

TTM TECHNOLOGIES INC
Form 10-Q
May 07, 2012
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-Q

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

For the quarterly period ended March 26, 2012

Commission File Number: 0-31285

TTM TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of

91-1033443
(I.R.S. Employer

Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

incorporation or organization)

Identification No.)

2630 South Harbor Boulevard, Santa Ana, California 92704

(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 Act). Yes No

Number of shares of common stock, \$0.001 par value, of registrant outstanding at May 2, 2012: 81,903,564

Table of Contents

TABLE OF CONTENTS

	Page
PART I: FINANCIAL INFORMATION	
Item 1. Financial Statements	
<u>Consolidated Condensed Balance Sheets as of March 26, 2012 and December 31, 2011</u>	2
<u>Consolidated Condensed Statements of Operations for the quarters ended March 26, 2012 and March 28, 2011</u>	3
<u>Consolidated Condensed Statements of Comprehensive Income for the quarters ended March 26, 2012 and March 28, 2011</u>	4
<u>Consolidated Condensed Statements of Cash Flows for the quarters ended March 26, 2012 and March 28, 2011</u>	5
<u>Notes to Consolidated Condensed Financial Statements</u>	6
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	19
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	28
<u>Item 4. Controls and Procedures</u>	31
<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>	32
<u>SIGNATURES</u>	33

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

	March 26, 2012	December 31, 2011
	(Unaudited)	
	(In thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 223,764	\$ 196,052
Available for sale securities	616	3,566
Accounts and notes receivable, net of allowance for bad debts of \$1,190 in 2012 and \$1,294 in 2011	293,739	316,568
Inventories	133,320	129,430
Prepaid expenses and other current assets	22,944	19,001
Deferred income taxes	6,917	6,917
Total current assets	681,300	671,534
Property, plant and equipment, net	789,985	766,800
Deferred income taxes	20,352	21,798
Goodwill	183,179	183,320
Definite-lived intangibles, net	76,514	80,508
Deposits and other non-current assets	20,070	25,109
	\$ 1,771,400	\$ 1,749,069
LIABILITIES AND EQUITY		
Current liabilities:		
Short-term debt, including current portion of long-term debt, net of discount	\$ 120,952	\$ 120,882
Accounts payable	139,213	149,055
Accounts payable due to related parties	31,940	36,851
Accrued salaries, wages and benefits	39,026	48,345
Equipment payable	57,707	55,099
Other accrued expenses	28,399	26,908
Total current liabilities	417,237	437,140
Convertible senior notes, net of discount	152,698	151,153
Long-term debt	234,751	217,365
Deferred income taxes	15,056	14,718
Other long-term liabilities	12,506	6,023
Total long-term liabilities	415,011	389,259
Commitments and contingencies (Note 11)		
Equity:		
TTM Technologies, Inc. stockholders' equity	82	81

Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

Common stock, \$0.001 par value; 200,000 shares authorized, 81,751 and 81,339 shares issued and outstanding in 2012 and 2011, respectively		
Additional paid-in capital	538,222	535,558
Retained earnings	241,256	228,661
Statutory surplus reserve	7,021	7,021
Accumulated other comprehensive income	38,860	37,596
Total TTM Technologies, Inc. stockholders' equity	825,441	808,917
Noncontrolling interest	113,711	113,753
Total equity	939,152	922,670
	\$ 1,771,400	\$ 1,749,069

See accompanying notes to consolidated condensed financial statements.

Table of Contents**TTM TECHNOLOGIES, INC.****Consolidated Condensed Statements of Operations****For the Quarters Ended March 26, 2012 and March 28, 2011**

	Quarter Ended	
	March 26,	March 28,
	2012	2011
	(Unaudited)	
	(In thousands, except per share data)	
Net sales	\$ 300,499	\$ 342,801
Cost of goods sold	244,021	260,875
Gross profit	56,478	81,926
Operating expenses:		
Selling and marketing	8,622	9,033
General and administrative	22,135	23,051
Amortization of definite-lived intangibles	3,916	4,158
Total operating expenses	34,673	36,242
Operating income	21,805	45,684
Other income (expense):		
Interest expense	(6,417)	(6,291)
Other, net	1,587	977
Total other expense, net	(4,830)	(5,314)
Income before income taxes	16,975	40,370
Income tax provision	(4,643)	(11,282)
Net income	12,332	29,088
Less: Net loss (income) attributable to the noncontrolling interest	263	(1,965)
Net income attributable to TTM Technologies, Inc. stockholders	\$ 12,595	\$ 27,123
Earnings per share attributable to TTM Technologies, Inc. stockholders:		
Basic earnings per share	\$ 0.15	\$ 0.34
Diluted earnings per share	\$ 0.15	\$ 0.33

See accompanying notes to consolidated condensed financial statements.

