

TTM TECHNOLOGIES INC  
Form 10-Q  
August 05, 2014  
[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 June 30, 2014

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)

(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.

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 Exchange Act). Yes  No

Number of shares of common stock, \$0.001 par value, of registrant outstanding at July 31, 2014: 83,344,619

**Table of Contents**

**TABLE OF CONTENTS**

	<b>Page</b>
<b><u>PART I: FINANCIAL INFORMATION</u></b>	
<u>Item 1. Financial Statements (unaudited)</u>	
<u>Consolidated Condensed Balance Sheets as of June 30, 2014 and December 30, 2013</u>	3
<u>Consolidated Condensed Statements of Operations for the quarter and two quarters ended June 30, 2014 and July 1, 2013</u>	4
<u>Consolidated Condensed Statements of Comprehensive Income for the quarter and two quarters ended June 30, 2014 and July 1, 2013</u>	5
<u>Consolidated Condensed Statements of Cash Flows for the two quarters ended June 30, 2014 and July 1, 2013</u>	6
<u>Notes to Consolidated Condensed Financial Statements</u>	7
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	19
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	26
<u>Item 4. Controls and Procedures</u>	26
<b><u>PART II: OTHER INFORMATION</u></b>	
<u>Item 1. Legal Proceedings</u>	27
<u>Item 1A. Risk Factors</u>	27
<u>Item 6. Exhibits</u>	41
<b><u>SIGNATURES</u></b>	42

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

	<b>June 30, 2014</b>	<b>December 30, 2013</b>
	<b>(Unaudited, except for per share data)</b>	
	<b>(In thousands)</b>	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 282,043	\$ 330,554
Accounts receivable, net	230,165	277,070
Accounts receivable due from related parties	14,269	13,312
Inventories	146,113	138,145
Prepaid expenses and other current assets	34,633	45,910
Total current assets	707,223	804,991
Property, plant and equipment, net	780,445	810,672
Goodwill and definite-lived intangibles, net	35,299	39,781
Deposits and other non-current assets	16,773	18,131
Total Assets	\$ 1,539,740	\$ 1,673,575
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Short-term debt, including current portion of long-term debt	\$ 96,205	\$ 96,204
Convertible senior notes, net of discount	31,129	
Accounts payable	148,973	192,357
Accounts payable due to related parties	20,482	19,547
Accrued salaries, wages and benefits	35,678	50,040
Equipment payable	44,529	59,936
Other accrued expenses	26,345	39,919
Total current liabilities	403,341	458,003
Convertible senior notes, net of discount	193,455	203,735
Long-term debt	225,701	273,804
Other long-term liabilities	24,796	32,738
Total long-term liabilities	443,952	510,277
Commitments and contingencies (Note 11)		
Equity:		
Common stock, \$0.001 par value; 200,000 shares authorized, 83,345 and 82,655 shares issued and outstanding in 2014 and 2013, respectively	83	83
Additional paid-in capital	583,267	576,644
Retained earnings	57,369	64,272
Statutory surplus reserve	18,692	18,692
Accumulated other comprehensive income	33,036	45,604

Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

Total equity	692,447	705,295
Total Liabilities and Equity	\$ 1,539,740	\$ 1,673,575

See accompanying notes to consolidated condensed financial statements.

**Table of Contents****TTM TECHNOLOGIES, INC.****Consolidated Condensed Statements of Operations****For the Quarter and Two Quarters Ended June 30, 2014 and July 1, 2013**

	Quarter Ended		Two Quarters Ended	
	June 30, 2014	July 1, 2013	June 30, 2014	July 1, 2013
	(Unaudited)			
	(In thousands, except per share data)			
Net sales	\$ 297,635	\$ 338,021	\$ 589,530	\$ 663,413
Cost of goods sold	259,035	289,564	512,424	564,226
Gross profit	38,600	48,457	77,106	99,187
Operating expenses:				
Selling and marketing	8,637	9,559	17,960	18,749
General and administrative	22,684	26,141	45,178	52,699
Amortization of definite-lived intangibles	2,236	2,327	4,472	4,655
Impairment of long-lived assets	1,845		1,845	
Gain on sale or disposal of assets		(17,917)		(17,917)
Total operating expenses	35,402	20,110	69,455	58,186
Operating income	3,198	28,347	7,651	41,001
Other income (expense):				
Interest expense	(5,915)	(5,923)	(12,121)	(12,201)
Loss on extinguishment of debt			(506)	
Other, net	121	633	(3,274)	1,634
Total other expense, net	(5,794)	(5,290)	(15,901)	(10,567)
(Loss) income before income taxes	(2,596)	23,057	(8,250)	30,434
Income tax (provision) benefit	(508)	(9,345)	1,347	(10,129)
Net (loss) income	(3,104)	13,712	(6,903)	20,305
Less: Net income attributable to the noncontrolling interest		(575)		(2,016)
Net (loss) income attributable to TTM Technologies, Inc. stockholders	\$ (3,104)	\$ 13,137	\$ (6,903)	\$ 18,289
(Loss) earnings per share attributable to TTM Technologies, Inc. stockholders:				
Basic (loss) earnings per share	\$ (0.04)	\$ 0.16	\$ (0.08)	\$ 0.22
Diluted (loss) earnings per share	\$ (0.04)	\$ 0.16	\$ (0.08)	\$ 0.22
Weighted-average shares used in computing per share amounts:				
Basic	83,336	82,595	83,130	82,373
Diluted	83,336	82,975	83,130	82,908

Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

See accompanying notes to consolidated condensed financial statements.

**Table of Contents****TTM TECHNOLOGIES, INC.****Consolidated Condensed Statements of Comprehensive Income (Loss)****For the Quarter and Two Quarters Ended June 30, 2014 and July 1, 2013**

	Quarter Ended June 30, 2014	July 1, 2013	Two Quarters Ended June 30, 2014	July 1, 2013
	(Unaudited)			
	(In thousands)			
Net (loss) income	\$ (3,104)	\$ 13,712	\$ (6,903)	\$ 20,305
Other comprehensive (loss) income, net of tax:				
Foreign currency translation adjustments:				
Unrealized gain (loss) during the period, net	(722)	3,143	(12,816)	5,676
Less: gain realized in net earnings		(14,266)		(14,266)
Net	(722)	(11,123)	(12,816)	(8,590)
Net unrealized gains (losses) on cash flow hedges:				
Unrealized gain (loss) on effective cash flow hedges during the period, net		184	120	(197)
Loss realized in net earnings	40		65	
Net	40	184	185	(197)
Unrealized gains (losses) on available for sale securities:				
Unrealized loss on available for sale securities during period		(76)	(20)	(94)
Loss realized in net earnings	46	4	83	4
Net	46	(72)	63	(90)
Other comprehensive (loss) income, net of tax	(636)	(11,011)	(12,568)	(8,877)
Comprehensive (loss) income	(3,740)	2,701	(19,471)	11,428
Less: comprehensive income attributable to the noncontrolling interest		(1,687)		(3,417)
Comprehensive (loss) income attributable to TTM Technologies, Inc. stockholders	\$ (3,740)	\$ 1,014	\$ (19,471)	\$ 8,011

See accompanying notes to consolidated condensed financial statements.



**Table of Contents****TTM TECHNOLOGIES, INC.****Consolidated Condensed Statements of Cash Flows****For the Two Quarters Ended June 30, 2014 and July 1, 2013**

	<b>Two Quarters Ended</b>	
	<b>June 30,</b>	<b>July 1,</b>
	<b>2014</b>	<b>2013</b>
	<b>(Unaudited)</b>	
	<b>(In thousands)</b>	
<b>Cash flows from operating activities:</b>		
Net (loss) income	\$ (6,903)	\$ 20,305
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation of property, plant and equipment	47,144	46,255
Amortization of definite-lived intangible assets	4,472	4,655
Amortization of convertible notes discount and amortization of debt issuance costs	5,032	4,149
Deferred income taxes	(1,011)	1,531
Stock-based compensation	4,099	4,913
Loss on the extinguishment of debt	506	
Impairment of long-lived assets	1,845	
Gain on sale of assets		(17,917)
Other	2,778	260
Payment of accreted interest on convertible senior notes	(1,324)	
<b>Changes in operating assets and liabilities, net of disposition:</b>		
Accounts receivable, net	45,947	(27,156)
Inventories	(7,968)	(5,956)
Prepaid expenses and other current assets	6,868	1,099
Accounts payable	(41,784)	24,474
Accrued salaries, wages and benefits and other accrued expenses	(26,108)	12,418
<b>Net cash provided by operating activities</b>	<b>33,593</b>	<b>69,030</b>
<b>Cash flows from investing activities:</b>		
Purchase of property, plant and equipment and equipment deposits	(53,912)	(46,606)
Proceeds from sale of property, plant and equipment and securities	1,071	145
Payments to noncontrolling interest		(47,349)
<b>Net cash used in investing activities</b>	<b>(52,841)</b>	<b>(93,810)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of convertible senior notes	30,000	
Repayment of long-term debt	(48,102)	
Repurchase of convertible senior notes	(5,411)	
Payment of issuance costs	(1,626)	
Purchase of convertible senior note hedge	(7,953)	
Proceeds from warrants	4,053	
Net repayment of revolving loan		(30,000)
Proceeds from exercise of stock options		38
<b>Net cash used in financing activities</b>	<b>(29,039)</b>	<b>(29,962)</b>
Effect of foreign currency exchange rates on cash and cash equivalents	(224)	(188)

## Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

Net decrease in cash and cash equivalents	(48,511)	(54,930)
Cash and cash equivalents at beginning of period	330,554	285,433
Cash and cash equivalents at end of period	\$ 282,043	\$ 230,503
Noncash transactions:		
Receivable for net consideration on sale of assets	\$	\$ 67,146
Payable for purchase of noncontrolling interest	\$	\$ 29,358
Property, plant and equipment recorded in equipment and accounts payable	\$ 58,548	\$ 62,603

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 smartphones. The Company also serves aerospace and defense, high-end computing, 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 present 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 fourth quarter ending on the Monday nearest December 31.

***Recently Issued Accounting Standards***

On May 28, 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. (ASU) 2014-09, *Revenue from Contracts with Customers*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for the Company on January 1, 2017. Early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

In July 2013, the FASB issued an update that would require an unrecognized tax benefit, or a portion of an unrecognized benefit, to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. This update is effective for interim and annual periods beginning after December 15, 2013, with early adoption permitted. The Company adopted the amendment on January 1, 2014, and its adoption did not have a material impact on its financial statements.

**(2) Inventories**

Inventories as of June 30, 2014 and December 30, 2013 consist of the following:

	As of
June 30, 2014	December 30, 2013

Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

	(In thousands)	
Inventories:		
Raw materials	\$ 45,380	\$ 42,533
Work-in-process	50,419	48,338
Finished goods	50,314	47,274
	\$ 146,113	\$ 138,145

**Table of Contents****(3) Impairment of Long-Lived Assets**

In conjunction with the closure of its Suzhou, China manufacturing facility in 2013, the Company determined that certain long-lived assets, primarily consisting of held for sale machinery and equipment, were impaired. As a result, the Company recorded a charge for the impairment of long-lived assets in the amount of \$10,782 for the year ended December 30, 2013 and reclassified such assets to assets held for sale, which were included in other current assets in the December 30, 2013 consolidated balance sheet.

In the quarter ended June 30, 2014, the Company recorded an impairment charge for additional assets, related to the closure of the Suzhou, China manufacturing facility, which were originally designated to be transferred to other facilities in China as well as the disposal of a substantial portion of the assets held for sale. As a result, the Company recognized an additional impairment charge in the amount of \$1,845 as the carrying value of the assets was greater than the market value at the date of disposal.

**(4) Long-term Debt and Letters of Credit**

The following table summarizes the long-term debt of the Company as of June 30, 2014 and December 30, 2013:

	Average Effective Interest Rate as of June 30, 2014	June 30, 2014	Average Effective Interest Rate as of December 30, 2013	December 30, 2013
(In thousands)				
Term loan due September 2016	2.54%	\$ 321,900	2.55%	\$ 370,000
Other	6.00%	6	6.00%	8
		321,906		370,008
Less: current maturities		(96,205)		(96,204)
<b>Long-term debt, less current maturities</b>		<b>\$ 225,701</b>		<b>\$ 273,804</b>

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

	(In thousands)
Remaining 2014	\$ 48,102
2015	96,204
2016	177,600
	\$ 321,906

**Credit Agreement**

In 2012, the Company became a party to a facility agreement (Credit Agreement) consisting 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 Credit Agreement is secured by substantially all of the assets of the Company's Asia Pacific operating segment and is senior to all other debt, including the convertible senior notes. See Note 5. The Company has fully and unconditionally guaranteed the full and timely payment of all Credit Agreement related obligations of its Asia Pacific operating segment.

As of June 30, 2014 and December 30, 2013, the remaining unamortized debt issuance costs included in other non-current assets was \$1,525 and \$1,937, respectively, and is amortized to interest expense over the term of the Company's Credit Agreement using the effective interest rate method. At June 30, 2014, the remaining amortization period for the unamortized debt issuance costs was 2.0 years.

## Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

The Company is also required to pay a commitment fee of 0.50% per annum on any unused portion of the loan and letters of credit facility granted under the Credit Agreement. The Company incurred commitment fees related to unused borrowing availability of \$151 and \$95 for the quarters ended June 30, 2014 and July 1, 2013, respectively, and \$284 and \$191 for the two quarters ended June 30, 2014 and July 1, 2013, respectively. As of June 30, 2014, the outstanding amount of the Term Loan under the Credit Agreement was \$321,900, of which \$96,200 is due for repayment through March 2015 and is included as short-term debt, with the remaining \$225,700 included as long-term debt. None of the Revolver was outstanding under the Credit Agreement as of June 30, 2014. Available borrowing capacity under the Revolving Loan was \$90,000 at June 30, 2014.

---

**Table of Contents**

***Other Credit Facility***

Additionally, the Company is party to a revolving loan credit facility with a lender in the People's Republic of China (PRC). Under this arrangement, the lender has made available to the Company approximately \$46,600 in unsecured borrowing with all terms of the borrowing to be negotiated at the time the revolver is drawn upon. There are no commitment fees on the unused portion of the revolver and this arrangement expires in December 2014. As of June 30, 2014, the revolver had not been drawn upon.

