SIGMATRON INTERNATIONAL INC
Form 10-Q
March 12, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended January 31, 2008

Commission File Number 0-23248

SigmaTron International, Inc.
(Exact Name of Registrant, as Specified in its Charter)

Delaware	36-3918470
(State or other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

2201 Landmeier Road, Elk Grove Village, Illinois	60007
(Address of Principal Executive Offices)	(Zip Code)

Registrant's Telephone Number, Including Area Code: (847) 956-8000

No Change
(Former Name, Former Address, and Former Fiscal Year, if Changed Since Last Report)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check One):

[ ] Large accelerated filer [ ] Accelerated Filer

[X] Non-accelerated filer [ ] Smaller reporting company
(Do not check if a smaller reporting company)

Large accelerated filer [ ] Accelerated filer [ ] Non-accelerated [X].

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

On March 12, 2008, there were 3,822,556 shares of the Registrant's Common Stock outstanding.

SigmaTron International, Inc.

Index

SIGMATRON INTERNATIONAL, INC.
Consolidated Balance Sheets

	January 31, 2008 (Unaudited)	April 30, 2007

CURRENT ASSETS:		
Cash	$ 3,273,518	$ 2,769,653
Accounts receivable, less allowance for doubtful accounts of $194,800 at January 31, 2008 and $150,000 at April 30, 2007	23,765,033	20,279,874
Inventories, net	40,869,075	40,849,791
Refundable income taxes	157,940	--
Prepaid and other assets	1,337,799	1,289,207
Deferred income taxes	1,260,214	1,251,241
Other receivables	91,869	224,189
Total current assets	70,755,448	66,663,956
Property, machinery and equipment, net	29,612,340	30,971,107
Other assets	974,529	1,006,126
Intangible assets, net of amortization $1,694,928 and $1,308,228	1,075,072	1,461,772
Goodwill	9,298,945	9,298,945
Total assets	$111,716,334	$109,401,906
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Current liabilities:		
Trade accounts payable	$ 16,914,144	$ 15,473,660
Accrued expenses	1,939,495	2,613,636
Accrued wages	1,934,633	2,241,287
Income taxes payable	--	243,596
Notes payable - bank	1,000,000	1,000,000
Notes payable - building	452,686	528,092
Capital lease obligations	1,661,610	1,690,437
Total current liabilities	23,902,568	23,790,708
Notes payable - banks	28,857,768	27,219,015
Notes payable- building, less current portion	2,670,000	2,988,372
Capital lease obligations, less current portion	1,898,659	3,125,297
Deferred income taxes	2,691,393	2,537,493
Total long-term liabilities	36,117,820	35,870,177
Total liabilities	60,020,388	59,660,885
COMMITMENTS AND CONTINGENCIES:		
STOCKHOLDERS' EQUITY:		
Preferred stock, $.01 par value; 500,000 shares authorized, none issued and outstanding	--	--
Common stock, $.01 par value; 12,000,000 shares authorized, 3,822,556 and 3,794,956 shares issued and outstanding at January 31, 2008 and April 30, 2007	38,226	37,950
Capital in excess of par value	19,590,929	19,315,104
Retained earnings	32,066,791	30,387,967
Total stockholders' equity	51,695,946	49,741,021
Total liabilities and stockholders' equity	$111,716,334	$109,401,906

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

3

SIGMATRON INTERNATIONAL, INC.
Consolidated Statements Of Operations

	Three Months Ended January 31, 2008	Three Months Ended January 31, 2007	Ni
Net sales	$41,131,744	$44,584,513	
Cost of products sold	36,668,148	40,281,945	
Gross profit	4,463,596	4,302,568	
Selling and administrative expenses	3,191,689	3,519,246	
Operating income	1,271,907	783,322	
Other expense (income) -net	24,355	(59,835)	
Interest expense	730,529	717,648	
Income from operations before income tax expense	517,023	125,509	
Income tax expense	204,559	48,937	
Net income	$ 312,464	$ 76,572	
Earnings per share - basic	$ 0.08	$ 0.02	
Earnings per share - diluted	$ 0.08	$ 0.02	
Weighted average shares of common stock outstanding Basic	3,822,556	3,794,956	
Weighted average shares of common stock outstanding Diluted	3,897,314	3,895,939	

