

TTM TECHNOLOGIES INC

Form 10-Q

November 05, 2012

[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-Q

x **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 24, 2012

Commission File Number: 0-31285

TTM TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of

91-1033443
(I.R.S. Employer

Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

incorporation or organization)

Identification No.)

1665 Scenic Avenue, Suite 250, Costa Mesa, California 92626

(Address of principal executive offices, zip code)

(714) 327-3000

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

Number of shares of common stock, \$0.001 par value, of registrant outstanding at October 31, 2012: 81,929,061

Table of Contents

TABLE OF CONTENTS

	Page
<u>PART I: FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements (Unaudited)</u>	
<u>Consolidated Condensed Balance Sheets as of September 24, 2012 and December 31, 2011</u>	2
<u>Consolidated Condensed Statements of Operations for the quarter and three quarters ended September 24, 2012 and September 26, 2011</u>	3
<u>Consolidated Condensed Statements of Comprehensive Income for the quarter and three quarters ended September 24, 2012 and September 26, 2011</u>	4
<u>Consolidated Condensed Statements of Cash Flows for the three quarters ended September 24, 2012 and September 26, 2011</u>	5
<u>Notes to Consolidated Condensed Financial Statements</u>	6
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	24
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	34
<u>Item 4. Controls and Procedures</u>	37
<u>PART II: OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	37
<u>Item 1A. Risk Factors</u>	37
<u>Item 6. Exhibits</u>	38
<u>SIGNATURES</u>	39

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****TTM TECHNOLOGIES, INC.****Consolidated Condensed Balance Sheets**

	September 24, 2012	December 31, 2011
	(Unaudited)	
	(In thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 280,796	\$ 196,052
Available for sale securities	504	3,566
Accounts and notes receivable, net of allowance for bad debts of \$1,800 in 2012 and \$1,294 in 2011	313,607	316,568
Inventories	141,878	129,430
Prepaid expenses and other current assets	36,781	19,001
Deferred income taxes	6,917	6,917
Total current assets	780,483	671,534
Property, plant and equipment, net	817,427	766,800
Deferred income taxes	8,104	21,798
Goodwill	12,120	183,320
Definite-lived intangibles, net	39,493	80,508
Deposits and other non-current assets	11,104	25,109
	\$ 1,668,731	\$ 1,749,069
LIABILITIES AND EQUITY		
Current liabilities:		
Short-term debt, including current portion of long-term debt, net of discount	\$ 41,215	\$ 120,882
Accounts payable	175,814	149,055
Accounts payable due to related parties	36,894	36,851
Accrued salaries, wages and benefits	41,421	48,345
Equipment payable	69,903	55,099
Other liabilities and accrued expenses	29,796	26,908
Total current liabilities	395,043	437,140
Convertible senior notes, net of discount	155,888	151,153
Long-term debt	370,009	217,365
Deferred income taxes	4,058	14,718
Other long-term liabilities	12,579	6,023
Total long-term liabilities	542,534	389,259
Commitments and contingencies (Note 14)		
Equity:		
TTM Technologies, Inc. stockholders' equity		
Common stock, \$0.001 par value; 200,000 shares authorized, 81,929 and 81,339 shares issued and outstanding in 2012 and 2011, respectively	82	81

Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

Additional paid-in capital	543,239	535,558
Retained earnings	34,778	228,661
Statutory surplus reserve	12,567	7,021
Accumulated other comprehensive income	40,539	37,596
Total TTM Technologies, Inc. stockholders' equity	631,205	808,917
Noncontrolling interest	99,949	113,753
Total equity	731,154	922,670
	\$ 1,668,731	\$ 1,749,069

See accompanying notes to consolidated condensed financial statements.

Table of Contents**TTM TECHNOLOGIES, INC.****Consolidated Condensed Statements of Operations****For the Quarter and Three Quarters Ended September 24, 2012 and September 26, 2011**

	Quarter Ended		Three Quarters Ended	
	September 24, 2012	September 26, 2011	September 24, 2012	September 26, 2011
	(Unaudited)			
	(In thousands, except per share data)			
Net sales	\$ 339,011	\$ 358,261	\$ 966,933	\$ 1,067,179
Cost of goods sold	286,695	287,587	803,448	837,244
Gross profit	52,316	70,674	163,485	229,935
Operating expenses:				
Selling and marketing	8,735	8,668	26,365	27,024
General and administrative	23,735	21,342	69,323	68,504
Amortization of definite-lived intangibles	4,104	4,315	12,122	12,794
Impairment of goodwill and definite-lived intangibles	200,335		200,335	
Impairment of long-lived assets	18,082		18,082	48,125
Total operating expenses	254,991	34,325	326,227	156,447
Operating (loss) income	(202,675)	36,349	(162,742)	73,488
Other income (expense):				
Interest expense	(6,429)	(6,734)	(19,226)	(19,709)
Loss on extinguishment of debt	(5,527)		(5,527)	
Other, net	1,117	1,353	2,516	5,765
Total other expense, net	(10,839)	(5,381)	(22,237)	(13,944)
(Loss) income before income taxes	(213,514)	30,968	(184,979)	59,544
Income tax benefit (provision)	850	(4,921)	(7,802)	(24,677)
Net (loss) income	(212,664)	26,047	(192,781)	34,867
Less: Net loss (income) attributable to the noncontrolling interest	4,322	(1,569)	4,444	(4,169)
Net (loss) income attributable to TTM Technologies, Inc. stockholders	\$ (208,342)	\$ 24,478	\$ (188,337)	\$ 30,698
(Loss) earnings per share attributable to TTM Technologies, Inc. stockholders:				
Basic (loss) earnings per share	\$ (2.54)	\$ 0.30	\$ (2.30)	\$ 0.38
Diluted (loss) earnings per share	\$ (2.54)	\$ 0.30	\$ (2.30)	\$ 0.37

See accompanying notes to consolidated condensed financial statements.

Table of Contents**TTM TECHNOLOGIES, INC.****Consolidated Condensed Statements of Comprehensive Income****For the Quarter and Three Quarters Ended September 24, 2012 and September 26, 2011**

	Quarter Ended September 24, 2012	Quarter Ended September 26, 2011 (Unaudited)	Three Quarters Ended September 24, 2012	Three Quarters Ended September 26, 2011
	(In thousands)			
Net (loss) income	\$ (212,664)	\$ 26,047	\$ (192,781)	\$ 34,867
Other comprehensive income, net of tax:				
Foreign currency translation adjustments, net	5,312	6,855	843	17,823
Net unrealized gains (losses) on cash flow hedges:				
Unrealized gain (loss) on effective cash flow hedges during the period, net	1,105	(769)	2,381	(215)
Less: reclassification into earnings, net of tax	903	(19)	842	94
Net	2,008	(788)	3,223	(121)
Unrealized gains (losses) on available for sale securities:				
Unrealized gain (loss) on available for sale securities during period	50	(214)	(72)	1,433
Less: gains realized in net earnings		(28)	(912)	(28)
Net	50	(242)	(984)	1,405
Other comprehensive income (loss), net of tax	7,370	5,825	3,082	19,107
Comprehensive (loss) income	(205,294)	31,872	(189,699)	53,974
Less: comprehensive loss (income) attributable to the noncontrolling interest	3,574	(2,624)	4,304	(6,813)
Comprehensive (loss) income attributable to TTM Technologies, Inc. stockholders	\$ (201,720)	\$ 29,248	\$ (185,395)	\$ 47,161

See accompanying notes to consolidated condensed financial statements.

Table of Contents**TTM TECHNOLOGIES, INC.****Consolidated Condensed Statements of Cash Flows****For the Three Quarters Ended September 24, 2012 and September 26, 2011**

	Three Quarters Ended September 24, 2012	September 26, 2011
	(Unaudited)	
	(In thousands)	
Cash flows from operating activities:		
Net (loss) income	\$ (192,781)	\$ 34,867
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of property, plant and equipment	60,324	49,752
Amortization of definite-lived intangible assets	12,169	12,881
Amortization of convertible notes discount, debt discount and debt issuance costs	5,877	5,637
Non-cash interest imputed on other long-term liabilities and related party financing obligation	49	650
Income tax benefit from restricted stock units released and common stock options exercised	(620)	(1,958)
Deferred income taxes	2,723	10,758
Stock-based compensation	7,445	5,932
Impairment of goodwill and definite-lived intangibles	200,335	
Impairment of long-lived assets	18,082	48,125
Loss on extinguishment of debt	5,527	
Realized gain on early payment of related party financing obligation		(1,659)
Net loss on sale of property, plant and equipment	1,121	283
Realized gain on sale of securities	(816)	(46)
Net unrealized loss on derivative assets and liabilities	1,370	821
Unrealized foreign currency exchange loss	43	1,459
Changes in operating assets and liabilities:		
Accounts and notes receivable, net	2,994	(12,772)
Inventories	(12,444)	(11,993)
Prepaid expenses and other current assets	(17,919)	(5,672)
Accounts payable	27,473	11,115
Accrued salaries, wages and benefits and other accrued expenses	(5,136)	(732)
Net cash provided by operating activities	115,816	147,448
Cash flows from investing activities:		
Purchase of property, plant and equipment and equipment deposits	(89,906)	(99,284)
Proceeds from sale of property, plant and equipment	191	389
Proceeds from sale of short-term investments	2,898	110
Net cash used in investing activities	(86,817)	(98,785)
Cash flows from financing activities:		
Proceeds from long-term debt	473,823	24,438
Repayment of long-term debt	(400,968)	(67,122)
Payment of debt issuance costs	(7,787)	
Settlement of related party financing obligation		(20,528)
Dividends paid to noncontrolling interest shareholder	(9,501)	
Proceeds from exercise of stock options	88	6,264
Excess tax benefits from stock awards exercised or released	620	1,958
Net cash provided by (used in) financing activities	56,275	(54,990)

Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

Effect of foreign currency exchange rates on cash and cash equivalents	(530)	(2,085)
Net increase (decrease) in cash and cash equivalents	84,744	(8,412)
Cash and cash equivalents at beginning of period	196,052	216,078
Cash and cash equivalents at end of period	\$ 280,796	\$ 207,666

Supplemental disclosures of noncash investing and financing activities:

At September 24, 2012 and September 26, 2011, accrued purchases of equipment totaled \$81,479 and \$74,064, respectively.

See accompanying notes to consolidated condensed financial statements.

Table of Contents

TTM TECHNOLOGIES, INC.

Notes to Consolidated Condensed Financial Statements

(Unaudited)

(Dollars and shares in thousands, except per share data)

(1) Nature of Operations and Basis of Presentation

TTM Technologies, Inc. (the Company or TTM) is a leading global provider of time-critical and technologically complex printed circuit board (PCB) products and backplane assemblies (PCBs populated with electronic components), which serve as the foundation of sophisticated electronic products. The Company provides advanced technology products and offers a one-stop manufacturing solution to customers from engineering support to prototype development through final volume production. The Company serves a diversified customer base in various markets throughout the world, including manufacturers of networking/communications infrastructure products, touch screen tablets and mobile media devices (cellular phones and smartphones). The Company also serves high-end computing, commercial aerospace/defense, and industrial/medical industries. The Company's customers include both original equipment manufacturers (OEMs) and electronic manufacturing services (EMS) providers.

The accompanying consolidated condensed financial statements have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. These consolidated condensed financial statements reflect all adjustments (consisting only of normal recurring adjustments) which, in the opinion of management, are necessary to state fairly the financial position, the results of operations and cash flows of the Company for the periods presented. It is suggested that these consolidated condensed financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's most recent Annual Report on Form 10-K. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year. The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the Company's consolidated condensed financial statements and accompanying notes. Actual results could differ materially from those estimates. The Company uses a 13-week fiscal quarter accounting period with the first quarter ending on the last Monday in March and the fourth quarter always ending on December 31. The third quarters ended September 24, 2012 and September 26, 2011 each contained 91 days. The three quarters ended September 24, 2012 and September 26, 2011 contained 268 and 269 days, respectively.

In June 2011, the Financial Accounting Standards Board (FASB) issued an update to an accounting standard related to comprehensive income, whereby an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The amendments are effective for fiscal years beginning after December 15, 2011 and early adoption is permitted. The Company adopted the amendments on January 1, 2012, and adoption did not have a material impact.

Additionally, the tax effect on the individual components of other comprehensive income was not material and therefore not disclosed.

(2) Impairment of Goodwill, Definite-lived Intangibles and Long-Lived Assets

During the third quarter of 2012, the Company recorded a charge for the impairment of goodwill and definite-lived intangibles in the amount of \$200,335 as well as an impairment of long-lived assets in the amount of \$18,082, related to the Asia Pacific reporting unit, which is also the Asia Pacific operating segment. The goodwill and definite-lived intangibles impairment charge was incurred when the operating segment's carrying value exceeded its fair value. Similarly, the long-lived asset impairment charge was incurred to reduce the carrying value of certain long-lived assets to their fair value. The Company performed this evaluation of goodwill, definite-lived intangibles and long-lived assets when the Company believed there were impairment triggering events and circumstances which warranted an evaluation. These circumstances included continued decreases in operating profit due to softer revenues and shifts in product mix when compared with projected results. These factors led to weaker performance than the Company expected for the third quarter of 2012 and to a weaker outlook for the remainder of 2012 and beyond. This operating performance also has caused the Company's market capitalization to decline significantly due to a reduction in the trading price of the Company's common stock.

Additionally, during the three quarters ended September 26, 2011, the Company recorded an impairment charge in the amount of \$48,125 to reduce the carrying value of certain long-lived assets in the Asia Pacific operating segment. The impairment charge was comprised of \$39,850

Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

related to manufacturing equipment held for use at a plant acquired by Meadville Holdings Limited (Meadville) in 2007 and \$8,275 related to manufacturing equipment that, due to the change in market conditions, has become or is expected to become technologically obsolete.

Table of Contents**TTM TECHNOLOGIES, INC.****Notes to Consolidated Condensed Financial Statements (Continued)**

As of September 24, 2012, the Company had remaining goodwill and definite-lived intangibles, net in the amount of \$12,120 and \$39,493, respectively. See Note 5 for additional information regarding the impairment of goodwill and definite-lived intangibles and Note 6 for additional information regarding the impairment of long-lived assets.