***Letters of Credit***

The Company has an \$80,000 Letters of Credit Facility under the Credit Agreement, as mentioned above. As of June 30, 2014, letters of credit in the amount of \$46,183 were outstanding under this Credit Agreement. The Company has other standby letters of credit outstanding in the amount of \$3,894, as well other unused letter of credit facilities in the amount of \$24,100. The outstanding standby letters of credit and unused letter of credit facilities expire between December 31, 2014 and February 28, 2015.

**(5) Convertible Senior Notes**

***Convertible Senior Notes due 2020***

In December 2013, the Company issued 1.75% convertible senior notes due December 15, 2020, in a public offering for an aggregate principal amount of \$220,000. The convertible senior notes bear interest at a rate of 1.75% per annum. Interest is payable semiannually in arrears on June 15 and December 15 of each year. The convertible senior 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.

In January 2014, the Company closed the sale of an additional \$30,000 aggregate principal amount of its 1.75% convertible senior notes due 2020 (Additional Notes). The Additional Notes were sold pursuant to the exercise of an over-allotment option granted by the Company in the underwriting agreement related to the offer and sale of \$220,000 aggregate principal amount of its 1.75% convertible senior notes due 2020.

In connection with the offering of the Additional Notes, the Company entered into additional convertible note hedge and warrant transactions (Additional Call Spread Transaction) with respect to shares of its common stock. The additional convertible note hedge, which cost an aggregate \$7,953 and was recorded, net of tax, as a reduction of additional paid-in capital, consists of the Company's option to purchase up to 3,100 common stock shares at a price of \$9.64 per share and will expire upon the maturity of the notes. Additionally, the Company sold warrants to purchase 3,100 shares of its common stock at a price of \$14.26 per share. The warrants expire ratably from March 2021 through January 2022. The proceeds from the sale of warrants of \$4,053 was recorded as an increase to additional paid-in capital. The 2020 Additional Call Spread Transaction has no effect on the terms of the convertible senior notes due 2020 and reduces potential dilution by effectively increasing the conversion price of the convertible senior notes due 2020 to \$14.26 per share of the Company's common stock.

The maximum number of shares issuable upon conversion, including the effect of a fundamental change and subject to Other Conversion Rate Adjustments, would be 32,425.

***Convertible Senior Notes due 2015***

In May 2008, the Company issued 3.25% convertible senior notes due May 15, 2015, in a public offering for an aggregate principal amount of \$175,000. The convertible senior 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 senior 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.

In January 2014, the Company repurchased \$6,514 of notes at approximately 103.4% of their principal amount. The repurchase of the convertible senior notes was accounted for as an extinguishment of debt, and accordingly, the Company recognized a \$506 loss primarily associated with the premium paid to repurchase the convertible senior notes and the recognition of certain remaining unamortized debt discount and issuance costs.

The maximum number of shares issuable upon conversion, including the effect of a fundamental change and subject to Other Conversion Rate Adjustments, would be 2,587.

## Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

The accounting standards for convertible debt instruments that may be fully or partially settled in cash upon conversion require the debt and equity components to be separately accounted for in a manner that reflects our nonconvertible borrowing rate when interest expense is recognized in subsequent periods. The amount recorded as debt is based on the fair value of the debt component as a standalone instrument, determined using an average interest rate for similar nonconvertible debt issued by entities with credit ratings comparable to the Company's at the time of issuance. The difference between the debt recorded at inception and its principal amount is to be accreted to principal through interest expense through the estimated life of the note.



**Table of Contents**

As of June 30, 2014 and December 30, 2013, the following summarizes the liability and equity components of the convertible senior notes:

	As of June 30, 2014			As of December 30, 2013		
	Principal	Unamortized Discount	Net Carrying Amount (in thousands)	Principal	Unamortized Discount	Net Carrying Amount
<b>Liability components:</b>						
Convertible senior notes due 2020	\$ 250,000	\$ (56,545)	\$ 193,455	\$ 220,000	\$ (52,833)	\$ 167,167
Convertible senior notes due 2015	32,395	(1,266)	31,129	38,909	(2,341)	36,568
Total	\$ 282,395	\$ (57,811)	\$ 224,584	\$ 258,909	\$ (55,174)	\$ 203,735

	As of June 30, 2014			As of December 30, 2013		
	Embedded conversion option Convertible Senior Notes	Embedded conversion option Senior Notes Issuance Costs	Total (in thousands)	Embedded conversion option Convertible Senior Notes	Embedded conversion option Senior Notes Issuance Costs	Total
<b>Equity components:</b>						
Additional paid-in capital:						
Convertible senior notes due 2020	\$ 60,227	\$ (1,916)	\$ 58,311	\$ 53,000	\$ (1,644)	\$ 51,356
Convertible senior notes due 2015	39,781	(1,413)	38,368	39,928	(1,413)	38,515
	\$ 100,008	\$ (3,329)	\$ 96,679	\$ 92,928	\$ (3,057)	\$ 89,871

The components of interest expense resulting from the convertible senior notes for the quarter and two quarters ended June 30, 2014 and July 1, 2013 are as follows:

	For the Quarter Ended		For the Two Quarters Ended	
	June 30, 2014 (In thousands)	July 1, 2013 (In thousands)	June 30, 2014 (In thousands)	July 1, 2013 (In thousands)
<b>Contractual coupon interest</b>				
Convertible senior notes due 2020	\$ 1,094	\$	\$ 2,179	\$
Convertible senior notes due 2015	263	1,422	526	2,844
	\$ 1,357	\$ 1,422	\$ 2,705	\$ 2,844
<b>Amortization of debt discount</b>				
Convertible senior notes due 2020	\$ 1,751	\$	\$ 3,515	\$
Convertible senior notes due 2015	345	1,715	683	3,395
	\$ 2,096	\$ 1,715	\$ 4,198	\$ 3,395
<b>Amortization of debt issuance costs</b>				
Convertible senior notes due 2020	\$ 175	\$	\$ 353	\$
Convertible senior notes due 2015	35	174	69	343

Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

\$ 210      \$ 174      \$ 422      \$ 343

**Table of Contents**

As of June 30, 2014 and December 30, 2013, remaining unamortized debt issuance costs included in other non-current assets were \$5,795 and \$5,399, respectively. The debt issuance costs and debt discount are being amortized to interest expense over the term of the convertible senior notes using the effective interest rate method. At June 30, 2014, the remaining weighted average amortization period for the unamortized senior convertible note discount and debt issuance costs was 6.3 years.

For the quarter and two quarters ended June 30, 2014, the amortization of debt discount and debt issuance costs for the 2020 convertible senior notes and the 2015 convertible senior notes is based on an effective interest rate of 6.48% and 8.37%, respectively. For the quarter and two quarters ended July 1, 2013, the amortization of debt discount and debt issuance costs for the 2015 convertible senior notes is based on an effective interest rate of 8.37%.

**(6) Income Taxes**

The Company's effective tax rate was (19.6)% and 40.5% for the quarters ended June 30, 2014 and July 1, 2013, respectively, and 16.3% and 33.3% for the two quarters ended June 30, 2014 and July 1, 2013, respectively. 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 earnings from the Company's operations in lower-tax jurisdictions in China, the apportioned state income tax rates, generation of other credits and deductions available to us, and certain non-deductible items.

During the quarter ended June 30, 2014, the Company's effective tax rate was impacted by losses incurred in certain foreign jurisdictions for which no tax benefit was recorded as a result of full valuation allowances. During the two quarters ended June 30, 2014, the Company's effective tax rate was further impacted by a discrete tax benefit resulting from the retroactive approval of the high technology enterprise status for certain Chinese subsidiaries within the Company's Asia Pacific operating segment.

The Company's effective tax rate for the quarter and two quarters ended July 1, 2013 was impacted by the gain on sale of assets in one of the Company's foreign operations and an increase in income earned in higher tax jurisdictions, offset by the impact of discrete tax benefits from the extension of federal research and development credit laws, and from the approval of research and development deduction in China.

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 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.

**(7) Financial Instruments****Derivatives**

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 as of June 30, 2014 and December 30, 2013 was approximately \$32,864 and \$47,000, 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	
		June 30, 2014	December 30, 2013
(In thousands)			
<b>Cash flow derivative instruments designated as hedges:</b>			
Foreign exchange contracts	Other accrued expenses	\$	\$ (751)
Foreign exchange contracts	Deposits and other non-current assets		10
<b>Cash flow derivative instruments not designated as hedges:</b>			
Foreign exchange contracts	Prepaid expenses and other current assets	292	647

Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

Foreign exchange contracts	Other accrued expenses	(232)	(899)
Foreign exchange contracts	Other long-term liabilities	(616)	(1,288)
		\$ (556)	\$ (2,281)

**Table of Contents**

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	Quarter Ended					
	June 30, 2014			July 1, 2013		
	Effective Portion Gain/(Loss) Recognized in Other Comprehensive Income	Gain/(Loss) Reclassified into Income	Ineffective Portion Gain/(Loss) Reclassified into Income	Effective Portion Gain/(Loss) Recognized in Other Comprehensive Income	Gain/(Loss) Reclassified into Income	Ineffective Portion Gain/(Loss) Recognized into Income
(In thousands)						
<b>Cash flow hedge:</b>						
Foreign currency forward	Depreciation expense	\$ 40	\$	\$ 184	\$	\$
		\$ 40	\$	\$ 184	\$	\$

Financial Statement Caption	Two Quarters Ended					
	June 30, 2014			July 1, 2013		
	Effective Portion Gain/(Loss) Recognized in Other Comprehensive Income	Gain/(Loss) Reclassified into Income	Ineffective Portion Gain/(Loss) Reclassified into Income	Effective Portion Gain/(Loss) Recognized in Other Comprehensive Income	Gain/(Loss) Reclassified into Income	Ineffective Portion Gain/(Loss) Recognized into Income
(In thousands)						
<b>Cash flow hedge:</b>						
Foreign currency forward	Depreciation expense	\$ 65	\$	\$ (197)	\$	\$
		\$ 65	\$	\$ (197)	\$	\$

The following table provides a summary of the activity associated with the designated cash flow hedges reflected in accumulated other comprehensive income for the two quarters ended June 30, 2014 and July 1, 2013:

	For the Two Quarters Ended	
	June 30, 2014	July 1, 2013
	(In thousands)	
Beginning balance unrealized loss, net of tax	\$ (1,613)	\$ (15)
Changes in fair value, net of tax	120	(197)
Reclassification to earnings	65	
Ending balance unrealized loss, net of tax	\$ (1,428)	\$ (212)

The Company expects that approximately \$162 of expense will be reclassified into the statement of operations, net of tax, in the next 12 months.

## Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

The net 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 June 30, 2014	July 1, 2013	For the Two Quarters Ended June 30, 2014	July 1, 2013
(In thousands)				
<b>Derivative instruments not designated as hedges:</b>				
Foreign exchange contracts	\$ 432	\$ (134)	\$ 954	\$ (665)
Interest rate swap		143		620
	\$ 432	\$ 9	\$ 954	\$ (45)

**Table of Contents****Other Financial Instruments**

The carrying amount and estimated fair value of the Company's financial instruments at June 30, 2014 and December 30, 2013 were as follows:

	June 30, 2014		December 30, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In thousands)			
Available for sale securities	\$	\$	\$ 148	\$ 148
Derivative assets, current	292	292	647	647
Derivative liabilities, current	232	232	1,650	1,650
Derivative assets, non-current			10	10
Derivative liabilities, non-current	616	616	1,288	1,288
Long-term debt	321,906	320,986	370,008	369,402
Convertible senior notes due 2015	31,129	33,030	36,568	39,960
Convertible senior notes due 2020	193,455	272,175	167,167	237,050

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 the counterparty and the Company, as necessary.

The fair value of the long-term debt was estimated based on discounting the debt over its life using current market rates for similar debt as of June 30, 2014 and December 30, 2013.

The fair value of the convertible senior notes was estimated based on quoted market prices of the securities on an active exchange, which are considered Level 1 inputs.

As of June 30, 2014 and December 30, 2013, the Company's other financial instruments also included cash and cash equivalents, accounts receivable, accounts payable and equipment payables. Due to short-term maturities, the carrying amount of these instruments approximates fair value.

**(8) Accumulated Other Comprehensive Income**

The following provides a summary of the components of accumulated other comprehensive income as of June 30, 2014 and December 30, 2013:

	Foreign Currency Translation	Gains (Losses) on Cash Flow Hedges	Unrealized Gains (Losses) on Available for Sale Securities	Total
			(In thousands)	
Ending balance at December 30, 2013	\$ 47,280	\$ (1,613)	\$ (63)	\$ 45,604
Other comprehensive income (loss) before reclassifications	(12,816)	120	(20)	(12,716)
Amounts reclassified from accumulated other comprehensive income		65	83	148
Other comprehensive (loss) income	(12,816)	185	63	(12,568)
Ending balance at June 30, 2014	\$ 34,464	\$ (1,428)	\$	\$ 33,036

Foreign currency translation amounts as of June 30, 2014 and December 30, 2013 are net of taxes of \$2,990 and \$3,132, respectively.





**Table of Contents**

The following provides a summary of reclassifications out of accumulated other comprehensive income for the quarter and two quarters ended June 30, 2014 and July 1, 2013:

Details about Accumulated Other Comprehensive Income Components	Statement of Operations Location	Amount Reclassified from Accumulated Other Comprehensive Income			
		For the Quarter Ended		For the Two Quarters Ended	
		June 30, 2014	July 1, 2013	June 30, 2014	July 1, 2013
Gain on foreign currency translation	Gain on sale of assets, net of tax	\$	\$ (14,266)	\$	\$ (14,266)
Loss on cash flow hedges	Depreciation expense, net of tax	\$ 40	\$	\$ 65	\$
Loss on available for sale securities	Other, net, net of tax	\$ 46	\$ 4	\$ 83	\$ 4

**(9) 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, cellular phone, networking and communications, and aerospace and defense industries. Most are located outside the United States, with the exception of aerospace and defense industries. 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.

