

SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

Filing Date: **1998-07-22** | Period of Report: **1998-04-30**  
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FILER

**SIGMATRON INTERNATIONAL INC**

CIK: **915358** | IRS No.: **363918470** | State of Incorpor.: **DE** | Fiscal Year End: **0430**  
Type: **10-K** | Act: **34** | File No.: **000-23248** | Film No.: **98669458**  
SIC: **3672** Printed circuit boards

Mailing Address	Business Address
2201 LANDMEIER ROAD	2201 LANDMEIER RD
ELK GROVE VILLAGE IL 60007	ELK GROVE VILLAGE IL 60007
	7089568000

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

FORM 10-K

(Mark One)

Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. For the fiscal year ended April 30, 1998

or

Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number 0-23248

SIGMATRON INTERNATIONAL, INC.  
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(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 Number)

2201 Landmeier Rd., Elk Grove Vlge., IL  
-----

(Address of principal executive offices)

60007  
-----

(Zip Code)

Registrant's telephone number, including area code: 847-956-8000  
Securities registered pursuant to Section 12(g) of the Act:

Common Stock \$0.01 par value per share  
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Title of each class

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K (  ).

The aggregate market value of the voting and non-voting stock held by nonaffiliates of the registrant as of June 30, 1998 (based on the closing sale price as reported by Nasdaq National Market as of such date) was \$14,467,478.

The number of outstanding shares of the registrant's Common Stock, as of June 30, 1998, was 2,881,227.

DOCUMENTS INCORPORATED BY REFERENCE

Those sections or portions of the definitive proxy statement of SigmaTron International, Inc., for use in connection with its annual meeting of stockholders to be held September 18, 1998, which will be filed within 120 days of the fiscal year ended April 30, 1998, are incorporated by reference into Part III of this Form 10-K.

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PART I  
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## ITEM 1. BUSINESS

## CAUTIONARY NOTE:

In addition to historical financial information, this discussion of SigmaTron International, Inc.'s ("Company") business and other Items in this Annual Report on Form 10-K contain forward-looking statements concerning the Company's business or results of operations. These statements should be evaluated in the context of the risks and uncertainties inherent in the Company's business, including the Company's continued dependence on certain significant customers, including Nighthawk Systems, Incorporated ("NSI"); the continued market acceptance of products and services offered by the Company and its customers; the activities of competitors, some of which may have greater financial or other resources than the Company; the variability of the Company's operating results; the availability and cost of necessary components; the continued availability and sufficiency of the Company's credit arrangements; changes in U.S. or Mexican regulations affecting the Company's business; the continued stability of the Mexican economic, 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 this Annual Report on Form 10-K and in the prospectus issued in connection with the Company's February 1994 initial public offering of securities (Registration No. 33-72100), and may be detailed from time to time in the Company's filings with the Securities and Exchange Commission.

## OVERVIEW

The Company is an independent contract manufacturer of electronic components, printed circuit board assemblies and completely assembled (box-build) electronic products. Included among the wide range of services the Company offers its customers are (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 approvals from governmental and other regulatory bodies. The Company provides these services through facilities located in North America and the Far East.

The Company provides manufacturing and assembly services ranging from the assembly of individual components to the assembly and testing of box-build electronic products. The Company has the ability to produce assemblies requiring mechanical as well as electronic capabilities. The products assembled by the Company are then incorporated into finished products sold in various marketplaces, particularly consumer electronics, gaming, fitness, industrial electronics, telecommunications, home appliances and automotive.

The Company operates manufacturing facilities in Elk Grove Village, Illinois; Las Vegas, Nevada; and Acuna, Mexico. The Company maintains materials sourcing offices in Elk Grove Village, Illinois and Taipei, Taiwan. The Company provides warehousing services in Del Rio, Texas and Huntsville, Alabama. In addition, the Company's 42.5% owned affiliate, SMT Unlimited L.P. (SMTU), provides contract manufacturing services in Fremont, California.

The Company is a Delaware corporation which was organized on November 16, 1993 and commenced business when it became the successor to all of the assets

and liabilities of SigmaTron L.P., an Illinois limited partnership, through a reorganization on February 8, 1994. On February 9, 1994, the Company and certain stockholders commenced an initial public offering for the sale of 1,265,000 shares of common stock.

## PRODUCTS AND SERVICES

The Company provides a broad range of manufacturing-related outsourcing solutions for its customers on both a turnkey (material purchased by the Company) and consignment basis (material provided by the customer). These solutions incorporate the Company's knowledge and expertise in the electronic manufacturing services industry to provide its customers with advanced manufacturing technologies and high quality, responsive and flexible manufacturing services. SigmaTron's outsourcing solutions provide services from product inception through the ultimate delivery of a finished good. Such technologies and services include the following:

**Manufacturing and Related Services.** As its customers experience greater competition and shorter product life cycles in their respective industries, the Company has responded by expanding its prototype services. The Company also provides quick-turnaround, turnkey prototype services from dedicated resources located within the Company's Elk Grove Village facility and through SMTU, its affiliate that it makes available to customers which it believes will lead to significant orders.

**Materials Procurement.** The Company is primarily a turnkey manufacturer and directly sources all, or a substantial portion, of the components necessary for its product assemblies, rather than receiving the raw materials from its customers on consignment. Material procurement includes the purchasing, management, storage and delivery of raw components required for the manufacture or assembly of a customer's product based upon the customer's orders. The Company procures components from a select group of vendors which meet its standards for timely delivery, high quality and cost effectiveness, or as directed by its customers. Raw material used in the assembly and manufacture of printed circuit boards and electronic assemblies are generally available from several suppliers, unless restricted by the customer.

The Company believes that its ability to source and procure competitively priced, quality components is critical to its ability to effectively compete. In addition to obtaining materials in North America, the Company utilizes its Taiwanese procurement office and agents to source materials from the Far East. SigmaTron believes this office allows the Company to more effectively manage its relationships with key suppliers in the Far East by allowing the Company to respond more quickly to changes in market dynamics, including fluctuations in price, availability and quality.

**Assembly and Manufacturing.** The Company's core business is the assembly of printed circuit boards through the automated and manual insertion of components onto raw printed circuit boards. The Company offers its assembly services using both pin-through-hole ("PTH") and surface mount ("SMT") interconnect technologies. SMT is an assembly process which allows the placement of a higher density of components directly on both sides of a printed circuit board. The SMT process is a more recent advancement over the mature PTH technology, which normally permits electronic components to be attached to only one side of a printed circuit board by inserting the component into

holes drilled through the board. The SMT process allows original equipment manufacturers ("OEMs") to use advanced circuitry, while at the same time permitting the placement of a greater number of components on a printed circuit board without having to increase the size of the board. By allowing increasingly complex circuits to be packaged with the components in closer proximity to each other, SMT greatly enhances circuit processing speed, and thus, board and system performance.

The Company performs PTH assembly both manually and with automated component insertion and soldering equipment. Although SMT is a newer and more sophisticated interconnect technology, the Company intends to continue providing PTH assembly services for its customers because it believes that SMT will not entirely eliminate the need for PTH technology. The Company believes that OEMs with products not limited by internal space constraints will continue to favor PTH over SMT. Through SMTU SigmaTron possesses ball grid array ("BGA") technology and fine pitch SMT, which is used for more complex circuit boards required to perform at higher speeds.

In addition to printed circuit board assemblies, the Company also manufactures DC-to-AC inverters, coils, transformers and cable and harness assemblies. These products are manufactured using both automated and semi-automated preparation and insertion equipment and manual assembly techniques.

In response to the needs of its OEM customers, the Company also offers "box-build" services which integrate its printed circuit board and other manufacturing and assembly technologies into higher level sub-assemblies and end products.

Product Testing. The Company has the ability to perform both in-circuit and functional testing of its assemblies and finished products. In-circuit testing verifies that the correct components have been properly inserted and that the electrical circuits are complete. Functional testing determines if a board or system assembly is performing to customer specifications. The Company provides X-ray laminography services through its affiliate SMTU. Generally, the Company either designs or procures test fixtures. The Company seeks to provide customers with highly sophisticated testing services that are at the forefront of current test technology.

Warehousing and Distribution. In response to the needs of select customers, the Company has the ability to provide in-house warehousing, shipping and receiving and customer brokerage services for goods manufactured or assembled in Mexico and for goods manufactured for a customer in Huntsville, Alabama. The Company also has the ability to provide custom-tailored delivery schedules to fulfill the just-in-time inventory needs of its customers.

#### MARKETS AND CUSTOMERS

SigmaTron's customers are in the consumer electronics, gaming, industrial electronics, fitness, telecommunications, automotive and home appliance industries. As of April 30, 1998, the Company had approximately 125 active customers ranging from Fortune 500 companies to small, privately held enterprises.

The following table shows, for the periods indicated, the percentage of net sales to the principal end-user markets it serves.

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<TABLE>  
<CAPTION>

PERCENT OF NET SALES				
MARKETS	TYPICAL OEM APPLICATION	FISCAL 1996	FISCAL 1997	FISCAL 1998
<S>	<C>	<C>	<C>	<C>
Consumer Electronics	Carbon monoxide detectors dart board games	37.7%	38.0%	37.9%
Gaming	Slot machines,	21.6	21.8	22.0

## lighting displays

Industrial Electronics	Blower motors, elevators	20.1	18.3	14.2
Fitness	Treadmills, exercise bikes	11.0	12.1	13.3
Telecommunications	Pagers, microphones and modems	5.0	5.1	5.1
Appliances	Irons, toasters, ranges and dryers	3.2	2.1	5.1
Automotive	Automobile interior lighting	1.4	2.6	2.4
Total		100%	100%	100%

&lt;/TABLE&gt;

For the fiscal year ended April 30, 1998, NSI and Life Fitness accounted for 29.4% and 13.3% respectively, of the Company's net sales. In fiscal 1997 NSI, Bally Gaming and Life Fitness accounted for 29.8%, 13.5% and 10.8%, respectively, of net sales. In addition, NSI, Bally Gaming and Life Fitness accounted for 28.2%, 15.0% and 10.4%, respectively, of the Company's net sales for the fiscal year ended April 30, 1996. The Company expects that these customers as a group will continue to account for a significant percentage of the Company's net sales, although the individual percentages may vary from period to period.