(3) Accounts and Notes Receivable Factoring and Sales Arrangements

In the normal course of business, the Company's foreign subsidiaries utilize accounts receivable factoring arrangements. Under these arrangements, the Company's foreign subsidiaries may sell certain of its accounts receivable to financial institutions, which are accounted for as a sale, at a discount ranging from 1% to 2% of the accounts receivable. In all arrangements there is no recourse against the Company's foreign subsidiaries for their customers' failure to pay. The Company's foreign subsidiaries sold \$17,894 of accounts receivable for the quarter ended September 26, 2011, and \$3,941 and \$52,324 for the three quarters ended September 24, 2012 and September 26, 2011, respectively. The Company's foreign subsidiaries did not sell any accounts receivable for the quarter ended September 24, 2012.

Additionally, the Company's foreign subsidiaries may also sell certain of their notes receivable at an effective discount ranging from 1% to 3% of the notes receivable. The Company's foreign subsidiaries sold \$14,504 and \$7,345 of notes receivable for the quarters ended September 24, 2012 and September 26, 2011, respectively, and \$30,565 and \$48,295 for the three quarters ended September 24, 2012 and September 26, 2011, respectively.

(4) Inventories

Inventories as of September 24, 2012 and December 31, 2011 consist of the following:

	September 24, 2012	December 31, 2011
	(In thousands)	
Inventories:		
Raw materials	\$ 45,804	\$ 44,340
Work-in-process	55,311	46,945
Finished goods	40,763	38,145
	\$ 141,878	\$ 129,430

(5) Goodwill and Definite-lived Intangibles

During the third quarter of 2012, the Company performed an interim impairment test of goodwill and an impairment test of definite-lived intangibles related to the Asia Pacific operating segment. The Company believed there were impairment triggering events and circumstances which warranted an evaluation. These circumstances included, a decline in revenue and margins compared with projected results, which led to weaker performance than the Company expected. Another factor was the decline in the Company's market capitalization due to, a reduction in the trading price of the Company's common stock, which was principally a result of the aforesaid weaker than expected operating results in the Asia Pacific operating segment for 2012. As a result, the Company recorded a charge for the impairment of goodwill and definite-lived intangibles in the amount of \$200,335, consisting of a goodwill charge of \$171,400 and a definite-lived intangibles impairment charge of \$28,935. See additional information below regarding such impairment charges.

Table of Contents**TTM TECHNOLOGIES, INC.****Notes to Consolidated Condensed Financial Statements (Continued)****Goodwill**

As of September 24, 2012 and December 31, 2011, goodwill by operating segment was as follows:

	Asia Pacific	North America (In thousands)	Total
Balance as of December 31, 2011			
Goodwill	\$ 183,320	\$ 132,286	\$ 315,606
Accumulated impairment losses		(132,286)	(132,286)
	183,320		183,320
Impairment losses during the three quarters ended September 24, 2012			
	(171,400)		(171,400)
Foreign currency translation adjustment during the three quarters ended September 24, 2012			
	200		200
Balance as of September 24, 2012			
Goodwill	\$ 183,520	132,286	\$ 315,806
Accumulated impairment losses	(171,400)	(132,286)	(303,686)
	\$ 12,120	\$	\$ 12,120

As mentioned above, the Company performed an interim evaluation of goodwill as the Company believed there were impairment triggering events and circumstances which warranted an evaluation. Given the triggering events and circumstances, the Company performed step one of the impairment test for goodwill and determined that the fair value of the Asia Pacific operating segment, which was based on a combination of discounted cash flow analysis and market approach, was lower than the carrying value.

The failure of step one of the goodwill impairment test triggered a step two impairment analysis. As a result of that analysis, the Company determined the implied fair value of the Asia Pacific operating segment's goodwill and concluded that the carrying value of the Asia Pacific operating segment's goodwill exceeded its implied fair value as of September 24, 2012. Accordingly, an impairment charge of \$171,400 for goodwill was recognized in the third quarter of 2012.

The September 24, 2012 and December 31, 2011 goodwill balance includes foreign currency translation adjustments related to foreign subsidiaries which operate in currencies other than the U.S. Dollar.

Definite-lived Intangibles

As of September 24, 2012 and December 31, 2011, the components of definite-lived intangibles were as follows:

Gross Amount	Accumulated Amortization	Foreign Currency Rate Change	Net Carrying Amount	Weighted Average Amortization Period
-----------------	-----------------------------	------------------------------------	---------------------------	---

Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

	(In thousands)			(years)	
Balance as of September 24, 2012:					
Strategic customer relationships	\$ 91,492	\$ (58,291)	\$ 409	\$ 33,610	9.2
Trade name	10,302	(4,431)	12	5,883	6.0
Licensing agreements	350	(350)			3.0
	\$ 102,144	\$ (63,072)	\$ 421	\$ 39,493	

As mentioned above, the Company performed an evaluation of definite-lived intangibles as the Company believed there were impairment triggering events and circumstances which warranted an evaluation. Based on the undiscounted cash flows for the Asia Pacific operating segment, the Company determined that the carrying amounts were not recoverable. In performing the impairment test for definite-lived intangibles, the Company recorded a charge in the amount of \$28,935 in the third quarter of 2012 to reduce the carrying value of strategic customer relationships in the Asia Pacific operating segment to fair value, which was determined using the discounted cash flow method.

Table of Contents**TTM TECHNOLOGIES, INC.****Notes to Consolidated Condensed Financial Statements (Continued)**

All of the definite-lived intangibles are generally amortized using the straight line method of amortization over the useful life, with the exception of the strategic customer relationship intangibles, which are amortized using an accelerated method of amortization based on estimated cash flows. Amortization expense was \$4,104 and \$4,344 for the quarters ended September 24, 2012 and September 26, 2011, respectively, and \$12,169 and \$12,881 for the three quarters ended September 24, 2012 and September 26, 2011, respectively. Amortization expense related to acquired licensing agreements is classified as cost of goods sold.

Estimated aggregate amortization for definite-lived intangible assets for the next five years is as follows:

	(In thousands)
Remaining 2012	\$ 2,509
2013	9,317
2014	8,372
2015	7,483
2016	4,124
	\$ 31,805

(6) Long-lived Asset Impairment

Property, plant and equipment, net as of September 24, 2012 and December 31, 2011 consist of the following:

	September 24, 2012	December 31, 2011
	(In thousands)	
Property, plant and equipment, net:		
Land and land use rights	\$ 37,586	\$ 37,549
Buildings and improvements	232,783	217,628
Machinery and equipment	726,413	627,361
Construction-in-progress	66,825	78,068
Furniture and fixtures and other	11,262	10,493
	1,074,869	971,099
Less: Accumulated depreciation	(257,442)	(204,299)
	\$ 817,427	\$ 766,800

During the third quarter of 2012, in conjunction with the evaluation of goodwill and definite-lived intangibles, the Company believed there were impairment triggering events and circumstances which warranted an evaluation. These circumstances included continued decreases in operating profitability due to softer revenues and shifts in product mix when compared with projected results. These factors led to weaker performance in the Asia Pacific operating segment than the Company expected for the third quarter of 2012 and to a weaker outlook for the remainder of 2012 and beyond. Specifically, two real estate assets in the Asia Pacific operating segment were evaluated for impairment due to current and expected underutilization and limited market demand. Accordingly, the Company recorded an impairment charge in the Asia Pacific operating segment for the two manufacturing buildings in the amount of \$18,082 to reduce the carrying value to its fair value. The fair value of the manufacturing buildings was determined using a cost-based approach with adjustment for functional and external obsolescence. The cost-based approach was used as the two buildings did not generate cash flows and market comparables were not available. After the impairment charge, the Company

Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

believes the manufacturing buildings are reflected at fair value.

During the three quarters ended September 26, 2011, the Company recorded an impairment charge in the amount of \$48,125 to reduce the carrying value of certain long-lived assets in the Asia Pacific operating segment. The impairment charge was comprised of \$39,850 related to manufacturing equipment held for use at a plant acquired by Meadville in 2007. The Company had previously reduced the carrying value of certain of these assets in 2010 during its purchase price allocation related to the acquisition of the four subsidiaries of Meadville (the PCB Subsidiaries). Weaker than expected operating performance at this manufacturing plant in the first six months of 2011 resulting from a decrease in the profitability of its products as well as, a reduction in expected future demand for its products resulted in a triggering event during the second quarter of 2011. Based on the undiscounted cash flows for this plant, an impairment of the manufacturing assets was indicated. The Company's asset grouping for the impairment test was the manufacturing plant because the manufacturing equipment at this plant is specific to the products produced with separately identifiable cash flows. In addition, the manufacturing equipment at this plant cannot be used at the Company's other manufacturing sites. The fair value of these manufacturing assets was determined using a discounted cash flow model over their remaining useful life with the impairment being the difference between the carrying value and the fair value of the asset group. The impairment charge is also comprised of \$8,275 related to manufacturing equipment that, due to the change in market conditions noted above, has become or is expected to become technologically obsolete. The fair value of these assets was determined using third party quotes or other estimates of salvage value, and the assets' carrying value was written down to salvage value. The carrying value of the assets held for sale or disposal as of September 26, 2011 was approximately \$1,003, which is included in machinery and equipment in property, plant and equipment, net in the accompanying consolidated condensed balance sheet.

Table of Contents**TTM TECHNOLOGIES, INC.****Notes to Consolidated Condensed Financial Statements (Continued)****(7) Long-term Debt and Letters of Credit**

The following table summarizes the long-term debt of the Company as of September 24, 2012 and December 31, 2011.

	Average Effective Interest Rate as of September 24, 2012	September 24, 2012 (In thousands)	Average Effective Interest Rate as of December 31, 2011	December 31, 2011 (In thousands)
Bank loans, due various dates through May 2014	5.94%	\$ 41,211	4.72%	\$ 40,810
Term loan due September 2016	2.60%	370,000		
Term loan due November 2013			2.30%	297,500
Other	6.00%	13	6.00%	17
		411,224		338,327
Less: Unamortized discount				(80)
		411,224		338,247
Less: Current maturities		(41,215)		(120,882)
Long-term debt, less current maturities		\$ 370,009		\$ 217,365

The calendar maturities of long-term debt through 2016 are as follows:

	(In thousands)
Remaining in 2012	\$ 41,212
2013	4
2014	96,204
2015	96,204
2016	177,600
	\$ 411,224

Bank loans are made up of bank lines of credit in mainland China and are used for working capital and capital investment for the Company's mainland China facilities. These facilities are denominated in Chinese Renminbi (RMB), with interest rates tied to People's Bank of China rates with a margin adjustment. These bank loans expire at various dates through May 2014. Subsequent to September 24, 2012, the Company paid in full the remaining bank loans.

On September 14, 2012, the Company became a party to a new facility agreement (New Credit Agreement) with a syndicate of eight banks led by The Hongkong and Shanghai Banking Corporation Limited as Facility Agent. The Company entered into the New Credit Agreement in order to refinance and pay in full the outstanding loans borrowed under the then existing November 16, 2009 credit agreement, which was also entered into with a syndicate of banks led by The Hongkong and Shanghai Banking Corporation Limited as Facility Agent. Under the provisions of ASC 470-50, *Debt- Modifications and Extinguishment*, the Company evaluated and concluded that, given the substantial modification in terms of

Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

the New Credit Agreement, consisting of a 10% or more change in the present value of the cash flows, increased borrowing capacity and significant changes in other terms, the refinancing would be accounted for as an extinguishment of debt.

Table of Contents

TTM TECHNOLOGIES, INC.

Notes to Consolidated Condensed Financial Statements (Continued)

As of September 24, 2012, the November 16, 2009 credit agreement had been terminated and all outstanding loans borrowed under this agreement were paid in full. Additionally, the Company recognized \$5,527 as a loss on the extinguishment of debt resulting from certain remaining unamortized debt issuance costs associated with the terminated November 16, 2009 credit agreement and certain additional lender fees paid in connection with the New Credit Agreement.

The New Credit Agreement consists of a \$370,000 senior secured term loan (Term Loan), a \$90,000 senior secured revolving loan (Revolving Loan), and a secured \$80,000 letters of credit facility (Letters of Credit Facility). The Term Loan and Letters of Credit Facility will mature on September 14, 2016. The Revolving Loan will mature on March 14, 2016. The New Credit Agreement is secured by substantially all of the assets of the Company's Asia Pacific operating segment and is senior to all other Company debt, including the Convertible Senior Notes (See Note 8). The Company has fully and unconditionally guaranteed the full and punctual payment of all obligations of its Asia Pacific operating segment under the New Credit Agreement.

Borrowings under the New Credit Agreement bear interest at a floating rate of LIBOR (term election by the Company) plus an applicable interest margin. Borrowings under the Term Loan and the Revolving Loan bear interest at a rate of LIBOR plus 2.38%. There is no provision, other than an event of default, for these interest margins to increase. At September 24, 2012, the weighted average interest rate on the outstanding borrowings under the New Credit Agreement was 2.60%.

The Company is required to make scheduled payments of the outstanding Term Loan balance beginning in 2014, while the Revolving Loan is due on March 14, 2016. Any other outstanding balances under the New Credit Agreement are due at the maturity date of September 14, 2016. Borrowings under the New Credit Agreement are subject to certain financial and operating covenants that include, among other provisions, limitations on dividends or other distributions, maintaining maximum total leverage ratios and minimum net worth, current assets, and interest coverage ratios at both the Company and at the Asia Pacific operating segment level. At September 24, 2012, the Company is in compliance with the covenants.

At September 24, 2012, the remaining unamortized debt issuance costs included in other non-current assets was \$2,961 and is amortized to interest expense over the term of the New Credit Agreement using the effective interest rate method. At September 24, 2012, the remaining amortization period for the unamortized debt issuance costs was 3.7 years.

The Company is also required to pay a commitment fee of 0.50% per annum on any unused portion of the loans and letters of credit facility granted under the New Credit Agreement. The Company incurred commitment fees related to unused borrowing availability of \$96 and \$75 for the quarters ended September 24, 2012 and September 26, 2011, respectively, and \$194 and \$228, for the three quarters ended September 24, 2012 and September 26, 2011, respectively. As of September 24, 2012, all of the Term Loan, which is included as long-term debt, was outstanding; and \$64,887 of the Letters of Credit Facility was outstanding. Available borrowing capacity under the Revolving Loan was \$90,000 at September 24, 2012.

Other Letters of Credit

In addition to the letters of credit obtained pursuant to the New Credit Agreement, the Company maintains several unused letters of credit: a \$2,294 standby letter of credit expiring on December 31, 2012 associated with its insured workers compensation program and two standby letters of credit in the amount of \$1,060 in aggregate expiring on December 31, 2012 and February 28, 2013, respectively, related to the lease of two of the Company's production facilities; and various other letters of credit aggregating to approximately \$54 related to purchases of machinery and equipment with various expiration dates through November 2012.