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.

For the quarter ended June 30, 2014 no one customer accounted for 10% or more of the Company's net sales. For the quarter ended July 1, 2013 one customer accounted for approximately 14% of the Company's net sales. For the two quarters ended June 30, 2014 and July 1, 2013 one customer accounted for approximately 12% and 14%, respectively, of the Company's net sales.

**(10) 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 June 30, 2014 and December 30, 2013, the following financial assets and liabilities were measured at fair value on a recurring basis using the type of inputs shown:

	June 30, 2014	Fair Value Measurements Using:		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
		(In thousands)		
Money market funds	\$ 129,011	\$ 129,011	\$	
Foreign exchange derivative assets	292		292	
Foreign exchange derivative liabilities	848		848	

	December 30, 2013	Fair Value Measurements Using:		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs

## Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

	(In thousands)		
Money market funds	\$ 23,838	\$ 23,838	\$
Available for sale securities	148	148	
Foreign exchange derivative assets	657		657
Foreign exchange derivative liabilities	2,938		2,938

There were no transfers of financial assets or liabilities between Level 1 and Level 2 inputs for the quarter or two quarters ended June 30, 2014 and July 1, 2013.

**Table of Contents****(11) 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 financial condition, 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 or results of operations in a particular period. The Company has accrued amounts for its loss contingencies which are probable and estimable at June 30, 2014 and December 30, 2013. 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 environmental regulations regarding the storage, use, handling and disposal of chemicals, solid wastes and other hazardous materials as well as compliance with air quality standards. The Company believes that its facilities in the United States comply in all material respects with applicable environmental laws and regulations. In China, governmental authorities are taking various steps to tighten the rules and regulations governing environmental issues. An update to Chinese environmental law was issued in late 2012, but allows for an interim period in which foreign entities may adjust to the new regulatory regime and come into full compliance with the new laws. The Company's plants in China are not yet in full compliance with the current environmental regulations as updated in late 2012. The Company expects to come into compliance and does not anticipate any immediate risk of government fines or temporary closure of its Chinese plants. The Company has established and enacted an investment plan, which includes capital expenditures estimated to be approximately \$10,000 for 2014, to address the regulatory changes in order to come into full compliance during the interim period.

**(12) Earnings Per Share**

The following is a reconciliation of the numerator and denominator used to calculate basic earnings per share and diluted earnings per share for the quarter and two quarters ended June 30, 2014 and July 1, 2013:

	Quarter Ended		Two Quarters Ended	
	June 30, 2014	July 1, 2013	June 30, 2014	July 1, 2013
	(In thousands, except per share amounts)			
Net (loss) income attributable to TTM Technologies, Inc. stockholders	\$ (3,104)	\$ 13,137	\$ (6,903)	\$ 18,289
Weighted average shares outstanding	83,336	82,595	83,130	82,373
Dilutive effect of performance-based stock units, restricted stock units and stock options		380		535
Diluted shares	83,336	82,975	83,130	82,908
(Loss) earnings per share attributable to TTM Technologies, Inc. stockholders:				
Basic	\$ (0.04)	\$ 0.16	\$ (0.08)	\$ 0.22
Diluted	\$ (0.04)	\$ 0.16	\$ (0.08)	\$ 0.22

For the quarter and two quarters ended June 30, 2014, potential shares of common stock, consisting of stock options to purchase approximately 563 shares of common stock at exercise prices ranging from \$5.78 to \$16.82 per share, 1,729 restricted stock units, and 229 performance-based restricted stock units were not included in the computation of diluted earnings per share because the Company incurred a net loss and, as a result, the impact would be anti-dilutive.

## Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

For the quarter and two quarters ended July 1, 2013, performance-based stock units, restricted stock units and stock options to purchase 2,162 and 2,335 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.

**Table of Contents**

For the quarters and two quarters ended June 30, 2014, the effect of 27,970 shares of common stock, related to the Company's convertible senior notes and warrants to purchase 28,020 shares of common stock were not included in the computation of dilutive earnings per share because the effect would be anti-dilutive. For the quarters and two quarters ended July 1, 2013, the effect of 10,963 shares of common stock, related to the Company's convertible senior notes and warrants to purchase 10,963 shares of common stock were not included in the computation of dilutive earnings per share because the effect would be anti-dilutive.

**(13) Stock-Based Compensation**

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

	Quarter Ended		Two Quarters Ended	
	June 30, 2014	July 1, 2013	June 30, 2014	July 1, 2013
	(In thousands)			
Cost of goods sold	\$ 199	\$ 254	\$ 462	\$ 557
Selling and marketing	253	335	588	697
General and administrative	1,479	1,994	3,049	3,659
Stock-based compensation expense recognized	1,931	2,583	4,099	4,913
Income tax benefit recognized	(494)	(684)	(1,063)	(1,181)
Total stock-based compensation expense after income taxes	\$ 1,437	\$ 1,899	\$ 3,036	\$ 3,732

*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 are based on revenue and EBITDA (earnings before interest, tax, depreciation, and amortization expense), each equally weighted, and (b) an overall modifier based on the Company's total stockholder return (TSR) relative to the S&P SmallCap 600 for PRUs granted in 2012, and, for PRUs granted in 2013 and 2014, a group of peer companies selected by the Company's compensation committee, 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 two quarters ended June 30, 2014, management determined that vesting of the PRU awards was probable. PRUs activity for the two quarters ended June 30, 2014 was as follows:

	Shares (In thousands)
Outstanding target shares at December 30, 2013	353
Granted:	
Third tranche of 2012 grant	59
Second tranche of 2013 grant	113
First tranche of 2014 grant	86
Change in units due to annual performance achievement	(29)
Vested	(90)
Forfeitures / cancellations	(34)
Outstanding target shares at June 30, 2014	458



**Table of Contents**

The fair value for PRUs granted is calculated using a Monte Carlo simulation model, as the TSR modifier contains a market condition. For the two quarters ended June 30, 2014 and July 1, 2013, the following assumptions were used in determining the fair value:

	June 30, 2014 <sup>1</sup>	July 1, 2013 <sup>2</sup>
Weighted-average fair value	\$ 5.80	\$ 6.79
Risk-free interest rate	0.4 %	0.3 %
Dividend yield		
Expected volatility	41 %	49 %
Expected term in months	23	25

- (1) Reflects the weighted-averages for the third year of the three-year performance period applicable to PRUs granted in 2012, second year of the three-year performance period applicable to PRUs granted in 2013 and first year of the three-year performance period applicable to PRUs granted in 2014.
- (2) Reflects the weighted-averages for the third year of the three-year performance period applicable to PRUs granted in 2011, second year of the three-year performance period applicable to PRUs granted in 2012 and first year of the three-year performance period applicable to PRUs granted in 2013.

*Restricted Stock Units*

The Company granted 73 and 67 restricted stock units during the quarters ended June 30, 2014 and July 1, 2013, respectively, and 833 and 894 restricted stock units during the two quarters ended June 30, 2014 and July 1, 2013, respectively. The units granted have a weighted-average fair value per unit of \$7.96 and \$6.96 for the quarters ended June 30, 2014 and July 1, 2013, respectively, and \$8.00 and \$8.17 for the two quarters ended June 30, 2014 and July 1, 2013, 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.

*Stock Options*

The Company did not grant any stock option awards during the quarter or two quarters ended June 30, 2014 and July 1, 2013.

*Summary of Unrecognized Compensation Costs*

The following is a summary of total unrecognized compensation costs as of June 30, 2014:

	Unrecognized Stock-Based Compensation Cost (In thousands)	Remaining Weighted Average Recognition Period (years)
PRU awards	\$ 1,717	1.7
RSU awards	9,712	1.4
Stock option awards	17	0.3
	\$ 11,446	

**(14) 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 five PCB fabrication plants and one drilling facility, and 2) North America, which consists of seven domestic PCB fabrication plants, including a facility that provides follow-on

## Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

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. 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.

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.



**Table of Contents**

	Quarter Ended		Two Quarters Ended	
	June 30, 2014	July 1, 2013	June 30, 2014	July 1, 2013
(In thousands)				
<b>Net Sales:</b>				
Asia Pacific	\$ 166,699	\$ 209,631	\$ 332,365	\$ 412,214
North America	131,594	129,669	258,183	253,258
Total sales	298,293	339,300	590,548	665,472
Inter-segment sales	(658)	(1,279)	(1,018)	(2,059)
Total net sales	\$ 297,635	\$ 338,021	\$ 589,530	\$ 663,413
<b>Operating Segment Income (Loss):</b>				
Asia Pacific	\$ (1,925)	\$ 23,642	\$ 1,942	\$ 34,767
North America	7,359	7,032	10,181	10,889
Total operating segment income	5,434	30,674	12,123	45,656
Amortization of definite-lived intangibles	(2,236)	(2,327)	(4,472)	(4,655)
Total operating income	3,198	28,347	7,651	41,001
Total other expense	(5,794)	(5,290)	(15,901)	(10,567)
(Loss) income before income taxes	\$ (2,596)	\$ 23,057	\$ (8,250)	\$ 30,434

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 the two quarters ended June 30, 2014 and July 1, 2013 are sales from the Asia Pacific operating segment to the North America operating segment.

**(15) Related Party Transactions**

In the normal course of business, the Company's foreign subsidiaries purchase laminate and prepreg from related parties in which a significant shareholder of the Company holds an equity interest. The Company purchased laminate and prepreg from these related parties in the amount of \$13,390 and \$18,472 for the quarters ended June 30, 2014 and July 1, 2013, respectively, and \$25,180 and \$37,609 for the two quarters ended June 30, 2014 and July 1, 2013, respectively.

Dongguan Shengyi Electronics Ltd., (SYE) is a related party as a significant shareholder of the Company holds an equity interest in the parent company of SYE. Subsequent to the Company's sale of its controlling interest in SYE in June 2013, the Company began selling PCBs to, and purchasing PCBs from, SYE. Sales to SYE for the quarter and two quarters ended June 30, 2014 were approximately \$9,100 and \$19,253, respectively, and \$4,009 for both the quarter and two quarters ended July 1, 2013. Additionally, purchases from SYE for the quarter and two quarters ended June 30, 2014 were approximately \$201 and \$472, respectively. There were no purchases from SYE for the quarter or two quarters ended July 1, 2013.

As of June 30, 2014 and December 30, 2013, the Company's consolidated condensed balance sheet included \$20,482 and \$19,547, respectively, in accounts payable due to, and \$14,269 and \$13,312, respectively, in accounts receivable due from related parties for the purchase of laminate and prepreg, and sales of PCBs to SYE, as mentioned above.

**(16) Noncontrolling Interest Holdings**

On June 17, 2013, the Company completed the sale of its 70.2% controlling equity interest in Dongguan Shengyi Electronics Ltd. (SYE) to its noncontrolling partner, Shengyi Technology Co. Ltd. (Sytech), for 702,000,000 Chinese RMB or \$114,495. The Company recognized a gain on the sale of SYE of \$17,917. Consideration net of cash sold was \$67,147.

## Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

Additionally, the Company acquired Sytech's 20.0% noncontrolling equity interest in Dongguan Meadville Circuits Ltd. (DMC) for 180,000,000 Chinese RMB or \$29,358. The Company recorded a decrease to additional paid-in capital for the difference between the purchase price and the carrying value of the noncontrolling interest for \$71.

**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 fiscal year ended December 30, 2013, filed with the SEC.

**OVERVIEW AND RECENT DEVELOPMENTS**

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 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, mobile media devices and smartphones. We also serve the aerospace and defense, high-end computing, and industrial/medical industries. Our customers include both original equipment manufacturers (OEMs) and electronic manufacturing services (EMS) providers.

Our Asia Pacific operating segment experiences revenue fluctuations, caused in part by seasonal patterns in the touch screen tablet and cellular phone industries, which together have become a significant portion of the end markets we serve. This seasonality typically results in higher net sales in the third and fourth quarters due to end customer demand to meet fourth quarter sales of consumer electronics products.

In the normal course of operations, we are exposed to risks associated with fluctuations in foreign currency exchange rates. Specifically, we are subject to risks associated with transactions that are denominated in currencies other than our functional currencies. Our primary foreign exchange exposure is to the Chinese Renminbi (RMB). For the two quarters ended June 30, 2014, our consolidated condensed statement of operations included an unrealized foreign exchange loss of approximately \$3.6 million, due to the rapid depreciation of the RMB against the U.S. Dollar during the first quarter of 2014. Unrealized foreign exchange losses during the second quarter of 2014 were less than \$0.1 million. We do not engage in hedging to manage foreign currency risk related to revenue and expenses denominated in RMB nor do we currently use derivative instruments to reduce exposure to foreign currency risk for loans due from our foreign subsidiaries.

Labor costs represent a significant portion of our total manufacturing costs. Our labor costs in the People's Republic of China (PRC) have increased rapidly over the past number of years as a result of mandated increases in the minimum wage and increased compensation offered to our labor force due to the reduction of overtime hours that we implemented to meet standards required by some of our global customers. These increases in labor costs have reduced the gross and operating margins of our Asia Pacific operating segment. We believe annual labor rate increases together with increased pricing pressures from our principal customers and the reduction in our first quarter and second quarter operating leverage due to the seasonal nature of our business will occur each year for the foreseeable future and may further reduce gross and operating margins in our Asia Pacific operating segment.

We sell to OEMs both directly and indirectly through EMS providers. 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 OEM customers accounted for 52% of our net sales for both quarters ended June 30, 2014 and July 1, 2013. Sales to our 10 largest OEM customers accounted for 53% and 52% of our net sales for the two quarters ended June 30, 2014 and July 1, 2013, respectively.

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

End Markets(1)	Quarter Ended		Two Quarters Ended	
	June 30, 2014	July 1, 2013	June 30, 2014	July 1, 2013
Aerospace/Defense	18%	16%	17%	16%
Cellular Phone(2)	12	17	13	17
Computing/Storage/Peripherals(2)	14	16	16	18

## Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

Medical/Industrial/Instrumentation	11	8	11	8
Networking/Communications	40	38	37	36
Other(2)	5	5	6	5
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

- (1) Sales to EMS companies are classified by the end markets of their OEM customers.
- (2) Smartphones are included in the Cellular Phone end market, tablet PCs are included in the Computing/Storage/Peripherals end market and other mobile devices such as e-readers are included in the Other end market.