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

4

SigmaTron International, Inc.
Consolidated Statements of Cash Flows

	Nine Months Ended January 31, 2008	Nine Months Ended January 31, 2007

OPERATING ACTIVITIES:		
Net income	$ 1,832,722	$ 1,043,252
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	2,780,337	3,031,122
Stock-based compensation	23,009	34,286
Provision for doubtful accounts	44,800	--
Provision for inventory obsolescence	(102,273)	--
Deferred income taxes	(8,973)	(13,371)
Amortization of intangibles	386,700	554,034
Changes in operating assets and liabilities, net of acquisition		
Accounts receivable	(3,529,958)	(3,765,515)
Inventories	82,989	(7,040,430)
Prepaid expenses and other assets	(42,615)	868,866
Trade accounts payable	1,440,485	2,269,303
Accrued expenses and wages	(980,795)	561,492
Income taxes payable	(243,595)	(839,438)
Net cash provided by (used in) operating activities	1,682,833	(3,296,399)
INVESTING ACTIVITIES:		
Purchases of machinery and equipment	(1,421,570)	(1,728,839)
Net cash used in investing activities	(1,421,570)	(1,728,839)
FINANCING ACTIVITIES:		
Proceeds from exercise of options	253,092	17,600
Payments under capital lease obligations	(1,255,465)	(1,159,512)
Proceeds under term loan	--	1,250,000
Payments under term loan	(750,000)	(250,000)
Proceeds under lines of credit	2,388,753	4,642,711
Payments under building notes payable	(393,778)	(376,332)
Net cash provided by financing activities	242,602	4,124,467
CHANGE IN CASH	503,865	(900,771)
Cash at beginning of period	2,769,653	3,269,925
CASH AT END OF PERIOD	$ 3,273,518	$ 2,369,154
Supplementary disclosures of cash flow information		
Cash paid for interest	$ 2,512,453	$ 1,890,947
Cash paid for income taxes, net of (refunds)	1,301,446	1,415,033

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

SigmaTron International, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

January 31, 2008

NOTE A - BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of SigmaTron International, Inc. ("SigmaTron"), wholly-owned subsidiaries Standard Components de Mexico S.A., and Ablemex, S.A. de C.V., which was acquired in July 2005, and its wholly-owned foreign enterprise Wujiang SigmaTron Electronics Co. Ltd. ("SigmaTron China"), and procurement branch SigmaTron Taiwan (collectively, the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X.

Accordingly, the consolidated financial statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three and nine month periods ended January 31, 2008, are not necessarily indicative of the results that may be expected for the year ending April 30, 2008. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended April 30, 2007.

NOTE B - INVENTORIES

The components of inventory consist of the following:

	January 31, 2008	April 30, 2007
Finished products	$18,010,978	$10,359,223
Work-in-process	2,593,536	3,002,970
Raw materials	20,264,561	27,487,598
	$40,869,075	$40,849,791

NOTE C - STOCK INCENTIVE PLANS

The Company adopted Financial Accounting Standards Board, Share-Based Payment ("SFAS 123 (R)") Accounting for Stock Based Compensation on May 1, 2006, and implemented the new standard utilizing the modified prospective application transition method. SFAS 123 (R) requires the Company to measure the cost of employee services received in exchange for an equity award based on the grant date fair value. Options for which the requisite service requirement has not been rendered and that were outstanding as of May 1, 2006 are valued in accordance with SFAS 123 "Accounting for Stock Based Compensation" and compensation expense will be recognized over the remaining service period. Stock based compensation expense for all stock-based awards granted subsequent to May 1, 2006 was based on the grant date fair value estimated in accordance with the provisions of SFAS No.

123 (R). The Company did not grant any stock options in the third quarter ending January 31, 2008. In the third quarter of fiscal 2008, the Company recognized

approximately $8,600 in stock option expense for options that vested during the period and a tax benefit of approximately $3,300. The Company recognized approximately $23,000 in stock compensation expense associated with the grants and a tax benefit of approximately $9,000 for the nine months ended January 31, 2008.

In the third quarter of fiscal 2007, the Company granted 6,000 options to non-executive employees and the fair value of the option grants were $6.57 and $7.23. The Company recognized approximately $34,200 in stock compensation expense and a tax benefit of approximately $13,400 for the nine months ended January 31, 2007.

Under the Company's stock option plans, options to acquire shares of common stock have been made available for grant to certain employees and directors. Each option granted has an exercise price of not less than 100% of the market value of the common stock on the date of grant. The contractual life of each option is generally 10 years. The vesting of the grants varies according to the individual options granted.