Table of Contents**TTM TECHNOLOGIES, INC.****Notes to Consolidated Condensed Financial Statements (Continued)****(8) Convertible Senior Notes**

In 2008, the Company issued 3.25% Convertible Senior Notes (Convertible Notes) due May 15, 2015, in a public offering for an aggregate principal amount of \$175,000. The Convertible Notes bear interest at a rate of 3.25% per annum. Interest is payable semiannually in arrears on May 15 and November 15 of each year. The Convertible Notes are senior unsecured obligations and rank equally to the Company's future unsecured senior indebtedness and senior in right of payment to any of the Company's future subordinated indebtedness. The liability and equity components of the Convertible Notes are separately accounted for in a manner that reflects the Company's non-convertible debt borrowing rate when interest costs are recognized. The Company has allocated the Convertible Notes offering costs to the liability and equity components in proportion to the allocation of proceeds and accounted for them as debt issuance costs and equity issuance costs, respectively. At September 24, 2012 and December 31, 2011, the following summarizes the liability and equity components of the Convertible Notes:

	September 24, 2012	December 31, 2011
	(In thousands)	
Liability components:		
Convertible Notes	\$ 175,000	\$ 175,000
Less: Convertible Notes unamortized discount	(19,112)	(23,847)
Convertible Notes, net of discount	\$ 155,888	\$ 151,153
Equity components:		
Additional paid-in capital:		
Embedded conversion option Convertible Notes	\$ 43,000	\$ 43,000
Embedded conversion option Convertible Notes issuance costs	(1,413)	(1,413)
	\$ 41,587	\$ 41,587

At September 24, 2012 and December 31, 2011, remaining unamortized debt issuance costs included in other non-current assets were \$1,928 and \$2,406, respectively. The debt issuance costs and debt discount are being amortized to interest expense over the term of the Convertible Notes using the effective interest rate method. At September 24, 2012, the remaining amortization period for the unamortized Convertible Note discount and debt issuance costs was 2.6 years.

The components of interest expense resulting from the Convertible Notes for the quarter and three quarters ended September 24, 2012 and September 26, 2011 are as follows:

	For the Quarter Ended		For the Three Quarters Ended	
	September 24, 2012	September 26, 2011	September 24, 2012	September 26, 2011
	(In thousands)			
Contractual coupon interest	\$ 1,422	\$ 1,422	\$ 4,266	\$ 4,266
Amortization of Convertible Notes debt discount	1,611	1,482	4,735	4,356
Amortization of debt issuance costs	163	150	477	440
	\$ 3,196	\$ 3,054	\$ 9,478	\$ 9,062

Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

For the quarter and three quarters ended September 24, 2012 and September 26, 2011, the amortization of the Convertible Notes debt discount and debt issuance costs is based on an effective interest rate of 8.37%.

Conversion

At any time prior to November 15, 2014, holders may convert their Convertible Notes into cash and, if applicable, into shares of the Company's common stock based on a conversion rate of 62.6449 shares of the Company's common stock per \$1 principal amount of Convertible Notes, subject to adjustment, under the following circumstances: (1) during any calendar quarter beginning after June 30, 2008 (and only during such calendar quarter), if the last reported sale price of our common stock for at least 20 trading days during the 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the applicable conversion price on each applicable trading day of such preceding calendar quarter; (2) during the five business day period after any 10 consecutive trading day period in which the trading price per note for each day of that 10 consecutive trading day period was less than 98% of the product of the last reported sale price of the Company's common stock and the conversion rate on such day; or (3) upon the occurrence of specified corporate transactions described in the prospectus supplement. As of September 24, 2012, none of the conversion criteria had been met.

Table of Contents

TTM TECHNOLOGIES, INC.

Notes to Consolidated Condensed Financial Statements (Continued)

On or after November 15, 2014 until the close of business on the third scheduled trading day preceding the maturity date, holders may convert their notes at any time, regardless of the foregoing circumstances. Upon conversion, for each \$1 principal amount of notes, the Company will pay cash for the lesser of the conversion value or \$1 and shares of our common stock, if any, based on a daily conversion value calculated on a proportionate basis for each day of the 60 trading day observation period. Additionally, in the event of a fundamental change as defined in the prospectus supplement, or other conversion rate adjustments such as share splits or combinations, other distributions of shares, cash or other assets to stockholders, including self-tender transactions (Other Conversion Rate Adjustments), the conversion rate may be modified to adjust the number of shares per \$1 principal amount of the notes. As of September 24, 2012, none of the criteria for a fundamental change or a conversion rate adjustment had been met.

The maximum number of shares issuable upon conversion, including the effect of a fundamental change and subject to Other Conversion Rate Adjustments, would be 13,978.

Note Repurchase

The Company is not permitted to redeem the Convertible Notes at any time prior to maturity. In the event of a fundamental change or certain default events, as defined in the prospectus supplement, holders may require the Company to repurchase for cash all or a portion of their Convertible Notes at a price equal to 100% of the principal amount, plus any accrued and unpaid interest.

Convertible Note Hedge and Warrant Transaction

In connection with the issuance of the Convertible Notes, the Company entered into a convertible note hedge and warrant transaction (Call Spread Transaction), with respect to the Company's common stock. The hedge expires on May 15, 2015 and can only be executed upon the conversion of the Convertible Notes. Additionally, the Company sold warrants to purchase 10,963 shares of its common stock at a price of \$18.15 per share. The warrants expire ratably beginning August 2015 through February 2016. The Call Spread Transaction has no effect on the terms of the Convertible Notes and reduces potential dilution by effectively increasing the conversion price of the Convertible Notes to \$18.15 per share of the Company's common stock.

(9) Income Taxes

The Company's effective tax rate was 0.4% and 15.9% for the quarters ended September 24, 2012 and September 26, 2011, respectively. The Company's effective tax rate was (4.2)% and 41.4% for the three quarters ended September 24, 2012 and September 26, 2011, respectively. The Company's effective tax rate decreased primarily due to the impact of impairment charges in the third quarter of 2012 as well as the second quarter of 2011, for which tax benefits were not recorded. Additionally, a full valuation allowance was established in the amount of \$10,243 for the quarter ended September 24, 2012 for one of the Company's foreign subsidiaries with a cumulative loss. The Company's effective tax rate is primarily impacted by the U.S. federal income tax rate; apportioned state income tax rates; tax rates in China and Hong Kong; generation of other credits and deductions available to the Company; and certain non-deductible items. Certain foreign losses generated are not more than likely to be realizable, and thus no income tax benefit has been recognized on these losses. The Company's effective tax rate will generally differ from the U.S. federal statutory rate of 35% due to favorable tax rates associated with certain earnings from the Company's operations in lower-tax jurisdictions in China. The Company's foreign earnings attributable to the Asia Pacific operating segment will be permanently reinvested in such foreign jurisdictions and, therefore, no deferred tax liabilities for U.S. income taxes on undistributed earnings are recorded.

(10) Financial Instruments

Derivatives

Interest Rate Swaps

The Company's business is exposed to interest rate risk resulting from fluctuations in interest rates on certain variable rate LIBOR debt. Increases in interest rates would increase interest expenses relating to the outstanding variable rate borrowings of certain foreign subsidiaries and increase

Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

the cost of debt. Fluctuations in interest rates can also lead to significant fluctuations in the fair value of the debt obligations.

In conjunction with the November 16, 2009 credit agreement, the Company entered into a two-year pay-fixed, receive floating (1-month LIBOR), amortizing interest rate swap arrangement with an initial notional amount of \$146,500, for the period beginning April 18, 2011 and ending on April 16, 2013. The interest rate swap applied a fixed interest rate against the first interest payments of a portion of the \$350,000 term loan related to the November 16, 2009 credit agreement, over the term of the interest rate swap.

Table of Contents**TTM TECHNOLOGIES, INC.****Notes to Consolidated Condensed Financial Statements (Continued)**

The notional amount of the interest rate swap decreases to zero over its term, consistent with the Company's risk management objectives. The notional value underlying the swap at September 24, 2012 was \$106,000. Under the terms of the interest rate swap, the Company would pay a fixed rate of 2.50% and would receive floating 1-month LIBOR during the swap period. The Company had designated this interest rate swap as a cash flow hedge and, during the quarters ended September 24, 2012 and September 26, 2011, the interest rate swap increased interest expense by \$623 and \$800, respectively, and by \$1,908 and \$1,464 for the three quarters ended September 24, 2012 and September 26, 2011, respectively.

As of September 24, 2012, the Company no longer designates this interest rate swap as a cash flow hedge as the borrowings attributable to this interest rate swap were paid in full during the third quarter of 2012. As of September 24, 2012 and December 31, 2011, the fair value of the swap was recorded as a liability of \$1,158 in other accrued expenses and \$2,721 in other long-term liabilities, respectively. The change in the fair value of this interest rate swap is recorded as other, net in the consolidated condensed statement of operations.

Additionally, the Company, through its acquisition of the Asia Pacific operating segment in 2010, assumed a long-term pay-fixed, receive floating (1-month LIBOR), amortizing interest rate swap arrangement with an initial notional amount of \$40,000, for the period beginning October 8, 2008 and ending on July 30, 2012. As of September 24, 2012, this arrangement had expired and was settled. Under the terms of the interest rate swap, the Company would pay a fixed rate of 3.43% and would receive floating 1-month LIBOR during the swap period. As the borrowings attributable to this interest rate swap were paid upon acquisition, the Company did not designate this interest rate swap as a cash flow hedge. The change in the fair value of this interest rate swap is recorded as other, net in the consolidated condensed statement of operations.

Foreign Exchange Contracts

The Company enters into foreign currency forward contracts to mitigate the impact of changes in foreign currency exchange rates and to reduce the volatility of purchases and other obligations generated in currencies other than the functional currencies. The Company's foreign subsidiaries may at times purchase forward exchange contracts to manage their foreign currency risks in relation to certain purchases of machinery denominated in foreign currencies other than the Company's foreign functional currency. The notional amount of the foreign exchange contracts at September 24, 2012 and December 31, 2011 was approximately \$36,795 and \$44,707, respectively. The Company has designated certain of these foreign exchange contracts as cash flow hedges.

The fair values of derivative instruments in the consolidated condensed balance sheet are as follows:

	Balance Sheet Location	Asset / (Liability) Fair Value	
		September 24, 2012	December 31, 2011
(In thousands)			
Cash flow derivative instruments designated as hedges:			
Foreign exchange contracts	Prepaid expenses and other current assets	\$ 10	\$
Foreign exchange contracts	Other accrued expenses	(49)	
Foreign exchange contracts	Other long-term liabilities		(1,111)
Interest rate swap	Other accrued expenses		(2,721)
Cash flow derivative instruments not designated as hedges:			
Foreign exchange contracts	Prepaid expenses and other current assets	2	89
Foreign exchange contracts	Other accrued expenses	(1,297)	(631)
Foreign exchange contracts	Other long-term liabilities		(97)
Interest rate swap	Other accrued expenses	(1,158)	(314)

Table of Contents**TTM TECHNOLOGIES, INC.****Notes to Consolidated Condensed Financial Statements (Continued)**

The following table provides information about the amounts recorded in accumulated other comprehensive income related to derivatives designated as cash flow hedges, as well as the amounts recorded in each caption in the consolidated condensed statement of operations when derivative amounts are reclassified out of accumulated other comprehensive income:

Financial Statement Caption	For the Quarter Ended						
	September 24, 2012			September 26, 2011			
	Effective Portion Gain/(Loss) Recognized in Other Comprehensive Income	Gain/(Loss) Reclassified into Income	Ineffective Portion Gain/(Loss) Reclassified into Income (In thousands)	Effective Portion Gain/(Loss) Recognized in Other Comprehensive Income	Gain/(Loss) Reclassified into Income	Ineffective Portion Gain/(Loss) Recognized into Income	
Cash flow hedge:							
Interest rate swap	Interest expense	\$ 563	\$ (623)	\$	\$ 489	\$ (800)	\$
Interest rate swap	Other, net			(1,158)			
Foreign currency forward	Other, net	631			(1,177)		
		\$ 1,194	\$ (623)	\$ (1,158)	\$ (688)	\$ (800)	\$

Financial Statement Caption	For the Three Quarters Ended						
	September 24, 2012			September 26, 2011			
	Effective Portion Gain/(Loss) Recognized in Other Comprehensive Income	Gain/(Loss) Reclassified into Income	Ineffective Portion Gain/(Loss) Reclassified into Income (In thousands)	Effective Portion Gain/(Loss) Recognized in Other Comprehensive Income	Gain/(Loss) Reclassified into Income	Ineffective Portion Gain/(Loss) Recognized into Income	
Cash flow hedge:							
Interest rate swap	Interest expense	\$ 1,563	\$ (1,908)	\$	\$ (84)	\$ (1,464)	\$
Interest rate swap	Other, net			(1,158)			
Foreign currency forward	Other, net	1,072			(144)		
		\$ 2,635	\$ (1,908)	\$ (1,158)	\$ (228)	\$ (1,464)	\$

The following table provides a summary of the activity associated with the designated cash flow hedges reflected in accumulated other comprehensive income for the three quarters ended September 24, 2012 and September 26, 2011:

For the Three Quarters Ended
September 24, 2012 September 26, 2011
(In thousands)

Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

Beginning balance unrealized loss, net of tax	\$ (3,262)	\$ (3,121)
Changes in fair value, net of tax	2,381	(215)
Reclassification of losses into earnings, net of tax	842	94
 Ending balance unrealized loss, net of tax	 \$ (39)	 \$ (3,242)

The amounts recorded in accumulated other comprehensive income for the cash flow hedge primarily related to the change in the fair value of the interest rate swap which were reclassified into Other, net during the quarter ended September 24, 2012. As the borrowings underlying the interest rate swap were fully paid off during the third quarter ended September 24, 2012, the Company no longer designates this interest rate swap as a cash flow hedge as of September 24, 2012. The Company expects that approximately \$39 will be reclassified into the statement of operations, net of tax, in the next 12 months.

