

MARSH & MCLENNAN COMPANIES, INC.  
 Form 4  
 June 01, 2015

**FORM 4** UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
 Washington, D.C. 20549

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**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES**

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person \*  
 Gilbert E Scott

2. Issuer Name and Ticker or Trading Symbol  
 MARSH & MCLENNAN COMPANIES, INC. [MMC]

5. Relationship of Reporting Person(s) to Issuer  
 (Check all applicable)

(Last) (First) (Middle)  
 1166 AVENUE OF THE AMERICAS  
 (Street)

3. Date of Earliest Transaction (Month/Day/Year)  
 05/29/2015

\_\_\_ Director \_\_\_ 10% Owner  
 Officer (give title below) \_\_\_ Other (specify below)  
 SVP Chief Risk & Complnce Ofc

NEW YORK, NY 10036

4. If Amendment, Date Original Filed(Month/Day/Year)

6. Individual or Joint/Group Filing(Check Applicable Line)  
 Form filed by One Reporting Person  
 \_\_\_ Form filed by More than One Reporting Person

(City) (State) (Zip)

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price
Common Stock	05/29/2015		M		9,469	A	\$ 0
Common Stock	05/29/2015		S		9,469	D	\$ 58.4741

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned**  
(e.g., puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. Amount or Number of Shares
Stock Options (Right to Buy)	\$ 26.07	05/29/2015		M	9,469	<sup>(1)</sup> 02/25/2018	Common Stock	9,469

## Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Gilbert E Scott 1166 AVENUE OF THE AMERICAS NEW YORK, NY 10036			SVP Chief Risk & Compliance Ofc	

## Signatures

/s/ Tiffany D. Wooley,  
Attorney-in-Fact

06/01/2015

\*\*Signature of Reporting Person

Date

## Explanation of Responses:

\* If the form is filed by more than one reporting person, see Instruction 4(b)(v).

\*\* Intentional misstatements or omissions of facts constitute Federal Criminal Violations. See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

These options were granted on February 26, 2008 and vested in four equal annual installments. The first three installments became exercisable on July 13, 2011, when the closing price of Marsh & McLennan Companies common stock had been at least 15% higher than (1) the exercise price of the options for ten consecutive trading days after the options had vested. The remaining installment became exercisable on March 10, 2012, when the closing price of Marsh & McLennan Companies common stock had been at least 15% higher than the exercise price of the options for ten consecutive trading days after the options had vested.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, see Instruction 6 for procedure. Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. : 12pt">

Competition

The EMS industry is highly competitive and subject to rapid change. Furthermore, both large and small companies compete in the industry, and many have significantly greater financial resources, more extensive business experience and greater marketing and production capabilities than the Company. The significant competitive factors in this industry include price, quality, service, timeliness, reliability, the ability to source raw components, and manufacturing and technological capabilities. The Company believes it can compete on all of these factors.

#### Consolidation

As a result of consolidation and other transactions involving competitors and other companies in the Company's markets, the Company occasionally reviews potential transactions relating to its business, products and technologies. Such transactions could include mergers, acquisitions, strategic alliances, joint ventures, licensing agreements, co-promotion agreements, financing arrangements or other types of transactions. In the future, the Company may choose to enter into these types of or other transactions at any time depending on available sources of financing, and such transactions could have a material impact on the Company's business, financial condition or operations.

#### Governmental Regulations

The Company's operations are subject to certain foreign government, U.S. federal, state and local regulatory requirements relating to, among others, environmental, waste management, labor and health and safety matters. Management believes that the Company's business is operated in compliance with all such regulations, which include European regulations known as RoHS and REACH. RoHS prohibits the use of lead, mercury and certain other specified substances in products being sold into the European Union. The Company has RoHS-dedicated manufacturing capabilities at all of its manufacturing operations. REACH imposes information reporting requirements on all listed SVHCs (substances of very high concern). From time-to-time the Company's customers request REACH required information and certifications on the assemblies the Company manufactures for them. These requests require the Company to gather information from component suppliers to verify the presence and level of mass of any SVHCs greater than 0.1% in the assemblies the Company manufactures based on customer specifications. If any SVHCs are present at more than 0.1% of the mass of the item, the specific concentration and mass of the SVHC must be reported to proper authorities by the Company's customer.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") introduced reporting requirements for verification of whether the Company directly (or indirectly through suppliers of components) is purchasing the minerals or metals gold, columbite-tantalite, cassiterite, wolframite and their derivatives (tin, tungsten, and tantalum), that are being provided by sources in the conflict region of the Democratic Republic of Congo ("DRC"). On May 23, 2018, the Company filed Form SD with the Securities and Exchange Commission stating the Company's supply chain remains DRC conflict undeterminable.

The Company's costs of compliance with environmental laws, including conflict mineral reporting, is estimated to be a total of approximately \$1,500,000 for the three most recently completed fiscal years ending April 30, 2018. Additional or modified requirements may be imposed in the future. If such additional or modified requirements are imposed, or if conditions requiring remediation are found to exist, the Company may be required to incur additional expenditures.

#### Backlog

The Company relies on customers' forecasted orders and purchase orders (firm orders) from its customers to estimate backlog. The Company's backlog of firm orders as of April 30, 2018 and 2017 was approximately \$219,100,000 and \$209,540,000, respectively. The Company anticipates a significant portion of the backlog at April 30, 2018 will ship in fiscal year 2019. Because customers may cancel or reschedule deliveries, backlog may not be a meaningful indicator of future revenue. Variations in the magnitude and duration of contracts,

forecasts and purchase orders received by the Company and delivery requirements generally may result in substantial fluctuations in backlog from period to period.

## Employees

The Company employed approximately 2,993 full-time employees as of April 30, 2018, including 213 engaged in engineering or engineering-related services, 2,396 in manufacturing and 384 in administrative and marketing functions.

The Company has a labor contract with Chemical & Production Workers Union Local No. 30, AFL-CIO, covering the Company's workers in Elk Grove Village, Illinois which expires on November 30, 2018. The Company's Mexican subsidiary, Standard Components de Mexico S.A., has a labor contract with Sindicato De Trabajadores de la Industria Electronica, Similares y Conexos del Estado de Coahuila, C.T.M. covering the Company's workers in Acuna, Mexico which expires on February 3, 2020. The Company's subsidiary located in Tijuana Mexico has a labor contract with Sindicato Mexico Moderno De Trabajadores De La, Baja California, C.R.O.C. The contract does not have an expiration date. The Company's subsidiary located in Ho Chi Minh City, Vietnam, has a labor contract with CONG DOAN CO SO CONG TY TNHH Spitfire Controls Vietnam. The contract expires February 5, 2019.

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

## Executive Officers of the Registrant

Name	Age	Position
Gary R. Fairhead	66	President and Chief Executive Officer. Gary R. Fairhead has been the President of the Company since January 1990 and Chairman of the Board of Directors of the Company since August 2011. Gary R. Fairhead is the brother of Gregory A. Fairhead.
Linda K. Frauendorfer	57	Chief Financial Officer, Vice President of Finance, Treasurer and Secretary since February 1994. Director of the Company since August 2011.
Gregory A. Fairhead	62	Executive Vice President and Assistant Secretary. Gregory A. Fairhead has been the Executive Vice President since February 2000 and Assistant Secretary since 1994. Mr. Fairhead was Vice President - Acuna Operations for the Company from February 1990 to February 2000. Gregory A. Fairhead is the brother of Gary R. Fairhead.
John P. Sheehan	57	Vice President, Director of Supply Chain and Assistant Secretary since February 1994.
Daniel P. Camp	69	Vice President, Acuna Operations since 2007. Vice President - China Operations from 2003 to 2007. General Manager / Vice President of Acuna Operations from 1994 to 2003.
Rajesh B. Upadhyaya	63	Executive Vice President, West Coast Operations since 2005. Mr. Upadhyaya was the Vice President of the Fremont Operations from 2001 until 2005.
Hom-Ming Chang	58	Vice President, China Operations since 2007. Vice President - Hayward Materials / Test / IT from 2005 - 2007. Vice President of Engineering Fremont Operation from 2001 to 2005.

## ITEM 1A. RISK FACTORS

The following risk factors should be read carefully in connection with evaluating our business and the forward-looking information contained in this Annual Report on Form 10-K. Any of the following risks could materially adversely affect our business, operations, industry or financial position or our future financial performance. While the Company believes it has identified and discussed below the key risk factors affecting its business, there may be additional risks and uncertainties that are not presently known or that are not currently believed to be significant that may adversely affect its business, operations, industry, financial position and financial performance in the future.

Explanation of Responses:

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

Prior to March 31, 2017 the Company had a senior secured credit facility with Wells Fargo, N.A. with a revolving credit limit up to \$30,000,000. The credit facility was collateralized by substantially all of the Company's domestically located assets and the Company had pledged 65% of its equity ownership interest in some of its foreign entities. Prior to its payoff and termination, the Wells Fargo, N.A. senior secured credit facility was due to expire on October 31, 2018. On March 31, 2017, the Company paid the balance outstanding under the senior revolving credit facility in the amount of \$22,232,914. The remaining deferred financing costs of \$68,475 were expensed in the fourth quarter of fiscal 2017.

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On March 31, 2017, the Company entered into a \$35,000,000 senior secured credit facility with U.S. Bank, National Association (“U.S. Bank”), which expires on March 31, 2022. The credit facility is collateralized by substantially all of the Company’s domestically located assets. The facility allows the Company to choose among interest rates at which it may borrow funds: the bank fixed rate of four percent or LIBOR plus one and one half percent (effectively 3.83% at April 30, 2018). Interest is due monthly. Under the senior secured credit facility, the Company may borrow up to the lesser of (i) \$35,000,000 or (ii) an amount equal to a percentage of the eligible receivable borrowing base plus a percentage of the eligible inventory borrowing base (the “Borrowing Base”). Deferred financing costs of \$34,971 and \$207,647 were capitalized in the twelve month period ending April 30, 2018 and the fourth quarter of fiscal 2017, respectively, which are amortized over the term of the agreement. As of April 30, 2018 and April 30, 2017 the unamortized amount included in other assets was \$192,502 and \$204,186, respectively. As of April 30, 2018, there was \$29,279,631 outstanding and \$5,720,369 of unused availability under the U.S. Bank facility compared to an outstanding balance of \$23,178,429 and \$11,821,571 of unused availability at April 30, 2017. At April 30, 2018, the Company was in compliance with its financial covenant and other restricted covenants under the credit facility.

On July 16, 2018, the Company and U.S. Bank entered into an amendment of the revolving credit facility. The amended revolving credit facility allows the Company to borrow up to the lesser of (i) \$45,000,000 less reserves or (ii) 90% of the Company’s Borrowing Base, except that the 90% limitation will expire if the Company’s actual revolving loans for the first 90 days after the amendment’s effective date are less than 80% of the Company’s Borrowing Base and the Company maintains a Fixed Charge Coverage Ratio of 1.2 to 1.0 for four consecutive quarters. The amendment also imposes sublimits on categories of inventory equal to \$17,500,000 on raw materials and \$25,000,000 on finished goods.

On August 4, 2015, the Company’s wholly-owned subsidiary, Wujiang SigmaTron Electronics Co., Ltd., entered into a credit facility with China Construction Bank. Under the agreement Wujiang SigmaTron Electronics Co., Ltd. could borrow up to 5,000,000 Renminbi and the facility was collateralized by Wujiang SigmaTron Electronics Co., Ltd.’s manufacturing building. Interest was payable monthly and the facility had a fixed interest rate of 6.67%. The facility was due to expire on August 3, 2017. The credit facility was closed as of March 1, 2017.

On March 24, 2017, the Company’s wholly-owned subsidiary, SigmaTron Electronic Technology Co., Ltd., entered into a credit facility with China Construction Bank. Under the agreement SigmaTron Electronic Technology Co., Ltd. could borrow up to 9,000,000 Renminbi and the facility was collateralized by Wujiang SigmaTron Electronics Co., Ltd.’s manufacturing building. Interest was payable monthly and the facility had a fixed interest rate of 6.09%. The term of the facility extended to February 7, 2018. The credit facility was closed as of February 11, 2018. There was no outstanding balance under the facility at April 30, 2017.

On February 12, 2018, the Company’s wholly-owned subsidiary, SigmaTron Electronic Technology Co., Ltd., entered into a credit facility with China Construction Bank. Under the agreement SigmaTron Electronic Technology Co., Ltd. can borrow up to 5,000,000 Renminbi and the facility is collateralized by Wujiang SigmaTron Electronics Co., Ltd.’s manufacturing building. Interest is payable monthly and the facility bears a fixed interest rate of 6.09%. The term of the facility extends to February 7, 2019. There was no outstanding balance under the facility at April 30, 2018.



The Company anticipates that its credit facilities, cash flow from operations and leasing resources are adequate to meet its working capital requirements and capital expenditures for fiscal year 2019. In addition, in the event the Company desires to expand its operations, its business grows more rapidly than expected, the current economic climate deteriorates, customers delay payments, or the Company desires to consummate an acquisition, additional financing resources may be necessary in the current or future fiscal years. There is no assurance that the Company will be able to obtain equity or debt financing at acceptable terms, or at all, in the future. There is no assurance that the Company will be able to retain or renew its credit agreements in the future, or that any retention or renewal will be on the same terms as currently exist.

Adverse changes in the economy or political conditions could negatively impact the Company's business, results of operations and financial condition.

The Company's sales and gross margins depend significantly on market demand for its customers' products. The uncertainty in the U.S. and international economic and political environments could result in a decline in demand for our customers' products in any industry. Further, any adverse changes in tax rates and laws affecting our customers could result in decreasing gross margins. Any of these factors could negatively impact the Company's business, results of operations and financial condition.

The Company experiences variable operating results.

The Company's results of operations have varied and may continue to fluctuate significantly from period to period, including on a quarterly basis. Consequently, results of operations in any period should not be considered indicative of the results for any future period, and fluctuations in operating results may also result in fluctuations in the price of the Company's common stock.

The Company's quarterly and annual results may vary significantly depending on numerous factors, many of which are beyond the Company's control. Some of these factors include:

- changes in sales mix to customers
- changes in availability and rising component costs
- volume of customer orders relative to capacity
- market demand and acceptance of our customers' products
- price erosion within the EMS marketplace
- capital equipment requirements needed to remain technologically competitive
- volatility in the U.S. and international economic and financial markets

The Company's customer base is concentrated.

Sales to the Company's five largest customers accounted for 50.2% and 55.2% of net sales for the fiscal years ended April 30, 2018 and 2017, respectively. For the year ended April 30, 2018, two customers accounted for 20.2% and 13.3% of net sales of the Company, and 6.0% and 2.9%, respectively, of accounts receivable at April 30, 2018. For the year ended April 30, 2017, two customers accounted for 26.7% and 12.6% of net sales of the Company and 8.4% and 4.2%, respectively, of accounts receivable at April 30, 2017. Significant reductions in sales to any of the Company's major customers or the loss of a major customer could have a material impact on the Company's operations. If the Company cannot replace cancelled or reduced orders, sales will decline, which could have a material impact on the results of operations. There can be no assurance that the Company will retain any or all of its largest customers. This risk may be further complicated by pricing pressures and intense competition prevalent in our industry.

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

Most of the Company's customers do not commit to long-term production schedules, which makes it difficult to schedule production and achieve maximum efficiency at the Company's manufacturing facilities and manage inventory levels.

The volume and timing of sales to the Company's customers may vary due to:

- customers' attempts to manage their inventory
- variation in demand for the Company's customers' products
- design changes, or
- acquisitions of or consolidation among customers

Many of the Company's customers do not commit to firm production schedules. The Company's inability to forecast the level of customer orders with certainty can make it difficult to schedule production and maximize

utilization of manufacturing capacity and manage inventory levels. The Company could be required to increase or decrease staffing and more closely manage other expenses in order to meet the anticipated demand of its customers. Orders from the Company's customers could be cancelled or delivery schedules could be deferred as a result of changes in our customers' demand, thereby adversely affecting the Company's results of operations in any given quarter.

The Company and its customers may be unable to keep current with the industry's technological changes.

The market for the Company's manufacturing services is characterized by rapidly changing technology and continuing product development. The future success of the Company's business will depend in large part upon our customers' ability to maintain and enhance their technological capabilities, develop and market manufacturing services which meet changing customer needs and successfully anticipate or respond to technological changes in manufacturing processes on a cost-effective and timely basis.

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

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

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

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

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

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

Customer relationships with start-up companies present more risk.

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

The Company faces intense industry competition and downward pricing pressures.

The EMS industry is highly fragmented and characterized by intense competition. Many of the Company's competitors have greater experience, as well as greater manufacturing, purchasing, marketing and financial resources than the Company. Competition from existing or potential new competitors may have a material adverse impact on the Company's business, financial condition or results of operations. The introduction of

lower priced competitive products, significant price reductions by the Company's competitors or significant pricing pressures from its customers could adversely affect the Company's business, financial condition, and results of operations.

The Company has foreign operations that may pose additional risks.

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

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

Approximately 14.0% of the total non-current consolidated assets of the Company are located in foreign jurisdictions outside the United States as of April 30, 2018 and 2017.

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

The Company's management, including the Chief Executive Officer and Chief Financial Officer, believe that the Company's disclosure controls and internal controls may not prevent all errors and all fraud. The Company's disclosure controls and internal controls can provide only reasonable assurance that the procedures will meet the control objectives. Controls are limited in their effectiveness by human error, including faulty judgments in decision-making. Further, controls can be circumvented by collusion of two or more people or by management override of controls.

