively. The balance of unrecognized compensation expense related to the Company's stock option plans at January 31, 2023 and 2022 was $763,186 and $0, respectively. There were 238,348 anti-dilutive common stock equivalents and no anti-dilutive common stock equivalents for the three month periods ended January 31, 2023 and 2022, respectively, which have been excluded from the calculation of diluted earnings per share. There were 61,809 anti-dilutive common stock equivalents and no anti-dilutive common stock equivalents for the nine month periods ended January 31, 2023 and 2022, respectively, which have been excluded from the calculation of diluted earnings per share.

Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note E - Long-term Debt

Debt and capital lease obligations consisted of the following at January 31, 2023 and April 30, 2022:

	January 31, 2023	April 30, 2022
Debt:		
Notes Payable - Secured lenders	$ 99,977,829	$ 56,830,377
Notes Payable - Buildings	429,339	6,459,340
Notes Payable - Equipment	3,796,884	4,202,292
Unamortized deferred financing costs	(1,670,897)	(401,040)
Total debt	102,533,155	67,090,969
Less current maturities*	101,162,635	6,991,567
Long-term debt	$ 1,370,520	$ 60,099,402
Finance lease obligations	$ 4,602,602	$ 4,215,810
Less current maturities	1,643,565	1,410,675
Total finance lease obligations, less current portion	$ 2,959,037	$ 2,805,135

*Due to the Notices received March 2, 2023 from each of JPM and the TCW Lenders, both the Facility and the TCW Term Loan (as defined below) have been classified as a current liability on the Condensed Consolidated Balance Sheet as of January 31, 2023.

Notes Payable – Secured lenders

On January 29, 2021, the Company entered into a Credit Agreement (the "JPM Agreement") with JPMorgan Chase Bank, N.A. ("Lender" or "JPM"), pursuant to which Lender provided the Company with a secured credit facility consisting of a revolving loan facility and a term loan facility (collectively, the "Facility").

On July 18, 2022, SigmaTron, Wagz and Lender amended and restated the JPM Agreement by entering into an Amended and Restated Credit Agreement (as so amended and restated, the "JPM Credit Agreement"). The Facility, as amended, allows the Company to borrow on a revolving basis up to the lesser of (i) $70,000,000 or (ii) an amount equal to a percentage of the eligible receivable borrowing base plus a percentage of the inventory borrowing base minus any reserves established by Lender. The maturity date of the Facility is July 18, 2027. Deferred financing costs of $321,827 and $128,733 were capitalized during the nine month period ended January 31, 2023 and during the fiscal

Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note E - Long-term Debt - Continued

year ended April 30, 2022, respectively, which are amortized over the term of the JPM Credit Agreement. As of January 31, 2023, there was $59,738,228 outstanding and $3,485,599 of unused availability under the revolving amended Facility compared to an outstanding balance of $51,392,158 and $5,691,855 of unused availability at April 30, 2022. As of January 31, 2023 and April 30, 2022, the unamortized amount offset against outstanding debt was $596,211 and $393,503, respectively.

Under the JPM Credit Agreement, a minimum Fixed Charge Coverage Ratio ("FCCR") financial covenant of 1.10x is applicable only during an FCCR trigger period which occurs when (a) commencing on the Effective Date and ending when the Term Loan Obligations (as defined in the JPM Credit Agreement) have been paid in full and (b) following the payment in full of the Term Loan Obligations, (i) an event of default (as defined in the JPM Credit Agreement) has occurred and is continuing, and Lender has elected to impose a FCCR trigger period upon notice to the Company or (ii) availability falls below the greater of (a) 10% of the revolving commitment and (b) the outstanding principal amount of the term loans. In addition, prior to the amendment to the JPM Credit Agreement pursuant to the JPM Waiver (as discussed below under "*Waiver, Consent and Amendment to Credit Agreements*"), the JPM Credit Agreement imposed a financial covenant that required the Company to maintain a leverage ratio of Total Debt to EBITDA (each as defined in the JPM Credit Agreement) for any twelve month period ending on the last day of a fiscal quarter through the maturity of the revolving Facility not to exceed a certain amount, which ratio (a) ranged from 5.00-to-1 for fiscal quarters beginning with the fiscal quarter ending on January 31, 2023 to 3.00-to-1 for the fiscal quarter ending on July 31, 2026 (if the Term Loan Borrowing Base Coverage Ratio (as defined in the JPM Credit Agreement) as of the end of the applicable fiscal quarter is less than or equal to 1.50-to-1) and (b) ranged from 5.50-to-1 for the fiscal quarter ending on January 31, 2023 to 4.00-to-1 for the fiscal quarters beginning with the fiscal quarter ending on July 31, 2026 (if the Term Loan Borrowing Base Coverage Ratio as of the end of the applicable fiscal quarter is greater than 1.50-to-1).

In addition, the JPM Credit Agreement imposes a cash dominion period if there is an event of default or if availability is less than 10% of the Revolving Commitment, and such requirement continues until there is no event of default and availability is greater than 10% of the Revolving Commitment, in each case for 30 consecutive days. Based on this criteria, the total debt balances for the Facility must be classified as a current liability on the Condensed Consolidated Balance Sheet as of January 31, 2023.

In connection with the entry into the JPM Credit Agreement, Lender and TCW Asset Management Company LLC, as administrative agent under the Term Loan Agreement (as defined below), entered into the Intercreditor Agreement, dated July 18, 2022, and acknowledged by SigmaTron and Wagz (the "ICA"), to set forth and govern the lenders' respective lien priorities, rights and remedies under the JPM Credit Agreement and the Term Loan Agreement.

The Facility under the JPM Credit Agreement is secured by: (a) a first priority security interest in SigmaTron's and Wagz's (i) accounts and inventory (excluding Term Priority Mexican Inventory (as defined in the ICA) and certain inventory in transit, (ii) deposit accounts, (iii) proceeds of business interruption insurance that constitute ABL BI Insurance Share (as defined in the ICA), (iv) certain other property, including payment intangibles, instruments, equipment, software and hardware and similar systems, books and records, to the extent related to the foregoing, and (v) all proceeds of the foregoing, in each case, now owned or hereafter acquired (collectively, the "ABL Priority Collateral");

Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note E - Long-term Debt - Continued

and (b) a second priority security interest in Term Priority Collateral (as defined below) other than (i) real estate and (ii) the equity interests of SigmaTron's foreign subsidiaries (unless such a pledge is requested by Lender).

On July 18, 2022, SigmaTron, Wagz and TCW Asset Management Company LLC, as administrative agent, and other Lenders party thereto (collectively, "TCW") entered into a Credit Agreement (the "Term Loan Agreement") pursuant to which TCW made a term loan to the Company in the principal amount of $40,000,000 (the "TCW Term Loan"). The TCW Term Loan bears interest at a rate per annum based on SOFR, plus the Applicable Margin of 7.50% (each as defined in the Term Loan Agreement). The TCW Term Loan has a SOFR floor of 1.00%. The maturity date of the TCW Term Loan is July 18, 2027. The amount outstanding as of January 31, 2023, was $39,500,000. Deferred financing costs of $1,210,481 were capitalized during the nine month period ended January 31, 2023. As of January 31, 2023, the unamortized amount offset against outstanding debt was $1,074,686.

The Term Loan Agreement imposes financial covenants, including covenants requiring the Company to maintain a minimum Fixed Charge Coverage Ratio (as defined in the Term Loan Agreement) of 1.10-to-1 and maintain the same leverage ratio of Total Debt to EBITDA as described above under the JPM Credit Agreement. The Company is required to make quarterly repayments of the principal amount of the TCW Term Loan in amounts equal to $250,000 per fiscal quarter for the quarters beginning October 31, 2022 and $500,000 per fiscal quarter for quarters beginning October 31, 2024. The Term Loan Agreement also requires mandatory annual repayments equal to 50% of Excess Cash Flow (as defined in the Term Loan Agreement).

The TCW Term Loan is secured by: (a) a first priority security interest in all property of SigmaTron and Wagz that does not constitute ABL Priority Collateral, which includes: (i) SigmaTron's and Wagz's real estate other than SigmaTron's Del Rio, Texas, warehouses, (ii) SigmaTron's and Wagz's machinery, equipment and fixtures (but excluding ABL Priority Equipment (as defined in the ICA)), (iii) the Term Priority Mexican Inventory (as defined in the ICA), (iv) SigmaTron's stock in its direct and indirect subsidiaries, (v) SigmaTron's and Wagz's general intangibles (excluding any that constitute ABL Priority Collateral), goodwill and intellectual property, (vi) the proceeds of business interruption insurance that constitute Term BI Insurance Share (as defined in the ICA), (vii) tax refunds, and (viii) all proceeds thereof, in each case, now owned or hereafter acquired (collectively, the "Term Priority Collateral"); and (b) a second priority security interest in all collateral that constitutes ABL Priority Collateral. Also, SigmaTron's three Mexican subsidiaries pledged all of their assets as security for the TCW Term Loan.

On July 18, 2022, a portion of the proceeds of the TCW Term Loan was used to pay in full the term loan principal amount of $5,000,000 (the "FILO Term Loan") that Lender extended to the Company under the JPM Agreement on April 25, 2022.

Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note E - Long-term Debt - Continued

Waiver, Consent and Amendment to Credit Agreements

On March 2, 2023, the Company received notices of default from both JPM and TCW. The Notices indicated the occurrence of certain events of default under the JPM Credit Agreement and the Term Loan Agreement.

The JPM Notice indicated that the Lender was informed of the occurrence of events of defaults and the continuation thereof under the JPM Credit Agreement as a result of the Company's failure to maintain a FCCR for the twelve month period ending January 31, 2023 of at least 1.10x as required under the JPM Credit Agreement (the "JPM Covenant Defaults").

The TCW Notice indicated that Agent and TCW Lenders were informed of the occurrence of events of default and the continuation thereof under the Term Loan Agreement (described below) as a result of the Company permitting the Total Debt to EBITDA Ratio for the twelve month period ending on January 31, 2023 to be greater than 5.00:1.00 in violation of the Term Loan Agreement and the Company' failure to maintain FCCR as required under the JPM Credit Agreement (the "TCW Covenant Defaults" and together with the JPM Covenant Defaults, the "Defaults").

As a result of the Defaults, the Company was not in compliance with its financial covenants under the Credit Agreements as of January 31, 2023. Due to the Notices received on March 2, 2023, from each of JPM and the TCW Lenders and Agent, the total debt balances for both the Facility and the TCW Term Loan (as defined below) have been classified as a current liability on the Condensed Consolidated Balance Sheet as of January 31, 2023.

On April 28, 2023, the Company entered into (i) a Waiver, Consent and Amendment No. 1 to the JPM Credit Agreement ("JPM Waiver") with Wagz and JPM, as lender, which waived certain events of default under and amended certain terms of the JPM Credit Agreement and (ii) a Waiver, Consent and Amendment No. 1 to the Credit Agreement ("TCW Waiver") with Wagz, the financial institutions identified therein (the "TCW Lenders") and TCW Asset Management Company LLC as administrative agent for the TCW Lenders (in such capacity, the "Agent" and collectively with the TCW Lenders and JPM, the "Lender Parties"), which waived certain events of default under and amended certain terms of the Term Loan Agreement (together with the JPM Credit Agreement the "Credit Agreements"). The Company entered into the JPM Waiver and TCW Waiver (together, the "Waivers") after receiving on March 2, 2023, the Notices from each of JPM and the TCW Lenders and Agent. The Notices indicated the occurrence of certain events of default under the JPM Credit Agreement and the Term Loan Agreement as described above. In addition, the Company received a delinquency notification letter from Nasdaq indicating that the Company was not in compliance with the continued listing requirements of Nasdaq for failing to timely file the Company's Form 10-Q for the fiscal quarter ended January 31, 2023. This notification also constituted a default under the Credit Agreements.