Table of Contents**TTM TECHNOLOGIES, INC.****Consolidated Condensed Statements of Comprehensive Income****For the Quarters Ended March 26, 2012 and March 28, 2011**

	Quarter Ended	
	March 26,	March 28,
	2012	2011
	(Unaudited)	
	(In thousands)	
Net income	\$ 12,332	\$ 29,088
Other comprehensive income, net of tax:		
Foreign currency translation adjustments, net of tax expense of \$17 for 2012 and \$64 for 2011	1,474	2,813
Net unrealized gains on cash flow hedges:		
Unrealized gain on effective cash flow hedges during the period, net of		
tax expense of \$60 for 2012 and tax benefit of \$38 for 2011	927	617
Less: reclassification to earnings	(45)	
Net	882	617
Unrealized gains on available for sale securities:		
Unrealized gain on available for sale securities during period	41	
Less: gains realized in net earnings	(912)	
Net	(871)	
Other comprehensive income, net of tax	1,485	\$ 3,430
Comprehensive income	13,817	\$ 32,518
Less: comprehensive loss (income) attributable to the noncontrolling interest	42	(2,308)
Comprehensive income attributable to TTM Technologies, Inc. stockholders	\$ 13,859	\$ 30,210

See accompanying notes to consolidated condensed financial statements.

Table of Contents**TTM TECHNOLOGIES, INC.****Consolidated Condensed Statements of Cash Flows****For the Quarters Ended March 26, 2012 and March 28, 2011**

	Quarter Ended	
	March 26,	March 28,
	2012	2011
	(Unaudited)	
	(In thousands)	
Cash flows from operating activities:		
Net income	\$ 12,332	\$ 29,088
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of property, plant and equipment	19,064	15,695
Amortization of definite-lived intangible assets	3,945	4,188
Amortization of convertible notes discount, debt discount and debt issuance costs	1,835	1,846
Non-cash interest imputed on other long-term liabilities and related party financing obligation	17	371
Income tax benefit from restricted stock units released and common stock options exercised	(613)	(1,916)
Deferred income taxes	2,119	6,713
Stock-based compensation	2,205	1,754
Net loss on sale of property, plant and equipment	853	418
Net gain on sale of securities	(816)	
Net unrealized loss on derivative assets and liabilities	31	283
Unrealized foreign currency exchange loss	214	20
Changes in operating assets and liabilities:		
Accounts and notes receivable, net	22,875	(4,208)
Inventories	(3,870)	(9,171)
Prepaid expenses and other current assets	(4,121)	(4,309)
Accounts payable	(14,520)	1,097
Accrued salaries, wages and benefits and other accrued expenses	(8,046)	(4,784)
Net cash provided by operating activities	33,504	37,085
Cash flows from investing activities:		
Purchase of property, plant and equipment and equipment deposits	(26,701)	(26,480)
Proceeds from sale of property, plant and equipment and assets held for sale	113	11
Proceeds from sale of securities	2,898	
Net cash used in investing activities	(23,690)	(26,469)
Cash flows from financing activities:		
Proceeds from long-term debt	69,803	
Repayment of long-term debt	(52,501)	(17,500)
Net repayment of revolving loan		(14,620)
Proceeds from exercise of stock options	49	5,713
Excess tax benefits from stock awards exercised or released	613	1,916
Net cash provided by (used in) financing activities	17,964	(24,491)
Effect of foreign currency exchange rates on cash and cash equivalents	(66)	137
Net increase (decrease) in cash and cash equivalents	27,712	(13,738)
Cash and cash equivalents at beginning of period	196,052	216,078

Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

Cash and cash equivalents at end of period	\$ 223,764	\$ 202,340
--	------------	------------

Supplemental disclosures of noncash investing and financing activities:

At March 26, 2012 and March 28, 2011, accrued purchases of equipment totaled \$65,983 and \$92,155, respectively.