The fair value of each option grant is estimated on the grant date using the Black-Scholes option pricing model with the following assumptions:

	Nine Months Ended January 31, 2008	Nine Months Ended January 31, 2007
Expected dividend yield	0%	0%
Expected stock price volatility	.750	.750
Average risk-free interest rate	3.91%	4.98%
Weighted-average expected life of options	6.5 years	6.5 years

Option-valuation models require the input of highly subjective assumptions. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion the existing method does not necessarily provide a reliable single measure of the fair value of the Company's employee stock options. The Company used the U.S. Treasury yield in effect at the time of the option grant to calculate the risk-free interest rate. The weighted-average expected life of options was calculated using the simplified method. The Company did not grant any stock options in the third quarter ending January 31, 2008.

The table below summarizes option activity from the beginning of fiscal year 2008 through January 31, 2008:

	Number of options	Weighted-average exercise price	Number of options exercisable at end of period
Outstanding at April 30, 2007	531,307	8.00	502,701
Options forfeited	(4,400)	9.17	
Options granted	2,500	11.56	
Options exercised	(27,600)	9.17	

Outstanding at January 31, 2008	501,807	480,947

The following tables set forth information with respect to stock options outstanding and stock options exercisable at January 31, 2008.

	Options outstanding		
Range of exercise prices	Number outstanding at January 31, 2008	Weighted-average remaining contractual life	Weighted-average exercise price
$2.20 - 5.63	103,515	3.85 years	$2.51
9.17 - 12.25	398,292	6.45 years	9.36
	501,807		

	Options exercisable	
Range of exercise prices	Number exercisable at January 31, 2008	Weighted-average exercise price
$2.20 - 5.63	103,515	$2.51
9.17 - 12.25	377,432	9.30
	480,947	

The following table summarizes the activity of the non-vested stock options from the beginning of fiscal year 2008 through January 31, 2008.

	Options	Weighted-average fair value at grant date
Non-vested at April 30, 2007	23,354	9.37
Forfeited	(1,000)	9.17
Vested	(3,970)	9.17
Non-vested at July 31, 2007	18,384	9.42

Granted	2,500	11.56
Vested	(625)	11.56
Vested	(3,300)	9.17
Non-vested at October 31, 2007	16,959	9.71
Forfeited	(3,400)	9.17
Vested	(1,650)	10.12
Vested	(333)	9.20
Non-vested at January 31, 2008	11,576	9.83

The aggregate intrinsic value is calculated as the difference between the market price of the Company's common stock as of January 31, 2008 and the exercise price of the underlying options. There were no options exercised during the third quarter ending January 31, 2008 and 2007, respectively. There were 27,600 and 8,000 options exercised for the nine months ended January 31, 2008 and 2007, respectively. The aggregate intrinsic value of options outstanding was $544,637 and $704,324 for the third quarter ending January 31, 2008 and 2007, respectively.

As of January 31, 2008, there was approximately $50,200 of unrecognized compensation cost related to the Company's stock option plans. Compensation cost of $35,000 is being amortized over a three year vesting period using a straight-line basis, and compensation cost of $15,200 is being amortized over a four year vesting period using a straight-line basis.

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

	Three Months Ended		Nine Months Ended	
	January 31, 2008	January 31, 2007	January 31, 2008	January 31, 2007
Net income	$ 312,464	$ 76,572	$1,832,722	$1,043,252
Weighted-average shares				
Basic	3,822,556	3,794,956	3,808,335	3,789,836
Effect of dilutive stock options	74,758	100,983	117,068	87,728
Diluted	3,897,314	3,895,939	3,925,403	3,877,564
Basic earnings per share	$ 0.08	$ 0.02	$ 0.48	$ 0.28
Diluted earnings per share	$ 0.08	$ 0.02	$ 0.47	$ 0.27

Options to purchase 501,807 and 531,307 shares of common stock were outstanding at January 31, 2008 and 2007, respectively.

NOTE D - FIN 48 (INCOME TAXES)

The Company adopted the provisions of FIN 48, on May 1, 2007. As a result of this adoption, the Company recognized an increase to its unrecognized tax positions of $153,900, which was recorded as a cumulative effect adjustment to retained earnings. As a result of implementing FIN 48, the Company had $197,978 of unrecognized tax benefits, of which $197,978, if recognized, would affect the Company's effective tax rate.

Upon adoption of FIN 48, the Company elected a new accounting policy to classify interest and penalties related to unrecognized tax benefits as a component of income tax expense. Interest was computed on the difference between the tax position recognized in accordance with FIN 48 and the amount previously taken or expected to be taken in the Company's tax returns. As of the adoption date, the Company has $25,690 of accrued interest expense, net of taxes related to unrecognized tax benefits. Penalties, if incurred, would be accounted for as a component of tax expense.