NSI is a leading U.S. manufacturer of residential carbon monoxide detection systems. The Company's agreement with NSI calls for the Company to function as the exclusive contract manufacturer for all models of NSI's proprietary carbon monoxide detectors on a turnkey basis through June 1998. The Company has agreed that during the term of the agreement and for three months thereafter it will not produce carbon monoxide detectors for any other customer. Although there has been no written extension of the agreement, the parties continue to operate under its terms. The amount of sales to NSI beyond fiscal 1999 remains unclear and if the relationship is not continued it could significantly impact the Company's revenues and earnings. However, the Company expects that sales to NSI will continue to account for a significant percentage of the

Company's net sales in fiscal 1999. Sales to NSI are seasonal due to the nature of the product and the Company experiences stronger sales to NSI in the second and third fiscal quarters. The NSI market is an emerging market which could lead to volatility in NSI's forecast having the effect of causing the Company's revenues to fluctuate significantly on a seasonal basis.

## SALES AND MARKETING

The Company markets its services through 24 independent manufacturers' representative organizations, that currently employ approximately 75 sales personnel in the United States and Canada. Independent manufacturers' representative organizations receive variable commissions based on orders received by the Company. The members of the Company's senior management are actively involved in sales and marketing efforts. In addition, the Company attends trade shows related to its industry and its major customer industries.

Sales volume and gross profit margins can vary considerably among customers and products depending on the type of services rendered by the Company. Specifically, variations in orders for turnkey services versus consignment services and variations in the number of orders for products with high raw material costs can lead to significant fluctuations in the Company's operating results. Further, customers' orders can be delayed, rescheduled or

canceled at any time, which can significantly impact the operating results of the Company. The ability to replace such delayed or lost sales in a short period of time is not assured.

#### MEXICAN OPERATIONS

The Company's wholly-owned subsidiary, Standard Components de Mexico, S.A. ("Standard Components"), a Mexican corporation, is located in Acuna, Mexico, a border town along the Rio Grande River next to Del Rio, Texas, which is 155 miles west of San Antonio. Standard Components was incorporated and commenced operation in 1969. The Company believes that one of the key benefits to having operations in Mexico is its access to cost effective labor resources.

Standard Components is a maquiladora, which is the status afforded a corporation under a trade agreement between the United States of America and Mexico. The Company believes economic events affecting the Mexican economy and the implementation of NAFTA have not had a material effect on the Company or its financial position.

In 1995 the Mexican Ministry of Finance and Public Credit (Hacienda) adopted rules which require arms length pricing for transactions between maquiladoras and their U.S. affiliated companies. The impact of these regulations requires Standard Components to allocate costs and profits on an arms length basis. Its operating results continue to be consolidated with the Company's financial results. The effect of the rules had an immaterial impact on the Company's consolidated results.

The Company provides funds for salaries, wages, overhead and capital expenditure items as necessary to operate Standard Components. Since the Company provides funding to Standard Components in U.S. dollars, which are exchanged for pesos as needed, the devaluation of the peso from time to time, without an equal or greater increase in Mexican inflation, has not had a material

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impact on the financial results of the Company. In fiscal 1998 the Company funded approximately \$8,160,000.

#### COMPETITION

The electronic manufacturing services 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. Also, foreign companies, especially companies with production operations in the Far East, have substantially lower costs and thus are able to offer their services at lower prices. 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 competitively provide all of these services.

In addition, the Company may be operating at a cost disadvantage compared to manufacturers who have greater direct buying power with component suppliers or who have lower cost structures. Current and prospective customers continually evaluate the merits of manufacturing products internally and will from time to time offer manufacturing services to third parties in order to utilize excess capacity. During downturns in the electronics industry, OEMs may become more price sensitive.

There can be no assurance that competition from existing or potential competitors will not have a material adverse effect on the Company's business, financial condition, or results of operations. The introduction of lower priced competitive products or significant price reductions by the Company's

competitors could result in price reductions that would adversely affect the Company's business, financial condition, and results of operations, as would the introduction of new technologies which render the Company's manufacturing process technology less competitive or obsolete.

#### GOVERNMENTAL REGULATIONS

The Company's operations are subject to certain foreign, federal, state and local regulatory requirements relating to environmental, waste management and health and safety matters. Management believes that the Company's business is operated in material compliance with all such regulations. The cost to the Company of such compliance to date has not materially affected 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. 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 adversely affect the Company's business, financial condition and results of operations.

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#### BACKLOG

The Company's backlog as of April 30, 1998 was approximately \$46,184,000. Backlog consists of contracts or purchase orders with delivery dates scheduled within the next twelve months. The Company currently expects to ship substantially all of the April 30, 1998 backlog by the end of the 1999 fiscal year. Backlog as of April 30, 1997 totaled \$38,108,380. Variations in the magnitude and duration of contracts and purchase orders received by the Company and delivery requirements generally may result in substantial fluctuations in backlog from period to period. Because customers may cancel or reschedule deliveries, backlog may not be a meaningful indicator of future financial results.

#### EMPLOYEES

The Company employed approximately 1,700 people as of April 30, 1998, including 31 engaged in engineering, 1,554 in manufacturing and 115 in administrative and marketing functions.

The Company has a labor contract with Production Workers Union Local No. 10, AFL-CIO, covering the Company's workers in Elk Grove Village, Illinois which expires on November 30, 2000. The Company's Mexican subsidiary 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 January 15, 2000.

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

#### ITEM 2. PROPERTIES

The Company, in combination with its wholly-owned subsidiary and affiliate, has manufacturing facilities located in Elk Grove Village, Illinois, Las Vegas, Nevada, Fremont, California and Acuna, Mexico. In addition, the Company provides inventory management services through its Del Rio, Texas, warehouse facilities and materials procurement services through its Taipei, Taiwan office.

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

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<TABLE>  
<CAPTION>

LOCATION	SQUARE FEET	SERVICES OFFERED
Elk Grove Village, IL	61,000	Corporate Headquarters, assembly and testing of PTH and SMT, box-build, prototyping
Acuna, Mexico	156,000	High volume assembly, and testing of PTH and SMT, box-build, transformers
Las Vegas, NV	33,360	Automatic insertion and cable assembly
Del Rio, TX	25,000	Warehouse, portion of which is bonded
Fremont, CA	24,030	High volume assembly and testing of both PTH and SMT and ball grid array ("BGA")
Taipei, Taiwan	2,900	Materials procurement, alternative sourcing assistance and quality control
Huntsville, AL	*	Just-in-time inventory management and delivery

</TABLE>

\* There is no lease for this facility. The Company has entered into a service agreement whereby contracted warehouse personnel provide services for the Company and its customer.

The Company leases its executive offices and manufacturing facility in Elk Grove Village, Illinois from Circuit Systems, Inc. ("CSI"), a significant shareholder of the Company. The Company, through an agent, maintains the purchasing and engineering office in Taipei, Taiwan to coordinate Far East purchasing and design activities. In addition, the Company's affiliate, SMTU, leases the facility in Fremont, California. The Company has guaranteed lease payments of approximately \$1.63 million for SMTU, and has been indemnified by one of the SMTU limited partners to the extent of 50% of the lease payment guaranty.

### ITEM 3. LEGAL PROCEEDINGS

To the Company's knowledge, there are no pending legal proceedings to which it is a party or to which any of its property is subject.

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

No matter was submitted to a vote of security holders in the fourth quarter of fiscal 1998.

## ITEM 4.(A) EXECUTIVE OFFICERS OF THE REGISTRANT

<TABLE>		
<CAPTION>		
NAME	AGE	POSITION
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<S>	<C>	<C>
Gary R. Fairhead	46	President and Chief Executive Officer Gary R. Fairhead has been the President of the Company since January 1990.
Linda K. Blake	37	Chief Financial Officer, Vice President-Finance, Treasurer and Secretary Linda K. Blake is the Company's Vice President of Finance, Treasurer, Secretary and Chief Financial Officer and was Controller of the Company from June 1991 to February 1994.
Nunzio A. Truppa	60	Vice President -- Domestic Operations Nunzio A. Truppa has been Vice President -- Domestic Operations for the Company, or held equivalent management positions with the Company's predecessor, since January 1987.
Gregory A. Fairhead	42	Vice President Mexican Operations and Assistant Secretary Gregory A. Fairhead has been Vice President -- Mexican Operations for the Company since February 1990 and is Assistant Secretary.
John P. Sheehan	37	Vice President -- Director of Materials and Assistant Secretary John P. Sheehan has been Vice President --Director of Materials of the Company since April, 1990 and is Assistant Secretary.

</TABLE>

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 PART II
 

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## ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock is traded on the Nasdaq National Market System under the symbol SGMA. The following table sets forth the range of quarterly high and low bid information for the Common Stock for the periods ended April 30, 1997 and 1998.

Common Stock as Reported  
by Nasdaq

<TABLE>  
<CAPTION>

Period -----	High -----	Low -----
<C>	<C>	<C>
Fiscal 1998:		
Fourth Quarter	10-7/8	7-3/4
Third Quarter	13-7/8	9-1/4
Second Quarter	17-1/2	11-5/8
First Quarter	17-1/8	11-57/64
Fiscal 1997:		
Fourth Quarter	25-3/8	14
Third Quarter	23-1/8	10-3/4
Second Quarter	12-1/2	8-3/4
First Quarter	17-1/2	7-1/2

</TABLE>

As of June 30, 1998, there were approximately 145 holders of record of the Company's common stock, which does not include shareholders whose stock is held through securities position listings.

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 cash or other dividends on any of its capital stock, except stock dividends, without the written consent of the lender under the facility.

