

SIGMATRON INTERNATIONAL INC
Form 10-Q
March 14, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended January 31, 2017

OR

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

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For the transition period from to

Commission File Number 0-23248

SIGMATRON INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

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

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

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

SigmaTron International, Inc.

January 31, 2017

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

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

Large accelerated filer Accelerated filer

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

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

Indicate the number of shares outstanding of the registrant’s common stock, \$0.01 par value, as of March 10, 2017:
4,186,813

SigmaTron International, Inc.

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SigmaTron International, Inc.

Condensed Consolidated Balance Sheets

	January 31, 2017 (Unaudited)	April 30, 2016
Current assets:		
Cash and cash equivalents	\$ 3,097,237	\$ 4,325,268
Accounts receivable, less allowance for doubtful accounts of \$100,000 at January 31, 2017 and April 30, 2016, respectively	20,715,951	17,844,228
Inventories, net	68,371,266	67,649,022
Prepaid expenses and other assets	2,336,272	2,128,128
Refundable income taxes	699,369	774,847
Note receivable	887,531	887,531
Other receivables	474,290	481,860
 Total current assets	 96,581,916	 94,090,884
 Property, machinery and equipment, net	 33,648,994	 33,080,858
 Intangible assets, net of amortization of \$4,575,900 and \$4,208,755 at January 31, 2017 and April 30, 2016, respectively	 4,336,100	 4,703,245
Goodwill	3,222,899	3,222,899
Deferred income taxes	179,934	233,057
Other assets	1,041,149	1,418,398
 Total other long-term assets	 8,780,082	 9,577,599
 Total assets	 \$ 139,010,992	 \$ 136,749,341
Liabilities and stockholders' equity:		
Current liabilities:		
Trade accounts payable	\$ 37,857,243	\$ 37,011,786
Accrued wages	3,503,818	4,199,147
Accrued expenses	2,532,771	2,772,301
Income taxes payable	258,451	-
Current portion of long-term debt	284,397	165,000
Current portion of capital lease obligations	1,530,645	1,374,898

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Current portion of contingent consideration	334,354	275,288
Current portion of deferred rent	213,218	187,889
Total current liabilities	46,514,897	45,986,309
Long-term debt, less current portion	25,993,196	23,572,152
Capital lease obligations, less current portion	3,034,613	3,217,758
Contingent consideration, less current portion	492,966	875,793
Deferred rent, less current portion	617,385	795,289
Other long-term liabilities	932,902	870,542
Deferred income taxes	910,964	1,355,620
Total long-term liabilities	31,982,026	30,687,154
Total liabilities	78,496,923	76,673,463

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Commitments and contingencies

Stockholders' equity:

Preferred stock, \$.01 par value; 500,000 shares authorized, none issued or outstanding	-	-
Common stock, \$.01 par value; 12,000,000 shares authorized, 4,186,813 and 4,183,955 shares issued and outstanding at January 31, 2017 and April 30, 2016, respectively	41,665	41,560
Capital in excess of par value	22,852,662	22,546,616
Retained earnings	37,619,742	37,487,702
 Total stockholders' equity	 60,514,069	 60,075,878
 Total liabilities and stockholders' equity	 \$ 139,010,992	 \$ 136,749,341

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

SigmaTron International, Inc.

Condensed Consolidated Statements of Operations

	Three Months Ended January 31, 2017 (Unaudited)	Three Months Ended January 31, 2016 (Unaudited)	Nine Months Ended January 31, 2017 (Unaudited)	Nine Months Ended January 31, 2016 (Unaudited)
Net sales	\$ 61,896,226	\$ 59,206,344	\$ 186,658,581	\$ 193,150,783
Cost of products sold	56,477,208	53,498,248	170,232,866	173,615,400
Gross profit	5,419,018	5,708,096	16,425,715	19,535,383
Selling and administrative expenses	5,085,079	5,120,848	15,417,793	15,700,276
Operating income	333,939	587,248	1,007,922	3,835,107
Other income	(28,536)	(40,664)	(127,808)	(126,451)
Interest expense	273,439	250,313	793,220	764,600
Income from operations before income tax expense	89,036	377,599	342,510	3,196,958
Income tax expense	136,888	158,871	210,470	1,163,126
Net (loss) income	\$ (47,852)	\$ 218,728	\$ 132,040	\$ 2,033,832
(Loss) earnings per share - basic	\$ (0.01)	\$ 0.05	\$ 0.03	\$ 0.49
(Loss) earnings per share - diluted	\$ (0.01)	\$ 0.05	\$ 0.03	\$ 0.48
Weighted average shares of common stock outstanding				
Basic	4,186,813	4,170,193	4,185,507	4,161,738

Weighted average shares of common stock
outstanding

Diluted	4,186,813	4,229,378	4,223,395	4,239,169
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The accompanying notes to the condensed consolidated financial statements are an integral part of these statements.