## **Table of Contents**

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 production demand from 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 our standard lead-time products.

We also deliver product within compressed lead times of 11 to 20 days. We typically receive a 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 collectability is reasonably assured – generally when products are shipped to the customer. Net sales consist of gross sales less an allowance for returns, which typically have been less than 3% of gross sales. We provide our customers a limited right of return for defective PCBs and backplane assemblies. We record an estimate for sales returns and allowances at the time of sale based on historical results.

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, product quality issues, production volume, and yield. We generally do not participate in any significant long-term contracts with suppliers, 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.

General and administrative costs primarily include the salaries for executive, finance, accounting, information technology, facilities, research and development, 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, gains or losses on the sale or disposal of property, plant and equipment, and acquisition-related expenses.

## **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.

See Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, in the Company's Annual Report on Form 10-K for the fiscal year ended December 30, 2013 for further discussion of critical accounting policies and estimates. There were no material changes to our critical accounting policies and estimates since December 30, 2013.

**Table of Contents****RESULTS OF OPERATIONS**

The following table sets forth the relationship of various items to net sales in our consolidated condensed statement of operations:

	Quarter Ended		Two Quarters Ended	
	June 30, 2014	July 1, 2013	June 30, 2014	July 1, 2013
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	87.0	85.7	86.9	85.0
<b>Gross profit</b>	<b>13.0</b>	<b>14.3</b>	<b>13.1</b>	<b>15.0</b>
Operating expenses:				
Selling and marketing	2.9	2.8	3.0	2.8
General and administrative	7.6	7.7	7.7	7.9
Amortization of definite-lived intangibles	0.8	0.7	0.8	0.8
Impairment of long-lived assets	0.6		0.3	
Gain on sale of assets		(5.3)		(2.7)
<b>Total operating expenses</b>	<b>11.9</b>	<b>5.9</b>	<b>11.8</b>	<b>8.8</b>
<b>Operating income</b>	<b>1.1</b>	<b>8.4</b>	<b>1.3</b>	<b>6.2</b>
Other income (expense):				
Interest expense	(2.0)	(1.8)	(2.1)	(1.8)
Loss on extinguishment of debt			(0.1)	
Other, net		0.2	(0.5)	0.2
<b>Total other expense, net</b>	<b>(2.0)</b>	<b>(1.6)</b>	<b>(2.7)</b>	<b>(1.6)</b>
<b>(Loss) income before income taxes</b>	<b>(0.9)</b>	<b>6.8</b>	<b>(1.4)</b>	<b>4.6</b>
Income tax (provision) benefit	(0.1)	(2.7)	0.2	(1.5)
<b>Net (loss) income</b>	<b>(1.0)</b>	<b>4.1</b>	<b>(1.2)</b>	<b>3.1</b>
Less: Net income attributable to noncontrolling interest		(0.2)		(0.3)
<b>Net (loss) income attributable to TTM Technologies, Inc. stockholders</b>	<b>(1.0)%</b>	<b>3.9%</b>	<b>(1.2)%</b>	<b>2.8%</b>

We manage our worldwide operations based on two geographic operating segments: 1) Asia Pacific, which consists of five PCB fabrication plants and one drilling 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. Each segment operates predominantly in the same industry with production facilities that produce similar customized products for their customers and use similar means of product distribution.

The following table compares net sales by reportable segment for the quarter and two quarters ended June 30, 2014 and July 1, 2013:

	Quarter Ended		Two Quarters Ended	
	June 30, 2014	July 1, 2013	June 30, 2014	July 1, 2013
<b>Net Sales:</b>				
Asia Pacific	\$ 166,699	\$ 209,631	\$ 332,365	\$ 412,214
North America	131,594	129,669	258,183	253,258

Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

Total sales	298,293	339,300	590,548	665,472
Inter-segment sales	(658)	(1,279)	(1,018)	(2,059)
Total net sales	\$ 297,635	\$ 338,021	\$ 589,530	\$ 663,413

---

**Table of Contents****Net Sales**

Total net sales decreased \$40.4 million, or 12.0%, from \$338.0 million for the second quarter of 2013 to \$297.6 million for the second quarter of 2014. Net sales for the Asia Pacific segment, excluding inter-segment sales, decreased \$42.4 million, or 20.3%, from \$208.4 million in the second quarter of 2013 to \$166.0 million in the second quarter of 2014. This decrease was primarily due to the absence of net sales resulting from the sale of a controlling equity interest in a subsidiary in the second quarter of 2013 combined with lower demand in our Cellular Phone and Computing/Storage/Peripherals end markets, which resulted in a 23% decrease in PCB shipments from the second quarter 2013. Net sales for the North America segment increased \$1.9 million, or 1.5%, from \$129.7 million in the second quarter of 2013 to \$131.6 million in the second quarter of 2014. This increase was primarily due to a 25% increase in demand for backplane assemblies and for PCB products primarily in the Medical/Industrial/Instrumentation end market, partially offset by reduced revenue for PCB products in the Networking/Communications end market.

Total net sales decreased \$73.9 million, or 11.1%, from \$663.4 million for the first two quarters of 2013 to \$589.5 million for the first two quarters of 2014. Net sales for the Asia Pacific segment, excluding inter-segment sales, decreased \$78.9 million, or 19.2%, from \$410.2 million in the first two quarters of 2013 to \$331.3 million in the first two quarters of 2014. This decrease is primarily due to the absence of net sales resulting from the sale of a controlling equity interest in a subsidiary in the second quarter of 2013 combined with lower demand in our Cellular Phone and Computing/Storage/Peripherals end markets, which resulted in a 26% decrease in PCB shipments from the first two quarters of 2013. This decrease in net sales was partially offset by an 8% increase in the average PCB selling price, which was driven by product mix shift. Net sales for the North America segment increased \$4.9 million, or 1.9%, from \$253.3 million in the first two quarters of 2013 to \$258.2 million in the first two quarters of 2014. This increase was primarily due to a 26% increase in demand for backplane assemblies for the Networking/Communications end market, partially offset by a 6% decrease in demand for PCB products, primarily in the same end market.

**Gross Margin**

Gross margin decreased from 14.3% for the second quarter of 2013 to 13.0% for the second quarter of 2014. Gross margin for the Asia Pacific segment decreased from 12.4% for the second quarter of 2013 to 10.7% for the second quarter of 2014, primarily due to unfavorable product mix in our advanced technology plants and a decrease in the volume of advanced technology business. Gross margin for the North America segment decreased from 17.4% for the second quarter of 2013 to 15.9% for the second quarter of 2014, primarily due to a mix shift toward lower margin assembly products and lower cost absorption due to lower production volumes at certain PCB fabrication plants.

Gross margin decreased from 15.0% for the first two quarters of 2013 to 13.1% for the first two quarters of 2014. Gross margin for the Asia Pacific segment decreased from 14.0% for the first two quarters of 2013 to 11.8% for the first two quarters of 2014, primarily due to unfavorable product mix, lower utilization and increased equipment-related expenses at our advanced technology plants. Gross margin for the North America segment decreased from 16.5% for the first two quarters of 2013 to 14.7% for the first two quarters of 2014, primarily due to a mix shift toward lower margin assembly products and lower cost absorption due to lower production volumes at certain PCB fabrication plants.

**Selling and Marketing Expenses**

Selling and marketing expenses decreased \$1.0 million, or 10.4%, from \$9.6 million for the second quarter of 2013 to \$8.6 million for the second quarter of 2014. As a percentage of net sales, selling and marketing expenses were 2.8% and 2.9% for the second quarters of 2013 and 2014, respectively. Selling and marketing expenses decreased \$0.7 million, or 3.7%, from \$18.7 million for the first two quarters of 2013 to \$18.0 million for the first two quarters of 2014. As a percentage of net sales, selling and marketing expenses were 2.8% and 3.0% for the first two quarters of 2013 and 2014, respectively. The decrease in selling and marketing expenses for the quarter and first two quarters of 2014 is primarily due to reduced commissions, due to lower sales, and lower travel expenses over the comparable periods of the prior year. Additionally, the increase in selling and marketing expense as a percentage of net sales for the quarter and first two quarters of 2014, is primarily due to lower net sales.

**General and Administrative Expense**

General and administrative expenses decreased \$3.4 million from \$26.1 million, or 7.7% of net sales, for the second quarter of 2013 to \$22.7 million, or 7.6% of net sales, for the second quarter of 2014. General and administrative expenses decreased \$7.5 million from \$52.7 million, or 7.9% of net sales, for the first two quarters of 2013 to \$45.2 million, or 7.7% of net sales, for the first two quarters of 2014. The decrease in general and administrative expense primarily relates to costs savings resulting from the sale of our controlling equity interest in a subsidiary in the Asia Pacific operating segment, and lower incentive compensation expense.





---

## **Table of Contents**

### ***Other Income (Expense)***

Other expense, net increased \$0.5 million from \$5.3 million for the second quarter of 2013 to \$5.8 million for the second quarter of 2014. The increase in other expense, net was primarily due to a decrease in currency transaction and derivative gains.

Other expense, net increased \$5.3 million from \$10.6 million for the first two quarters of 2013 to \$15.9 million for the first two quarters of 2014. The increase in other expense, net was primarily due to unrealized foreign currency transaction losses of \$3.6 million due to the rapid depreciation of the Chinese RMB against the U.S. Dollar, and \$0.5 million loss on the extinguishment of debt related to repurchase of a portion of convertible senior notes due 2015, both in the first quarter of 2014.

### ***Income Taxes***

The provision for income taxes decreased \$8.8 million from \$9.3 million for the second quarter of 2013 to \$0.5 million for the second quarter of 2014. The decrease in income taxes expense is primarily due to losses incurred in lower tax jurisdictions compared to income earned in the same period of the prior year. Further, the income tax expense in 2013 was higher primarily due to a gain on sale of assets in one of our foreign operations.

The provision for income taxes decreased \$11.4 million from \$10.1 million tax expense for the first two quarters of 2013 to \$1.3 million tax benefit for the first two quarters of 2014. Our effective tax rate was 33.3% for the first two quarters of 2013 and 16.3% for the first two quarters of 2014. The decrease in our provision for income taxes is primarily due to losses incurred for the first two quarters of 2014 compared to the same period of the prior year, combined with a \$1.5 million discrete tax benefit recorded in the first quarter of 2014 resulting from the retroactive approval of the high technology enterprise status for a subsidiary within the Asia Pacific operating segment.

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 June 30, 2014 and December 30, 2013, we had net deferred income tax assets of approximately \$6.2 million and \$5.4 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, the issuance of convertible senior notes, and term and revolving debt. Our principal uses of cash have been to refinance existing debt, 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 financing acquisitions will continue to be the principal demands on our cash in the future.

As of June 30, 2014, we had net working capital of approximately \$303.9 million compared to \$347.0 million as of December 30, 2013.

As of June 30, 2014, we had cash and cash equivalents of approximately \$282.0 million, of which approximately \$62.2 million was held by our foreign subsidiaries. Of the cash and cash equivalents held by our foreign subsidiaries as of June 30, 2014, \$58.7 million was located in Asia and \$3.5 million was located in Europe. Cash and cash equivalents located in our Asia Pacific operating segment are expected to be used 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, totaled approximately \$10.9 million and are available for repatriation and will be subject to U.S. income tax.

Our 2014 capital expenditure plan is expected to total approximately \$100.0 million (of which approximately \$80.0 million relates to our Asia Pacific operating segment). The expenditures will fund capital equipment purchases to increase production capacity, especially for advanced technology manufacturing, comply with increased environmental regulations, replace aging equipment, and expand our technological capabilities.

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, and working capital needs for the next 12 months. However, we may enter into new borrowing arrangements, if needed, to fund our business operations, refinance existing debt, or fund acquisitions.



---

## **Table of Contents**

### *Credit Agreement*

We are party to a facility agreement (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 Credit Agreement is secured by substantially all of the assets of our Asia Pacific operating segment and is senior to all of our other debt, including the convertible senior notes. We have fully and unconditionally guaranteed the full and timely payment of all Credit Agreement related obligations of the Asia Pacific operating segment.

Borrowings under the Credit Agreement bear interest at a floating rate of LIBOR plus an interest margin of 2.38%. At June 30, 2014, the weighted average interest rate on the outstanding borrowings under the Credit Agreement was 2.54%.

Borrowings under the Credit Agreement are subject to certain financial and operating covenants that include maintaining maximum total leverage ratios and minimum net worth, current ratio, and interest coverage ratios for both us and our Asia Pacific operating segment. In addition, our Credit Agreement includes a covenant that the Principal Shareholders (as defined in the Shareholders Agreement dated April 9, 2010 as amended on September 14, 2012) will not reduce their shareholding below 15 percent of TTM's issued shares. At June 30, 2014, 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 Credit Agreement. We incurred \$0.2 million and \$0.3 million for the quarter and two quarters ended June 30, 2014, respectively, in commitment fees. As of June 30, 2014, the outstanding amount of the Term Loan was \$321.9 million, of which \$96.2 million is due for repayment through March 2015 and is included as short-term debt, with the remaining \$225.7 million included as long-term debt. None of the Revolving Loan associated with the Credit Agreement was outstanding at June 30, 2014. Available borrowing capacity under the Revolving Loan was \$90.0 million as of June 30, 2014.

We have an \$80.0 million Letters of Credit Facility under the Credit Agreement. As of June 30, 2014, letters of credit in the amount of \$46.2 million were outstanding under our Credit Agreement. We have other standby letters of credit outstanding in the amount of \$3.9 million, as well as other unused letter of credit facilities in the amount of \$24.1 million. The outstanding standby letters of credit and unused letter of credit facilities expire between December 31, 2014 and February 28, 2015.

We are party to a revolving loan credit facility with a lender in the PRC. Under this arrangement, the lender has made available to us approximately \$46.6 million in unsecured borrowing with all terms of the borrowing to be negotiated at the time the revolver is drawn upon. There are no commitment fees on the unused portion of the revolver and this arrangement expires in December 2014. As of June 30, 2014, the revolver had not been drawn upon.