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ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

<TABLE>  
<CAPTION>

	Years Ended April 30				
	1994 ----	1995 ----	1996 ----	1997 ----	1998 ----
	(In thousands except per share data)				
<S>	<C>	<C>	<C>	<C>	<C>
Net Sales	\$36,690	\$45,345	\$69,558	\$87,216	\$85,651
Income before income tax expense	2,389	3,032	3,752	5,161	837
Net Income	(1) 1,862	1,891	2,367	3,255	526
Total Assets	17,838	28,235	38,378	42,088	48,641
Long-term debt and capital lease obligations (including current maturities)	4,716	12,763	16,528	18,593	20,975

Pro Forma Net income per common equivalent share (unaudited) - basic and assuming dilution	(2)	0.59	-	-	-	-
Net income per common and common equivalent share for the period from February 9, 1994 to April 30, 1994 - basic and assuming dilution		\$0.04	-	-	-	-
Net income per common share-basic		-	\$0.69	\$0.86	\$1.16	\$0.18
Net income per common share-assuming dilution		-	\$0.69	\$0.86	\$1.11	\$0.18

</TABLE>

- (1) Net income for the fiscal year 1994 reflects a charge of \$527,000 for income tax expense. Income tax expense includes a charge of approximately \$262,000 to recognize the initial effect of adopting Financial Accounting Standards Board Statement No. 109 "Accounting for Income Taxes" (FAS No. 109) and has been calculated based on earnings of the Company since February 8, 1994, the date of its reorganization from a limited partnership to a C-Corporation. Prior to the reorganization, income was passed through to the partners of SigmaTron L.P., who were responsible for any federal and state income taxes due.
- (2) Pro-forma net income per share was determined assuming the reorganization from a limited partnership to a C-Corporation had occurred on May 1, 1993, resulting in the Company being a C-Corporation for tax purposes as of that date and to reflect the use of proceeds of the public offering to retire debt.

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

CAUTIONARY NOTE:

The following discussion provides an analysis of the Company's financial condition and results of operations, and should be read in conjunction with the Selected Consolidated Financial Data and the Consolidated Financial Statements of the Company, and the Notes thereto, appearing in this Annual Report on Form 10-K, as well as in conjunction with the cautionary note concerning forward-looking information which appears at the beginning of Item 1.

OVERVIEW

The Company is an independent contract manufacturer of electronic components, printed circuit board assemblies, and box-build (completely assembled) electronic products. Included among the wide range of services the Company offers its customers are (1) automatic and manual assembly and testing of customer products, (2) material sourcing, procurement and control, (3) design, manufacturing and test engineering support, (4) warehousing and shipment services, and (5) assistance in obtaining product approvals from governmental and other regulatory bodies. The Company provides these services through facilities located in North America and the Far East.

Sales volume and gross profit margins can vary considerably among customers and products depending on the type of services rendered by the Company. Specifically, variations in orders for turnkey services versus

consignment services and variations in the number of orders for products with high raw material costs can lead to significant fluctuations in the Company's operating results. Further, customers' orders can be delayed, rescheduled or canceled at any time, which can significantly impact the operating results of the Company. In addition, the ability to replace such delayed or lost sales in a short period of time cannot be assured.

As a manufacturing company, the Company includes all fixed manufacturing overhead in cost of goods sold. The inclusion of fixed manufacturing overhead in cost of goods sold magnifies the fluctuations in gross profit margin percentages caused by fluctuations in net sales and capital expenditures. Specifically, fluctuations in the mix of consignment and turnkey contracts could have an effect on the cost of goods sold and the resulting gross profit as a percentage of net sales. 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. However, turnkey contracts typically have lower gross margins due to the large material content. Historically, more than 90% of the Company's sales have been from turnkey orders.

In June 1995, the Company signed a three-year exclusive manufacturing agreement with NSI relating to the production of carbon monoxide detection systems. Sales to NSI have accounted for a significant percentage of the Company's net sales in fiscal 1996 through 1998. Although there has been no written extension of the agreement, the parties continue to operate under its terms, however,

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the Company expects sales to NSI will be significant in fiscal 1999. The amount of sales to NSI beyond fiscal 1999 remains unclear and if the relationship is not continued it could significantly impact the Company's revenues and earnings.

#### RESULTS OF OPERATIONS:

FISCAL YEAR ENDED APRIL 30, 1998 COMPARED  
TO FISCAL YEAR ENDED APRIL 30, 1997

Net sales for fiscal 1998 were \$85,650,598 compared to \$87,216,343 for fiscal 1997. The 2% decrease in net sales was due to softer sales to some of the Company's key customers. NSI accounted for approximately \$25,191,000 or 29.4% of the Company's fiscal 1998 net sales compared to \$25,952,000 or 29.8% in fiscal 1997. Timing and rescheduling of orders has caused the Company to experience significant quarterly fluctuations in its revenues and earnings and the Company expects such fluctuations to continue. In addition, the Company's fourth and first quarters have historically been the weakest periods and the Company expects the first quarter of fiscal 1999 to be soft.

Gross profit decreased to \$8,456,834 in fiscal 1998 from \$12,639,082 in fiscal 1997. Gross profit as a percent of net sales was 9.9% and 14.5% for fiscal 1998 and 1997, respectively. The decrease is partly due to the increase in the Company's overhead structure over the past 18 months and partly due to the lower sale volume. This expansion included increased manufacturing space, manufacturing personnel and equipment which was necessary in order to competitively position the Company for the future. The Company's short term objective is to increase sales to take advantage of the structure put in place, which may lead to a stronger fiscal 1999.

Selling and administrative expenses decreased from \$5,624,346 in fiscal

1998 to \$5,961,184 in fiscal 1998. The decrease is due to a reduction in bonus accruals and a decrease in commission expense related to the lower sales volume. Selling and administrative expenses as a percent of net sales decreased for fiscal 1998 to 6.6% from 6.8% for fiscal 1997.

Interest expense increased in fiscal 1998 to \$1,898,488 from \$1,836,967 in fiscal 1997. The overall increase was primarily due to the higher outstanding balance on the Company's line of credit due to the Company's increased working capital requirements. Interest expense as a percent of net sales increased from 2.1% in fiscal 1997 to 2.2% in fiscal 1998.

The Company recorded a \$360,000 loss in investment and receivables for LC in fiscal 1998. LC distributes a variety of electronic and molded plastic components for use in the sign and lighting industries. The Company owns approximately 12% of LC.

Income tax expense decreased to \$310,962 in fiscal 1998 from \$1,905,584 in fiscal 1997. The effective tax rate for fiscal 1998 and 1997 was 37.2% and 36.9%, respectively.

As a result of the foregoing, net income decreased to \$525,892 in fiscal 1998 from \$3,255,058 in fiscal 1997. Basic earnings per share for the year ended April 30, 1998 was \$.18 compared to \$1.16 in fiscal 1997. Diluted earnings per share for fiscal 1998 was \$.18.

FISCAL YEAR ENDED APRIL 30, 1997 COMPARED  
TO FISCAL YEAR ENDED APRIL 30, 1996

Net sales for fiscal year 1997 were \$87,216,343 compared to \$69,558,384 for fiscal year 1996. The 25% increase in net sales was due to sales to new and existing customers primarily in the consumer electronics, gaming and fitness industries. NSI accounted for approximately \$25,952,000 or 29.8% of the Company's fiscal 1997 net sales compared to \$19,605,000 or 28.2% in fiscal 1996. The volatility of NSI orders may cause the Company's revenues and earnings to fluctuate significantly on a seasonal basis.

Gross profit increased from \$10,142,298 in fiscal year 1996 to \$12,639,082 in fiscal year 1997. Gross profit as a percent of net sales was 14.5% and 14.6% for fiscal 1997 and 1996, respectively.

Selling and administrative expenses increased from \$4,943,478 in fiscal year 1996 to \$5,961,184 in fiscal year 1997. The increase is due to the increase in sales commissions attributable to the increase in net sales. In addition, insurance expense increased for general insurance requirements and increased levels of product liability insurance. Additional customer service and material procurement personnel were added to support the growth of the Company. Selling and administrative expenses as a percent of net sales decreased for the fiscal year ended April 30, 1997 to 6.8% from 7.1% for the year ended 1996.

Interest expense increased in fiscal 1997 to \$1,846,928 from \$1,630,238 in fiscal 1996. The overall increase was primarily due to the higher outstanding balance on the Company's line of credit. Interest expense as a percent of net sales decreased from 2.3% in fiscal 1996 to 2.1% in fiscal 1997.

Income tax expense increased from \$1,385,000 in fiscal year 1996 to \$1,905,584 in fiscal year 1997. The effective tax rate for fiscal years 1997 and 1996 was 36.9%.

As a result of the foregoing, net income increased 37.5% from \$2,366,822 in fiscal 1996 to \$3,255,058 in fiscal 1997. Basic earnings per share for the year ended April 30, 1997 was \$1.16 compared to \$.86 in fiscal 1996. Diluted earnings per share for fiscal 1997 was \$1.11 compared to \$.86 in fiscal 1996.

## QUARTERLY RESULTS AND SEASONALITY

Historically, the Company's highest levels of sales are achieved in its second and third quarters. This is due to the seasonal nature of the business for several of the Company's customers. In particular, NSI's sales of carbon monoxide detectors generally coincide with the heating season, and several other customers have sales tied to the holidays. This trend has caused the Company to experience generally stronger second and third quarters in each fiscal year. However, regardless of seasonal fluctuations, there can be no assurance that the Company will be profitable in any particular quarter.

The Company's results of operations have varied significantly and may continue to fluctuate from quarter to quarter. Operating results are affected by a number of factors, including timing of

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orders from and shipments to major customers, availability of materials and components, the volume of orders as related to the Company's capacity, timing of expenditures in anticipation of future sales, the gain or loss of significant customers and variations in the demand for products in the industries served by the Company. A significant portion of the Company's expenses are relatively fixed in nature and planned expenditures are based in part on anticipated orders. The inability to adjust expenditures to compensate for a decline in net sales may magnify the adverse impact of such decline in the Company's results of operations. The Company's customers generally require short delivery cycles. In the absence of substantial backlog, quarterly sales and operating results depend on the volume and timing of orders received during the quarter which can be difficult to forecast. In addition, variations in the size and delivery schedules of purchase orders received by the Company, as well as changes in customers' delivery requirements or the rescheduling or cancellations of orders and commitments, may result in substantial fluctuations in backlog from period to period. Accordingly, the Company believes that backlog cannot be considered a meaningful indicator of future operating results.