In connection with the Waivers, the Company decided to exit its active involvement in the Pet Tech business that is conducted by Wagz through the sale by the Company of a majority stake in Wagz, effective April 1, 2023. Pursuant to the Waivers, the Company has agreed, among other things, to (i) if requested by the Agent, effect a corporate restructuring that would create a new holding company

Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note E - Long-term Debt - Continued

structure to own all of the Company's stock through a merger pursuant to Section 251(g) of the General Corporation Law of the State of Delaware, after which the holding company would continue as the public company, become a guarantor under the Credit Agreements and pledge to the Lender

Parties all of the equity of the Company, (ii) engage a financial advisor to review certain of the Company's financial reporting to JPM and the Agent and participate in weekly conference calls with the advisor, JPM and the Agent to discuss and provide updates on the Company's liquidity and operations, (iii) extend the Wagz Loan (defined below), (iv) pay to JPM an amendment fee in the amount of $70,000, paid in cash, and (v) pay to the TCW Lenders an amendment fee of $395,000 and a default rate fee of $188,301, both of which were paid in kind by being added to the principal of the TCW Term Loan. The Waivers also amended the Credit Agreements to, among other things, (x) require that the Company maintain a minimum of $2.5 million in revolver availability under the JPM Credit Agreement, (y) modify the definition of EBITDA to allow adjustments to account for Wagz operating losses, impairment charges relating to the write-down of the Wagz business, the Wagz Note (as defined below) and net assets of the Company and Wagz, and expenses relating to the Waivers, the Wagz sale and SPA (as defined below), and (z) modify the existing Total Debt to EBITDA Ratios (as defined in the Credit Agreements) as follows:

Fiscal Quarter	Total Debt to EBITDA Ratio* (as amended)	Total Debt to EBITDA Ratio* (prior to amendment)
October 31,2023	4.50:1.0	4.25:1.0
January 31, 2024	4.50:1.0	4.00:1.0
April 30, 2024	4.50:1.0	4.00:1.0
July 31, 2024	4.25:1.0	3.75:1.0
October 31, 2024	4.00:1.0	3.75:1.0

* Assumes the Term Loan Borrowing Base Coverage Ratio (as defined in the Credit Agreements) is less than or equal to 1.50:1.0.

In addition, pursuant to the TCW Waiver, if the Total Debt to EBITDA Ratio for the trailing twelve month period as of the end of the most recently ended third fiscal quarter exceeds the ratios that were in effect prior to the amendment (as set forth in the far right column of the table above) for a fiscal quarter during the PIK Period (defined in the Term Loan Agreement), then the Applicable Margin under the Term Loan Agreement in respect of the outstanding TCW Term Loan would increase by an amount equal to 1.0% per annum for the fiscal quarter, with such interest being paid in kind. Furthermore, the JPM Waiver modified the definition of Applicable Margin from a fixed amount equal to 2.00% to an amount that varies from 2.00% (for revolver availability greater than or equal to $20.0 million), to 2.50% (for revolver availability greater than or equal to $10.0 million), to 3.00% (for revolver availability less than $10.0 million), and fixed the Applicable Margin at 3.00% for six months starting April 1, 2023.

In exchange for such agreements, the Lender Parties have agreed to waive all of the existing events of default under the Credit Agreements through March 31, 2023, consent to the sale of Wagz and

Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note E - Long-term Debt - Continued

release Wagz and its property and the Company's 81% interest in Wagz that was sold to Buyer (as disclosed below) from the lien of the Lender Parties.

All other material terms of the Credit Agreements, as amended by the Waivers, remain unchanged.

On March 15, 2019, the Company's wholly-owned foreign enterprise, Wujiang SigmaTron Electronic Technology Co., Ltd., entered into a credit facility with China Construction Bank. On January 26, 2021, the agreement was amended and expired in accordance with its terms on January 6, 2022. On January 17, 2022, the agreement was renewed, and expired in accordance with its terms on December 23, 2022. On February 17, 2023, the agreement was renewed, and is scheduled to expire on February 7, 2024. Under the agreement Wujiang SigmaTron Electronic Technology Co., Ltd. can borrow up to 10,000,000 Renminbi, approximately $1,479,000 as of January 31, 2023, 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 3.35% per annum. There was $739,601 outstanding under the facility at January 31, 2023 compared to an outstanding balance of $438,219 at April 30, 2022.

Notes Payable – Buildings

The Facility (as defined above) also included two term loans, in the aggregate principal amount of $6,500,000. A final aggregate payment of approximately $4,368,444 was due on or before January 29, 2026. On July 18, 2022, a portion of the proceeds of the TCW Term Loan was used to pay in full both term loans extended by Lender. The outstanding balance was $0 at January 31, 2023 compared to an outstanding balance of $5,994,445 at April 30, 2022.

The Company entered into a mortgage agreement on March 3, 2020, in the amount of $556,000, with The Bank and Trust SSB to finance the purchase of 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. Interest accrues at a fixed rate of 5.75% per year until March 3, 2025, and adjusts thereafter, on an annual basis, equal to 1.0% over the Prime Rate as published by The Wall Street Journal. The note is payable over a 120 month period. The outstanding balance was $429,339 and $464,895 at January 31, 2023 and April 30, 2022, respectively.

Notes Payable – Equipment

The Company routinely entered into secured note agreements with Engencap Fin S.A. DE C.V. to finance the purchase of equipment. The terms of the outstanding secured note agreement mature on May 1, 2023, with quarterly installment payments ranging from $9,493 to $9,310 and a fixed interest rate of 8.00% per annum.

The Company routinely enters into secured note agreements with FGI Equipment Finance LLC to finance the purchase of equipment. The terms of the outstanding secured note agreements mature from March 2025 through October 2027, with quarterly installment payments ranging from $10,723 to $69,439 and a fixed interest rate ranging from 8.25% to 9.25% per annum.

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 January 31, 2023, are as follows:

		Secured lenders	Building	Equipment	Total
For the remaining 3 months of the fiscal year ending April 30*:	2023	$ 97,567,331	$ 12,196	$ 272,769	$ 97,852,296
For the fiscal years ending April 30:	2024	739,601	50,571	1,119,647	1,909,819
	2025	-	53,557	1,205,779	1,259,336
	2026	-	56,719	841,614	898,333
	2027	-	60,068	291,085	351,153
	2028	-	63,614	65,990	129,604
	Thereafter	-	132,614	-	132,614
		$ 98,306,932	$ 429,339	$ 3,796,884	$ 102,533,155

*Due to the Notices received March 2, 2023 from each of JPM and the TCW Lenders, both the Facility and the TCW Term Loan (as defined above) have been classified as a current liability on the Condensed Consolidated Balance Sheet as of January 31, 2023. The maturity date of both the Facility and the TCW Term Loan is July 18, 2027 with an outstanding balance of $97,567,331.

Finance Lease and Sales Leaseback Obligations

The Company enters into various finance lease and sales leaseback agreements. The terms of the outstanding lease agreements mature through October 1, 2026, with monthly installment payments ranging from $2,874 to $33,706 and a fixed interest rate ranging from 7.09% to 12.73% per annum.

PPP Loan

On April 23, 2020, the Company received a PPP loan from U.S. Bank, as lender, pursuant to the Paycheck Protection Program of the CARES Act, as administered by the U.S. Small Business Administration (the "SBA") in the amount of $6,282,973 (the "PPP Loan"). The PPP Loan was scheduled to mature on April 23, 2022. The Company was notified of the forgiveness of the PPP Loan by the SBA on July 9, 2021 and all principal and accrued interest were forgiven. The accounting for the forgiveness is reflected in the Company's Statements of Operations, in the nine months ended January 31, 2022, as a non-cash gain upon extinguishment of long-term debt.

Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note F - Income Tax

The income tax benefit was $56,776 for the three month period ended January 31, 2023 compared to an income tax expense of $744,408 for the same period in the prior fiscal year. The Company's effective tax rate was 0.25% and 37.60% for the quarters ended January 31, 2023 and 2022, respectively. The decrease in income tax expense for the three month period ended January 31, 2023 compared to the same period in the previous year is due to decreased taxable earnings in the current quarter compared to the same period in the previous year. The decrease in effective tax rate is due to variations in income earned by jurisdiction.

The income tax expense was $1,728,591 for the nine month period ended January 31, 2023 compared to an income tax expense of $3,014,865 for the same period in the prior fiscal year. The Company's effective tax rate was (9.05)% and 24.64% for the nine month period ended January 31, 2023 and 2022, respectively. The decrease in income tax expense for the nine month period ended January 31, 2023 compared to the same period in the previous year is due to decreased taxable income recognized in the current year compared to the previous year. The decrease in effective tax rate for the nine month period ended January 31, 2023 is due to nondeductible expenses incurred in the current year and variations in income earned by jurisdiction.

After SigmaTron's merger with Wagz, Inc. ("Wagz") effective December 31, 2021, SigmaTron and Wagz (collectively, the "Company") file tax returns on a consolidated basis for periods ending after the merger. In evaluating the consolidated group's ability to recover its deferred tax assets on a consolidated basis, and considering historical operating results of both companies, the consolidated group's deferred tax assets are not more likely than not to be realized. Therefore, a valuation allowance was established on the group's U.S. deferred tax assets during fiscal year 2022. The Company has established a valuation allowance of $8,728,436 on its federal and state NOL carryforwards and other U.S. deferred tax assets as of January 31, 2023. The Company also has a full valuation allowance of $470,767 on NOLs attributable to its Vietnam subsidiary as of January 31, 2023. Based on historical losses and forecasted future earnings, the Company had determined that the tax benefit from such assets are not more likely than not to be realized. The Company's valuation allowance was $8,749,203 and $4,543,819 as of January 31, 2023 and April 30, 2022, respectively.

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 $13,657,000 as of January 31, 2023.

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 is resolved on unfavorable terms. However, although the ultimate outcome of any legal matter cannot be predicted with certainty, based on present information, including management's assessment of the merits of any particular claim, the Company does not expect that these legal proceedings or claims will have any material adverse impact on its future consolidated financial position, results of operations or cash flows.

Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note H - Significant 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, excess and obsolete reserves for inventory, deferred income, deferred taxes, valuation allowance for deferred taxes and valuation of goodwill and long-lived assets. Actual results could materially differ from these estimates.

The potential impact of future disruptions and continued economic uncertainty over the Company's global supply chain may have a significant adverse impact on the timing of delivery of customer orders and the levels of future customer orders. It is 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		Nine Months Ended	
Net trade sales by end-market	January 31, 2023	January 31, 2022	January 31, 2023	January 31, 2022
Industrial Electronics	$ 63,852,383	$ 48,955,249	$ 204,861,287	$ 151,294,676
Consumer Electronics	23,769,035	39,234,459	84,695,829	111,550,506
Medical / Life Sciences	5,598,335	5,492,743	17,912,236	16,793,317
Total Net Trade Sales	$ 93,219,753	$ 93,682,451	$ 307,469,352	$ 279,638,499

During the three and nine month periods ending January 31, 2023, no revenues were recognized from performance obligations satisfied or partially satisfied in previous periods and no amounts were allocated to performance obligations that remain unsatisfied or partially unsatisfied at January 31, 2023. The Company is electing not to disclose the amount of the remaining unsatisfied performance obligation with a duration of one year or less. The Company had no material remaining unsatisfied performance obligations as of January 31, 2023, 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

Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note H - Significant Accounting Policies - Continued

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 $8,253,085 and $4,543,819 as of January 31, 2023 and April 30, 2022, respectively.