See accompanying notes to consolidated condensed financial statements.

Table of Contents

TTM TECHNOLOGIES, INC.

Notes to Consolidated Condensed Financial Statements

(Unaudited)

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

(1) Nature of Operations and Basis of Presentation

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

The accompanying consolidated condensed financial statements have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. These consolidated condensed financial statements reflect all adjustments (consisting only of normal recurring adjustments) which, in the opinion of management, are necessary to present fairly the financial position, the results of operations and cash flows of the Company for the periods presented. It is suggested that these consolidated condensed financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's most recent Annual Report on Form 10-K. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year. The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the Company's consolidated condensed financial statements and accompanying notes. Actual results could differ materially from those estimates. The Company uses a 13-week fiscal quarter accounting period with the first quarter ending on the last Monday in March and the fourth quarter always ending on December 31. The first quarters ended March 26, 2012 and March 28, 2011 each contained 86 and 87 days, respectively.

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

(2) Accounts and Notes Receivable Factoring and Sales Arrangements

In the normal course of business, the Company's foreign subsidiaries utilize accounts receivable factoring arrangements. Under these arrangements, the Company may sell certain of its accounts receivable to financial institutions, which are accounted for as a sale, at a discount ranging from 1% to 2% of the accounts receivable. In all arrangements there is no recourse against the Company for its customers' failure to pay. The Company sold \$3,941 and \$14,261 of accounts receivable for the quarters ended March 26, 2012 and March 28, 2011, respectively.

Additionally, the Company's foreign subsidiaries may also sell certain of their notes receivable at an effective discount ranging from 1% to 3% of the notes receivable. The Company sold \$15,196 and \$26,289 of notes receivable for the quarters ended March 26, 2012 and March 28, 2011, respectively.

Table of Contents**(3) Inventories**

Inventories as of March 26, 2012 and December 31, 2011 consist of the following:

	March 26, 2012	December 31, 2011
	(In thousands)	
Inventories:		
Raw materials	\$ 43,480	\$ 44,340
Work-in-process	51,927	46,945
Finished goods	37,913	38,145
	\$ 133,320	\$ 129,430

(4) Goodwill and Definite-lived Intangibles

As of March 26, 2012 and December 31, 2011, goodwill by operating segment and the components of definite-lived intangibles were as follows:

Goodwill

	North America	Asia Pacific	Total
	(In thousands)		
Balance as of December 31, 2011			
Goodwill	\$ 132,286	\$ 183,320	\$ 315,606
Accumulated impairment losses	(132,286)		(132,286)
		183,320	183,320
Foreign currency translation adjustment during the quarter		(141)	(141)
Balance as of March 26, 2012			
Goodwill	132,286	\$ 183,179	315,465
Accumulated impairment losses	(132,286)		(132,286)
	\$	\$ 183,179	\$ 183,179

The March 26, 2012 and December 31, 2011 goodwill balance includes foreign currency translation adjustments related to foreign subsidiaries which operate in currencies other than the U.S. Dollar.

Definite-lived Intangibles

Gross Amount	Accumulated Amortization (In thousands)	Foreign Currency Rate Change	Net Carrying Amount	Weighted Average Amortization Period (years)
-----------------	---	------------------------------------	---------------------------	--

Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

Balance as of March 26, 2012:					
Strategic customer relationships	\$ 120,427	\$ (50,981)	\$ 285	\$ 69,731	9.2
Trade name	10,302	(3,535)	(3)	6,764	6.0
Licensing agreements	350	(331)		19	3.0
	\$ 131,079	\$ (54,847)	\$ 282	\$ 76,514	

All of the definite-lived intangibles are generally amortized using the straight line method of amortization over the useful life, with the exception of the strategic customer relationship intangibles, which are amortized using an accelerated method of amortization based on estimated cash flows. Amortization expense was \$3,945 and \$4,188 for the quarters ended March 26, 2012 and March 28, 2011, respectively. Amortization expense related to acquired licensing agreements is classified as cost of goods sold.

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

	(In thousands)
Remaining 2012	\$ 12,579
2013	15,529
2014	13,951
2015	12,476
2016	7,730
	\$ 62,265

Table of Contents**(5) Long-term Debt and Letters of Credit**

The following table summarizes the long-term debt of the Company as of March 26, 2012 and December 31, 2011.