### *Convertible Senior Notes due 2020*

On December 20, 2013, we issued 1.75% convertible senior notes due December 15, 2020, in a public offering for an aggregate principal amount of \$220.0 million. The convertible senior notes bear interest at a rate of 1.75% per annum. Interest is payable semiannually in arrears on June 15 and December 15 of each year. The convertible senior 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. Offering expenses are being amortized to interest expense over the term of the convertible senior notes.

In January 2014, we closed the sale of an additional \$30.0 million aggregate principal amount of our 1.75% convertible senior notes due 2020 (Additional Notes). The Additional Notes were sold pursuant to the exercise of an over-allotment option granted by us in the underwriting agreement related to the offer and sale of \$220.0 million aggregate principal amount of our 1.75% convertible senior notes due 2020. In connection with the offering of the Additional Notes, we entered into additional convertible note hedge transactions with respect to shares of our common stock. The additional purchased call options cover up to approximately 3.1 million shares of common stock, at a strike price of \$9.64 and will expire upon the maturity of the notes. Additionally, we also entered into additional warrant transactions, whereby we sold warrants to acquire up to approximately 3.1 million shares of common stock at a strike price of \$14.26.

### *Convertible Senior Notes due 2015*

In May 2008, we issued \$175.0 million of convertible senior notes. The convertible senior 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 senior 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. Offering expenses are being amortized to interest expense over the term of the convertible senior notes.



**Table of Contents**

In January 2014, we repurchased \$6.5 million principal amount of notes at approximately 103.4% of their principal amount. This repurchase was also accounted for as an extinguishment of debt and, accordingly, we recognized a loss of approximately \$0.5 million, primarily associated with the premium paid to repurchase the convertible senior notes and the recognition of certain remaining unamortized debt discount and issuance costs. At June 30, 2014 \$32,395 of principal related to the convertible senior notes due 2015 remain outstanding.

**Contractual Obligations and Commitments**

The following table provides information on our contractual obligations as of June 30, 2014:

	Total	Less Than 1 Year	1 - 3 Years (In thousands)	4 - 5 Years	After 5 Years
<b>Contractual Obligations(1)</b>					
Long-term debt obligations	\$ 321,906	\$ 96,205	\$ 225,701	\$	\$
Convertible debt obligations	282,395	32,395			250,000
Interest on debt obligations	41,582	12,341	13,928	8,750	6,563
Foreign currency forward contract liabilities	848	232	616		
Equipment payables	56,716	44,529	12,187		
Purchase obligations	22,119	17,572	4,547		
Operating lease commitments	6,011	2,405	2,374	1,037	195
<b>Total contractual obligations</b>	<b>\$ 731,577</b>	<b>\$ 205,679</b>	<b>\$ 259,353</b>	<b>\$ 9,787</b>	<b>\$ 256,758</b>

(1) Unrecognized uncertain tax benefits of \$2.6 million are not included in the table above as we have not determined when the amount will be paid.

**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, our revenue is subject to seasonal fluctuations. These fluctuations include seasonal patterns in the computer and cellular phone industries, which together have become a significant portion of the end markets we serve. This seasonality typically results in higher net sales in the third and fourth quarters due to end customer demand to meet fourth quarter sales of consumer electronics products.

**Recently Issued Accounting Standards**

On May 28, 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. (ASU) 2014-09, *Revenue from Contracts with Customers*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for us on January 1, 2017. Early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. We are evaluating the effect that ASU 2014-09 will have on our consolidated financial statements and related disclosures. We have not yet selected a transition method nor have we determined the effect of the standard on our ongoing financial reporting.

## Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

In July 2013, the FASB issued an update that would require an unrecognized tax benefit, or a portion of an unrecognized benefit, to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. This update is effective for interim and annual periods beginning after December 15, 2013, with early adoption permitted. We adopted the amendment on January 1, 2014, and our adoption did not have a material impact on our financial statements.

---

**Table of Contents****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.

To ensure the adequacy and effectiveness of our foreign exchange hedge positions, we continually monitor our foreign exchange forward positions, both on a stand-alone basis and in conjunction with their underlying 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 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 operating results and financial position.

**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 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. For the two quarters ended June 30, 2014, our consolidated condensed statement of operations includes an unrealized foreign exchange loss of approximately \$3.6 million due to the rapid depreciation of the RMB against the U.S. Dollar during the first quarter of 2014. There was less than \$0.1 million of unrealized foreign exchange loss during the second quarter of 2014. We do not 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 currencies other than our foreign functional currency. The notional amount of the foreign exchange contracts as of June 30, 2014 and December 30, 2013 was approximately \$32.9 million and \$47.0 million, respectively. We have designated certain of these foreign exchange contracts as cash flow hedges.

See *Liquidity and Capital Resources* and *Credit Agreement* appearing in Item 2 of this Form 10-Q for further discussion of our financing facilities and capital structure. As of June 30, 2014, approximately 46.7% of our total debt was based on fixed rates. Based on our borrowings as of June 30, 2014, an assumed 100 basis point change in variable rates would cause our annual interest cost to change by \$3.2 million.

See Item 7A, *Quantitative and Qualitative Disclosures About Market Risk*, in the Company's Annual Report on Form 10-K for the year ended December 30, 2013 for further discussion of market risks associated with interest rates. Our exposure to interest rate risks has not changed materially since December 30, 2013.

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

Our management, under the supervision and with the participation of our Chief Executive Officer ( CEO ) and Chief Financial Officer ( CFO ), has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this Report. Based on this evaluation, our CEO and CFO have concluded that, as of June 30, 2014, such disclosure controls and procedures were effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to our management, including our CEO and CFO, as appropriate.



to allow timely decisions regarding required disclosures.

---

## **Table of Contents**

### ***Changes in Internal Control Over Financial Reporting***

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended June 30, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### ***Inherent Limitations on Effectiveness of Controls***

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 reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations, internal control over financial reporting may not prevent or detect misstatements due to error or fraud. 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. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with 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 or results of operations or cash flows in a particular period.

### ***Item 1A. Risk Factors***

An investment in our common stock involves a high degree of risk. You should carefully consider the factors described below, in addition to those discussed elsewhere in this report, in analyzing an investment in our common stock. If any of the events described below 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. The risk factors described below are not the only ones we face. Risks and uncertainties not known to us currently, or that may appear immaterial, also may have a material adverse effect on our business, financial condition, and results of operations.

In addition, the following 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.

#### ***We are subject to risks of currency fluctuations.***

A portion of our cash and other current assets is held in currencies other than the U.S. dollar. As of June 30, 2014, we had an aggregate of approximately \$185.3 million in current assets denominated in Chinese RMB and the Hong Kong Dollar (HKD). Changes in exchange rates among other currencies and the U.S. dollar will affect the value of these assets as translated to U.S. dollars in our balance sheet. To the extent that we ultimately decide to repatriate some portion of these funds to the United States, the actual value transferred could be impacted by movements in exchange rates. Any such type of movement could negatively impact the amount of cash available to fund operations or to repay debt. Significant inflation or disproportionate changes in foreign exchange rates could occur as a result of general economic conditions, acts of war or terrorism, changes in governmental monetary or tax policy, or changes in local interest rates. The impact of future exchange rate fluctuations between the U.S. Dollar and the RMB and the U.S. Dollar and the HKD cannot be predicted. To the extent that we may have outstanding indebtedness denominated in the U.S. Dollar or in the HKD, the depreciation of the RMB against the U.S. Dollar or the HKD, will have an adverse impact on our financial condition and results of operations (including the cost of servicing, and the value in our balance sheet of, the U.S. Dollar and HKD-denominated indebtedness). Further, China's government imposes controls over the convertibility of RMB into foreign currencies, which subjects us to further currency exchange risk.



---

## **Table of Contents**

***Products we manufacture may contain design or manufacturing defects, which could result in reduced demand for our services and liability claims against us.***

We manufacture products to our customers' specifications, which are highly complex and may contain design or manufacturing errors or failures, despite our quality control and quality assurance efforts. Defects in the products we manufacture, whether caused by a design, manufacturing, or materials failure or error, may result in delayed shipments, customer dissatisfaction, a reduction or cancellation of purchase orders, or liability claims against us. If these defects occur either in large quantities or too frequently, our business reputation may be impaired. Since our products are used in products that are integral to our customers' businesses, errors, defects, or other performance problems could result in financial or other damages to our customers beyond the cost of the PCB, for which we may be liable. Although our invoices and sales arrangements generally contain provisions designed to limit our exposure to product liability and related claims, existing or future laws or unfavorable judicial decisions could negate these limitation of liability provisions. Product liability litigation against us, even if it were unsuccessful, would be time consuming and costly to defend. Although we maintain technology errors and omissions insurance, we cannot assure investors that we will continue to be able to purchase such insurance coverage in the future on terms that are satisfactory to us, if at all, or that insurance will cover the specific defect issues that arise.

***We are heavily dependent upon the worldwide electronics industry, which is characterized by economic cycles and fluctuations in product demand. A downturn in the electronics industry or prolonged global economic crisis could result in decreased demand for our manufacturing services and materially impact our financial condition.***

A majority of our revenue is generated from the electronics industry, which is characterized by intense competition, relatively short product life cycles, and significant fluctuations in product demand. The industry is subject to economic cycles and recessionary periods. Due to the uncertainty in the end markets served by most of our customers, we have a low level of visibility with respect to future financial results. Consequently, our past operating results, earnings and cash flows may not be indicative of our future operating results, earnings and cash flows.

***We depend upon a relatively small number of OEM customers for a large portion of our sales, and a decline in sales to major customers could harm our results of operations.***

A small number of customers are responsible for a significant portion of our sales. Collectively, our five largest OEM customers accounted for approximately 37% and 38% of our net sales for the quarters ended June 30, 2014 and July 1, 2013, respectively, and one customer represented 14% of our sales in the quarter ended July 1, 2013. No one customer accounted for 10% or more of our sales for the quarter ended June 30, 2014. Sales attributed to OEMs include both direct sales as well as sales that the OEMs place through EMS providers. Our customer concentration could fluctuate, depending on future customer requirements, which will depend in large part on market conditions in the electronics industry segments in which our customers participate. The loss of one or more significant customers or a decline in sales to our significant customers could harm our business, results of operations, and financial condition and lead to declines in the trading price of our common stock. In addition, we generate significant accounts receivable in connection with providing manufacturing services to our customers. If one or more of our significant customers were to become insolvent or were otherwise unable to pay for the manufacturing services provided by us, our results of operations would be harmed.

In addition, during industry downturns, we may need to reduce prices at customer requests to limit the level of order losses, and we may be unable to collect payments from our customers. There can be no assurance that key customers would not cancel orders, that they would continue to place orders with us in the future at the same levels as experienced by us in prior periods, that they would be able to meet their payment obligations, or that the end-products which use our products would be successful. This concentration of customer base may materially and adversely affect our operating results due to the loss or cancellation of business from any of these key customers, significant changes in scheduled deliveries to any of these customers, or decreases in the prices of the products sold to any of these customers.

***The Chinese member firm of the KPMG network, of which our independent registered public accounting firm is also a member, may be temporarily suspended from practicing before the SEC. If a delay in completion of our audit process occurs as a result, we could be unable to timely file certain reports with the SEC, which could cause a default under our Credit Agreement or our Convertible Senior Notes and may result in acceleration of significant amounts of indebtedness.***

In the quarter ended June 30, 2014, approximately 63% of our total net sales were generated from our significant operations in the People's Republic of China. Certain of our independent registered public accounting firm's audit documentation related to their audit as of and for the fiscal year ending December 29, 2014 may be located in China, and certain audit procedures may take place within China's borders.



---

**Table of Contents**

On January 22, 2014 an SEC administrative law judge issued an initial decision suspending the Chinese member firms of the Big Four accounting firms, among others, from practicing before the SEC for six months as a result of their failure to provide certain documents to the SEC because to do so would violate Chinese law. The decision is not yet effective and will only become effective when and if the SEC endorses it. If the decision goes into effect, the work of our auditors with respect to our Chinese operations could be delayed.

A delay in completion of the audit process could delay the timely filing of our quarterly or annual reports with the SEC. A significant delay in completion of our regular audits could delay provision of financial statements required under our Credit Agreement. Failure to comply with the deadlines for providing such financial statements could result in a default under our Credit Agreement, which would trigger a cross-default under the terms of our Convertible Senior Notes, rendering all such indebtedness immediately due and payable. A delinquency in our filings with the SEC may also result in NASDAQ initiating delisting procedures. Delisting of our stock would also trigger a default under our Credit Agreement and may require us to repurchase our Convertible Senior Notes. The occurrence of any of these events could have a material adverse effect on our results of operation and financial condition.

***If we are unable to maintain satisfactory capacity utilization rates, our results of operations and financial condition would be adversely affected.***

Given the high fixed costs of our operations, decreases in capacity utilization rates can have a significant effect on our business. Accordingly, our ability to maintain or enhance gross margins would continue to depend, in part, on maintaining satisfactory capacity utilization rates. In turn, our ability to maintain satisfactory capacity utilization would depend on the demand for our products, the volume of orders we receive, and our ability to offer products that meet our customers' requirements at competitive prices. If current or future production capacity fails to match current or future customer demands, our facilities would be underutilized, our sales may not fully cover our fixed overhead expenses, and we would be less likely to achieve expected gross margins. 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.

In addition, we generally schedule our quick turnaround production facilities at less than full capacity to retain our ability to respond to unexpected additional quick-turn orders. However, if these orders are not received, we may forego some production and could experience continued excess capacity. If we conclude we have significant, long-term excess capacity, we may decide to permanently close one or more of our facilities and lay off some of our employees. Closures or lay-offs could result in our recording restructuring charges such as severance, other exit costs, and asset impairments as well as potentially causing disruptions in our ability to supply customers.

***Our results of operations are often subject to demand fluctuations and seasonality. With a high level of fixed operating costs, even small revenue shortfalls would decrease our gross margins and potentially cause the trading price of our common stock to decline.***

Our results of operations fluctuate for a variety of reasons, including:

- timing of orders from and shipments to major customers;
- the levels at which we utilize our manufacturing capacity;
- price competition;
- changes in our mix of revenues generated from quick-turn versus standard delivery time services;
- expenditures, charges or write-offs, including those related to acquisitions, facility restructurings, or asset impairments; and
- expenses relating to expanding existing manufacturing facilities.