No statutes have been extended on any of the Company's federal income tax filings. The statute of limitations on the Company's fiscal year 2004, 2005 and 2006 federal income tax returns will expire on January 15, 2008, 2009 and 2010, respectively. The IRS concluded an examination of the

Company's fiscal 2005 federal income tax returns during the fourth quarter of 2007. This examination resulted in no changes to the previously reported tax liability.

The Company's state income tax returns for the fiscal years 2003 through 2006 remain subject to examination by various state authorities with the latest closing period on November 15, 2011. The Company recently concluded an examination with Texas for the fiscal 2003-2005 tax years. This examination resulted in no changes to the previously reported tax liability. The Company is currently not under examination by any state authority for income tax purposes and no statutes for state income tax filings have been extended.

The Company's foreign subsidiary, Wujiang SigmaTron Electronics Co., Ltd filed income tax returns for the 2005, 2006, and 2007 tax years, which remain subject to examination by China. The subsidiary is currently not under examination and no statutes have been extended.

The Company's foreign subsidiary, Standard Components de Mexico S.A., filed income tax returns for the 2002 through 2006 tax years, which remain subject to examination by Mexico. Standard Components de Mexico S.A. is currently not under examination and no statutes have been extended.

Additionally, the Company's foreign subsidiary, AbleMex, S.A. de C.V. filed income tax returns for the 2002 through 2006 tax years, which remain subject to examination by Mexico. AbleMex S.A. de C.V. is currently not under examination and no statutes have been extended.

NOTE E - ACCOUNTING CHANGE

The Company changed the date of its annual goodwill impairment test under Statement of Financial Accounting Standards No. 142 ("SFAS 142"), Goodwill and other Intangible Assets, from the last day of the fiscal year to the first day of the fiscal fourth quarter. The impairment test procedure will be carried out during the fourth quarter and up to the time of the filing of the Company's Form 10-K, which will allow the Company additional time to complete the required analysis under SFAS 142. The Company believes that the resulting change in accounting principle related to the annual testing date will not delay, accelerate or avoid an impairment charge. The Company determined that the change in accounting principle related to the annual testing date is preferable under the circumstances and does not result in adjustments to the Company's financial statements when applied retrospectively. The Company believes, based on the preliminary analysis it is likely it may have a significant impairment of goodwill. The analysis will be completed during the fourth quarter and the impairment, if any, will be reported in the fourth quarter of fiscal 2008. An impairment is reported as a non-cash transaction and as an expense on the Consolidated Statement of Operations. The Company has discussed this potential impairment with its bank and has been informed the potential recording of the goodwill impairment will not negatively affect its relationship with the bank going forward.

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 requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates made in preparing the consolidated financial statements include depreciation and amortization periods, the allowance for doubtful accounts, reserves for inventory and valuation of goodwill. Actual results could materially differ from these estimates.

Revenue Recognition - Revenues from sales of product including the Company's electronic manufacturing services business are recognized when the product is shipped to the customer. In general, it is the Company's policy to recognize revenue and related costs when the order has been shipped from our facilities, which is also the same point that title passes under the terms of the purchase order except for consignment inventory. Consignment inventory is shipped from the Company to an independent warehouse for storage or shipped directly to the customer and stored in a segregated part of the customer's own facility. Upon the customer's request for inventory, the consignment inventory is shipped to the customer if the inventory was stored offsite or transferred from the segregated part of the customer's facility for consumption, or use, by the customer. The Company recognizes revenue upon such transfer. The Company does not earn a fee for storing the consignment inventory. The Company generally provides a ninety (90) day warranty for workmanship only and does not have any installation, acceptance or sales incentives, although the Company has negotiated extended 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. Any returns for workmanship issues received after each period end are accrued in the respective financial statements.

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

Impairment of Long-Lived Assets - The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An asset is considered impaired if its carrying amount exceeds the future net cash flow the asset is expected to generate. If such asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset, if any, exceeds its fair market value. The Company has adopted SFAS No. 144, which establishes a single accounting model for the impairment or disposal of long-lived assets, including discontinued operations.

