

TTM TECHNOLOGIES INC
Form 10-Q
November 03, 2016
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-Q

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

For the quarterly period ended September 26, 2016

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. Check one:

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

Number of shares of common stock, \$0.001 par value, of registrant outstanding at November 1, 2016: 100,393,160

Table of Contents

TABLE OF CONTENTS

	Page
<u>PART I: FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements (unaudited)</u>	
<u>Consolidated Condensed Balance Sheets as of September 26, 2016 and December 28, 2015</u>	3
<u>Consolidated Condensed Statements of Operations for the quarter and three quarters ended September 26, 2016 and September 28, 2015</u>	4
<u>Consolidated Condensed Statements of Comprehensive Income (Loss) for the quarter and three quarters ended September 26, 2016 and September 28, 2015</u>	5
<u>Consolidated Condensed Statements of Cash Flows for the three quarters ended September 26, 2016 and September 28, 2015</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>	22
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	29
<u>Item 4. Controls and Procedures</u>	30
<u>PART II: OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	31
<u>Item 1A. Risk Factors</u>	31
<u>Item 6. Exhibits</u>	47
<u>SIGNATURES</u>	47

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

	September 26, 2016	As of December 28, 2015 (Unaudited)
	(In thousands, except par value)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 291,783	\$ 259,100
Restricted cash		3,530
Accounts receivable, net	449,924	456,000
Inventories	281,169	268,923
Prepaid expenses and other current assets	33,112	34,967
Total current assets	1,055,988	1,022,520
Property, plant and equipment, net	1,026,213	1,103,067
Goodwill	372,607	346,990
Definite-lived intangibles, net	133,019	150,874
Deposits and other non-current assets	19,399	16,682
	\$ 2,607,226	\$ 2,640,133
LIABILITIES AND EQUITY		
Current liabilities:		
Short-term debt, including current portion of long-term debt	\$ 146,473	\$ 157,375
Accounts payable	387,613	377,222
Accrued salaries, wages and benefits	89,021	108,649
Other accrued expenses	123,760	101,748
Total current liabilities	746,867	744,994
Long-term debt, net of discount and issuance costs	935,377	1,013,411
Other long-term liabilities	71,867	55,059
Total long-term liabilities	1,007,244	1,068,470
Commitments and contingencies (Note 12)		
Equity:		
Common stock, \$0.001 par value; 200,000 shares authorized, 100,251 and 99,137 shares issued and outstanding in 2016 and 2015, respectively	100	99
Additional paid-in capital	753,618	745,608
Retained earnings	82,232	45,963
Statutory surplus reserve	26,409	25,812
Accumulated other comprehensive (loss) income	(17,327)	1,623
Total TTM Technologies, Inc. stockholders' equity	845,032	819,105
Noncontrolling interest	8,083	7,564

Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

Total equity	853,115	826,669
	\$ 2,607,226	\$ 2,640,133

See accompanying notes to consolidated condensed financial statements.

Table of Contents**TTM TECHNOLOGIES, INC.****Consolidated Condensed Statements of Operations****For the Quarter and Three quarters Ended September 26, 2016 and September 28, 2015**

	Quarter Ended		Three quarters Ended	
	September 26, 2016	September 28, 2015	September 26, 2016	September 28, 2015
	(Unaudited)			
	(In thousands, except per share data)			
Net sales	\$ 641,720	\$ 652,005	\$ 1,826,825	\$ 1,426,614
Cost of goods sold	532,158	562,887	1,536,055	1,224,747
Gross profit	109,562	89,118	290,770	201,867
Operating expenses:				
Selling and marketing	15,643	17,642	49,518	39,398
General and administrative	35,641	39,523	108,249	126,031
Amortization of definite-lived intangibles	5,949	6,421	17,845	12,205
Impairment of long-lived assets			3,346	
Restructuring charges	2,103	1,936	8,005	1,936
Gain on sale of asset				(2,504)
Total operating expenses	59,336	65,522	186,963	177,066
Operating income	50,226	23,596	103,807	24,801
Other income (expense):				
Interest expense	(18,873)	(21,002)	(60,741)	(39,545)
Loss on extinguishment of debt				(802)
Other, net	3,930	3,998	8,330	4,264
Total other expense, net	(14,943)	(17,004)	(52,411)	(36,083)
Income (loss) before income taxes	35,283	6,592	51,396	(11,282)
Income tax provision	(9,513)	(8,730)	(14,011)	(23,993)
Net income (loss)	25,770	(2,138)	37,385	(35,275)
Less: Net income attributable to the noncontrolling interest	(188)	(99)	(519)	(128)
Net income (loss) attributable to TTM Technologies, Inc. stockholders	\$ 25,582	\$ (2,237)	\$ 36,866	\$ (35,403)
Income (loss) per share attributable to TTM Technologies, Inc. stockholders:				
Basic income (loss) per share	\$ 0.26	\$ (0.02)	\$ 0.37	\$ (0.39)
Diluted income (loss) per share	\$ 0.23	\$ (0.02)	\$ 0.36	\$ (0.39)

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 Three quarters Ended September 26, 2016 and September 28, 2015**

	Quarter Ended		Three quarters Ended	
	September 26, 2016	September 28, 2015	September 26, 2016	September 28, 2015
	(Unaudited)			
	(In thousands)			
Net income (loss)	\$ 25,770	\$ (2,138)	\$ 37,385	\$ (35,275)
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments:				
Unrealized loss during the period, net	(5,350)	(18,195)	(19,061)	(16,017)
Gain realized in the statement of operations				(1,786)
Net	(5,350)	(18,195)	(19,061)	(17,803)
Net unrealized gains (losses) on cash flow hedges:				
Unrealized gain (loss) on effective cash flow hedges during the period, net	4	33	(17)	(20)
Loss realized in the statement of operations	47	44	128	129
Net	51	77	111	109
Other comprehensive loss, net of tax	(5,299)	(18,118)	(18,950)	(17,694)
Comprehensive income (loss)	20,471	(20,256)	18,435	(52,969)
Less: comprehensive income attributable to the noncontrolling interest	(188)	(99)	(519)	(128)
Comprehensive income (loss) attributable to TTM Technologies, Inc. stockholders	\$ 20,283	\$ (20,355)	\$ 17,916	\$ (53,097)

See accompanying notes to consolidated condensed financial statements.

Table of Contents**TTM TECHNOLOGIES, INC.****Consolidated Condensed Statements of Cash Flows****For the Three quarters Ended September 26, 2016 and September 28, 2015**

	Three quarters Ended	
	September 26, 2016	September 28, 2015
	(Unaudited)	
	(In thousands)	
Cash flows from operating activities:		
Net income (loss)	\$ 37,385	\$ (35,275)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation of property, plant and equipment	117,690	94,403
Amortization of definite-lived intangible assets	17,845	12,205
Amortization of debt discount and debt issuance costs	16,400	10,636
Deferred income taxes	(2,696)	10,993
Stock-based compensation	7,890	7,026
Loss on extinguishment of debt		802
Impairment of long-lived assets	3,346	
Gain on sale of asset		(2,504)
Other	(980)	(4,509)
Payment of accreted interest on convertible senior notes		(8,731)
Changes in operating assets and liabilities, net of acquisition:		
Accounts and notes receivable, net	6,076	33,369
Inventories	(12,246)	(14,766)
Prepaid expenses and other current assets	3,132	11,802
Accounts payable	12,883	(30,362)
Accrued salaries, wages and benefits and other accrued expenses	(6,039)	12,543
Net cash provided by operating activities	200,686	97,632
Cash flows from investing activities:		
Purchase of property, plant and equipment deposits	(62,520)	(76,876)
Proceeds from sale of property, plant and equipment and asset held for sale	1,523	21,364
Release (designation) of restricted cash and cash equivalents	3,530	(1,957)
Acquisition, net of cash acquired		(169,162)
Net cash used in investing activities	(57,467)	(226,631)
Cash flows from financing activities:		
Repayment of long-term debt borrowing	(106,482)	(273,803)
Proceeds from new long-term borrowings		950,000
Proceeds from borrowing on revolving loan		80,000
Repayment of assumed long-term debt in acquisition		(669,024)
Repurchase of convertible senior notes		(23,664)
Payment of debt issuance costs		(34,104)
Payment of original issue discount		(33,250)
Proceeds from exercise of stock options	123	495
Net cash used in financing activities	(106,359)	(3,350)
Effect of foreign currency exchange rates on cash and cash equivalents	(4,177)	(2,042)

Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

Net increase (decrease) in cash and cash equivalents	32,683	(134,391)
Cash and cash equivalents at beginning of period	259,100	279,042
Cash and cash equivalents at end of period	\$ 291,783	\$ 144,651
Noncash transactions:		
Property, plant and equipment recorded in accounts payable and accrued expenses	\$ 21,058	\$ 23,405
Common stock issued in connection with Viasystems acquisition (Note 2)		149,006

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 printed circuit board (PCB) manufacturer, focusing on quick-turn and technologically advanced PCBs and electro-mechanical solutions (E-M Solutions). The Company provides time-to-market and advanced technology products and offers a one-stop manufacturing solution to customers from engineering support to prototype development through final volume production. This one-stop manufacturing solution allows the Company to align technology developments with the diverse needs of the Company's customers and to enable them to reduce the time required to develop new products and bring them to market.

The Company serves a diversified customer base in various markets throughout the world, including manufacturers of networking/communications infrastructure products, tablets and smartphones, as well as the aerospace and defense, automotive components, high-end computing, and medical, industrial and instrumentation related products. 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 (U.S. GAAP) 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. GAAP 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 52/53 week fiscal calendar with the fourth quarter ending on the Monday nearest December 31. Fiscal 2015 was a 52 week year. Fiscal 2016 will be a 53 week year with the additional week included in the fourth quarter.

Recently Adopted and Issued Accounting Standards

In March 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-09, *Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. The objective of this update is to simplify several aspects of the accounting for employee share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This ASU is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the new guidance to determine the impact it may have on its consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The objective of this update is to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. This ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those annual periods and is to be applied utilizing a modified retrospective approach. The Company is currently evaluating the new guidance to determine the impact it may have on its consolidated financial statements and related disclosures.

In April 2015, the FASB issued ASU 2015-03, *Imputation of Interest*, as amended, which requires an entity to record debt issuance costs related to debt reported in the balance sheet as a direct deduction from the face amount of that debt. The update is effective for annual periods ending after December 15, 2015. The standard requires the use of the retrospective transition method. The Company adopted the new standard in the first quarter of 2016. Accordingly, as of September 26, 2016, approximately \$26,314 of unamortized debt issuance costs were presented as a reduction of long-term debt on the Company's consolidated condensed balance sheets. Furthermore, the Company reclassified approximately \$31,171 of unamortized debt issuance costs that had been presented as other non-current assets as of December 28, 2015.

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

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, as amended, 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 at the beginning of fiscal year 2018, however application of the standard is allowed as early as the beginning of fiscal 2017. The standard permits the use of either the retrospective or cumulative effect transition method and management is currently evaluating which transition approach to use. The Company has assessed that the impact of the new guidance will result in a change to the timing of revenue recognition for a portion of the Company's revenue stream from point in time upon physical delivery to an over time model and believes this transition could have a material impact on the Company's consolidated financial statements upon adoption.

(2) Acquisition of Viasystems Group, Inc.

On May 31, 2015, the Company completed the acquisition of Viasystems Group, Inc. (Viasystems), for total consideration of \$248,824 in cash and 15,082 shares of TTM common stock with a fair value of \$149,006, and thereby acquired all of the outstanding shares of capital stock and other equity rights of Viasystems. Additionally, in connection with the completion of the acquisition, the Company assumed and refinanced Viasystems' debt, which was approximately \$669,024 as of May 31, 2015. Viasystems was a worldwide provider of complex multi-layer rigid, flexible, and rigid-flex PCBs and custom electronic assemblies.

Bank fees and legal, accounting, and other professional service costs associated with the acquisition of Viasystems of \$197 and \$2,065 for the quarters ended September 26, 2016 and September 28, 2015, respectively, and \$1,493 and \$32,927 for the three quarters ended September 26, 2016 and September 28, 2015, respectively, have been expensed and recorded as general and administrative expense in the consolidated condensed statements of operations.

The following summarizes the components of the purchase price:

	(In thousands)
Value of TTM common stock issued	\$ 149,006
Cash consideration	248,824
	397,830
Debt assumed	669,024
Enterprise value	\$ 1,066,854

The value of the shares of the Company's common stock used in determining the purchase price was \$9.88 per share, the closing price of the Company's common stock on May 29, 2015, the last business day prior to the effective date of the acquisition.

The purchase price of the Viasystems acquisition was allocated to tangible and intangible assets acquired, liabilities assumed and noncontrolling interest based on the fair value at the date of the acquisition (May 31, 2015). The excess of the purchase price over the fair value of net assets acquired and noncontrolling interest was allocated to goodwill. The fair value assigned to intangible assets acquired was based on estimates and assumptions made by management at the time of acquisition. The Company finalized the allocation of the purchase price during the second quarter of 2016.

The fair values assigned are based on reasonable methods applicable to the nature of the assets acquired, liabilities assumed and noncontrolling interest. The following summarizes the final estimated fair values of net assets acquired and noncontrolling interest:

Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

	(In thousands)
Cash	\$ 79,662
Restricted cash	3,510
Accounts and notes receivables (\$216,259 contractual gross receivables)	209,196
Inventories	132,216
Prepaid expenses and other current assets	30,633
Property, plant and equipment	427,457
Identifiable intangible assets	150,500
Goodwill	360,494
Deposits and other noncurrent assets	1,157
Current liabilities	(256,705)
Long-term debt	(669,024)
Other liabilities	(63,966)
Noncontrolling interest	(7,300)
Total	\$ 397,830

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

Goodwill represents the excess of the Viasystems purchase price over the fair value of tangibles and identifiable intangible assets acquired, liabilities assumed and noncontrolling interest. During the first two quarters of 2016, goodwill was adjusted to reflect:

an increase in current liabilities by \$3,442 due to a reassessment of product claims and other contingent liabilities, and
an increase in other noncurrent liabilities by \$22,182 primarily related to certain foreign tax liabilities.