## LIQUIDITY AND CAPITAL RESOURCES:

In fiscal 1998 the Company financed its growth and operations through cash flow generated from borrowings from its secured lender and cash provided by operations and a sale/leaseback transaction. The Company had working capital of \$20,708,686 April 30, 1998 and \$21,648,985 at April 30, 1997. This represents a current ratio of 2.8 and 4.1 for the years ended April 30, 1998 and 1997, respectively.

The Company has a credit arrangement in place which is comprised of a revolving loan facility and a term loan. Under the revolving loan facility, the Company may borrow certain percentages of the Company's accounts receivable and inventory, up to a maximum of \$25.0 million. At April 30, 1998, based upon those percentages, there was approximately \$2,334,000 of unused credit available under the revolving loan facility. Outstanding borrowings under the revolving loan facility bear interest at the Company's option of either the London Interbank Offered Rate ("LIBOR") plus 2.0% or the bank's prime rate of interest. The revolving loan facility is collateralized under a loan and security agreement by substantially all of the domestically located assets of the Company. The agreement contains certain financial covenants pertaining to the maintenance of tangible net worth and net income. The revolving loan facility matures on September 30, 2000. The maximum amount which could be borrowed under the term loan was \$111,108 which was the outstanding balance at April 30, 1998. The amount outstanding under the term loan is collateralized by some of the Company's machinery and equipment located in the United States and is payable in 60 monthly installments of approximately \$13,890 plus accrued interest due December 1998. The outstanding principal under the term loan

bears interest at the bank's prime rate of interest.

To the extent that the Company provides funds for salaries, wages, overhead and capital expenditure items necessary to operate its Mexican operations, the amount of funds available for use in the Company's domestic operations may be depleted. The funds, which ordinarily derive from the Company's cash from operations and borrowings under its revolving credit facility, is approximately \$8,160,000 for a typical 12 month period. The Company provides funding in U.S. dollars, which are exchanged for pesos as needed.

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The Company is a 42.5% limited partner in SMTU, a California limited partnership, based in Fremont, California. SMTU has negative working capital of approximately \$2,557,000 at April 30, 1998, and an accumulated deficit of approximately \$1,795,000. From the formation of SMTU in September 1994 until January 1995, SMTU had no sales. Since fiscal 1995, sales have increased so that SMTU was achieving operating income for the year ended April 30, 1998. While the management of SMTU expects sales to increase further in 1999 and also expects these sales will lead to overall profitability, it is possible that management's efforts in this regard will not be successful. In January 1998, the Company entered into a guaranty agreement with SMTU's leader to guaranty the obligation of SMTU under its revolving line of credit to a maximum of \$500,000 plus interest and related costs associated with the enforcement of the guaranty. The Company has been indemnified by one of the limited partners for 50% of the obligation under this guaranty. The Company's investment and advances to and receivables from SMTU totaled approximately \$4,169,000 at April 30, 1998, and has been classified as long-term assets in the Company's April 30, 1998 balance sheet. SMTU was eleven months delinquent in their equipment lease payments to the Company and therefore, due to the uncertainty surrounding the timing of collection of these future minimum rental, the Company has classified these equipment lease receivables as long-term at April 30, 1998. At April 30, 1998, SMTU was in violation of various covenants under its revolving line of credit. SMTU's management expects to be able to renegotiate these covenants to prevent noncompliance and to obtain waivers for all covenants violated in fiscal 1998.

On August 1, 1995 the Company entered into a limited partnership agreement forming Lighting Components L.P. ("LC"). The Company owns approximately 12% of LC, which distributes a variety of electronic and molded plastic components for use in the sign and lighting industries. At April 30, 1998 the Company had invested \$280,000 in the venture. The initial investment, subordinated debentures, promissory notes, and accrued interest totaling approximately \$335,000 are included in other long-term assets in the consolidated balance sheet as of April 30, 1998. In addition, the Company also has miscellaneous and trade receivables recorded in the consolidated balance sheet at April 30, 1998 from LC totaling approximately \$491,000.

The Company's receivables from LC's are secured by a security interest in substantially all of LC's assets. At April 30, 1998, the assets recorded in the Company's balance sheet were written down by approximately \$360,000 to net realizable value leaving approximately \$466,000 of assets in the consolidated balance sheet at April 30, 1998.

The Company has formed a committee of Executive Officers and others to examine Year 2000 compliance issues relating to the Company, and to plan for implementation of changes appropriate to insure compliance in a timely manner. The Company believes that its compliance with Year 2000 issues will not have material impact on its business, operations or financial condition.

The impact of inflation for the past three fiscal years has been minimal.

## ITEM 7(a) QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

Not applicable

## ITEM 8. FINANCIAL STATEMENT AND SUPPLEMENTARY DATA

The response to this item is included in Item 14(a) of this Report.

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

There have been no changes in or disagreements with accountants on accounting or financial disclosure matters during the Company's fiscal years ended April 30, 1998 and 1997.

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PART III  
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## ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required under this item is incorporated herein by reference to the Company's definitive proxy statement, filed with the Commission not later than 120 days after the close of the Company's fiscal year ended April 30, 1998.

## ITEM 11. EXECUTIVE COMPENSATION

The information required under this item is incorporated herein by reference to the Company's definitive proxy statement, filed with the Commission not later than 120 days after the close of the Company's fiscal year ended April 30, 1998.

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required under this item is incorporated herein by reference to the Company's definitive proxy statement, filed with the Commission not later than 120 days after the close of the Company's fiscal year ended April 30, 1998.

## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required under this item is incorporated herein by reference to the Company's definitive proxy statement, filed with the Commission not later than 120 days after the close of the Company's fiscal year ended April 30, 1998.

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PART IV  
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## ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) (1) and (a) (2)

The financial statements, including required supporting schedule, are listed in the index to Consolidated Financial Statements and Financial Schedule filed as part of the Form 10-K on Page F-1.

INDEX TO EXHIBITS

(a) (3)

- 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.
- 3.2 By-laws of the Company, incorporated herein by reference to Exhibit 3.2 to Registration Statement on Form S-1, File No. 33-72100 dated February 9, 1994.
- 10.1 Lease Agreement dated as of February 13, 1990 between the Company and CSI and amendments and addenda thereto - Filed as Exhibit 10.1 to the Company's Registration Statement on Form S-1 Reg. 33-72100 and hereby incorporated by reference.
- \*  
10.2 401(K) Retirement Savings Plan of the Company - Filed as Exhibit 10.3 to the Company's Registration Statement on Form S-1 Reg. 33-72100 and hereby incorporated by reference.
- \*  
10.3 Form of 1993 Stock Option Plan - Filed as Exhibit 10.4 to the Company's Registration Statement on Form S-1 Reg. 33-72100 and hereby incorporated by reference.
- \*  
10.4 Form of Incentive Stock Option Agreement for the Company's 1993 Stock Option Plan - Filed as Exhibit 10.5 to the Company's Registration Statement on Form S-1 Reg. 33-72100 and hereby incorporated by reference.
- \*  
10.5 Form of Non-Statutory Stock Option Agreement for the Company's 1993 stock Option Plan - Filed as Exhibit 10.6 to the Company's Registration Statement on Form S-1 Reg. 33-72100 and hereby incorporated by reference.
- \*  
10.6 1994 Outside Directors Stock Option Plan - Filed as Exhibit 10.15 to the Company's Registration Statement on Form S-1 Reg. 33-72100 and hereby incorporated by reference.
- 10.7 The Company's 1997 Directors' Stock Option Plan - filed as Exhibit A to the Company's 1997 Proxy Statement filed on August 18, 1997 and hereby incorporated by reference.
- 10.8 Form of Director's Stock Option Agreement for the Company's 1997 Directors' Stock Option Plan and hereby incorporated by reference.
- 10.9 Organization Agreement between the Company and other Partners of SMT Unlimited L.P. dated September 15, 1994 - Filed as Exhibit 10.23 to the Company's Form 10-K for the fiscal year ended April 30, 1995 and hereby incorporated by reference.
- 10.10 Agreement between SigmaTron International, Inc. and Nighthawk Systems, Incorporated dated July 9, 1995 - Filed as Exhibit 10.33 to the Company's Form

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10-Q for the quarter ended July 31, 1995 and hereby incorporated by reference.

- 10.11 Putnam Flexible 401(K) and Profit Sharing Plan Agreement #001 dated March 22, 1996 between SigmaTron International, Inc. and Putnam Defined Contribution Plans - Filed as Exhibit 10.35 to the Company's Form 10-Q for the quarter ended July 31, 1996 and hereby incorporated by reference.
- 10.12 Amended and Restated Agreement between SigmaTron International, Inc. and Nighthawk Systems, Incorporated dated November 15, 1996 - filed as Exhibit 10.41 to the Company's Form 10-Q for the quarter ended January 31, 1997 and hereby incorporated by reference.
- 10.13 Lease Agreement between SigmaTron International, Inc. and Industrias Irvin DeMexico S.A. dated January 15, 1997 and filed as Exhibit 10.42 to the Company's Form 10-Q for the quarter ended January 31, 1997 and hereby incorporated by reference.
- 10.14 Lease Agreement between SigmaTron International, Inc. and G E Capital dated July 14, 1997 and hereby incorporated by reference.
- 10.15 Lease Agreement # 97-054 between SigmaTron International, Inc. and International Financial Services dated June 6, 1997 and hereby incorporated by reference.
- 10.16 Lease Agreement # 97-087 between SigmaTron International, Inc. and International Financial Services dated June 26, 1997 and hereby incorporated by reference.
- 10.17 Lease Agreement # 97-097 between SigmaTron International, Inc. and International Financial Services dated August 11, 1997 and hereby incorporated by reference.
- 10.18 Lease Agreement # 97-185 between SigmaTron International, Inc. and International Financial Services dated December 22, 1997 and hereby incorporated by reference.
- 10.19 Lease Agreement # E002 between SigmaTron International, Inc. and G E Capital dated December 31, 1997 and hereby incorporated by reference.
- 10.20 Guaranty and Surety Agreement between SigmaTron International, Inc. and HSBC Business Loans Inc. dated January 31, 1998 and hereby incorporated by reference.
- 10.21 Lease Agreement # 98-10 between SigmaTron International, Inc. and International Financial Services dated February 2, 1998.
- 22.1 Subsidiaries of the Registrant - Filed as Exhibit 22.1 of the Company's Registration Statement on Form S-1 Reg. 33-72100 and hereby incorporated by reference.
- 23.1 Consent of Ernst & Young LLP.