	Average Effective Interest Rate		Average Effective Interest Rate	
	as of March 26, 2012	March 26, 2012 (In thousands)	as of December 31, 2011	December 31, 2011 (In thousands)
Bank loans, due various dates through February 2014	5.04%	\$ 47,707	4.72%	\$ 40,810
Term loan due November 2013	2.24%	245,000	2.30%	297,500
Revolving loan due November 2013	2.49%	63,000		
Other	6.00%	16	6.00%	17
		355,723		338,327
Less: Unamortized discount		(20)		(80)
		355,703		338,247
Less: Current maturities		(120,952)		(120,882)
Long-term debt, less current maturities		\$ 234,751		\$ 217,365

The maturities of long-term debt through 2014 and thereafter are as follows:

	(In thousands)
2012	\$ 68,472
2013	280,419
2014	6,828
Thereafter	4
	\$ 355,723

Bank loans are made up of bank lines of credit in mainland China and are used for working capital and capital investment for the Company's mainland China facilities. These facilities are denominated in either U.S. Dollars or Chinese Renminbi (RMB), with interest rates tied to either LIBOR or People's Bank of China rates with a margin adjustment. These bank loans expire at various dates through February 2014.

The Company is party to a credit agreement (Credit Agreement) that consists of a \$350,000 senior secured term loan (Term Loan), an \$87,500 senior secured revolving loan (Revolving Loan), a \$65,000 factoring facility (Factoring Facility), and an \$80,000 letters of credit facility (Letters of Credit Facility), all of which will mature on November 16, 2013. The Credit Agreement is secured by substantially all of the assets of the Company's Asia Pacific operating segment and is senior to all other Company debt, including the Convertible Senior Notes, (Note 6). The Company has fully and unconditionally guaranteed the full and punctual payment of all obligations of its Asia Pacific operating segment under the Credit Agreement.

Borrowings under the Credit Agreement bear interest at a floating rate of LIBOR (term election by the Company) plus an applicable interest margin. Borrowings under the Term Loan bear interest at a rate of LIBOR plus 2.0%, LIBOR plus 2.25% under the Revolving Loan, and LIBOR plus 1.25% under the Factoring Facility. There is no provision, other than an event of default, for these interest margins to increase. At March 26, 2012, the weighted average interest rate on the outstanding borrowings under the Credit Agreement was 2.29%.

Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

The Company is required to make scheduled payments of the outstanding Term Loan balance during 2012 and 2013. All and any other outstanding balances under the Credit Agreement are due at the maturity date of November 16, 2013. Borrowings under the Credit Agreement are subject to certain financial and operating covenants that include, among other provisions, limitations on dividends or other distributions, maintaining maximum total leverage ratios and minimum net worth, current assets, and interest coverage ratios at both the Company and at the Asia Pacific operating segment level. At March 26, 2012, the Company is in compliance with the covenants.

The Company is also required to pay a commitment fee of 0.20% per annum on the unused portion of any loan or facility under the Credit Agreement. For the quarters ended March 26, 2012 and March 28, 2011, the Company incurred \$57 and \$75, respectively, in commitment fees related to unused borrowing availability under the Credit Agreement. As of March 26, 2012, all of the remaining Term Loan was outstanding; \$63,000 of the Revolving Loan was outstanding, which is included as long-term debt; none of the Factoring Facility was outstanding; and \$57,458 of the Letters of Credit Facility was outstanding. Available borrowing capacity under the Revolving Loan and Factoring Facility was \$24,500 and \$65,000, respectively, at March 26, 2012.

Table of Contents

The Company entered into an interest rate swap arrangement with an initial notional amount of \$146,500 for the period beginning April 18, 2011 and ending on April 16, 2013. See Note 7.

Other Letters of Credit

In addition to the letters of credit obtained pursuant to the Credit Agreement, the Company maintains several unused letters of credit: a \$2,294 standby letter of credit expiring on December 31, 2012 associated with its insured workers compensation program; two standby letters in the amount of \$1,060 in aggregate expiring on December 31, 2012 and February 28, 2013, respectively, related to the lease of two of its production facilities; and various other letters of credit aggregating to approximately \$1,481 related to purchases of machinery and equipment with various expiration dates through September 2012.