The goodwill acquired in the acquisition is not deductible for income tax purposes.

Pro forma Financial Information

The unaudited pro forma financial information in the table below gives effect to this acquisition as if it had occurred at the beginning of fiscal 2015. The pro forma financial information presented includes the effects of adjustments related to the fair value step up of acquired inventory, amortization of acquired intangible assets and depreciation of acquired fixed assets, and other non-recurring transactions costs directly associated with the acquisitions such as legal, accounting and banking fees.

	Three quarters Ended September 28, 2015 (In thousands, except per share data)
Net sales	\$ 1,933,430
Net loss attributable to TTM Technologies, Inc. stockholders	\$ (25,033)
Basic loss per share	\$ (0.28)
Dilutive loss per share	\$ (0.28)

The pro forma financial information as presented above is for informational purposes only and is not necessarily indicative of the actual results that would have been achieved had the Viasystems acquisition occurred at the beginning of the period presented, or the results that may be achieved in future periods.

(3) Consolidation Plan, Restructuring and Impairment Charges

On September 29, 2015, the Company announced a consolidation plan that resulted in the closure of the Company's facilities in Cleveland, Ohio, Milpitas, California and Juarez, Mexico (the Consolidation Plan) and the laid off approximately 480 employees at these sites. The Consolidation Plan was part of the Company's integration strategy to improve total plant utilization, operational performance and customer focus following its acquisition of Viasystems. In accordance with the Consolidation Plan, the Company has combined its Cleveland and Milpitas facilities into its North Jackson, Ohio and Silicon Valley, California facilities, respectively, and closed its Juarez facility.

In connection with the Consolidation Plan and other global realignment restructuring efforts, the Company recognized employee separation costs and contract termination and other costs during the quarter and three quarters ended September 26, 2016. Contract termination and other costs primarily represented plant closure costs for Cleveland, Ohio, Milpitas, California and Juarez, Mexico, as well as costs related to building operating leases associated with the downsizing of the St. Louis, Missouri office.

The below table summarizes such restructuring costs by operating segment:

Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

	Quarter Ended September 26, 2016			Three quarters Ended September 26, 2016		
	Employee separation/severance	Contract termination and other costs	Total	Employee separation/severance	Contract termination and other costs	Total
	(In thousands)					
Operating Segment:						
PCB	\$ 157	\$ 778	\$ 935	\$ 1,425	\$ 1,878	\$ 3,303
E-M Solutions	222	1,072	1,294	956	3,016	3,972
Corporate	(121)	(5)	(126)	(112)	842	730
	\$ 258	\$ 1,845	\$ 2,103	\$ 2,269	\$ 5,736	\$ 8,005

During the quarter and three quarters ended September 28, 2015, the Company recognized restructuring charges of \$1,936 in its E-M Solutions segment. These charges primarily represent severance expense associated with the closure of the Juarez facility.

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

The below table shows the utilization of the accrued restructuring costs during the three quarters ended September 26, 2016:

	Employee separation/ severance	Contract termination and other costs (In thousands)	Total
Accrued at December 28, 2015	\$ 6,044	\$ 535	\$ 6,579
Charged to expense	2,390	5,790	8,180
Adjustments to estimate	(121)	(54)	(175)
Amount paid	(7,575)	(4,725)	(12,300)
Accrued at September 26, 2016	\$ 738	\$ 1,546	\$ 2,284

As of September 26, 2016, the remaining accrual for employee separation/severance, which relates to employees yet to be separated, was included as a component of accrued salaries, wages and benefits and the remaining unpaid estimated contract termination and other costs are included as a component of other accrued expenses in the consolidated condensed balance sheet. The Company expects the remaining employees to be separated and the remaining accrued restructuring costs to be substantially paid out by December 2016.

As of September 26, 2016, the Company has incurred approximately \$15,178 of restructuring charges since the September 29, 2015 announcement and estimates that it will incur total charges of approximately \$20,000 related to these closures and global realignment efforts.

The Company also recognized \$3,346 in impairment charges during the three quarters ended September 26, 2016. As a result of the above mentioned plant closures and other plant realignment efforts, \$1,393 of impairment charges were recognized in the consolidated condensed statement of operations related to machinery and equipment in the PCB operating segment for the three quarters ended September 26, 2016. Additionally, the Company expensed \$1,953 of capitalized software costs in the Corporate operating segment during the three quarters ended September 26, 2016.

(4) Inventories

Inventories as of September 26, 2016 and December 28, 2015 consisted of the following:

	September 26, 2016	As of December 28, 2015
	(In thousands)	
Inventories:		
Raw materials	\$ 69,739	\$ 70,577
Work-in-process	115,880	97,193
Finished goods	95,550	101,153
	\$ 281,169	\$ 268,923

(5) Goodwill

As of September 26, 2016 and December 28, 2015, goodwill was as follows:

Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

	Total
	(In thousands)
Balance as of December 28, 2015	\$ 346,990
Goodwill recognized during the first two quarters of 2016	25,624
Foreign currency translation adjustment	(7)
Balance as of September 26, 2016	\$ 372,607

All goodwill relates to the Company's PCB reportable operating segment.

Goodwill balances include foreign currency translation adjustments related to foreign subsidiaries with functional currencies other than the U.S. Dollar.

Table of Contents**TTM TECHNOLOGIES, INC.****Notes to Consolidated Condensed Financial Statements (Continued)****(6) Definite-lived Intangibles**

As of September 26, 2016 and December 28, 2015, the components of definite-lived intangibles were as follows:

	Gross Amount	Accumulated Amortization (In thousands)	Foreign Currency Translation Adjustment	Net Carrying Amount	Weighted Average Amortization Period (years)
September 26, 2016:					
Customer relationships	\$ 203,563	\$ (72,334)	\$ 117	\$ 131,346	8.1
Technology	3,000	(1,327)		1,673	3.0
	\$ 206,563	\$ (73,661)	\$ 117	\$ 133,019	
December 28, 2015:					
Customer relationships	\$ 91,492	\$ (80,152)	\$ 426	\$ 11,766	9.2
Trade name	10,302	(10,313)	11		6.0
Acquired intangibles from Viasystems acquisition					
Customer relationships	147,500	(10,815)		136,685	8.1
Technology	3,000	(577)		2,423	3.0
	\$ 252,294	\$ (101,857)	\$ 437	\$ 150,874	

The September 26, 2016 and December 28, 2015 definite-lived intangible balances include foreign currency translation adjustments related to foreign subsidiaries with functional currencies other than the U.S. Dollar.

Definite-lived intangibles are generally amortized using the straight line method of amortization over the useful life, with the exception of certain customer relationship intangibles, which are amortized using an accelerated method of amortization based on estimated cash flows. Amortization expense was \$5,949 and \$6,421 for the quarters ended September 26, 2016 and September 28, 2015, respectively, and \$17,845 and \$12,205 for the three quarters ended September 26, 2016 and September 28, 2015, respectively.

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

	(In thousands)
Remaining 2016	\$ 6,035
2017	23,647
2018	22,889
2019	18,746
2020	18,746
Thereafter	42,956
	\$ 133,019

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

The following table summarizes the long-term debt of the Company as of September 26, 2016 and December 28, 2015:

	Average Effective Interest Rate as of September 26, 2016	September 26, 2016	Average Effective Interest Rate as of December 28, 2015	December 28, 2015
(In thousands)				
Term loan due May 2021	6.00%	\$ 841,143	6.00%	\$ 947,625
U.S. ABL revolving loan due May 2020	2.27%	80,000	2.17%	80,000
Convertible senior notes due December 2020	1.75%	250,000	1.75%	250,000
Capital lease	6.43%	1,875		
		1,173,018		1,277,625
Less: Long-term debt unamortized discount		(64,854)		(75,668)
Long-term debt unamortized debt issuance costs		(26,314)		(31,171)
		1,081,850		1,170,786
Less: current maturities		(146,473)		(157,375)
Long-term debt, less current maturities		\$ 935,377		\$ 1,013,411

Term and Revolving Loans

On May 31, 2015, in conjunction with the acquisition of Viasystems, the Company entered into a \$950,000 Term Loan Credit Agreement (Term Loan). Additionally, the Company entered into a \$150,000 U.S. Asset-Based Lending Credit Agreement (U.S. ABL) and a \$150,000 Asia Asset-Based Lending Credit agreement (Asia ABL) (collectively the ABL Revolving Loans). The Company drew \$80,000 of the U.S. ABL at the closing of the acquisition of Viasystems.

The Term Loan was issued at a discount at 96.5% and bears interest at a floating rate of LIBOR, with a 1.0% LIBOR floor, plus an applicable interest margin of 5.0%, or JP Morgan Chase Bank's prime rate, with a 2% floor, plus a margin of 4%, at the Company's option. At September 26, 2016, the weighted average interest rate on the outstanding borrowings under the Term Loan was 6.0%. There is no provision, other than an event of default, for the interest margin to increase. The Term Loan will mature on May 31, 2021. The Term Loan is secured by a significant amount of the assets of the Company and its domestic subsidiaries and a pledge of 65% of voting stock of the Company's first tier foreign subsidiaries and is structurally senior to the Company's convertible senior notes. See Convertible Senior Notes below.

The U.S. ABL consists of three tranches comprised of a revolving credit facility of up to \$150,000, a letter of credit facility of up to \$75,000, and swingline loans of up to \$30,000, provided that at no time may amounts outstanding under the tranches exceed in aggregate \$150,000 or the applicable borrowing base, which is a percentage of the principal amount of Eligible Accounts, as defined in the U.S. ABL agreement. Borrowings under the U.S. ABL bear interest at either a floating rate of LIBOR plus a margin of 175 basis points or JP Morgan Chase Bank's prime rate plus a margin of 75 basis points, at the Company's option. At September 26, 2016, the weighted average interest rate on the outstanding borrowings under the U.S. ABL was 2.27%. The applicable margin can vary based on the remaining availability of the facility, from 150 to 200 basis points for LIBOR-based loans or from 50 to 100 basis points for JP Morgan Chase Bank's prime rate-based loans. Other than availability and an event of default, there are no other provisions for the interest margin to increase. The U.S. ABL will mature on May 31, 2020. Loans made under the U.S. ABL are secured first by all of the Company's domestic cash, receivables and inventories as well as by a second position against a significant amount of the assets of the Company and its domestic subsidiaries and a pledge of 65% of voting stock of the

Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

Company's first tier foreign subsidiaries and are structurally senior to the Company's convertible senior notes. See Convertible Senior Notes below. At September 26, 2016, \$80,000 of the U.S. ABL was outstanding and classified as short-term debt.

The Company and its domestic subsidiaries have fully and unconditionally guaranteed the full and timely payment of all Term Loan and U.S. ABL related obligations.

The Asia ABL consists of two tranches comprised of a revolving credit facility of up to \$150,000 and a letter of credit facility of up to \$100,000, provided that at no time may amounts outstanding under both tranches exceed in aggregate \$150,000 or the applicable borrowing base, which is a percentage of the principal amount of Eligible Accounts, as defined in the Asia ABL agreement. Borrowings under the Asia ABL bear interest at a floating rate of LIBOR plus 175 basis points. There is no provision, other than an event of default, for the interest margin to increase. The Asia ABL will mature on May 22, 2020. Loans made under the Asia ABL are secured by a portion of cash and receivables of certain of the Company's subsidiaries in Asia and are structurally senior to the Company's domestic obligations, including the convertible senior notes. See Convertible Senior Notes below. Additionally, certain of the Company's subsidiaries in Asia have fully and unconditionally guaranteed the full and timely payment of all Asia ABL related obligations. At September 26, 2016, none of the Asia ABL was outstanding.

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

The Company is required to make scheduled payments of the outstanding Term Loan balance on a quarterly basis. Based on certain parameters defined in the Term Loan agreement, the Company may be required to make an additional principal payment on an annual basis. Any additional annual payments or prepayments reduce future required quarterly scheduled payments. During the three quarters ended September 26, 2016, the Company made debt principal payments totaling \$106,482, representing normally scheduled principal payments as well as additional prepayments of principal. Any other outstanding balances under the Term Loan are due at the maturity date of May 31, 2021. Borrowings under the Term Loan are subject to various financial and operating covenants including maintaining a maximum total leverage ratio. Under the occurrence of certain events, the U.S. ABL and the Asia ABL are subject to various financial and operational covenants, including maintaining minimum fixed charge coverage ratios. At September 26, 2016, the Company was in compliance with the covenants under the Term Loan, the U.S. ABL and the Asia ABL.

As of September 26, 2016 and December 28, 2015, remaining unamortized debt discount of \$25,405 and \$30,242, respectively, and debt issuance costs of \$22,361 and \$26,619, respectively, related to the Term Loan. These debt discount and debt issuance costs are recorded as a reduction of the Term Loan and are amortized over the duration of the Term Loan into interest expense using an effective interest rate of 7.50%.

Additionally, remaining unamortized debt issuance costs related to the ABL Revolving Loans were \$3,573 and \$4,303 as of September 26, 2016 and December 28, 2015, respectively. These debt issuance costs are included in other non-current assets and are amortized to interest expense over the duration of the ABL Revolving Loans using the straight line method of amortization.

At September 26, 2016, the remaining amortization period for the unamortized debt discount and debt issuance costs for both the Term Loan and the ABL Revolving Loans was 4.6 years.

The Company is required to pay a commitment fee of 0.25% to 0.375% per annum on any unused portion of the U.S. ABL or Asia ABL based on utilization levels. Additionally, the Company also paid commitment fees of 0.5% per annum on the unused portion of the \$90,000 senior secured revolving loan associated with the terminated 2012 credit agreement for the three quarters ended September 28, 2015. The Company incurred total commitment fees related to unused borrowing availability of \$171 and \$200 for the quarters ended September 26, 2016 and September 28, 2015, respectively, and \$516 and \$565 for the three quarters ended September 26, 2016 and September 28, 2015, respectively. As of September 26, 2016, the outstanding amount of the Term Loan was \$841,143, of which \$66,143 is included as short-term debt and the remaining \$775,000 is included as long-term debt. Additionally, \$80,000 of the U.S. ABL and none of the Asia ABL was outstanding as of September 26, 2016. Available borrowing capacity under the U.S. ABL and Asia ABL was \$63,003 and \$142,904, which includes letters of credit outstanding of \$6,997 and \$7,096 mentioned below, respectively, at September 26, 2016.