Table of Contents**TTM TECHNOLOGIES, INC.****Notes to Consolidated Condensed Financial Statements (Continued)**

The gain (loss) recognized in Other, net in the consolidated condensed statement of operations on derivative instruments not designated as hedges is as follows:

	For the Quarter Ended		For the Three Quarters Ended	
	September 24, 2012	September 26, 2011	September 24, 2012	September 26, 2011
	(In thousands)			
Derivative instruments not designated as hedges:				
Interest rate swap	\$ (1,072)	\$ 234	\$ (843)	\$ 612
Foreign exchange contracts	1,147	(355)	417	427
	\$ 75	\$ (121)	\$ (426)	\$ 1,039

Other Financial Instruments

The carrying amount and estimated fair value of the Company's financial instruments at September 24, 2012 and December 31, 2011 were as follows:

	September 24, 2012		December 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In thousands)			
Available for sale securities	\$ 504	\$ 504	\$ 3,566	\$ 3,566
Derivative assets, current	12	12	89	89
Derivative liabilities, current	2,504	2,504	945	945
Derivative liabilities, non-current			3,929	3,929
Long-term debt	411,224	411,224	338,247	337,381
Convertible senior notes	155,888	179,463	151,153	182,000

The fair value of available for sale securities was determined using quoted market prices for the securities on an active exchange.

The fair value of the derivative instruments was determined using pricing models developed based on the LIBOR swap rate, foreign currency exchange rates, and other observable market data, including quoted market prices, as appropriate. The values were adjusted to reflect nonperformance risk of both the counterparty and the Company, as necessary.

The fair value of the long-term debt was estimated based on discounting the par value of the debt over its life for the difference between the debt stated interest rate and current market rates for similar debt at September 24, 2012 and December 31, 2011.

The fair value of the convertible senior notes was estimated based on quoted market prices.

At September 24, 2012 and December 31, 2011, the Company's other financial instruments included cash and cash equivalents, accounts receivable, notes receivable, accounts payable and equipment payables. Due to short-term maturities, the carrying amount of these instruments approximates fair value.

(11) Accumulated Other Comprehensive Income

Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

The following provides a summary of the components of accumulated other comprehensive income, net of tax, as of September 24, 2012 and December 31, 2011:

	September 24, 2012	December 31, 2011
	(In thousands)	
Foreign currency translation, net of taxes of \$2,883 for 2012 and \$2,872 for 2011	\$ 40,476	\$ 39,772
Unrealized losses related to cash flow hedges, net of tax benefit of \$-0- for 2012 and \$449 for 2011	(39)	(3,262)
Unrealized gains related to available for sales securities	102	1,086
	\$ 40,539	\$ 37,596

Table of Contents**TTM TECHNOLOGIES, INC.****Notes to Consolidated Condensed Financial Statements (Continued)****(12) Significant Customers and Concentration of Credit Risk**

In the normal course of business, the Company extends credit to its customers, which are concentrated primarily in the computer and networking and communications and aerospace/defense industries, and most are located outside the United States. The Company performs ongoing credit evaluations of customers, does not require collateral and considers the credit risk profile of the entity from which the receivable is due in further evaluating collection risk.

As of September 24, 2012 and December 31, 2011, the Company's 10 largest customers in the aggregate accounted for 45% and 53%, respectively, of total accounts receivable. If one or more of the Company's significant customers were to become insolvent or were otherwise unable to pay for the manufacturing services provided, it would have a material adverse effect on the Company's financial condition, results of operations and cash flows.

The Company's customers include both OEMs and EMS companies. The Company's OEM customers often direct a significant portion of their purchases through EMS companies. While the Company's customers include both OEM and EMS providers, the Company measures customer concentration based on OEM companies, as they are the ultimate end customers.

One customer, Apple, accounted for approximately 14% and 11% of the Company's net sales for the quarters ended September 24, 2012 and September 26, 2011, respectively, and 12% and 11% of the Company's net sales for the three quarters ended September 24, 2012 and September 26, 2011, respectively. The loss of one or more major customers or a decline in sales to the Company's major customers would have a material adverse effect on the Company's financial condition and results of operation.

(13) Fair Value Measures

The Company measures at fair value its financial and non-financial assets by using a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, essentially an exit price, based on the highest and best use of the asset or liability.

At September 24, 2012 and December 31, 2011, the following financial assets and liabilities were measured at fair value on a recurring basis using the type of inputs shown:

	September 24, 2012	Fair Value Measurements Using:		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
		(In thousands)		
Money market funds	\$ 137,503	\$ 137,503		
Available for sale securities	504	504		
Foreign exchange derivative assets	12		\$ 12	
Interest rate swap derivative liabilities	1,158		1,158	
Foreign exchange derivative liabilities	1,346		1,346	
		(In thousands)		
	December 31, 2011	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Money market funds	\$ 89,404	\$ 89,404		
Available for sale securities	3,566	3,566		
Foreign exchange derivative assets	89		\$ 89	
Interest rate swap derivative liabilities	3,035		3,035	
Foreign exchange derivative liabilities	1,839		1,839	

Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

There were no transfers of financial assets or liabilities between Level 1 and Level 2 inputs for the quarter or three quarters ended September 24, 2012 or September 26, 2011.

The majority of the Company's non-financial instruments, which include goodwill, intangible assets, inventories, and property, plant and equipment, are not required to be carried at fair value on a recurring basis. However, if certain triggering events occur (or tested at least annually for goodwill) such that a non-financial instrument is required to be evaluated for impairment, based upon a comparison of the non-financial instrument's fair value to its carrying value, an impairment is recorded to reduce the carrying value to the fair value, if the carrying value exceeds the fair value.

Table of Contents**TTM TECHNOLOGIES, INC.****Notes to Consolidated Condensed Financial Statements (Continued)**

As of September 24, 2012 and September 26, 2011, the following assets were measured at fair value on a nonrecurring basis using the type of inputs shown:

	Fair Value Measurements Using:				Total Impairment Charges for the Quarter and Three Quarters Ended September 24, 2012
	September 24, 2012	Level 1 Inputs	Level 2 Inputs (In thousands)	Level 3 Inputs	
Goodwill	\$ 12,120			\$ 12,120	\$ 171,400
Definite-lived intangible assets	39,493			39,493	28,935
Long-lived assets	38,100		\$ 38,100		18,082
					\$ 218,417

	Fair Value Measurements Using:				Total Impairment Charge for the Three Quarters Ended September 26, 2011
	September 26, 2011	Level 1 Inputs	Level 2 Inputs (In thousands)	Level 3 Inputs	
Long-lived assets	\$ 19,331		\$ 19,331		\$ 48,125

The fair value of goodwill and definite-lived intangible assets were determined using a combination of the income approach and the market approach as considered necessary, which are considered to be Level 3 inputs.

The fair values of long-lived assets held and used were primarily determined using appraisals and comparable prices of similar assets, which are considered to be Level 2 inputs.

(14) Commitments and Contingencies***Legal Matters***

The Company is subject to various legal matters, which it considers normal for its business activities. While the Company currently believes that the amount of any reasonably possible or probable loss for known matters would not be material to the Company's consolidated condensed financial statements, the outcome of these actions is inherently difficult to predict. In the event of an adverse outcome, the ultimate potential loss could have a material adverse effect on the Company's financial condition, results of operations or cash flows in a particular period. The Company has accrued amounts for its loss contingencies which are probable and estimable at September 24, 2012 and December 31, 2011. However, these amounts are not material to the consolidated condensed financial statements of the Company.

Environmental Matters

The process to manufacture PCBs requires adherence to city, county, state, federal and foreign jurisdiction environmental regulations regarding the storage, use, handling and disposal of chemicals, solid wastes and other hazardous materials as well as air quality standards. Management believes that its facilities comply in all material respects with environmental laws and regulations. The Company has in the past received certain

Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

notices of violations and has implemented certain required minor corrective activities. There can be no assurance that violations will not occur in the future.

The Company is involved in various stages of investigation and cleanup of two sites in Connecticut and one in California related to environmental remediation matters. The ultimate cost of site cleanup for the two Connecticut sites and one California site is difficult to predict given the uncertainties regarding the extent of the required cleanup, the interpretation of applicable laws and regulations, and alternative cleanup methods. A third Connecticut site was investigated under Connecticut's Land Transfer Act and no contamination above applicable standards was found. The Connecticut Department of Energy and Environmental Protection confirmed that no further action is required.

Table of Contents**TTM TECHNOLOGIES, INC.****Notes to Consolidated Condensed Financial Statements (Continued)**

The Company concluded that it was probable that it would incur remediation and monitoring costs for the other three sites of approximately \$458 and \$628 as of September 24, 2012 and December 31, 2011, respectively, the liability for which is included in other long-term liabilities. The Company estimates that it will incur the remediation costs over the next 12 to 84 months. This accrual was discounted at 8% per annum to determine the Company's best estimate of the liability, which the Company estimated as ranging from \$839 to \$1,274 on an undiscounted basis.

The liabilities recorded do not take into account any claims for recoveries from insurance or third parties and none are anticipated. These costs are mostly comprised of estimated consulting costs to evaluate potential remediation requirements, completion of the remediation, and monitoring of results achieved. Subject to the imprecision in estimating future environmental remediation costs, the Company does not expect the outcome of the environmental remediation matters, either individually or in the aggregate, to have a material adverse effect on its financial position, results of operations, or cash flows.

(15) Earnings Per Share

The following is a reconciliation of the numerator and denominator used to calculate basic earnings (loss) per share and diluted earnings (loss) per share for the quarter and three quarters ended September 24, 2012 and September 26, 2011:

	Quarter Ended		Three Quarters Ended	
	September 24, 2012	September 26, 2011	September 24, 2012	September 26, 2011
	(In thousands, except per share amounts)			
Net (loss) income attributable to TTM Technologies, Inc. stockholders	\$ (208,342)	\$ 24,478	\$ (188,337)	\$ 30,698
Weighted average shares outstanding	81,929	81,332	81,752	81,119
Dilutive effect of performance-based stock units, restricted stock units and stock options		602		810
Diluted shares	81,929	81,934	81,752	81,929
(Loss) earnings per share attributable to TTM Technologies, Inc. stockholders:				
Basic	\$ (2.54)	\$ 0.30	\$ (2.30)	\$ 0.38
Diluted	\$ (2.54)	\$ 0.30	\$ (2.30)	\$ 0.37

For the quarter and three quarters ended September 24, 2012, potential shares of common stock, consisting of stock options to purchase approximately 1,154 shares of common stock at exercise prices ranging from \$2.76 to \$16.82 per share, 1,377 restricted stock units, and 158 performance-based restricted stock units were not included in the computation of diluted earnings per share because the Company incurred a net loss from operations and, as a result, the impact would be anti-dilutive.

For the quarter and three quarters ended September 26, 2011, performance-based stock units, restricted stock units and stock options to purchase 1,024 and 696 shares of common stock, respectively, were not considered in calculating diluted earnings per share because the options' exercise prices or the total expected proceeds under the treasury stock method for performance-based stock units, restricted stock units or stock options was greater than the average market price of common shares during the period and, therefore, the effect would be anti-dilutive.

Additionally, for the quarter ended September 24, 2012, the effect of 10,963 shares of common stock related to the Company's Convertible Notes, the effect of the convertible note hedge to purchase 10,963 shares of common stock and the warrants sold to purchase 10,963 shares of

Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

the Company's common stock were not included in the computation of dilutive earnings per share because the Company incurred a loss from operations and, as a result, the impact would be anti-dilutive. For the quarter and three quarters ended September 26, 2011, the effect of 10,963 shares of common stock related to the Company's Convertible Notes, the effect of the convertible note hedge to purchase 10,963 shares of common stock and the warrants sold to purchase 10,963 shares of the Company's common stock were not included in the computation of dilutive earnings per share because the conversion price of the Convertible Notes and the strike price of the warrants to purchase the Company's common stock were greater than the average market price of common shares during the quarter, and therefore, the effect would be anti-dilutive.

Table of Contents**TTM TECHNOLOGIES, INC.****Notes to Consolidated Condensed Financial Statements (Continued)****(16) Stock-Based Compensation**

Stock-based compensation expense is recognized in the accompanying consolidated condensed statements of operations as follows:

	Quarter Ended		Three Quarters Ended	
	September 24, 2012	September 26, 2011	September 24, 2012	September 26, 2011
	(In thousands)			
Cost of goods sold	\$ 253	\$ 219	\$ 829	\$ 689
Selling and marketing	115	100	347	311
General and administrative	2,089	1,735	6,269	4,932
Stock-based compensation expense recognized	2,457	2,054	7,445	5,932
Income tax benefit recognized	(569)	(519)	(1,839)	(1,637)
Total stock-based compensation expense after income taxes	\$ 1,888	\$ 1,535	\$ 5,606	\$ 4,295

Performance-based Restricted Stock Units

The Company maintains a long-term incentive program for executives that provides for the issuance of performance-based restricted stock units (PRUs), representing hypothetical shares of the Company's common stock that may be issued. Under the PRU program, a target number of PRUs is awarded at the beginning of each three-year performance period. The number of shares of common stock released at the end of the performance period will range from zero to 2.4 times the target number depending on performance during the period. The performance metrics of the PRU program are based on (a) annual financial targets, which for fiscal years 2010, 2011 and 2012 are based on revenue and EBITDA (earnings before interest, tax, depreciation, and amortization expense), as defined in the grant notice and award agreement, each equally weighted, and (b) an overall modifier based on the Company's total stockholder return (TSR) relative to the S&P SmallCap 600 over the three-year performance period.

The Company records stock-based compensation expense for PRU awards granted based on management's periodic assessment of the probability of the PRU awards vesting. For the quarter and three quarters ended September 24, 2012, management determined that vesting of the PRU awards was probable. PRU activity for the three quarters ended September 24, 2012 was as follows:

	Shares (In thousands)
Outstanding target shares at December 31, 2011	158
Granted:	
Third tranche of 2010 grant	46
Second tranche of 2011 grant	63
First tranche of 2012 grant	81
Change in units due to annual performance achievement	(54)
Outstanding target shares at September 24, 2012	294

Table of Contents**TTM TECHNOLOGIES, INC.****Notes to Consolidated Condensed Financial Statements (Continued)**

The fair value for PRUs granted is calculated using a Monte Carlo simulation model, as the TSR modifier contains a market condition. For the quarter and three quarters ended September 24, 2012 and September 26, 2011, the following assumptions were used in determining the fair value:

	September 24, 2012 ¹	September 26, 2011 ²
Weighted-average fair value	\$ 12.51	\$ 22.74
Risk-free interest rate	0.3%	1.0%
Dividend yield		
Expected volatility	55%	59%
Expected term in months	23	28

- (1) Reflects the weighted-averages for the third year of the three-year performance period applicable to PRUs granted in 2010, second year of the three-year performance period applicable to PRUs granted in 2011 and first year of the three-year performance period applicable to PRUs granted in 2012.
- (2) Reflects the weighted-averages for the second year of the three-year performance period applicable to PRUs granted in 2010 and for the first year of the three-year performance period applicable to PRUs granted in 2011.