Goodwill and Other Intangibles - The Company adopted on June 1, 2001, SFAS No. 141 "Business Combinations". Under SFAS No. 141, a purchaser must allocate the total consideration paid in a business combination to the acquired tangible and intangible assets based on their fair value. Goodwill represents the purchase price in excess of the fair value of assets acquired in business combinations. Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets", requires the Company to assess goodwill for impairment at least annually in the absence of an indicator of possible impairment and immediately upon an indicator of possible impairment. The Company adopted SFAS effective January 1, 2002. During the fourth quarter of fiscal 2007, the Company completed its annual assessment of impairment regarding the goodwill recorded. The Company calculates fair value of the reporting unit utilizing a combination of a discounted cash flow approach and certain market approaches which considered both the Company's market capitalization and trading multiples of comparable companies. The calculations of fair value of the reporting unit involve significant judgment and different underlying assumptions could result in different calculated fair values. The goodwill impairment analysis indicated there was no goodwill impairment for the year ended April 30, 2007 as the fair value of the reporting unit exceeded the carrying value of the reporting unit by approximately 1%.

In January 2008, the Company changed the date of its annual goodwill impairment test under SFAS 142, from the last day of the fiscal year to the first day of the fiscal fourth quarter. The impairment test procedures will be carried out during the fourth quarter and up to the time of the filing of the Company's Form 10-K, which will allow the Company additional time to complete the required analysis under SFAS 142. The Company believes that the resulting change in accounting principle related to the annual testing date will not delay, accelerate or avoid an impairment charge. The Company determined that the change in accounting principle related to the annual testing date is preferable under the circumstances and does not result in adjustments to the Company's financial statements when applied retrospectively. The Company believes, based on the preliminary analysis it is likely it may have a significant impairment of goodwill. The analysis will be completed during the fourth quarter and the impairment, if any, will be reported in the fourth quarter of fiscal 2008. An impairment is reported as a non-cash transaction and as an expense on the Consolidation Statement of Operations. The Company has discussed this potential impairment with its bank and has been informed the potential recording of the goodwill impairment will not negatively affect its relationship with the bank going forward.

NEW ACCOUNTING STANDARDS:

In February 2006, the FASB issued Statement of Financial Accounting Standard No. 155, "Accounting for Certain Hybrid Instruments" (SFAS 155). FASB 155 allows financial instruments that have embedded derivatives to be accounted for as a whole (eliminating the need to bifurcate the derivative from its host) if the holder elects to account for the whole instrument on a fair value basis. This statement is effective for all financials instruments acquired or issued after the beginning of the entity's first fiscal year that begins after September 15, 2006. The adoption of SFAS 155 did not have a material impact on its consolidated financial statements.

In July 2006, the FASB issued FIN 48, "Accounting for Uncertainty in Income Taxes" to create a single model to address accounting for uncertainty in tax positions. FIN 48 clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance and derecognition, classification, interest and penalties, accounting in interim periods, disclosures, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company adopted FIN 48 as of May 1, 2007, as required. During the first quarter ended July 31, 2007, the Company recorded a cumulative effect adjustment of $153,900 to retained earnings as a result of the impact of FIN 48.

In September 2006, FASB issued SFAS No. 157 (SFAS 157), "Fair Value Measurements". SFAS 157 establishes a common definition for fair value to be applied to U.S. GAAP guidance requiring use of fair value, establishes a framework for measuring fair value, and expands disclosure about such fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently assessing the impact SFAS 157 may have on its financial statements.

In February 2007, the FASB issued SFAS No. 159 "The Fair Value Options for Financial Assets and Financial Liabilities (SFAS No. 159). SFAS 159 permits entities to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently assessing the impact of SFAS 159 may have on financial statements.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

In addition to historical financial information, this discussion of the business of SigmaTron International, Inc., its wholly-owned subsidiaries Standard Components de Mexico S.A., and AbleMex, S.A. de C.V., and its wholly-owned foreign enterprise Wujiang SigmaTron Electronics Co., Ltd. ("SigmaTron China"), and its procurement branch SigmaTron Taiwan (collectively the "Company") and other Items in this Report on Form 10-Q contain forward-looking statements concerning the Company's business or results of operations. Words such as "continue," "anticipate," "will," "expect," "believe," "plan," and similar expressions identify forward-looking statements. These forward-looking statements are based on the current expectations of SigmaTron (including its subsidiaries). 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 our continued dependence on certain significant customers; the continued market acceptance of products and services offered by the Company and its customers; pricing pressures from our customers, suppliers and the market; the activities of competitors, some of which may have greater financial or other resources than the Company; the variability of our operating results; the results of 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; the continued availability and sufficiency of our credit arrangements; changes in U.S., Mexican, Chinese or Taiwanese regulations affecting the Company's business; the continued stability of the U.S., Mexican, Chinese and Taiwanese economic systems, labor and political conditions; and the ability of the Company to manage its growth. These and other factors which may affect the Company's future business and results of operations are identified throughout the Company's Annual Report on Form 10-K and as risk factors and may be detailed from time to time in the Company's filings with the Securities and Exchange Commission. These statements speak as of the date of this report, and the Company undertakes no obligation to update such statements in light of future events or otherwise.