Subsequent to September 26, 2016, the Company issued a new \$775,000 Term Loan (New Term Loan) at an interest rate of LIBOR plus 4.25%, a reduction of 75 basis points from its previous Term Loan, and repaid in full the \$841,143 of the previously issued Term Loan outstanding, which resulted in an overall net reduction of \$66,143 in the Term Loan outstanding. Principal payments under the New Term Loan are due quarterly beginning in April 2020 with the balance due on May 31, 2021, the same maturity as the previous Term Loan. In addition, the Company amended its U.S. ABL credit facility to increase the amount available under the U.S. ABL to \$200,000, reduce the applicable margin by 0.25% for both Eurodollar loans and ABR loans, and reduce the Letters of Credit Facilities to \$50,000.

Letters of Credit

The Company has up to \$75,000 and \$100,000 Letters of Credit Facilities under the U.S. ABL and the Asia ABL, respectively, as mentioned above. As of September 26, 2016, letters of credit in the amount of \$6,997 were outstanding under the U.S. ABL and \$7,096 were outstanding under the Asia ABL with various expiration dates through September 2017.

At December 28, 2015, certain letters of credit were securitized by cash collateral. As such the Company had recorded such cash as restricted cash on the consolidated condensed balance sheet as of December 28, 2015. As of September 26, 2016, none of the letters of credit were securitized by cash collateral.

Convertible Senior Notes due 2020

Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

The Company issued 1.75% convertible senior notes due December 15, 2020 in a public offering for an aggregate principal amount of \$250,000 in 2013. 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 are senior in right of payment to any of the Company's future subordinated indebtedness.

Table of Contents**TTM TECHNOLOGIES, INC.****Notes to Consolidated Condensed Financial Statements (Continued)****Convertible Senior Notes due 2015**

The Company issued 3.25% convertible senior notes due on May 15, 2015 in a public offering for an aggregate principal amount of \$175,000. In May 2015 the outstanding principal of \$32,395 plus accrued interest was paid in full.

As of September 26, 2016 and December 28, 2015, the following summarizes the equity components of the convertible senior notes included in additional paid-in capital:

	As of September 26, 2016 and December 28, 2015		
	Embedded conversion option Convertible Senior Notes	Embedded conversion option Convertible Senior Notes Issuance Costs (in thousands)	Total
Convertible senior notes due 2020	\$ 60,227	\$ (1,916)	\$ 58,311

The components of interest expense resulting from the convertible senior notes for the quarters and three quarters ended September 26, 2016 and September 28, 2015 are as follows:

	For the Quarter Ended		For the Three quarters Ended	
	September 26, 2016	September 28, 2015	September 26, 2016	September 28, 2015
	(In thousands)			
Contractual coupon interest				
Convertible senior notes due 2020	\$ 1,094	\$ 1,094	\$ 3,281	\$ 3,281
Convertible senior notes due 2015				395
	\$ 1,094	\$ 1,094	\$ 3,281	\$ 3,676
Amortization of debt discount				
Convertible senior notes due 2020	\$ 2,025	\$ 1,898	\$ 5,977	\$ 5,603
Convertible senior notes due 2015				554
	\$ 2,025	\$ 1,898	\$ 5,977	\$ 6,157
Amortization of debt issuance costs				
Convertible senior notes due 2020	\$ 203	\$ 190	\$ 599	\$ 561
Convertible senior notes due 2015				56
	\$ 203	\$ 190	\$ 599	\$ 617

Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

As of September 26, 2016 and December 28, 2015, remaining unamortized debt discount of \$39,449 and \$45,426, respectively, and debt issuance costs of \$3,953 and \$4,552, respectively, related to the convertible senior notes. These debt discount and debt issuance costs are recorded as a reduction of the convertible senior notes and are being amortized to interest expense over the term of the convertible senior notes using the effective interest rate method. At September 26, 2016, the remaining weighted average amortization period for the unamortized senior convertible note discount and debt issuance costs was 4.2 years.

For the quarter and three quarters ended September 26, 2016 and September 28, 2015, the amortization of the convertible senior notes due 2020 debt discount and debt issuance costs was based on an effective interest rate of 6.48%. For the three quarters ended September 28, 2015, the amortization of the convertible senior notes due 2015 debt discount and debt issuance costs was based on an effective interest rate of 8.37%.

Other Credit Facility

Additionally, the Company is party to a revolving loan credit facility (Chinese Revolver) with a lender in China. Under this arrangement, the lender has made available to the Company approximately \$34,500 in unsecured borrowing with all terms of the borrowing to be negotiated at the time the Chinese Revolver is drawn upon. There are no commitment fees on the unused portion of the Chinese Revolver, and this arrangement expires in December 2016. As of September 26, 2016, the Chinese Revolver had not been drawn upon.

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

The Company became a party to its current Term Loan and ABL Revolving Loans during the second quarter of 2015 in order to refinance and pay in full the remaining outstanding amount of \$225,700 under an existing 2012 credit agreement, as well as to finance the acquisition of Viasystems and refinance Viasystems' outstanding debt. As a result, the Company recognized losses of approximately \$802 for the three quarters ended September 28, 2015 resulting from the write off of the remaining unamortized debt issuance costs associated with the terminated 2012 credit agreement.

(8) Income Taxes

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 such as China, the apportioned state income tax rates, generation of other credits and deductions available to the Company, changes in valuation allowances, and certain non-deductible items.

During the quarter and three quarters ended September 26, 2016, the Company's effective tax rate was impacted by a net discrete benefit of \$240 and \$6,733, respectively, related to (i) tax holiday benefits, (ii) release of uncertain tax positions due to expiration of the statute of limitations in a foreign jurisdiction, and (iii) accrued interest on existing uncertain tax positions. Additionally, no tax benefit was recorded on the losses incurred in the U.S. and certain foreign jurisdictions as a result of corresponding increases in the valuation allowances in these jurisdictions. The Company's foreign earnings attributable to certain foreign subsidiaries will be indefinitely reinvested in such foreign jurisdictions and, therefore, no deferred tax liabilities for U.S. income taxes on undistributed earnings of those certain foreign subsidiaries are recorded.

Certain entities in China operated under tax incentives effective through 2016. For the quarter and three quarters ended September 26, 2016, the tax incentives decreased Chinese taxes by approximately \$1,564 and \$6,089, respectively, which increased basic earnings per share by \$0.02 and \$0.06, and increased diluted earnings per share by \$0.01 and \$0.05, respectively.

(9) Accumulated Other Comprehensive Income (Loss)

The following provides a summary of the components of accumulated other comprehensive income (loss) as of September 26, 2016 and December 28, 2015:

	Foreign Currency Translation	Gains (Losses) on Cash Flow Hedges (In thousands)	Total
Ending balance at December 28, 2015	\$ 2,895	\$ (1,272)	\$ 1,623
Other comprehensive loss before reclassifications	(19,061)	(17)	(19,078)
Amounts reclassified from accumulated other comprehensive income		128	128
Other comprehensive (loss) income	(19,061)	111	(18,950)
Ending balance at September 26, 2016	\$ (16,166)	\$ (1,161)	\$ (17,327)

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

The following provides a summary of reclassifications out of accumulated other comprehensive income (loss) for the quarters and three quarters ended September 26, 2016 and September 28, 2015:

Details about Accumulated Other	Statement of Operations Location	Amount Reclassified from Accumulated Other Comprehensive Income (Loss)			
		For the Quarter Ended		For the Three quarters Ended	
		September 26, 2016	September 28, 2015	September 26, 2016	September 28, 2015
Comprehensive Income (Loss) Components					
Loss on cash flow hedges	Depreciation expense, net of tax	\$ 47	\$ 44	\$ 128	\$ 129
Gain on foreign currency translation	Gain on sale of assets, net of tax	\$	\$	\$	\$ (1,786)

(10) 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 automotive, cellular phone, computer, networking and communications and aerospace and defense industries. Most customers to which the Company extends credit are located outside the United States, with the exception of certain customers in the 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 OEM 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 both of the quarters ended September 26, 2016 and September 28, 2015, one customer accounted for approximately 17% of the Company's net sales. For the three quarters ended September 26, 2016 and September 28, 2015, one customer accounted for approximately 13% and 21%, respectively, of the Company's net sales. There were no other customers that accounted for 10% or more of net sales for the quarters or three quarters ended September 26, 2016 and September 28, 2015.

(11) 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.

The carrying amount and estimated fair value of the Company's financial instruments at September 26, 2016 and December 28, 2015 were as follows:

September 26, 2016		December 28, 2015	
Carrying Amount	Fair Value	Carrying Amount	Fair Value

Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

	(In thousands)			
Term and revolving loans	\$ 873,377	\$ 921,143	\$ 970,764	\$ 935,000
Convertible senior notes due 2020	206,598	325,625	200,022	230,950
Capital lease	1,875	1,875		

The fair value of the long-term debt was estimated based on quoted market prices or discounting the debt over its life using current market rates for similar debt as of September 26, 2016 and December 28, 2015, which are considered Level 1 and Level 2 inputs.

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 and Level 2 inputs.

As of September 26, 2016 and December 28, 2015, the Company's other financial instruments also included cash and cash equivalents, accounts receivable and accounts payable. Due to short-term maturities, the carrying amount of these instruments approximates fair value. Our cash and cash equivalents at September 26, 2016 consisted of \$117,566 held in the U.S., with the remaining \$174,217 held by foreign subsidiaries.

Table of Contents

TTM TECHNOLOGIES, INC.

Notes to Consolidated Condensed Financial Statements (Continued)

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

The Company recognized impairment charges related to long-lived assets of \$3,346 in the three quarters ended September 26, 2016. The fair values of the impaired long-lived assets were based on level 2 and 3 inputs. There was no impairment of long-lived assets recognized in the quarter ended September 26, 2016 or for the quarter and three quarters ended September 28, 2015.

(12) 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 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 as of September 26, 2016 and December 28, 2015. 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 and chemical use reporting. The Company believes that its facilities in the United States, Canada and Mexico comply in all material respects with applicable environmental laws and regulations. In China, governmental authorities have adopted new rules and regulations governing environmental issues. An update to the Chinese environmental waste water law was issued in late 2012, allowing for an interim period in which plants subject to such law may install equipment that meets the new regulatory regime. Some of the Company's plants in China are not yet in full compliance with the updated environmental regulations. The Company believes it has developed plans acceptable to the Chinese government and is in the process of implementing these plans. The Company 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 related to the efforts to come into full compliance with the new regulations. The 2016 capital expenditure costs expected for these plans are included in the Company's capital expenditure projections.

Table of Contents**TTM TECHNOLOGIES, INC.****Notes to Consolidated Condensed Financial Statements (Continued)****(13) Earnings Per Share**

The following is a reconciliation of the numerator and denominator used to calculate basic earnings (loss) per share and diluted earnings (loss) per share for the quarters and three quarters ended September 26, 2016 and September 28, 2015:

	Quarter Ended		Three quarters Ended	
	September 26, 2016	September 28, 2015	September 26, 2016	September 28, 2015
	(In thousands, except per share amounts)			
Basic earnings (loss):				
Basic earnings (loss)	\$ 25,582	\$ (2,237)	\$ 36,866	\$ (35,403)
Diluted earnings (loss):				
Net income (loss) attributable to TTM Technologies, Inc. stockholders	\$ 25,582	\$ (2,237)	\$ 36,866	\$ (35,403)
Interest expense from convertible senior notes, net of tax	3,321			
Diluted earnings (loss)	\$ 28,903	\$ (2,237)	\$ 36,866	\$ (35,403)
Basic shares				
Basic shares	100,245	99,128	100,004	90,522
Dilutive effect of performance-based stock units, restricted stock units and stock options	1,460		1,090	
Dilutive effect of assumed conversion of convertible senior notes outstanding	25,940			
Diluted shares	127,645	99,128	101,094	90,522
Income (loss) per share attributable to TTM Technologies, Inc. stockholders:				
Basic	\$ 0.26	\$ (0.02)	\$ 0.37	\$ (0.39)
Diluted	\$ 0.23	\$ (0.02)	\$ 0.36	\$ (0.39)

For the quarter and three quarters ended September 26, 2016, performance-based stock units (PRUs), restricted stock units (RSUs) and stock options to purchase 233 and 1,174 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 applicable quarter and three quarters and, therefore, the effect would be anti-dilutive.

For the three quarters ended September 26, 2016, the effect of shares of common stock related to the Company's convertible senior notes, based on the if-converted method, were not included in the computation of diluted earnings per share as the impact would be anti-dilutive.

For the quarter and three quarters ended September 28, 2015, potential shares of common stock, consisting of stock options to purchase approximately 422 shares of common stock at exercise prices ranging from \$5.78 to \$16.82 per share, 2,326 RSUs, and 275 PRUs 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 quarters and three quarters ended September 26, 2016 and September 28, 2015, outstanding warrants to purchase 25,940 and 27,500 shares of common stock, respectively, were not included in the computation of dilutive earnings per share because the strike price of the warrants to purchase the Company's common stock were greater than the average market price of common shares during the applicable quarters and three quarters, and therefore, the effect would be anti-dilutive.