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

If the Company identifies and reports a material weakness in its internal control over financial reporting, shareholders and the Company's lenders could lose confidence in the reliability of the Company's financial statements. This could have a material adverse impact on the value of the Company's stock and the Company's liquidity.

There is a risk of fluctuation of various currencies integral to the Company's operations.

The Company purchases some of its material components and funds some of its operations in foreign currencies. From time to time the currencies fluctuate against the U.S. Dollar. Such fluctuations could have a material impact on the Company's results of operations and performance. The impact of currency fluctuations for the year ended April 30, 2018 resulted in net foreign currency transaction gains of approximately \$125,000 compared to net foreign currency losses of \$508,000 in the prior year. These fluctuations are expected to continue and could have a negative impact on the Company's results of operations. The Company did not, and is not expected to, utilize derivatives or hedge foreign currencies to reduce the risk of such fluctuations.

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

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

with suppliers that extend out as far as one year. The current component market place is tight, with lead times for many common components extending out 36 weeks or more. The Company's orders for components are always based on the changing needs of its customers.

The Company depends on management and skilled personnel.

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

Favorable labor relations are important to the Company.

The Company currently has labor union contracts with its employees constituting approximately 45% and 50% of its workforce for fiscal years 2018 and 2017, respectively. Although the Company believes its labor relations are good, any labor disruptions, whether union-related or otherwise, could significantly impair the Company's business, substantially increase the Company's costs or otherwise have a material impact on the Company's results of operations.

Failure to comply with environmental regulations could subject the Company to liability.

The Company is subject to a variety of environmental regulations relating to the use, storage, discharge and disposal of hazardous chemicals used during its manufacturing process. To date, the cost to the Company of such compliance has not had a material impact on the Company's business, financial condition or results of operations. However, there can be no assurance that violations will not occur in the future as a result of human error, equipment failure or other causes. Further, the Company cannot predict the nature, scope or effect of environmental legislation or regulatory requirements that could be imposed or how existing or future laws or regulations will be administered or interpreted. Compliance with more stringent laws or regulations, as well as more vigorous enforcement policies of regulatory agencies, could require substantial expenditures by the Company and could have a material impact on the Company's business, financial condition and results of operations. Any failure by the Company to comply with present or future regulations could subject it to future liabilities or the suspension of production which could have a material negative impact on the Company's results of operations.

Explanation of Responses:



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

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

The price of the Company's stock is volatile.

The price of the Company's common stock historically has experienced significant volatility due to fluctuations in the Company's revenue and earnings, other factors relating to the Company's operations, the market's changing expectations for the Company's growth, overall equity market conditions and other factors unrelated to the Company's operations. In addition, the limited float of the Company's common stock and the limited number of market makers also affect the volatility of the Company's common stock. Such fluctuations are expected to continue in the future.

An adverse change in the interest rates for our borrowings could adversely affect our results of operations.

The Company pays interest on outstanding borrowings under its senior secured credit facility and certain other long-term debt obligations at interest rates that fluctuate. An adverse change in the Company's interest rates could have a material adverse effect on its results of operations.

Changes in securities laws and regulations may increase costs.

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

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

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

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

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

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

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

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

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

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

the demand from our customers for products and services may be diminished, which could adversely affect our revenues and profitability.

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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## ITEM 2. PROPERTIES

At April 30, 2018, the Company, operating in one business segment as an independent EMS provider, had manufacturing facilities located in Elk Grove Village, Illinois U.S., Union City, California U.S., Acuna, Chihuahua and Tijuana, Mexico, Ho Chi Minh City, Vietnam and Suzhou, China. In addition, the Company provides materials procurement services through its Elk Grove Village, Illinois U.S., Union City, California U.S, and Taipei, Taiwan offices. The Company provides design services in Elgin, Illinois U.S. The Company has an information technology office in Taichung, Taiwan.

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

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

\*The Company's Suzhou, China building is owned by the Company and the land is leased from the Chinese government for a 50 year term.

\*\*A portion of the facility is leased and the Company has an option to purchase it.

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

Explanation of Responses:



The Union City and San Diego, California, Tijuana and Chihuahua, Mexico, Ho Chi Minh City, Vietnam and Del Rio, Texas properties are occupied pursuant to leases of the premises. The lease agreements for the Del Rio, Texas properties expire December 2019. The lease agreement for the San Diego, California property expires August 2019. The lease agreement for the Union City, California property expires March 2021. The Chihuahua, Mexico lease expires July 2019. The Tijuana, Mexico lease expires November 2018. The lease agreement for the Ho Chi Minh City, Vietnam property expires July 2020. The Company's manufacturing facilities located in Acuna, Mexico, Elgin, Illinois and Elk Grove Village, Illinois are owned by the Company, except for a portion of the facility in Acuna, Mexico, which is leased. The Company has an option to buy the leased portion of the facility in Acuna, Mexico. The properties in Elk Grove Village, Illinois and Elgin, Illinois are financed under separate mortgage loan agreements. The Company leases the IPO office in Taipei, Taiwan to coordinate Far East purchasing activities. The Company leases the information technology office in Taichung, Taiwan. The Company believes its current facilities are adequate to meet its current needs. In addition, the Company believes it can find alternative facilities to meet its needs in the future, if required.

### ITEM 3. LEGAL PROCEEDINGS

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

### ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.







PART II

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

Market Information

The Company's common stock is traded on the NASDAQ Capital Market System under the symbol SGMA. The following table sets forth the range of quarterly high and low sales price information for the common stock for the periods ended April 30, 2018 and 2017.

Common Stock as Reported

by NASDAQ

Period	High	Low
Fiscal 2018		
Fourth Quarter	\$ 9.03	\$ 5.26
Third Quarter	11.61	8.39
Second Quarter	9.71	6.94
First Quarter	8.59	5.34
Fiscal 2017		
Fourth Quarter	\$ 5.45	\$ 4.01

Explanation of Responses:

Third Quarter	5.50	4.34
Second Quarter	6.81	5.25
First Quarter	6.20	5.42

As of July 20, 2018, there were approximately 29 holders of record of the Company's common stock, which does not include shareholders whose stock is held through securities position listings. The Company estimates there to be approximately 2,739 beneficial owners of the Company's common stock.

The Company has not paid cash dividends on its common stock since completing its February 1994 initial public offering and does not intend to pay any dividends in the foreseeable future. So long as any indebtedness remains unpaid under the Company's revolving loan facility, the Company is prohibited from paying or declaring any dividends on any of its capital stock, except stock dividends, without the written consent of the lender under the facility.

## Equity Compensation Plan Information

For information concerning securities authorized for issuance under our equity compensation plans, see Part III, Item 12 of this Annual Report, under the caption “Security Ownership of Certain Beneficial Owners and Management and Related Stockholders Matters” as well as the Company’s audited financial statements and notes thereto, including Note N, filed herewith and all such information is incorporated herein by reference.

## ITEM 6. SELECTED FINANCIAL DATA

As a smaller reporting company, as defined in Rule 10(f)(1) of Regulation S-K under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), the Company is not required to provide the information required by this item.

## ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In addition to historical financial information, this discussion of the business of SigmaTron International, Inc. (“SigmaTron”), its wholly-owned subsidiaries Standard Components de Mexico S.A., AbleMex, S.A. de C.V., Digital Appliance Controls de Mexico, S.A. de C.V., Spitfire Controls (Vietnam) Co. Ltd., Spitfire Controls (Cayman) Co. Ltd., wholly-owned foreign enterprises Wujiang SigmaTron Electronics Co., Ltd. and SigmaTron Electronic Technology Co., Ltd. (collectively, “SigmaTron China”) and international procurement office SigmaTron Taiwan branch (collectively, the “Company”) and other Items in this Annual Report on Form 10-K contain forward-looking statements concerning the Company’s business or results of operations. Words such as “continue,” “anticipate,” “will,” “expect,” “believe,” “plan,” and similar expressions identify forward-looking statements. These forward-looking statements are based on the current expectations of the Company. Because these forward-looking statements involve risks and uncertainties, the Company’s plans, actions and actual results could differ materially. Such statements should be evaluated in the context of the risks and uncertainties inherent in the Company’s business including, but not necessarily limited to, the Company’s continued dependence on certain significant customers; the continued market acceptance of products and services offered by the Company and its customers; pricing pressures from the Company’s customers, suppliers and the market; the activities of competitors, some of which may have greater financial or other resources than the Company; the variability of our operating results; the results of long-lived assets and goodwill impairment testing; the variability of our customers’ requirements; the availability and cost of necessary components and materials; the ability of the Company and our customers to keep current with technological changes within our industries; regulatory compliance, including conflict minerals; the continued availability and sufficiency of our credit arrangements; changes in U.S., Mexican, Chinese, Vietnamese or Taiwanese regulations affecting the Company’s

business; the turmoil in the global economy and financial markets; the stability of the U.S., Mexican, Chinese, Vietnamese and Taiwanese economic, labor and political systems and conditions; currency exchange fluctuations; and the ability of the Company to manage its growth. These and other factors which may affect the Company's future business and results of operations are identified throughout the Company's Annual Report on Form 10-K, and as risk factors, may be detailed from time to time in the Company's filings with the Securities and Exchange Commission. These statements speak as of the date of such filings, and the Company undertakes no obligation to update such statements in light of future events or otherwise unless otherwise required by law.

## Overview

The Company operates in one business segment as an independent provider of EMS, which includes printed circuit board assemblies and completely assembled (box-build) electronic products. In connection with the production of assembled products, the Company also provides services to its customers, including (1) automatic and manual assembly and testing of products; (2) material sourcing and procurement; (3) manufacturing and test engineering support; (4) design services; (5) warehousing and distribution services; and (6) assistance in obtaining product approval from governmental and other regulatory bodies. The Company provides these manufacturing services through an international network of facilities located in the United States, Mexico, China, Vietnam and Taiwan.

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

Sales can be a misleading indicator of the Company's financial performance. Sales levels can vary considerably among customers and products depending on the type of services (turnkey versus consignment) rendered by the Company and the demand by customers. Consignment orders require the Company to perform manufacturing services on components and other materials supplied by a customer, and the Company charges only for its labor, overhead and manufacturing costs, plus a profit. In the case of turnkey orders, the Company provides, in addition to manufacturing services, the components and other materials used in assembly. Turnkey contracts, in general, have a higher dollar volume of sales for each given assembly, owing to inclusion of the cost of components and other materials in net sales and cost of goods sold. Variations in the number of turnkey orders compared to consignment orders can lead to significant fluctuations in the Company's revenue and gross margin levels. Consignment orders accounted for less than 1% of the Company's revenues for each of the fiscal years ended April 30, 2018 and 2017.

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.

For fiscal year 2019 the Company currently expects a significant amount of revenue growth. Several new customers that were added during fiscal year 2018 are starting to ramp up during the first quarter of fiscal 2019 and that ramp is expected to continue through the fiscal year. Current customers are also continuing to forecast higher volumes and have awarded the Company new programs which should contribute to the Company's projected growth. The percentage of overall business in the appliance market continues to decline as non-appliance business grows. The Company values its relationships in the appliance marketplace, but the business is not as attractive as in industrial and medical markets. The Company expects that trend to continue.

Regarding the overall industry, the Company continues to see a volatile electronic component marketplace which continues to cause production disruptions for our operations and our customers. Unfortunately, the Company does not see that improving in the short term as the manufacturers of certain components do not appear to be expanding capacity. In addition, the labor market continues to tighten in North America as well as the Asia-Pacific region. Layered on top of those issues is the continuing trade negotiations between the United States and NAFTA members as well as with China. This also creates a volatile marketplace.

Critical Accounting Policies:

Management Estimates and Uncertainties - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates made in preparing the consolidated financial statements include depreciation and amortization periods, the allowance for doubtful accounts, reserves for inventory, lower of cost or market adjustment for inventory, contingent consideration, deferred taxes, uncertain tax positions, valuation allowance for deferred taxes and valuation of goodwill and long-lived assets. Actual results could materially differ from these estimates.

Revenue Recognition - Revenues from sales of the Company's electronic manufacturing services business are recognized when the finished good product is shipped to the customer. In general, and except for consignment inventory, it is the Company's policy to recognize revenue and related costs when the finished



goods have been shipped from its facilities, which is also the same point in time that title passes under the terms of the purchase order and control passes to the customer. Finished goods inventory for certain customers is shipped from the Company to an independent warehouse for storage or shipped directly to the customer and stored in a segregated part of the customer's own facility. Upon the customer's request for finished goods inventory, the inventory is shipped to the customer if the inventory was stored off-site, or transferred from the segregated part of the customer's facility for consumption or use by the customer. The Company recognizes revenue upon such shipment or transfer to the customer. The Company does not earn a fee for such arrangements. The Company from time to time may ship finished goods from its facilities, which is also the same point in time that title passes under the terms of the purchase order, and invoice the customer at the end of the calendar month. This is done only in special circumstances to accommodate a specific customer. Further, from time to time customers request the Company to hold finished goods after they have been invoiced to consolidate finished goods for shipping purposes. The Company generally provides a warranty for workmanship, unless the assembly was designed by the Company, in which case it warrants assembly/design. The Company does not have any installation, acceptance or sales incentives (although the Company has negotiated longer warranty terms in certain instances). The Company assembles and tests assemblies based on customers' specifications. Historically, the amount of returns for workmanship issues has been de minimis under the Company's standard or extended warranties.

**Inventories** - Inventories are valued at cost. Cost is determined by an average cost method and the Company allocates labor and overhead to work-in-process and finished goods. In the event of an inventory write-down, the Company records expense to state the inventory at lower of cost or net realizable value. The Company establishes inventory reserves for valuation, shrinkage, and excess and obsolete inventory. The Company records provisions for inventory shrinkage based on historical experience to account for unmeasured usage or loss. The Company records provisions for excess and obsolete inventories for the difference between the cost of inventory and its estimated realizable value based on assumptions about future product demand and market conditions. For convenience, the Company records these inventory reserves against the inventory cost through a contra asset rather than through a new cost basis. Upon a subsequent sale or disposal of the impaired inventory, the corresponding reserve is relieved to ensure the cost basis of the inventory reflects any reductions. Actual results differing from these estimates could significantly affect the Company's inventories and cost of products sold as the inventory is sold or otherwise relieved.

**Goodwill** - Goodwill represents the purchase price in excess of the fair value of assets acquired in business combinations. Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 350, "Intangibles – Goodwill and Other," requires the Company to assess goodwill and other indefinite-lived intangible assets for impairment at least annually in the absence of an indicator of possible impairment and immediately upon an indicator of possible impairment. The Company is permitted the option to first assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the fair value of any reporting unit is less than its corresponding carrying value. If, after assessing the totality of events and circumstances, the Company concludes that it is not more likely than not that the fair value of any reporting unit is less than its corresponding carrying value, then the Company is not required to take further action. However, if the Company concludes otherwise, then it is required to perform a quantitative impairment test, including computing the fair value of the reporting unit and comparing that value to its carrying value (the "step 2" requirement). If the fair value is less than its carrying value, a second step of the test is required to determine if recorded goodwill is impaired. The Company also has the option to bypass the qualitative assessment for goodwill in any period and proceed directly to performing the quantitative impairment test. The Company will be able to resume performing the qualitative assessment in any subsequent period. For fiscal 2017, the Company performed its annual goodwill impairment test as of February 1, 2017 and determined no impairment existed as of that date. The step one analysis was performed using

a combination of a market approach and an income approach based on a discounted cash flow analysis.

For fiscal year 2018, the Company early adopted the guidance contained in Accounting Standards Update (ASU) No. 2017-04, "Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment," which removes the step 2 requirement to perform a hypothetical purchase price allocation to measure goodwill impairment. Beginning with its February 1, 2018 goodwill impairment testing, goodwill impairment is the amount by which the Company's single reporting unit carrying value exceeds its fair value, not to exceed the recorded amount of goodwill. To estimate the fair value of the Company's equity, the Company used both a market approach based on the guideline companies' method, and an income approach

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based on a discounted cash flow analysis. The value indicated by both methods was weighted to arrive at a concluded value. The carrying value of the Company's equity was greater than the fair value of the Company based on the valuation analysis by an amount greater than the recorded amount of the goodwill. In the fourth quarter of fiscal 2018, the Company's forecasted future cash flow declined from prior estimates. The Company is experiencing declining margins due to pricing pressures from vendors and customers. Also at this time, electronic component manufacturers began allocating components to their customers which required the Company to increase its investment in working capital. The decline in the forecasted cash flow resulted in a lower estimate of the fair value of the Company's reporting unit causing the Company to take an impairment charge on all of its goodwill. The Company has begun taking steps to improve its margins and has negotiated an increase in its revolving credit facility to address its working capital needs. Accordingly, the Company recognized a full goodwill impairment charge of \$3,222,899.

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

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

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

Deferred income tax assets and liabilities are determined based on differences between financial reporting and tax basis of assets and liabilities, and are measured using the enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse. In evaluating the Company's ability to recover its deferred tax assets within the jurisdiction from which they arise, the Company considers all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and

recent financial operations. In projecting future taxable income, the Company begins with historical results and changes in accounting policies, and incorporates assumptions including the amount of future state, federal and foreign pre-tax operating income, the reversal of temporary differences, and the implementation of feasible and prudent tax planning strategies. These assumptions require significant judgment and estimates by management about the forecasts of future taxable income and are consistent with the plans and estimates the Company uses to manage the underlying businesses. In evaluating the objective evidence that historical results provide, the Company considers three years of cumulative operating income and/or loss. Valuation allowances are established when necessary to reduce deferred income tax assets to an amount more likely than not to be realized. The Company established a valuation allowance of \$78,100 related to its foreign tax credit carry-forward at April 30, 2017. The Company did not change the previous valuation allowance or establish any new valuation allowances at April 30, 2018.