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\* Indicates management contract or compensatory plan.

(b) No reports on Form 8-K were filed during the 1998 fiscal year.

(c) Exhibits

The Company hereby files as exhibits to this Report the exhibits listed in Item 14 (a) (3) above, which are attached hereto.

(d) Financial Statements Schedules

The Company hereby files a schedule to this Report the financial schedule in Item 14, which are attached hereto.

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

Dated: July 22, 1998

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.

<TABLE>  
 <CAPTION>

Signature -----	Title -----	Date ----
<S> /s/ Franklin D. Sove ----- Franklin D. Sove	<C> Chairman of the Board of Directors	<C> July 22, 1998
/s/ Gary R. Fairhead ----- Gary R. Fairhead	President and Chief Executive Officer	July 22, 1998
/s/ Linda K. Blake ----- Linda K. Blake	Chief Financial Officer, Secretary and Treasurer (Principal Financial Officer and Principal Accounting Officer)	July 22, 1998
/s/ D.S. Patel ----- D.S. Patel	Director	July 22, 1998
/s/ John P. Chen ----- John P. Chen	Director	July 22, 1998
/s/ Dilip S. Vyas	Director	July 22, 1998

-----

Dilip S. Vyas

/s/ William C. Mitchell Director

July 22, 1998

-----

William C. Mitchell

/s/ Thomas W. Rieck Director

July 22, 1998

-----

Thomas W. Rieck

/s/ Steven Rothstein Director

July 22, 1998

-----

Steven Rothstein

</TABLE>

INTERNATIONAL FINANCIAL SERVICES CORPORATION 1113 S. MILWAUKEE AVENUE, LIBERTYVILLE, IL 60048 (847) 549-0100 FAX (847) 549-0119

<TABLE>
<CAPTION>
<S> <C>
LESSEE: SIGMATRON INTERNATIONAL, INC. LEASE NO. ALWAYS REFER TO: #98-010

ADDRESS: 2201 LANDMEIER ROAD ELK GROVE VILLAGE, IL 60007 CONTACT: MS. LINDA BLAKE PHONE #: 847-956-8000 EQUIPMENT LOCATION IF OTHER THAN ADDRESS OF LESSEE: SMT UNLIMITED L.P. , 47650 WESTINGHOUSE DR., FREMONT, CA 94539
TYPE OF COMPANY: CORPORATION

EQUIPMENT LEASED AS LISTED ON THE ATTACHED SCHEDULE "A"
TERM: 60 \$4,862.00 per period for the first 60 periods
PERIODS ARE: MONTHLY ADVANCE RENTALS, \$9,724.00 payable at the signing of this lease to be applied
TOTAL # OF LEASE PAYMENTS: 60 to the last two rental payments.
EFFECTIVE DATE: SEE PARAGRAPH 25

</TABLE>
TERMS AND CONDITIONS OF LEASE

- 1. LEASE. LESSOR hereby leases to LESSEE and LESSEE hereby hires and takes from LESSOR, the personal property set forth on the EQUIPMENT Schedule above and any Schedule attached hereto with all accessories incorporated therein and/or affixed thereto, hereinafter referred to as EQUIPMENT.
2. RENTALS. During and for the original term hereof LESSEE hereby agrees to pay LESSOR as and for rental of the EQUIPMENT the amounts specified above as monthly or other calendar period rental multiplied by the number of months or periods specified above. The first rental payment shall be made on the effective date as set forth above. In the event the effective date is omitted when the LEASE is executed by the LESSEE, the LESSOR is authorized to and shall insert the effective date of this LEASE which shall be the date of delivery of EQUIPMENT. Subsequent monthly or other period rental payments shall be due on the same day of subsequent months or other calendar periods as the effective date of this LEASE. All payments shall be made at the office of the LESSOR at 1113 S. Milwaukee Avenue, Libertyville, IL 60048, or as otherwise directed by the LESSOR or assignee in writing.
3. TERM. The original term of this LEASE shall commence on the date that the EQUIPMENT is delivered to LESSEE and shall terminate upon the expiration of the number of months, or other calendar periods, set forth above from said date. Said rent shall be payable monthly in advance.
4. EQUIPMENT AND LIABILITY. LESSOR, at the request of LESSEE, has ordered or shall order the EQUIPMENT described above from a supplier selected by LESSEE. LESSOR shall not be liable for specific performance of this LEASE or for damages, if , for any reason, supplier fails to accept such order or delays or fails to fill the order. LESSEE agrees to accept such EQUIPMENT and to complete the acceptance notice provided by LESSOR.
5. PLACE OF USE; INSPECTION. LESSEE shall keep the EQUIPMENT at its place of business as specified above. LESSEE covenants and agrees not to allow the use of EQUIPMENT by other than the employees of the LESSEE and covenants and agrees not to rent or sublet the EQUIPMENT or any part thereof to others for their own use. Whenever requested by LESSOR, LESSEE shall promptly advise LESSOR as to the exact location of the EQUIPMENT. LESSOR, from time to time, may enter the premises where the EQUIPMENT is located and inspect same upon 1 business day's notice and subject to LESSEE's security rules.
6. ADVANCE RENTALS. At the LESSOR'S option any advance rentals made hereunder may be applied by LESSOR to cure any default of LESSEE. LESSEE will from time to time promptly provide any additional credit or financial information that the LESSOR deems necessary to this transaction.
7. DISCLAIMER OF WARRANTY. LESSOR not being the manufacturer or the supplier of the EQUIPMENT, nor a dealer in similar equipment, has not made and does not make any representation warranty or covenant, express or implied, with respect to the design, condition, durability, suitability, fitness for use or merchantability of the EQUIPMENT in any respect. As between LESSOR and LESSEE, the EQUIPMENT shall be accepted and leased by LESSEE "AS IS" and "WITH ALL FAULTS". LESSEE agrees to settle all such claims directly with the supplier and will not assert any such claims or defenses against LESSOR or LESSOR'S assignee. LESSOR assigns to, authorizes and appoints LESSEE to enforce, in its own name and at its own expense, any claim, warranty, agreement or representation which may be made against the supplier, but LESSOR assumes no obligation as to the extent or enforceability thereof. LESSOR agrees to cooperate with LESSEE in the enforcement of any manufacturer warranty to the extent LESSOR'S cooperation is necessary under the terms of any such warranty. No defect or unfitness of the EQUIPMENT, loss or damage thereto or any other

circumstances shall relieve LESSEE of its obligations under this LEASE which are absolute and unconditional. In no event shall LESSOR or LESSEE be liable for any consequential damages. Supplier is not an agent of LESSOR and no employee of supplier is authorized to waive, supplement or otherwise alter, any provision of this LEASE.

8. ERRORS IN ESTIMATED COST. The amount of each rent payment and the advance rental initially set forth above are based upon the estimated total cost of the EQUIPMENT (excluding taxes, transportation and any other charges) which is an estimate, and each shall be adjusted proportionally if the actual cost of the EQUIPMENT differs from said estimate. LESSEE hereby authorizes LESSOR to correct the figures set forth above when the actual cost is known. If the actual cost of the EQUIPMENT differs from the estimated cost by more than ten percent (10%) thereof, however, either party at its option may terminate this LEASE by giving written notice to the other party within fifteen (15) days after receiving notice of the actual cost or the corrected rent.

9. USE AND RETURN OF EQUIPMENT. The LESSEE shall exercise due and proper care in the use, repair and servicing of the EQUIPMENT and at all times and at its expense shall keep and maintain the leased property in good working condition, order, and repair. LESSEE may alter and upgrade the EQUIPMENT provided that such alteration or upgrade does not reduce the value or impair the capability of the EQUIPMENT. LESSEE shall have the right to remove any such alteration or upgrade before returning the EQUIPMENT to LESSOR so long as the removal does not damage the EQUIPMENT. LESSEE shall bear all costs associated with the acquisition, installation and removal of any such alteration or upgrade. Upon the expiration or termination of this LEASE, LESSEE at its sole expense shall forthwith properly pack and return the EQUIPMENT to LESSOR, or to such place designated by LESSOR within 30 miles of EQUIPMENT location, in the same condition as when received by LESSEE, reasonable wear and tear alone excepted. All replacement parts, incorporated in or affixed to the EQUIPMENT after the commencement of this LEASE shall become the property of LESSOR.

10. TITLE; LIENS; TAXES. The Equipment is, and shall at all times be and remain (i) the sole and exclusive property of LESSOR; and the LESSEE shall have no right, title or interest therein or thereto except as expressly set forth in this LEASE; (ii) personal property notwithstanding that the EQUIPMENT or any part thereof may now be or hereafter become, in any manner affixed or attached to or imbedded in, or permanently resting upon, real property or any building thereon. LESSEE agrees to affix nameplates or decals to the EQUIPMENT indicating LESSOR'S ownership thereof if requested and supplied by LESSOR.