Table of Contents**TTM TECHNOLOGIES, INC.****Notes to Consolidated Condensed Financial Statements (Continued)****(14) Stock-Based Compensation**

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

	Quarter Ended		Three quarters Ended	
	September 26, 2016	September 28, 2015	September 26, 2016	September 28, 2015
	(In thousands)			
Cost of goods sold	\$ 412	\$ 322	\$ 1,161	\$ 790
Selling and marketing	268	294	749	834
General and administrative	2,119	2,056	5,980	5,402
Stock-based compensation expense recognized	\$ 2,799	\$ 2,672	\$ 7,890	\$ 7,026

Performance-based Restricted Stock Units

The Company maintains a long-term incentive program for executives that provides for the issuance of 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 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 quarters and three quarters ended September 26, 2016, management determined that vesting of the PRU awards was probable. PRUs activity for the three quarters ended September 26, 2016 was as follows:

	Shares (In thousands)	Weighted Average Fair Value
Outstanding target shares at December 28, 2015	301	\$ 8.58
Granted	347	6.46
Change in units due to annual financial target performance achievement	(20)	6.46
Outstanding target shares at September 26, 2016	628	\$ 7.48

Restricted Stock Units

The Company granted 1,814 and 1,301 restricted stock units during the three quarters ended September 26, 2016 and September 28, 2015, respectively. The RSUs granted have a weighted-average fair value per unit of \$6.74 and \$9.15 for the three quarters ended September 26, 2016 and September 28, 2015, respectively. The fair value for RSUs granted is based on the closing share price of the Company's common stock on the date of grant. There were no restricted stock units granted during the quarters ended September 26, 2016 and September 28, 2015.

Stock Options

The Company did not grant any stock option awards during the quarters and three quarters ended September 26, 2016 and September 28, 2015.

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

The following is a summary of total unrecognized compensation costs as of September 26, 2016:

	Unrecognized Stock-Based Compensation Cost (In thousands)	Remaining Weighted Average Recognition Period (years)
RSU awards	\$ 14,067	1.4
PRU awards	2,063	1.6
	\$ 16,130	

(15) 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 has reviewed its reportable operating segments and determined that it continues to have two reportable operating segments: PCB and E-M Solutions. This determination was made based on the criteria of earning revenues and incurring expenses, the Company's organizational structure which has segment managers who report to the chief operating decision maker, discrete financial information, and the aggregation of similar operating segments into reportable operating segments. Factors considered to determine whether operating segments can be aggregated into reportable segments included similarity regarding economic characteristics, products, production processes, type or classes of customers, distribution methods, and regulatory environments.

The Company, including the chief operating decision maker, 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.

The Company accounts for inter-segment sales and transfers consistent with the Company's revenue recognition policy. The inter-segment sales for the quarters and three quarters ended September 26, 2016 and September 28, 2015, are sales primarily from the PCB to the E-M Solutions operating segment.

	Quarter Ended		Three quarters Ended	
	September 26, 2016	September 28, 2015	September 26, 2016	September 28, 2015
	(In thousands)			
Net Sales:				
PCB	\$ 598,656	\$ 604,771	\$ 1,692,175	\$ 1,332,996
E-M Solutions	46,246	49,658	143,151	97,634
Total sales	644,902	654,429	1,835,326	1,430,630
Inter-segment sales	(3,182)	(2,424)	(8,501)	(4,016)
Total net sales	\$ 641,720	\$ 652,005	\$ 1,826,825	\$ 1,426,614

Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

Operating Segment Income (Loss):				
PCB	\$ 75,501	\$ 52,191	\$ 189,838	\$ 105,907
E-M Solutions	1,421	(1,729)	1,655	(1,188)
Corporate	(20,747)	(20,445)	(69,841)	(67,713)
Total operating segment income (loss)	56,175	30,017	121,652	37,006
Amortization of definite-lived intangibles	(5,949)	(6,421)	(17,845)	(12,205)
Total operating income (loss)	50,226	23,596	103,807	24,801
Total other expense	(14,943)	(17,004)	(52,411)	(36,083)
Income (loss) before income taxes	\$ 35,283	\$ 6,592	\$ 51,396	\$ (11,282)

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

The Corporate category includes operating expenses that are not included in the segment operating performance measures. Corporate consists primarily of corporate governance functions such as finance, accounting, information technology, facilities and human resources personnel, as well as global sales and marketing personnel and acquisition and integration costs associated with the acquisition of Viasystems. Corporate includes bank fees and legal, accounting, and other professional service costs associated with the acquisition of Viasystems of \$197 and \$2,065 for the quarters ended September 26, 2016 and September 28, 2015, respectively, and \$1,493 and \$32,927 for the three quarters ended September 26, 2016 and September 28, 2015, respectively.

(16) 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 \$12,292 and \$21,167 for the quarters ended September 26, 2016 and September 28, 2015, respectively, and \$42,549 and \$43,335 for the three quarters ended September 26, 2016 and September 28, 2015, respectively.

Dongguan Shengyi Electronics Ltd. (SYE) is also a related party as it is a wholly owned subsidiary of an entity in which a significant shareholder of the Company holds an equity interest. The Company sells PCBs to SYE and purchases PCBs including various services relating to PCB manufacturing from SYE. Sales to SYE for the quarters ended September 26, 2016 and September 28, 2015 were \$254 and \$1,042, respectively, and \$863 and \$3,867 for the three quarters ended September 26, 2016 and September 28, 2015, respectively. Purchases of PCBs, including various services relating to PCB manufacturing, for the quarter ended September 28, 2015 were \$344, and \$1,840 for the three quarters ended September 28, 2015. There were no purchases of PCBs including various services relating to PCB manufacturing for the quarter or three quarters ended September 26, 2016.

As of September 26, 2016 and December 28, 2015, the Company's consolidated condensed balance sheets included \$16,952 and \$29,306, respectively, in accounts payable due to related parties for purchases of laminate and prepreg and various PCB manufacturing services and such balances are included as a component of accounts payable on the consolidated condensed balance sheets. Additionally, the Company's consolidated condensed balance sheets included \$598 and \$1,999, in accounts receivable due from a related party for sales of PCBs to SYE, as of September 26, 2016 and December 28, 2015, respectively, as mentioned above, and such balances are included as a component of accounts receivable, net on the consolidated condensed balance sheets.

(17) Distribution of profits

As stipulated by the relevant laws and regulations of China applicable to the Company's subsidiaries in China, each of such subsidiaries is required to make appropriations from its net income as determined in accordance with accounting principles and the relevant financial regulations of China (PRC GAAP) to a non-distributable reserve, also referred to as statutory surplus reserve. The appropriations to the statutory surplus reserve are required to be made at not less than 10% of the profit after tax as determined under PRC GAAP and required until the balance reaches 50% of its registered capital. The statutory surplus reserve is used to offset future or past losses. These Chinese subsidiaries may, upon a resolution passed by their respective shareholders, convert the statutory surplus reserve into capital. An increase in such appropriations of approximately \$597 was made to the statutory surplus reserve of these Chinese subsidiaries for the quarter ended September 26, 2016.

(18) Sale of Suzhou, China Manufacturing Facility

During the three quarters ended September 28, 2015, the Company sold its Meadville Aspocomp (Suzhou) Electronic Co., Ltd. subsidiary, which held its Suzhou, China manufacturing facility, for \$21,275 and recognized a gain of \$2,504. This subsidiary was included in the Company's PCB operating segment.

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. Some additional factors that could cause actual results to differ include:

our ability to minimize design or manufacturing defects in our products;
changes in our industry, interest rates, or the general economy;
the effects of economic cycles and fluctuations in the worldwide demand for electronic products;
our ability to adapt to changing laws and regulations in China;
our ability to manage the risks associated with manufacturing facilities inside and outside of the United States;
our ability to respond to technological change and process development;
our ability to compete successfully against other manufacturers;
our reliance on a relatively small number of OEMs for a large portion of our net sales;
our reliance on raw materials suppliers to satisfy our product quality standards;
our ability to comply with environmental laws;
our reliance on the U.S. government for a substantial portion of our business;
our ability to retain our employees who have important industry experience, including our key senior executives;
our future sources of, and needs for, liquidity and capital resources;
our ability to repay our debt obligations as they come due;
our ability to successfully integrate acquisitions;
our exposure to intellectual property infringement claims and litigation;
the effect of climate change initiatives on our business and operations; and
our reliance on OEMs to outsource their PCB manufacturing and backplane assemble needs for us.

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 28, 2015, filed with the SEC.

COMPANY OVERVIEW

We are a leading global printed circuit board (PCB) manufacturer, focusing on quick-turn and technologically advanced PCBs and electro-mechanical solutions (E-M Solutions). We focus on providing time-to-market and advanced technology products and offer a one-stop manufacturing solution to our customers from engineering support to prototype development through final volume production. This one-stop manufacturing solution allows us to align technology development with the diverse needs of our customers and to enable them to reduce the time required to develop new products and bring them to market. We serve a diversified customer base consisting of approximately 1,500 customers in various markets throughout the world, including manufacturers of networking/communications infrastructure products, smartphones, tablets and ultra notebooks, as well as the aerospace and defense, automotive components, high-end computing, and medical, industrial and instrumentation related products. Our customers include both original equipment manufacturers (OEMs) and electronic manufacturing services (EMS) providers.

On May 31, 2015, we completed the acquisition of Viasystems Group, Inc. (Viasystems), for total consideration of \$248.8 million in cash and 15.1 million shares of TTM common stock with a fair value of \$149.0 million, and thereby acquired all of the outstanding shares of capital stock and other equity rights of Viasystems. Additionally, in connection with the completion of the acquisition, we assumed and refinanced Viasystems' debt, which was approximately \$669.0 million as of May 31, 2015. Viasystems was a worldwide provider of complex multi-layer rigid, flexible, and rigid-flex PCBs and custom electronic assemblies.

The acquisition of Viasystems has had and will continue to have a significant effect on our operations and financial results. We have greatly increased and diversified our revenue base and added the fast growing automotive end market to our portfolio of markets we serve. Our financial results for the third quarter and three quarters ended 2016 demonstrate the benefits of this diversification along with our strong operational execution and focus on realizing synergies from the integration. These results are reflected in improved gross and operating margins the third quarter and three quarters ended 2016 as compared to the same periods in 2015.

Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

On May 31, 2015, in conjunction with the acquisition of Viasystems, we entered into a \$950.0 million Term Loan Credit Agreement (Term Loan). During the three quarters ended September 26, 2016, the Company made debt principal payments totaling \$106.5 million, representing normally scheduled principal payments as well as additional prepayments of principal.

Subsequent to September 26, 2016, we issued a new \$775.0 million Term Loan (New Term Loan) at an interest rate of LIBOR plus 4.25%, a reduction of 75 basis points from our previous Term Loan, and repaid in full the \$841.1 million of our previous Term Loan outstanding, which resulted in an overall net reduction of \$66.1 million in the Term Loan outstanding. Principal payments under the New Term Loan are due quarterly beginning in April 2020 with the balance due on May 31, 2021, the same maturity as the previous Term Loan. In addition, we amended our U.S. ABL credit facility to increase the amount available under the U.S. ABL to \$200.0 million, reduce the applicable margin by 0.25% for both Eurodollar loans and ABR loans, and reduce the Letters of Credit Facilities to \$50.0 million.

While our customers include both OEM and EMS providers, we measure customers based on OEM companies, as they are the ultimate end customers. Sales to our 10 largest customers accounted for 46% and 45% of our net sales for the quarters ended September 26, 2016 and September 28, 2015, respectively, and 42% and 51% for the three quarters ended September 26, 2016 and September 28, 2015, respectively. We sell to OEMs both directly and indirectly through EMS providers.

Table of Contents

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

End Markets(1)(2)(4)	Quarter Ended		Three quarters Ended	
	September 26, 2016	September 28, 2015	September 26, 2016	September 28, 2015
Aerospace/Defense	15%	14%	15%	15%
Automotive(2)	19	17	20	12
Cellular Phone(3)	17	16	12	22
Computing/Storage/Peripherals(3)	12	12	13	11
Medical/Industrial/Instrumentation	14	14	15	12
Networking/Communications	21	25	23	26
Other(2)(3)	2	2	2	2
Total	100%	100%	100%	100%

- (1) Sales to EMS companies are classified by the end markets of their OEM customers.
- (2) Certain reclassifications of prior year end market percentages have been made to conform to the current year presentation. Beginning 2015, Automotive has been reclassified from the Other end market.
- (3) Smartphones are included in the Cellular Phone end market, tablets are included in the Computing/Storage/Peripherals end market and other mobile devices such as e-readers are included in the Other end market.
- (4) Amounts include activity of Viasystems, which we acquired on May 31, 2015.

We derive revenues primarily from the sale of PCBs and custom electronic 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. Purchase orders may be cancelled prior to shipment. We generally charge customers a fee, based on the percentage completed, if an order is cancelled once it has entered production.

Cost of goods sold consists of materials, labor, outside services, and overhead expenses incurred in the manufacture and testing of our products. Shipping and handling fees and related freight costs and supplies associated with shipping products are also included as a component of cost of goods sold. Many factors affect our gross margin, including capacity utilization, product mix, production volume, and yield. We generally do not participate in any significant long-term contracts with suppliers, and we believe there are a number of potential suppliers for most of the raw materials we use.

Selling and marketing expenses consist primarily of salaries, labor related benefits, and commissions paid to our internal sales force, independent sales representatives, and our sales support staff, 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, and human resources personnel, as well as insurance expenses, expenses for accounting and legal assistance, incentive compensation expense, and gains or losses on the sale or disposal of property, plant and equipment.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our consolidated condensed financial statements included in this report have been prepared in accordance with U.S. GAAP. 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 Operation*, in our Annual Report on Form 10-K for the fiscal year ended December 28, 2015 for further discussion of critical accounting policies and estimates. There were no material changes to our critical accounting policies and estimates since December 28, 2015.

Table of Contents**RESULTS OF OPERATIONS**

The Viasystems acquisition occurred on May 31, 2015. The acquisition has had and will continue to have a significant effect on our operations as discussed below.