A significant portion of our operating expenses is relatively fixed in nature, and planned expenditures are based in part on anticipated orders. Accordingly, unexpected revenue shortfalls may decrease our gross margins. In addition, we have experienced sales fluctuations due to seasonal patterns in the capital budgeting and purchasing cycles, as well as inventory management practices of our customers and the end markets we serve. In particular, the seasonality of the computer and cellular phone industries and quick-turn ordering patterns affect the overall PCB industry. These seasonal trends have caused fluctuations in our operating results in the past and may continue to do so in the future. Results of operations in any period should not be considered indicative of the results to be expected for any future period. In addition, our future quarterly operating results may fluctuate and may not meet the expectations of securities analysts or investors. If this occurs, the trading price of our common stock likely would decline.

**Table of Contents*****Covenants in our credit agreement may adversely affect our company.***

On September 14, 2012, we became a party to a Credit Agreement. The Credit Agreement contains 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 the Asia Pacific operating segment level. In addition, our Credit Agreement includes a covenant that the Principal Shareholders (as defined in the Shareholders Agreement dated April 9, 2010 as amended on September 14, 2012) will not reduce their shareholding below 15% of TTM's issued shares. Our ability to meet the financial covenants can be affected by events beyond our control, and we cannot provide assurance that we will continue to comply with all of these financial covenants. A breach of any of these covenants could result in a default under the Credit Agreement. Upon the occurrence of an event of default under the Credit Agreement, the lenders could elect to declare amounts outstanding there under to be immediately due and payable and terminate all commitments to extend further credit. If the lenders accelerate the repayment of borrowings, we may not have sufficient assets to repay the indebtedness owed under the Credit Agreement and our other indebtedness. See Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Credit Agreement.

***Our results can be adversely affected by rising labor costs.***

There is uncertainty with respect to rising labor costs, in particular within China, where we have most of our manufacturing facilities. In recent periods there have been regular and significant increases in the minimum wage payable in various provinces of China. In addition, we have experienced very high employee turnover in our manufacturing facilities in China, and we are experiencing ongoing difficulty in recruiting employees for these facilities. Furthermore, labor disputes and strikes based partly on wages have in the past slowed or stopped production by certain manufacturers in China. In some cases, employers have responded by significantly increasing the wages of workers at such plants. Any increase in labor costs due to minimum wage laws or customer requirements about scheduling and overtime that we are unable to recover in our pricing to our customers could adversely impact our operating results. In addition, the high turnover rate and our difficulty in recruiting and retaining qualified employees and the other labor trends we are noting in China could result in production disruptions or delays or the inability to ramp production to meet increased customer orders, resulting in order cancellation or imposition of customer penalties if we are unable to timely deliver products.

To respond to competitive pressures and customer requirements, we may further expand internationally in lower cost locations. If we pursue such expansions, we may be required to make additional capital expenditures. In addition, the cost structure in certain countries that are now considered to be favorable may increase as economies develop or as such countries join multinational economic communities or organizations, causing local wages to rise. As a result, we may need to continue to seek new locations with lower costs and the employee and infrastructure base to support PCB manufacturing. We cannot assure investors that we will realize the anticipated strategic benefits of our international operations or that our international operations will contribute positively to our operating results.

In our North America operating segment, rising health care costs pose a significant labor-related risk. We work with our insurance brokers and carriers to control the cost of health care for our employees. However, there can be no assurance that our efforts will succeed, especially given recent and pending changes in government oversight of health care.

***We serve customers and have manufacturing facilities outside the United States and are subject to the risks characteristic of international operations.***

We have significant manufacturing operations in Asia and sales offices located in Asia and Europe, and we continue to consider additional opportunities to make foreign investments and construct new foreign facilities. For the quarter ended June 30, 2014, we generated 63% of our net sales from non-U.S. operations, and a significant portion of our manufacturing material was provided by international suppliers during this period. As a result, we are subject to risks relating to significant international operations, including but not limited to:

- managing international operations;
- imposition of governmental controls;
- unstable regulatory environments;
- compliance with employment laws;
- implementation of disclosure controls, internal controls, financial reporting systems, and governance standards to comply with U.S. accounting and securities laws and regulations;
- limitations on imports or exports of our product offerings;
- fluctuations in the value of local currencies;

Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

inflation or changes in political and economic conditions;  
labor unrest, rising wages, difficulties in staffing and geographical labor shortages;  
government or political unrest;



---

**Table of Contents**

longer payment cycles;  
language and communication barriers as well as time zone differences;  
cultural differences;  
increases in duties and taxation levied on our products;  
other potentially adverse tax consequences;  
imposition of restrictions on currency conversion or the transfer of funds;  
travel restrictions;  
expropriation of private enterprises; and  
the potential reversal of current favorable policies encouraging foreign investment and trade.

***Our operations in China subject us to risks and uncertainties relating to the laws and regulations of China.***

Under its current leadership, the government of China has been pursuing economic reform policies, including the encouragement of foreign trade and investment and greater economic decentralization. No assurance can be given, however, that the government of China will continue to pursue such policies, that such policies will be successful if pursued, or that such policies will not be significantly altered from time to time. Despite progress in developing its legal system, China does not have a comprehensive and highly developed system of laws, particularly with respect to foreign investment activities and foreign trade. Enforcement of existing and future laws and contracts is uncertain, and implementation and interpretation thereof may be inconsistent. As the Chinese legal system develops, the promulgation of new laws, changes to existing laws and the preemption of local regulations by national laws may adversely affect foreign investors. Further, any litigation in China may be protracted and may result in substantial costs and diversion of resources and management attention. In addition, though changes in government policies and rules are timely published or communicated, there is no indication of the duration of any grace period before which full implementation and compliance will be required. As a result, we may operate our business in violation of new rules and policies before full compliance can be achieved. These uncertainties could limit the legal protections available to us.

***We depend on the U.S. government for a substantial portion of our business, which involves unique risks. Changes in government defense spending or regulations could have a material adverse effect on our business.***

A significant portion of our revenues is derived from products and services ultimately sold to the U.S. government by our OEM and EMS customers and is therefore affected by, among other things, the federal budget process. We are a supplier, primarily as a subcontractor, to the U.S. government and its agencies as well as foreign governments and agencies. The contracts between our direct customers and the government end user are subject to political and budgetary constraints and processes, changes in short-range and long-range strategic plans, the timing of contract awards, the congressional budget authorization and appropriation processes, the government's ability to terminate contracts for convenience or for default, as well as other risks, such as contractor suspension or debarment in the event of certain violations of legal and regulatory requirements.

For the quarter ended June 30, 2014, aerospace and defense sales accounted for approximately 18% of our total net sales. The substantial majority of these sales are related to both U.S. and foreign military and defense programs. While we do not sell any significant volume of products directly to the U.S. government, we are a supplier to the U.S. government and its agencies as well as foreign governments and agencies. Consequently, our sales are affected by changes in the defense budgets of the U.S. and foreign governments. The domestic and international threat of terrorist activity, emerging nuclear states and conventional military threats have led to an increase in demand for defense products and services and homeland security solutions in the recent past. The U.S. government, however, is facing unprecedented budgeting constraints and the U.S. defense budget is currently declining as a result of budgetary pressures and the wind down of the conflicts in Iraq and Afghanistan. The termination or failure to fund one or more significant contracts by the U.S. government could have a material adverse effect on our business, financial condition or results of operations.

***Competition in the PCB market is intense, and we could lose market share if we are unable to maintain our current competitive position in end markets using our quick-turn, high technology and high-mix manufacturing services.***

The PCB industry is intensely competitive, highly fragmented, and rapidly changing. We expect competition to continue, which could result in price reductions, reduced gross margins, and loss of market share. Our principal PCB and substrate competitors include Unimicron, Ibiden, Compeq, Tripod, Isupetasys, Viasystems, Sanmina, Multek, Wus and Zhen Ding. Our principal backplane assembly competitors include Amphenol, Sanmina, Simclar, TT Electronics, and Viasystems. In addition, we increasingly compete on an international basis, and new and emerging technologies may result in new competitors entering our markets.

Some of our competitors and potential competitors have advantages over us, including:

## Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

greater financial and manufacturing resources that can be devoted to the development, production, and sale of their products;  
more established and broader sales and marketing channels;  
more manufacturing facilities worldwide, some of which are closer in proximity to OEMs;

---

**Table of Contents**

manufacturing facilities that are located in countries with lower production costs;  
lower capacity utilization, which in peak market conditions can result in shorter lead times to customers;  
ability to add additional capacity faster or more efficiently;  
preferred vendor status with existing and potential customers;  
greater name recognition; and  
larger customer bases.

In addition, these competitors may respond more quickly to new or emerging technologies, or adapt more quickly to changes in customer requirements, and devote greater resources to the development, promotion, and sale of their products than we do. We must continually develop improved manufacturing processes to meet our customers' needs for complex products, and our manufacturing process technology is generally not subject to significant proprietary protection. During recessionary periods in the electronics industry, our strategy of providing quick-turn services, an integrated manufacturing solution, and responsive customer service may take on reduced importance to our customers. As a result, we may need to compete more on the basis of price, which could cause our gross margins to decline.

***An increase in the cost of raw materials could have an adverse impact on our business and reduce our gross margins.***

To manufacture PCBs, we use raw materials such as laminated layers of fiberglass, copper foil, chemical solutions, gold, and other commodity products, which we order from our suppliers. In the case of backplane assemblies, components include connectors, sheet metal, capacitors, resistors and diodes, many of which are custom made and controlled by our customers' approved vendors. If raw material and component prices increase, it may reduce our gross margins.

***If we are unable to provide our customers with high-end technology, high quality products, and responsive service, or if we are unable to deliver our products to our customers in a timely manner, our results of operations and financial condition may suffer.***

In order to maintain our existing customer base and obtain business from new customers, we must demonstrate our ability to produce our products at the level of technology, quality, responsiveness of service, timeliness of delivery, and cost that our customers require. If our products are of substandard quality, if they are not delivered on time, if we are not responsive to our customers' demands, or if we cannot meet our customers' technological requirements, our reputation as a reliable supplier of our products would likely be damaged. If we are unable to meet these product and service standards, we may be unable to obtain new contracts or keep our existing customers, and this could have a material adverse effect on our results of operations and financial condition.

***We are subject to risks for the use of certain metals from conflict minerals originating in the Democratic Republic of the Congo.***

During the third quarter of 2012, the SEC adopted rules implementing the Dodd-Frank Wall Street Reform and Consumer Protection Act, or Dodd-Frank. 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 Dodd-Frank. While these new rules continue to be the subject of ongoing litigation and, as a result, uncertainty, we submitted a conflicts minerals report on Form SD with the SEC on May 30, 2014. Compliance with these rules is likely to result in additional costs and expenses, including costs 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, at a minimum, 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.

---

**Table of Contents**

***Unanticipated changes in our tax rates or in our assessment of the realizability of our deferred income tax assets or exposure to additional income tax liabilities could affect our operating results and financial condition.***

We are subject to income taxes in the United States and various foreign jurisdictions. Significant judgment is required in determining our provision for income taxes and, in the ordinary course of business, there are many transactions and calculations in which the ultimate tax determination is uncertain. Our effective tax rates could be adversely affected by changes in the mix of earnings in countries and states with differing statutory tax rates, changes in the valuation of deferred income tax assets and liabilities, changes in tax laws, as well as other factors. Our tax determinations are regularly subject to audit by tax authorities, and developments in those audits could adversely affect our income tax provision. Although we believe that our tax estimates are reasonable, the final determination of tax audits or tax disputes may be different from what is reflected in our historical income tax provisions, which could affect our operating results and financial condition.

***If our net earnings do not remain at or above recent levels, or we are not able to predict with a reasonable degree of probability that they will continue, we may have to record a valuation allowance against our net deferred income tax assets.***

As of June 30, 2014, we had net deferred income tax assets of approximately \$6.2 million. Based on our forecast for future taxable earnings, we believe we will utilize the deferred income tax assets in future periods. However, if our estimates of future earnings decline, we may have to increase our valuation allowance against our net deferred income tax assets, resulting in a higher income tax provision, which would reduce our earnings per share. Additionally, the ability to utilize deferred income tax assets is dependent upon the generation of taxable income in the specific tax jurisdictions that have deferred income tax assets.

***If events or circumstances occur in our business that indicate that our goodwill and definite-lived intangibles may not be recoverable, we could have impairment charges that would negatively affect our earnings.***

As of June 30, 2014, our consolidated balance sheet reflected \$35.3 million of goodwill and definite-lived intangible assets. We periodically evaluate whether events and circumstances have occurred, such that the potential for reduced expectations for future cash flows coupled with further decline in the market price of our stock and market capitalization may indicate that the remaining balance of goodwill and definite-lived intangible assets may not be recoverable. If factors indicate that assets are impaired, we would be required to reduce the carrying value of our goodwill and definite-lived intangible assets, which could harm our results during the periods in which such a reduction is recognized. Our goodwill and definite-lived intangible assets may increase in future periods if we consummate other acquisitions. Amortization or impairment of these additional intangibles would, in turn, reduce our earnings.

***Damage to our manufacturing facilities due to fire, natural disaster, or other events could adversely affect our operating results and financial condition.***

The destruction or closure of any of our facilities for a significant period of time as a result of fire, explosion, blizzard, act of war or terrorism, flood, tornado, earthquake, lightning, other natural disasters, required maintenance or other events could harm us financially, increasing our costs of doing business and limiting our ability to deliver our manufacturing services on a timely basis. Our insurance coverage with respect to damages to our facilities or our customers' products caused by natural disasters is limited and is subject to deductibles and coverage limits. Such coverage may not be adequate or continue to be available at commercially reasonable rates and terms.