THIS LEASE IS SUBJECT TO THE TERMS AND CONDITIONS PRINTED ABOVE AND ON THE FOLLOWING PAGES AND RIDERS WHICH ARE MADE PART THEREOF AND WHICH LESSEE ACKNOWLEDGES THAT IT HAS READ. IN WITNESS WHEREOF THE LESSEE HAS HEREBY EXECUTED THIS NON CANCELLABLE LEASE THIS \_\_\_\_\_ DAY OF \_\_\_\_\_ 19\_\_

<TABLE>  
<S> \_\_\_\_\_ 19\_\_ <C>  
ACCEPTED \_\_\_\_\_ LESSEE NAME: SIGMATRON INTERNATIONAL, INC.  
INTERNATIONAL FINANCIAL SERVICES CORP., Lessor SIGNED BY: /s/  
BY \_\_\_\_\_ TITLE: President and Chief Executive Officer  
TITLE \_\_\_\_\_ (INDICATE CORPORATE OFFICE, GENERAL PARTNER, OWNER, ETC)  
LESSEE'S ORIGINAL SIGNATURE IN INK IS REQUIRED ON DATE: \_\_\_\_\_  
LEASE PAGES 1,2,3 ,4,5 - MUST BE ORIGINAL SIGNATURES  
</TABLE>

LEASE ORIGINAL - 1

LESSEE shall keep the EQUIPMENT free and clear of levies, liens and encumbrances and shall pay all license and registration fees, assessments, filing or recording fees, documentary stamp tax, sale/use taxes, personal property taxes, gross receipt taxes, excise taxes including value added taxes and all other taxes (local, state and federal) which may now or hereafter be imposed upon the ownership, leasing, rental, sale, purchase, possession or use of the EQUIPMENT whether assessed to LESSOR or LESSEE excluding, however, all taxes on or measured by LESSOR'S net income.

If such taxes are levied against the LESSOR, the LESSOR shall have the right, subject to the following paragraph, but not the obligation, to pay any such taxes, whether levied against the LESSOR or the LESSEE. In such event the LESSEE shall reimburse the LESSOR therefor within five (5) days after receipt of invoice and for the failure to make such reimbursement when due the LESSOR shall have all remedies provided herein with respect to the nonpayment of the rental hereunder. LESSEE shall give LESSOR immediate notice of any attachment or other judicial process, liens or encumbrances affecting the EQUIPMENT and

shall indemnify and save LESSOR harmless from any loss or damage caused thereby.

Notwithstanding the foregoing, LESSEE shall have the right, at its expense and by appropriate legal proceedings, to contest the validity, applicability or amount of any fees, assessments or taxes imposed upon the EQUIPMENT provided that LESSEE shall not cause a tax lien to be levied against the EQUIPMENT or LESSOR. LESSOR agrees to cooperate with LESSEE in any such contest and will permit LESSEE to contest the same in the name of LESSOR (if required by law) or in the name of LESSEE, all at LESSEE'S cost and expense. The non-payment of any fee, tax or assessment by LESSEE in connection with such contest shall not be deemed a default hereunder until final determination of such contest and expiration of any due date established therein.

11. FILING. LESSEE hereby authorizes LESSOR to file financing statements with respect to the EQUIPMENT or any collateral provided by LESSEE to LESSOR prior to or following LESSOR'S acceptance of this LEASE, in any State of the United States in which the EQUIPMENT is located. LESSEE shall execute such supplemental instruments and financing statements if LESSOR deems such to be necessary or advisable and shall otherwise cooperate to defend the title of the LESSOR by filing or otherwise. LESSEE, upon demand, shall promptly pay to LESSOR all filing costs and fees incurred or paid by LESSOR.

12. INSURANCE. Commencing on the date risk passes to LESSOR from the supplier and continuing until LESSEE has redelivered possession of the EQUIPMENT to LESSOR, LESSEE, at its expense, shall keep the EQUIPMENT insured against all risks of loss or damage from every cause whatsoever for the greater of the total rent for the full term of this LEASE or the full undepreciated replacement value (new) of the EQUIPMENT, and shall carry public liability insurance, both personal injury and property damage, covering the EQUIPMENT and its use. All insurance shall be of a type, form, in amounts, with companies and contain terms and conditions reasonably satisfactory to LESSOR.

Certificates of insurance or other evidence satisfactory to LESSOR, including the original or certified copies of the actual policies showing the existence of insurance in accordance herewith, and the terms, conditions and payments therefor shall be delivered to LESSOR upon LESSOR'S request. Said insurance shall provide for loss, if any, payable to LESSOR and LESSEE as their interests may appear and shall name LESSOR as an additional insured for purposes of liability insurance. The proceeds of insurance payable as a result of loss of or damage to EQUIPMENT shall be applied, at the option of LESSEE: (a) toward the replacement, restoration or repair of EQUIPMENT which may be lost, stolen, destroyed or damaged; or (b) toward payment of the obligations of LESSEE hereunder. In the event the LESSEE elects to apply insurance proceeds to the repair or to the replacement of the damaged EQUIPMENT, this LEASE shall continue in full force and effect. In the event LESSEE elects to apply insurance proceeds to the payment of LESSEE'S obligations for rent hereunder, the LESSEE'S obligations for the rent hereunder shall be reduced by the amount of such insurance proceeds, but the LESSEE shall be liable for any additional rents due. Such reduction of rents shall be allocated solely to the item or items lost, stolen, damaged or destroyed.

13. LOSS; DAMAGE. LESSEE assumes and shall bear the risk of loss and damage to the EQUIPMENT from every cause whatsoever, whether or not insured. In the event of any loss or damage to the EQUIPMENT, LESSEE, at the option of LESSEE, shall (a) place the same in good repair, condition and working order; or (b) replace the same with new EQUIPMENT; or (c) immediately pay to LESSOR the following amount: the greater of (x) the total unpaid rentals for the entire term hereof (discounted to present value at the rate of six (6) percent per annum plus any amount due LESSOR pursuant to Section 18 hereof or (y) the fair market value of the EQUIPMENT immediately prior to the loss or damage. Upon such payment, together with payment of all other sums owing on said LEASE to and including such payment date, LESSOR will transfer title to the affected EQUIPMENT to LESSEE "as is", "where is", and without warranty, express or implied but including the warranty of good and marketable title.

14. INDEMNITY. Lessee does hereby assume liability for and does agree to indemnify, protect, save and keep harmless LESSOR, and any assignee of LESSOR from and against any and all liabilities, losses, damages, penalties, claims, actions, suits, costs, expenses and disbursements, including court costs and reasonable legal expenses, of whatever kind and nature, imposed on, incurred by or asserted against LESSOR, and any assignee of LESSOR (whether or not also indemnified against by any other person) in any way relating to or arising out of this LEASE or the manufacture, purchase, ownership, delivery, lease, possession, use, operation, condition, return or other disposition of the EQUIPMENT by LESSEE, including without limitation any claim alleging latent or other defects, whether or not discoverable by LESSOR or LESSEE; any claim for patent, trademark or copyright infringement; any claim arising out of strict liability in tort; and any taxes for which LESSEE is responsible pursuant to this LEASE, but excluding any such claims arising from acts or omissions of LESSOR or its assignees.

15. DEFAULT. Any of the following events or conditions shall constitute an event of default hereunder; (a) LESSEE'S failure to pay when due any rent or other amount due hereunder within 30 days after receipt by LESSEE of notice of default; (b) LESSEE'S default in performing any other term, covenant or condition hereof if such default is not cured within 30 days after receipt by LESSEE of notice of default; (c) seizure of any EQUIPMENT under legal process; (d) the filing by or against LESSEE of a petition for reorganization or

liquidation under the Bankruptcy Code or any amendment thereto or under any other insolvency law providing for the relief of debtors; (e) the voluntary or involuntary making of an assignment of a substantial portion of its assets by LESSEE for the benefit of creditors, appointment of a receiver or trustee for LESSEE or for any of LESSEE'S asset institution by or against LESSEE of any formal or informal proceeding for dissolution, liquidation, settlement of claims against or winding up of the affairs of LESSEE, or the making by LESSEE of a transfer of all or a material portion of LESSEE's assets or inventory not in the ordinary course of business and not for equivalent consideration.

16. REMEDIES. Upon LESSEE'S default, LESSOR shall have the right to exercise any one or more of the following remedies; (a) without affecting LESSOR'S title or right to possession of the EQUIPMENT, declare due, sue for and recover all rents and other amounts then accrued or thereafter accruing for the entire lease term, discounted to present value at 8% per annum or the sum calculated per paragraph 27 below, whichever is greater, (b) require LESSEE to promptly redeliver the EQUIPMENT in the manner specified in Section 9 hereof; or (c) repossess the EQUIPMENT without notice, legal process, prior judicial hearing or liability for trespass (which rights LESSEE hereby voluntarily, intelligently and knowingly waives). Such return or repossession of EQUIPMENT shall not terminate this LEASE unless LESSOR so notifies LESSEE in writing. LESSOR, at its option may sell or re-lease the EQUIPMENT upon such terms as it reasonably determines and apply the proceeds to LESSEE'S obligations hereunder, after deducting from such proceeds all costs and expenses of repossession and disposition, reasonable attorney's fees, plus any amounts due LESSOR pursuant to Section 18 hereof. LESSEE shall promptly pay any resulting deficiency, together with interest at the lesser of sixteen (16%) percent and LESSOR'S reasonable attorneys' fees if legal action is required to collect such deficiency. If LESSOR is unable to repossess the EQUIPMENT for any reason, the EQUIPMENT shall be deemed a total loss and LESSEE shall pay to LESSOR the amount due pursuant to Section 13 (c). All such remedies are cumulative and may be enforced separately or concurrently and are in addition to any other rights or remedies available to LESSOR at law or in equity. The foregoing provisions of this Section 16 are subject to any mandatory requirement of applicable law then in effect.