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

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

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

Reclassifications - Certain reclassifications have been made to the previously reported 2017 financial statements to conform to the 2018 presentation. There was no change to net income.

#### New Accounting Standards:

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers" (Topic 606) which supersedes the revenue recognition requirements in ASC 605, "Revenue Recognition". In summary, the core principle of this standard, along with various subsequent amendments, is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additionally, the new standard requires enhanced disclosures about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including revenue recognition policies to identify performance obligations, assets recognized from costs incurred to obtain and fulfill a contract, and significant judgments in measurements and recognition. The standard, as amended, was effective for annual periods beginning after December 15, 2017, including interim periods within that reporting period. Companies have the option of using either a full or modified retrospective approach in applying this standard.

To plan for the adoption of the standard, the Company conducted an analysis to determine the impact the new standard would have on its consolidated financial statements. This analysis included reviewing 1) contract terms and existing accounting policies to determine the financial impact of the standard, 2) data availability and system reports to meet the additional disclosure requirements of the standard, 3) any practical expedients the Company could elect upon adoption and 4) the control environment and internal processes to ensure the appropriate controls are in

#### Explanation of Responses:

place. As part of implementation efforts we reviewed and modified our standard manufacturing agreement and invoice terms and conditions to emphasize that title, risk of loss and control of the finished goods products we sell transfers to our customers upon shipment.

The Company adopted the ASU on May 1, 2018 using the modified retrospective transition method, applying the guidance to those contracts which were not completed as of that date. The Company's adoption of ASC 606 did not result in any changes in accounting requiring a transition adjustment to retained earnings.

Pursuant to the Company's adoption of the standard, it is in the process of expanding its disclosures in the consolidated financial statements for revenue recognition, assets and liabilities relating to contracts with customers, the nature of the Company's performance obligations and the manner by which the Company determines and allocates transaction prices to its performance obligations, and the significant judgments inherent in its revenue recognition policies. The Company also is in the process of implementing enhancements to its internal controls to support the Company's ability to sustain compliance with the standard after adoption.

In February 2016, the FASB issued ASU No. 2016-02, "Leases". The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal

years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for capital leases and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. While the Company is still evaluating the impact of its pending adoption of the new standard on its consolidated financial statements, the Company expects that upon adoption in the fiscal year ending April 30, 2020, it will recognize ROU assets and lease liabilities and the amounts could be material.

In March 2016, the FASB issued ASU No. 2016-09, “Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting”, a new accounting standard update intended to simplify several aspects of the accounting for share-based payment transactions including: income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. Specifically, the update requires that excess tax benefits and tax deficiencies (the difference between the deduction for tax purposes and the compensation cost recognized for financial reporting purposes) be recognized as income tax expense or benefit in the consolidated statements of operations, introducing a new element of volatility to the provision for income taxes. This update is effective for fiscal years beginning after December 15, 2016. Early adoption is permitted. The Company adopted the ASU on May 1, 2017. Effective with the adoption of the ASU all share-based awards continue to be accounted for as equity awards, excess tax benefits recognized on stock-based compensation expense are reflected in the consolidated statements of operations as a component of the provision for income taxes on a prospective basis, excess tax benefits recognized on stock-based compensation expense are classified as an operating activity in the consolidated statements of cash flows on a prospective basis and the Company has elected to continue to estimate expected forfeitures over the course of a vesting period. The adoption of the ASU had no material impact on the retained earnings, other components of equity or net assets as of the beginning of the period of adoption.

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

In August 2016, the FASB issued ASU Update No. 2016-15, “Statement of Cash Flows- Classification of Certain Cash Receipts and Cash Payments,” which is intended to reduce diversity in practice in how certain transactions are classified in the statements of cash flows. This update will be effective for fiscal years beginning after December 15, 2017 (the Company’s fiscal year ending April 30, 2019), and interim periods within those fiscal years. Early adoption is permitted, provided that all of the amendments are adopted in the same period. The guidance requires application using a retrospective transition method. The Company plans to adopt the ASU in its fiscal year ending April 30, 2019. The Company does not expect the impact of the adoption of this ASU to have a material impact on the Company’s consolidated statements of cash flows.

In January 2017, the FASB issued ASU No. 2017-04, “Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment,” which removes the step 2 requirement to perform a hypothetical purchase price allocation to measure goodwill impairment. Goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the recorded amount of goodwill. This guidance is effective for public companies for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019, and early adoption is permitted. The Company early adopted this guidance in the third quarter of its fiscal year ending April 30, 2018 and is applying this guidance to all future tests.

In January 2017, the FASB issued ASU No. 2017-01, “Business Combinations (Topic 805): Clarifying the Definition of a Business,” which clarifies the definition of a business when evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. For public companies, this ASU



is effective for annual periods beginning after December 15, 2017, including interim periods within those periods. The Company adopted this ASU in the fourth quarter of its fiscal year ending April 30, 2018. The Company will apply the clarified definition of a business, as applicable, from the period of adoption.

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

In May 2018, the FASB issued ASU No. 2018-05, Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118, regarding the accounting implications of the recently issued Tax Cuts and Jobs Act (the "Act"). This standard is effective immediately. The update clarifies that in a company's financial statements that include the reporting period in which the Act was enacted, the company must first reflect the income tax effects of the Act in which the accounting under GAAP is complete. These amounts would not be provisional amounts. The company would also report provisional amounts for those specific income tax effects for which the accounting under GAAP is incomplete but a reasonable estimate can be determined. The Company has recorded a provisional amount which it believes is a reasonable estimate of the effects of the Act on the Company's financial statements as of April 30, 2018. Technical corrections or other forthcoming guidance could change how the Company interprets provisions of the Act, which may impact its effective tax rate and could affect its deferred tax assets, tax positions and/or its tax liabilities.

## Results of Operations:

FISCAL YEAR ENDED APRIL 30, 2018 COMPARED

TO FISCAL YEAR ENDED APRIL 30, 2017

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

	Fiscal Years	
	2018	2017
Net sales	100.0%	100.0%
Operating expenses:		
Cost of products sold	90.4	90.1
Selling and administrative expenses	8.3	8.6
Impairment of goodwill and intangible asset	1.4	0.0
Loss on settlement of receivable and disposal of related assets	0.9	0
Total operating expenses	101.0	98.7
Operating (loss) income	-1.0%	1.3%

Net sales increased 9.8% to \$278,131,709 in fiscal year 2018 from \$253,370,175 in the prior year. The Company's sales increased in fiscal year 2018 in industrial electronics and medical/life science marketplaces as compared to the prior year. The increase in sales dollars for these marketplaces was partially offset by a decrease in sales dollars in the consumer electronics marketplace. Revenues started an upward trend during the fourth fiscal quarter of fiscal year 2018. The Company remains optimistic that revenues in fiscal year 2019 will continue to increase.

The Company's sales in a particular industry are driven by the fluctuating forecasts and end-market demand of the customers within that industry. Sales to customers are subject to variations from period to period depending on customer order cancellations, the life cycle of customer products and product transition. Sales to the Company's five largest customers accounted for 50.2% and 55.2% of net sales for fiscal years 2018 and 2017, respectively.

Gross profit increased to \$26,602,918, or 9.6% of net sales, in fiscal year 2018 compared to \$25,175,308 or 9.9% of net sales, in the prior fiscal year. The increase in gross profit dollars for fiscal year 2018 was the result of increased sales and product mix. Margin pressures continue from both customers and vendors and will likely continue in fiscal

Explanation of Responses:

year 2019.

Selling and administrative expenses increased in fiscal year 2018 to \$23,089,939, or 8.3% of net sales compared to \$21,909,110, or 8.6% of net sales, in fiscal year 2017. The increase in selling and administrative dollars was attributable to sales salaries, purchasing salaries, commissions, bad debt expense and amortization expense. The increase in the foregoing selling and administrative expenses were partially offset by a decrease in accounting professional fees, bonus expense and other general administrative expenses. Selling and administrative expenses decreased as a percent of net sales due to an increase in net sales in fiscal year 2018 compared to the prior year.

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

Other income decreased in fiscal year 2018 to \$144,574 compared to other income of \$367,338 in the prior fiscal year. The decrease in other income is due to the Company recording in fiscal year 2017 an insurance

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recovery gain in the amount of \$276,967 to other income related to a claim in excess of book value for replacement machinery and equipment destroyed in a fire at one of its plants.

Interest expense, net, increased to \$1,537,446 in fiscal year 2018 compared to \$1,135,853 in fiscal year 2017. Interest expense increased primarily due to the increased borrowings under the Company's banking arrangements and mortgage obligations. Interest expense for fiscal year 2019 may increase if interest rates or borrowings, or both, increase during fiscal year 2019.

In fiscal year 2018, the Company had an income tax benefit of \$1,060,452 compared to income tax expense of \$1,107,477 in fiscal year 2017. The effective rate for the years ended April 30, 2018 and 2017 was 24.6% and 44.3%, respectively. The decrease in income tax expense is due to a decrease in pre-tax income in the current year and a reduction in the U.S. tax rate as a result of the Tax Act. The decrease in the effective rate for the year ended April 30, 2018 is due to a reduction in the U.S. tax rate as a result of the Tax Act, the impact of the transition tax and an unfavorable 4.0% adjustment for realized and unrealized currency gains, losses, and the remeasurement of certain items to the Company's functional currency. Due to the Tax Cuts and Jobs Act, the Company's federal statutory income tax rate for the current fiscal year is approximately 30.4%.

The Company reported net loss of \$3,241,870 in fiscal year 2018 compared to a net income of \$1,390,206 for fiscal year 2017. Basic and diluted loss per share for fiscal year 2018 were \$0.77 each, compared to basic and diluted earnings per share of \$0.33 each for the year ended April 30, 2017.

#### Liquidity and Capital Resources:

#### Operating Activities.

Cash flow used in operating activities was \$4,717,084 for the fiscal year ended April 30, 2018 compared to cash flow used in operating activities of \$53,761 for the prior fiscal year. Cash flow used in operating activities was primarily the result of an increase in inventory in the amount of \$13,415,555. The increase in inventory is the result of an increase in customer orders and in some cases orders being pushed out. Further, capacity issues in the component industry are making it difficult to obtain some components to complete assemblies for shipping. Cash flow used in operating activities was partially offset by the result of an increase in accounts payable, a decrease in prepaid expenses and other assets. Net cash used in operating activities was partially offset by the non-cash effects of a goodwill impairment, tradename impairment, the write off of the account receivable and note receivable related to Petzila and depreciation and amortization.

#### Explanation of Responses:

Cash flow used in operating activities was \$53,761 for the fiscal year ended April 30, 2017. Cash flow used in operating activities was primarily the result of an increase in accounts receivable and inventory. Inventories increased primarily due to additional customer orders and the start up of new programs. The increase in accounts payable was the result of timing of payment to vendors. Net cash used in operations was partially offset by a decrease in income taxes receivable. Net cash used in operating activities was partially offset by net income excluding the non-cash effects of depreciation and amortization.

#### Investing Activities.

In fiscal year 2018, the Company purchased in cash \$3,731,370 in machinery and equipment to be used in the ordinary course of business. The Company anticipates it may purchase up to \$6,000,000 in machinery and equipment in fiscal year 2019 although there is no guaranty the Company will not exceed such amount. The Company plans to fund the majority of purchases by lease or loan transactions. There is no assurance that the Company will be able to obtain debt financing at acceptable terms, or at all, in the future.

In fiscal year 2017, the Company purchased in cash \$3,505,486 in machinery and equipment to be used in the ordinary course of business. The Company purchases were funded by the bank line of credit.

#### Financing Activities.

Cash provided by financing activities was \$6,676,729 for the fiscal year ended April 30, 2018 compared to cash provided by financing activities of \$2,727,303 in fiscal year 2017. Cash provided by financing activities was

primarily the result of net borrowings under the line of credit and proceeds under building notes. Proceeds under building notes was due to the mortgage agreements on December 21, 2017 with U.S. Bank to refinance the Company's corporate headquarters and its Illinois manufacturing facility and the Company's engineering and design center in Elgin, Illinois.

Cash provided by financing activities was \$2,727,303 for the fiscal year ended April 30, 2017. Cash provided by financing activities in fiscal year 2017 was primarily the result of increased net borrowings under the credit facility, equipment notes and sale leaseback agreements.

#### Financing Summary.

#### Notes Payable - Banks

Prior to March 31, 2017 the Company had a senior secured credit facility with Wells Fargo, N.A. with a revolving credit limit up to \$30,000,000. The credit facility was collateralized by substantially all of the Company's domestically located assets and the Company had pledged 65% of its equity ownership interest in some of its foreign entities. Prior to its payoff and termination, the Wells Fargo, N.A. senior secured credit facility was due to expire on October 31, 2018. On March 31, 2017, the Company paid the balance outstanding under the senior revolving credit facility in the amount of \$22,232,914. The remaining deferred financing costs of \$68,475 were expensed in the fourth quarter of fiscal 2017.

On March 31, 2017, the Company entered into a \$35,000,000 senior secured credit facility with U.S. Bank, which expires on March 31, 2022. The credit facility is collateralized by substantially all of the Company's domestically located assets. The facility allows the Company to choose among interest rates at which it may borrow funds: the bank fixed rate of four percent or LIBOR plus one and one half percent (effectively 3.83% at April 30, 2018). Interest is due monthly. Under the senior secured credit facility, the Company may borrow up to the lesser of (i) \$35,000,000 or (ii) an amount equal to a percentage of the eligible receivable borrowing base plus a percentage of the eligible inventory borrowing base (the "Borrowing Base"). Deferred financing costs of \$34,971 and \$207,647 were capitalized in the twelve month period ending April 30, 2018 and the fourth quarter of fiscal 2017, respectively, which are amortized over the term of the agreement. As of April 30, 2018 and April 30, 2017 the unamortized amount included in other assets was \$192,502 and \$204,186, respectively. As of April 30, 2018, there was \$29,279,631 outstanding and \$5,720,369 of unused availability under the U.S. Bank facility compared to an outstanding balance of \$23,178,429 and \$11,821,571 of unused availability at April 30, 2017. At April 30, 2018, the Company was in compliance with its financial covenant and other restricted covenants under the credit facility.

On July 16, 2018, the Company and U.S. Bank entered into an amendment of the revolving credit facility. The amended revolving credit facility allows the Company to borrow up to the lesser of (i) \$45,000,000 less reserves or

(ii) 90% of the Company's Borrowing Base, except that the 90% limitation will expire if the Company's actual revolving loans for the first 90 days after the amendment's effective date are less than 80% of the Company's Borrowing Base and the Company maintains a Fixed Charge Coverage Ratio of 1.2 to 1.0 for four consecutive quarters. The amendment also imposes sublimits on categories of inventory equal to \$17,500,000 on raw materials and \$25,000,000 on finished goods.

On August 4, 2015, the Company's wholly-owned subsidiary, Wujiang SigmaTron Electronics Co., Ltd., entered into a credit facility with China Construction Bank. Under the agreement Wujiang SigmaTron Electronics Co., Ltd. could borrow up to 5,000,000 Renminbi and the facility was collateralized by Wujiang SigmaTron Electronics Co., Ltd.'s manufacturing building. Interest was payable monthly and the facility had a fixed interest rate of 6.67%. The facility was due to expire on August 3, 2017. The credit facility was closed as of March 1, 2017.

On March 24, 2017, the Company's wholly-owned subsidiary, SigmaTron Electronic Technology Co., Ltd., entered into a credit facility with China Construction Bank. Under the agreement SigmaTron Electronic Technology Co., Ltd. could borrow up to 9,000,000 Renminbi and the facility was collateralized by Wujiang SigmaTron Electronics Co., Ltd.'s manufacturing building. Interest was payable monthly and the facility had a fixed interest rate of 6.09%. The term of the facility extended to February 7, 2018. The credit facility was closed as of February 11, 2018. There was no outstanding balance under the facility at April 30, 2017.

On February 12, 2018, the Company's wholly-owned subsidiary, SigmaTron Electronic Technology Co., Ltd., entered into a credit facility with China Construction Bank. Under the agreement SigmaTron Electronic Technology Co., Ltd. can borrow up to 5,000,000 Renminbi and the facility is collateralized by Wujiang SigmaTron Electronics Co., Ltd.'s manufacturing building. Interest is payable monthly and the facility bears a fixed interest rate of 6.09%. The term of the facility extends to February 7, 2019. There was no outstanding balance under the facility at April 30, 2018.

#### Notes Payable - Buildings

The Company entered into a mortgage agreement on January 8, 2010, in the amount of \$2,500,000, with Wells Fargo, N.A. to refinance the property that serves as the Company's corporate headquarters and its Illinois manufacturing facility. On November 24, 2014, the Company refinanced the mortgage agreement with Wells Fargo, N.A. The note required the Company to pay monthly principal payments in the amount of \$9,500, bore an interest rate of LIBOR plus two and one-quarter percent and was payable over a sixty month period. A final payment of approximately \$2,289,500 was due on or before November 8, 2019. On December 21, 2017, the Company repaid its Wells Fargo, N.A. mortgage agreement for the remaining amount outstanding of \$2,498,500, using proceeds from the U.S. Bank mortgage agreement. The outstanding balance was \$2,574,500 at April 30, 2017.