Impairment of Long-Lived Assets - The Company reviews long-lived assets, including amortizable intangible assets, for impairment in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 360: *Property, Plant and Equipment*. Property, machinery and equipment and finite life intangible assets are reviewed whenever events or changes in circumstances occur that indicate possible impairment. If events or changes in circumstances occur that indicate possible impairment, the Company first performs an impairment review based on an undiscounted cash flow analysis at the lowest level at which cash flows of the long-lived assets are largely independent of other groups of its assets and liabilities. This analysis requires management judgment with respect to changes in technology, the continued success of product lines, and future volume, revenue and expense growth rates. If the carrying value exceeds the undiscounted cash flows, the Company records an impairment, if any, for the difference between the estimated fair value of the asset group and its carrying value. The Company further conducts annual reviews of its long-lived asset groups for possible impairment.

During the three months ended January 31, 2023, the Company revised the financial outlook for the Pet Tech segment, resulting in lower projected sales and net income for future periods. The Company assessed the overall market acceptance of the current Wagz product offerings after the holiday season and determined that this constituted a triggering event for the Company's long-lived asset groups, primarily consisting of patents, trade names and certain fixed assets. The Company reviewed the undiscounted future cash flows for the identified long-lived asset group, and the results of the analysis indicated the carrying amount for the long-lived group was not expected to be recovered.

The fair value of the identified intangible assets was estimated using the relief from royalty method, which is a risk-adjusted discounted cash flow approach. The relief from royalty method values an intangible asset by estimating the royalties saved through ownership of the asset. The relief from royalty method requires identifying the future revenue that would be generated by the intangible asset, multiplying it by a royalty rate deemed to be avoided through ownership of the asset and discounting the projected royalty savings amounts back to the acquisition date using the internal rate of return.

The Company determined the fair value of the long-lived asset group was lower than its carrying value and recorded an intangible asset impairment charge of $9,527,773 during the three months ended January 31, 2023. This non-cash charge was recorded to impairment of goodwill and intangible assets

Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note H - Significant Accounting Policies - Continued

on the unaudited condensed consolidated statements of operations. See Note K – Intangible Assets for more information.

Goodwill - Goodwill represents the excess cost over fair value of the net assets of acquired businesses. The Company does not amortize goodwill and intangible assets that have indefinite lives. The Company performs an impairment assessment of goodwill and intangible assets with indefinite lives annually, or more frequently if triggering events occur, based on the estimated fair value of the related reporting unit or intangible asset. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. When performing its annual impairment assessment, the Company evaluates the goodwill assigned to each of its reporting units for potential impairment by comparing the estimated fair value of the relevant reporting unit to the carrying value. The Company uses various Level 2 and Level 3 valuation techniques to determine the fair value of its reporting units, including discounting estimated future cash flows based on a cash flow forecast prepared by the relevant reporting unit and market multiples of relevant public companies. If the fair value of a reporting unit is less than its carrying value, a goodwill impairment loss is recorded for the difference.

The Company observed during the third quarter of fiscal 2023, the overall lack of market acceptance of the current Wagz product offerings during the holiday season and determined this constituted a triggering event. Accordingly, the Company performed a quantitative goodwill impairment test and estimated the fair value of the Pet Tech segment based on a combination of an income approach (estimates of future discounted cash flows), a market approach (market multiples for similar companies) and a cost approach. Significant unobservable inputs and assumptions inherent in the valuation methodologies, which represented Level 3 inputs, under the fair value hierarchy, were employed and included, but were not limited to, prospective financial information, terminal value assumptions, discount rates, and multiples from comparable publicly traded companies in the Pet Tech industry.

The cost approach is based on upon the concept of replacement cost as an indicator of value. Stated another way, this approach is premised on the assumption that a prudent investor would pay no more for an asset than the amount for which the asset could be replaced. The cost approach establishes value based on the cost reproducing or replacing the property, less depreciation from physical deterioration and functional obsolescence, if present and measurable.

During the three months ended January 31, 2023, the Company determined its goodwill was fully impaired as the fair value was lower than the carrying value and recorded an impairment charge of $13,320,534. This non-cash charge was recorded to impairment of goodwill and intangible assets on the unaudited condensed consolidated statements of operations.

Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note H - Significant Accounting Policies - Continued

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, that 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 smaller 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. The Company is currently evaluating the impact of this guidance 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 expedients and exceptions 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 amendments in this update apply only to contracts, hedging relationships and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The expedients and exceptions provided by the amendments do not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022, except for hedging relationships existing as of December 31, 2022, that an entity has elected certain optional expedients for and that are retained through the end of the hedging relationship. In January 2021, the FASB issued clarification on the scope of relief related to the reference rate reform. In December 2022, the FASB extended the period of time entities can use the reference rate reform relief guidance by two years which defers the sunset date from December 31, 2022 to December 31, 2024. The Company is currently evaluating the impact of this guidance on its consolidated financial statements.

Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note I – Leases

The Company leases office and warehouse 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 "Leases" 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 it has the right to direct how and for what purpose the asset is used throughout the period of use and if it controls the decision-making rights over the asset.

The Company's lease terms may include options to extend or terminate the lease. The Company exercises judgment to determine the term of those leases when extension or termination options are present and includes 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.

Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note I – Leases – Continued

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 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 as expense is recognized as incurred.

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

	Classification	January 31, 2023	April 30, 2022
Operating Leases:			
Right-of-use Assets	Right-of-use assets	$ 8,780,718	$ 10,946,764
Operating lease current liabilities	Current portion of operating lease obligations	3,405,338	3,508,864
Operating lease noncurrent liabilities	Operating lease obligations, less current portion	5,852,319	7,903,898
Finance Leases:			
Right-of-use Assets	Property, machinery and equipment	5,878,130	5,561,243
Finance lease current liabilities	Current portion of finance lease obligations	1,643,565	1,410,675
Finance lease noncurrent liabilities	Finance lease obligations, less current portion	2,959,037	2,805,135

Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note I – Leases – Continued

The components of lease expense for the three and nine month periods ended January 31, 2023 and 2022, are as follows:

	Expense Classification	Three Months Ended January 31, 2023	Three Months Ended January 31, 2022	Nine Months Ended January 31, 2023	Nine Months Ended January 31, 2022
Operating Leases:					
Operating lease cost	Operating	644,063	602,488	1,896,968	1,783,546
Variable lease cost	Operating	56,900	53,960	166,531	161,765
Short term lease cost	Operating	2,250	1,800	6,750	5,400
Finance Leases:					
Amortization of right-of-use assets	Operating	570,195	548,833	1,799,447	1,683,054
Interest expense	Interest	120,418	63,808	306,251	201,791
Total		1,393,827	1,270,889	4,175,948	3,835,556

The weighted average lease term and discount rates for the quarters ended January 31, 2023 and 2022, are as follows:

	January 31, 2023	**January 31, 2022**
Operating Leases:		
Weighted average remaining lease term (months)	38.79	48.44
Weighted average discount rate	3.3%	3.2%
Finance Leases:		
Weighted average remaining lease term (months)	33.77	33.31
Weighted average discount rate	9.8%	9.1%

Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note I – Leases – Continued

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

	Operating	Finance
For the remaining 3 months of the fiscal year ending April 30:		
2023	$ 963,252	$ 552,444
For the fiscal years ending April 30:		
2024	3,264,679	1,895,835
2025	2,597,675	1,674,988
2026	2,072,480	1,007,719
2027	445,298	177,773
2028	74,382	-
Thereafter	133,717	-
Total undiscounted lease payments	9,551,483	5,308,759
Present value discount, less interest	293,826	706,157
Lease liability	$ 9,257,657	$ 4,602,602

Supplemental disclosures of cash flow information related to leases for the nine months ended January 31, 2023 and 2022 are as follows:

	Nine Months Ended	
Other Information	**January 31, 2023**	**January 31, 2022**
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from finance leases	306,251	201,791
Operating cash flows from operating leases	245,246	290,431
Financing cash flows from finance leases	1,212,664	1,400,102
Supplemental non-cash information on lease liabilities arising from obtaining right-of-use assets:		
Right-of-use assets obtained in exchange for new finance lease liabilities	1,599,456	2,076,301
Right-of-use assets obtained in exchange for operating lease liabilities	337,913	1,657,076

Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note J – Acquisition

On December 31, 2021, the Company acquired 100% of the stock of Wagz under the terms of the Agreement and Plan of Merger dated July 19, 2021, as amended by the First Amendment to Agreement and Plan of Merger dated December 7, 2021 (the "Merger Agreement"). Wagz has developed and brought to market a high tech pet collar and has multiple other products in development. Wagz is an internet of things ("IoT") company which both owns intellectual property and secures recurring revenue through subscriptions for its services.

Prior to the acquisition, the Company had an investment in Wagz of $600,000, Convertible Secured Promissory Notes issued by Wagz of $12,000,000 and Secured Promissory Notes issued by Wagz of $1,380,705. Pursuant to the Merger Agreement, prior to the acquisition, the Convertible Secured Promissory Notes converted to 12,000,000 shares of Wagz common stock, resulting in a 25.5% ownership in Wagz. The Company's 25.5% equity interest in Wagz common stock was remeasured to fair value of $6,299,765, resulting in a non-cash impairment charge of $6,300,235 within the Statements of Operations during fiscal year 2022.

Pursuant to the Merger Agreement, 2,443,870 shares of common stock of the Company were issued in the merger for a value of $25,245,177, of which 1,546,592 shares are allocated to Wagz shareholders (excluding the Company) for a total value of $15,976,295, and 897,278 shares are allocated to the Company and treated as treasury stock for a total value of $9,268,881, recorded in the Statements of Changes in Stockholders' Equity for the fiscal year 2022. The treasury shares were retired as of April 30, 2022.

The following table summarizes the consideration for the acquisition of Wagz:

Consideration		
Issuance of 1,546,592 shares of common stock of SigmaTron	$	15,976,295
Fair value of consideration transferred		15,976,295
Secured Promissory Notes		1,380,173
Fair value of SigmaTron's equity interest in Wagz held prior to the business combination		6,299,765
	$	23,656,233

The following table presents the purchase price allocation for Wagz. The Company is accounting for the acquisition under the acquisition method and is required to measure identifiable assets acquired and liabilities assumed of the acquiree at fair value on the closing date. The fair value of the majority of the assets was determined by a third party valuation firm using management estimates and assumptions including intangible assets of $9,730,000 for patents and $1,230,000 for trade names. The appropriate fair values of the assets acquired and liabilities assumed are based on estimates and assumptions.

Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note J – Acquisition – Continued

The excess consideration was recorded as goodwill of $13,320,534, all of which is non-deductible for tax purposes. Goodwill represents future economic benefits arising from other assets acquired that could not be individually identified including workforce additions, growth opportunities, and increased presence in the Pet Tech market. The recorded goodwill has been assigned to the Pet Tech reportable segment.

Cash	$	508,274
Working capital		224,046
Property, plant and equipment		201,839
Acquired intangible assets		10,960,000
Right-of-use operating lease assets		647,076
Other assets		6,000
Operating lease obligations		(647,077)
Deferred tax liability		(215,000)
Other liabilities		(1,349,459)
Goodwill		13,320,534
Fair value of purchase consideration	$	23,656,233

The intangible assets acquired in the Wagz acquisition consisted of the following:

		Fair Value	Expected Weighted Amortization Period
Trade name	$	1,230,000	20 years
Patents		9,730,000	18 years
	$	10,960,000	

The fair value recorded as of April 30, 2022 is based on significant inputs that are not observable in the market and thus represents a fair value measurement categorized within Level 3 of the fair value hierarchy. The fair value of the acquired trade names and patents was determined using the relief from royalty method, which is a risk-adjusted discounted cash flow approach. The relief from royalty method values an intangible asset by estimating the royalties saved through ownership of the asset. The relief from royalty method requires identifying the future revenue that would be generated by the intangible asset, multiplying it by a royalty rate deemed to be avoided through ownership of the asset and discounting the projected royalty savings amounts back to the acquisition date using the internal rate of return.

Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note K – Intangible Assets

Intangible assets subject to amortization are summarized as of January 31, 2023 and April 30, 2022, as follows:

	January 31,2023				April 30, 2022		
	Gross Carrying Amount	Accumulated Amortization	Impairment Amount	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Spitfire:							
Non-contractual customer relationship	4,690,000	(3,294,342)	-	1,395,658	4,690,000	(3,039,837)	1,650,163
Wagz:							
Trade name	1,230,000	(67,210)	(813,960)	348,830	1,230,000	(20,500)	1,209,500
Patents	9,730,000	(585,839)	(8,713,813)	430,348	9,730,000	(180,185)	9,549,815
Total	$ 15,650,000	$ (3,947,391)	$ (9,527,773)	$ 2,174,836	$ 15,650,000	$ (3,240,522)	$ 12,409,478

Estimated aggregate amortization expense for the Company's intangible assets, which become fully amortized in 2040, for the remaining periods as of January 31, 2023, are as follows:

For the remaining 3 months of the fiscal year ending April 30:	2023	$	87,090
For the fiscal years ending April 30:	2024		436,694
	2025		413,369
	2026		395,278
	2027		378,785
	Thereafter		463,620
		$	2,174,836

Amortization expense was $235,964 and $157,710 for the three month periods ended January 31, 2023 and January 31, 2022, respectively. Amortization expense was $706,869 and $331,320 for the nine month periods ended January 31, 2023 and January 31, 2022, respectively.

In connection with the preparation and review of the financial statements for the quarter ended January 31, 2023, the Company revised the financial projections for its Pet Tech segment. The revised projections resulted in a triggering event for the Company's goodwill and long-lived asset groups consisting of patents and trade names. As a result, the Company concluded that the carrying amount for goodwill and the long-lived asset groups was impaired and not expected to be recovered. Accordingly, a non-cash pre-tax goodwill impairment charge of $13,320,534 and a non-cash intangible assets impairment charge of $9,527,773, was recorded for the Company's Pet Tech segment for the quarter ended January 31, 2023.

Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note L – Segment and Geographic Area Information

The Company's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies. Separate financial information is regularly evaluated by the Chief Operating Decision Maker ("CODM") in deciding how to allocate resources. For the Company, the CODM is the Company's Chief Executive Officer.

The EMS reportable segment includes printed circuit board assemblies, electro-mechanical subassemblies and completely assembled (box-build) electronic products. In connection with the production of assembled products, the EMS segment 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; (6) assistance in obtaining product approval from governmental and other regulatory bodies and (7) compliance reporting. The EMS segment produces the Freedom Smart Dog Collar™ sold by the Pet Tech segment.

The Pet Tech reportable segment offers electronic products such as the Freedom Smart Dog Collar™, a wireless geo-mapped fence and wellness system, along with apparel and accessories.

The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies. The CODM allocates resources to and evaluates the performance of each operating segment based on operating income.

Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note L – Segment and Geographic Area Information – Continued

The tables below present information about the Company's reportable segments for the three month periods ended January 31, 2023 and January 31, 2022.

	Three Months Ended January 31, 2023		
	EMS Segment	Pet Tech Segment	Consolidated
Net sales (1)	$ 92,736,725	$ 483,028	$ 93,219,753
Operating income (loss)	4,802,314	(26,027,124)	(21,224,810)
Other income			(496,507)
Interest expense, net			2,406,137
Income before income taxes			$ (23,134,440)
Purchases of machinery and equipment	1,283,748	4,969	1,288,717
Depreciation and amortization of property, machinery and equipment	1,402,984	33,070	1,436,054
Amortization of intangible assets	84,629	151,335	235,964
Identifiable assets	$ 275,834,600	$ 1,368,577	$ 277,203,177

(1) The EMS segment manufactures products sold to the Pet Tech segment. Related intersegment sales of $210,054 have been eliminated.

	Three Months Ended January 31, 2022		
	EMS Segment	Pet Tech Segment	Consolidated
Net sales (2)	$ 93,478,557	$ 203,894	$ 93,682,451
Operating loss	(870,048)	(763,623)	(1,633,671)
Other income			(35,813)
Interest expense, net			382,031
Income before income taxes			$ (1,979,889)
Purchases of machinery and equipment	2,711,399	204,455	2,915,854
Depreciation and amortization of property, machinery and equipment	1,466,484	3,192	1,469,676
Amortization of intangible assets	86,488	71,222	157,710
Identifiable assets	$ 269,945,611	$ 23,685,666	$ 293,631,277

(2) The EMS segment manufactures products sold to the Pet Tech segment. Related intersegment sales of $95,297 have been eliminated.

Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note L – Segment and Geographic Area Information – Continued

The tables below present information about the Company's reportable segments for the nine month periods ended January 31, 2023 and January 31, 2022.

	Nine Months Ended January 31, 2023		
	EMS Segment	Pet Tech Segment	Consolidated
Net sales (3)	$ 306,147,772	$ 1,321,580	$ 307,469,352
Operating income (loss)	16,649,674	(30,981,811)	(14,332,137)
Other income			(568,137)
Interest expense, net			5,336,526
Income before income taxes			$ (19,100,526)
Purchases of machinery and equipment	3,116,686	103,727	3,220,413
Depreciation and amortization of property, machinery and equipment	4,311,388	62,385	4,373,773
Amortization of intangible assets	254,505	452,364	706,869
Identifiable assets	$ 275,834,600	$ 1,368,577	$ 277,203,177

(3) The EMS segment manufactures products sold to the Pet Tech segment. Related intersegment sales of $937,667 have been eliminated.

	Nine Months Ended January 31, 2022		
	EMS Segment	Pet Tech Segment	Consolidated
Net sales (4)	$ 279,434,605	$ 203,894	$ 279,638,499
Operating income (loss)	7,573,245	(763,623)	6,809,622
Gain on extinguishment of long-term debt			(6,282,973)
Other income			(109,516)
Interest expense, net			964,622
Income before income taxes			$ 12,237,489
Purchases of machinery and equipment	7,377,831	204,455	7,582,286
Depreciation and amortization of property, machinery and equipment	4,240,406	3,192	4,243,598
Amortization of intangible assets	260,098	71,222	331,320
Identifiable assets	$ 269,945,611	$ 23,685,666	$ 293,631,277

(4) The EMS segment manufactures products sold to the Pet Tech segment. Related intersegment sales of $95,297 have been eliminated.

Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note L – Segment and Geographic Area Information – Continued

The following tables set forth net sales and tangible long-lived assets by geographic area where the Company operates. Tangible long-lived assets include property, plant and equipment and operating lease assets.

	Three Months Ended		Nine Months Ended	
	January 31, 2023	January 31, 2022	January 31, 2023	January 31, 2022
Net sales:				
U.S.	$ 28,380,507	$ 21,569,947	$ 83,507,814	$ 63,752,884
China	11,847,280	12,216,303	38,819,772	34,413,850
Vietnam	1,873,195	3,202,895	8,228,645	10,653,988
Mexico	51,118,771	56,693,304	176,913,122	170,817,776
Total net sales	$ 93,219,753	$ 93,682,451	$ 307,469,352	$ 279,638,499

Tangible long-lived assets include property, plant and equipment and operating lease assets consisted of the following at January 31, 2023 and April 30, 2022:

	January 31, 2023	April 30, 2022
Tangible long-lived assets, net:		
U.S.	$ 20,728,382	$ 21,968,745
China	4,402,894	4,778,610
Mexico	17,260,714	19,606,131
Other	944,716	566,493
Total tangible long-lived assets, net	$ 43,336,706	$ 46,919,979

Note M – Subsequent Events

As described in Note E – Long-term Debt, on March 2, 2023, the Company received an Event of Default and Reservation of Rights notice from each of JPM (with respect to the JPM Credit Agreement) and the TCW Lenders and Agent (with respect to the Term Loan Agreement). The Notices indicated the occurrence of certain events of default under the JPM Credit Agreement and the Term Loan Agreement.

On March 23, 2023, the Company received a delinquency notification letter from the Nasdaq Stock Market LLC (“Nasdaq”) indicating that the Company is not in compliance with the continued listing requirements under Nasdaq Listing Rule 5250(c)(1), requiring timely filing of all required periodic financial reports with the Securities and Exchange Commission because the Company did not timely file its Form 10-Q for the fiscal quarter ended January 31, 2023. This notification also constituted a default under the Credit Agreements.

Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note M – Subsequent Events - Continued

As described in Note E – Long-term Debt, on April 28, 2023, the Company entered into the JPM Waiver with JPM and the TCW Waiver with TCW Lenders and the Agent with respect to the Credit Agreements. The Company entered into the JPM Waiver and TCW Waiver after receiving on March 2, 2023, the previously disclosed Notices of default from each of JPM and the TCW Lenders and Agent.

On April 28, 2023, with an effective date of April 1, 2023, the Company entered into a Stock Purchase Agreement ("SPA") by and among the Company, Wagz, Vynetic LLC, a Delaware limited liability company ("Buyer"), and Terry B. Anderton, co-founder of Wagz and principal of Buyer ("Anderton"), pursuant to which the Company sold to Buyer 81% of the issued and outstanding shares of common stock of Wagz (the "Wagz Shares") for the purchase price of one dollar. Under the SPA, the Company also agreed to provide a $900,000 working capital term loan (the "Wagz Loan") to Wagz during the month of April 2023, while Wagz, Buyer and Anderton are actively seeking other capital and financing to support Wagz going forward. Pursuant to such agreement, Wagz issued to the Company a Promissory Note (the "Wagz Note"), pursuant to which the Company agreed to provide the Wagz Loan. The Wagz Note bears interest at a rate of 6% per annum, with the first payment of accrued interest due on March 31, 2024, followed by 24 equal monthly payments of principal and interest. A final payment is due on March 31, 2026. The Wagz Note is unsecured and contains customary covenants and events of default.

The Company agreed to work with Wagz as an EMS provider pursuant to a manufacturing agreement, but the Company did not commit to extending any further financial support beyond the Wagz Loan. On April 28, 2023, the sale of the majority interest in Wagz pursuant to the SPA was consummated with effect as of April 1, 2023, and as a result, as of the closing, the Company holds a minority 19% ownership of the Wagz Shares and Buyer holds a majority 81% of the Wagz Shares.

The Company expects to incur a non-cash impairment charge of approximately $2,500,000 to $3,000,000 related to the sale of the business and the Wagz Note, which the Company expects to record in its financial statements for the Company's fourth quarter of its fiscal year 2023 ended April 30, 2023. The charge primarily relates to the impairment of certain assets that were not transferred to Buyer in connection with the sale transaction and the Wagz Note.

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., and Wagz, Inc. ("Wagz"), wholly-owned foreign enterprises Wujiang SigmaTron Electronics Co., Ltd. and Wujiang SigmaTron Electronic Technology Co., Ltd. and international procurement office SigmaTron International Inc. 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, acquisition or business combination (including the December 31, 2021 acquisition of Wagz); 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 and goodwill impairment testing; the ability to achieve the expected benefits of acquisitions as well as the expenses of acquisitions; the collection of aged account receivables; the variability of the Company's customers' requirements; the impact of inflation on the Company's operating results; the availability and cost of necessary components and materials; the impact acts of war may have to the supply chain; 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; the costs of borrowing under the Company's senior and subordinated credit facilities, including under the rate indices that replaced LIBOR, and the recently increasing interest rates; the ability to meet the Company's financial and restrictive covenants under its loan agreements; 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 and variants (commonly known as "COVID-19") which has threatened the Company's financial stability by causing a disruption to the Company's global supply chain, and caused plant closings or reduced operations thus reducing output at those facilities; the continued availability of scarce raw materials, exacerbated by global supply chain disruptions, necessary for the manufacture of products by the Company; the stability of the U.S., Mexican, Chinese, Vietnamese and Taiwanese economic, labor and political systems and conditions; global business disruption caused by the Russia invasion of Ukraine and related sanctions; 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 two reportable segments as an independent provider of EMS, and as a provider of products to the Pet Tech market.