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

	Quarter Ended		Three quarters Ended	
	September 26, 2016	September 28, 2015	September 26, 2016	September 28, 2015
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	82.9	86.3	84.1	85.8
Gross profit	17.1	13.7	15.9	14.2
Operating expenses:				
Selling and marketing	2.4	2.7	2.7	2.8
General and administrative	5.6	6.1	5.9	8.8
Amortization of definite-lived intangibles	0.9	1.0	1.0	0.9
Impairment of long-lived assets			0.2	
Restructuring charges	0.4	0.3	0.4	0.1
Gain on sale of asset				(0.1)
Total operating expenses	9.3	10.1	10.2	12.5
Operating income	7.8	3.6	5.7	1.7
Other income (expense):				
Interest expense	(2.9)	(3.2)	(3.3)	(2.8)
Loss on extinguishment of debt				(0.1)
Other, net	0.6	0.6	0.4	0.4
Total other expense, net	(2.3)	(2.6)	(2.9)	(2.5)
Income (loss) before income taxes	5.5	1.0	2.8	(0.8)
Income tax provision	(1.5)	(1.3)	(0.8)	(1.7)
Net income (loss)	4.0	(0.3)	2.0	(2.5)
Less: Net income attributable to noncontrolling interest				
Net income (loss) attributable to TTM Technologies, Inc. stockholders	4.0%	(0.3)%	2.0%	(2.5)%

We have reviewed our reportable operating segments and determined that we continue to have two reportable operating segments: PCB and E-M Solutions. This determination was made based on the criteria of earning revenues and incurring expenses, our organizational structure which has segment managers who report to the chief operating decision maker, discrete financial information, and the aggregation of similar operating segments into reportable operating segments.

The following table compares net sales by reportable segment for the quarters and three quarters ended September 26, 2016 and September 28, 2015:

	Quarter Ended		Three quarters Ended	
	September 26, 2016	September 28, 2015	September 26, 2016	September 28, 2015

(In thousands)

Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

Net Sales:				
PCB	\$ 598,656	\$ 604,771	\$ 1,692,175	\$ 1,332,996
E-M Solutions	46,246	49,658	143,151	97,634
Total sales	644,902	654,429	1,835,326	1,430,630
Inter-segment sales	(3,182)	(2,424)	(8,501)	(4,016)
Total net sales	\$ 641,720	\$ 652,005	\$ 1,826,825	\$ 1,426,614

Net Sales

Total net sales decreased \$10.3 million, or 1.6%, from \$652.0 million for the third quarter of 2015 to \$641.7 million for the third quarter of 2016. Net sales for the PCB operating segment, excluding inter-segment sales, decreased \$6.9 million, or 1.1%, from \$602.4 million for the third quarter of 2015 to \$595.5 million for the third quarter of 2016. This decrease is primarily due to lower demand in our Computing/Storage/Peripherals and Networking/Communications end markets, partially offset by higher demand in

Table of Contents

Aerospace/Defense and Cellular Phone end markets. This resulted in an average PCB selling price decrease of 4.6% which was driven by a product mix shift, partially offset by a 4.8% increase in PCB shipments as compared to the third quarter of 2015. Net sales for the E-M Solutions operating segment decreased \$3.4 million, or 6.9%, from \$49.6 million for the third quarter of 2015 to \$46.2 million for the third quarter of 2016 due to lower demand in our Networking/Communications end market, partially offset by higher demand in our Automotive end market.

Total net sales increased \$400.2 million, or 28.1%, from \$1,426.6 million for the first three quarters of 2015 to \$1,826.8 million for the first three quarters of 2016. Net sales for the PCB operating segment, excluding inter-segment sales, increased \$354.4 million, or 26.7%, from \$1,329.3 million for the first three quarters of 2015 to \$1,683.7 million for the first three quarters of 2016. This increase is primarily due to the additional sales resulting from the acquisition of Viasystems, which accounted for \$410.7 million of the net increase in PCB sales for the first three quarters of 2016, partially offset by lower demand in our Cellular Phone and Networking/Communications end markets. These changes, including the sales from Viasystems, resulted in a 57.2% increase in PCB shipments as compared to the first three quarters of 2015, partially offset by an average PCB selling price decrease of 18.5%, which was driven by a product mix shift resulting from the acquisition. Net sales for the E-M Solutions operating segment increased \$45.8 million from \$97.4 million for the first three quarters of 2015 to \$143.2 million for the first three quarters of 2016. This increase is due to the additional sales resulting from the acquisition of Viasystems.

Gross Margin

Overall gross margin increased from 13.7% for the third quarter of 2015 to 17.1% for the third quarter of 2016, and from 14.2% for the first three quarters of 2015 to 15.9% for the first three quarters of 2016.

Gross margin for the PCB operating segment increased from 14.3% for the third quarter of 2015 to 17.7% for the third quarter of 2016, and from 14.8% for the first three quarters of 2015 to 16.9% for the first three quarters of 2016, primarily due to the improved operating performance at certain acquired manufacturing facilities and the benefits resulting from our synergy initiatives, partially offset by reduced volumes at our facilities supporting the Networking/Communications end market.

Gross margin for the E-M Solutions operating segment increased from 5.8% for the third quarter of 2015 to 11.0% for the third quarter of 2016, and from 5.7% for the first three quarters of 2015 to 8.6% for the first three quarters of 2016, primarily due to savings from the closure of our Juarez, Mexico facility and increased production volumes at certain acquired facilities.

Selling and Marketing Expenses

Selling and marketing expenses decreased \$2.0 million, from \$17.6 million for the third quarter of 2015 to \$15.6 million for the third quarter of 2016. As a percentage of net sales, selling and marketing expenses were 2.7% for the third quarter of 2015, as compared to 2.4% for the third quarter of 2016. The decrease in the third quarter expense and as a percentage of net sales is primarily related to workforce reductions associated with global realignment efforts.

Selling and marketing expenses increased \$10.1 million, from \$39.4 million for the first three quarters of 2015 to \$49.5 million for the first three quarters of 2016. As a percentage of net sales, selling and marketing expenses were 2.8% for the first three quarters of 2015, as compared to 2.7% for the first three quarters of 2016. The increase in the expense for the first three quarters primarily relates to increased selling and marketing expense incurred with the acquisition of Viasystems, partially offset by workforce reductions associated with global realignment efforts. The decrease as a percentage of net sales was primarily due to higher net sales and saving from workforce reductions mentioned above.

General and Administrative Expenses

General and administrative expenses decreased \$3.9 million from \$39.5 million, or 6.1% of net sales, for the third quarter of 2015 to \$35.6 million, or 5.6% of net sales, for the third quarter of 2016. General and administrative expenses decreased \$17.8 million from \$126.0 million, or 8.8% of net sales, for the first three quarters of 2015 to \$108.2 million, or 5.9% of net sales, for the first three quarters of 2016. The decrease in expense primarily related to a decrease of \$1.9 million and \$31.4 million for the quarter and three quarters ended September 26, 2016, respectively, in acquisition related costs, partially offset by increased expenses incurred with the acquisition of Viasystems. The decrease in general and administrative expense as percentage of net sales was primarily due to the decrease in acquisition related costs and higher net sales.

Impairment of Long-Lived Assets and Restructuring Charges

For the third quarter and the first three quarters of 2016, we incurred restructuring charges of \$2.1 million and \$8.0 million, respectively, which primarily related to the consolidation plan announced September 29, 2015 that resulted in the closure of our facilities in Cleveland, Ohio, Milpitas, California, and Juarez, Mexico (the Consolidation Plan) and other global realignment efforts. These charges primarily represented

Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

severance and contract termination and other costs. Approximately \$0.9 million and \$3.3 million of these restructuring charges were recognized in our PCB operating segment for the third quarter and the first three quarters of 2016, respectively, \$1.3 million and \$4.0 million were recognized in our E-M Solutions operating segment for the third quarter and the first

Table of Contents

three quarters of 2016, respectively, and \$0.7 million was recognized in our Corporate operating segment for the first three quarters of 2016. As of September 26, 2016, we have incurred approximately \$15.2 million of such charges since the September 29, 2015 announcement and estimate that we will incur total charges of approximately \$20.0 million related to these closures and other global realignment efforts.

Additionally, as a result of the above mentioned plant closures and other plant realignment efforts, we also recognized impairment charges of \$3.3 million for the first three quarters of 2016, of which \$1.4 million were recognized in our PCB operating segment and \$1.9 million were recognized related in the Corporate operating segment. The impairment charge for the PCB operating segment related to machinery and equipment while the impairment charge for the Corporate operating segment related to the write-off of capitalized software costs.

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

Other Income (Expense)

Other expense, net decreased \$2.1 million from \$17.0 million for the third quarter of 2015 to \$14.9 million for the third quarter of 2016. The decrease in other expense, net for the third quarter was primarily due to a decrease in interest expense related to the Term Loan, totaling \$841.1 million as of September 26, 2016 at a weighted average interest rate of 6.0%, which was entered into on May 31, 2015 in connection with the acquisition of Viasystems, resulting from normally scheduled principal payments as well as additional Term Loan prepayments of principal of \$106.5 million.

Other expense, net increased \$16.3 million from \$36.1 million for the first three quarters of 2015 to \$52.4 million for the first three quarters of 2016. The increase was primarily due to an increase in interest expense related to the Term Loan and U.S. ABL, at a weighted average interest rate of 5.7%, which was entered into on May 31, 2015 in connection with the acquisition of Viasystems. This increase was partially offset by \$2.0 million of higher foreign currency transaction gains for the three quarters ended September 26, 2016, respectively, due primarily to the devaluation of the RMB, which is utilized at certain of our Asia operations.

Income Taxes

The provision for income taxes increased by \$0.8 million from \$8.7 million of tax expense for the third quarter of 2015 to \$9.5 million of tax expense for the third quarter of 2016. The increase in income tax expense was primarily due to an increase of operating income in higher tax rate jurisdictions in the third quarter of 2016 compared to 2015. In addition, purchase accounting adjustments further decreased the third quarter of 2015 net book income before taxes in taxable foreign jurisdictions. The provision for income taxes decreased \$10.0 million from \$24.0 million of tax expense for the first three quarters of 2015 to \$14.0 million of tax expense for the first three quarters of 2016. The decrease in income tax expense in 2016 as compared to 2015 was primarily due to discrete tax benefits recorded in the three quarters of 2016 related to the release of existing uncertain tax positions due to the expiration of the statute of limitations and research and development tax benefits in certain foreign jurisdictions. Further, a discrete tax expense was recorded during the three quarters of 2015 related to a valuation allowance that was provided against our existing U.S. net deferred tax assets.

Our effective tax rate is primarily impacted by tax rates in China and Hong Kong, the U.S. federal income tax rate, apportioned state income tax rates, generation of credits and deductions available to us, changes in the valuation allowance, and certain non-deductible items. U.S. and certain foreign losses generated are not more likely than not to be realizable, and thus no income tax benefit has been recognized on these losses. As of September 26, 2016, we had net deferred income tax liabilities of approximately \$10.5 million and as of December 28, 2015, we had net deferred income tax liabilities of approximately \$13.1 million.

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 finance acquisitions and capital expenditures, meet debt service requirements, fund working capital requirements, and refinance existing debt. We anticipate that servicing debt, financing capital expenditures, financing acquisitions, and funding working capital requirements will continue to be the principal demands on our cash in the future.

Cash flow provided by operating activities during the first three quarters of 2016 was \$200.7 million as compared to \$97.6 million in the same period in 2015. The increase in cash flow was primarily due to higher net income. As of September 26, 2016, we had net working capital of approximately \$309.1 million compared to \$277.5 million as of December 28, 2015. Cash cycle days were 46 days for the third quarter of 2016 as compared to 52 days for the same quarter of 2015.

Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

Net cash used in investing activities was approximately \$57.5 million for the first three quarters of 2016 primarily reflecting purchases of property, plant and equipment, net of proceeds from sales of property, plant and equipment and assets held for sale of \$61.0 million, less release of restricted cash to cash and cash equivalents of \$3.5 million. For the first three quarters of 2015, net cash used in investing activities was approximately \$226.6 million primarily reflecting the acquisition of Viasystems, net of cash acquired, in the amount of \$169.2 million, and purchases of property, plant and equipment, net of proceeds from sale of property, plant and equipment and asset held for sale of \$55.5 million.

Table of Contents

Net cash used in financing activities was approximately \$106.4 million for the first three quarters of 2016 primarily reflecting the repayment of normally scheduled principal payments as well as additional prepayments of principal of long-term debt. For the first three quarters of 2015, net cash used in financing activities was approximately \$3.3 million reflecting proceeds from long-term debt and a revolving loan totaling \$1,030.0 million, offset by the repayment of \$966.5 million of debt, including the assumed long-term debt in the acquisition of \$669.0 million, payoff of the 2012 credit agreement term loan, the payoff of the remaining 2015 convertible senior notes, and payment of debt issuance costs and original issue discount of \$67.4 million associated with the new long-term borrowing and revolver loan totaling \$1,030.0 million.

As of September 26, 2016, we had cash and cash equivalents of approximately \$291.8 million, of which approximately \$174.2 million was held by our foreign subsidiaries, primarily in Asia. Cash and cash equivalents held by our foreign locations are expected to be used in local operations.

Our 2016 capital expenditures are expected to be in the range of \$105 million to \$115 million. The expenditures will fund capital equipment purchases to increase production capacity, especially for advanced technology manufacturing, comply with changing environmental regulations, replace aging equipment, and expand our technological capabilities.

Term and Revolving Loans

On May 31, 2015, in conjunction with the acquisition of Viasystems, we entered into a \$950.0 million Term Loan Credit Agreement (Term Loan). Additionally, we entered into a \$150.0 million U.S. Asset-Based Lending Credit Agreement (U.S. ABL) and a \$150.0 million Asia Asset-Based Lending Credit agreement (Asia ABL). We drew \$80.0 million of the U.S. ABL at the closing of the acquisition of Viasystems.

The Term Loan Credit agreement was issued at a discount at 96.5% and bears interest at a floating rate of LIBOR, with a 1.0% LIBOR floor, plus an applicable interest margin of 5.0%. At September 26, 2016, the weighted average interest rate on the outstanding borrowings under the Term Loan was 6.0%. There is no provision, other than an event of default, for the interest margin to increase. The Term Loan will mature on May 31, 2021. The Term Loan is secured by a significant amount of our assets and our domestic subsidiaries and a pledge of 65% of the voting stock of our first tier foreign subsidiaries and is structurally senior to our convertible senior notes. See Convertible Senior Notes due 2020 below.