17. ASSIGNMENT. Without the prior written consent of LESSOR, LESSEE shall not assign, transfer, pledge or hypothecate this LEASE and EQUIPMENT or any interest in this LEASE or in and to the EQUIPMENT or permit its rights under this LEASE to be subject to any lien, charge or encumbrance of any nature. Notwithstanding the foregoing, LESSEE may assign the LEASE, the EQUIPMENT and its interest in this LEASE and the EQUIPMENT to an affiliate or in connection with a sale of all or substantially all of its assets to, or consolidation with or merger of LESSEE into, any entity so long as such entity assumes the obligations of LESSEE hereunder and immediately following such event is, in the reasonable opinion of LESSOR, no less creditworthy than was LESSEE immediately prior to such event. LESSOR shall have the right to assign this LEASE or any part thereof. If LESSOR assigns the rents reserved herein or all or any of the LESSOR'S other rights hereunder, or amounts equal thereto, the right of the assignee to receive the rentals as well as any other right of the assignee shall not be subject to any defense, setoff, counterclaim or recoupment which may arise out of any breach or obligation of LESSOR or by reason of any other indebtedness or liability at any time owing by LESSOR to LESSEE. All rentals due hereunder shall be payable to assignee by LESSEE in accordance with the terms hereof. On receipt of notification of such assignment, LESSEE, subject to its rights hereunder, shall become the pledgeholder of the EQUIPMENT for and on behalf of the assignee and will relinquish possession thereof only to the assignee or pursuant to its written order subject to LESSEE'S rights hereunder. LESSEE, on receiving notice of any such assignment, shall make payments as may therein be directed. Following such assignments, the term "LESSOR" shall be deemed to include or refer to LESSOR'S assignee, provided that no such assignee shall be deemed to assume any obligation or duty imposed upon LESSOR hereunder and LESSEE shall look only to LESSOR for performance thereof. There shall be only one executed counterpart of this LEASE marked "Original" and all other counterparts shall be marked "Duplicate". To the extent that LEASE constitutes chattel paper (as defined in the Uniform Commercial Code) no security interest in this lease may be created through the transfer or possession of any counterpart other than the original.

18. DEPRECIATION AND INVESTMENT TAX CREDIT INDEMNITY. (THIS SECTION DOES NOT APPLY IF LESSOR HAS AGREED IN WRITING TO PASS THE INVESTMENT TAX CREDIT (ITC) TO LESSEE.) If, as to any EQUIPMENT, under any circumstances and for any reason whatsoever, except through the fault of the LESSOR, LESSOR shall lose or shall not have the right to claim, or there shall be disallowed or recaptured (collectively a "loss") (1) any portion of the maximum ITC, allowable under the Internal Revenue Code of 1954, as amended, for new property with a useful life equivalent to the lease term for such EQUIPMENT; or (2) any portion of the claimed depreciation deductions for such EQUIPMENT, based on the cost thereof, LESSEE agrees to pay LESSOR upon demand an amount which, in the reasonable opinion of LESSOR, will cause LESSOR'S after tax net yield in respect of such equipment to equal the net yield that LESSOR would have received if LESSOR had not suffered such loss.

TERMS AND CONDITIONS OF LEASE #97-185 CONTINUED LESSEE'S INITIALS /s/ \_\_\_\_\_

19. ENTIRE AGREEMENT; NON-WAIVER; NOTICES; SEVERABILITY. This LEASE and each rider hereto initialed by LESSEE contains the entire and only understanding between LESSOR and LESSEE relating to the subject matter hereof. Any representation, promises or conditions not contained herein shall not be binding unless in writing and signed by duly authorized representatives of each party. No covenant or condition of this LEASE can be waived except by the written consent of LESSOR. Any notices required to be given hereunder shall be given in writing at the address of each party herein set forth, or to such other address as either party may substitute by written notice to the other with a copy of any such notice sent to LESSEE sent to Henry J. Underwood, Jr., Esq., Defrees & Fiske, 200 South Michigan, Suite 1100, Chicago, Illinois 60604. Whenever reference is made herein to the "LEASE," it shall be deemed to include any Schedules attached hereto identifying all items of EQUIPMENT and the applicable term and rent, and each rider hereto initialed by LESSEE, all of which constitute one indivisible lease of equipment to which all the terms and provisions hereof apply. If any provision of this LEASE is held invalid, such invalidity shall not affect any other provisions hereof.

20. GENDER; NUMBER; JOINT AND SEVERAL LIABILITY; AUTHORIZATION. Whenever the context of this LEASE requires, the masculine gender includes the feminine or neuter and the singular number includes the plural; whenever the word "LESSOR" is used herein, it shall include all assignees of LESSOR; whenever the word "herein" is used referring to this LEASE, it shall include the applicable Schedules hereto and each rider hereto initialed by LESSEE. If there is more than one LESSEE named in this LEASE, the liability of each shall be joint and several. LESSEE hereby authorizes LESSOR to insert equipment serial numbers and other identification in the equipment description, when known.

21. SURVIVAL. LESSEE'S indemnities shall survive the expiration or other termination of this LEASE.

22. CHOICE OF LAW, SERVICE OF PROCESS. This LEASE shall be binding and effective on LESSOR only when signed by an officer of LESSOR at its home office in Libertyville, Illinois, and except for local filing requirements, shall be governed by Illinois law and shall be deemed to have been made in Libertyville, Illinois. LESSEE does hereby submit to the jurisdiction of any courts (federal, state or local) having situs within the State of Illinois with respect to any dispute, claim or suit arising out of or relating to this LEASE or LESSEE'S obligations hereunder.

23. QUIET ENJOYMENT. LESSOR represents and warrants to LESSEE that LESSOR has good title to the EQUIPMENT with the full and unencumbered right to lease the same to LESSEE. LESSOR covenants with LESSEE that so long as LESSEE is not in default under this Lease, neither LESSOR nor any third party shall interfere with LESSEE'S right to quiet possession and enjoyment of the EQUIPMENT. LESSOR shall protect and defend LESSEE'S right to the quiet possession and enjoyment of the EQUIPMENT against all claims and liens of LESSOR'S creditors. Upon expiration of the term of this LEASE and exercise by LESSEE of its purchase option, LESSOR shall transfer title to the EQUIPMENT to LESSEE pursuant to a bill of sale providing for LESSOR'S warranty of good and marketable title to the EQUIPMENT but excluding any warranties relating to the physical condition of the EQUIPMENT, including but not limited to the warranties of merchantability or fitness for a particular purpose.

24. PURCHASE OPTION. LESSEE shall have the option, exercisable upon notice to Lessor, to purchase all of the EQUIPMENT for one dollar (\$1.00) effective upon the expiration of the original term of this LEASE.

25. EFFECTIVE DATE OF LEASE. The effective date of this LEASE for purposes of commencing LESSEE'S obligation to pay monthly rent shall occur upon LESSEE'S acceptance of the EQUIPMENT.

26. EARLY TERMINATION OPTION. After acceptance of the EQUIPMENT in accordance with this LEASE, LESSEE shall have the right to terminate its obligations under this LEASE at any time upon 30 days prior notice to LESSOR and payment of the balance as set forth on the amortization schedule attached hereto as Exhibit A opposite the date two months after the pre-payment is effective plus the Prepayment Penalty set forth on Exhibit A. The amortization schedule shall be adjusted as necessary if the monthly rental is adjusted under paragraph 27 hereof.

27. RENTAL ADJUSTMENT. When LESSEE accepts the EQUIPMENT, the monthly rental amount of \$4,862.00 will be adjusted in proportion to any increase or decrease in five year treasury rates from January 5, 1998 until the effective date. Said monthly payment, adjusted as necessary, shall be payable in advance for 60 months commencing on the first day of the month immediately following the effective date.

Whenever any monthly rental payment is not paid when due and continues unpaid 15 days after notice of non-payment is received by LESSEE, LESSEE agrees to pay LESSOR on demand (as a fee to offset LESSOR'S collection and administrative expenses) the greater of twenty-five dollars (\$25.00) or three and one-half percent (3 1/2%) of the overdue amount to the extent permitted by applicable law.

LEASE ORIGINAL - 1

4

INTERNATIONAL FINANCIAL SERVICES CORPORATION 1113 S. MILWAUKEE AVENUE, LIBERTYVILLE, IL 60048 (847) 549-0100 FAX (847) 549-0119

<TABLE> <CAPTION> <S> <C> LESSEE: SIGMATRON INTERNATIONAL, INC. LEASE NO. ALWAYS REFER TO: #98-010

ADDRESS: 2201 LANDMEIER ROAD ELK GROVE VILLAGE, IL 60007 CONTACT: MS. LINDA BLAKE, PHONE #: 847-956-8000 EQUIPMENT LOCATION IF OTHER THAN ADDRESS OF LESSEE: SMT UNLIMITED L.P. , 47650 WESTINGHOUSE DR., FREMONT, CA 94539

TYPE OF COMPANY: CORPORATION

EQUIPMENT LEASED AS LISTED ON THE ATTACHED SCHEDULE "A"

TERM: 60 \$4,862.00 per period for the first 60 periods PERIODS ARE: MONTHLY ADVANCE RENTALS, \$9,724.00 payable at the signing of this lease to be applied to the last two rental payments. TOTAL # OF LEASE PAYMENTS: 60 EFFECTIVE DATE: SEE PARAGRAPH 25

</TABLE>

ACCEPTANCE NOTICE

INTERNATIONAL FINANCIAL SERVICES CORPORATION 1113 Milwaukee Avenue Libertyville, IL 60048

GENTLEMEN:

All items referred to above were received by us and were and are in good order and condition and acceptable to us. The decals, labels, etc., if required and supplied have been affixed to the above items. We approve payment by you to the supplier. Lessee hereby certifies that the lessor has fully and satisfactorily performed all covenants and conditions to be performed by it under said lease agreement as of the date hereof.

Very Truly Yours,

<TABLE> <CAPTION> <S>

VENDOR: This acceptance must be signed by lessee and returned to us before your invoice can be paid.

<C> LEASE DATED \_\_\_ DAY OF \_\_\_\_\_, 199\_\_

LESSEE NAME: SIGMATRON INTERNATIONAL, INC.