The Company entered into a mortgage agreement on December 21, 2017, in the amount of \$5,200,000, with U.S. Bank to refinance the property that serves as the Company's corporate headquarters and its Illinois manufacturing facility. The note requires the Company to pay monthly principal payments in the amount of \$17,333, bears interest at a fixed rate of 4.0% per year and is payable over a fifty-one month period. Deferred financing costs of \$74,066 were capitalized in fiscal year 2018 which are amortized over the term of the agreement. As of April 30, 2018 the unamortized amount included in other assets was \$66,945. A final payment of approximately \$4,347,778 is due on or before March 31, 2022. The outstanding balance was \$5,148,000 at April 30, 2018.

The Company entered into a mortgage agreement on October 24, 2013, in the amount of \$1,275,000, with Wells Fargo, N.A. to finance the property that serves as the Company's engineering and design center in Elgin, Illinois. The Wells Fargo, N.A. note required the Company to pay monthly principal payments in the amount of \$4,250, bore interest at a fixed rate of 4.5% per year and was payable over a sixty month period. A final payment of approximately \$1,030,000 was due on or before October 2018. On December 21, 2017, the Company repaid its Wells Fargo, N.A. mortgage agreement for the remaining amount outstanding of \$1,062,500, using proceeds from the U.S. Bank mortgage agreement. The outstanding balance was \$1,096,500 at April 30, 2017.

The Company entered into a mortgage agreement on December 21, 2017, in the amount of \$1,800,000, with U.S. Bank to refinance the property that serves as the Company's engineering and design center in Elgin, Illinois. The note requires the Company to pay monthly principal payments in the amount of \$6,000, bears interest at a fixed rate of 4.0% per year and is payable over a fifty-one month period. Deferred financing costs of \$65,381 were capitalized in the fiscal year 2018 which are amortized over the term of the agreement. As of April 30, 2018 the unamortized amount included in other assets was \$59,094. A final payment of approximately \$1,505,000 is due on or before



March 31, 2022. The outstanding balance was \$1,782,000 at April 30, 2018.

#### Notes Payable - Equipment

On November 1, 2016, the Company entered into a secured note agreement with Engencap Fin S.A. DE C.V. to finance the purchase of equipment in the amount of \$596,987. The term of the agreement extends to November 1, 2021 with average quarterly payments of \$35,060 beginning on February 1, 2017 and a fixed interest rate of 6.65%. The balance outstanding under this note agreement was \$447,741 and \$567,138 at April 30, 2018 and April 30, 2017, respectively.

On February 1, 2017, the Company entered into a secured note agreement with Engencap Fin S.A. DE C.V. to finance the purchase of equipment in the amount of \$335,825. The term of the agreement extends to February 1, 2022 with average quarterly payments of \$20,031 beginning on May 1, 2017 and a fixed interest rate of 7.35%.

The balance outstanding under this note agreement was \$268,660 and \$335,825 at April 30, 2018 and April 30, 2017, respectively.

On June 1, 2017, the Company entered into a secured note agreement with Engencap Fin S.A. DE C.V. to finance the purchase of equipment in the amount of \$636,100. The term of the agreement extends to June 1, 2022 with average quarterly payments of \$37,941 beginning on September 1, 2017 and a fixed interest rate of 7.35%. The balance outstanding under this note agreement was \$540,685 at April 30, 2018.

On October 1, 2017, the Company entered into a secured note agreement with Engencap Fin S.A. DE C.V. to finance the purchase of equipment in the amount of \$307,036. The term of the agreement extends to November 1, 2022 with average quarterly payments of \$18,314 beginning on February 1, 2018 and a fixed interest rate of 7.35%. The balance outstanding under this note agreement was \$291,684 at April 30, 2018.

#### Capital Lease and Sale Leaseback Obligations

From October 2013 through June 2017, the Company entered into various capital lease and sales leaseback agreements with Associated Bank, National Association to purchase equipment totaling \$6,893,596. The terms of the lease agreements extend to September 2018 through May 2022 with monthly installment payments ranging from \$1,455 to \$40,173 and a fixed interest rate ranging from 3.75% to 4.90%. The balance outstanding under these capital lease agreements was \$2,923,524 and \$3,627,760 at April 30, 2018 and April 30, 2017, respectively. The net book value of the equipment under these leases was \$4,799,827 and \$4,713,044 at April 30, 2018 and April 30, 2017, respectively.

From April 2014 through July 2015, the Company entered into various capital lease agreements with CIT Finance LLC to purchase equipment totaling \$2,512,051. The terms of the lease agreements extend to March 2019 through July 2020 with monthly installment payments ranging from \$1,931 to \$12,764 and a fixed interest rate ranging from 5.65% through 6.50%. The balance outstanding under these capital lease agreements was \$984,031 and \$1,448,269 at April 30, 2018 and April 30, 2017, respectively. The net book value of the equipment under these leases was \$1,736,688 and \$1,946,026 at April 30, 2018 and April 30, 2017, respectively.

From September 2017 through April 2018, the Company entered into various capital lease and sales leaseback agreements with First American Equipment Finance to purchase equipment totaling \$3,011,387. The terms of the lease agreements extend to August 2021 through April 2022 with monthly installment payments ranging from \$6,716 to \$20,093 and a fixed interest rate ranging from 5.82% through 7.23%. The balance outstanding under these capital lease agreements was \$2,688,029 at April 30, 2018. The net book value of the equipment under these leases was \$2,808,209 at April 30, 2018.

## Operating Leases

In September 2010, the Company entered into a real estate lease agreement in Union City, CA, to rent approximately 117,000 square feet of manufacturing and office space. Under the terms of the lease agreement, the Company receives incentives over the life of the lease, which extends through March 2021. The amount of the deferred rent income recorded for the fiscal year ended April 30, 2018 was \$103,599 compared to \$79,575 in fiscal year 2017. In addition, the landlord provided the Company tenant incentives of \$418,000, which are being amortized over the life of the lease. The balance of deferred rent at April 30, 2018 was \$447,073 compared to \$550,672 at April 30, 2017.

On May 31, 2012, the Company entered into a lease agreement in Tijuana, MX, to rent approximately 112,000 square feet of manufacturing and office space. Under the terms of the lease agreement, the Company receives incentives over the life of the lease, which extends through November 2018. The amount of the deferred rent income for the fiscal year ended April 30, 2018 was \$139,437 compared to \$127,967 in fiscal year 2017. The balance of deferred rent at April 30, 2018 was \$85,527 compared to \$224,964 at April 30, 2017.

## Other

The Company provides funds for salaries, wages, overhead and capital expenditure items as necessary to operate its wholly-owned Mexican, Vietnamese and Chinese subsidiaries and the Taiwan IPO. The Company

provides funding in U.S. Dollars, which are exchanged for Pesos, Dong, Renminbi, and New Taiwan dollars. The fluctuation of currencies from time to time, without an equal or greater increase in inflation, could have a material impact on the financial results of the Company. The impact of currency fluctuations for the fiscal year ended April 30, 2018 resulted in net foreign currency transaction gains of approximately \$125,000 compared to net foreign currency losses of \$508,000 in the prior year. In fiscal year 2018, the Company paid approximately \$49,170,000 to its foreign subsidiaries.

The Company anticipates that its credit facilities, cash flow from operations and leasing resources are adequate to meet its working capital requirements and capital expenditures for fiscal year 2019. In addition, in the event the Company desires to expand its operations, its business grows more rapidly than expected, the current economic climate deteriorates, customers delay payments, or the Company desires to consummate an acquisition, additional financing resources may be necessary in the current or future fiscal years. There is no assurance that the Company will be able to obtain equity or debt financing 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 on the Company's net sales, revenues and income from operations for the past two fiscal years has been minimal.

Off-balance Sheet Transactions:

The Company has no off-balance sheet transactions.

Tabular Disclosure of Contractual Obligations:

As a smaller reporting company, as defined in Rule 10(f)(1) of Regulation S-K under the Exchange Act, the Company is not required to provide the information required by this item.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

Explanation of Responses:

As a smaller reporting company, as defined in Rule 10(f)(1) of Regulation S-K under the Exchange Act, the Company is not required to provide the information required by this item.

#### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The response to this item is included in Item 15(a) of this Report.

#### ITEM 9. CHANGES AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

#### ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls:

The Company's management, including its President and Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of its disclosure controls and procedures (as defined under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), Rules 13a-15(e) and 15(d)-15(e)) as of April 30, 2018. The Company's disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives and its President and Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective at the reasonable assurance level as of April 30, 2018.

Internal Controls:

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Exchange Act Rules 13a-15(f) and 15d-15(f). The Company's internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with U.S. GAAP. Under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, the Company conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission. On May 14, 2013, COSO issued an updated version of its Internal Control - Integrated Framework (the "2013 Framework") which officially superseded the 1992 Framework on December 15, 2014.

Originally issued in 1992, the framework helps organizations design, implement and evaluate the effectiveness of internal control concepts and simplify their use and application. Neither COSO, the Securities and Exchange Commission or any other regulatory body has mandated adoption of the 2013 Framework by a specified date. The Company implemented the 2013 Framework in the fourth fiscal quarter of 2018. Based on the Company's evaluation, management concluded that its internal controls over financial reporting were effective at the reasonable assurance level as of April 30, 2018.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to the rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

There has been no change in the Company's internal control over financial reporting during the quarter ended April 30, 2018, that has materially affected or is reasonably likely to materially affect, its internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

Not Applicable.

PART III

Explanation of Responses:

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required under this item is incorporated herein by reference to the Company's definitive proxy statement, to be filed with the Securities and Exchange Commission not later than 120 days after the close of the Company's fiscal year ended April 30, 2018.

ITEM 11. EXECUTIVE COMPENSATION

The information required under this item is incorporated herein by reference to the Company's definitive proxy statement, to be filed with the Securities and Exchange Commission not later than 120 days after the close of the Company's fiscal year ended April 30, 2018.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT  
AND RELATED STOCKHOLDER MATTERS

The information required under this item is incorporated herein by reference to the Company's definitive proxy statement, to be filed with the Securities and Exchange Commission not later than 120 days after the close of the Company's fiscal year ended April 30, 2018.

ITEM 13. CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS AND DIRECTOR  
INDEPENDENCE

The information required under this item is incorporated herein by reference to the Company's definitive proxy statement, to be filed with the Securities and Exchange Commission not later than 120 days after the close of the Company's fiscal year ended April 30, 2018.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required under this item is incorporated herein by reference to the Company's definitive proxy statement, to be filed with the Securities and Exchange Commission not later than 120 days after the close of the Company's fiscal year ended April 30, 2018.





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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1)

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

(a)(2)

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

(a)(3) and (b)

The exhibits required by Item 601 of Regulations S-K are listed in the Index to Exhibits filed as part of this Annual Report on Form 10-K beginning on Page 37.

ITEM 16. 10-K SUMMARY

None.



Index to Exhibits

- 3.1 Certificate of Incorporation of the Company, incorporated herein by reference to Exhibit 3.1 to Registration Statement on Form S-1, File No. 33-72100, dated February 9, 1994. (P)(Rule 311)
- 3.2 Amended and Restated By-laws of the Company, adopted on September 24, 1999, incorporated herein by reference to Exhibit 3.2 to the Company's Form 10-K for the fiscal year ended April 30, 2000.
- 10.1 Form of 1993 Stock Option Plan, incorporated herein by reference to Exhibit 10.4 to the Company's Registration Statement on Form S-1, File No. 33-72100.\* (P)(Rule 311)
- 10.2 Form of Incentive Stock Option Agreement for the Company's 1993 Stock Option Plan, incorporated herein by reference to Exhibit 10.5 to the Company's Registration Statement on Form S-1, File No. 33-72100.\* (P)(Rule 311)
- 10.3 Form of Non-Statutory Stock Option Agreement for the Company's 1993 Stock Option Plan, incorporated herein by reference to Exhibit 10.6 to the Company's Registration Statement on Form S-1, File No. 33-72100.\* (P)(Rule 311)
- 10.4 2004 Employee Stock Option Plan, incorporated herein by reference to Appendix B to the Company's 2004 Proxy Statement filed on August 16, 2004. \*
- 10.5 SigmaTron International, Inc. 2011 Employee Stock Option Plan dated September 16, 2011, incorporated herein by reference to Exhibit 10.14 to the Company's Registration Statement on Form S-8 filed on December 14, 2011.\*
- 10.6 Purchase Agreement between SigmaTron International, Inc., and its nominees and Spitfire Control, Inc., dated as of May 31, 2012, incorporated herein by reference to Exhibit 2.1 to the Company's Form 8-K filed on June 4, 2012.
- 10.7 SigmaTron International, Inc. 2013 Employee Stock Purchase Plan dated September 20, 2013, incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K filed on September 25, 2013.\*
- 10.8 SigmaTron International, Inc. 2013 Non-Employee Director Restricted Stock Plan dated September 20, 2013, incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K filed on September 25, 2013.\*
- 10.9 Mortgage and Assignment of Rents and Leases executed as of October 24, 2013, by SigmaTron International, Inc., to Wells Fargo Bank, National Association, incorporated herein by reference to Exhibit 10.18 to the Company's Form 10-Q filed on December 13, 2013.
- 10.10

Master Lease Agreement # 2170 entered into between Associated Bank, National Association, a national banking association and SigmaTron International, Inc., dated October 3, 2013, incorporated herein by reference to Exhibit 10.20 to the Company's Form 10-Q filed on December 13, 2013.

10.1 SigmaTron International, Inc. Amended and Restated Change in Control Severance Payment Plan dated March 11, 2014, incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K/A filed on March 14, 2014.\*

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

Form 8-K filed on August 15, 2016.\*

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



- 10.37 Promissory Note, entered into October 12, 2017, by and between ENGENCAP FIN, S.A. DE C.V., SOFOM, E.N.R. and SigmaTron International, Inc., incorporated herein by reference to Exhibit 10.3 to the Company's Form 10-Q filed on December 12, 2017.
- 10.38 Real Property mortgage (Cook County, Illinois) made as of the 21st day of December, 2017, is made and executed by SigmaTron International, Inc. ("Mortgagor") and U.S. Bank National Association ("Lender"), incorporated herein by reference to Exhibit 10.1 to the Company's Form 10-Q filed on March 14, 2018.
- 10.39 Real Property mortgage (Kane County, Illinois) made as of the 21st day of December, 2017, is made and executed by SigmaTron International, Inc. ("Mortgagor") and U.S. Bank National Association ("Lender"), incorporated herein by reference to Exhibit 10.2 to the Company's Form 10-Q filed on March 14, 2018.
- 10.40 Lease No. 3, entered into December 20, 2017, is an attachment to Master Lease No. 2017389 dated August 15, 2017 by and between First American Commercial Bancorp, Inc. and SigmaTron International, Inc., incorporated herein by reference to Exhibit 10.3 to the Company's Form 10-Q filed on March 14, 2018.
- 10.41 Lease No. 4, entered into January 9, 2018, is an attachment to Master Lease No. 2017389 dated August 15, 2017 by and between First American Commercial Bancorp, Inc. and SigmaTron International, Inc., incorporated herein by reference to Exhibit 10.4 to the Company's Form 10-Q filed on March 14, 2018.
- 10.42 Asset Purchase Agreement effective April 30, 2018 between SigmaTron International, Inc. and Wagz, Inc., incorporated herein by reference to Exhibit 99.1 to the Company's Form 8-K/A filed on May 4, 2018.
- 10.43 SigmaTron International, Inc. Employee Bonus Plan for Fiscal Year 2019 dated July 12, 2018, incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K filed on July 16, 2018.\*
- 10.44 Amendment No.1 to Amended and Restated Loan and Security Agreement entered into as of July 16, 2018, by and between SigmaTron International, Inc., and U.S. Bank National Association incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K filed on July 17, 2018.
- 10.45 Lease No. 5, entered into March 15, 2018, is an attachment to Master Lease No. 2017389 dated August 15, 2017 by and between First American Commercial Bancorp, Inc. and SigmaTron International, Inc.\*\*
- 10.46 Lease No. 6, entered into April 20, 2018, is an attachment to Master Lease No. 2017389 dated August 15, 2017 by and between First American Commercial Bancorp, Inc. and SigmaTron International, Inc.\*\*
- 21.0 Subsidiaries of the Registrant, incorporated herein by reference to Exhibit 21 to the Company's Form 10-K for the fiscal year ended April 30, 2014, filed on July 24, 2014.
- 23.1 Consent of BDO USA, LLP.\*\*
- 24.0 Power of Attorney of Directors and Executive Officers (included on the signature page of this Form 10-K for the fiscal year ended April 30, 2018).\*\*
- 31.1 Certification of Principal Executive Officer of the Company Pursuant to Rule 13a-14(a) under the Exchange Act, as adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*\*



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

32.1 Certification by the Principal Executive Officer of SigmaTron International, Inc. Pursuant to Rule 13a-14(b) under the Exchange Act and Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).\*\*

32.2 Certification by the Principal Financial Officer of SigmaTron International, Inc. Pursuant to Rule 13a-14(b) under the Exchange Act and Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).\*\*

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

\* Indicates management contract or compensatory plan.

\*\* Filed herewith

(c) Exhibits

The Company hereby files as exhibits to this Report the exhibits listed in Item 15(a)(3) above, which are attached hereto or incorporated herein.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

SIGMATRON INTERNATIONAL, INC.