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SigmaTron International, Inc.

Condensed Consolidated Statements of Cash Flows

	Nine Months Ended January 31, 2017 (Unaudited)	Nine Months Ended January 31, 2016 (Unaudited)
Cash flows from operating activities		
Net income	\$ 132,040	\$ 2,033,832
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	3,764,227	3,866,028
Stock-based compensation	252,722	502,918
Restricted stock expense	40,762	46,392
Recoveries from doubtful accounts	-	(86,844)
Recoveries from inventory obsolescence	-	(59,613)
Deferred income tax (benefit) expense	(391,533)	513,469
Amortization of intangible assets	367,145	352,384
Fair value adjustment of contingent consideration	(106,519)	-
Loss from disposal or sale of machinery and equipment	40,811	23,101
Changes in assets and liabilities		
Accounts receivable	(2,871,723)	(1,251,748)
Inventories	(722,244)	(820,854)
Prepaid expenses and other assets	443,331	(215,987)
Refundable income taxes	75,478	-
Income taxes payable	258,451	210,221
Trade accounts payable	845,457	3,467,186
Deferred rent	(152,575)	(121,830)

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Accrued expenses and wages	(1,139,155)	436,260
Net cash provided by operating activities	836,675	8,894,915
Cash flows from investing activities		
Purchases of machinery and equipment	(3,666,899)	(2,012,589)
Disposals of machinery and equipment	453,576	115,140
Net cash used in investing activities	(3,213,323)	(1,897,449)
Cash flows from financing activities		
Proceeds from the exercise of common stock options	4,320	7,200
Proceeds from the sale of restricted stock	-	518,000
Proceeds from Employee stock purchases	8,347	43,244
Proceeds under equipment note	596,987	-
Excess tax benefit from stock options and awards exercised	-	24,653
Payments of contingent consideration	(217,242)	(251,688)
Payments under capital lease and sale leaseback agreements	(1,187,249)	(991,890)

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Payments under building notes payable	(123,750)	(123,750)
Borrowings under lines of credit	59,715,379	177,239,643
Payments under lines of credit	(57,648,175)	(182,824,486)
Net cash provided by (used in) financing activities	1,148,617	(6,359,074)
Change in cash and cash equivalents	(1,228,031)	638,392
Cash and cash equivalents at beginning of period	4,325,268	2,868,217
Cash and cash equivalents at end of period	\$ 3,097,237	\$ 3,506,609
Supplementary disclosures of cash flow information		
Cash paid for interest	\$ 520,012	\$ 732,740
Cash paid for income taxes	402,526	650,393
Purchase of machinery and equipment financed under capital leases	1,159,851	1,308,865
Financing of insurance policy	266,656	291,601
Conversion of accounts receivable into a note receivable	-	887,531

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

SigmaTron International, Inc.

January 31, 2017

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note A - Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of SigmaTron International, Inc. (“SigmaTron”), SigmaTron’s wholly-owned subsidiaries Standard Components de Mexico S.A., AbleMex, S.A. de C.V., Digital Appliance Controls de Mexico, S.A. de C.V., Spitfire Controls (Vietnam) Co. Ltd., Spitfire Controls (Cayman) Co. Ltd. and wholly-owned foreign enterprises Wujiang SigmaTron Electronics Co., Ltd. and SigmaTron Electronic Technology Co., Ltd. (“SigmaTron China”) and international procurement office SigmaTron Taiwan branch (collectively, the “Company”) have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X.

Accordingly, the condensed consolidated financial statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three and nine month periods ended January 31, 2017 are not necessarily indicative of the results that may be expected for the year ending April 30, 2017. For further information, refer to the condensed consolidated financial statements and footnotes thereto included in the Company’s Annual Report on Form 10-K for the year ended April 30, 2016.