SIGNED BY: /s/

TITLE: President and Chief Executive Officer

(INDICATE CORPORATE OFFICE, GENERAL PARTNER, OWNER, ETC)

LESSEE'S ORIGINAL SIGNATURE IN INK IS REQUIRED ON LEASE PAGES 1,2,3 ,4,5 - MUST BE ORIGINAL SIGNATURES

DATE:

</TABLE>

ACCEPTANCE NOTICE - 3

INTERNATIONAL FINANCIAL SERVICES CORPORATION 1113 S. MILWAUKEE AVENUE, LIBERTYVILLE, IL 60048 (847) 549-0100 FAX (847) 549-0119

<TABLE>
<CAPTION>
<S> <C>
LESSEE: SIGMATRON INTERNATIONAL, INC. LEASE NO. ALWAYS REFER TO: #98-010
ADDRESS: 2201 LANDMEIER ROAD CONTACT: MS. LINDA BLAKE
ELK GROVE VILLAGE, IL 60007 PHONE #: 847-956-8000
EQUIPMENT LOCATION IF OTHER THAN
ADDRESS OF LESSEE:
SMT UNLIMITED L.P. , 47650 WESTINGHOUSE DR.,
FREMONT, CA 94539
TYPE OF COMPANY: CORPORATION
EQUIPMENT LEASED AS LISTED ON THE ATTACHED SCHEDULE "A"
TERM: 60 \$4,862.00 per period for the first 60 periods
PERIODS ARE: MONTHLY ADVANCE RENTALS, \$9,724.00 payable at the signing of this lease to be applied
TOTAL # OF LEASE PAYMENTS: 60 to the last two rental payments.
EFFECTIVE DATE: SEE PARAGRAPH 25
</TABLE>

EQUIPMENT DISCLAIMER AND AGREEMENT

INTERNATIONAL FINANCIAL SERVICES CORPORATION
1113 Milwaukee Avenue
Libertyville, IL 60048

GENTLEMEN:

This will advise that LESSEE is aware of its obligations with reference to the above lease and that LESSEE agrees in its name to enforce all warranties, agreements, or representations, if any, which may be made by the supplier to LESSEE. LESSEE agrees that INTERNATIONAL FINANCIAL SERVICES CORPORATION makes no expressed or implied warranties as to any matter whatsoever, including, without limitation the condition of the equipment, its merchantability or its fitness for any particular purpose except as set forth in the LEASE. No defect or unfitness of equipment shall release LESSEE of the obligation to pay rental payments or of any other obligations under this lease agreement.

Very Truly Yours,

LEASE DATED DAY OF , 199

LESSEE NAME: SIGMATRON INTERNATIONAL, INC.

SIGNED BY: /s/

TITLE: President and Chief Executive Officer

(INDICATE CORPORATE OFFICE, GENERAL PARTNER, OWNER, ETC)

DATE:

LESSEE'S ORIGINAL SIGNATURE IN INK IS REQUIRED ON
LEASE PAGES 1,2,3 ,4,5 - MUST BE ORIGINAL SIGNATURES

EQUIPMENT DISCLAIMER AND AGREEMENT - 4

INTERNATIONAL FINANCIAL SERVICES CORPORATION 1113 S. MILWAUKEE AVENUE, LIBERTYVILLE, IL 60048 (847) 549-0100 FAX (847) 549-0119

<TABLE>
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LESSEE: SIGMATRON INTERNATIONAL, INC. LEASE NO. ALWAYS REFER TO: #98-010

ADDRESS: 2201 LANDMEIER ROAD  
ELK GROVE VILLAGE, IL 60007

CONTACT: MS. LINDA BLAKE  
PHONE #: 847-956-8000  
EQUIPMENT LOCATION IF OTHER THAN  
ADDRESS OF LESSEE:  
SMT UNLIMITED L.P. , 47650 WESTINGHOUSE DR.,  
FREMONT, CA 94539

TYPE OF COMPANY: CORPORATION

EQUIPMENT LEASED AS LISTED ON THE ATTACHED SCHEDULE "A"

TERM: 60 \$4,862.00 per period for the first 60 periods  
PERIODS ARE: MONTHLY ADVANCE RENTALS, \$9,724.00 payable at the signing of this lease to be applied  
TOTAL # OF LEASE PAYMENTS: 60 to the last two rental payments.  
EFFECTIVE DATE: SEE PARAGRAPH 25

</TABLE>

LESSEE'S ACKNOWLEDGEMENT

INTERNATIONAL FINANCIAL SERVICES CORPORATION  
1113 Milwaukee Avenue  
Libertyville, IL 60048

GENTLEMEN:

As Lessee under the lease referred to above with International Financial Services Corporation, the undersigned hereby acknowledges the Lessor's right to assign its interest under the Lease and that Assignee does not assume any of the obligations of the Lessor thereunder, consents to any such assignment and, in consideration of the assignee having advanced funds to the Lessor to finance the equipment described in the Lease, and in consideration of Assignee's covenant with Lessee that so long as Lessee is not in default under the Lease, Lessee will quietly possess the Equipment, free of interference from third parties, agrees as follows: (a) that its obligation to pay directly to the Assignee the amounts (whether designated as rentals or otherwise) which become due from the Lessee as set forth in the Lease so assigned shall be absolutely unconditional and shall be payable in strict accordance with the Lease, and it promises so to pay the same notwithstanding any defense, set-off or counterclaim whatsoever, whether by reason of breach of the Lease, the exercise of any right or option thereunder, or otherwise, which it may or might now or hereafter have as against the Lessor (the Lessee reserving its right to have recourse directly against the Lessor on account of any such defense, set-off or counterclaim); and (b) that, subject to and without impairment of the Lessee's leasehold rights in and to the Equipment described in said Lease, Lessee holds said Equipment and the possession thereof for the Assignee to the extent of the Assignee's rights therein. There shall be only one executed counterpart of this lease marked "Original" and all other counterparts shall be marked "Duplicate." To the extent that Lease constitutes chattel paper (as defined in the Uniform Commercial Code) no security interest in this lease may be created through the transfer or possession of any counterpart other than the original.

Very Truly Yours,

LEASE DATED DAY OF , 199

LESSEE NAME: SIGMATRON INTERNATIONAL, INC.

SIGNED BY: /s/

TITLE: President and Chief Executive Officer

LESSEE'S ORIGINAL SIGNATURE IN  
INK IS REQUIRED ON  
LEASE PAGES 1,2,3 ,4,5 - MUST  
BE ORIGINAL SIGNATURES

(INDICATE CORPORATE OFFICE, GENERAL  
PARTNER, OWNER, ETC)

DATE:

LESSEE'S ACKNOWLEDGMENT - 5

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INTERNATIONAL FINANCIAL SERVICES CORPORATION  
1113 S. MILWAUKEE AVENUE, LIBERTYVILLE, IL 60048

SCHEDULE "A" TO LEASE #98-010

LESSEE: Sigmatron International, Inc.

LESSOR: INTERNATIONAL FINANCIAL SERVICES CORPORATION

EQUIPMENT AS DESCRIBED BELOW:

FINAL ASSY ESI-1004 4-HEAD FP TERADYNE ESI 1004 FLYING PROBER  
IN-CIRCUIT TESTER includes: 4-Head, 4 Probe Model, 3 Phase Surface  
Linear Motors (4) Feedback Stepping Motors (4) for Z-axis control;  
Operations, programming and maintenance software, AC, DC  
measurement system, Tandem measurement mode option, Soft Landing  
Control measurement stroke, 19.7" x 23.6" (500mm x 600mm) probable  
area, Fiducial camera system, Position monitoring camera, Automatic  
conveyor width adjustment, Programmable pass/fail marker, Status  
light tower, Panelization software, utomatic probing alignment,  
Calibration board for probe to probe distance, Pentium PC Main  
controller with diagnostic printer, AC 200-V-240V switchable  
single-phase power supply;

SPARES KIT 1 FLYING PROBER, Spares Kit 1 consists of both  
consumable spares and recommended on-site parts. Consumables  
include probes, timing belt (6 types) printer paper, Recommended  
parts include PCB's for DC Measurement, AC Measurement, Scanner,  
Linear Motor Driver and several other sub-assemblies.

FABMASTER 1 I/P Teradyne Flying Prober FABMASTER Software for  
processing CAD data for the generation of input lies for Teradyne  
Flying Prober Systems including One CAD Input Processor, Graphics  
Engine, Job Screen, Penalization Mode, Probe Selector, Short  
Circuit Emulation, Teradyne Flying Probar Output Processor, One  
Software Security Key attaches to parallel port.

CURRENTLY SUPPORTED CAD INPUT PROCESSORS

OPT, DELTASCAN FOR ESI-1004 DeltaScan Option for ESI-1004  
Teradyne's DeltaScan for ESI-1004 adds Delta Scan vectorless test  
capablility to the Teradyne Flying Prober. DeltaScan provides fault  
coverage for open pins, cold solder and device orientation errors  
on a wide range of device, package, and component types, including  
BGA's and devices with heatsinks.

5 DAY APPLICATIONS CONSULTING AGREEMENT

Including all accessories and attachments thereto and all proceeds thereof.

INTERNATIONAL FINANCIAL  
SERVICES CORPORATION

SIGMATRON INTERNATIONAL, INC.

By: \_\_\_\_\_

By: /s/ ?????????????????? \_\_\_\_\_

Title: \_\_\_\_\_

Title: President and Chief Executive Officer \_\_\_\_\_

## CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 33-80147) pertaining to the 1993 Stock Option Plan, 1994 Directors' Stock Option Plan and Directors' Warrants of SigmaTron International, Inc. of our report dated June 19, 1998, except for Note 16, as to which the date is July 1, 1998 and Note 6, as to which the date is July 14, 1998, with respect to the consolidated financial statements and schedule of SigmaTron International, Inc. included in the Annual Report (Form 10-K) for the year ended April 30, 1998.

ERNST &amp; YOUNG LLP

Chicago, Illinois  
July 22, 1998

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The Consolidated Balance Sheet as of April 30, 1998 and the Statement of Consolidated Earnings for the year ended April 30, 1998 and is qualified in its entirety by reference to such Financial Statements.

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