The U.S. ABL consists of three tranches comprised of a revolving credit facility of up to \$150.0 million, a letter of credit facility of up to \$75.0 million, and swingline loans of up to \$30.0 million, provided that at no time may amounts outstanding under the tranches exceed in aggregate \$150.0 million or the applicable borrowing base, which is a percentage of the principal amount of Eligible Accounts, as defined in the U.S. ABL agreement. Borrowings under the U.S. ABL bear interest at a floating rate of LIBOR plus a margin of 175 basis points. At September 26, 2016, the weighted average interest rate on the outstanding borrowings under the U.S. ABL was 2.27%. The applicable margin can vary based on the remaining availability of the facility, from 150 to 200 basis points for LIBOR-based loans. The U.S. ABL will mature on May 31, 2020. Loans made under the U.S. ABL are secured first by all of our domestic cash, receivables and inventories as well as by a second position against a significant amount of our assets and our domestic subsidiaries and a pledge of 65% of the voting stock of our first tier foreign subsidiaries and are structurally senior to our convertible senior notes. See Convertible Senior Notes due 2020 below. At September 26, 2016, \$80.0 million of the U.S. ABL was outstanding and classified as short term debt.

We and our domestic subsidiaries have fully and unconditionally guaranteed the full and timely payment of all Term Loan and U.S. ABL related obligations.

The Asia ABL consists of two tranches comprised of a revolving credit facility of up to \$150.0 million and a letter of credit facility of up to \$100.0 million provided that at no time may amounts outstanding under both tranches exceed in aggregate \$150.0 million or the applicable borrowing base, which is a percentage of the principal amount of Eligible Accounts, as defined in the Asia ABL agreement. Borrowings under the Asia ABL bear interest at a floating rate of LIBOR plus 175 basis points. There is no provision, other than an event of default, for the interest margin to increase. The Asia ABL will mature on May 22, 2020. Loans made under the Asia ABL are secured by a portion of cash and receivables of certain of our subsidiaries in Asia and are structurally senior to our domestic obligations, including our convertible senior notes. See Convertible Senior Notes due 2020 below. Additionally, certain of our subsidiaries in Asia have fully and unconditionally guaranteed the full and timely payment of all Asia ABL related obligations. At September 26, 2016, none of the Asia ABL was outstanding.

We are required to make scheduled payments of the outstanding Term Loan balance on a quarterly basis. Based on certain parameters defined in the Term Loan agreement, we may be required to make an additional principal payment on an annual basis. Any additional annual payments or prepayments reduce future required quarterly scheduled payments. During the three quarters ended September 26, 2016, we made debt principal payments totaling \$106.5 million, representing normally scheduled principal payments as well as additional prepayments of principal. From time to time, we may make additional principal payments in the normal course of

Table of Contents

business as cash flow allows. Any other outstanding balances under the Term Loan are due at the maturity date of May 31, 2021. Borrowings under the Term Loan are subject to various financial and operating covenants including maintaining a maximum total leverage ratio. Under the occurrence of certain events, the U.S. ABL and the Asia ABL are subject to various financial and operational covenants, including maintaining minimum fixed charge coverage ratios. At September 26, 2016, we were in compliance with the covenants under the Term Loan, the U.S. ABL and the Asia ABL.

We are also required to pay a commitment fee of 0.25% to 0.375% per annum on any unused portion of the U.S. ABL or Asia ABL based on utilization levels. Additionally, we also paid commitment fees of 0.5% per annum on the unused portion of the \$90.0 million senior secured revolving loan associated with the terminated 2012 credit agreement for the three quarters ended September 28, 2015. We incurred total commitment fees related to unused borrowing availability of \$0.2 million and \$0.5 million for the quarter and three quarters ended September 26, 2016, respectively. As of September 26, 2016, the outstanding amount of the Term Loan was \$841.1 million, of which \$66.1 million is included in short-term debt and the remaining \$775.0 million is included as long-term debt. Additionally, \$80.0 million of the U.S. ABL and none of the Asia ABL was outstanding as of September 26, 2016. Available borrowing capacity under the U.S. ABL and Asia ABL was \$63.0 million and \$142.9 million, respectively, which includes \$7.0 million and \$7.1 million of outstanding letters of credit mentioned below, respectively, at September 26, 2016.

Subsequent to September 26, 2016, we issued a New Term Loan for \$775.0 million at an interest rate of LIBOR plus 4.25%, a reduction of 75 basis points from our previous Term Loan, and repaid in full the \$841.1 million of our previous Term Loan outstanding, which resulted in an overall net reduction of \$66.1 million in the Term Loan outstanding. Principal payments under the New Term Loan are due quarterly beginning in April 2020 with the balance due on May 31, 2021, the same maturity as the previous Term Loan. In addition, we amended our U.S. ABL credit facility to increase the amount available under the U.S. ABL to \$200.0 million, reduce the applicable margin by 0.25% for both Eurodollar loans and ABR loans, and reduce the Letters of Credit Facilities to \$50.0 million.

Letters of Credit

We have up to \$75.0 million and \$100.0 million Letters of Credit Facilities available under the U.S. ABL and the Asia ABL, respectively. As of September 26, 2016, letters of credit in the amount of \$7.0 million were outstanding under the U.S. ABL and \$7.1 million were outstanding under the Asia ABL with various expiration dates through September 2017.

Chinese Revolver

We are party to a revolving loan credit facility with a lender in China. Under this arrangement, the lender has made available to us approximately \$34.5 million in unsecured borrowing with all terms of the borrowing to be negotiated at the time the Chinese Revolver is drawn upon. There are no commitment fees on the unused portion of the Chinese Revolver, and this arrangement expires in December 2016. As of September 26, 2016, the Chinese Revolver had not been drawn upon.

Convertible Senior Notes due 2020

In December 2013, we issued 1.75% convertible senior notes due December 15, 2020, in a public offering for an aggregate principal amount of \$250.0 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 connection with the issuance of the convertible senior notes due 2020, we entered into a convertible note hedge and warrant transaction (the Call Spread Transaction), with respect to our common stock. The convertible note hedge consists of our option to purchase up to 25.9 million common stock shares at a price of \$9.64 per share. The hedge expires on December 15, 2020 and can only be executed upon the conversion of the above mentioned convertible senior notes due 2020. Additionally, we sold warrants to purchase 25.9 million shares of our common stock at a price of \$14.26 per share. The warrants expire ratably from March 2021 through January 2022. The 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 our common stock.

Based on our current level of operations, we believe that cash generated from operations, cash on hand and cash from the issuance of term and revolving debt will be adequate to meet our currently anticipated capital expenditure, debt service, and working capital needs for the next 12 months.

Table of Contents**Contractual Obligations and Commitments**

The following table provides information on our contractual obligations as of September 26, 2016:

	Total	Less Than 1 Year	1 - 3 Years (In thousands)	4 - 5 Years	After 5 Years
Contractual Obligations (1)					
Long-term debt obligations	\$ 923,018	\$ 146,473	\$ 724	\$ 775,821	\$
Convertible debt obligations	250,000			250,000	
Interest on debt obligations	252,710	65,975	102,959	83,776	
Equipment payables	13,057	13,057			
Purchase obligations	72,514	66,472	6,042		
Operating lease commitments	27,282	8,914	8,584	4,490	5,294
Total contractual obligations	\$ 1,538,581	\$ 300,891	\$ 118,309	\$ 1,114,087	\$ 5,294

(1) Unrecognized uncertain tax benefits of \$35.0 million are not included in the table above as the settlement timing is uncertain.

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 manufacturers of electronic components, orders for our products generally correspond to the production schedules of our customers. We historically experience higher net sales in the third and fourth quarters due to end customer demand in the fourth quarter for consumer electronics products. Seasonal fluctuations also include the Chinese New Year holidays in the first quarter, which typically results in lower net sales. We attribute this decline to shutdowns of our customers' manufacturing facilities surrounding the Chinese New Year public holidays, which normally occur in January or February of each year.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

In the normal course of business we are exposed to risks associated with fluctuations in interest rates and fluctuations in foreign currency exchange rates 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. Certain of our Asia operations utilize the Renminbi (RMB) and the Hong Kong Dollar (HKD) as their functional currencies, which results in us recording a translation adjustment that is included as a component of accumulated other comprehensive income. Our foreign exchange exposure results primarily from employee-related and other costs of running operations in foreign countries, foreign currency denominated purchases and translation of balance sheet accounts denominated in foreign currencies. Our primary foreign exchange exposure is to the RMB. We do not 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 a majority of our loans due from our foreign subsidiaries. However, we may consider the use of derivatives in the future. In general, our Chinese customers pay us in RMB, which partially mitigates this foreign currency exchange risk.

Additionally, we do not enter into derivative financial instruments for trading or speculative purposes, nor have we experienced any losses to date on any derivative financial instruments due to counterparty credit risk.

Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

See *Liquidity and Capital Resources and Credit Agreement, Term and Revolving Loans, Chinese Revolver and Convertible Senior Notes due 2020* appearing in Item 2 of this Form 10-Q for further discussion of our financing facilities and capital structure. As of September 26, 2016, approximately 21.5% of our total debt was based on fixed rates. Based on our borrowings as of September 26, 2016, after consideration of the 1% LIBOR floor currently reflected in our interest rates, an assumed 100 basis point increase in variable rates would cause our annual interest cost to increase by \$8.0 million.

Table of Contents**Debt Instruments**

The table below presents information about certain of our debt instruments as of September 26, 2016 and December 28, 2015.

	As of September 26, 2016							Fair Market Value	Weighted Average Interest Rate
	Remaining 2016	2017	2018	2019	2020 (In thousands)	Thereafter	Total		
US\$ Variable Rate	\$ 146,143	\$	\$	\$	\$ 26,875	\$ 748,125	\$ 921,143	\$ 921,143	5.68%
US\$ Fixed Rate	330	351	373	397	250,424		251,875	327,500	1.78%
Total	\$ 146,473	\$ 351	\$ 373	\$ 397	\$ 277,299	\$ 748,125	\$ 1,173,018	\$ 1,248,643	

	As of December 28, 2015							Fair Market Value	Weighted Average Interest Rate
	2016	2017	2018	2019	2020 (In thousands)	Thereafter	Total		
US\$ Variable Rate	\$ 157,375	\$	\$ 27,125	\$ 47,500	\$ 47,500	\$ 748,125	\$ 1,027,625	\$ 935,000	5.70%
US\$ Fixed Rate					250,000		250,000	230,950	1.75%
Total	\$ 157,375	\$	\$ 27,125	\$ 47,500	\$ 297,500	\$ 748,125	\$ 1,277,625	\$ 1,165,950	

See Item 7A, *Quantitative and Qualitative Disclosures About Market Risk*, in our Annual Report on Form 10-K for the year ended December 28, 2015 for further discussion of market risks associated with interest rates.

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 Rules 13a-15(e) and 15d-15(e) under the Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this report. Based on this evaluation, our CEO and CFO have concluded that, as of September 26, 2016, 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.

In designing and evaluating our disclosure controls and procedures, our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their desired control objectives, and our management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Changes in Internal Control Over Financial Reporting

As a result of our acquisition of Viasystems on May 31, 2015, we have adopted certain existing controls of Viasystems; however, there have been no other material 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 September 26, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Risks Related to our Business

We have substantial outstanding indebtedness, and our outstanding indebtedness could adversely impact our liquidity and flexibility in obtaining additional financing, our ability to fulfill our debt obligations and our financial condition and results of operations.

We have substantial debt and, as a result, we have significant debt service obligations. On May 31, 2015, we entered into a \$950.0 million Term Loan, a \$150.0 million U.S. ABL, and a \$150.0 million Asia ABL. We drew \$80.0 million of the U.S. ABL at the closing of the acquisition of Viasystems. In addition, we and a number of our direct and indirect subsidiaries have various credit, letters of credit and guarantee facilities. The agreements governing these facilities have certain provisions that require us to repay borrowings in scheduled quarterly installments, which began on October 1, 2015. We may also be required to make an additional principal payment on an annual basis, based on certain parameters defined these agreements. During the three quarters ended September 26, 2016, we made debt principal payments totaling \$106.5 million, representing normal scheduled principal payments as well as additional prepayments of principal. Such debt agreements also contain certain financial covenants which require us to maintain a specified consolidated leverage ratio and under the occurrence of certain events, a consolidated fixed charge coverage ratio.

Subsequent to September 26, 2016, we issued a New Term Loan for \$775.0 million at an interest rate of LIBOR plus 4.25%, a reduction of 75 basis points from our previous Term Loans, and repaid in full the \$841.1 million of our previous Term Loan outstanding, which resulted in an overall net reduction of \$66.1 million in the Term Loan outstanding. Principal payments under our New Term Loan are due quarterly beginning in April 2020 with the balance due on May 31, 2021, the same maturity as the previous Term Loan. In addition, we amended our U.S. ABL credit facility to increase the amount available under the U.S. ABL to \$200.0 million, reduce the applicable margin by 0.25% for both Eurodollar loans and ABR loans, and reduce the Letters of Credit Facilities to \$50.0 million.

Our indebtedness could have important consequences to us and our shareholders because in certain circumstances we may need to comply with the covenants in the agreements governing such indebtedness and dedicate funds to service our outstanding debt. For example, it could:

- make it more difficult for us to satisfy our obligations with respect to our indebtedness, which could in turn result in an event of default on such indebtedness;
- require us to use a substantial portion of our cash flow from operations for debt service payments, thereby reducing the availability of cash for working capital, capital expenditures, acquisitions and other general corporate purposes;

Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

impair our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions and other investments or general corporate purposes, which may limit our ability to execute our business strategy;
diminish our ability to withstand a downturn in our business, the industry in which we operate or the economy generally and restrict us from exploiting business opportunities or making acquisitions;
limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate or the general economy;

Table of Contents

increase our vulnerability to general adverse economic and industry conditions, including movements in interest rates, which could result in increased borrowing costs;
limit management's discretion in operating our business; and
place us at a competitive disadvantage as compared to our competitors that have less debt as it could limit our ability to capitalize on future business opportunities and to react to competitive pressures or adverse changes.

We may be able to incur substantial additional debt in the future, some or all of which may be secured by a lien on our assets. If new debt or other liabilities or obligations are added to our current debt levels, the related risks that we and our subsidiaries now face could intensify.