The EMS segment includes printed circuit board assemblies, electro-mechanical subassemblies and completely assembled (box-build) electronic products.

In connection with the production of assembled products, the EMS segment 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; (6) assistance in obtaining product approval from governmental and other regulatory bodies and (7) compliance reporting. The Company provides these services through an international network of facilities located in the United States, Mexico, China, Vietnam and Taiwan.

The Pet Tech reportable segment offers electronic products such as the Freedom Smart Dog Collar™, a wireless geo-mapped fence and wellness system, along with apparel and accessories. The EMS segment produces the Freedom Smart Dog Collar™ sold by the Pet Tech segment.

On April 28, 2023, with an effective date of April 1, 2023, the Company entered into a Stock Purchase Agreement ("SPA") by and among the Company, Wagz, Vynetic LLC, a Delaware limited liability company ("Buyer"), and Terry B. Anderton, co-founder of Wagz and principal of Buyer ("Anderton"), pursuant to which the Company sold to Buyer 81% of the issued and outstanding shares of common stock of Wagz (the "Wagz Shares") for the purchase price of one dollar. Under the SPA, the Company also agreed to provide a $900,000 working capital term loan (the "Wagz Loan") to Wagz during the month of April 2023, while Wagz, Buyer and Anderton are actively seeking other capital and financing to support Wagz going forward. Pursuant to such agreement, Wagz issued to the Company a Promissory Note (the "Wagz Note"), pursuant to which the Company agreed to provide the Wagz Loan. The Wagz Note bears interest at a rate of 6% per annum, with the first payment of accrued interest due on March 31, 2024, followed by 24 equal monthly payments of principal and interest. A final payment is due on March 31, 2026. The Wagz Note is unsecured and contains customary covenants and events of default.

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

Sales can be an unreliable indicator of the Company's financial performance. Sales levels can vary considerably among customers and products depending on the type of services (turnkey versus consignment) rendered by the Company and the demand by customers. Consignment orders require the Company to perform manufacturing services on components and other materials supplied by a customer, and the Company charges only for its labor, overhead and manufacturing costs, plus a profit. In the case of turnkey orders, the Company provides, in addition to manufacturing services, the components and other materials used in assembly. Turnkey contracts, in general, have a higher dollar volume of sales for each given assembly, owing to inclusion of the cost of components and other materials in net sales and cost of goods sold. Variations in the number of turnkey orders compared to consignment orders can lead to significant fluctuations in the Company's revenue and gross margin levels. Consignment orders accounted for less than 1% of the Company's revenues for the three and nine month periods ended January 31, 2023 and January 31, 2022.

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.

On December 31, 2021, the Company acquired 100% of the stock of Wagz under the terms of the Agreement and Plan of Merger dated July 19, 2021, as amended by the First Amendment to Agreement and Plan of Merger dated December 7, 2021 (the "Merger Agreement"). Wagz has developed and brought to market a high tech pet collar and has multiple other products in development. Wagz is an IoT company which both owns intellectual property and secures recurring revenue through subscriptions for its services. The results of Wagz have been included in the Company's consolidated financial results since the date of acquisition. The total consideration for the acquisition of Wagz was $23,656,233. The Company began its Pet Tech operations after the December 2021 acquisition of Wagz. On April 28, 2023, with an effective date of April 1, 2023, the Company sold a majority of its interest in Wagz, which operated the Pet Tech business.

The Company reported a pre-tax loss for the three months ended January 31, 2023 of $23,134,440. The results include a non-cash goodwill impairment charge of $13,320,534 and a non-cash intangible assets impairment charge of $9,527,773 related to the Pet Tech segment. See Note H – Significant Accounting Policies for more information. Pre-tax loss for the three months ended January 31, 2022 was $1,979,889. The Company recorded revenue of $93,219,753 and $93,682,451 in the three month periods ended January 31, 2023 and January 31, 2022, respectively.

The backlog for the EMS segment remains strong for the three and nine month periods ending January 31, 2023. Despite the continuing challenges in the electronic component marketplace, sales are running at high levels for the Company. The Company continues to see strength in the industrial electronics market, partially offset by a decrease in the consumer electronics market. Existing customers are slowly launching new products and the Company has several new opportunities that it plans to pursue. However, the Company does not foresee any near-term solution to the supply chain challenges that it has experienced over at least the last 18 months, and the Company has not seen any indication from the semiconductor companies that suggests otherwise. The Company expects the challenges to continue for fiscal 2024, based on what is known at this time. These supply chain challenges cause inventory to grow significantly and put pressure on cash flow. It also leads to manufacturing inefficiencies due to the uncertainty of when parts will be received.

The Pet Tech segment had a $26,027,124 pre-tax loss for the three month period ending January 31, 2023, which included a non-cash goodwill impairment charge of $13,320,534 and a non-cash intangible assets impairment charge of $9,527,773 . The Pet Tech segment sales were negatively impacted by a shortage of parts for production for several months, resulting in missing the holiday season for sales, a slowing economy relating to inflation and a slower than anticipated acceptance of the product by the market.

The Company reported a pre-tax loss for the nine month period ending January 31, 2023. Pre-tax loss for the nine month period ended January 31, 2023 was $19,100,526. The results include a non-cash goodwill impairment charge of $13,320,534 and a non-cash intangible assets impairment charge of

$9,527,773 related to the Pet Tech segment. See Note H – Significant Accounting Policies for more information. Pre-tax income for the nine month period ended January 31, 2022 was $12,237,489, which included forgiveness of the Company's Small Business Administration Paycheck Protection Program Loan in the amount of $6,282,973 and a non-cash impairment charge of $6,300,235. The Company recorded revenue of $307,469,352 and $279,638,499 in the nine month periods ended January 31, 2023 and January 31, 2022, respectively.

The Pet Tech segment, had a $30,981,811 pre-tax loss for the nine month period ending January 31, 2023 which included a non-cash goodwill impairment charge of $13,320,534 and a non-cash intangible assets impairment charge of $9,527,773.

Results of Operations:

Consolidated Results

The following table sets forth the Company's consolidated results of operations for the periods indicated.

	Three Months Ended	
	January 31, 2023	**January 31, 2022**
Net sales	$ 93,219,753	$ 93,682,451
Cost of products sold	82,193,416	81,257,305
Gross profit	11,026,337	12,425,146
Selling and administrative expenses	9,154,376	7,758,582
Impairment of notes receivable and investment	-	6,300,235
Impairment of goodwill and other long-lived assets	23,096,771	-
Operating loss	(21,224,810)	(1,633,671)
Gain on extinguishment of long-term debt	-	-
Other income	(496,507)	(35,813)
Interest expense, net	2,406,137	382,031
Loss before income tax expense	(23,134,440)	(1,979,889)
Income tax (benefit) expense	(56,776)	744,408
Net loss	$ (23,077,664)	$ ($2,724,297)

Net Sales

Net sales decreased $462,698, or -0.5%, to $93,219,753 for the three month period ended January 31, 2023, compared to $93,682,451 for the same period in the prior fiscal year. The Federal Reserve has raised interest rates several times during the current fiscal quarter, which has negatively affected customer demand in the consumer electronics markets, but has not had the same effect in the industrial electronics and medical/life science markets. As a result, the Company's sales increased for the three month period ended January 31, 2023, in industrial electronics and medical/life science compared to the same period in the prior fiscal year. The increase in sales was partially offset by a decrease in sales in consumer electronics.

Costs of products sold

Cost of products sold increased $936,111, or 1.2%, to $82,193,416 (88.2% of net sales) for the three month period ended January 31, 2023, compared to $81,257,305 (86.7% of net sales) for the same period in the prior fiscal year. The increase in cost of products sold as a percentage of sales is primarily due to higher material, logistics and other operating costs as a result of higher sales volumes and the impact of global supply chain disruptions that caused factory inefficiencies. Labor costs and other manufacturing costs were higher for the three month period ended January 31, 2023, than in the same period in the prior fiscal year, primarily due to inflationary pressures.

Gross profit

Gross profit margin was 11.8% of net sales, for the three month period ended January 31, 2023, compared to 13.3% for the same period in the prior fiscal year. The decrease in gross margins as a percentage of sales is primarily due to higher material, labor and other manufacturing costs during the third quarter of fiscal 2023, compared to the third quarter of fiscal 2022.

Selling and administrative expenses

Selling and administrative expenses increased $1,395,794, or 18.0% to $9,154,376 (9.8% of net sales) for the three month period ended January 31, 2023, compared to $7,758,582 (8.3% of net sales) for the same period in the prior fiscal year. The increase in selling and administrative expenses primarily relates to the Pet Tech segment which consisted of $2,795,786 for the three month period ended January 31, 2023. Wagz was acquired on December 31, 2021, and therefore, comparable information for the same period in the prior fiscal year consists of one month of activity. In addition, the EMS segment selling and administrative expense decreased for the three month period ended January 31, 2023, due to a decrease in bonus expense, partially offset with an increase in financing fees and higher costs due to inflationary pressures.

Impairment of goodwill and other long-lived assets

In connection with the preparation and review of the financial statements for the quarter ended January 31, 2023, the Company revised the financial projections for its Pet Tech segment. The revised projections resulted in a triggering event for the Company's goodwill and long-lived asset groups consisting of patents and trade names. As a result, the Company concluded that the carrying amount for goodwill and the long-lived asset groups was impaired and not expected to be recovered. Accordingly, a non-cash pre-tax goodwill impairment charge of $13,320,534 and a non-cash intangible assets impairment charge of $9,527,773, was recorded for the Company's Pet Tech segment for the quarter ended January 31, 2023.

Interest expense, net

Interest expense, net, increased to $2,406,137 for the three month period ended January 31, 2023, compared to $382,031 for the same period in the prior fiscal year. The increase relates to higher average debt levels as well as increased interest rates for the three month period ended January 31, 2023.

Income tax expense

Income tax expense decreased $801,184 to an income tax benefit of $56,776 for the three month period ended January 31, 2023, compared to $744,408 for the same period in the prior fiscal year. The effective tax rate decreased to 0.25% for the three month period ended January 31, 2023, compared to 37.6% for the same period in the prior fiscal year due primarily due to variations in income earned by jurisdiction.

Net Loss

Net loss increased $20,353,367, to $23,077,664 for the three month period ended January 31, 2023, compared to $2,724,297 for the same period in the prior fiscal year. The increased net loss primarily relates to losses incurred for the Pet Tech segment (acquired December 31, 2021) including the goodwill and intangible assets impairment charge, higher interest expense due to higher average debt levels and increased interest rates, partially offset by a decrease in bonus expense.

EMS Segment

The following table sets forth the Company's results of operations for the EMS segment for the periods indicated.

	Three Months Ended	
	January 31, 2023	**January 31, 2022**
Net sales	$ 92,736,725	$ 93,478,557
Cost of products sold	81,575,820	81,068,590
Gross profit	11,160,905	12,409,967
Selling and administrative expenses	6,358,591	6,979,780
Impairment of notes receivable and investment	-	6,300,235
Operating income (loss)	$ 4,802,314	$ (870,048)

Net Sales

Net sales decreased $741,832, or -0.8%, to $92,736,725 for the three month period ended January 31, 2023, compared to $93,478,557 for the same period in the prior fiscal year. The Federal Reserve has raised interest rates several times during the current fiscal quarter, which has negatively affected customer demand in the consumer electronics markets, but has not had the same effect in the industrial electronics and medical/life science markets. As a result,the Company's sales increased for the three month period ended January 31, 2023, in industrial electronics and medical/life science compared to the prior year. The increase in sales was partially offset by a decrease in sales in consumer electronics.