In the event one or more of our facilities is closed on a temporary or permanent basis as a result of a natural disaster, required maintenance or other event, our operations could be significantly disrupted. Such events could delay or prevent product manufacturing and shipment for the time required to transfer production or repair, rebuild or replace the affected manufacturing facilities. This time frame could be lengthy and result in significant expenses for repair and related costs. While we have in place disaster recovery plans, there can be no assurance that such plans will be sufficient to allow our operations to continue in the event of every natural or man-made disaster, pandemic, required repair or other extraordinary event. Any extended inability to continue our operations at unaffected facilities following such an event would reduce our revenue and potentially damage our reputation as a reliable supplier.

***Our substantial indebtedness could adversely affect our business and limit our ability to plan for or respond to changes in our business, and we may be unable to generate sufficient cash flow to satisfy our significant debt service obligations.***

As of June 30, 2014, we had total indebtedness of approximately \$604.3 million, which represented approximately 47% of our total capitalization. We may incur substantial additional indebtedness in the future, including additional borrowings under our revolving credit facility.



---

## **Table of Contents**

Our substantial indebtedness and the fact that a substantial portion of our cash flow from operations must be used to make principal and interest payments on this indebtedness could have important consequences, including the following:

increasing our vulnerability to general adverse economic and industry conditions;  
reducing the availability of our cash flow for working capital, capital investments and other business activities and purposes;  
limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate, which would place us at a competitive disadvantage compared to our competitors that may have less debt;  
limiting, by the financial and other restrictive covenants in our debt agreements, our ability to borrow additional funds; and  
having a material adverse effect on our business if we fail to comply with the covenants in our debt agreements, because such failure could result in an event of default that, if not cured or waived, could result in all or a substantial amount of our indebtedness becoming immediately due and payable.

Our ability to incur significant future indebtedness, whether to finance capital expenditures, potential acquisitions or for general corporate purposes, will depend on our ability to generate cash. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory, and other factors that are beyond our control. If our business does not generate sufficient cash flow from operations or if future borrowings are not available to us under our secured credit facilities in amounts sufficient to enable us to fund our liquidity needs, our financial condition and results of operations may be adversely affected. If we cannot make scheduled principal and interest payments on our debt obligations in the future, we may need to refinance all or a portion of our indebtedness on or before maturity, sell assets, delay capital expenditures, or seek additional equity. If we are unable to refinance our indebtedness on commercially reasonable terms or at all, or to effect any other of these actions, our business may be harmed.

### ***Our results may be negatively affected by changing interest rates.***

We are subject to market risk from exposure to changes in interest rates based on our financing activities. As of June 30, 2014, \$321.9 million, or 53%, of our outstanding indebtedness bore interest at a floating rate of LIBOR plus an applicable interest margin. From time to time, we may also maintain lines of credit at banks in mainland China used for working capital and capital investment for our mainland China facilities that can have interest rates tied to either LIBOR or People's Bank of China rates with a margin adjustment. Should LIBOR increase substantially in the future for any reason, our interest payments on our variable interest rate debt would also increase, lowering our net income. For additional information, see Item 3 Quantitative and Qualitative Disclosures About Market Risk.

### ***If we are unable to respond to rapid technological change and process development, we may not be able to compete effectively.***

The market for our manufacturing services is characterized by rapidly changing technology and continual implementation of new production processes. The future success of our business will depend in large part upon our ability to maintain and enhance our technological capabilities, to manufacture products that meet changing customer needs, and to successfully anticipate or respond to technological changes on a cost-effective and timely basis. We expect that the investment necessary to maintain our technological position will increase as customers make demands for products and services requiring more advanced technology on a quicker turnaround basis. For example, in 2014 we have made and expect to make significant capital expenditures to expand our HDI and other advanced manufacturing capabilities. We may not be able to raise additional funds in order to respond to technological changes as quickly as our competitors.

In addition, the PCB industry could encounter competition from new or revised manufacturing and production technologies that render existing manufacturing and production technology less competitive or obsolete. We may not respond effectively to the technological requirements of the changing market. If we need new technologies and equipment to remain competitive, the development, acquisition, and implementation of those technologies and equipment may require us to make significant capital investments.

### ***We are subject to the requirements of the National Industrial Security Program Operating Manual for our facility security clearance, which is a prerequisite to our ability to perform on classified contracts for the U.S. government.***

A facility security clearance is required in order to be awarded and perform on classified contracts for the DoD and certain other agencies of the U.S. government. As a cleared entity, we must comply with the requirements of the National Industrial Security Program Operating Manual, or NISPOM, and any other applicable U.S. government industrial security regulations. Further, due to the fact that a significant portion of our voting equity is owned by a non-U.S. entity, we are required to be governed by and operate in accordance with the terms and requirements of the Special Security Agreement, or the SSA. The terms of the SSA have been previously disclosed in our SEC filings.



---

**Table of Contents**

If we were to violate the terms and requirements of the SSA, the NISPOM, or any other applicable U.S. government industrial security regulations (which may apply to us under the terms of classified contracts), we could lose our security clearance. We cannot be certain that we will be able to maintain our security clearance. If for some reason our security clearance is invalidated or terminated, we may not be able to continue to perform on classified contracts and would not be able to enter into new classified contracts, which could adversely affect our revenues.

***The prominence of EMS companies as our customers could reduce our gross margins, potential sales, and customers.***

Sales to EMS companies represented approximately 44% and 38% of our net sales for the quarters ended June 30, 2014 and July 1, 2013, respectively. Sales to EMS providers include sales directed by OEMs as well as orders placed with us at the EMS providers' discretion. EMS providers source on a global basis to a greater extent than OEMs. The growth of EMS providers increases the purchasing power of such providers and could result in increased price competition or the loss of existing OEM customers. In addition, some EMS providers, including some of our customers, have the ability to directly manufacture PCBs and create backplane assemblies. If a significant number of our other EMS customers were to acquire these abilities, our customer base might shrink, and our sales might decline substantially. Moreover, if any of our OEM customers outsource the production of PCBs and creation of backplane assemblies to these EMS providers, our business, results of operations, and financial condition may be harmed.

***The former owners of our Asia Pacific operating segment own a substantial percentage of our common stock.***

We issued a large amount of stock to the principal owners of Meadville in connection with our acquisition of our Asia Pacific operating segment. As of June 30, 2014, approximately 33% of our common stock was beneficially owned by Su Sih (BVI) Limited, a company organized under the laws of the British Virgin Islands (referred to as Su Sih). Su Sih is a holding company wholly owned by Mr. Tang Hsiang Chien, a citizen of Hong Kong Special Administrative Region of the People's Republic of China and the father of our director Mr. Tang Chung Yen, Tom. Su Sih and certain affiliates of Mr. Tang Hsiang Chien, if any, who are Principal Shareholders (as defined in the Shareholders Agreement dated April 9, 2010 as amended on September 14, 2012), are entitled to jointly nominate one individual to our board of directors and a majority of the members of the board of directors of the Asia Pacific operating segment. If our Principal Shareholders or any significant shareholder were to sell a large number of shares of our common stock, the market price of our common stock could significantly decline. In addition, our relationship with our principal lenders might be negatively impacted.

***If we are unable to manage our growth effectively, our business could be negatively affected.***

We have experienced, and expect to continue to experience, growth in the scope and complexity of our operations. This growth may strain our managerial, financial, manufacturing, and other resources. In order to manage our growth, we may be required to continue to implement additional operating and financial controls and hire and train additional personnel. There can be no assurance that we will be able to do so in the future, and failure to do so could jeopardize our expansion plans and seriously harm our operations. In addition, growth in our capacity could result in reduced capacity utilization and a corresponding decrease in gross margins.

***Our international sales are subject to laws relating to trade, export controls and foreign corrupt practices, the violation of which could adversely affect our operations.***

We are required to comply with all applicable domestic and foreign export control laws, including the International Traffic in Arms Regulations, or ITAR, and the Export Administration Regulations, or EAR. Some items manufactured by us are controlled for export by the United States Department of Commerce's Bureau of Industry and Security under the EAR. In addition, we are subject to the Foreign Corrupt Practices Act and international counterparts that bar bribes or unreasonable gifts for foreign governments and officials. Violation of any of these laws or regulations could result in significant sanctions, including large monetary penalties and suspension or debarment from participation in future government contracts, which could reduce our future revenue and net income.

***Our failure to comply with the requirements of environmental laws could result in litigation, fines, revocation of permits necessary to our manufacturing processes, or debarment from our participation in federal government contracts.***

Our operations are regulated under a number of federal, state, local, and foreign environmental and safety laws and regulations that govern, among other things, the discharge of hazardous materials into the air and water, as well as the handling, storage, and disposal of such materials. These laws and regulations include the Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act, the Superfund Amendment and Reauthorization Act, the Comprehensive Environmental Response, Compensation and Liability Act, the Toxic Substances Control Act, and the Federal Motor Carrier Safety Improvement Act, as well as analogous state, local, and foreign laws. Compliance with these environmental laws is a major consideration for us because our manufacturing processes use and generate materials classified as hazardous.



## Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

Because we use hazardous materials and generate hazardous wastes in our manufacturing processes, we may be subject to potential financial liability for costs associated with the investigation and remediation of our own sites, or sites at which we have arranged for the disposal of hazardous wastes, if such sites become contaminated. Even if we fully comply with applicable environmental laws and are not directly at fault for the contamination, we may

---

**Table of Contents**

still be liable. The wastes we generate include spent ammoniacal and cupric etching solutions, metal stripping solutions, waste acid solutions, waste alkaline cleaners, waste oil, and waste waters that contain heavy metals such as copper, tin, lead, nickel, gold, silver, cyanide, and fluoride, and both filter cake and spent ion exchange resins from equipment used for on-site waste treatment.

Any material violations of environmental laws or failure to maintain required environmental permits could subject us to fines, penalties, and other sanctions, including the revocation of our effluent discharge permits, which could require us to cease or limit production at one or more of our facilities, and harm our business, results of operations, and financial condition. Even if we ultimately prevail, environmental lawsuits against us would be time consuming and costly to defend.

Environmental laws also could become more stringent over time, imposing greater compliance costs and increasing risks and penalties associated with violation. We operate in environmentally sensitive locations, and we are subject to potentially conflicting and changing regulatory agendas of political, business, and environmental groups. Changes or restrictions on discharge limits, emissions levels, material storage, handling, or disposal might require a high level of unplanned capital investment or global relocation. It is possible that environmental compliance costs and penalties from new or existing regulations may harm our business, results of operations, and financial condition.

We are increasingly required to certify compliance with various material content restrictions in our products based on laws of various jurisdictions or territories such as the Restriction of Hazardous Substances (RoHS) and Registration, Evaluation, Authorization and Restriction of Chemicals (REACH) directives in the European Union and China's RoHS legislation. New York City has adopted identical RoHS restrictions, and many U.S. states are considering similar rules and legislation. In addition, we must also certify as to the non-applicability to the EU's Waste Electrical and Electronic Equipment directive for certain products that we manufacture. The REACH directive requires adoption of Substances of Very High Concern (SVHCs) periodically. We must survey our supply chain and certify to the non-presence or presence of SVHCs to our customers. As with other types of product certifications that we routinely provide, we may incur liability and pay damages if our products do not conform to our certifications.

We are also subject to a variety of environmental laws and regulations in the People's Republic of China, or PRC, which impose limitations on the discharge of pollutants into the air and water and establish standards for the treatment, storage, and disposal of solid and hazardous wastes. The manufacturing of our products generates gaseous chemical wastes, liquid wastes, waste water and other industrial wastes from various stages of the manufacturing process. Production sites in China are subject to regulation and periodic monitoring by the relevant environmental protection authorities. Environmental claims or the failure to comply with current or future regulations could result in the assessment of damages or imposition of fines against us, suspension of production, or cessation of operations.

The process to manufacture PCBs requires adherence to city, county, state, federal and foreign environmental regulations regarding the storage, use, handling and disposal of chemicals, solid wastes and other hazardous materials as well as compliance with air quality standards. We believe that our facilities in the United States comply in all material respects with applicable environmental laws and regulations. In China, governmental authorities are taking various steps to tighten the rules and regulations governing environmental issues. An update to Chinese environmental law was issued in late 2012, but allows for an interim period in which foreign entities may adjust to the new regulatory regime and come into full compliance with the new laws. Our plants in China are not yet in full compliance with the current environmental regulations as updated in late 2012. We do not anticipate any immediate risk of government fines or temporary closure of Chinese plants. We have established and enacted an investment plan to address the regulatory changes in order to come into full compliance during the interim period. There can be no assurance that violations will not occur in the future.

***Employee theft or fraud could result in loss.***

Certain of our employees have access to, or signature authority with respect to, bank accounts or other company assets, which could expose us to fraud or theft. In addition, certain employees have access to key IT infrastructure and to customer and other information that is commercially valuable. Should any employee, for any reason, compromise our IT systems, or misappropriate customer or other information, we could incur losses, including losses relating to claims by our customers against us, the willingness of customers to do business with us may be damaged and, in the case of our defense business, we could be debarred from future participation in government programs. Any such losses may not be fully covered by insurance.

---

## **Table of Contents**

***Because we sell on a purchase order basis, we are subject to uncertainties and variability in demand by our customers that could decrease revenues and harm our operating results.***

Although we have long-term contracts with many customers, those contracts generally do not contain volume commitments. We generally sell to customers on a purchase order basis. Our quick-turn orders are subject to particularly short lead times. Consequently, our sales are subject to short-term variability in demand by our customers. Customers submitting purchase orders may cancel, reduce, or delay their orders for a variety of reasons. The level and timing of orders placed by our customers may vary due to:

- customer attempts to manage inventory;
- changes in customers' manufacturing strategies, such as a decision by a customer to either diversify or consolidate the number of PCB manufacturers or backplane assembly service providers used or to manufacture or assemble its own products internally;
- variation in demand for our customers' products; and
- changes in new product introductions.

We have periodically experienced terminations, reductions, and delays in our customers' orders. Further terminations, reductions, or delays in our customers' orders could harm our business, results of operations, and financial condition.

***Increasingly, our larger customers are requesting that we enter into supply agreements with them that have restrictive terms and conditions. These agreements typically include provisions that increase our financial exposure, which could result in significant costs to us.***

Increasingly, our larger customers are requesting that we enter into supply agreements with them. These agreements typically do not include volume commitments, but do include provisions that generally serve to increase our exposure for product liability and limited sales returns, which could result in higher costs to us as a result of such claims. In addition, these agreements typically contain provisions that seek to limit our operational and pricing flexibility and extend payment terms, which can adversely impact our cash flow and results of operations.