Servicing our debt requires a significant amount of cash and we may not be able to generate sufficient cash to service all of our debt and may be forced to take other actions to satisfy our obligations under our debt, which may not be successful.

Our ability to make scheduled payments on or to refinance our debt obligations and to fund planned capital expenditures and expansion efforts depends on our ability to generate cash in the future and our financial condition and operating performance, which are subject to prevailing economic and competitive conditions and to certain regulatory, competitive, financial, business and other factors beyond our control. We cannot assure you that we will maintain a level of cash flows from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our debt.

If we are unable to meet our debt service obligations, we may be forced to reduce or delay investments or to sell assets, seek additional capital (which could include obtaining additional equity capital on terms that may be onerous or highly dilutive) or restructure or refinance our debt. These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations. Our operating results and available cash may in the future be insufficient to meet our debt service obligations. We could face substantial liquidity challenges and might be required to dispose of material assets or operations to meet our debt service and other obligations. We may not be able to consummate those dispositions or, if consummated, the proceeds of such dispositions may not be adequate to meet any debt service obligations then due.

We have pursued and intend to continue to pursue acquisitions of other businesses and may encounter risks associated with these activities, which could harm our business and operating results.

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 related to conflict minerals;

Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

incur unanticipated costs;
incur large and immediate write-offs; 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. Failure to manage and successfully integrate acquisitions we make could have a material adverse effect on our business, financial condition, and results of operations. 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 any such acquisition.

Table of Contents***Uncertainty and adverse changes in the economy and financial markets could have an adverse impact on our business and operating results.***

Uncertainty or adverse changes in the economy could lead to a significant decline in demand for the end products manufactured by our customers, which, in turn, could result in a decline in the demand for our products and pressure to reduce our prices. As a result of the recent global economic downturn, many businesses appear to be experiencing weaker demand for their products and services and, as a result, are taking a more conservative stance in ordering component inventory. Any decrease in demand for our products could have an adverse impact on our financial condition, operating results and cash flows. Uncertainty and adverse changes in the economy could also increase the cost and decrease the availability of potential sources of financing and increase our exposure to losses from bad debts, either of which could have a material adverse effect on our financial condition, operating results and cash flows.

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 September 26, 2016, we had an aggregate of approximately \$529.4 million in current assets denominated in Chinese Renminbi (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 on 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. 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 may have a material adverse effect on our business, financial condition, and results of operations (including the cost of servicing, and the value on our balance sheet of, the U.S. dollar and HKD-denominated indebtedness). Additionally, we have revenues and costs denominated in currencies other than the U.S. dollar (primarily the RMB). Fluctuations in the exchange rates between the U.S. dollar and the RMB could result in increases or decreases in our costs or revenues which could negatively impact our business, financial condition, and results of operations. 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. Further, China's government imposes controls over the convertibility of RMB into foreign currencies, which subjects us to further currency exchange risk.

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. In addition, we manufacture products for a range of automotive customers. If any of our products are or are alleged to be defective, we may be required to participate in a recall of such products. As suppliers become more integral to the vehicle design process and assume more of the vehicle assembly functions, vehicle manufacturers are increasingly looking to their suppliers for contributions when faced with product liability claims or recalls. In addition, vehicle manufacturers, which have traditionally borne the costs associated with warranty programs offered on their vehicles, are increasingly requiring suppliers to guarantee or warrant their products and may seek to hold us responsible for some or all of the costs related to the repair and replacement of parts supplied by us to the vehicle manufacturer.

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 adversely affect our business, financial condition, and results of operations.

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.

Table of Contents

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 would materially adversely affect our business, financial condition, and results of operations.

A small number of customers are responsible for a significant portion of our sales. Our five largest OEM customers accounted for approximately 35% of our net sales for both of the quarters ended September 26, 2016 and September 28, 2015, and one customer represented 17% of our sales for the quarter ended September 26, 2016. 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 would materially adversely affect our business, financial condition, and results of operations. 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 business, financial condition, and results of operations would be materially adversely affected.

In addition, during industry downturns, we may need to reduce prices 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 that use our products would be successful. This concentration of customer base may materially adversely affect our business, financial condition, and results of operations 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.

If we are unable to maintain satisfactory capacity utilization rates, our business, financial condition, and results of operations would be materially 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 will continue to depend, in part, on maintaining satisfactory capacity utilization rates. In turn, our ability to maintain satisfactory capacity utilization will 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 materially adversely affect our business, financial condition, and results of operations.

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.

We rely on the cellular phone and mobile technology industry for a significant portion of sales. The economic volatility in this industry has had, and may continue to have, a material adverse effect on our ability to forecast demand and production and to meet desired sales levels.

A large percentage of our business is conducted with customers who are in the cellular phone and mobile technology industry. This industry is characterized by intense competition, short product life cycles, seasonality, particularly around the year-end holiday season, and significant fluctuations in consumer demand. This industry is heavily dependent on consumers and therefore can be affected by their demand patterns. If the volatility in this industry continues, it may have a material adverse effect on our business, financial condition, and results of operations.

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.

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;

Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

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.

Table of Contents

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 cellular phone and tablet 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 that may 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.

We rely on the telecommunication industry for a significant portion of sales. The economic volatility in this industry has had, and may continue to have, a material adverse effect on our ability to forecast demand and production and to meet desired sales levels.

A large percentage of our business is conducted with customers who are in the telecommunication industry. This industry is characterized by intense competition, relatively short product life cycles, and significant fluctuations in product demand. This industry is heavily dependent on the end markets it serves and therefore can be affected by the demand patterns of those markets. If the volatility in this industry continues, it would have a material adverse effect on our business, financial condition, and results of operations.

Our results can be adversely affected by rising labor costs.

There is uncertainty with respect to rising labor costs, particularly 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, generally after the Chinese New Year, 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 materially adversely affect our business, financial condition, and results of operations. 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 a potential for defects in our products, 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 deliver products in a timely manner.

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 operations, 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.

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 business, financial condition, and results of operations.

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 materially 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 materially adversely affect our business, financial condition, and results of operations.

Table of Contents

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.

Certain of our foreign subsidiaries have deferred income tax assets. Based on our forecast for future taxable earnings for these foreign subsidiaries, 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 cash flows.

Issues arising during the upgrade of our enterprise resource planning system could affect our operating results and ability to manage our business effectively.

We are in the process of upgrading our enterprise resource planning, or ERP, management system to enhance operating efficiencies and provide more effective management of our business operations. We are investing significant financial and personnel resources into this project. However, there is no assurance that the system upgrade will meet our current or future business needs or that it will operate as designed. The transition to the new ERP system will affect numerous systems necessary for our operation. If we fail to correctly implement one or more components of the ERP system, we could experience significant disruption to our operations. Such disruptions could include, among other things, temporary loss of data, inability to process certain orders, failure of systems to communicate with each other and the inability to track or reconcile key data. We are heavily dependent on automated management systems, and any significant failure or delay in the system upgrade could cause a substantial interruption to our business and additional expense, which could result in an adverse impact on our operating results, cash flows or financial condition.

As a result of the acquisition of Viasystems, our goodwill, indefinite-lived intangible assets, and other intangible assets on our consolidated condensed balance sheet have increased. If our goodwill, indefinite-lived intangible assets, or other intangible assets become impaired in the future, we would be required to record a material, non-cash charge to earnings, which would also reduce our stockholders' equity.

As of September 26, 2016, our consolidated condensed balance sheet reflected \$505.6 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.

We will perform our fiscal year 2016 annual impairment test during our fourth fiscal quarter. Given the recent volatility of our market capitalization, it is reasonably possible that we could record an impairment charge by fiscal year end when we conduct our annual impairment test.

Adverse judgments or settlements resulting from legal proceedings in which we may be involved in the normal course of our business could reduce our profitability or limit our ability to operate our business.

In the normal course of our business, we have been, and may in the future be, subject to employee claims based on, among other things, discrimination, minimum wage, overtime pay and other employment related matters. We cannot predict with certainty the cost of defense, the cost of prosecution or the ultimate outcome of these legal proceedings. Any significant adverse determinations, judgments or settlements could reduce our profitability and could materially adversely affect our business, financial condition and results of operations, limit our ability to operate our business or harm our reputation.

Employee strikes and other labor-related disruptions may materially adversely affect our business, financial condition, and results of operations.

Our business is labor intensive, utilizing large numbers of engineering and manufacturing personnel. Strikes or labor disputes with our unionized employees, primarily in China, may adversely affect our ability to conduct our business. If we are unable to reach agreement with any of our unionized work groups on future negotiations regarding the terms of their collective bargaining agreements, we may be subject to work interruptions or stoppages. Any of these events could be disruptive to our operations and could result in negative publicity, loss of contracts, and a decrease in revenues. We may also become subject to additional collective bargaining agreements in the future if more employees or segments of our workforce become unionized, including any of our employees in the United States. We have not experienced any labor problems resulting in a work stoppage, except for a brief work stoppage associated with the announcement of the closure of our Suzhou, China facility in September 2013.

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 five largest OEM customers accounted for approximately 35% of our net sales for both of the quarters ended September 26, 2016 and September 28, 2015. 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 34% and 35% of our net sales for the quarters ended September 26, 2016 and September 28, 2015, 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 business, financial condition, and results of operations would be materially adversely affected.

Table of Contents

We rely on suppliers and equipment manufacturers for the timely delivery of raw materials, components, equipment and spare parts used in manufacturing our PCBs and E-M Solutions. If a raw material supplier or equipment manufacturers goes bankrupt, liquidates, consolidates out of existence or fails to satisfy our product quality standards, it could harm ability to purchase new manufacturing equipment, service the equipment we have, or timely produce our products, thereby affecting our customer relationships.

Consolidations and restructuring in our supplier base and equipment fabricators related to our raw materials purchases or the manufacturing equipment we use to fabricate our products may result in adverse materials pricing due to reduction in competition among our raw material suppliers or an elimination or shortage of equipment and spare parts from our manufacturing equipment supply base. Suppliers and equipment manufacturers may be impacted by other events outside our control including macro-economic, financial instability, environmental occurrences, or supplier interruptions due to fire, natural catastrophes or otherwise. Suppliers and equipment manufacturers may 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 and negatively impact our financial results. In addition, in extreme circumstances, the suppliers we purchase from could cease production due a fire, natural disaster, consolidation or liquidation of their businesses. As such, this may impact our ability to deliver our products on a timely basis and harm our customer relationships and negatively impact our financial results.

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 September 26, 2016, we generated approximately 73% 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;
- inflation or changes in political and economic conditions;
- labor unrest, rising wages, difficulties in staffing, and geographical labor shortages;
- government or political unrest;
- 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's attention. In addition, though changes in government

Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

policies and rules are timely published or communicated, there is usually 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.

Table of Contents

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, financial condition, and results of operations.

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 September 26, 2016, aerospace and defense sales accounted for approximately 15% of our total net sales. The substantial majority of aerospace and defense 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 and may be affected by federal budget sequestration measures.

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. 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, and results of operations.

Future changes to the U.S. Munitions List could reduce or eliminate restrictions that currently apply to some of the products we produce. If these regulations or others are changed in a manner that reduces restrictions on products being manufactured overseas, we would likely face an increase in the number of competitors and increased price competition from overseas manufacturers, who are restricted by the current export laws from manufacturing products for U.S. defense systems.

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 Department of Defense 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 (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 (the SSA). The terms of the SSA have been previously disclosed in our SEC filings.

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 materially adversely affect our business, financial condition, and results of operations.

We participate in the competitive automotive industry, which has strict quality control standards.

A significant portion of our sales are to customers within the automotive industry. If there was a destabilization of the automotive industry or a market shift away from our automotive customers, it may have a materially adverse effect on our business, financial condition, and results of operations.

In addition, for safety reasons, automotive customers have strict quality standards that generally exceed the quality requirements of other customers. If such products do not meet these quality standards, our business, financial condition, and results of operations may be materially adversely affected. These automotive customers may require long periods of time to evaluate whether our manufacturing processes and facilities meet their quality standards. If we were to lose automotive customers due to quality control issues, we might not be able to regain those customers or gain new automotive customers for long periods of time, which could have a material adverse effect on our business, financial condition, and results of operations. Moreover, we may be required under our contracts with automotive industry customers to indemnify them for the cost of warranties and recalls relating to our products.

Table of Contents

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 AT & S Austria Technologie & Systemtechnik AG, Chin Poon Industrial Co., LTD., Compeq Manufacturing Co., Ltd., IBIDEN Co., Ltd., ISU Petasys Co., Ltd., Multek Corporation, Sanmina Corporation, Tripod Technology Corp., Unimicron Technology Corp., and Wus Printed Circuit Co., Ltd. Our principal E-M Solutions competitors include Amphenol Corp, Flex, Jabil Circuit, Inc. and Sanmina Corporation. 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:

- 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;
- 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 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 would cause our gross margins to decline.

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 2016 we expect to continue to make significant capital expenditures to expand our HDI and other advanced manufacturing capabilities. We may not be able to obtain access to additional sources of 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 will require us to make significant capital investments.

An increase in the cost of raw materials could have a material adverse effect on our business, financial condition, and results of operations 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.

Table of Contents

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 business, financial condition, and results of operations may be materially adversely affected.

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 anticipated product and service standards, we may be unable to obtain new contracts or keep our existing customers, and this would have a material adverse effect on our business, financial condition, and results of operations.

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 (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 conflict minerals report on Form SD with the SEC on June 2, 2014, May 14, 2015 and May 26, 2016. 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 PCBs, 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.

Damage to our manufacturing facilities due to fire, natural disaster, or other events could materially adversely affect our business, financial condition, and results of operations.

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, an outbreak of epidemics such as Ebola or severe acute respiratory syndrome, 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, or in the event that an outbreak of a serious epidemic results in quarantines, temporary closures of offices or manufacturing facilities, travel restrictions or the temporary or permanent loss of key personnel, 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 disaster recovery plans in place, 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.

We face constant pricing pressure from our customers and competitors, which may decrease our profit margins.