Note B - Inventories, net

The components of inventory consist of the following:

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	January 31, 2017	April 30, 2016
Finished products	\$ 20,410,804	\$ 23,295,138
Work-in-process	1,613,444	3,035,459
Raw materials	47,311,942	42,530,957
	69,336,190	68,861,554
Less obsolescence reserve	(964,924)	(1,212,532)
	\$ 68,371,266	\$ 67,649,022

SigmaTron International, Inc.

January 31, 2017

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note C - Earnings Per Share and Stockholders' Equity

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

	Three Months Ended		Nine Months Ended	
	January 31, 2017	2016	January 31, 2017	2016
Net (loss) income	\$ (47,852)	\$ 218,728	\$ 132,040	\$ 2,033,832
Weighted-average shares				
Basic	4,186,813	4,170,193	4,185,507	4,161,738
Effect of dilutive stock options	-	59,185	37,888	77,431
Diluted	4,186,813	4,229,378	4,223,395	4,239,169
Basic earnings per share	\$ (0.01)	\$ 0.05	\$ 0.03	\$ 0.49
Diluted earnings per share	\$ (0.01)	\$ 0.05	\$ 0.03	\$ 0.48

Options to purchase 366,763 and 367,963 shares of common stock were outstanding at January 31, 2017 and 2016, respectively. There were no options granted during the nine month period ended January 31, 2017 and there were 285,000 options granted during the nine month period ended January 31, 2016. The Company recognized \$82,759 and \$84,665 in stock option expense for the three month period ended January 31, 2017 and 2016, respectively. The Company recognized \$249,163 and \$491,694 in stock option expense for the nine month period ended January 31, 2017 and 2016, respectively. The balance of unrecognized compensation expense related to the Company's stock option plans was \$163,720 and \$495,707 at January 31, 2017 and 2016, respectively. There were 29,149, anti-dilutive common stock equivalents during the three month period ended January 31, 2017 which have been excluded from the calculation of diluted earnings per share.

On October 1, 2016 and 2015, the Company issued 11,250 and 10,000 shares of restricted stock pursuant to the 2013 Non-Employee Director Restricted Stock Plan, which fully vest on April 1, 2017 and 2016, respectively. The Company recognized \$30,488 and \$40,762 in compensation expense for the three and nine month periods ended January 31, 2017, respectively. The Company recognized \$34,700 and \$46,392 in compensation expense for the three and nine month periods ended January 31, 2016, respectively. The balance of unrecognized compensation expense related to the Company's restricted stock award was \$19,887 and \$23,008 at January 31, 2017 and 2016, respectively.

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. The Company recorded \$2,624 in compensation expense for the three months ended January 31, 2016. For the nine months ended January 31, 2017 and 2016, 1,658 and 7,944 shares, respectively, were issued under the ESPP. The Company recorded \$3,559 and \$11,225 in compensation expense

SigmaTron International, Inc.

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Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note C - Earnings Per Share and Stockholders' Equity - Continued

for the nine months ended January 31, 2017 and 2016, respectively. During the three months ended January 31, 2017 and 2016, the Company recorded \$0 and \$8,906, respectively, to stockholders' equity relating to purchases under the ESPP. During the nine months ended January 31, 2017 and 2016, the Company recorded \$8,347 and \$43,244, respectively, to stockholders' equity relating to purchases under the ESPP.

Note D - Long-term Debt

Notes Payable – Banks

The Company has a senior secured credit facility with Wells Fargo, N.A. with a credit limit up to \$30,000,000. The credit facility is collateralized by substantially all of the domestically located assets of the Company and the Company has pledged 65% of its equity ownership interest in some of its foreign entities. The facility allows the Company to choose among interest rates at which it may borrow funds: the bank fixed rate of two and one quarter percent plus one percent (effectively 3.25% at January 31, 2017) or LIBOR plus two and one quarter percent (effectively 3.125% at January 31, 2017). Interest is paid monthly. Under the senior secured credit facility, the Company may borrow up to the lesser of (i) \$30,000,000 or (ii) an amount equal to a percentage of the eligible receivable borrowing base plus a percentage of the inventory borrowing base (collectively, "Borrowing Base"), which cannot exceed 50% of combined eligible receivables and inventory. In January 2016, the existing senior credit facility was modified, including increasing the amount available under the Borrowing Base calculation and extending the term of the facility through October 31, 2018. The bank fee for the modification was \$23,333 and is amortized over the term of the credit facility agreement. As of January 31, 2017, there was a \$22,047,561 outstanding balance and \$3,984,714 of unused availability under the credit facility agreement compared to a \$20,014,069 outstanding balance and \$3,630,035 of unused availability at April 30, 2016. The Company is required to be in compliance with several financial covenants. At January 31, 2017, the Company was in compliance with its financial covenants.