OVERVIEW:

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

Pricing for some components and related commodities has escalated and may continue to increase in the future periods. The impact of these price increases could have a negative effect on the Company's gross margins and operating results.

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, and the Company may be required to operate at a cost disadvantage compared to competitors who have greater direct buying power from suppliers. The Company does not enter into purchase agreements with major or single-source suppliers. The Company believes that ad-hoc negotiations with its suppliers provides flexibility, given that the Company's orders are based on the needs of its customers, which constantly change.

Sarbanes-Oxley, as well as rules subsequently implemented by the Securities and Exchange Commission and listing requirements subsequently adopted by Nasdaq in response to Sarbanes-Oxley, have required changes in corporate governance practices, internal control policies and audit committee practices of public companies. These rules, regulations, and requirements have increased the Company's legal expenses, financial compliance and administrative costs, made many other activities more time consuming and costly and diverted the attention of senior management. These rules and regulations could also make it more difficult for us to attract and retain qualified members for our board of directors, particularly to serve on our audit committee. In addition, if the Company were to receive a qualified opinion on the adequacy of its internal control over financial reporting, shareholders could lose confidence in the reliability of the Company's financial statements, which could have a material adverse impact on the value of the Company's stock.

Sales can be a misleading indicator of the Company's financial performance. Sales levels can vary considerably among customers and products depending on the type of services (consignment and turnkey) rendered by the Company and the demand by customers. Consignment orders require the Company to perform manufacturing services on components and other materials supplied by a customer, and the Company charges only for its labor, overhead and manufacturing costs, plus a profit. In the case of turnkey orders, the Company provides, in addition to manufacturing services, the components and other materials used in assembly. Turnkey contracts, in general, have a higher dollar volume of sales for each given assembly, owing to inclusion of the cost of components and other materials in net sales and cost of goods sold. Variations in the number of turnkey orders compared to consignment orders can lead to significant fluctuations in the Company's revenue levels. However, the Company does not believe that such variations are a meaningful indicator of the Company's gross margins. Consignment orders accounted for less than 5% of the Company's revenues for the nine months ended January 31, 2008.

In the past, the timing and rescheduling of orders have caused the Company to experience significant quarterly fluctuations in its revenues and earnings, and the Company expects such fluctuations to continue.

RESULTS OF OPERATIONS:

Net Sales

Net sales decreased for the three month period ended January 31, 2008 to $41,131,744 from $44,584,513 for the three month period ended January 31, 2007. Net sales for the nine months ended January 31, 2008 decreased to $123,790,664 from $126,403,040 for the same period in the prior fiscal year. Sales volume decreased for the three and nine month periods ended January 31, 2008 as compared to the same period in the prior year in the gaming, consumer electronics, appliance, auto, life sciences and semiconductor marketplaces. Sales volume increased for the nine month period ending January 31, 2008 as compared to the same period in the prior year in the fitness, industrial electronics and telecommunications marketplaces. The overall decrease in revenue for the three month period ended January 31, 2008 is a result of our customers' demand for product based on their forecast and a slower than anticipated startup of several new programs for certain customers. Pricing pressures continue at all locations.

Gross Profit

Gross profit increased during the three month period ended January 31, 2008 to $4,463,596 or 10.9% of net sales, compared to $4,302,568 or 9.6% of net sales for the same period in the prior fiscal year. Gross profit increased for the nine month period ended January 31, 2008 to $14,138,392 or 11.4% of net sales, compared to $13,017,267 or 10.3% of net sales for the same period in the prior fiscal year. The gross profit increased for the three and nine month period ended January 31, 2008 due to the mix of product shipped to customers. There can be no assurance that gross margins will not decrease in future quarters.