By: /s/ Gary R. Fairhead

Gary R. Fairhead, President and Chief Executive Officer,  
Principal Executive Officer and Director

Dated: July 24, 2018

KNOW ALL PERSONS BY THESE PRESENTS, that the undersigned directors and officers of SigmaTron International, Inc., a Delaware corporation, which is filing an Annual Report on Form 10-K with the Securities and Exchange Commission under the provisions of the Securities Exchange Act of 1934 as amended, hereby constitute and appoint Gary R. Fairhead and Linda K. Frauendorfer, and each of them, each of their true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place and stead, in all capacities, to sign any or all amendments to the report to be filed with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as each of them might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities, and on the dates indicated.

Signature	Title	Date
/s/ Gary R. Fairhead Gary R. Fairhead	Chairman of the Board of Directors, President and Chief Executive Officer, (Principal Executive Officer) and Director	July 24, 2018
/s/ Linda K. Frauendorfer Linda K. Frauendorfer	Chief Financial Officer, Secretary and Treasurer (Principal Financial Officer and Principal	July 24, 2018

Accounting Officer) and Director

/s/ Thomas W. Rieck Thomas W. Rieck	Director	July 24, 2018
/s/ Dilip S. Vyas Dilip S. Vyas	Director	July 24, 2018
/s/ Paul J. Plante Paul J. Plante	Director	July 24, 2018
/s/ Barry R. Horek Barry R. Horek	Director	July 24, 2018
/s/ Bruce J. Mantia Bruce J. Mantia	Director	July 24, 2018

INDEX TO FINANCIAL STATEMENTS

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SigmaTron International, Inc. and Subsidiaries

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM F-2

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders

SigmaTron International, Inc.

Elk Grove Village, Illinois

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Sigmatron International, Inc. (the “Company”) and subsidiaries as of April 30, 2018 and 2017, the related consolidated statements of operations, changes in stockholders’ equity, and cash flows for each of the years then ended, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and subsidiaries at April 30, 2018 and 2017, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

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

/s/ BDO USA, LLP

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

Chicago, Illinois

July 24, 2018

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SigmaTron International, Inc. and Subsidiaries

## CONSOLIDATED BALANCE SHEETS

APRIL 30, 2018 and 2017

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ASSETS	2018	2017
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,721,599	\$ 3,493,324
Accounts receivable, less allowance for doubtful accounts of \$300,000 and \$100,000 at April 30, 2018 and 2017, respectively	26,638,367	26,656,871
Inventories, net	86,929,793	73,571,238
Prepaid expenses and other assets	1,948,748	2,971,087
Refundable and prepaid income taxes	1,655,409	339,791
Note receivable	-	887,531
Other receivables	1,135,810	1,112,071
Total current assets	120,029,726	109,031,913
<b>PROPERTY, MACHINERY AND EQUIPMENT, NET</b>	35,288,997	33,008,714
<b>OTHER LONG-TERM ASSETS</b>		
Intangible assets, net	3,088,085	4,213,235
Goodwill	-	3,222,899
Deferred income taxes	1,109,681	236,087
Other assets	1,713,481	1,472,816
Total other long-term assets	5,911,247	9,145,037
<b>TOTAL ASSETS</b>	<b>\$ 161,229,970</b>	<b>\$ 151,185,664</b>

The accompanying notes are an integral part of these statements.

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SigmaTron International, Inc. and Subsidiaries

## CONSOLIDATED BALANCE SHEETS – CONTINUED

APRIL 30, 2018 and 2017

LIABILITIES AND STOCKHOLDERS' EQUITY	2018	2017
<b>CURRENT LIABILITIES</b>		
Trade accounts payable	\$ 49,326,402	\$ 46,160,395
Accrued expenses	2,930,792	2,322,055
Accrued wages	3,730,755	4,489,602
Income taxes payable	-	69,868
Current portion of long-term debt	655,190	351,562
Current portion of capital lease obligations	2,320,538	1,711,204
Current portion of contingent consideration	213,460	286,240
Current portion of deferred rent	201,349	220,288
Total current liabilities	59,378,486	55,611,214
Long-term debt, less current portion	36,783,879	27,192,246
Capital lease obligations, less current portion	4,297,846	3,364,825
Contingent consideration, less current portion	-	237,578
Income taxes payable	498,000	-
Other long-term liabilities	1,130,557	991,017
Deferred rent, less current portion	331,251	555,348
Deferred income taxes	-	1,361,291
Total long-term liabilities	43,041,533	33,702,305
Total liabilities	102,420,019	89,313,519
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock, \$.01 par value; 500,000 shares authorized, none issued or outstanding	-	-
Common stock, \$.01 par value; 12,000,000 shares authorized, 4,215,258 and 4,195,813 shares issued and outstanding at April 30, 2018 and 2017, respectively	41,896	41,702
Capital in excess of par value	23,132,017	22,952,535
Retained earnings	35,636,038	38,877,908

Explanation of Responses:

Total stockholders' equity	58,809,951	61,872,145
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 161,229,970	\$ 151,185,664

The accompanying notes are an integral part of these statements.

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SigmaTron International, Inc. and Subsidiaries

## CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended April 30, 2018 and 2017

	2018	2017
Net sales	\$ 278,131,709	\$ 253,370,175
Cost of products sold	251,528,791	228,194,867
Gross profit	26,602,918	25,175,308
Selling and administrative expenses	23,089,939	21,909,110
Impairment of goodwill and intangible asset	3,913,006	-
Loss on settlement of receivable and disposal of related assets	2,509,423	-
Operating (loss) income	(2,909,450)	3,266,198
Other income	(144,574)	(367,338)
Interest expense	1,537,446	1,135,853
(Loss) income before income taxes	(4,302,322)	2,497,683
Income tax (benefit) expense	(1,060,452)	1,107,477
NET (LOSS) INCOME	\$ (3,241,870)	\$ 1,390,206
(Loss) earnings per common share		
Basic	\$ (0.77)	\$ 0.33
Diluted	\$ (0.77)	\$ 0.33
Weighted-average shares of common stock outstanding		
Basic	4,205,483	4,186,183
Diluted	4,205,483	4,213,592

The accompanying notes are an integral part of these statements.

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## SigmaTron International, Inc. and Subsidiaries

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years ended April 30, 2018 and 2017

	Preferred stock	Common stock	Capital in excess of par value	Retained earnings	Total stockholders' equity
Balance at May 1, 2016	\$ -	41,560	22,546,616	37,487,702	60,075,878
Recognition of stock-based compensation	-	-	332,783	-	332,783
Exercise of stock options	-	12	4,308	-	4,320
Vesting of restricted stock	-	113	60,536	-	60,649
Employee stock purchases	-	17	8,330	-	8,347
Excess tax expense on stock options and awards	-	-	(38)	-	(38)
Net income	-	-	-	1,390,206	1,390,206
Balance at April 30, 2017	-	41,702	22,952,535	38,877,908	61,872,145
Recognition of stock-based compensation	-	-	83,659	-	83,659
Exercise of stock options	-	194	95,823	-	96,017
Net loss	-	-	-	(3,241,870)	(3,241,870)
Balance at April 30, 2018	\$ -	\$ 41,896	\$ 23,132,017	\$ 35,636,038	\$ 58,809,951



The accompanying notes are an integral part of these statements.

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SigmaTron International, Inc. and Subsidiaries

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended April 30, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Net (loss) income	\$ (3,241,870)	\$ 1,390,206
Adjustments to reconcile net income (loss) to net cash used in operating activities		
Depreciation and amortization	5,118,297	4,708,876
Stock-based compensation	83,659	332,783
Restricted stock expense	-	60,649
Increase in allowance for doubtful accounts	200,000	-
Increase in inventory obsolescence reserve	-	300,000
Loss on settlement of receivable and disposal of related assets	2,509,423	-
Impairment of goodwill	3,222,899	-
Impairment of intangible asset	690,107	-
Deferred income tax (benefit) expense	(2,234,885)	2,641
Amortization of intangible assets	435,043	490,010
Amortization of financing fees	63,669	111,981
Fair value adjustment of contingent consideration	(84,344)	(353,591)
Loss from disposal or sale of machinery and equipment	20,011	58,456
Gain from involuntary conversion on non-monetary assets due to fire	-	(276,967)
Changes in assets and liabilities		
Accounts receivable	(1,716,793)	(8,812,643)
Inventories	(13,415,555)	(6,222,216)
Prepaid expenses and other assets	1,761,070	(1,092,816)
Refundable and prepaid income taxes	(1,315,618)	435,056
Income taxes payable	428,132	69,868
Trade accounts payable	3,166,007	9,148,609
Deferred rent	(243,036)	(207,542)
Accrued expenses and wages	(163,300)	(197,121)
Net cash used in operating activities	(4,717,084)	(53,761)
Cash flows from investing activities		
Purchases of machinery and equipment	(3,731,370)	(3,505,486)
Net cash used in investing activities	(3,731,370)	(3,505,486)
Cash flows from financing activities		
Advances on notes receivable	(880,000)	-
Proceeds from the exercise of common stock options	96,017	4,320
Proceeds from Employee stock purchases	-	8,347
Proceeds under equipment note	943,136	932,812

Explanation of Responses:

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Proceeds under sale leaseback agreements	-	904,027
Tax expense on stock options and awards	-	(38)
Payments of contingent consideration	(226,014)	(273,672)
Payments under capital lease and sale leaseback agreements	(2,144,866)	(1,610,356)
Payments under equipment note	(297,328)	(29,850)
Proceeds under building notes payable	7,000,000	-
Payments under building notes payable	(3,741,000)	(165,000)
Borrowings under lines of credit	15,912,446	94,123,100
Payments under lines of credit	(9,811,244)	(90,958,740)
Payments of financing fees	(174,418)	(207,647)
Net cash provided by financing activities	6,676,729	2,727,303
Change in cash	(1,771,725)	(831,944)

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SigmaTron International, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS – Continued

Years ended April 30, 2018 and 2017

Cash and cash equivalents at beginning of year	3,493,324	4,325,268
Cash and cash equivalents at end of year	\$ 1,721,599	\$ 3,493,324

	2018	2017
Supplementary disclosures of cash flow information		
Cash paid for interest	\$ 1,435,067	\$ 994,583
Cash paid for income taxes	2,053,779	603,091
Purchase of machinery and equipment financed under capital leases	3,687,221	1,189,701
Financing of insurance policy	152,730	157,805

The accompanying notes are an integral part of these statements.



SigmaTron International, Inc. and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2018 and 2017

### NOTE A - DESCRIPTION OF THE BUSINESS

SigmaTron International, Inc., its subsidiaries, foreign enterprises and international procurement office (collectively, the “Company”) operates in one business segment as an independent provider of electronic manufacturing services (“EMS”), which includes printed circuit board assemblies and completely assembled (box-build) electronic products. In connection with the production of assembled products, the Company also provides services to its customers, including (1) automatic and manual assembly and testing of products; (2) material sourcing and procurement; (3) manufacturing and test engineering support; (4) design services; (5) warehousing and distribution services; and (6) assistance in obtaining product approval from governmental and other regulatory bodies. As of April 30, 2018, the Company provided these manufacturing services through an international network of facilities located in the United States, Mexico, China, Vietnam and Taiwan. Approximately 14.0% of the total non-current consolidated assets of the Company are located in foreign jurisdictions outside the United States as of April 30, 2018 and 2017.

### NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Consolidation Policy

The consolidated financial statements include the accounts and transactions of SigmaTron International, Inc. (“SigmaTron”), its wholly-owned subsidiaries, Standard Components de Mexico, S.A., AbleMex S.A. de C.V., Digital Appliance Controls de Mexico, S.A. de C.V., Spitfire Controls (Vietnam) Co. Ltd., Spitfire Controls (Cayman) Co. Ltd. and SigmaTron International Trading Co., wholly-owned foreign enterprises Suzhou SigmaTron Electronics Co. Ltd., and SigmaTron Electronic Technology Co., Ltd. (collectively, “SigmaTron China”), and its international procurement office, SigmaTron Taiwan. The functional currency of the Mexican, Vietnamese and Chinese subsidiaries and procurement branch is the U.S. Dollar. Intercompany transactions are eliminated in the consolidated financial statements. The impact of currency fluctuations for the fiscal year ended April 30, 2018 resulted in net foreign currency transaction gains of approximately \$125,000 compared to net foreign currency losses of \$508,000 in the prior year.

#### Use of Estimates

#### Explanation of Responses:

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates made in preparing the consolidated financial statements include depreciation and amortization periods, the allowance for doubtful accounts, reserves for inventory, lower of cost or market adjustment for inventory, contingent consideration, deferred taxes, uncertain tax positions, valuation allowance for deferred taxes and valuation of goodwill and long-lived assets. Actual results could materially differ from these estimates.

#### Cash and Cash Equivalents

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

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SigmaTron International, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

April 30, 2018 and 2017

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Accounts Receivable

The majority of the Company's accounts receivable are due from companies in the industrial electronics, consumer electronics and medical/life sciences industries. Credit is extended based on evaluation of a customer's financial condition, and, generally, collateral is not required. Accounts receivable are due in accordance with agreed upon terms, and are stated at amounts due from customers net of an allowance for doubtful accounts. Accounts outstanding longer than the contractual payments terms are considered past due. The Company writes off accounts receivable when they are determined to be uncollectible.

The Company has arrangements with various financial institutions to sell certain eligible accounts receivable balances from specific customers. The accounts receivable balances sold are at the election of the Company and the Company incurred fees for such sales, which were not material for the year ended April 30, 2018 or 2017. The accounts receivable balances are derecognized at the time of sale, as the Company does not have continuing involvement after the point of sale. During the years ended April 30, 2018 and 2017, the Company sold without recourse trade receivables of approximately \$78,000,000 and \$95,000,000, respectively. Cash proceeds from these agreements are reflected as operating activities included in the change in accounts receivable in the Company's consolidated statements of cash flows.

Allowance for Doubtful Accounts

The Company's allowance for doubtful accounts relates to receivables not expected to be collected from its customers. This allowance is based on management's assessment of specific customer balances, considering the age of receivables and financial stability of the customer and a five year average of prior uncollectible amounts. If there is an adverse change in the financial condition of the Company's customers, or if actual defaults are higher than provided for, an addition to the allowance may be necessary.

Inventories

Explanation of Responses:



Inventories are valued at cost. Cost is determined by an average cost method and the Company allocates labor and overhead to work-in-process and finished goods. In the event of an inventory write-down, the Company records expense to state the inventory at lower of cost or net realizable value. The Company establishes inventory reserves for valuation, shrinkage, and excess and obsolete inventory. The Company records provisions for inventory shrinkage based on historical experience to account for unmeasured usage or loss. The Company records provisions for excess and obsolete inventories for the difference between the cost of inventory and its estimated realizable value based on assumptions about future product demand and market conditions. For convenience, the Company records these inventory reserves against the inventory cost through a contra asset rather than through a new cost basis. Upon a subsequent sale or disposal of the impaired inventory, the corresponding reserve is relieved to ensure the cost basis of the inventory reflects any reductions. Actual results differing from these estimates could significantly affect the Company's inventories and cost of products sold as the inventory is sold or otherwise relieved.

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SigmaTron International, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

April 30, 2018 and 2017

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Property, Machinery and Equipment

Property, machinery and equipment are valued at cost. The Company provides for depreciation and amortization using the straight-line method over the estimated useful life of the assets:

Buildings	20 years
Machinery and equipment	5-12 years
Office equipment and software	3-5 years
Tools and dies	12 months
Leasehold improvements	lesser of lease term or useful life

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

Deferred Financing Costs

Deferred financing costs consist of costs incurred to obtain the Company's long-term debt and are amortized using the effective interest method over the term of the related debt. Deferred financing fees of \$319,332 and \$208,583 net of accumulated amortization of \$75,585 and \$11,916, respectively, as of April 30, 2018 and 2017, respectively, are deducted from long term debt on the Company's balance sheet.

Income Taxes

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

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

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

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

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SigmaTron International, Inc. and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

April 30, 2018 and 2017

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

## Income Taxes - Continued

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

## Earnings per Share

Basic earnings per share are computed by dividing net income (loss) (the numerator) by the weighted-average number of common shares outstanding (the denominator) for the period. The computation of diluted earnings per share is similar to the computation of basic earnings per share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potentially dilutive common stock equivalents such as stock options and restricted stock, had been exercised or vested. There were 109,402 and 285,000 anti-dilutive common stock equivalents at April 30, 2018 and April 30, 2017, respectively, which have been excluded from the calculation of diluted earnings per share.

	Twelve Months Ended	
	April 30,	
	2018	2017
Net (loss) income	\$ (3,241,870)	\$ 1,390,206
Weighted-average shares		
Basic	4,205,483	4,186,183
Effect of dilutive stock options	-	27,409

Explanation of Responses:

Diluted	4,205,483	4,213,592
Basic (loss) earnings per share	\$ (0.77)	\$ 0.33
Diluted (loss) earnings per share	\$ (0.77)	\$ 0.33

### Revenue Recognition

Revenues from sales of the Company's electronic manufacturing services business are recognized when the finished good product is shipped to the customer. In general, and except for consignment inventory, it is the Company's policy to recognize revenue and related costs when the finished goods have been shipped from its facilities, which is also the same point in time that title passes under the terms of the purchase order and control passes to the customer. Finished goods inventory for certain customers is shipped from the Company to an independent warehouse for storage or shipped directly to the customer and stored in a segregated part of the customer's own facility. Upon the customer's request for finished goods inventory, the inventory is shipped to the customer if the inventory was stored off-site, or transferred from the segregated part of the customer's facility for consumption or use by the customer. The Company recognizes revenue upon such shipment or transfer to the customer. The Company does not earn a fee for such arrangements. The Company from time to time may ship finished goods from its facilities, which is also the same point in time that title passes under the terms of the purchase order, and invoice the customer at the end of the calendar month. This is done only in special circumstances to accommodate a specific customer. Further, from time to time

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SigmaTron International, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

April 30, 2018 and 2017

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Revenue Recognition - Continued

customers request the Company hold finished goods after they have been invoiced to consolidate finished goods for shipping purposes. The Company generally provides a warranty for workmanship, unless the assembly was designed by the Company, in which case it warrants assembly/design. The Company does not have any installation, acceptance or sales incentives (although the Company has negotiated longer warranty terms in certain instances). The Company assembles and tests assemblies based on customers' specifications. Historically, the amount of returns for workmanship issues has been de minimis under the Company's standard or extended warranties.