Restricted Stock Units

The Company granted 711 and 574 restricted stock units during the three quarters ended September 24, 2012 and September 26, 2011, respectively. The units granted have a weighted-average fair value per unit of \$11.90 and \$17.73 for the three quarters ended September 24, 2012 and September 26, 2011, respectively. The fair value for restricted stock units granted is based on the closing share price of the Company's common stock on the date of grant. There were no restricted stock units granted during the quarters ended September 24, 2012 and September 26, 2011.

Stock Options

The Company did not grant any stock option awards during the quarters or three quarters ended September 24, 2012 and September 26, 2011.

Foreign Employee Share Awards

The Company maintains foreign employee share awards, which existed prior to the acquisition of the Asia Pacific operating segment. These grants vest over five tranches. Three tranches have vested as of the third quarter of 2012 and the remaining two tranches will vest annually thereafter, through 2014. The fair value, after adjustment for estimated forfeitures, that is attributed to post-combination service is recognized as an expense over the remaining vesting period and is included as a component of total stock-based compensation expense. At September 24, 2012 and December 31, 2011, there were approximately 32 and 50 shares in the employee share award grants, respectively.

The following is a summary of the total unrecognized compensation costs as of September 24, 2012:

Unrecognized Stock-Based Compensation Cost (In thousands)	Remaining Weighted Average Recognition Period (years)
--	---

Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

PRU awards	\$	1,958	1.4
RSU awards		11,348	1.4
Stock option awards		277	1.4
Foreign employee share awards		121	0.9
	\$	13,704	

Table of Contents**TTM TECHNOLOGIES, INC.****Notes to Consolidated Condensed Financial Statements (Continued)****(17) Segment Information**

The operating segments reported below are the Company's segments for which separate financial information is available and upon which operating results are evaluated by the chief operating decision maker to assess performance and to allocate resources. The Company manages its worldwide operations based on two geographic operating segments: 1) Asia Pacific, which consists of the PCB Subsidiaries and their seven PCB fabrication plants, which include a substrate facility; and 2) North America, which consists of seven domestic PCB fabrication plants, including a facility that provides follow-on value-added services primarily for one of the PCB fabrication plants, and one backplane assembly plant in Shanghai, China, which is managed in conjunction with the Company's U.S. operations and its related European sales support infrastructure. Each segment operates predominantly in the same industry with production facilities that produce similar customized products for its customers and use similar means of product distribution in their respective geographic regions.

The Company evaluates segment performance based on operating segment income, which is operating income before amortization of intangibles. Interest expense and interest income are not presented by segment since they are not included in the measure of segment profitability reviewed by the chief operating decision maker. All inter-segment transactions have been eliminated. Reportable segment assets exclude short-term investments, which are managed centrally.

	For the Quarter Ended		For the Three Quarters Ended	
	September 24, 2012	September 26, 2011	September 24, 2012	September 26, 2011
	(In thousands)			
Net Sales:				
Asia Pacific	\$ 215,746	\$ 222,284	\$ 583,065	\$ 650,952
North America	123,861	137,355	386,194	421,850
Total sales	339,607	359,639	969,259	1,072,802
Inter-segment sales	(596)	(1,378)	(2,326)	(5,623)
Total net sales	\$ 339,011	\$ 358,261	\$ 966,933	\$ 1,067,179
Operating Segment Income (Loss):				
Asia Pacific	\$ (206,806)	\$ 27,855	\$ (182,827)	\$ 42,916
North America	8,235	12,809	32,207	43,366
Total operating segment (loss) income	(198,571)	40,664	(150,620)	86,282
Amortization of definite-lived intangibles	(4,104)	(4,315)	(12,122)	(12,794)
Total operating (loss) income	(202,675)	36,349	(162,742)	73,488
Total other expense	(10,839)	(5,381)	(22,237)	(13,944)
(Loss) income before income taxes	\$ (213,514)	\$ 30,968	\$ (184,979)	\$ 59,544

The Company accounts for inter-segment sales and transfers as if the sale or transfer were to third parties: at arms length and consistent with the Company's revenue recognition policy. The inter-segment sales for the quarter and three quarters ended September 24, 2012 and September 26, 2011 are sales from the Asia Pacific operating segment to the North America operating segment.

During the quarter and three quarters ended September 24, 2012, the Company recorded an impairment charge for goodwill and definite-lived intangibles of \$200,335 and a charge of \$18,082 for the impairment of long-lived assets related to its Asia Pacific operating segment. Additionally, during the three quarters ended September 26, 2011, the Company recorded a charge of \$48,125 for the impairment of long-lived

assets related to its Asia Pacific operating segment.

(18) Related Party Transactions

The Company's foreign subsidiaries have entered into long-term supply arrangements to purchase laminate and prepreg from a related party in which a significant shareholder of the Company holds an approximate 16% shareholding. These supply arrangements will expire on December 31, 2012. The Company's foreign subsidiaries also purchased laminate and prepreg from the laminate companies in which the said significant shareholder of the Company has a 25% stake. The Company purchased laminate and prepreg from these related parties in the amount of \$24,385 and \$29,375 for the quarters ended September 24, 2012 and September 26, 2011, respectively, and \$67,906 and \$86,428 for the three quarters ended September 24, 2012 and September 26, 2011, respectively.

Table of Contents

TTM TECHNOLOGIES, INC.

Notes to Consolidated Condensed Financial Statements (Continued)

Additionally, a related party leases employee accommodation space from a foreign subsidiary of the Company. The net income for these activities was \$56 and \$63 for the quarters ended September 24, 2012 and September 26, 2011, respectively, and \$154 and \$200 for the three quarters ended September 24, 2012 and September 26, 2011, respectively.

At September 24, 2012 and December 31, 2011, the Company's consolidated condensed balance sheet included \$36,894 and \$36,851, respectively, in accounts payable due to, and \$24 and \$44, respectively, in accounts receivable due from, a related party for the supply and lease arrangements.

(19) Dividend

During the second quarter of 2012, one of the Company's majority owned foreign subsidiaries declared a dividend in the amount of approximately \$47,600, which includes \$9,501 paid to its noncontrolling interest shareholder during the quarter ended September 24, 2012.

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion of our financial condition and results of operations should be read in conjunction with our consolidated condensed financial statements and the related notes and the other financial information included in this Quarterly Report on Form 10-Q. This discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of specified factors, including those set forth in Item 1A Risk Factors of Part II below and elsewhere in this Quarterly Report on Form 10-Q.

This discussion and analysis should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations set forth in our annual report on Form 10-K for the year ended December 31, 2011, filed with the Securities and Exchange Commission.

OVERVIEW

We are a leading global provider of time-critical and technologically complex printed circuit board (PCB) products and backplane assemblies (PCBs populated with electronic components), which serve as the foundation of sophisticated electronic products. We provide our customers with time-to-market and advanced technology products and offer a one-stop manufacturing solution to customers from engineering support to prototype development through final volume production. We serve a diversified customer base in various markets throughout the world, including manufacturers of networking/communications infrastructure products, touch screen tablets and mobile media devices (cellular phones and smartphones). We also serve high-end computing, commercial aerospace/defense, and industrial/medical industries. Our customers include both original equipment manufacturers (OEMs) and electronic manufacturing services (EMS) providers.

Labor expense has increased in our Asia Pacific segment beginning in the second quarter of 2012 due to both PRC government-mandated wage increases and additional compensation offered to our labor force as a result of a reduction of overtime hours that was implemented to meet standards required by some of our global customers. This increased labor expense has reduced the gross and operating margins of our Asia Pacific segment in 2012.

While our customers include both OEMs and EMS providers, we measure customers based on OEM companies as they are the ultimate end customers. Sales to our 10 largest customers accounted for 44% and 49% of our net sales in the quarters ended September 24, 2012 and September 26, 2011, respectively. Sales to our 10 largest customers accounted for 46% and 47% of our net sales in the three quarters ended September 24, 2012 and September 26, 2011, respectively. We sell to OEMs both directly and indirectly through EMS companies.

The following table shows the percentage of our net sales attributable to each of the principal end markets we served for the periods indicated.

End Markets(1)	Quarter Ended		Three Quarters Ended	
	September 24, 2012	September 26, 2011	September 24, 2012	September 26, 2011
Aerospace/Defense	16%	16%	16%	16%
Cellular Phone	15	10	13	10
Computing/Storage/Peripherals	21	21	21	24
Medical/Industrial/Instrumentation/Other	8	7	8	7
Networking/Communications	29	38	33	37
Other	11	8	9	6
Total	100%	100%	100%	100%

(1) Sales to EMS companies are classified by the end markets of their OEM customers.

For PCBs, we measure the time sensitivity of our products by tracking the quick-turn percentage of our work. We define quick-turn orders as those with delivery times of 10 days or less, which typically captures research and development, prototype, and new product introduction work, in addition to unexpected short-term demand among our customers. Generally, we quote prices after we receive the design specifications and the time and volume requirements from our customers. Our quick-turn services command a premium price as compared to standard lead-time products. We also deliver a significant percentage of compressed lead-time work with lead times of 11 to 20 days. We typically receive a

Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

premium price for this work as well. Purchase orders may be cancelled prior to shipment. We charge customers a fee, based on percentage completed, if an order is cancelled once it has entered production. We derive revenues primarily from the sale of PCBs and backplane assemblies using customer-supplied engineering and design plans. We recognize revenues when persuasive evidence of a sales arrangement exists, the sales terms are fixed or determinable, title and risk of loss have transferred, and collectibility is reasonably assured generally when products are shipped to the customer. Net sales consist of gross sales less an allowance for returns, which typically has been less than 2% of gross sales. We provide our customers a limited right of return for defective PCBs and backplane assemblies. We record an estimated amount for sales returns and allowances at the time of sale based on historical information.

Table of Contents

Cost of goods sold consists of materials, labor, outside services, and overhead expenses incurred in the manufacture and testing of our products as well as stock-based compensation expense. Many factors affect our gross margin, including capacity utilization, product mix, production volume, and yield. We generally do not participate in any significant long-term contracts with suppliers, with the exception of the supply arrangement to purchase laminate and prepregs from a related party controlled by a significant shareholder, and we believe there are a number of potential suppliers for the raw materials we use.

Selling and marketing expenses consist primarily of salaries and commissions paid to our internal sales force and independent sales representatives, salaries paid to our sales support staff, stock-based compensation expense as well as costs associated with marketing materials and trade shows. We generally pay higher commissions to our independent sales representatives for quick-turn work, which generally has a higher gross profit component than standard lead-time work.

General and administrative costs primarily include the salaries for executive, finance, accounting, information technology, facilities and human resources personnel, as well as insurance expenses, expenses for accounting and legal assistance, incentive compensation expense, stock-based compensation expense, bad debt expense, and gains or losses on the sale or disposal of property, plant and equipment.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our consolidated condensed financial statements included in this report have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, net sales and expenses, and related disclosure of contingent assets and liabilities.

A critical accounting policy is defined as one that is both material to the presentation of our consolidated condensed financial statements and requires management to make judgments that could have a material effect on our financial condition or results of operations. These policies require us to make assumptions about matters that are highly uncertain at the time of the estimate. Different estimates we could reasonably have used, or changes in the estimates that are reasonably likely to occur, could have a material effect on our financial condition or results of operations.

Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Management has discussed the development, selection and disclosure of these estimates with the audit committee of our board of directors. Actual results may differ from these estimates under different assumptions or conditions.

Our critical accounting policies include asset valuation related to bad debts and inventory; sales returns and allowances; impairment of long-lived assets, including goodwill and intangible assets; derivative instruments and hedging activities; realizability of deferred tax assets; and determining self-insured reserves.

Allowance for Doubtful Accounts

We provide customary credit terms to our customers and generally do not require collateral. We perform ongoing credit evaluations of the financial condition of our customers and maintain an allowance for doubtful accounts based upon historical collections experience and judgments as to expected collectibility of accounts. Our actual bad debts may differ from our estimates.

Inventories

In assessing the realizability of inventories, we are required to make judgments as to future demand requirements and compare these with current and committed inventory levels. When the market value of inventory is less than the carrying value, the inventory cost is written down to the estimated net realizable value, thereby establishing a new cost basis. Our inventory requirements may change based on our projected customer demand, market conditions, technological and product life cycle changes, longer or shorter than expected usage periods, and other factors that could affect the valuation of our inventories. We maintain certain finished goods inventories near certain key customer locations in accordance with agreements with those customers. Although this inventory is typically supported by valid purchase orders, should these customers ultimately not purchase these inventories, our results of operations and financial condition could be adversely affected.

Table of Contents

Sales Returns and Allowances

We derive revenues primarily from the sale of printed circuit boards and backplane assemblies using customer-supplied engineering and design plans and generally recognize revenue upon delivery. We provide our customers a limited right of return for defective printed circuit boards and backplane assemblies. We accrue an estimated amount for sales returns and allowances at the time of sale using our judgment based on historical information and anticipated returns as a result of current period sales. To the extent actual experience varies from our historical experience, revisions to these allowances may be required.

Long-lived Assets

We have significant long-lived tangible and intangible assets consisting of property, plant and equipment, definite-lived intangibles, and goodwill. We review these assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. In addition, we perform an impairment test related to goodwill at least annually. Our goodwill and intangibles are largely attributable to our acquisitions of other businesses. We have two operating segments, Asia Pacific and North America.

During the fourth quarter of each year, or when events and circumstances warrant an evaluation, we perform an impairment assessment of goodwill, which requires the use of a fair value based analysis. We determine the fair value of our reporting units based on discounted cash flows and market approach analyses as considered necessary and consider factors such as a weakened economy, reduced expectations for future cash flows coupled with a decline in the market price of our stock and market capitalization for a sustained period as indicators for potential goodwill impairment. If the reporting unit's carrying amount exceeds its estimated fair value, a second step must be performed to measure the amount of the goodwill impairment loss, if any. The second step compares the implied fair value of the reporting unit's goodwill, determined in the same manner as the amount of goodwill recognized in a business combination, with the carrying amount of such goodwill. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess.