***Our business has benefited from OEMs deciding to outsource their PCB manufacturing and backplane assembly needs to us. If OEMs choose to provide these services in-house or select other providers, our business could suffer.***

Our future revenue growth partially depends on new outsourcing opportunities from OEMs. Current and prospective customers continuously evaluate our performance against other providers. They also evaluate the potential benefits of manufacturing their products themselves. To the extent that outsourcing opportunities are not available either due to OEM decisions to produce these products themselves or to use other providers, our financial results and future growth could be adversely affected.

***Consolidation among our customers could adversely affect our business.***

Recently, some of our large customers have consolidated, and further consolidation of customers may occur. Depending on which organization becomes the controller of the supply chain function following the consolidation, we may not be retained as a preferred or approved supplier. In addition, product duplication could result in the termination of a product line that we currently support. While there is potential for increasing our position with the combined customer, there does exist the potential for decreased revenue if we are not retained as a continuing supplier. We also face the risk of increased pricing pressure from the combined customer because of its increased market share.

***We are exposed to the credit risk of some of our customers and to credit exposures in weakened markets.***

Most of our sales are on an open credit basis, with standard industry payment terms. We monitor individual customer payment capability in granting such open credit arrangements, seek to limit such open credit to amounts we believe the customers can pay, and maintain reserves we believe are adequate to cover exposure for doubtful accounts. During periods of economic downturn in the electronics industry and the global economy, our exposure to credit risks from our customers increases. Although we have programs in place to monitor and mitigate the associated risks, such programs may not be effective in reducing our credit risks.

Our 10 largest OEM customers accounted for approximately 52% of our net sales for both quarters ended June 30, 2014 and July 1, 2013. Additionally, our OEM customers often direct a significant portion of their purchases through a relatively limited number of EMS companies. Sales to EMS companies represented approximately 44% and 38% of our net sales for the quarters ended June 30, 2014 and July 1, 2013, respectively. Our contractual relationship is often with the EMS companies, who are obligated to pay us for our products. Because we expect our OEM customers to continue to direct our sales to EMS companies, we expect to continue to be subject to this credit risk with a limited number of EMS customers. If one or more of our significant customers were to become insolvent or were otherwise unable to pay us, our results of

operations would be harmed.

**Table of Contents**

*We rely on suppliers for the timely delivery of raw materials and components used in manufacturing our PCBs and backplane assemblies. If a raw material supplier fails to satisfy our product quality standards, it could harm our customer relationships.*

Although we have preferred suppliers for most of our raw materials, the materials we use are generally readily available in the open market, and numerous other potential suppliers exist. The components for backplane assemblies in some cases have limited or sole sources of supply. Consolidations and restructuring in our supplier base may result in adverse materials pricing due to reduction in competition among our suppliers. Furthermore, if a raw material or component supplier fails to satisfy our product quality standards, including standards relating to conflict metals (discussed above in a separate risk factor), it could harm our customer relationships. Suppliers may from time to time extend lead times, limit supplies, or increase prices, due to capacity constraints or other factors, which could harm our ability to deliver our products on a timely basis.

*We may need additional capital in the future to fund investments in our operations, refinance our indebtedness and to maintain and grow our business, and such capital may not be available on acceptable terms, or at all.*

Our business is capital-intensive, and our ability to increase revenue, profit, and cash flow depends upon continued capital spending. If we are unable to fund our capital requirements as currently planned, however, it would have a material adverse effect on our business, financial condition, and results of operations. If we do not achieve our expected operating results, we would need to reallocate our sources and uses of operating cash flows. This may include borrowing additional funds to service debt payments, which may impair our ability to make investments in our business. Looking ahead at long-term needs, we may need to raise additional funds for a number of purposes, including:

- to fund capital equipment purchases to increase production capacity, expand our technological capabilities and replace aging equipment;
- to refinance our existing indebtedness;
- to fund our operations beyond 2014;
- to fund working capital requirements for future growth that we may experience;
- to enhance or expand the range of services we offer;
- to increase our sales and marketing activities; or
- to respond to competitive pressures or perceived opportunities, such as investment, acquisition and international expansion activities.

Should we need to raise funds through incurring additional debt, we may become subject to covenants even more restrictive than those contained in our current debt instruments. Furthermore, if we issue additional equity, our equity holders would suffer dilution. There can be no assurance that additional capital would be available on a timely basis, on favorable terms, or at all. If such funds are not available when required or on acceptable terms, our business and financial results could suffer.

*Our Asia Pacific operations could be adversely affected by a shortage of utilities or a discontinuation of priority supply status offered for such utilities.*

The manufacturing of PCBs requires significant quantities of electricity and water. Our Asia Pacific operations have historically purchased substantially all of the electrical power for their manufacturing plants in China from local power plants. Because China's economy has recently been in a state of growth, the strain on the nation's power plants is increasing, which has led to continuing power outages in various parts of the country. There may be times when our operations in China may be unable to obtain adequate sources of electricity to meet production requirements. Additionally, we would not likely maintain any back-up power generation facilities for our operations, so if we were to lose power at any of our facilities, we would be required to cease operations until power was restored. Any stoppage of power could adversely affect our ability to meet our customers' orders in a timely manner, thus potentially resulting in a loss of business and increased costs of manufacturing. In addition, the sudden cessation of power supply could damage our equipment, resulting in the need for costly repairs or maintenance as well as damage to products in production, resulting in an increase in scrapped products. Similarly, the sudden cessation of the water supply to Chinese facilities could adversely affect our ability to fulfill orders in a timely manner, potentially resulting in a loss of business and under-utilization of capacity. Various regions in China have in the past experienced shortages of both electricity and water and unexpected interruptions of power supply. From time to time, the Chinese government rations electrical power, which can lead to unscheduled production interruptions in our manufacturing facilities. There can be no assurance that our required utilities would not in the future experience material interruptions, which could have a material adverse effect on our results of operations and financial condition.

---

## **Table of Contents**

### ***Our acquisition strategy involves numerous risks.***

As part of our business strategy, we expect that we will continue to grow by pursuing acquisitions of businesses, technologies, assets, or product lines that complement or expand our business. Risks related to an acquisition may include:

- the potential inability to successfully integrate acquired operations and businesses or to realize anticipated synergies, economies of scale, or other expected value;
- diversion of management's attention from normal daily operations of our existing business to focus on integration of the newly acquired business;
- unforeseen expenses associated with the integration of the newly acquired business;
- difficulties in managing production and coordinating operations at new sites;
- the potential loss of key employees of acquired operations;
- the potential inability to retain existing customers of acquired companies when we desire to do so;
- insufficient revenues to offset increased expenses associated with acquisitions;
- the potential decrease in overall gross margins associated with acquiring a business with a different product mix;
- the inability to identify certain unrecorded liabilities;
- the potential need to restructure, modify, or terminate customer relationships of the acquired company;
- an increased concentration of business from existing or new customers; and
- the potential inability to identify assets best suited to our business plan.

Acquisitions may cause us to:

- enter lines of business and/or markets in which we have limited or no prior experience;
- issue debt and be required to abide by stringent loan covenants;
- assume liabilities; record goodwill and indefinite-lived intangible assets that will be subject to impairment testing and potential periodic impairment charges;
- become subject to litigation and environmental issues, which include product material content certifications;
- incur unanticipated costs;
- incur large and immediate write-offs;
- issue common stock that would dilute our current stockholders' percentage ownership; and
- incur substantial transaction-related costs, whether or not a proposed acquisition is consummated.

Acquisitions of high technology companies are inherently risky, and no assurance can be given that our recent or future acquisitions will be successful and will not harm our business, operating results, or financial condition. Failure to manage and successfully integrate acquisitions we make could harm our business and operating results in a material way. Even when an acquired company has already developed and marketed products, product enhancements may not be made in a timely fashion. In addition, unforeseen issues might arise with respect to such products after the acquisition.

### ***Outages, computer viruses, break-ins and similar events could disrupt our operations, and breaches of our security systems may cause us to incur significant legal and financial exposure.***

We rely on information technology networks and systems, some of which are owned and operated by third parties, to process, transmit and store electronic information. In particular, we depend on our information technology infrastructure for a variety of functions, including worldwide financial reporting, inventory management, procurement, invoicing and email communications. Any of these systems may be susceptible to outages due to fire, floods, power loss, telecommunications failures, terrorist attacks and similar events. Despite the implementation of network security measures, our systems and those of third parties on which we rely may also be vulnerable to computer viruses, break-ins and similar disruptions. If we or our vendors are unable to prevent such outages and breaches, our operations could be disrupted. If unauthorized parties gain access to our information systems or such information is used in an unauthorized manner, misdirected, lost or stolen during transmission, any theft or misuse of such information could result in, among other things, unfavorable publicity, governmental inquiry and oversight, difficulty in marketing our services, allegations by our customers that we have not performed our contractual obligations, litigation by affected parties and possible financial obligations for damages related to the theft or misuse of such information, any of which could have a material adverse effect on our results of operations and financial condition.



---

## **Table of Contents**

***Our business may suffer if any of our key senior executives discontinues employment with us or if we are unable to recruit and retain highly skilled engineering and sales staff.***

Our future success depends to a large extent on the services of our key managerial employees. We may not be able to retain our executive officers and key personnel or attract additional qualified management in the future. We can make no assurances that future changes in executive management will not have a material adverse effect on our business, financial condition or results of operations. Our business also depends on our continuing ability to recruit, train, and retain highly qualified employees, particularly engineering and sales and marketing personnel. The competition for these employees is intense, and the loss of these employees could harm our business. Further, our ability to successfully integrate acquired companies depends in part on our ability to retain key management and existing employees at the time of the acquisition.

***Our manufacturing processes depend on the collective industry experience of our employees. If a significant number of these employees were to leave us, it could limit our ability to compete effectively and could harm our financial results.***

We have limited patent or trade secret protection for our manufacturing processes. We rely on the collective experience of our employees involved in our manufacturing processes to ensure we continuously evaluate and adopt new technologies in our industry. Although we are not dependent on any one employee or a small number of employees, if a significant number of our employees involved in our manufacturing processes were to leave our employment, and we were not able to replace these people with new employees with comparable experience, our manufacturing processes might suffer as we might be unable to keep up with innovations in the industry. As a result, we may lose our ability to continue to compete effectively.

***We may be exposed to intellectual property infringement claims by third parties that could be costly to defend, could divert management's attention and resources, and if successful, could result in liability.***

We rely on a combination of copyright, patent, trademark and trade secret laws, confidentiality procedures, contractual provisions, and other measures to protect our proprietary information. All of these measures afford only limited protection. These measures may be invalidated, circumvented, or challenged, and others may develop technologies or processes that are similar or superior to our technology. We may not have the controls and procedures in place that are needed to adequately protect proprietary information. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy our products or obtain or use information that we regard as proprietary, which could adversely impact our revenues and financial condition.

Furthermore, there is a risk that we may infringe on the intellectual property rights of others. As is the case with many other companies in the PCB industry, we from time to time receive communications from third parties asserting patent rights to our products and enter into discussions with such third parties. Irrespective of the validity or the successful assertion of such claims, we could incur costs in either defending or settling any intellectual property disputes alleging infringement. If any claims are brought against the customers for such infringement, whether or not these have merit, we could be required to expend significant resources in defending such claims. In the event we are subject to any infringement claims, we may be required to spend a significant amount of money to develop non-infringing alternatives or obtain licenses. We may not be successful in developing such alternatives or in obtaining such licenses on reasonable terms or at all, which could disrupt the production processes, damage our reputation, and affect our revenues and financial condition.

***Our business and operations could be adversely impacted by climate change initiatives.***

Our manufacturing processes require that we purchase significant quantities of energy from third parties, which results in the generation of greenhouse gases, either directly on-site or indirectly at electric utilities. Both domestic and international legislation to address climate change by reducing greenhouse gas emissions could create increases in energy costs and price volatility. Considerable international attention is now focused on development of an international policy framework to guide international action to address climate change. Proposed and existing legislative efforts to control or limit greenhouse gas emissions could affect our energy sources and supply choices as well as increase the cost of energy and raw materials derived from sources that generate greenhouse gas emissions.

***The economies of the countries in which we operate may be adversely affected by a recurrence of severe acute respiratory syndrome, or an outbreak of other epidemics such as H1N1 or avian flu.***

Past occurrences of epidemics or pandemics, depending on their scale of occurrence, have caused different degrees of damage to the national and local economies in the affected countries. A recurrence of SARS or an outbreak of any other epidemics or pandemics, such as the H1N1 influenza or avian flu, especially in the areas where we have operations, or where we may have operations in the future, may result in quarantines, temporary closures of offices and manufacturing facilities, travel restrictions, or the temporary or permanent loss of key personnel. The perception that an outbreak of contagious disease may occur again may also have an adverse effect on the economic conditions of affected



countries. Any of the above may cause material disruptions to our operations, which in turn may adversely affect our financial condition and results of operations.

**Table of Contents**

**Item 6. Exhibits**

<b>Exhibit</b>		
<b>Number</b>		<b>Exhibits</b>
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.
101.INS	XBRL Instance Document	
101.SCH	XBRL Taxonomy Extension Schema Document	
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Documents	
101.DEF	XBRL Taxonomy Extension Definition Linkbase Documents	
101.LAB	XBRL Taxonomy Extension Label Linkbase Documents	
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Documents	

**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.

Dated: August 5, 2014

/s/ Thomas T. Edman  
**Thomas T. Edman**  
**President and Chief Executive Officer**

Dated: August 5, 2014

/s/ Todd B. Schull  
**Todd B. Schull**  
**Executive Vice President, Chief Financial Officer, Treasurer and Secretary**

**Table of Contents**

**EXHIBIT INDEX**

<b>Exhibit</b>	
<b>Number</b>	<b>Exhibits</b>
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.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Documents
101.DEF	XBRL Taxonomy Extension Definition Linkbase Documents
101.LAB	XBRL Taxonomy Extension Label Linkbase Documents
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Documents