Shipping and Handling Costs

The Company records shipping and handling costs for goods shipped to customers as selling and administrative expenses. Customers are typically invoiced for shipping costs and such amounts are included in net sales. Shipping and handling costs were not material to the financial statements for fiscal years 2018 or 2017.

Fair Value Measurements

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

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

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

Explanation of Responses:

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

#### Fair Value of Financial Instruments

The Company's financial instruments include cash and cash equivalents, accounts receivable, note receivable, other receivables, accounts payable and accrued expenses which approximate fair value at April 30, 2018 and 2017, due to their short-term nature. The carrying amounts of the Company's debt obligations approximate fair value based on future payments discounted at current interest rates for similar obligations or interest rates which fluctuate with the market.

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

The Company entered into an Asset Purchase Agreement with Wagz, Inc. (Wagz) whereby the Company sold assets to Wagz for \$350,000 cash, 600,000 shares of Wagz Class C Common Stock and an earn-out based on sales by Wagz generated from use of the assets through July 31, 2022. The earn-out is \$6.00 per unit of a product specified in the asset purchase agreement and any upgrade to such product. The fair value of the non-cash consideration consisted of \$600,000 for the 600,000 shares of Wagz common stock which is recorded within other assets. The Company determined the fair value of the equity using the price per common share received by Wagz in a recent financing transaction, a level 3 input. The Company did not assign any value to the earn-out because any receipts from the earn-out are contingent upon Wagz selling the product specified in the asset purchase agreement between the Company and Wagz.

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SigmaTron International, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

April 30, 2018 and 2017

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Goodwill

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

of the reporting unit and comparing that value to its carrying value (the “step 2” requirement). If the fair value is less than its carrying value, a second step of the test is required to determine if recorded goodwill is impaired. The Company also has the option to bypass the qualitative assessment for goodwill in any period and proceed directly to performing the quantitative impairment test. The Company will be able to resume performing the qualitative assessment in any subsequent period. For fiscal 2017, the Company performed its annual goodwill impairment test as of February 1, 2017 and determined no impairment existed as of that date. The step one analysis was performed using a combination of a market approach and an income approach based on a discounted cash flow analysis.

For fiscal year 2018, the Company early adopted the guidance contained in Accounting Standards Update (ASU) No. 2017-04, “Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment,” which removes the step 2 requirement to perform a hypothetical purchase price allocation to measure goodwill impairment. Beginning with its February 1, 2018 goodwill impairment testing, goodwill impairment is the amount by which the Company’s single reporting unit carrying value exceeds its fair value, not to exceed the recorded amount of goodwill. To estimate the fair value of the Company’s equity, the Company used both a market approach based on the guideline companies’ method, and an income approach based on a discounted cash flow analysis. The value indicated by both methods was weighted to arrive at a concluded value. The carrying value of the Company’s equity was greater than the fair value of the Company based on the valuation analysis by an amount greater than the recorded amount of the goodwill. In the fourth quarter of fiscal 2018, the Company’s forecasted future cash flow declined from prior estimates. The Company is experiencing declining margins due to pricing pressures from vendors and customers. Also at this time, electronic component manufacturers began allocating components to their customers



which required the Company to increase its investment in working capital. The decline in the forecasted cash flow resulted in a lower estimate of the fair value of the Company's reporting unit causing the Company to take an impairment charge on all of its goodwill. The Company has begun taking steps to improve its margins and has negotiated an increase in its revolving credit facility to address its working capital needs. Accordingly, the Company recognized a full goodwill impairment charge of \$3,222,899.

#### Intangible Assets

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

#### Impairment of Long-Lived Assets

The Company reviews long-lived assets, including amortizable intangible assets, for impairment. Property, machinery and equipment and finite life intangible assets are reviewed whenever events or changes in circumstances occur that indicate possible impairment. If events or changes in circumstances occur that indicate possible impairment, the

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SigmaTron International, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

April 30, 2018 and 2017

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Impairment of Long-Lived Assets - Continued

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

Settlement of Receivable, Related Sale of Assets and Investments

As more fully described in Note E – Related Parties, the Company has recorded an investment in Wagz, a privately held company whose equity does not have a readily determinable fair value. As permitted by ASC 321, Investments - Equity Securities, paragraph 321-35-2, the Company has elected to carry its investment in Wagz equity at its cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for identical or a similar investment of the same issuer until the investment no longer qualifies to be measured under paragraph 321-35-2. The balance at fiscal year ended April 30, 2018 was \$600,000 which is recorded under other assets. For the fiscal year ended April 30, 2018, the Company has not recognized any impairment of this investment.

Stock Incentive Plans

Under the Company's stock option plans, options to acquire shares of common stock have been made available for grant to certain employees and directors. Each option granted has an exercise price of not less than 100% of the

Explanation of Responses:

market value of the common stock on the date of grant. The contractual life of each option is generally 10 years. The vesting of the grants varies according to the individual options granted. The Company measures the cost of employee services received in exchange for an equity award based on the grant date fair value and records that cost over the respective vesting period of the award.

#### Reclassifications

Certain reclassifications have been made to the previously reported 2017 financial statements to conform to the 2018 presentation. There was no change to net income.

#### New Accounting Standards

In May 2014, the FASB issued Accounting Standards Update (“ASU”) No. 2014-09, "Revenue from Contracts with Customers" (Topic 606) which supersedes the revenue recognition requirements in ASC 605, “Revenue Recognition”. In summary, the core principle of this standard, along with various subsequent amendments, is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additionally, the new standard requires enhanced disclosures about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including revenue recognition policies to identify performance obligations, assets recognized from costs incurred to obtain and fulfill a contract, and significant judgments in measurements and recognition. The standard, as amended, was effective for annual periods beginning after December 15, 2017, including interim periods within that reporting period. Companies have the option of using either a full or modified retrospective approach in applying this standard.

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SigmaTron International, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

April 30, 2018 and 2017

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

New Accounting Standards – Continued

To plan for the adoption of the standard, the Company conducted an analysis to determine the impact the new standard would have on its consolidated financial statements. This analysis included reviewing 1) contract terms and existing accounting policies to determine the financial impact of the standard, 2) data availability and system reports to meet the additional disclosure requirements of the standard, 3) any practical expedients the Company could elect upon adoption and 4) the control environment and internal processes to ensure the appropriate controls are in place. As part of implementation efforts we reviewed and modified our standard manufacturing agreement and invoice terms and conditions to emphasize that title, risk of loss and control of the finished goods products we sell transfers to our customers upon shipment.

The Company adopted the ASU on May 1, 2018 using the modified retrospective transition method, applying the guidance to those contracts which were not completed as of that date. The Company's adoption of ASC 606 did not result in any changes in accounting requiring a transition adjustment to retained earnings.

Pursuant to the Company's adoption of the standard, it is in the process of expanding its disclosures in the consolidated financial statements for revenue recognition, assets and liabilities relating to contracts with customers, the nature of the Company's performance obligations and the manner by which the Company determines and allocates transaction prices to its performance obligations, and the significant judgments inherent in its revenue recognition policies. The Company also is in the process of implementing enhancements to its internal controls to support the Company's ability to sustain compliance with the standard after adoption.

In February 2016, the FASB issued ASU No. 2016-02, "Leases". The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for capital leases and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. While the

Company is still evaluating the impact of its pending adoption of the new standard on its consolidated financial statements, the Company expects that upon adoption in the fiscal year ending April 30, 2020, it will recognize ROU assets and lease liabilities and the amounts could be material.

In March 2016, the FASB issued ASU No. 2016-09, "Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting", a new accounting standard update intended to simplify several aspects of the accounting for share-based payment transactions including: income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. Specifically, the update requires that excess tax benefits and tax deficiencies (the difference between the deduction for tax purposes and the compensation cost recognized for financial reporting purposes) be recognized as income tax expense or benefit

in the consolidated statements of operations, introducing a new element of volatility to the provision for income taxes. This update is effective for fiscal years beginning after December 15, 2016. Early adoption is permitted. The Company adopted the ASU on May 1, 2017. Effective with the adoption of the ASU all share-based awards continue to be accounted for as equity awards, excess tax benefits recognized on stock-based compensation expense are reflected in the consolidated statements of operations as a component of the provision for income taxes on a prospective basis, excess tax benefits recognized on stock-based compensation expense are classified as an operating activity in the consolidated statements of cash flows on a prospective basis and the Company has elected to continue to estimate expected forfeitures over the course of a vesting period. The adoption of the ASU had no material impact on the retained earnings, other components of equity or net assets as of the beginning of the period of adoption.

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SigmaTron International, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

April 30, 2018 and 2017

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

New Accounting Standards - Continued

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

In August 2016, the FASB issued ASU Update No. 2016-15, “Statement of Cash Flows- Classification of Certain Cash Receipts and Cash Payments,” which is intended to reduce diversity in practice in how certain transactions are classified in the statements of cash flows. This update will be effective for fiscal years beginning after December 15, 2017 (the Company’s fiscal year ending April 30, 2019), and interim periods within those fiscal years. Early adoption is permitted, provided that all of the amendments are adopted in the same period. The guidance requires application using a retrospective transition method. The Company plans to adopt the ASU in its fiscal year ending April 30, 2019.

The Company does not expect the impact of the adoption of this ASU to have a material impact on the Company’s consolidated statements of cash flows.

In January 2017, the FASB issued ASU No. 2017-04, “Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment,” which removes the step 2 requirement to perform a hypothetical purchase price allocation to measure goodwill impairment. Goodwill impairment will now be the amount by which a reporting unit’s carrying value exceeds its fair value, not to exceed the recorded amount of goodwill. This guidance is effective for public companies for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019, and early adoption is permitted. The Company early adopted this guidance in the third quarter of its fiscal year

ending April 30, 2018 and is applying this guidance to all future tests.

In January 2017, the FASB issued ASU No. 2017-01, “Business Combinations (Topic 805): Clarifying the Definition of a Business,” which clarifies the definition of a business when evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. For public companies, this ASU is effective for annual periods beginning after December 15, 2017, including interim periods within those periods. The Company adopted this ASU in the fourth quarter of its fiscal year ending April 30, 2018. The Company will apply the clarified definition of a business, as applicable, from the period of adoption.

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

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SigmaTron International, Inc. and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

April 30, 2018 and 2017

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

## New Accounting Standards - Continued

In May 2018, the FASB issued ASU No. 2018-05, Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118, regarding the accounting implications of the recently issued Tax Cuts and Jobs Act (the “Act”). This standard is effective immediately. The update clarifies that in a company’s financial statements that include the reporting period in which the Act was enacted, the company must first reflect the income tax effects of the Act in which the accounting under GAAP is complete. These amounts would not be provisional amounts. The company would also report provisional amounts for those specific income tax effects for which the accounting under GAAP is incomplete but a reasonable estimate can be determined. The Company has recorded a provisional amount which it believes is a reasonable estimate of the effects of the Act on the Company’s financial statements as of April 30, 2018. Technical corrections or other forthcoming guidance could change how the Company interprets provisions of the Act, which may impact its effective tax rate and could affect its deferred tax assets, tax positions and/or its tax liabilities.

## NOTE C - ALLOWANCE FOR DOUBTFUL ACCOUNTS

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

	2018	2017
Beginning Balance	\$ 100,000	\$ 100,000
Bad debt expense	200,000	-
Write-offs	-	-
	\$ 300,000	\$ 100,000



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SigmaTron International, Inc. and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

April 30, 2018 and 2017

## NOTE D - INVENTORIES

Inventories consist of the following at April 30:

	2018	2017
Finished products	\$ 20,404,849	\$ 20,291,768
Work-in-process	2,075,465	1,795,852
Raw materials	65,652,411	52,748,542
	88,132,725	74,836,162
Less obsolescence reserve	1,202,932	1,264,924
	\$ 86,929,793	\$ 73,571,238

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

	2018	2017
Beginning balance	\$ 1,264,924	\$ 1,212,532
Provision for obsolescence	-	300,000
Write-offs	(61,992)	(247,608)
	\$ 1,202,932	\$ 1,264,924

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SigmaTron International, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

April 30, 2018 and 2017

NOTE E - RELATED PARTIES

In March, 2015, two of the Company's executive officers invested in a start-up customer, Petzila, Inc. ("Petzila"). The executive officers' investments constituted less than 2% (individually and in aggregate) of the outstanding beneficial ownership of Petzila, according to information provided by Petzila to the executive officers. As of April 2018, Petzila owed the Company approximately \$3,652,800, consisting of an outstanding note receivable of \$2,117,500 and account receivable of \$1,535,300, compared to an outstanding note receivable and account receivable of approximately \$888,000 and \$1,271,000, respectively, at April 30, 2017. As of April 2018, inventory on hand related to this customer approximated \$211,000 compared to \$310,000 at April 30, 2017. Sales to this customer have not been material for fiscal year 2018 or 2017.

On January 29, 2016, the Company entered into a memorandum of understanding with Petzila. Under the subsequent agreement, effective January 29, 2016, the then outstanding account receivable of approximately \$888,000 was converted into a short-term promissory note. The promissory note bore interest at the rate of 8% per annum, payable at the maturity of the promissory note. The promissory note was scheduled to mature at the earlier of October 31, 2016, or within 10 days after the customer obtains certain equity financing, or at the closing of a sale of substantially all of Petzila's stock or assets. As additional consideration, the Company received warrants under the agreement. The warrants were ten years in duration and at an exercise price of \$0.01 per share and for a number of shares determined pursuant to the warrant, expected to be, at a minimum, approximately 1% of Petzila's then - outstanding equity securities. The Company believed the warrants had nil value. Further, the Company was granted a security interest in Petzila's accounts receivable and authority to access and be a signatory on its deposit accounts.

On December 6, 2016, the Company extended the maturity of the promissory note to July 31, 2017. The promissory note continued to bear interest at the rate of 8% per annum, payable monthly. As consideration, the Company received additional warrants under the agreement, which the Company believed had nil value.

On August 25, 2017, effective as of July 31, 2017, the Company and Petzila entered into a new forbearance agreement. The Company agreed to extend the maturity of the promissory note and forbear exercising its remedies until the earliest of a capital raise, the sale of Petzila, or October 31, 2017, and to fund Petzila's operations while Petzila explored its options by advancing a maximum of \$315,000 through October 31, 2017, pursuant to a new promissory note that bore interest at 8% per annum. Additionally, should Petzila's business be sold at a price exceeding \$5,000,000 and the amount necessary to pay its creditors, the Company would receive a fee in addition to the debt owed to the Company. The forbearance period and maturity date of the notes were set to expire on the

earliest of a capital raise, the sale of Petzila or October 31, 2017, but the Company had a unilateral right to extend the forbearance period and maturity of the notes and to make additional advances and did so as discussed further below.

The Company's right to receive the sale fee was an embedded derivative to the note receivable, which was required to be separated for accounting purposes. On July 31, 2017, the fair values of the new instruments received were as follows: note receivable \$887,531, warrants \$0 and embedded derivative \$0. After their initial recording at fair value, the note receivable and warrants were recorded at amortized cost. The embedded derivative will be recorded at fair value at each reporting period, with changes in value recognized as a gain or loss in the consolidated statement of operations. There was no gain or loss on the extinguishment, as the pre and post extinguishment fair values were consistent and there were no capitalized costs related to the extinguished instruments to expense.

During the time from November 1, 2017 through February 28, 2018, Petzila prepared and distributed a confidential information memorandum to potential buyers of its business, negotiated with interested buyers, and participated in due diligence. During that time, in an effort to enhance its secured position, the Company continued to provide working capital of \$105,000 each month and extended on a monthly basis the forbearance period and maturity of the notes. Petzila continued with its efforts to negotiate a sale of its business to a third party.

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SigmaTron International, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

April 30, 2018 and 2017

NOTE E - RELATED PARTIES - Continued

During the time from March 1, 2018 through April 30, 2018, the Company continued to provide working capital of \$145,000. Petzila continued with its efforts to negotiate a sale of its business to a third party.

On April 30, 2018 the Company foreclosed on its security interest and held a public sale of the assets in accordance with the requirements of Article 9 of the California Uniform Commercial Code. The Company acquired all of the assets of Petzila as the winning bidder at the public sale by a credit bid of \$3,500,000, the aggregate amount of Petzila's liability to the company.

Concurrent with the foreclosure sale, the Company entered into an Asset Purchase Agreement with Wagz, Inc. (Wagz) whereby the Company sold the assets to Wagz for \$350,000 cash, 600,000 shares of Wagz common stock and an earn-out based on sales by Wagz generated from use of the assets through July 31, 2022. The earn-out is \$6.00 per unit of a product specified in the asset purchase agreement and any upgrade to such product.