During the third quarter ended September 24, 2012, we determined that the fair value of our reporting units based on discounted cash flows and market approach analyses and factors such as a weaken economy, reduced expectations in future cash flows and weaker than expected operating results in our Asia Pacific reporting unit, coupled with a decline in the market price of our stock and market capitalization for a sustainable period, as indicators of for potential impairment. As a result, a charge of \$200.3 million was recorded for the impairment of goodwill and intangible assets for the quarter ended September 24, 2012 (See Note 5).

We also assess other long-lived assets, specifically property, plant and equipment, for potential impairment given similar impairment indicators. When indicators of impairment exist related to our long-lived tangible assets and definite-lived intangible assets, we use an estimate of the undiscounted net cash flows in measuring whether the carrying amount of the assets is recoverable. Measurement of the amount of impairment, if any, is based upon the difference between the asset's carrying value and estimated fair value. Fair value is determined through various valuation techniques, including market and income approaches as considered necessary.

During the third quarter of 2012, in conjunction with the evaluation of goodwill and definite-lived intangibles, we determined that there was impairment triggering events and circumstances which warranted an evaluation. In performing the impairment test, we recorded an impairment charge in the amount of \$18.1 million to reduce the carrying value of certain underutilized long-lived real estate assets in the Asia Pacific operating segment (See Note 6).

We use an estimate of the future undiscounted net cash flows in measuring whether our long-lived tangible assets and definite-lived intangible assets are recoverable. If forecasts and assumptions used to support the realizability of our goodwill and other long-lived assets change in the future, significant impairment charges could result that would adversely affect our results of operations and financial condition.

Derivative Instruments and Hedging Activities

As a matter of policy, we use derivatives for risk management purposes, and we do not use derivatives for speculative purposes. Derivatives are typically entered into as hedges of changes in interest rates, currency exchange rates, and other risks.

When we determine to designate a derivative instrument as a cash flow hedge, we formally document the hedging relationship and its risk management objective and strategy for undertaking the hedge, the hedging instrument, the hedged item, the nature of the risk being hedged, how the hedging instrument's effectiveness in offsetting the hedged risk will be assessed, and a description of the method of measuring ineffectiveness. We also formally assess, both at the hedge's inception and on an ongoing basis, whether the derivative that is used in hedging transactions is highly effective in offsetting changes in cash flows of hedged items.

Table of Contents

Derivative financial instruments are recognized as either assets or liabilities on the consolidated condensed balance sheet with measurement at fair value. Fair value of the derivative instruments is determined using pricing models developed based on the underlying swap interest rate, foreign currency exchange rates, and other observable market data as appropriate. The values are also adjusted to reflect nonperformance risk of both the counterparty and the Company. For derivatives that are designated as a cash flow hedge, changes in the fair value of the derivative are recognized in accumulated other comprehensive income, to the extent the derivative is effective at offsetting the changes in cash flow being hedged until the hedged item affects earnings. To the extent there is any hedge ineffectiveness, changes in fair value relating to the ineffective portion are immediately recognized in earnings. Changes in the fair value of derivatives that are not designated as hedges are recorded in earnings each period.

Income Taxes

Deferred income tax assets are reviewed for recoverability, and valuation allowances are provided, when necessary, to reduce deferred income tax assets to the amounts that are more likely than not to be realized based on our estimate of future taxable income. Should our expectations of taxable income change in future periods, it may be necessary to establish a valuation allowance, which could affect our results of operations in the period such a determination is made. We record an income tax provision or benefit during interim periods at a rate that is based on expected results for the full year. If future changes in market conditions cause actual results for the year to be more or less favorable than those expected, adjustments to the effective income tax rate could be required.

In addition, we are subject to income taxes in the United States and foreign jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes. In the ordinary course of our business, there are many transactions where the ultimate tax determination is uncertain. Additionally, our calculations of income taxes are based on our interpretations of applicable tax laws in the jurisdictions in which we file.

Self Insurance

We are primarily self-insured in North America for group health insurance and worker's compensation benefits provided to our U.S. employees, and we purchase insurance to protect against annual claims at the individual and aggregate level. We estimate our exposure for claims incurred but not reported at the end of each reporting period. We use our judgment using our historical claim data and information and analysis provided by actuarial and claim advisors, our insurance carriers and brokers on an annual basis to estimate our liability for these claims. This liability is subject to individual insured stop-loss coverage for both programs, which is \$250,000 per individual. Our actual claims experience may differ from our estimates.

Table of Contents**RESULTS OF OPERATIONS**

There were 91 days in each of the third quarters ended September 24, 2012 and September 26, 2011, and 268 and 269 days in the three quarters ended September 24, 2012 and September 26, 2011, respectively. The following table sets forth the relationship of various items to net sales in our consolidated condensed statement of operations:

	Quarter Ended		Three Quarters Ended	
	September 24, 2012	September 26, 2011	September 24, 2012	September 26, 2011
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	84.6	80.3	83.1	78.5
Gross profit	15.4	19.7	16.9	21.5
Operating expenses:				
Selling and marketing	2.6	2.4	2.7	2.5
General and administrative	7.0	6.0	7.2	6.4
Amortization of definite-lived intangibles	1.2	1.2	1.2	1.2
Impairment of goodwill and definite-lived intangibles	59.1		20.7	
Impairment of long-lived assets	5.3		1.9	4.5
Total operating expenses	75.2	9.6	33.7	14.6
Operating income (loss)	(59.8)	10.1	(16.8)	6.9
Other income (expense):				
Interest expense	(1.9)	(1.9)	(2.0)	(1.8)
Loss on extinguishment of debt	(1.6)		(0.6)	
Other, net	0.3	0.4	0.3	0.5
Total other expense, net	(3.2)	(1.5)	(2.3)	(1.3)
(Loss) income before income taxes	(63.0)	8.6	(19.1)	5.6
Income tax (benefit) provision	(0.3)	1.4	0.8	2.3
Net (loss) income	(62.7)	7.2	(19.9)	3.3
Less: Net loss (income) attributable to noncontrolling interest	1.2	(0.4)	0.4	(0.4)
Net income (loss) attributable to TTM Technologies, Inc. stockholders	(61.5)%	6.8%	(19.5)%	2.9%

We manage our worldwide operations based on two geographic operating segments: (1) Asia Pacific, which consists of the PCB Subsidiaries and their seven PCB fabrication plants, which include a substrate facility; and (2) North America, which consists of seven domestic PCB fabrication plants, including a facility that provides follow-on value-added services primarily for one of the PCB fabrication plants, and one backplane assembly plant in Shanghai, China, which is managed in conjunction with our U.S. operations and its related European sales support infrastructure. Each segment operates predominantly in the same industry with production facilities that produce similar customized products for our customers and use similar means of product distribution in their respective geographic regions.

The following table compares net sales by reportable segment for the quarters and three quarters ended September 24, 2012 and September 26, 2011:

Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

	Quarter Ended		Three Quarters Ended	
	September 24, 2012	September 26, 2011	September 24, 2012	September 26, 2011
(In thousands)				
Net Sales:				
Asia Pacific	\$ 215,746	\$ 222,284	\$ 583,065	\$ 650,952
North America	123,861	137,355	386,194	421,850
Total sales	339,607	359,639	969,259	1,072,802
Inter-segment sales	(596)	(1,378)	(2,326)	(5,623)
Total net sales	\$ 339,011	\$ 358,261	\$ 966,933	\$ 1,067,179

Table of Contents***Net Sales***

Total net sales decreased \$19.3 million, or 5.4%, from \$358.3 million for the quarter ended September 26, 2011 to \$339.0 million for the quarter ended September 24, 2012. Net sales for the Asia Pacific segment, excluding inter-segment sales, decreased \$5.7 million, or 2.6%, from \$220.9 million in the quarter ended September 26, 2011 to \$215.2 million in the quarter ended September 24, 2012. This decrease was primarily due to lower demand in our Networking/Communications end market partially offset by an increased demand in our Cellular Phone and Other end markets, resulting in a 10% decline in PCB shipments from the quarter ended September 26, 2011. The average PCB selling price increased by 8%, which was driven by the mix shift from conventional PCBs and standard HDI PCBs toward higher priced advanced HDI PCBs. Net sales related to the North America segment decreased \$13.5 million, or 9.8%, from \$137.4 million for the quarter ended September 26, 2011 to \$123.9 million for the quarter ended September 24, 2012, primarily due to lower demand in our Networking/Communications end market. Quarterly PCB shipments decreased 18%, but the sales decline was partially offset by a 9% increase in the average PCB selling price due to greater technology product mix. In addition, demand for backplane assemblies dropped by 5% from the quarter ended September 26, 2011.

Total net sales decreased by \$100.3 million, or 9.4%, from \$1,067.2 million for the three quarters ended September 26, 2011 to \$966.9 million for the three quarters ended September 24, 2012. Net sales for the Asia Pacific segment, excluding inter-segment sales, decreased by \$64.6 million, or 10.0%, from \$645.3 million for the three quarters ended September 26, 2011 to \$580.7 million for the three quarters ended September 24, 2012, mainly due to lower demand in our Networking/Communications and Computing end markets, resulting in an 18% decline in PCB shipments from the three quarters ended September 26, 2011. The average PCB selling price increased by 10%, which was driven by the mix shift from conventional PCBs and standard HDI PCBs toward higher priced advanced HDI PCBs. Net sales related to the North America segment decreased by \$35.7 million, or 8.5%, from \$421.9 million for the three quarters ended September 26, 2011 to \$386.2 million for the three quarters ended September 24, 2012, primarily due to lower demand in our Networking/Communications and Aerospace/Defense end markets. Quarterly PCB shipments decreased 12%, but the sales decline was partially offset by a 6% increase in the average PCB selling price due to greater advanced technology product mix. In addition, demand for backplane assemblies dropped by 13% from the three quarters ended September 26, 2011.

Cost of Goods Sold

Cost of goods sold decreased \$0.9 million, or 0.3%, from \$287.6 million for the quarter ended September 26, 2011 to \$286.7 million for the quarter ended September 24, 2012. Cost of goods sold for the Asia Pacific segment increased \$7.9 million, or 4.5%, from \$175.7 million for the quarter ended September 26, 2011 to \$183.6 million for the quarter ended September 24, 2012. As a percentage of net sales, cost of goods sold for the Asia Pacific segment increased from 79.5% for the quarter ended September 26, 2011 to 85.4% for the quarter ended September 24, 2012, primarily due to higher labor costs in China, increased depreciation expense and lower fixed cost absorption due to the decline in net sales. Included in cost of goods sold for the quarter ended September 24, 2012 are approximately \$2.6 million of costs related to the temporary closure of our SYE facility in Dongguan, China. These costs consist primarily of labor costs and depreciation expense. Cost of goods sold for the North America segment decreased \$8.8 million, or 7.9%, from \$111.9 million for the quarter ended September 26, 2011 to \$103.1 million for the quarter ended September 24, 2012. As a percentage of net sales, cost of goods sold for the North America segment increased from 81.5% for the quarter ended September 26, 2011 to 83.2% for the quarter ended September 24, 2012, primarily due to higher labor expense as a percentage of net sales and lower fixed cost absorption due to the decline in net sales.

Cost of goods sold decreased \$33.8 million, or 4.0%, from \$837.2 million for the three quarters ended September 26, 2011 to \$803.4 million for the three quarters ended September 24, 2012. Cost of goods sold for the Asia Pacific segment decreased \$11.1 million, or 2.2%, from \$500.2 million for the three quarters ended September 26, 2011 to \$489.1 million for the three quarters ended September 24, 2012. As a percentage of net sales, cost of goods sold for the Asia Pacific segment increased from 77.5% for the three quarters ended September 26, 2011 to 84.2% for the three quarters ended September 24, 2012, primarily due to higher labor costs in China, increased depreciation expense and lower fixed cost absorption due to the decline in net sales. Included in cost of goods sold for the three quarters ended September 24, 2012 are approximately \$10.9 million of costs related to the temporary closure of our SYE facility in Dongguan, China. These costs consist primarily of labor costs and depreciation expense. Cost of goods sold for the North America segment decreased \$22.6 million, or 6.7%, from \$337.0 million for the three quarters ended September 26, 2011 to \$314.4 million for the three quarters ended September 24, 2012. As a percentage of net sales, cost of goods sold for the North America segment increased from 79.9% for the three quarters ended September 26, 2011 to 81.4% for the three quarters ended September 24, 2012, primarily due to higher labor expense as a percentage of net sales and lower fixed cost absorption due to the decline in net sales, partially offset by a lower mix of backplane assemblies, which have a higher direct material content.

Table of Contents***Gross Profit***

As a result of the foregoing, gross profit decreased \$18.4 million, or 26.0%, from \$70.7 million for the quarter ended September 26, 2011 to \$52.3 million for the quarter ended September 24, 2012. Additionally, gross profit decreased \$66.4 million, or 28.9%, from \$229.9 million for the three quarters ended September 26, 2011 to \$163.5 million for the three quarters ended September 24, 2012. Overall gross margin decreased from 19.7% for the quarter ended September 26, 2011 to 15.4% for the quarter ended September 24, 2012 and from 21.5% for the three quarters ended September 26, 2011 to 16.9% for the three quarters ended September 24, 2012, due primarily to higher labor costs and depreciation expense, lower fixed cost absorption on lower production in our conventional PCB facilities, which has caused our capacity utilization to decline, and costs related to the temporary closure of our SYE facility in Dongguan, China.

Selling and Marketing Expenses

Selling and marketing expenses were consistent at \$8.7 million for both quarters ended September 26, 2011 and September 24, 2012. As a percentage of net sales, selling and marketing expenses were 2.4% for the quarter ended September 26, 2011 compared to 2.6% for the quarter ended September 24, 2012. This increase was primarily due to lower net sales partially offset by a decrease in commission expense as a percentage of net sales. Additionally, selling and marketing expenses decreased \$0.6 million, or 2.2%, from \$27.0 million for the three quarters ended September 26, 2011 to \$26.4 million for the three quarters ended September 24, 2012, primarily due to a decrease in commission expense on lower net sales. As a percentage of net sales, selling and marketing expenses were 2.5% for the three quarters ended September 26, 2011 compared to 2.7% for the three quarters ended September 24, 2012. The increase in selling and marketing expense as a percentage of net sales is due to lower net sales and the fixed portion of selling expense, while commission expense remained consistent as a percentage of net sales.