Costs of products sold

Cost of products sold increased $507,230, or 0.6%, to $81,575,820 (88.0% of net sales) for the three month period ended January 31, 2023, compared to $81,068,590 (86.7% of net sales) for the same period in the prior fiscal year. The increase in cost of products sold as a percentage of sales was primarily due to higher material, logistics and other operating costs as a result of higher sales volumes and the impact of global supply chain disruptions that caused factory inefficiencies. Labor costs and other manufacturing costs were higher for the three month period ended January 31, 2023, than in the same period in the prior fiscal year, primarily due to inflationary pressures.

Gross profit

Gross profit margin was 12.0% of net sales, for the three month period ended January 31, 2023, compared to 13.3% for the same period in the prior fiscal year. The decrease in gross margins as a percentage of sales was primarily due to higher material, labor and other manufacturing costs during the third quarter of fiscal 2023, compared to the third quarter of fiscal 2022.

Selling and administrative expenses

Selling and administrative expenses decreased $621,189, or 8.9% to $6,358,591 (6.9% of net sales) for the three month period ended January 31, 2023, compared to $6,979,780 (7.5% of net sales) for the same period in the prior fiscal year. Selling and administrative expenses decreased for the three month period ended January 31, 2023, primarily due to a decrease in bonus expense, partially offset by an increase in financing fees.

Operating income/(loss)

Operating income (loss) increased $5,672,362, to $4,802,314 (5.2% of net sales) for the three month period ended January 31, 2023, compared to an operating loss of $(870,048) (-0.9% of net sales) for the same period in the prior fiscal year. The increase was primarily due to a non-cash impairment charge of $6,300,235 that was recorded for the same period in the prior fiscal year.

Pet Tech Segment

The following table sets forth the Company's consolidated results of operations for the Pet Tech segment for the periods indicated. The three months ended January 31, 2022 consists of one month of activity, as the business was acquired on December 31, 2021.

	Three Months Ended	
	January 31, 2023	**January 31, 2022**
Net sales	$ 483,028	$ 203,894
Cost of products sold	617,596	188,715
Gross profit	(134,568)	15,179
Selling and administrative expenses	2,795,785	778,802
Impairment of goodwill and other long-lived assets	23,096,771	-
Operating loss	$ (26,027,124)	$ (763,623)

Net sales

Net sales increased $279,134, or 136.9%, to $483,028 for the three month period ended January 31, 2023 compared to $203,894 for the same period in the prior fiscal year. Sales for the period are primarily comprised of hardware and accessories, as well as recurring subscription revenue. The three months ended January 31, 2022 consists of one month of activity, as the business was acquired on December 31, 2021.

Cost of products sold

Cost of products sold increased $428,881, to $617,596 (127.9% of net sales) for the three month period ended January 31, 2023, compared to $188,715 (92.6% of net sales) for the same period in the prior fiscal year. The increase as a percentage of sales is primarily due to material cost increases and lower sales volumes in the current period.

Gross profit

Gross profit margin was -27.9% of net sales for the three month period ended January 31, 2023 compared to gross profit margin of 7.4% for the same period in the prior fiscal year. The gross margin as a percentage of sales decreased primarily due to material price increases and lower sales volumes in the current period.

Selling and administrative expenses

Selling and administrative expenses increased $2,016,983, to $2,795,785 for the three month period ended January 31, 2023, compared to $778,802 for the same period in the prior fiscal year. Selling and administrative costs were primarily comprised of research and development costs for new products expected to launch in fiscal 2024, selling and marketing expenses, as well as general and administrative expenses.

Impairment of goodwill and other long-lived assets

In connection with the preparation and review of the financial statements for the quarter ended January 31, 2023, the Company revised the financial projections for its Pet Tech segment. The revised projections resulted in a triggering event for the Company's goodwill and long-lived asset groups consisting of patents and trade names. As a result, the Company concluded that the carrying amount for goodwill and the long-lived asset groups was impaired and not expected to be recovered. Accordingly, a non-cash pre-tax goodwill impairment charge of $13,320,534 and a non-cash intangible assets impairment charge of $9,527,773, was recorded for the Company's Pet Tech segment for the quarter ended January 31, 2023.

Operating loss

Operating loss increased $25,263,501, to $26,027,124 for the three month period ended January 31, 2023, compared to $763,623 for the same period in the prior fiscal year. The increased loss was primarily due to the non-cash goodwill impairment charge of $13,320,534, the non-cash intangible assets impairment charge of $9,527,773 and lower than expected sales.

Consolidated Results

The following table sets forth the Company's consolidated results of operations for the periods indicated.

	Nine Months Ended	
	January 31, 2023	**January 31, 2022**
Net sales	$ 307,469,352	$ 279,638,499
Cost of products sold	271,443,967	245,853,289
Gross profit	36,025,385	33,785,210
Selling and administrative expenses	27,260,751	20,675,353
Impairment of notes receivable and investment	-	6,300,235
Impairment of goodwill and other long-lived assets	23,096,771	-
Operating (loss) income	(14,332,137)	6,809,622
Gain on extinguishment of long-term debt	-	(6,282,973)
Other income	(568,137)	(109,516)
Interest expense, net	5,336,526	964,622
(Loss) income before income tax expense	(19,100,526)	12,237,489
Income tax expense	1,728,591	3,014,865
Net (loss) income	$ ($20,829,117)	$ $9,222,624

Net Sales

Net sales increased $27,830,853, or 10.0%, to $307,469,352 for the nine month period ended January 31, 2023, compared to $279,638,499 for the same period in the prior fiscal year. The Federal Reserve has raised interest rates several times during the first nine months of fiscal 2023, which has negatively affected customer demand in the consumer electronics markets, but has not had the same effect in the industrial electronics and medical/life science markets. As a result, the Company's sales increased for the nine month period ended January 31, 2023, in industrial electronics and medical/life science compared to the same period in the prior fiscal year. The increase in sales was partially offset by a decrease in sales in consumer electronics. Net sales were higher due to certain customer price increases implemented as a result of increased raw material and other operating costs that occurred during the nine month period ended January 31, 2023, as compared to the same period last fiscal year.

Costs of products sold

Cost of products sold increased $25,590,678, or 10.4%, to $271,443,967 (88.3% of net sales) for the nine month period ended January 31, 2023, compared to $245,853,289 (87.9% of net sales) for the same period in the prior fiscal year. The increase was primarily due to higher material, logistics and other operating costs as a result of higher sales volumes and the impact of global supply chain disruptions that caused factory inefficiencies. Labor costs and other manufacturing costs were higher for the nine month period ended January 31, 2023, than in the same period in the prior fiscal year, primarily due to inflationary pressures.

Gross profit

Gross profit margin was 11.7% of net sales, for the nine month period ended January 31, 2023, compared to 12.1% for the same period in the prior fiscal year. The decrease in gross margins as a percentage of sales is due to higher material, labor and other manufacturing costs during the nine month period ended January 31, 2023, than in the same period in the prior fiscal year.

Selling and administrative expenses

Selling and administrative expenses increased $6,585,398, or 31.9% to $27,260,751 (8.9% of net sales) for the nine month period ended January 31, 2023, compared to $20,675,353 (7.4% of net sales) for the same period in the prior fiscal year. The increase in selling and administrative expenses primarily relates to the Pet Tech segment which consisted of $7,866,222 for the nine month period ended January 31, 2023. Wagz was acquired on December 31, 2021, and therefore, comparable information for the same period in the prior fiscal year consists of one month of activity. In addition, the EMS segment selling and administrative expenses decreased for the nine month period ended January 31, 2023, primarily due to a decrease in bonus expense, partially offset by an increase in other professional fees related to the new and amended credit agreements finalized during the first quarter of fiscal year 2023, an increase in financing fees and higher costs due to inflationary pressures.

Impairment of goodwill and other long-lived assets

In connection with the preparation and review of the financial statements for the quarter ended January 31, 2023, the Company revised the financial projections for its Pet Tech segment. The revised projections resulted in a triggering event for the Company’s goodwill and long-lived asset groups consisting of patents and trade names. As a result, the Company concluded that the carrying amount for goodwill and the long-lived asset groups was impaired and not expected to be recovered. Accordingly, a non-cash pre-tax goodwill impairment charge of $13,320,534 and a non-cash intangible assets impairment charge of $9,527,773, was recorded for the Company’s Pet Tech segment for the quarter ended January 31, 2023.

Interest expense, net

Interest expense, net, increased to $5,336,526 for the nine month period ended January 31, 2023, compared to $964,622 for the same period in the prior fiscal year. The increase primarily relates to higher average debt levels as well as increased interest rates for the nine month period ended January 31, 2023.

Income tax expense

Income tax expense decreased $1,286,274 to $1,728,591 for the nine month period ended January 31, 2023, compared to $3,014,865 for the same period in the prior fiscal year. The effective tax rate decreased to (9.05)% for the nine month period ended January 31, 2023, compared to 24.64% for the same period in the prior year, primarily due to nondeductible expenses incurred in the current year and variations in income earned by jurisdiction. The decrease in income tax expense for the nine month period ended January 31, 2023 compared to the same period in the previous year is primarily due to decreased taxable income recognized in the current year compared to the previous year.

Net Income (Loss)

Net income (loss) decreased $30,051,741, to a net loss of $20,829,117 for the nine month period ended January 31, 2023, compared to a net income of $9,222,624 for the same period in the prior fiscal year. The decreased net income (loss) for the nine month period ended January 31, 2023, primarily relates to losses incurred for the Pet Tech segment including the goodwill and intangible assets impairment charge, higher interest expense due to higher than average debt levels and increased interest rates, partially offset by a decrease in bonus expense. In addition, a substantial part of the decrease in net income was attributable to the one-time extinguishment of the PPP Loan in the amount of $6,282,973 that was recorded as income during the nine month period ended January 31, 2022.

EMS Segment

The following table sets forth the Company's results of operations for the EMS segment for the periods indicated.

	Nine Months Ended	
	January 31, 2023	**January 31, 2022**
Net sales	$ 306,147,772	$ 279,434,605
Cost of products sold	270,103,569	245,664,574
Gross profit	36,044,203	33,770,031
Selling and administrative expenses	19,394,529	19,896,551
Impairment of notes receivable and investment		6,300,235
Operating income	$ 16,649,674	$ 7,573,245

Net Sales

Net sales increased $26,713,167, or 9.6%, to $306,147,772 for the nine month period ended January 31, 2023, compared to $279,434,605 for the same period in the prior fiscal year. The Federal Reserve has raised interest rates several times during the current fiscal quarter, which has negatively affected customer demand in the consumer electronics markets, but has not had the same effect in the industrial electronics and medical/life science markets. As a result, the Company's sales increased for the nine month period ended January 31, 2023, in industrial electronics and medical/life science compared to the prior year. The increase in sales was partially offset by a decrease in sales in consumer electronics. Net sales were higher primarily due to certain customer price increases implemented as a result of increased raw material and other operating costs that occurred during the nine month period ended January 31, 2023, as compared to the nine months ended January 31, 2022.

Costs of products sold

Cost of products sold increased $24,438,995, or 9.9%, to $270,103,569 (88.2% of net sales) for the nine month period ended January 31, 2023, compared to $245,664,574 (87.9% of net sales) for the same period in the prior fiscal year. The increase in cost of products sold as a percentage of sales is primarily due to higher material, logistics and other operating costs as a result of higher sales volumes and the impact of global supply chain disruptions that caused factory inefficiencies. Labor costs and other manufacturing costs were higher for the nine month period ended January 31, 2023, than in the same period in the prior fiscal year, primarily due to inflationary pressures.