Selling and Administrative Expenses

Selling and administrative expenses decreased to $3,191,689 or 7.8% of net sales for the three month period ended January 31, 2008 compared to $3,519,246 or 7.9% of net sales in the same period in the prior fiscal year. Selling and administrative expenses decreased to $9,086,864 or 7.3% of net sales for the nine month period ended January 31, 2008 compared to $9,635,932 or 7.6% of net sales in the same period in the prior fiscal year. The decrease for the three and nine month periods ended January 31, 2008, is due to a decrease in sales commissions, sales and office salaries, amortization expense and accounting and legal fees. Expense increased for the three and nine month periods ended January 31, 2008, in accounting and IT salaries and general insurance expenses.

Interest Expense

Interest expense for bank debt and capital lease obligations for the three month period ended January 31, 2008 was $730,529 compared to $717,648 for the same period in the prior fiscal year. Interest expense increased to $2,152,016 for the nine month period ended January 31, 2008 as compared to $1,879,688 for the same period in the prior fiscal year. This change was attributable to the Company's increased borrowings under its revolving credit facility and increased capital lease obligations.

Taxes

The effective tax rate from operations for the three and nine month periods ended January 31, 2008 was 39.6% and 36.0%, respectively. The effective tax rate for the comparable periods in fiscal 2007 was 39.0% for the three and nine month periods ended, respectively. The effective tax rate has fluctuated due to the tax effects of the Company's foreign operations.

Net Income

Net income from operations increased to $312,464 for the three month period ended January 31, 2008 compared to $76,572 for the same period in the prior fiscal year. Basic and diluted earnings per share for the third fiscal quarter of 2008 were $0.08 compared to basic and diluted earnings per share of $0.02, respectively, for the same period in the prior fiscal year. For the nine months ended January 31, 2008, the Company recorded net income of $1,832,722 compared to $1,043,252 for the same period in the prior fiscal year. Basic and diluted earnings per share for the nine month period ended January 31, 2008 were $0.48 and $0.47 compared to basic and diluted earnings per share of $0.28 and $0.27, respectively, for the same period in the prior fiscal year.

LIQUIDITY AND CAPITAL RESOURCES:

OPERATING ACTIVITIES.

Cash flow provided by operating activities was $1,682,833 for the nine months ended January 31, 2008, compared to cash used in operations of $3,296,399 for the same period in the prior year. During the first nine months of fiscal year 2008, cash provided by operations was due to net income, an increase in trade payables and the non-cash effect of depreciation and amortization. Cash provided by operating activities was partially offset by an increase in accounts receivable due to timing of cash receipts from a significant customer.

For the nine months ended January 31, 2007, cash used in operations was due to an increase in accounts receivable and inventory. The increase in inventories was primarily attributable to an increase in customer orders and safety stock requirements. The increase in accounts receivable was due to an increase in sales volume. Cash used in operating activities was partially offset by net income, the non-cash effect of depreciation and amortization and an increase in trade payables.

INVESTING ACTIVITIES.

During the first nine months of fiscal 2008, the Company purchased approximately $1,422,000 in machinery and equipment to be used in the ordinary course of business. The Company expects to make additional machinery and equipment purchases of approximately $500,000 during the balance of fiscal 2008. During the first nine months of fiscal 2007, the Company purchased approximately $1,730,000 in machinery and equipment to be used in the ordinary course of business.

FINANCING TRANSACTIONS.

On July 31, 2006, the Company amended the credit facility to increase the revolving credit facility from $22,000,000 to $27,000,000. The Company also has a term loan which was increased to $4,000,000 from $2,750,000 on July 31, 2006. Interest payments only were due monthly through June 30, 2007 and quarterly principal payments of $250,000 are due each quarter beginning with the quarter ending June 30 2007, through the quarter ending June 30, 2011. In October 2006, the Company amended the credit facility to increase the revolving credit facility from $27,000,000 to $32,000,000. The increase of $5,000,000 was for a term of six months and expired on April 30, 2007. In April 2007, the amended revolving credit facility was renewed in the amount of $32,000,000 and will expire on September 30, 2009. The amended revolving credit facility is limited to the lesser of: (i) $32,000,000 or (ii) an amount equal to the sum of 85% of the receivable borrowing base and the lesser of $16,000,000 or a percentage of the inventory base. In January and April 2007, the Company's financial covenants were amended. At January 31, 2008, the Company was in compliance with its financial covenants, and $29,857,768 was outstanding under the revolving credit facility and term loan. There was approximately $2,142,232 of unused credit available as of January 31, 2008.

The loan and security agreement is collateralized by substantially all of the domestically-located assets of the Company and contains certain financial covenants, including specific covenants pertaining to the maintenance of minimum tangible net worth and net income. The agreement also restricts annual lease rentals and capital expenditures and prohibits the payment of dividends.