General and Administrative Expense

General and administrative expenses increased \$2.4 million from \$21.3 million, or 6.0% of net sales, for the quarter ended September 26, 2011 to \$23.7 million, or 7.0% of net sales, for the quarter ended September 24, 2012. Additionally, general and administrative expenses increased \$0.8 million from \$68.5 million, or 6.4% of net sales, for the three quarters ended September 26, 2011 to \$69.3 million, or 7.2% of net sales, for the three quarters ended September 24, 2012. For the quarter and three quarters ended September 24, 2012, the increase in expense primarily relates to higher bad debt, stock-based compensation expense as well as a loss on disposal of assets partially offset by a reversal of the incentive bonus compensation accrual. As a percentage of net sales, general and administrative expenses increased due to increased expense and a decline in net sales for both the quarter and three quarters ended September 24, 2012.

Impairment of Goodwill and Definite-lived Intangibles

During the third quarter of 2012, we performed an interim evaluation of goodwill and definite-lived intangibles as we believed there were impairment triggering events and circumstances which warranted an evaluation. These circumstances included continued decreases in operating profit due to softer revenues and shifts in product mix when compared with projected results. These factors led to weaker performance than the Company expected for the third quarter of 2012 and to a weaker outlook for the remainder of 2012 and beyond. As a result, we recorded a charge for the impairment of goodwill and definite-lived intangibles in the amount of \$200.3 million in the third quarter of 2012, consisting of charges of \$171.4 million for goodwill and \$28.9 million for definite-lived intangibles.

Impairment of Long-Lived Assets

During the third quarter of 2012, in conjunction with the evaluation of goodwill and definite-lived intangibles we believed there were impairment triggering events and circumstances which warranted an evaluation. These circumstances included continued decreases in operating profitability due to softer revenues and shifts in product mix when compared with projected results. These factors led to weaker performance in the Asia Pacific operating segment than the we expected for the third quarter of 2012 and to a weaker outlook for the remainder of 2012 and beyond. Specifically, two real estate assets in the Asia Pacific operating segment were evaluated for impairment due to current and expected underutilization and limited market demand. Accordingly, we recorded an impairment charge in the Asia Pacific operating segment for the two manufacturing buildings in the amount of \$18.1 million to reduce the carrying value to its fair value.

Additionally, during the three quarters ended September 26, 2011, we recorded an impairment charge in the amount of \$48.1 million to reduce the carrying value of certain long-lived assets in the Asia Pacific operating segment. The impairment charge is comprised of \$39.8 million related to manufacturing equipment held for use at a plant acquired by Meadville in 2007. We had previously reduced the carrying value of certain of these assets during our purchase price allocation completed in 2010 related to the acquisition of the PCB Subsidiaries. Weaker than expected operating performance in the first six months of 2011 resulting from a downturn in the profitability of the products produced at this manufacturing plant and a reduction in expected future demand for the specific products produced resulted in a triggering event during the

Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

quarter ended June 27, 2011. Based on the undiscounted cash flows for this plant, an impairment of the manufacturing assets was indicated. Our asset grouping for the impairment test was the manufacturing plant as the manufacturing equipment at this plant is specific to the products produced with separately identifiable cash flows. In addition, the manufacturing equipment at this plant cannot be used at our other manufacturing sites. The fair value of these manufacturing assets was determined using a discounted cash flow model over their remaining useful life with the impairment being the difference between the carrying value and the fair value of the asset group. The impairment charge also includes \$8.3 million related to manufacturing equipment that, due to the change in market conditions noted above, has become or is expected to become technologically obsolete. The fair value of these assets was determined using third party quotes or other estimates of salvage values, and the assets' carrying value was written down to salvage value. The new carrying value of the assets held for sale or disposal is approximately \$1.0 million, which is included in machinery and equipment in property, plant and equipment in the accompanying consolidated condensed balance sheet.

Table of Contents

If forecasts and assumptions used to support the realizability of our long-lived assets change in the future, significant impairment charges could result that would adversely affect our results of operations and financial condition.

Other Income (Expense)

Other expense, net increased \$5.4 million from \$5.4 million for the quarter ended September 26, 2011 to \$10.8 million for the quarter ended September 24, 2012. The increase in other expense, net was primarily the result of a \$5.5 million loss on extinguishment of debt related to the recent refinancing of our long-term debt. Additionally, other expense, net increased \$8.3 million from \$13.9 million for the three quarters ended September 26, 2011 to \$22.2 million for the three quarters ended September 24, 2012. The increase in other expense, net was primarily due to a \$5.5 million loss on extinguishment of debt related to the recent refinancing of our long-term debt, a decrease in foreign currency transaction and derivative gains of approximately \$2.1 million and the absence of the \$1.7 million realized gain for the early settlement of a related party financing obligation related to the remaining 20% interest in Meadville Aspocomp (BVI) Holdings Ltd., which occurred in the second quarter of 2011. These increased expenses were partially offset by a \$0.8 million realized gain on the sale of securities in the first quarter of 2012.

Income Taxes

The provision for income taxes decreased \$5.8 million from \$4.9 million for the quarter ended September 26, 2011 to a tax benefit of \$0.9 million for the quarter ended September 24, 2012. The provision for income taxes decreased \$16.9 million from \$24.7 million for the three quarters ended September 26, 2011 to a tax of \$7.8 million for the three quarters ended September 24, 2012. The tax provision reductions were primarily due to lower pre-tax income, exclusive of an impairment charges, for which a tax benefit was not recorded. Our effective tax rate was 0.4% for the quarter ended September 24, 2012 and 15.9% for the quarter ended September 26, 2011. Our effective tax rate was (4.2)% and 41.4% for the three quarters ended September 24, 2012 and September 26, 2011, respectively. The Company's effective tax rate changed due to the impact of impairment charges in the third quarter of 2012 and the second quarter of 2011, for which a tax benefit was not recorded. Our effective tax rate is primarily impacted by the U.S. federal income tax rate, apportioned state income tax rates, tax rates in China and Hong Kong, generation of other credits and deductions available to us, and certain non-deductible items. Certain foreign losses generated are not more than likely to be realizable, and thus no income tax benefit has been recognized on these losses. Additionally, as of September 24, 2012 and December 31, 2011, we had net deferred income tax assets of approximately \$11.0 million and \$14.0 million, respectively. Based on our forecast for future taxable earnings, we believe it is more likely than not that we will utilize the deferred income tax assets in future periods.

Liquidity and Capital Resources

Our principal sources of liquidity have been cash provided by operations and the issuance of term and revolving debt and Convertible Notes. Our principal uses of cash have been to finance capital expenditures, meet debt service requirements, fund working capital requirements and finance acquisitions. We anticipate that servicing debt, financing capital expenditures, funding working capital requirements, and acquisitions will continue to be the principal demands on our cash in the future.

As of September 24, 2012, we had net working capital of approximately \$385.4 million compared to \$234.4 million as of December 31, 2011. This increase in working capital is primarily attributable to proceeds from the refinancing of debt during the three quarters ended September 24, 2012.

As of September 24, 2012, we had cash and cash equivalents of approximately \$280.8 million, of which approximately \$94.9 million was held by our foreign subsidiaries. Of the cash and cash equivalents held by our foreign subsidiaries as of September 24, 2012, \$93.6 million was located in Asia and \$1.3 million was located in European countries. Cash and cash equivalents located in our Asia Pacific operating segment are expected to remain for use in local operations. Cash and cash equivalents located in our backplane assembly facility in Shanghai, China, as well as in Europe, which are managed in conjunction with our U.S. operations, are expected to be repatriated and will be subject to U.S. income tax. As of September 24, 2012, approximately \$9.8 million of cash and cash equivalents was located in our Shanghai, China backplane assembly plant. Other than the cash and cash equivalents located in our Shanghai backplane assembly and our European locations, we do not currently expect to repatriate earnings from our other foreign subsidiaries.

Table of Contents

Our 2012 capital expenditure plan is expected to total approximately \$135 million (of which approximately \$123 million relates to our Asia Pacific operating segment). It will fund capital equipment purchases to increase production capacity, especially for advanced HDI and rigid flex PCB manufacturing, expand our technological capabilities and replace aging equipment. Additionally, we estimated that approximately \$5 million of the \$123 million in planned capital expenditures was used for the repair and upgrade of our SYE facility in Dongguan, China.

During the second quarter of 2012, one of our majority owned foreign subsidiaries declared a dividend in the amount of approximately \$47.6 million, which includes approximately \$9.5 million for its noncontrolling interest shareholder. The dividend of \$9.5 million for its noncontrolling interest shareholder was paid during the third quarter of 2012.

Based on our current level of operations, we believe that cash generated from operations, cash on hand and cash available from borrowings under our existing credit arrangements will be adequate to meet our currently anticipated capital expenditure, debt service, working capital, and acquisition needs for the next 12 months. We believe that there is minimal risk of not being in compliance with our existing financial covenants so as to accelerate the maturity of the New Credit Agreement.

Credit Agreement

We are party to a new facility agreement (New Credit Agreement) consisting of a \$370.0 million senior secured Term Loan, a \$90.0 million senior secured Revolving Loan and a secured \$80.0 million Letters of Credit Facility. The Term Loan and Letters of Credit Facility will mature on September 14, 2016, and the Revolving Loan will mature on March 14, 2016. The New Credit Agreement is secured by substantially all of the assets of our Asia Pacific operating segment and is senior to all other of our debt, including the Convertible Senior Notes. We have fully and unconditionally guaranteed the full and punctual payment of all obligations of the Asia Pacific operating segment under the New Credit Agreement.

Borrowings under the New Credit Agreement bear interest at a floating rate of LIBOR (term election by us) plus an applicable interest margin. Borrowings bear interest at a rate of LIBOR plus 2.38% under the Term Loan and Revolving Loan. At September 24, 2012, the weighted average interest rate on the outstanding borrowings under the New Credit Agreement was 2.60%.

Borrowings under the New Credit Agreement are subject to certain financial and operating covenants that include maintaining maximum total leverage ratios and minimum net worth, current assets, and interest coverage ratios for both us and our Asia Pacific segment. At September 24, 2012, we were in compliance with the covenants.

We are required to pay a commitment fee of 0.50% per annum on any unused portion of the loans and letters of credit facility granted under the New Credit Agreement. We incurred \$0.1 million for the quarter ended September 24, 2012 and \$0.2 million for the three quarters ended September 24, 2012, in commitment fees related to the unused portion of any loan or facility under the New Credit Agreement and the recently terminated credit agreement entered into on November 16, 2009, as applicable. As of September 24, 2012, the Term Loan of \$370.0 million, which is included as long-term debt, was outstanding and \$64.9 million of Letters of Credit were outstanding. Available borrowing capacity under the Revolving Loan was \$90.0 million as of September 24, 2012.

Bank Loans

Bank loans are made up of bank lines of credit in mainland China and are used for working capital and capital investment for our mainland China facilities. These facilities are denominated in either U.S. Dollars or Chinese Renminbi (RMB), with interest rates tied to either LIBOR or People's Bank of China rates with a margin adjustment. These bank loans expire at various dates through May 2014. Subsequent to September 24, 2012, we paid in full all outstanding balances related to bank loans.

Convertible Notes

In 2008 we issued \$175.0 million of Convertible Notes. The Convertible Notes bear interest at a rate of 3.25% per annum. Interest is payable semiannually in arrears on May 15 and November 15 of each year. The Convertible Notes are senior unsecured obligations and rank equally to our future unsecured senior indebtedness and senior in right of payment to any of our future subordinated indebtedness.

At any time prior to November 15, 2014, holders may convert their Convertible Notes into cash and, if applicable, into shares of our common stock based on a conversion rate of 62.6449 shares of our common stock per \$1,000 principal amount of Convertible Notes, subject to adjustment, under the following circumstances: (1) during any calendar quarter beginning after June 30, 2008 (and only during such calendar quarter), if the last reported sale price of our common stock for at least 20 trading days during the 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the applicable conversion price on each applicable

Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

trading day of such preceding calendar quarter; (2) during the five business day period after any 10 consecutive trading day period in which the trading price per note for each day of that 10 consecutive trading day period is less than 98% of the product of the last reported sale price of our common stock and the conversion rate on such day; or (3) upon the occurrence of specified corporate transactions described in the prospectus supplement related to the Convertible Notes, which can be found on the SEC's website at www.sec.gov. As of September 24, 2012, none of the conversion criteria had been met.

Table of Contents

On or after November 15, 2014 until the close of business on the third scheduled trading day preceding the May 15, 2015 maturity of the Convertible Notes, holders may convert their notes at any time, regardless of the foregoing circumstances. Upon conversion, for each \$1,000 principal amount of notes, we will pay cash for the lesser of the conversion value or \$1,000 and shares of our common stock, if any, based on a daily conversion value calculated on a proportionate basis for each day of the applicable 60 trading day observation period.

The maximum number of shares issuable upon conversion, subject to certain conversion rate adjustments, would be approximately 14 million shares.

We are not permitted to redeem the notes at any time prior to maturity. In the event of a fundamental change or certain default events, as defined in the prospectus supplement, holders may require us to repurchase for cash all or a portion of their notes at a price equal to 100% of the principal amount, plus any accrued and unpaid interest.

In 2008, in connection with the issuance of the Convertible Notes, we entered into a convertible note hedge and warrant transaction (Call Spread Transaction), with respect to our common stock. The convertible note hedge consists of our option to purchase up to 11.0 million shares of common stock at a price of \$15.96 per share. This option expires on May 15, 2015 and can only be executed upon the conversion of the Convertible Notes. Additionally, we sold warrants for the option to purchase 11.0 million shares of our common stock at a price of \$18.15 per share. The warrants expire ratably beginning August 2015 through February 2016. The Call Spread Transaction has no effect on the terms of the Convertible Notes and reduces potential dilution by effectively increasing the conversion price of the Convertible Notes to \$18.15 per share of our common stock.

Other Letters of Credit

In addition to the letters of credit obtained pursuant to the New Credit Agreement, the Company maintains several unused letters of credit: a \$2.3 million standby letter of credit expiring on December 31, 2012 associated with its insured workers compensation program; two standby letters of credit in the amount of \$1.1 million in aggregate expiring on December 31, 2012 and February 28, 2013 related to the lease of two of its production facilities; and various other letters of credit aggregating to approximately \$0.1 million related to purchases of machinery and equipment with various expiration dates through November 2012.