Competition in the PCB market is intense, and we expect that competition will continue to increase, thereby creating a highly aggressive pricing environment. We and some of our competitors have reduced average selling prices in the past. In addition, competitors may reduce their average selling prices faster than our ability to reduce costs, which can also accelerate the rate of decline of our selling prices. When prices decline, we may also be required to write down the value of our inventory.

The effects of such pricing pressures on our business may be exacerbated by inflationary pressures that affect our costs of supply. When we are unable to extract comparable concessions from our suppliers on prices they charge us, this in turn reduces gross profit if we are unable to raise

Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

prices. Further, uncertainty or adverse changes in the economy could also lead to a significant decline in demand for our products and pressure to reduce our prices. As a result of the recent global economic downturn, many businesses

Table of Contents

have taken a more conservative stance in ordering inventory. Any decrease in demand for our products, coupled with pressure from the market and our customers to decrease our prices, would materially adversely affect our business, financial condition, and results of operations.

The pricing pressure we face on our products requires us to introduce new and more advanced technology products to maintain average selling prices or reduce any declines in average selling prices. As we shift production to more advanced, higher-density PCBs, we tend to make significant investments in plants and other capital equipment and incur higher costs of production, which may not be recovered.

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

Sales to EMS companies represented approximately 34% and 35% of our net sales for the quarters ended September 26, 2016 and September 28, 2015, 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 has in the past, and could in the future, 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, financial condition, and results of operations may be materially adversely affected.

If we are unable to manage our growth effectively, our business, financial condition, and results of operations could be materially adversely 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 and regulations relating to corrupt practices, trade, and export controls and economic sanctions. Any non-compliance could have a material adverse effect on our business, financial condition, and results of operations.

We operate on a global basis and are subject to anti-corruption, anti-bribery, and anti-kickback laws and regulations, including restrictions imposed by the Foreign Corrupt Practices Act (the FCPA). The FCPA and similar anti-corruption, anti-bribery, and anti-kickback laws in other jurisdictions generally prohibit companies and their intermediaries and agents from making improper payments to government officials or any other persons for the purpose of obtaining or retaining business. We operate and sell our products in many parts of the world that have experienced governmental corruption to some degree and, in certain circumstances, strict compliance with anti-corruption, anti-bribery, and anti-kickback laws may conflict with local customs and practices. We also, from time to time, undertake business ventures with state-owned companies or enterprises.

Our global business operations must also comply with all applicable domestic and foreign export control laws, including International Traffic In Arms Regulations (ITAR), and Export Administration Regulations (EAR). Some items we manufacture are controlled for export by the U.S. Department of Commerce's Bureau of Industry and Security under EAR.

We train our employees concerning anti-corruption, anti-bribery, and anti-kickback laws and compliance with international regulations regarding trades and exports, and we have policies in place that prohibit employees from making improper payments. We cannot provide assurances that our internal controls and procedures will guarantee compliance by our employees or third parties with whom we work. If we are found to be liable for violations of the FCPA or similar anti-corruption, anti-bribery, or anti-kickback laws in international jurisdictions or for violations of ITAR, EAR, or other similar regulations regarding trades and exports, either due to our own acts or out of inadvertence, or due to the inadvertence of others, we could suffer criminal or civil fines or penalties or other repercussions, including reputational harm, which could have a material adverse effect on our business, financial condition, and results of operations.

Our global business operations also must be conducted in compliance with applicable economic sanctions laws and regulations, such as laws administered by the U.S. Department of the Treasury's Office of Foreign Asset Control, the U.S. State Department, and the U.S. Department of Commerce. We must comply with all applicable economic sanctions laws and regulations of the United States and other countries. Violations of these laws or regulations could result in significant additional sanctions including criminal or civil fines or penalties, more onerous compliance requirements, more extensive debarments from export privileges, or loss of authorizations needed to conduct aspects of our international business.

Table of Contents

In certain countries, we may engage third-party agents or intermediaries, such as customs agents, to act on our behalf, and if these third-party agents or intermediaries violate applicable laws, their actions may result in criminal or civil fines or penalties or other sanctions being assessed against us. We take certain measures designed to ensure our compliance with U.S. export and economic sanctions laws, anti-corruption laws and regulations, and export control laws. However, it is possible that some of our products were sold or will be sold to distributors or other parties, without our knowledge or consent, in violation of applicable law. There can be no assurances that we will be in compliance in the future. Any such violation could result in significant criminal or civil fines, penalties, or other sanctions and repercussions, including reputational harm, which could have a material adverse effect on our business, financial condition, and results of operations.

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. 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 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.

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

Environmental laws have generally become more stringent and this trend may continue 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 relocation to another global location where prohibitive regulations do not exist. It is possible that environmental compliance costs and penalties from new or existing regulations may materially adversely affect our business, financial condition, and results of operations.

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. Similar laws have been adopted in other jurisdictions and may become increasingly prevalent. In addition, we must also certify as to the non-applicability of the EU's Waste Electrical and Electronic Equipment directive for certain products that we manufacture. The REACH directive requires the identification 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 China, 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 and chemical use reporting. In China, governmental authorities have adopted new rules and regulations governing environmental issues. An update to Chinese environmental waste water law was issued in late 2012, allowing for an interim period in which plants subject to such law may install equipment that meets the new regulatory regime. Our plants in China are not yet in full compliance with the newly adopted environmental

regulations. There can be no assurance that violations will not occur in the future.

Table of Contents

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 certain precious metals used in connection with our manufacturing and key information technology (IT) infrastructure and to customer and other information that is commercially valuable. Should any employee, for any reason, steal any such precious metals (which has occurred from time to time), compromise our IT systems, or misappropriate customer or other information, we could incur losses, including losses relating to claims by our customers against us, and the willingness of customers to do business with us may be damaged. Additionally, 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.

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, subject to negotiations. 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 materially adversely affect our business, financial condition, and results of operations.

Increasingly, our 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 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 could materially adversely affect our cash flow, business, financial condition, 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 materially adversely affected.

Consolidation among our customers could materially adversely affect our business, financial condition, and results of operations.

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.

Table of Contents

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 a timely basis, 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. To the extent that the funds generated by our ongoing operations are insufficient to cover our liquidity requirements, we may need to raise additional funds through financings. If we are unable to fund our operations and make capital expenditures as currently planned or if we do not have sufficient liquidity to service the interest and principal payments on our debt, 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 the following:

- to fund capital equipment purchases to increase production capacity, upgrade and expand our technological capabilities and replace aging equipment or introduce new products;
- to refinance our existing indebtedness;
- to fund our operations beyond 2016;
- 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. There can be no assurance that additional capital, including any future equity or debt financing, would be available on a timely basis, on favorable terms, or at all. If such funds are not available to us when required or on acceptable terms, our business, financial condition, and results of operations could be materially adversely affected.

Our operations could be materially 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 operations in Asia 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. 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 at our manufacturing facilities.

In addition, certain of the areas in which our North America operations have manufacturing facilities, particularly in California, have experienced power and resource shortages from time to time, including mandatory periods without electrical power, changes to water availability, and significant increases in utility and resource costs. California has also recently experienced drought conditions, prompting the Governor of California to proclaim a Drought State of Emergency. Due to the severe drought conditions, some local and regional water districts and the state government are implementing policies or regulations that restrict water usage and increase the cost of water.

We do not generally maintain any back-up power generation facilities or reserves of water for our operations, so if we were to lose supplies of power or water at any of our facilities, we would be required to cease operations until such supply was restored. Any resulting cessation of operations could materially adversely affect our ability to meet our customers' orders in a timely manner, thus potentially resulting in a loss of business, along with increased costs of manufacturing, and under-utilization of capacity. In addition, the sudden cessation of our power or water 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.

For example, in the third quarter of 2014, one of our principal plants was affected by a five day unexpected power outage, which increased our manufacturing costs and caused delivery delays. 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 business, financial condition, and results of operations.

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

Table of Contents

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 business, financial condition, and results of operations.

We may be unable to hire and retain sufficient qualified personnel, and the loss of any of our key executive officers could materially adversely affect our business, financial condition, and results of operations.

We believe that our future success will depend in large part on our ability to attract and retain highly skilled, knowledgeable, sophisticated, and qualified managerial and professional personnel. 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.

In addition, key employees may depart for a variety of reasons, including because of issues relating to the difficulty of integration or accelerated retirement in connection with our acquisition of Viasystems. If key employees depart, the integration process may be more difficult and could have a material adverse effect on our business, financial condition, and results of operations. Furthermore, we may have to incur significant costs in identifying and hiring replacements for departing employees and may lose significant expertise and talent relating to our businesses, and our ability to realize the anticipated benefits of the acquisition of Viasystems may be adversely affected. In addition, there could be disruptions to or distractions for the workforce and management associated with integrating employees. Accordingly, no assurance can be given that we will be able to attract or retain key employees or that the loss of any key executive officers would not materially adversely affect our business, financial condition, and results of operations.

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 materially adversely affect our business, financial condition, and results of operations.

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 that 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. For example, we have experienced a significant amount of employee attrition in our China operations each year, which has negatively impacted our yield, costs of production, and service times.

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 materially adversely affect our business, financial condition, and results of operations.

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 materially adversely affect our business, financial condition, and results of operations.

Table of Contents

Future sales of our common stock or other securities may dilute the value and adversely affect the market price of our common stock.

In the future, we may issue additional equity securities, through public or private offerings, in order to raise additional capital. Pursuant to our certificate of incorporation, our board of directors has the authority, without action by stockholders, to designate and issue preferred stock in one or more series. Our board of directors may also designate the rights, preferences and privileges of each series of preferred stock, any or all of which may be superior to the rights of the common stock. Any such issuance would reduce your influence over matters on which our stockholders vote, would dilute the percentage of ownership interest of existing stockholders and may dilute the per share book value of the common stock. In addition, option holders may exercise their options at a time when we would otherwise be able to obtain additional equity capital on more favorable terms. Any issuances of preferred stock would likely result in your interest being subject to the prior rights of holders of that preferred stock.

Because we do not expect to pay any cash dividends for the foreseeable future, shareholders may not receive any return on investment unless the shareholders sells their common stock for a price greater than that which was paid.

We have not declared or paid any dividends since 2000 and do not anticipate paying any cash dividends on our common stock in the foreseeable future. Any payment of cash dividends will be at the discretion of our board of directors and will depend on our financial condition, anticipated cash needs, capital requirements, legal requirements, earnings and other factors. Our ability to pay dividends is restricted by the terms of our debt agreements and might be restricted by the terms of any indebtedness that we incur in the future. Consequently, shareholders should not rely on dividends in order to receive a return on your investment. See our dividend policy in Item 5. *Market for Registrants Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities*, in our Annual Report on Form 10-K for the fiscal year ended December 28, 2015.

Our business, financial condition, and results of operations could be materially adversely affected 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 that are derived from sources that generate greenhouse gas emissions.

Failure to maintain good relations with the noncontrolling interest holder of a majority-owned subsidiary of TTM in China could materially adversely affect our ability to manage that operation.

A noncontrolling interest holder owns a 5% interest in a subsidiary of TTM that operates the Huiyang, China facility that became a part of our operations through the acquisition of Viasystems. The noncontrolling interest holder is affiliated with the Chinese government and has close ties to local economic development and other Chinese government agencies. The noncontrolling interest holder has certain rights to be consulted and to consent to certain operating and investment matters concerning the Huiyang facility and the board of directors of our subsidiary that operates the Huiyang facility. Failure to maintain good relations with the noncontrolling interest holder could materially adversely affect our ability to manage the operations of the plant.

Security breaches and other disruptions could compromise our information and expose us to liability, which could cause our business and reputation to suffer.

In the ordinary course of our business, we collect and store sensitive data in our data centers and on our networks, including intellectual property, our proprietary business information and that of our customers, suppliers and business partners, and personally identifiable information of our employees. The secure processing, maintenance and transmission of this information is critical to our operations. Despite our security measures, our information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions. Any such breach could compromise our networks and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings, disrupt our operations, damage our reputation, and cause a loss of confidence in our products and services, which could have a material adverse effect on our business, financial condition, results of operations or cash flows.

Table of Contents**Item 6. Exhibits**

Exhibit	
Number	Exhibits
10.46	Amendment to Term Loan Credit Agreement, by and among TTM Technologies, Inc., as Borrower, the several Lenders from time to time parties thereto, JPMorgan Chase Bank, N.A., as Administrative Agent, Barclays Bank PLC, as Syndication Agent, Wells Fargo Bank and HSBC Securities (USA) Inc, as Co-Documentation Agents, and Sun Trust Bank, as participant, dated as of September 27, 2016.
10.47	Amendment to ABL Credit Agreement, by and among TTM Technologies, Inc., as Borrower, the several Lenders from time to time parties thereto, JPMorgan Chase Bank, N.A., as Administrative Agent, Barclays Bank PLC, as Syndication Agent, Wells Fargo Bank and HSBC Securities (USA) Inc, as Co-Documentation Agents, and Sun Trust Bank, as participant, dated as of September 27, 2016.
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

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: November 3, 2016

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

Dated: November 3, 2016

/s/ Todd B. Schull
Todd B. Schull
Executive Vice President and Chief Financial Officer

Table of Contents**EXHIBIT INDEX**

Exhibit	
Number	Exhibits
10.46	Amendment to Term Loan Credit Agreement, by and among TTM Technologies, Inc., as Borrower, the several Lenders from time to time parties thereto, JPMorgan Chase Bank, N.A., as Administrative Agent, Barclays Bank PLC, as Syndication Agent, Wells Fargo Bank and HSBC Securities (USA) Inc, as Co-Documentation Agents, and Sun Trust Bank, as participant, dated as of September 27, 2016.
10.47	Amendment to ABL Credit Agreement, by and among TTM Technologies, Inc., as Borrower, the several Lenders from time to time parties thereto, JPMorgan Chase Bank, N.A., as Administrative Agent, Barclays Bank PLC, as Syndication Agent, Wells Fargo Bank and HSBC Securities (USA) Inc, as Co-Documentation Agents, and Sun Trust Bank, as participant, dated as of September 27, 2016.
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