Gross profit

Gross profit margin was 11.8% of net sales, for the nine month period ended January 31, 2023, compared to 12.1% for the same period in the prior fiscal year. The decrease in gross margins as a percentage of sales was primarily due to higher material, labor and other manufacturing costs during the nine month period ended January 31, 2023 compared to the same period in the prior fiscal year.

Selling and administrative expenses

Selling and administrative expenses decreased $502,022, or -2.5% to $19,394,529 (6.3% of net sales) for the nine month period ended January 31, 2023, compared to $19,896,551 (7.1% of net sales) for the same period in the prior fiscal year. Selling and administrative expenses decreased for the nine month period ended January 31, 2023, primarily due to a decrease in bonus expense, which was partially offset by an increase in other professional fees, related to the new and amended credit agreements finalized during the first quarter of fiscal year 2023, an increase in financing fees and higher costs due to inflationary pressures.

Operating income

Operating income increased $9,076,429, or 119.8%, to $16,649,674 (5.4% of net sales) for the nine month period ended January 31, 2023, compared to $7,573,245 (2.7% of net sales) for the same period in the prior fiscal year. The increase was primarily due to higher sales, partially offset by higher material, logistics and other operating costs.

Pet Tech Segment

The following table sets forth the Company's results of operations for the Pet Tech segment for the periods indicated. The nine months ended January 31, 2022 consists of one month of activity, as the business was acquired on December 31, 2021.

	Nine Months Ended	
	January 31, 2023	**January 31, 2022**
Net sales	$ 1,321,580	$ 203,894
Cost of products sold	1,340,398	188,715
Gross profit	(18,818)	15,179
Selling and administrative expenses	7,866,222	778,802
Impairment of goodwill and other long-lived assets	23,096,771	-
Operating loss	$ (30,981,811)	$ (763,623)

Net sales

Net sales increased $1,117,686 to $1,321,580 for the nine month period ended January 31, 2023 compared to $203,894 for the same period in the prior fiscal year. Sales for the period are primarily comprised of hardware and accessories, as well as recurring subscription revenue. The nine months ended January 31, 2022 consists of one month of activity, as the business was acquired on December 31, 2021. The Pet Tech segment experienced supply chain issues, causing certain inventory shortages during the first quarter of fiscal year 2023, which negatively affected hardware sales. Those specific supply chain issues were resolved in late June 2022.

Cost of products sold

Cost of products sold increased $1,151,683 to $1,340,398 (101.4% of net sales) for the nine month period ended January 31, 2023, compared to $188,715 (92.6% of net sales) for the same period in the prior fiscal year. Cost of products sold as a percentage of sales increased during the current period primarily due to material cost increases and lower sales volumes.

Gross profit

Gross profit margin was -3.9% of net sales, for the nine month period ended January 31, 2023, compared to a gross profit margin of 7.4% for the same period in the prior fiscal year. Gross profit margins were negative in the current period due to material cost increases and lower sales volumes.

Selling and administrative expenses

Selling and administrative expenses increased $7,087,420, to $7,866,222 for the nine month period ended January 31, 2023, compared to $778,802 for the same period in the prior fiscal year. Selling and administrative costs were primarily comprised of research and development costs for new products expected to launch in fiscal 2024, selling and marketing expenses, as well as general and administrative expenses.

Impairment of goodwill and other long-lived assets

In connection with the preparation and review of the financial statements for the quarter ended January 31, 2023, the Company revised the financial projections for its Pet Tech segment. The revised projections resulted in a triggering event for the Company's goodwill and long-lived asset groups consisting of patents and trade names. As a result, the Company concluded that the carrying amount for goodwill and the long-lived asset groups was impaired and not expected to be recovered. Accordingly, a non-cash pre-tax goodwill impairment charge of $13,320,534 and a non-cash intangible assets impairment charge of $9,527,773, was recorded for the Company's Pet Tech segment for the quarter ended January 31, 2023.

Operating loss

Operating loss increased $30,218,188, to $30,981,811 for the nine month period ended January 31, 2023, compared to $763,623 for the same period in the prior fiscal year. The increased loss was primarily due to the non-cash goodwill impairment charge of $13,320,534, the non-cash intangible assets impairment charge of $9,527,773 and lower than expected sales.

Liquidity and Capital Resources:

Operating Activities.

Cash flow used in operating activities was $33,982,948 for the nine months ended January 31, 2023, compared to cash flow used in operating activities of $8,473,076 for the same period in the prior fiscal year. Cash flow used in operating activities was primarily the result of an increase in inventory in the amount of $11,826,862 and a decrease in accounts payable in the amount of $26,890,132. Cash flow from operating activities was offset by a decrease in prepaid expenses and other assets in the amount of $2,221,514. The increase in inventory is the result of an increase in inventory purchases to satisfy customer orders. Further, capacity issues in the component marketplace made it difficult to obtain some components to complete assemblies for shipping.

Cash flow used in operating activities was $8,473,076 for the nine months ended January 31, 2022, which included the effect of the extinguishment of the PPP Loan debt. Cash flow used in operating activities was primarily the result of an increase in both inventory and accounts receivable in the amount of $57,955,080 and $7,889,599, respectively. Cash flow from operating activities was offset by an increase in accounts payable and deferred revenue in the amount of $34,776,901 and $8,512,477, respectively.

Investing Activities.

Cash used in investing activities was $1,566,036 for the nine months ended January 31, 2023. During the first nine months of fiscal year 2023, the Company purchased $1,620,957 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. The Company anticipates purchases will be funded by lease transactions. However, there is no assurance that such increased business will be obtained or that the Company will be able to obtain funding for leases at acceptable terms, if at all, in the future.

Cash used in investing activities was $10,307,872 for the nine months ended January 31, 2022. During the first nine months of fiscal year 2022, the Company purchased $5,304,146 in machinery and equipment used in the ordinary course of business. During the first nine months of fiscal year 2022 the Company made advances of $5,512,000 to Wagz.

Financing Activities.

Cash provided by financing activities of $33,967,070 for the first nine months ended January 31, 2023, was primarily the result of net borrowings under the line of credit and term loan agreement.

Cash provided by financing activities of $18,418,465 for the first nine months ended January 31, 2022, was primarily the result of net borrowings under the line of credit.

Financing Summary.

Notes Payable – Secured lenders

On January 29, 2021, the Company entered into a Credit Agreement (the “JPM Agreement”) with JPMorgan Chase Bank, N.A. (“Lender” or “JPM”), pursuant to which Lender provided the Company with a secured credit facility consisting of a revolving loan facility and a term loan facility (collectively, the “Facility”).

On July 18, 2022, SigmaTron, Wagz and Lender amended and restated the JPM Agreement by entering into an Amended and Restated Credit Agreement (as so amended and restated, the “JPM Credit Agreement”). The Facility, as amended, allows the Company to borrow on a revolving basis up to the lesser of (i) $70,000,000 or (ii) an amount equal to a percentage of the eligible receivable borrowing base plus a percentage of the inventory borrowing base minus any reserves established by Lender. The maturity date of the Facility is July 18, 2027. Deferred financing costs of $321,827 and $128,733 were capitalized during the nine month period ended January 31, 2023 and during the fiscal year ended April 30, 2022, respectively, which are amortized over the term of the JPM Credit Agreement. As of January 31, 2023, there was $59,738,228 outstanding and $3,485,599 of unused availability under the revolving amended Facility compared to an outstanding balance of $51,392,158 and $5,691,855 of unused availability at April 30, 2022. As of January 31, 2023 and April 30, 2022, the unamortized amount offset against outstanding debt was $596,211 and $393,503, respectively.

Under the JPM Credit Agreement, a minimum Fixed Charge Coverage Ratio (“FCCR”) financial covenant of 1.10x is applicable only during an FCCR trigger period which occurs when (a) commencing on the Effective Date and ending when the Term Loan Obligations (as defined in the JPM Credit Agreement) have been paid in full and (b) following the payment in full of the Term Loan Obligations, (i) an event of default (as defined in the JPM Credit Agreement) has occurred and is continuing, and Lender has elected to impose a FCCR trigger period upon notice to the Company or (ii) availability falls below the greater of (a) 10% of the revolving commitment and (b) the outstanding principal amount of the term loans. In addition, prior to the amendment to the JPM Credit Agreement pursuant to the JPM Waiver (as discussed below under “*Waiver, Consent and Amendment to Credit Agreements*”), the JPM Credit Agreement imposed a financial covenant that required the Company to maintain a leverage ratio of Total Debt to EBITDA (each as defined in the JPM Credit Agreement) for any twelve month period ending on the last day of a fiscal quarter through the maturity of the revolving Facility not to exceed a certain amount, which ratio (a) ranged from 5.00-to-1 for fiscal quarters beginning with the fiscal quarter ending on January 31, 2023 to 3.00-to-1 for the fiscal quarter ending on July 31, 2026 (if the Term Loan Borrowing Base Coverage Ratio (as defined in the JPM Credit Agreement) as of the end of the applicable fiscal quarter is less than or equal to 1.50-to-1) and (b) ranged from 5.50-to-1 for the fiscal quarter ending on January 31, 2023 to 4.00-to-1 for the fiscal quarters beginning with the fiscal quarter ending on July 31, 2026 (if the Term Loan Borrowing Base Coverage Ratio as of the end of the applicable fiscal quarter is greater than 1.50-to-1).

In addition, the JPM Credit Agreement imposes a cash dominion period if there is an event of default or if availability is less than 10% of the Revolving Commitment, and such requirement continues until there is no event of default and availability is greater than 10% of the Revolving Commitment, in each case for 30 consecutive days. Based on this criteria, the total debt balances for the Facility must be classified as a current liability on the Condensed Consolidated Balance Sheet as of January 31, 2023.

In connection with the entry into the JPM Credit Agreement, Lender and TCW Asset Management Company LLC, as administrative agent under the Term Loan Agreement (as defined below), entered into the Intercreditor Agreement, dated July 18, 2022, and acknowledged by SigmaTron and Wagz (the “ICA”), to set forth and govern the lenders’ respective lien priorities, rights and remedies under the JPM Credit Agreement and the Term Loan Agreement.

The Facility under the JPM Credit Agreement is secured by: (a) a first priority security interest in SigmaTron’s and Wagz’s (i) accounts and inventory (excluding Term Priority Mexican Inventory (as defined in the ICA) and certain inventory in transit, (ii) deposit accounts, (iii) proceeds of business interruption insurance that constitute ABL BI Insurance Share (as defined in the ICA), (iv) certain other property, including payment intangibles, instruments, equipment, software and hardware and similar systems, books and records, to the extent related to the foregoing, and (v) all proceeds of the foregoing, in each case, now owned or hereafter acquired (collectively, the “ABL Priority Collateral”); and (b) a second priority security interest in Term Priority Collateral (as defined below) other than (i) real estate and (ii) the equity interests of SigmaTron’s foreign subsidiaries (unless such a pledge is requested by Lender).

On July 18, 2022, SigmaTron, Wagz and TCW Asset Management Company LLC, as administrative agent, and other Lenders party thereto (collectively, “TCW”) entered into a Credit Agreement (the “Term Loan Agreement”) pursuant to which TCW made a term loan to the Company in the principal amount of $40,000,000 (the “TCW Term Loan”). The TCW Term Loan bears interest at a rate per annum based on SOFR, plus the Applicable Margin of 7.50% (each as defined in the Term Loan Agreement). The TCW Term Loan has a SOFR floor of 1.00%. The maturity date of the TCW Term Loan is July 18, 2027. The amount outstanding as of January 31, 2023, was $39,500,000. Deferred financing costs of $1,210,481 were capitalized during the nine month period ended January 31, 2023. As of January 31, 2023, the unamortized amount offset against outstanding debt was $1,074,686.