Accordingly, the Company recognized the fair value of the assets received from Wagz and derecognized the receivables from Petzila. The fair value of the assets received from Wagz was approximately \$950,000; therefore, the Company recognized a loss of approximately \$2,509,423 in its consolidated statement of operations for the year ended April 30, 2018.

The fair value of the non-cash consideration consisted of \$600,000 for the 600,000 shares of Wagz common stock which is recorded within other assets. The Company determined the fair value of the equity using the price per common share received by Wagz in a recent financing transaction, a level 3 input. The Company did not assign any value to the earn-out because any receipts from the earn-out are highly uncertain and contingent upon Wagz selling the product specified in the asset purchase agreement between the Company and Wagz.

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SigmaTron International, Inc. and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

April 30, 2018 and 2017

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

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

	2018	2017
Land and buildings	\$ 17,072,098	\$ 16,969,769
Machinery and equipment	61,746,650	59,795,532
Office equipment and software	10,670,918	9,601,149
Leasehold improvements	2,673,100	2,622,870
Equipment under capital leases	12,417,034	8,752,613
	104,579,800	97,741,933
Less accumulated depreciation and amortization, including amortization of assets under capital leases of \$3,072,310 and \$2,093,544 at April 30, 2018 and 2017, respectively	69,290,803	64,733,219
Property, machinery and equipment, net	\$ 35,288,997	\$ 33,008,714

Depreciation and amortization expense of property, machinery and equipment was \$5,118,297 and \$4,708,876 for the years ended April 30, 2018 and 2017, respectively.

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SigmaTron International, Inc. and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

April 30, 2018 and 2017

## NOTE G - GOODWILL AND INTANGIBLE ASSETS

## Goodwill

The carrying amount of tax deductible goodwill for the fiscal years ended April 30, 2018 and 2017 is as follows:

	2018	2017
Beginning balance	\$ 3,222,899	\$ 3,222,899
Impairment	(3,222,899)	-
Ending balance	\$ -	\$ 3,222,899

## Intangible Assets

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

	Weighted Average Remaining Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization
Other intangible assets – Able	-	\$ 375,000	\$ 375,000
Customer relationships – Able	-	2,395,000	2,395,000
Spitfire:			
Non-contractual customer relationships	9.08	4,690,000	1,609,670
Backlog	-	22,000	22,000
Trade names	14.08	-	-

Explanation of Responses:



Non-compete agreements	1.08	50,000	42,245
Patents	-	400,000	400,000
Total		\$ 7,932,000	\$ 4,843,915

For fiscal year 2018, the Company early adopted the guidance contained in Accounting Standards Update (ASU) No. 2017-04, "Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment," which removes the step 2 requirement to perform a hypothetical purchase price allocation to measure goodwill impairment. Beginning with its February 1, 2018 goodwill impairment testing, goodwill impairment is the amount by which the Company's single reporting unit carrying value exceeds its fair value, not to exceed the recorded amount of goodwill. To estimate the fair value of the Company's equity, the Company used both a market approach based on the guideline companies' method, and an income approach based on a discounted cash flow analysis. The value indicated by both methods was weighted to arrive at a concluded value. The carrying value of the Company's equity was greater than the fair value of the Company based on the valuation analysis by an amount greater than the recorded amount of the goodwill. In the fourth quarter of fiscal 2018, the Company's forecasted future cash flow declined from prior estimates. The Company is experiencing declining margins due to pricing pressures from vendors and customers. Also at this time, electronic component manufacturers began allocating components to their customers which required the Company to increase its investment in working capital. The decline in the forecasted cash flow resulted in a lower estimate of the fair value of the Company's reporting unit causing the Company to take an impairment charge on all of its goodwill. The Company has begun taking steps to improve its margins and has negotiated an increase in its revolving credit facility to address its working capital needs. Accordingly, the Company recognized a full goodwill impairment charge of \$3,222,899.

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SigmaTron International, Inc. and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

April 30, 2018 and 2017

## NOTE G - GOODWILL AND INTANGIBLE ASSETS - Continued

## Intangible Assets - Continued

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

Intangible assets subject to amortization are summarized as of April 30, 2017 as follows:

	Weighted Average Remaining Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization
Other intangible assets – Able	-	\$ 375,000	\$ 375,000
Customer relationships – Able	-	2,395,000	2,395,000
Spitfire:			
Non-contractual customer relationships	10.08	4,690,000	1,237,410
Backlog	-	22,000	22,000
Trade names	15.08	980,000	240,897
Non-compete agreements	2.08	50,000	35,105

Explanation of Responses:

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Patents	0.08	400,000	393,353
Total		\$ 8,912,000	\$ 4,698,765

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

For the fiscal year ending April 30:

2019	\$ 374,725
2020	362,410
2021	354,203
2022	346,582
2023	339,128
Thereafter	1,311,037
	\$ 3,088,085

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SigmaTron International, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

April 30, 2018 and 2017

NOTE G - GOODWILL AND INTANGIBLE ASSETS - Continued

Intangible Assets - Continued

Amortization expense was \$435,043 and \$490,010 for the years ended April 30, 2018 and 2017, respectively.

In conjunction with the May 2012 acquisition of Spitfire, an estimate of the fair value of the contingent consideration, \$2,320,000, was recorded based on expected operating results through fiscal 2019 and the specific terms of when such consideration would be earned. Those terms provide for additional consideration to be paid based on a percentage of sales and pre-tax profits over those years in excess of certain minimums. Payments are made quarterly each year and adjusted after each year-end audit. The Company decreased the estimated remaining payments expected to be paid under the agreement, which resulted in a decrease of \$353,591 and \$84,344 to the contingent consideration liability for the fiscal years ended April 30, 2018 and 2017, respectively. Any change in the Company's estimate is reflected as a change in the contingent consideration liability and as additional charges or credits to selling and administrative expenses. The Company made payments totaling \$226,014 and \$273,672 for the years ended April 30, 2018 and 2017, respectively. As of April 30, 2018, the contingent consideration liability was \$213,460 compared to \$523,818 at April 30, 2017.

NOTE H - LONG-TERM DEBT

Note Payable - Bank

Prior to March 31, 2017 the Company had a senior secured credit facility with Wells Fargo, N.A. with a revolving credit limit up to \$30,000,000. The credit facility was collateralized by substantially all of the Company's domestically located assets and the Company had pledged 65% of its equity ownership interest in some of its foreign entities. Prior to its payoff and termination, the Wells Fargo, N.A. senior secured credit facility was due to expire on October 31, 2018. On March 31, 2017, the Company paid the balance outstanding under the senior revolving credit facility in the amount of \$22,232,914. The remaining deferred financing costs of \$68,475 were expensed in the fourth quarter of fiscal 2017.

Explanation of Responses:

On March 31, 2017, the Company entered into a \$35,000,000 senior secured credit facility with U.S. Bank, National Association (“U.S. Bank”), which expires on March 31, 2022. The credit facility is collateralized by substantially all of the Company’s domestically located assets. The facility allows the Company to choose among interest rates at which it may borrow funds: the bank fixed rate of four percent or LIBOR plus one and one half percent (effectively 3.83% at April 30, 2018). Interest is due monthly. Under the senior secured credit facility, the Company may borrow up to the lesser of (i) \$35,000,000 or (ii) an amount equal to a percentage of the eligible receivable borrowing base plus a percentage of the eligible inventory borrowing base (the “Borrowing Base”). Deferred financing costs of \$34,971 and \$207,647 were capitalized in the twelve month period ending April 30, 2018 and the fourth quarter of fiscal 2017, respectively, which are amortized over the term of the agreement. As of April 30, 2018 and April 30, 2017 the unamortized amount included in other assets was \$192,502 and \$204,186, respectively. As of April 30, 2018, there was \$29,279,631 outstanding and \$5,720,369 of unused availability under the U.S. Bank facility compared to an outstanding balance of \$23,178,429 and \$11,821,571 of unused availability at April 30, 2017. At April 30, 2018, the Company was in compliance with its financial covenant and other restricted covenants under the credit facility.

On July 16, 2018, the Company and U.S. Bank entered into an amendment of the revolving credit facility. The amended revolving credit facility allows the Company to borrow up to the lesser of (i) \$45,000,000 less reserves or (ii) 90% of the Company’s Borrowing Base, except that the 90% limitation will expire if the Company’s actual revolving loans for the first 90 days after the amendment’s effective date are less than 80% of the Company’s Borrowing Base and the Company maintains a Fixed Charge Coverage Ratio of 1.2 to 1.0 for four consecutive quarters. The amendment also imposes sublimits on categories of inventory equal to \$17,500,000 on raw materials and \$25,000,000 on finished goods.

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SigmaTron International, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

April 30, 2018 and 2017

NOTE H - LONG-TERM DEBT - Continued

Note Payable - Bank - Continued

On August 4, 2015, the Company's wholly-owned subsidiary, Wujiang SigmaTron Electronics Co., Ltd., entered into a credit facility with China Construction Bank. Under the agreement Wujiang SigmaTron Electronics Co., Ltd. could borrow up to 5,000,000 Renminbi and the facility was collateralized by Wujiang SigmaTron Electronics Co., Ltd.'s manufacturing building. Interest was payable monthly and the facility had a fixed interest rate of 6.67%. The facility was due to expire on August 3, 2017. The credit facility was closed as of March 1, 2017.

On March 24, 2017, the Company's wholly-owned subsidiary, SigmaTron Electronic Technology Co., Ltd., entered into a credit facility with China Construction Bank. Under the agreement SigmaTron Electronic Technology Co., Ltd. could borrow up to 9,000,000 Renminbi and the facility was collateralized by Wujiang SigmaTron Electronics Co., Ltd.'s manufacturing building. Interest was payable monthly and the facility had a fixed interest rate of 6.09%. The term of the facility extended to February 7, 2018. The credit facility was closed as of February 11, 2018. There was no outstanding balance under the facility at April 30, 2017.

On February 12, 2018, the Company's wholly-owned subsidiary, SigmaTron Electronic Technology Co., Ltd., entered into a credit facility with China Construction Bank. Under the agreement SigmaTron Electronic Technology Co., Ltd. can borrow up to 5,000,000 Renminbi and the facility is collateralized by Wujiang SigmaTron Electronics Co., Ltd.'s manufacturing building. Interest is payable monthly and the facility bears a fixed interest rate of 6.09%. The term of the facility extends to February 7, 2019. There was no outstanding balance under the facility at April 30, 2018.

Notes Payable - Buildings

The Company entered into a mortgage agreement on January 8, 2010, in the amount of \$2,500,000, with Wells Fargo, N.A. to refinance the property that serves as the Company's corporate headquarters and its Illinois manufacturing facility. On November 24, 2014, the Company refinanced the mortgage agreement with Wells Fargo, N.A. The note

required the Company to pay monthly principal payments in the amount of \$9,500, bore an interest rate of LIBOR plus two and one-quarter percent and was payable over a sixty month period. A final payment of approximately \$2,289,500 was due on or before November 8, 2019. On December 21, 2017, the Company repaid its Wells Fargo, N.A. mortgage agreement for the remaining amount outstanding of \$2,498,500, using proceeds from the U.S. Bank mortgage agreement. The outstanding balance was \$2,574,500 at April 30, 2017.

The Company entered into a mortgage agreement on December 21, 2017, in the amount of \$5,200,000, with U.S. Bank to refinance the property that serves as the Company's corporate headquarters and its Illinois manufacturing facility. The note requires the Company to pay monthly principal payments in the amount of \$17,333, bears interest at a fixed rate of 4.0% per year and is payable over a fifty-one month period. Deferred financing costs of \$74,066 were capitalized in fiscal year 2018 which are amortized over the term of the agreement. As of April 30, 2018 the unamortized amount included in other assets was \$66,945. A final payment of approximately \$4,347,778 is due on or before March 31, 2022. The outstanding balance was \$5,148,000 at April 30, 2018.

The Company entered into a mortgage agreement on October 24, 2013, in the amount of \$1,275,000, with Wells Fargo, N.A. to finance the property that serves as the Company's engineering and design center in Elgin, Illinois. The Wells Fargo, N.A. note required the Company to pay monthly principal payments in the amount of \$4,250, bore interest at a fixed rate of 4.5% per year and was payable over a sixty month period. A final payment of approximately \$1,030,000 was due on or before October 2018. On December 21, 2017, the Company repaid its Wells Fargo, N.A. mortgage agreement for the remaining amount outstanding of \$1,062,500, using proceeds from the U.S. Bank mortgage agreement. The outstanding balance was \$1,096,500 at April 30, 2017.

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SigmaTron International, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

April 30, 2018 and 2017

NOTE H - LONG-TERM DEBT - Continued

Notes Payable - Buildings - Continued

The Company entered into a mortgage agreement on December 21, 2017, in the amount of \$1,800,000, with U.S. Bank to refinance the property that serves as the Company's engineering and design center in Elgin, Illinois. The note requires the Company to pay monthly principal payments in the amount of \$6,000, bears interest at a fixed rate of 4.0% per year and is payable over a fifty-one month period. Deferred financing costs of \$65,381 were capitalized in the fiscal year 2018 which are amortized over the term of the agreement. As of April 30, 2018 the unamortized amount included in other assets was \$59,094. A final payment of approximately \$1,505,000 is due on or before March 31, 2022. The outstanding balance was \$1,782,000 at April 30, 2018.

Notes Payable - Equipment

On November 1, 2016, the Company entered into a secured note agreement with Engencap Fin S.A. DE C.V. to finance the purchase of equipment in the amount of \$596,987. The term of the agreement extends to November 1, 2021 with average quarterly payments of \$35,060 beginning on February 1, 2017 and a fixed interest rate of 6.65%. The balance outstanding under this note agreement was \$447,741 and \$567,138 at April 30, 2018 and April 30, 2017, respectively.

On February 1, 2017, the Company entered into a secured note agreement with Engencap Fin S.A. DE C.V. to finance the purchase of equipment in the amount of \$335,825. The term of the agreement extends to February 1, 2022 with average quarterly payments of \$20,031 beginning on May 1, 2017 and a fixed interest rate of 7.35%. The balance outstanding under this note agreement was \$268,660 and \$335,825 at April 30, 2018 and April 30, 2017, respectively.

On June 1, 2017, the Company entered into a secured note agreement with Engencap Fin S.A. DE C.V. to finance the purchase of equipment in the amount of \$636,100. The term of the agreement extends to June 1, 2022 with average quarterly payments of \$37,941 beginning on September 1, 2017 and a fixed interest rate of 7.35%. The balance outstanding under this note agreement was \$540,685 at April 30, 2018.



On October 1, 2017, the Company entered into a secured note agreement with Engencap Fin S.A. DE C.V. to finance the purchase of equipment in the amount of \$307,036. The term of the agreement extends to November 1, 2022 with average quarterly payments of \$18,314 beginning on February 1, 2018 and a fixed interest rate of 7.35%. The balance outstanding under this note agreement was \$291,684 at April 30, 2018.

#### Capital Lease and Sale Leaseback Obligations

From October 2013 through June 2017, the Company entered into various capital lease and sales leaseback agreements with Associated Bank, National Association to purchase equipment totaling \$6,893,596. The terms of the lease agreements extend to September 2018 through May 2022 with monthly installment payments ranging from \$1,455 to \$40,173 and a fixed interest rate ranging from 3.75% to 4.90%. The balance outstanding under these capital lease agreements was \$2,923,524 and \$3,627,760 at April 30, 2018 and April 30, 2017, respectively. The net book value of the equipment under these leases was \$4,799,827 and \$4,713,044 at April 30, 2018 and April 30, 2017, respectively.

From April 2014 through July 2015, the Company entered into various capital lease agreements with CIT Finance LLC to purchase equipment totaling \$2,512,051. The terms of the lease agreements extend to March 2019 through July 2020 with monthly installment payments ranging from \$1,931 to \$12,764 and a fixed interest rate ranging from 5.65% through 6.50%. The balance outstanding under these capital lease agreements was \$984,031 and \$1,448,269 at April 30, 2018 and April 30, 2017, respectively. The net book value of the equipment under these leases was \$1,736,688 and \$1,946,026 at April 30, 2018 and April 30, 2017, respectively.

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SigmaTron International, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

April 30, 2018 and 2017

NOTE H - LONG-TERM DEBT - Continued

Capital Lease and Sale Leaseback Obligations - Continued

From September 2017 through April 2018, the Company entered into various capital lease and sales leaseback agreements with First American Equipment Finance to purchase equipment totaling \$3,011,387. The terms of the lease agreements extend to August 2021 through April 2022 with monthly installment payments ranging from \$6,716 to \$20,093 and a fixed interest rate ranging from 5.82% through 7.23%. The balance outstanding under these capital lease agreements was \$2,688,029 at April 30, 2018. The net book value of the equipment under these leases was \$2,808,209 at April 30, 2018.

The aggregate amount of debt, net of deferred financing fees, maturing in each of the following fiscal years and thereafter is as follows:

Fiscal Year	Total
2019	\$ 655,190
2020	655,190
2021	655,190
2022	35,473,499
	\$ 37,439,069

See Note M - Leases, Page F-35 for future maturities under capital lease obligations.

Other Long-Term Liabilities

As of April 30, 2018 and 2017, the Company had recorded \$1,130,557 and \$991,017, respectively, for seniority premiums and retirement accounts related to benefits for employees, \$1,052,082 and \$913,827 of which, respectively, are for the Company's foreign subsidiaries.