The Company anticipates its credit facilities, cash flow from operations and leasing resources will be adequate to meet its working capital requirements for the remainder of fiscal year 2008. In the event the business grows rapidly or the Company considers an acquisition, additional financing resources could be necessary in the current or future fiscal years. There is no assurance that the Company will be able to obtain equity or debt financing at acceptable terms in the future.

The Company provides funds for salaries, wages, overhead and capital expenditure items as necessary to operate its wholly-owned Mexican and Chinese subsidiaries and the Taiwan procurement branch. The Company provides funding in U.S. dollars, which are exchanged for pesos, RMB, and New Taiwan dollars as needed. The fluctuation of currencies from time to time, without an equal or greater increase in inflation, has not had a material impact on the financial results of the Company. During the first nine months of fiscal year 2008, the Company paid approximately $14,954,500 to its subsidiaries for services provided.

16

In May 2002, the Company acquired a plant in Acuna, Mexico through seller financing. The loan of $1,950,000 is payable in equal monthly installments of approximately $31,000 over six and a half years at a rate of 7% interest per annum. Prior to acquiring that plant, the Company rented the facility. At January 31, 2008, approximately $272,686 was outstanding in connection with the purchase of that facility.

Payments made under capital lease and building notes payable was $1,649,243 and $1,535,844 for the first nine months of fiscal 2008 and 2007, respectively.

The Company paid $750,000 under its term loan obligation and borrowed an additional $2,388,753 under its revolving credit facility during the first nine months of fiscal 2008. The balance on January 31, 2008 under the term loan obligation and revolving credit facility was $3,250,000 and $26,607,768, respectively.

During the first nine months of fiscal 2007 the Company paid $250,000 under its term loan obligation and borrowed an additional $4,642,711 under its revolving credit facility. At January 31, 2007, the Company had $4,000,000 and $23,804,611 outstanding under its term loan and revolving credit facility, respectively.

OFF-BALANCE SHEET TRANSACTIONS:

The Company has no off-balance sheet transactions.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS:

There have been no material changes to the Company's contractual obligations and commercial commitments.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

INTEREST RATE RISK

The Company's exposure to market risk for changes in interest rates is due primarily to its short-term investments and borrowings under its credit agreements. The Company's borrowings are at a variable rate and an increase in interest rates of 1% would have resulted in interest expense increasing by approximately $224,000 for the nine month period ended January 31, 2008. As of January 31, 2008, the Company had no short-term investments and approximately $29,900,000 of borrowings under its credit agreements. The Company does not use derivative financial investments. The Company's cash equivalents, if any, are invested in overnight commercial paper. The Company does not have any significant cash flow exposure due to rate changes for its cash equivalents, because these instruments are short-term.

ITEM 4. CONTROLS AND PROCEDURES.

Our management, including our President and Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rules

13a-15(e) and 15d-15(e)) as of January 31, 2008. Our disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports filed by the Company under the Securities Exchange Act of 1934 (the "Exchange Act") is recorded, processed, summarized and reported within the time periods specified in

17

the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our management, including our President and Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Based on this evaluation, our President and Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of January 31, 2008.

There has been no change in our internal control over financial reporting during the quarter ended January 31, 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

18

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

The Company is party to routine legal proceedings arising out of the normal course of business. Although it is not possible to predict with certainty the outcome of these unresolved legal actions or the range of possible loss, the Company believes that none of these actions, individually or in the aggregate, will have a material effect on our financial condition or results of operations.

ITEM 1A. RISK FACTORS.

There were no material changes from our risk factors as presented in the section entitled "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended April 30, 2007 as filed with the SEC on July 24, 2007.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

(a) Exhibits:

Exhibit 18.1 - Letter of Preferability Regarding Change in Goodwill Impairment Test Date Change from BDO Seidman, LLP.

Exhibit 31.1 - Certification of Principal Executive Officer of SigmaTron International, Inc. Pursuant to Rule 13a-14(a) under the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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

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

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

SIGNATURES:

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

SIGMATRON INTERNATIONAL, INC.

/s/ Gary R. Fairhead	March 12, 2008
Gary R. Fairhead President and CEO (Principal Executive Officer)	Date
/s/ Linda K. Blake	March 12, 2008
Linda K. Blake Chief Financial Officer, Secretary and Treasurer (Principal Financial Officer and Principal Accounting Officer)	Date