Contractual Obligations and Commitments

The following table provides information on our contractual obligations as of September 24, 2012:

	Total	Less Than 1 Year	1 - 3 Years (In thousands)	4 - 5 Years	After 5 Years
Contractual Obligations(1)(2)					
Long-term debt obligations	\$ 411,224	\$ 41,215	\$ 192,409	\$ 177,600	\$
Convertible debt obligations	175,000		175,000		
Interest on debt obligations	46,319	15,516	26,894	3,909	
Interest rate swap liabilities	1,173	1,173			
Foreign currency forward contract liabilities	1,346	1,346			
Equipment payables	79,814	69,903	9,911		
Purchase obligations	54,918	36,232	18,686		
Operating lease commitments	7,878	2,349	2,372	2,083	1,074
Total contractual obligations	\$ 777,672	\$ 167,734	\$ 425,272	\$ 183,592	\$ 1,074

- (1) Unrecognized uncertain tax benefits of \$0.9 million are not included in the table above as we have not determined when the amount will be paid.
- (2) Estimated environmental liabilities of \$0.5 million, not included in the table above, are accrued and recorded as liabilities in our consolidated condensed balance sheet as of September 24, 2012.

Table of Contents

Off Balance Sheet Arrangements

We do not currently have, nor have we ever had, any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. In addition, we do not engage in trading activities involving non-exchange traded contracts. As a result, we are not materially exposed to any financing, liquidity, market, or credit risk that could arise if we had engaged in these relationships.

Seasonality

As a result of the product and customer mix of our Asia Pacific operating segment, a portion of our revenue is subject to seasonal fluctuations. These fluctuations include seasonal patterns in the computer and cellular phone industry, which together have become a significant portion of the end markets that we serve. This seasonality typically results in higher net sales in the third quarter due to end customer demand for fourth quarter sales of consumer electronics products. Seasonal fluctuations also include the Chinese New Year holiday in the first quarter, which typically results in lower net sales. In addition, our accounting calendar causes the first quarter of the fiscal year to have fewer days than the other quarters, especially the fourth quarter. In some cases, the number of days can differ by as many as ten days between the first and fourth quarters, which can cause significantly lower first quarter sales.

Impact of Inflation

We believe that our results of operations are not materially impacted by moderate changes in the inflation rate as we expect that we generally will be able to continue to pass along component price increases to our customers. One exception is for labor expense in China. In both 2011 and 2012, we increased the wages of most of our Chinese employees by more than 10 percent. Thus far, we have been largely unable to raise prices to our customers to recover this increased cost. In addition, severe increases in inflation could affect the global and U.S. economies and have an adverse impact on our business, financial condition and results of operations. In addition, we may not be able to pass along to our major customers significant increases in the costs of gold, copper and other commodities used in our products, which could have a material adverse impact on our gross profit margins.

Recently Issued Accounting Pronouncements

In July 2012, the Financial Accounting Standards Board (FASB) issued an update to an accounting standard related to testing indefinite-lived intangible assets for impairment, whereby an entity has the option first to assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangible asset is impaired. The amendments are effective for interim and annual impairment tests performed for fiscal years beginning after September 15, 2012, and early adoption is permitted. We adopted the amendments in conjunction with our annual impairment test performed for fiscal year 2012 during the quarter ended September 24, 2012. Our adoption did not have a material impact on our financial statements.

In September 2011, the FASB issued an update to an accounting standard related to testing goodwill for impairment whereby an entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 and early adoption is permitted. We adopted the amendments on January 1, 2012, and our adoption did not have a material impact on our financial statements.

In June 2011, the FASB issued an update to an accounting standard related to comprehensive income, whereby an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The amendments are effective for fiscal years beginning after December 15, 2011, and early adoption is permitted. We adopted the amendments on January 1, 2012, and our adoption did not have a material impact on our financial statements.

Item 3. *Quantitative and Qualitative Disclosures about Market Risk*

In the normal course of business operations we are exposed to risks associated with fluctuations in interest rates and foreign currency exchange rates. We address these risks through controlled risk management that includes the use of derivative financial instruments to economically hedge or reduce these exposures. We do not enter into derivative financial instruments for trading or speculative purposes.

We have not experienced any losses to date on any derivative financial instruments due to counterparty credit risk.

Table of Contents

To ensure the adequacy and effectiveness of our interest rate and foreign exchange hedge positions, we continually monitor our interest rate swap positions and foreign exchange forward positions, both on a stand-alone basis and in conjunction with their underlying interest rate and foreign currency exposures, from an accounting and economic perspective. However, given the inherent limitations of forecasting and the anticipatory nature of the exposures intended to be hedged, we cannot assure that such programs will offset more than a portion of the adverse financial impact resulting from unfavorable movements in either interest or foreign exchange rates. In addition, the timing of the accounting for recognition of gains and losses related to mark-to-market instruments for any given period may not coincide with the timing of gains and losses related to the underlying economic exposures and, therefore, may adversely affect our consolidated condensed operating results and financial position.

Interest rate risk

Our business is exposed to interest rate risk resulting from fluctuations in interest rates. Our interest expense is more sensitive to fluctuations in the general level of LIBOR and the People's Bank of China interest rates than to changes in rates in other markets. Increases in interest rates would increase interest expenses relating to the outstanding variable rate borrowings of certain foreign subsidiaries and increase the cost of debt. Fluctuations in interest rates can also lead to significant fluctuations in the fair value of the debt obligations.

In conjunction with the November 16, 2009 credit agreement, we entered into a two-year pay-fixed, receive floating (1-month LIBOR), amortizing interest rate swap arrangement with an initial notional amount of \$146.5 million, for the period beginning April 18, 2011 and ending on April 16, 2013. The interest rate swap will apply a fixed interest rate against the first interest payments of a portion of the \$350.0 million term loan related to the November 16, 2009 credit agreement, for this period. The notional amount of the interest rate swap decreases to zero over its term, consistent with our risk management objectives. The notional value underlying the swap at September 24, 2012 was \$106.0 million. Under the terms of the interest rate swap, the Company pays a fixed rate of 2.50% and receives floating 1-month LIBOR during the swap period. At inception we had designated this interest rate swap as a cash flow hedge.

To the extent the instruments are considered to be effective, changes in fair value are recorded as a component of accumulated other comprehensive income. To the extent there is any hedge ineffectiveness, changes in fair value relating to the ineffective portion are immediately recognized in earnings as interest expense. No ineffectiveness was recognized for the quarter and three quarters ended September 24, 2012. At inception, the fair value of the interest rate swap was zero. During the quarters ended September 24, 2012 and September 26, 2011, the interest rate swap increased interest expense by \$0.6 million and \$0.8 million, respectively, and by \$1.9 million and \$1.5 million for the three quarters ended September 24, 2012 and September 26, 2011, respectively.

As of September 24, 2012, we no longer designated this interest rate swap as a cash flow hedge as the borrowings attributable to this interest rate swap were paid in full during the third quarter of 2012. As of September 24, 2012 and December 31, 2011, the fair value of the swap was recorded as a liability of \$1.2 million in other accrued liabilities and \$2.7 million in other long-term liabilities, respectively. The change in the fair value of this interest rate swap is recorded as other, net in the consolidated condensed statement of operations.

As of September 24, 2012, approximately 48% of our total debt was based on fixed rates, including notional amounts related to interest rate swaps. Based on our borrowings as of September 24, 2012 an assumed 1% change in variable rates would cause our annual interest cost to change by \$3.1 million.

Foreign currency risks

We are subject to risks associated with transactions that are denominated in currencies other than our functional currencies, as well as the effects of translating amounts denominated in a foreign currency to the U.S. Dollar as a normal part of the reporting process. Our Asia Pacific operations utilize the Chinese Renminbi (RMB) and the Hong Kong Dollar (HKD) as the functional currencies, which results in us recording a translation adjustment that is included as a component of accumulated other comprehensive income. Our foreign exchange exposure results primarily from employee-related and other costs of running operations in foreign countries, foreign currency denominated purchases and translation of balance sheet accounts denominated in foreign currencies. Our primary foreign exchange exposure is to the RMB. We do not generally engage in hedging to manage foreign currency risk related to revenue and expenses denominated in RMB and HKD nor do we currently use derivative instruments to reduce exposure to foreign currency risk for loans due from our foreign subsidiaries. However, we may consider the use of derivatives in the future. In general, our PRC customers pay us in RMB, which partially mitigates this foreign currency exchange risk.

We enter into foreign currency forward contracts to mitigate the impact of changes in foreign currency exchange rates and to reduce the volatility of purchases and other obligations generated in currencies other than the functional currencies. Our foreign subsidiaries may at times purchase forward exchange contracts to manage their foreign currency risks in relation to certain purchases of machinery denominated in foreign

Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

currencies other than our foreign functional currency. The notional amount of the foreign exchange contracts at September 24, 2012 and December 31, 2011 was approximately \$36.8 million and \$44.7 million, respectively. The Company has designated certain of these foreign exchange contracts as cash flow hedges.

Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

Fixed Rate:							
US\$	4	4	4	175,005	175,017	182,017	3.25%
Total Fixed Rate	4	4	4	175,005	175,017	182,017	
Total	\$ 120,962	\$ 217,356	\$ 4	\$ 175,005	\$ 513,327	\$ 519,381	

Table of Contents**Interest Rate Swap Contracts**

The table below presents information regarding our interest rate swaps as of September 24, 2012.

	2012	2013	Fair Market Value
Average interest payout rate	2.50%	2.50%	
Interest payout amount	(609)	(676)	
Average interest received rate	0.22%	0.22%	
Interest received amount	53	59	
Fair value loss at September 24, 2012			(1,158)

Item 4. Controls and Procedures***Evaluation of Disclosure Controls and Procedures***

Our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), together with management, evaluated the effectiveness of our disclosure controls and procedures as of September 24, 2012, pursuant to Rules 13a-15(e) of the Exchange Act. Based on that evaluation, our CEO and CFO concluded that our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) were effective such that information relating to the Company, including our consolidated subsidiaries, required to be disclosed in our reports that we file or disclose under the Exchange Act, (i) is recorded, processed, summarized and reported within the time frames specified in SEC rules and forms, and (ii) is accumulated and communicated to company management, including our CEO and CFO, as appropriate to allow timely discussion regarding disclosure.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during the quarter ended September 24, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

We do not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must acknowledge the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls also can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PART II. OTHER INFORMATION**Item 1. Legal Proceedings**

From time to time, we may become a party to various legal proceedings arising in the ordinary course of our business. There can be no assurance that we will prevail in any such litigation. We believe that the amount of any reasonably possible or probable loss for known matters would not be material to our financial statements; however, the outcome of these actions is inherently difficult to predict. In the event of an adverse outcome, the ultimate potential loss could have a material adverse effect on our financial condition, results of operations and cash flows in a particular period.

Item 1A. Risk Factors

Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

An investment in our common stock involves a high degree of risk. You should carefully consider the factors described in Part I Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2011, in analyzing an investment in our common stock. If any of the risks in our Annual Report on Form 10-K occurs, our business, financial condition, and results of operations would likely suffer, the trading price of our common stock could fall, and you could lose all or part of the money you paid for our common stock.

Table of Contents

During the third quarter of 2012, the SEC adopted rules implementing the Dodd-Frank Wall Street Reform and Consumer Protection Act. These rules impose diligence and disclosure requirements regarding the use of conflict minerals mined from the Democratic Republic of Congo and adjoining countries as required by the Dodd-Frank Wall Street Reform and Consumer Protection Act. Compliance with these rules is likely to result in additional costs and expenses, including cost and expenses incurred for due diligence to determine and verify the sources of any conflict minerals used in our products, in addition to the costs and expenses of remediation and other changes to products, processes, or sources of supply as a consequence of such verification efforts. These rules may also affect the sourcing and availability of minerals used in the manufacture of our semiconductor devices as there may be only a limited number of suppliers offering conflict free minerals that can be used in our products. There can be no assurance that we will be able to obtain such minerals in sufficient quantities or at competitive prices. Also, since our supply chain is complex, we may face reputational challenges with our customers, stockholders and other stakeholders if we are unable to sufficiently verify the origins of the minerals used in our products. We may also encounter customers who require that all of the components of our products be certified as conflict free. If we are not able to meet customer requirements, such customers may choose to disqualify us as a supplier, which could impact our sales and the value of portions of our inventory.

In addition, the risk factors and uncertainties could cause our actual results to differ materially from those projected in our forward-looking statements, whether made in this report or the other documents we file with the SEC, or our annual or quarterly reports to stockholders, future press releases, or orally, whether in presentations, responses to questions, or otherwise.

Item 6. Exhibits

Exhibit	
Number	Exhibits
31.1	CEO Certification Pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
31.2	CFO Certification Pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
32.1	CEO Certification Pursuant to Section 906 of the Sarbanes Oxley Act of 2002.
32.2	CFO Certification Pursuant to Section 906 of the Sarbanes Oxley Act of 2002.
4.7	First Amendment to Shareholders Agreement, dated September 14, 2012, by and among Tang Hsiang Chien; Su Sih (BVI) Limited; Tang Chung Yen, Tom; Tang Ying Ming, Mai; and TTM Technologies, Inc. (1)
10.26	Facility Agreement, dated September 14, 2012, by and among the PCB Subsidiaries, the lenders, and the other parties named therein. (1)
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

(1) Incorporated by reference to the Registrant's Current Report on Form 8-K filed on September 19, 2012.

Table of Contents

SIGNATURES

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

TTM Technologies, Inc.

/s/ KENTON K. ALDER

Kenton K. Alder

Chief Executive Officer and President

Dated: November 5, 2012

/s/ STEVEN W. RICHARDS

Steven W. Richards

EVP, Chief Financial Officer, Treasurer and Secretary

Dated: November 5, 2012

Table of Contents

EXHIBIT INDEX

Exhibit		
Number		Exhibits
31.1	CEO Certification Pursuant to Section 302 of the Sarbanes	Oxley Act of 2002.
31.2	CFO Certification Pursuant to Section 302 of the Sarbanes	Oxley Act of 2002.
32.1	CEO Certification Pursuant to Section 906 of the Sarbanes	Oxley Act of 2002.
32.2	CFO Certification Pursuant to Section 906 of the Sarbanes	Oxley Act of 2002.
4.7	First Amendment to Shareholders Agreement, dated September 14, 2012, by and among Tang Hsiang Chien; Su Sih (BVI) Limited; Tang Chung Yen, Tom; Tang Ying Ming, Mai; and TTM Technologies, Inc. (1)	
10.26	Facility Agreement, dated September 14, 2012, by and among the PCB Subsidiaries, the lenders, and the other parties named therein. (1)	
101.INS	XBRL Instance Document	
101.SCH	XBRL Taxonomy Extension Schema Document	
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	

(1) Incorporated by reference to the Registrant's Current Report on Form 8-K filed on September 19, 2012.