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SigmaTron International, Inc. and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

April 30, 2018 and 2017

## NOTE I - ACCRUED EXPENSES AND WAGES

Accrued expenses consist of the following at April 30:

	2018	2017
Interest	\$ 121,845	\$ 90,639
Commissions	187,936	143,738
Professional fees	322,377	419,801
Other - Purchases	156,634	117,069
Other	2,142,000	1,550,808
	\$ 2,930,792	\$ 2,322,055

Accrued wages consist of the following at April 30:

	2018	2017
Wages	\$ 1,945,142	\$ 1,785,078
Bonuses	467,306	819,207
Foreign wages	1,318,307	1,885,317

Explanation of Responses:

\$ 3,730,755 \$ 4,489,602

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SigmaTron International, Inc. and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

April 30, 2018 and 2017

## NOTE J - INCOME TAX

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

	2018	2017
Domestic	\$ (5,906,596)	\$ 1,326,266
Foreign	1,604,274	1,171,417
	\$ (4,302,322)	\$ 2,497,683

## Income Tax Provision

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

	2018	2017
Current		
Federal	\$ 433,291	\$ 501,226
State	28,296	13,697
Foreign	712,846	589,913
Total Current	1,174,433	1,104,836
Deferred		
Federal	(1,551,921)	(54,213)
State	(240,647)	59,884

Explanation of Responses:

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Foreign	(442,317)	(3,030)
Total Deferred	(2,234,885)	2,641
Income tax	\$ (1,060,452)	\$ 1,107,477

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SigmaTron International, Inc. and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

April 30, 2018 and 2017

## NOTE J - INCOME TAX - Continued

## Income Tax Provision - Continued

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

	2018	2017
U.S Federal Provision:		
At statutory rate	\$ (1,325,872)	\$ 849,215
State taxes	(151,508)	42,643
Change in valuation allowance	-	78,100
Foreign tax differential	60,302	(89,885)
Impact of state tax rate change	3,670	5,920
Impact of foreign permanent items	23,106	7,171
Tax law changes	581,222	28,599
Foreign currency exchange gain/loss	(172,062)	328,239
Foreign inflation adjustment	(129,227)	(61,707)
Stock based compensation	49,917	(80,818)
Provision for income taxes	\$ (1,060,452)	\$ 1,107,477





SigmaTron International, Inc. and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

April 30, 2018 and 2017

## NOTE J - INCOME TAX - Continued

## Deferred Tax Assets and Liabilities

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

	2018	2017
Deferred Tax Assets		
Federal, foreign & state NOL carryforwards	\$ 730,561	\$ 29,168
Foreign tax credit	78,100	78,100
Reserves and accruals	598,364	723,313
Stock based compensation	314,221	462,156
Inventory	869,471	1,177,067
Other intangibles	834,512	206,736
Deferred rent	114,171	211,509
Allowance for doubtful accounts	76,500	38,360
Other DTA	-	13,839
Federal benefit of state	-	45,589
Total Gross Deferred Tax Assets	3,615,900	2,985,837
Less: Valuation allowance	(78,100)	(78,100)
Net Deferred Tax Assets	\$ 3,537,800	\$ 2,907,737
Deferred Tax Liabilities		
Other assets	\$ (3,485)	\$ (318,830)
Property, machinery & equipment	(2,198,332)	(3,441,393)
Prepays	(203,924)	(272,718)
Federal benefit of state	(22,378)	-

Explanation of Responses:

Total Deferred Tax Liabilities	\$ (2,428,119)	\$ (4,032,941)
Net Deferred Tax Asset (Liability)	\$ 1,109,681	\$ (1,125,204)

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

Due to the Tax Act, the SEC staff issued Staff Accounting Bulletin 118 (“SAB 118”), which provides guidance on accounting for the tax effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond

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SigmaTron International, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

April 30, 2018 and 2017

NOTE J - INCOME TAX - Continued

Deferred Tax Assets and Liabilities - Continued

one year from the Tax Act enactment date for companies to complete the accounting under ASC 740. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Tax Act for which the accounting under ASC 740 is complete. To the extent that a company's accounting for certain income tax effects of the Tax Act is incomplete but it is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the Tax Act.

Due to the timing of the enactment and the complexity involved in applying the provisions of the Tax Act, the Company has made reasonable estimates for certain effects of the Tax Act and recorded provisional amounts in its financial statements as of April 30, 2018. As the Company collects and prepares necessary calculations of cumulative earnings and profits, tax pools and amounts held in cash or other specified assets, as well as interprets the Tax Act and any additional guidance issued by the U.S. Treasury Department, the IRS, and other standard-setting bodies, the Company may make adjustments to the provisional amounts. Those adjustments may materially impact its provision for income taxes and effective tax rate in the period in which the adjustments are made. The Company expects to complete its accounting for the tax effects of the Tax Act in fiscal year 2019.

In connection with the Company's initial analysis of the impact of the Tax Act, we recognized a provisional amount of \$566,000, which is included as a component of income tax expense.

Provisional Amounts

The Company remeasured certain deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future, which is generally 21%. However, the Company is still analyzing certain aspects of the Tax Act and refining its calculations, which could potentially affect the measurement of these balances or potentially give rise

to new deferred tax amounts. The provisional amount recorded related to the remeasurement of the Company's deferred tax balance resulted in an increase in income tax expense of \$25,000 for the year ended April 30, 2018.

Prior to the enactment of Tax Act, the Company had not recorded U.S. income taxes on the undistributed earnings of the Company's foreign subsidiaries. The earnings of the foreign subsidiaries have been indefinitely reinvested, and as a result, no deferred tax liability was previously recorded. In light of the Tax Act and the one-time transition tax, for the period ended January 31, 2018, the Company recorded a provisional amount for its one-time transition tax liability for the cumulative undistributed earnings of its foreign subsidiaries, resulting in an increase in income tax expense of \$541,000 for the year ended April 30, 2018.

The one-time transition tax is based on total post-1986 earnings and profits (E&P) that the Company previously deferred from U.S. income taxes. The entire amount of the transition tax liability, except for \$70,000, is recorded as a long-term liability. The Company has not yet completed its calculation of the total post-1986 E&P for these foreign subsidiaries. Further, the transition tax is based in part on the amount of those earnings held in cash and other specified assets. This amount may change when the Company finalizes the calculation of post-1986 foreign E&P previously deferred from U.S. federal taxation and finalize the amounts held in cash or other specified assets.

As of April 30, 2018 the Company had a net operating loss carryforward for federal income tax purposes of approximately \$1,068,000 which is carried forward indefinitely. The Company has state net operating loss carry-forwards totaling approximately \$976,000 at April 30, 2018, that will begin to expire in fiscal year April 30, 2025. The Company had foreign net operating loss carryforwards of \$1,825,000 as of April 30, 2018 which will begin to expire in 2023. The Company recognizes a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion, or all, of a deferred tax asset will not be realized. The Company determined it is more likely than not that it will realize the deferred tax assets due to the reversal of deferred tax liabilities and

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SigmaTron International, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

April 30, 2018 and 2017

NOTE J - INCOME TAX - Continued

Deferred Tax Assets and Liabilities - Continued

forecast of future earnings. The deferred tax assets exceed the deferred tax liabilities and based on the reversing pattern in addition to the forecast of future earnings, the Company has concluded that all of the deferred tax liabilities are expected to reverse within the period of time available to fully utilize all the deferred tax assets. Therefore, the Company has concluded that a valuation allowance is not required as of April 30, 2018, related to net operating loss carryforwards. The Company has established a valuation allowance of \$78,100 related to its foreign tax credit carry-forward. The Company's estimate of cumulative taxable income during the foreign tax credit carryforward period is insufficient to support that the tax benefit from the foreign tax credit is more likely than not to be realized.

As a result of the Tax Act, the historic undistributed earnings of the Company's foreign subsidiaries will be taxed in the U.S. via the one-time repatriation tax in fiscal 2018. As a result of this transition tax, the Company may repatriate its cash and cash equivalents held by its foreign subsidiaries without such funds being subject to further U.S. income tax liability. Certain unrepatriated foreign earnings remain subject to local country withholding taxes upon repatriation. The Company continues to apply its permanent reinvestment assertion on the cumulative amount of unremitted earnings of \$13,085,000 as of April 30, 2018 from its foreign subsidiaries.

Unrecognized Tax Benefits

The Company has not identified any uncertain tax positions or expects any to be taken in the Company's tax returns. For the fiscal year ended April 30, 2018 and 2017, the amount of consolidated worldwide liability for uncertain tax positions that impacted the Company's effective tax rate was \$0 for each year.

Other

Interest and penalties related to tax positions taken in the Company's tax returns are recorded in income tax expense and miscellaneous selling, general and administrative expense, respectively, in the consolidated statements of operations. For the fiscal year ended April 30, 2018 and 2017, the amount included in the Company's balance sheet for such liabilities was \$0 for each year.

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

#### NOTE K - 401(k) RETIREMENT SAVINGS PLAN

The Company sponsors 401(k) retirement savings plans, which are available to all non-union U.S. employees. The Company may elect to match participant contributions up to \$300 per participant annually. The Company contributed \$90,744 and \$91,686 to the plans during the fiscal years ended April 30, 2018 and 2017, respectively. The Company incurred total expenses of \$12,700 and \$8,000 for the fiscal years ended April 30, 2018 and 2017, respectively, relating to costs associated with the administration of the plans.

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SigmaTron International, Inc. and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

April 30, 2018 and 2017

## NOTE L - MAJOR CUSTOMERS AND CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of uncollateralized accounts receivable. For the year ended April 30, 2018, two customers accounted for 20.2% and 13.3% of net sales of the Company, and 6.0% and 2.9%, respectively, of accounts receivable at April 30, 2018. For the year ended April 30, 2017, two customers accounted for 26.7% and 12.6% of net sales of the Company and 8.4% and 4.2%, respectively, of accounts receivable at April 30, 2017. Further, the Company has \$1,325,149 in cash in China as of April 30, 2018. Effective May 1, 2015, China implemented a deposit insurance program to insure up to approximately \$81,000 in deposits, under certain circumstances. Funds above this amount are not insured by a guaranteed deposit insurance system.

## NOTE M - LEASES

The Company leases certain facilities and office space under various operating leases expiring at various dates through April 2023. The Company also leases various machinery and equipment under capital leases.

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

Years ending April 30,	Capital Leases	Operating Leases
2019	\$ 2,685,337	\$ 2,326,475
2020	2,041,239	1,860,538
2021	1,618,137	1,371,245

Explanation of Responses:



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2022	874,589	707,338
2023	12,244	685,986
Total future minimum lease payments	\$ 7,231,546	\$ 6,951,582
Less amounts representing interest	613,162	
	6,618,384	
Less Current Portion	2,320,538	
Long Term Portion	\$ 4,297,846	

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SigmaTron International, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

April 30, 2018 and 2017

NOTE M - LEASES - Continued

Rent expense incurred under operating leases was \$2,391,328 and \$2,363,778 for the years ended April 30, 2018 and 2017, respectively.

In September 2010, the Company entered into a real estate lease agreement in Union City, CA, to rent approximately 117,000 square feet of manufacturing and office space. Under the terms of the lease agreement, the Company receives incentives over the life of the lease, which extends through March 2021. The amount of the deferred rent income recorded for the fiscal year ended April 30, 2018 was \$103,599 compared to \$79,575 in fiscal year 2017. In addition, the landlord provided the Company tenant incentives of \$418,000, which are being amortized over the life of the lease. The balance of deferred rent at April 30, 2018 was \$447,073 compared to \$550,672 at April 30, 2017.

On May 31, 2012, the Company entered into a lease agreement in Tijuana, MX, to rent approximately 112,000 square feet of manufacturing and office space. Under the terms of the lease agreement, the Company receives incentives over the life of the lease, which extends through November 2018. The amount of the deferred rent income for the fiscal year ended April 30, 2018 was \$139,437 compared to \$127,967 in fiscal year 2017. The balance of deferred rent at April 30, 2018 was \$85,527 compared to \$224,964 at April 30, 2017.

NOTE N - STOCK COMPENSATION AND EQUITY TRANSACTIONS

The Company has stock option plans (“Option Plans”) under which certain employees and non-employee directors may acquire shares of common stock. All Option Plans have been approved by the Company’s shareholders. At April 30, 2018, the Company has 117,914 shares available for future issuance to employees under the employee plans and none are available under the non-employee director plans. The Option Plans are interpreted and administered by the Compensation Committee of the Board of Directors. The maximum term of options granted under the Option Plans is generally 10 years. Options granted under the Option Plans are either incentive stock options or nonqualified options. Each option under the Option Plans is exercisable for one share of stock. Options forfeited under the Option

Plans are available for reissuance. Options granted under these plans are granted at an exercise price equal to the fair market value of a share of the Company's common stock on the date of grant.

The Company granted 25,000 options to employees in fiscal year 2014. The Company recognized approximately \$0 and \$3,500 in compensation expense in fiscal year 2018 and 2017, respectively. The balance of unrecognized compensation expense was \$0 at April 30, 2018 and 2017.

The Company granted 285,000 options to employees in fiscal year 2016. The Company recognized approximately \$83,700 and \$325,700 in compensation expense in fiscal year 2018 and 2017, respectively. The balance of unrecognized compensation expense was approximately \$0 and \$83,700 at April 30, 2018 and 2017, respectively.

In October 2017 and 2016, the Company issued 12,500 and 11,250 shares of restricted stock pursuant to the 2013 Non-Employee Director Restricted Stock Plan, which fully vested on April 1, 2018 and 2017, respectively. The Company recognized \$0 and \$60,649 in compensation expense in fiscal year 2018 and 2017, respectively. The balance of unrecognized compensation expense related to the Company's restricted stock award was \$0 at April 30, 2018 and 2017.

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SigmaTron International, Inc. and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

April 30, 2018 and 2017

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

The table below summarizes option activity through April 30, 2018:

	Number of securities to be issued upon exercise of outstanding options	Weighted-average exercise price	Number of options exercisable at end of year
Outstanding at April 30, 2016	367,963	5.84	172,513
Options exercised during 2017	(1,200)	3.60	
Outstanding at April 30, 2017	366,763	5.85	269,863
Options exercised during 2018	(19,445)	4.94	
Outstanding at April 30, 2018	347,318	\$ 5.90	347,318

Intrinsic value is calculated as the positive difference between the market price of the Company's common stock and the exercise price of the underlying options. During the fiscal years ended April 30, 2018 and 2017, the aggregate intrinsic value of options exercised was \$35,820 and \$2,172, respectively. As of April 30, 2018 and 2017, the aggregate intrinsic value of in the money options outstanding was \$305,396 and \$135,151, respectively.

Information with respect to stock options outstanding and exercisable at April 30, 2018 follows:

## Options outstanding and exercisable

Number outstanding at April 30, 2018	Weighted-average remaining contract life	Weighted-average exercise price
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Range of exercise prices

\$ 3.60-6.45	347,318	6.69 years	\$ 5.90
	347,318		\$ 5.90

As of April 30, 2018 there were no non-vested stock options.

The Company implemented an employee stock purchase plan (“ESPP”) for all eligible employees on February 1, 2014. The ESPP reserved 500,000 shares of common stock for issuance to employees. In addition, the number of shares of common stock reserved for issuance under the plan automatically increases on the first day of the Company’s fiscal years by 25,000 shares. The ESPP was terminated effective August 15, 2016. Final purchases under the ESPP were completed on August 31, 2016. There were 0 and 1,658 shares issued under the ESPP and the Company recorded \$0 and \$3,559 in compensation expense, for fiscal years ended April 30, 2018 and 2017, respectively.

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SigmaTron International, Inc. and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

April 30, 2018 and 2017

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

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

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

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

Explanation of Responses:

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

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SigmaTron International, Inc. and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

April 30, 2018 and 2017

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

The following is a summary of unaudited quarterly financial data for fiscal year 2017:

2017	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	\$ 59,184,975	\$ 66,159,586	\$ 62,164,167	\$ 65,861,447
Gross profit (1)	5,770,234	5,818,669	5,686,959	7,899,446
Income before income taxes (1), (2), (3)	226,858	26,616	89,036	2,155,173
Net income (loss)	146,597	33,295	(47,852)	1,258,166
Earnings (loss) per share Basic	\$ 0.04	\$ 0.01	\$ (0.01)	\$ 0.30
Earnings (loss) per share Diluted	\$ 0.03	\$ 0.01	\$ (0.01)	\$ 0.30
Weighted average shares- Basic	4,183,955	4,185,752	4,186,813	4,188,279
Weighted average shares- Diluted	4,214,535	4,225,874	4,186,813	4,207,266

- 1.) Due to a fire at one of the Company's plants during 2017, the Company recorded expense of approximately \$230,000 in prior quarters in costs of goods sold that was realized as an insurance recovery during the fourth quarter of 2017 as recovery was considered probable. As part of this settlement, a gain of approximately \$277,000



was also recorded in the fourth quarter of fiscal 2017 due to the insurance claim exceeding the net book value of the replacement machinery and equipment destroyed.

- 2.) The Company records inventory reserves for valuation and shrinkage throughout the year based on historical data. In the fourth quarter of fiscal 2017 physical inventory results were completed and the Company adjusted the estimate which increased income before income taxes by approximately \$780,000.
- 3.) As discussed in Note G, during the fourth quarter of fiscal 2017 the Company recorded a change in estimate related to Contingent Consideration which increased income before income tax expense in the amount of approximately \$247,000.

The aggregate after-tax effect for the above adjustments in the fourth quarter of fiscal 2017 was an increase to basic earnings per share of \$0.21.

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SigmaTron International, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

April 30, 2018 and 2017

NOTE P - LITIGATION

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

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