The Term Loan Agreement imposes financial covenants, including covenants requiring the Company to maintain a minimum Fixed Charge Coverage Ratio (as defined in the Term Loan Agreement) of 1.10-to-1 and maintain the same leverage ratio of Total Debt to EBITDA as described above under the JPM Credit Agreement. The Company is required to make quarterly repayments of the principal amount of the TCW Term Loan in amounts equal to $250,000 per fiscal quarter for the quarters beginning October 31, 2022 and $500,000 per fiscal quarter for quarters beginning October 31, 2024. The Term Loan Agreement also requires mandatory annual repayments equal to 50% of Excess Cash Flow (as defined in the Term Loan Agreement).

The TCW Term Loan is secured by: (a) a first priority security interest in all property of SigmaTron and Wagz that does not constitute ABL Priority Collateral, which includes: (i) SigmaTron’s and Wagz’s real estate other than SigmaTron’s Del Rio, Texas, warehouses, (ii) SigmaTron’s and Wagz’s machinery, equipment and fixtures (but excluding ABL Priority Equipment (as defined in the ICA)), (iii) the Term Priority Mexican Inventory (as defined in the ICA), (iv) SigmaTron’s stock in its direct and indirect subsidiaries, (v) SigmaTron’s and Wagz’s general intangibles (excluding any that constitute ABL Priority Collateral), goodwill and intellectual property, (vi) the proceeds of business interruption insurance that constitute Term BI Insurance Share (as defined in the ICA), (vii) tax refunds, and (viii) all proceeds thereof, in each case, now owned or hereafter acquired (collectively, the “Term Priority Collateral”); and (b) a second priority security interest in all collateral that constitutes ABL Priority Collateral. Also, SigmaTron’s three Mexican subsidiaries pledged all of their assets as security for the TCW Term Loan.

On July 18, 2022, a portion of the proceeds of the TCW Term Loan was used to pay in full the term loan principal amount of $5,000,000 (the “FILO Term Loan”) that Lender extended to the Company under the JPM Agreement on April 25, 2022.

Waiver, Consent and Amendment to Credit Agreements

On March 2, 2023, the Company received notices of default from both JPM and TCW. The Notices indicated the occurrence of certain events of default under the JPM Credit Agreement and the Term Loan Agreement.

The JPM Notice indicated that the Lender was informed of the occurrence of events of defaults and the continuation thereof under the JPM Credit Agreement as a result of the Company's failure to maintain a FCCR for the twelve month period ending January 31, 2023 of at least 1.10x as required under the JPM Credit Agreement (the "JPM Covenant Defaults").

The TCW Notice indicated that Agent and TCW Lenders were informed of the occurrence of events of default and the continuation thereof under the Term Loan Agreement (described below) as a result of the Company permitting the Total Debt to EBITDA Ratio for the twelve month period ending on January 31, 2023 to be greater than 5.00:1.00 in violation of the Term Loan Agreement and the Company' failure to maintain FCCR as required under the JPM Credit Agreement (the "TCW Covenant Defaults" and together with the JPM Covenant Defaults, the "Defaults").

As a result of the Defaults, the Company was not in compliance with its financial covenants under the Credit Agreements as of January 31, 2023. Due to the Notices received on March 2, 2023, from each of JPM and the TCW Lenders and Agent, the total debt balances for both the Facility and the TCW Term Loan (as defined below) have been classified as a current liability on the Condensed Consolidated Balance Sheet as of January 31, 2023.

On April 28, 2023, the Company entered into (i) a Waiver, Consent and Amendment No. 1 to the JPM Credit Agreement ("JPM Waiver") with Wagz and JPM, as lender, which waived certain events of default under and amended certain terms of the JPM Credit Agreement and (ii) a Waiver, Consent and Amendment No. 1 to the Credit Agreement ("TCW Waiver") with Wagz, the financial institutions identified therein (the "TCW Lenders") and TCW Asset Management Company LLC as administrative agent for the TCW Lenders (in such capacity, the "Agent" and collectively with the TCW Lenders and JPM, the "Lender Parties"), which waived certain events of default under and amended certain terms of the Term Loan Agreement (together with the JPM Credit Agreement the "Credit Agreements"). The Company entered into the JPM Waiver and TCW Waiver (together, the "Waivers") after receiving on March 2, 2023, the Event of Default and Reservation of Rights notice from each of JPM ("JPM Notice") and the TCW Lenders and Agent ("TWC Notice" together with the JPM Notice, the "Notices"). As previously disclosed, the Notices indicated the occurrence of certain events of default under the JPM Credit Agreement and the Term Loan Agreement. As a result of these events of default, the Company was not in compliance with its financial covenants under the Credit Agreements as of January 31, 2023.

Among other things, the Waivers amended the Credit Agreements to (x) require that the Company maintain a minimum of $2.5 million in revolver availability under the JPM Credit Agreement, (y) modify the definition of EBITDA to allow adjustments to account for Wagz operating losses, impairment charges relating to the write-down of the Wagz business, the Wagz Note (as defined below) and net assets of the Company and Wagz, and expenses relating to the Waivers, the Wagz sale and SPA (as defined below), and (z) modify the existing Total Debt to EBITDA Ratios (as defined in the Credit Agreements) as follows:

Fiscal Quarter	Total Debt to EBITDA Ratio* (as amended)	Total Debt to EBITDA Ratio* (prior to amendment)
October 31,2023	4.50:1.0	4.25:1.0
January 31, 2024	4.50:1.0	4.00:1.0
April 30, 2024	4.50:1.0	4.00:1.0
July 31, 2024	4.25:1.0	3.75:1.0
October 31, 2024	4.00:1.0	3.75:1.0

* Assumes the Term Loan Borrowing Base Coverage Ratio (as defined in the Credit Agreements) is less than or equal to 1.50:1.0.

In addition, pursuant to the TCW Waiver, if the Total Debt to EBITDA Ratio for the trailing twelve month period as of the end of the most recently ended third fiscal quarter exceeds the ratios that were in effect prior to the amendment (as set forth in the far right column of the table above) for a fiscal quarter during the PIK Period (defined in the Term Loan Agreement), then the Applicable Margin under the Term Loan Agreement in respect of the outstanding TCW Term Loan incurred thereunder would increase by an amount equal to 1.0% per annum for the fiscal quarter, with such interest being paid in kind. Furthermore, the JPM Waiver modified the definition of Applicable Margin from a fixed amount equal to 2.0% to an amount that varies from 2.00% (for revolver availability greater than or equal to $20.0 million), to 2.50% (for revolver availability greater than or equal to $10.0 million), to 3.00% (for revolver availability less than $10.0 million), and fixed the Applicable Margin at 3.00% for six months starting April 1, 2023.

In exchange for such agreements, the Lender Parties have agreed to waive all of the existing events of default under the Credit Agreements through March 31, 2023, consent to the sale of Wagz and release Wagz and its property and the Company's 81% interest in Wagz that was sold to Buyer (as disclosed below) from the lien of the Lender Parties.

On March 15, 2019, the Company's wholly-owned foreign enterprise, Wujiang SigmaTron Electronic Technology Co., Ltd., entered into a credit facility with China Construction Bank. On January 26, 2021, the agreement was amended and terminated on January 6, 2022. On January 17, 2022, the agreement was renewed, and terminated on December 23, 2022. On February 17, 2023, the agreement was renewed, and is scheduled to expire on February 7, 2024. Under the agreement Wujiang SigmaTron Electronic Technology Co., Ltd. can borrow up to 10,000,000 Renminbi, approximately $1,479,000 as of January 31, 2023, 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 3.35% per annum. There was $739,601 outstanding under the facility at January 31, 2023 compared to an outstanding balance of $438,219 at April 30, 2022.

PPP Loan

On April 23, 2020, the Company received a PPP loan from U.S. Bank, as lender, pursuant to the Paycheck Protection Program of the CARES Act, as administered by the U.S. Small Business Administration (the "SBA") in the amount of $6,282,973 (the "PPP Loan"). The PPP Loan was scheduled to mature on April 23, 2022. The Company was notified of the forgiveness of the PPP Loan by the SBA on July 9, 2021 and all principal and accrued interest were forgiven. The accounting for the forgiveness is reflected in the Company's Statements of Operations, in the nine months ended January 31, 2022, as a non-cash gain upon extinguishment of long-term debt.

Notes Payable – Buildings

The Facility (as defined above) also included two term loans, in the aggregate principal amount of $6,500,000. A final aggregate payment of approximately $4,368,444 was due on or before January 29, 2026. On July 18, 2022, a portion of the proceeds of the TCW Term Loan was used to pay in full both term loans extended by Lender. The outstanding balance was $0 at January 31, 2023 compared to an outstanding balance of $5,994,445 at April 30, 2022.

The Company entered into a mortgage agreement on March 3, 2020, in the amount of $556,000, with The Bank and Trust SSB to finance the purchase of 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. Interest accrues at a fixed rate of 5.75% per year until March 3, 2025, and adjusts thereafter, on an annual basis, equal to 1.0% over the Prime Rate as published by The Wall Street Journal. The note is payable over a 120 month period. The outstanding balance was $429,339 and $464,895 at January 31, 2023 and April 30, 2022, respectively.

Notes Payable – Equipment

The Company routinely entered into secured note agreements with Engencap Fin S.A. DE C.V. to finance the purchase of equipment. The terms of the outstanding secured note agreement mature on May 1, 2023, with quarterly installment payments ranging from $9,493 to $9,310 and a fixed interest rate of 8.00% per annum.

The Company routinely enters into secured note agreements with FGI Equipment Finance LLC to finance the purchase of equipment. The terms of the outstanding secured note agreements mature from March 2025 through October 2027, with quarterly installment payments ranging from $10,723 to $69,439 and a fixed interest rate ranging from 8.25% to 9.25% per annum.

Finance Lease and Sales Leaseback Obligations

The Company enters into various finance lease and sales leaseback agreements. The terms of the outstanding lease agreements mature through October 1, 2026, with monthly installment payments ranging from $2,874 to $33,706 and a fixed interest rate ranging from 7.09% to 12.73% per annum.

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 nine month period ended January 31, 2023, resulted in net foreign currency transaction losses of $602,313 compared to net foreign currency losses of approximately $120,601 for the same period in the prior year. During the nine months of fiscal year 2023, the Company paid approximately $47,800,000 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 $13,657,000 as of January 31, 2023.

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

The impact of inflation and the continuing global supply chain disruptions in the electronic component marketplace have been challenging. Prices for raw materials necessary for production have fluctuated significantly in the past and the Company is currently experiencing upward pricing pressure on raw materials. The Company anticipates supply chain and raw material price volatility will continue during fiscal 2024.

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 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 January 31, 2023. The Company's disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives and its 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 January 31, 2023.

Internal Controls:

There has been no change in the Company's internal control over financial reporting during the three months ended January 31, 2023, 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 beyond what was previously disclosed.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

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	Inline XBRL Instance Document (the instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document)
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL document and contained in Exhibit 101)

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	May 18, 2023
Gary R. Fairhead CEO (Principal Executive Officer)	Date
/s/ James J. Reiman	May 18, 2023
James J. Reiman Chief Financial Officer, Secretary and Treasurer (Principal Financial Officer and Principal Accounting Officer)	Date

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, 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 January 31, 2023 (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: May 18, 2023

/s/ Gary R. Fairhead

Gary R. Fairhead
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, James J. Reiman, 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 January 31, 2023 (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: May 18, 2023

/s/ James J. Reiman

James J. Reiman
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 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 January 31, 2023 (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: May 18, 2023

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

EXHIBIT 32.2

**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, James J. Reiman, 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 January 31, 2023 (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: May 18, 2023

/s/ James J. Reiman
James J. Reiman
Chief Financial Officer, Secretary and
Treasurer of SigmaTron International, Inc.