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 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 6.67%. The term on the facility extends to August 3, 2017. There was no outstanding balance under the facility at January 31, 2017 and April 30, 2016.

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 requires the Company to pay monthly principal payments in the amount of \$9,500, bears an interest rate of LIBOR plus two and one-quarter percent (effectively 3.25% at January 31, 2017) and is payable over a sixty month period. A final payment of

SigmaTron International, Inc.

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Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note D - Long-term Debt - Continued

approximately \$2,289,500 is due on or before November 8, 2019. The outstanding balance was \$2,603,000 and \$2,688,500 at January 31, 2017 and April 30, 2016, respectively.

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 requires the Company to pay monthly principal payments in the amount of \$4,250, bears interest at a fixed rate of 4.5% per year and is payable over a sixty month period. A final payment of approximately \$1,030,000 is due on or before October 2018. The outstanding balance was \$1,109,250 and \$1,147,500 at January 31, 2017 and April 30, 2016, respectively.

Note 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 \$596,987 at January 31, 2017.

Capital Lease Obligations

During 2010, the Company entered into various capital lease agreements with Wells Fargo Equipment Finance to purchase equipment totaling \$1,376,799. The terms of the lease agreements extend to July 2016 through October 2016 with monthly installment payments ranging from \$3,627 to \$13,207 and a fixed interest rate ranging from 4.41% to 4.99%. The balance outstanding under these capital lease agreements was \$0 and \$106,767 at January 31, 2017 and April 30, 2016, respectively. The net book value of the equipment under these leases was \$617,999 and \$703,424 at January 31, 2017 and April 30, 2016, respectively.

From October 2013 through August 2016, the Company entered into various capital lease agreements with Associated Bank, National Association to purchase equipment totaling \$5,336,535. The terms of the lease agreements extend to September 2018 through July 2021 with monthly installment payments ranging from \$1,455 to \$40,173 and a fixed interest rate ranging from 3.75% to 4.14%. The balance outstanding under these capital lease agreements was \$3,005,121 and \$2,599,820 at January 31, 2017 and April 30, 2016, respectively. The net book value of the equipment under these leases was \$4,060,209 and \$3,224,661 at January 31, 2017 and April 30, 2016, 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 \$1,560,137 and \$1,886,069 at January 31, 2017 and April 30, 2016, respectively. The net book value of the equipment under these leases was \$1,998,360 and \$2,155,363 at January 31, 2017 and April 30, 2016, respectively.

SigmaTron International, Inc.

January 31, 2017

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note E - Goodwill and Other Intangible Assets

Goodwill

There were no changes in the carrying amount of tax-deductible goodwill in the amount of \$3,222,899 for the three and nine months ended January 31, 2017 and 2016, respectively.

Other Intangible Assets

Intangible assets subject to amortization are summarized as of January 31, 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	10.3	4,690,000	1,148,580
Backlog	-	22,000	22,000
Trade names	15.3	980,000	228,648
Non-compete agreements	2.3	50,000	33,320
Patents	0.3	400,000	373,352
Total		\$ 8,912,000	\$ 4,575,900

SigmaTron International, Inc.

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Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note E - Goodwill and Other Intangible Assets - Continued

Intangible assets subject to amortization are summarized as of April 30, 2016, 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	11.08	4,690,000	883,540
Backlog	-	22,000	22,000
Trade names	16.08	980,000	191,901
Non-compete agreements	3.08	50,000	27,965
Patents	1.08	400,000	313,349
Total		\$ 8,912,000	\$ 4,208,755

Estimated aggregate amortization expense for intangible assets, which becomes fully amortized in 2032, for the remaining periods is as follows:

For the remaining 3 months of the fiscal year ending April 30:	2017	\$ 122,865
For the fiscal year ending April 30:	2018	435,043

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2019	423,721
2020	411,406
2021	403,199
Thereafter	2,539,866
	\$ 4,336,100

Amortization expense was \$122,865