(6) Convertible Senior Notes

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

The Company has allocated the Convertible Notes offering costs to the liability and equity components in proportion to the allocation of proceeds and accounted for them as debt issuance costs and equity issuance costs, respectively. At March 26, 2012 and December 31, 2011, the following summarizes the liability and equity components of the Convertible Notes:

	March 26, 2012	December 31, 2011
	(In thousands)	
Liability components:		
Convertible Notes	\$ 175,000	\$ 175,000
Less: Convertible Notes unamortized discount	(22,302)	(23,847)
Convertible Notes, net of discount	\$ 152,698	\$ 151,153
Equity components:		
Additional paid-in capital:		
Embedded conversion option - Convertible Notes	\$ 43,000	\$ 43,000
Embedded conversion option - Convertible Notes issuance costs	(1,413)	(1,413)
	\$ 41,587	\$ 41,587

At March 26, 2012 and December 31, 2011, remaining unamortized debt issuance costs included in other non-current assets were \$2,250 and \$2,406, respectively. The debt issuance costs and debt discount are being amortized to interest expense over the term of the Convertible Notes using the effective interest rate method. At March 26, 2012, the remaining amortization period for the unamortized Convertible Note discount and debt issuance costs was 3.1 years.

The components of interest expense resulting from the Convertible Notes for the quarters ended March 26, 2012 and March 28, 2011 are as follows:

	For the Quarter Ended	
	March 26, 2012	March 28, 2011

Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

	(In thousands)	
Contractual coupon interest	\$ 1,422	\$ 1,422
Amortization of Convertible Notes debt discount	1,545	1,422
Amortization of debt issuance costs	156	143
	\$ 3,123	\$ 2,987

For the quarters ended March 26, 2012 and March 28, 2011, the amortization of the Convertible Notes debt discount and debt issuance costs is based on an effective interest rate of 8.37%.

Table of Contents

Conversion

At any time prior to November 15, 2014, holders may convert their Convertible Notes into cash and, if applicable, into shares of the Company's common stock based on a conversion rate of 62.6449 shares of the Company's common stock per \$1 principal amount of Convertible Notes, subject to adjustment, under the following circumstances: (1) during any calendar quarter beginning after June 30, 2008 (and only during such calendar quarter), if the last reported sale price of our common stock for at least 20 trading days during the 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the applicable conversion price on each applicable trading day of such preceding calendar quarter; (2) during the five business day period after any 10 consecutive trading day period in which the trading price per note for each day of that 10 consecutive trading day period was less than 98% of the product of the last reported sale price of the Company's common stock and the conversion rate on such day; or (3) upon the occurrence of specified corporate transactions described in the prospectus supplement. As of March 26, 2012, none of the conversion criteria had been met.

On or after November 15, 2014 until the close of business on the third scheduled trading day preceding the maturity date, holders may convert their notes at any time, regardless of the foregoing circumstances. Upon conversion, for each \$1 principal amount of notes, the Company will pay cash for the lesser of the conversion value or \$1 and shares of our common stock, if any, based on a daily conversion value calculated on a proportionate basis for each day of the 60 trading day observation period. Additionally, in the event of a fundamental change as defined in the prospectus supplement, or other conversion rate adjustments such as share splits or combinations, other distributions of shares, cash or other assets to stockholders, including self-tender transactions (Other Conversion Rate Adjustments), the conversion rate may be modified to adjust the number of shares per \$1 principal amount of the notes. As of March 26, 2012, none of the criteria for a fundamental change or a conversion rate adjustment had been met.

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

Note Repurchase

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

Convertible Note Hedge and Warrant Transaction

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

(7) Financial Instruments

Derivatives

Interest Rate Swaps

The Company's business is exposed to interest rate risk resulting from fluctuations in interest rates on certain variable rate LIBOR debt. Increases in interest rates would increase interest expenses relating to the outstanding variable rate borrowings of certain foreign subsidiaries and increase the cost of debt. Fluctuations in interest rates can also lead to significant fluctuations in the fair value of the debt obligations.

The Company entered into a two-year pay-fixed, receive floating (1-month LIBOR), amortizing interest rate swap arrangement with an initial notional amount of \$146,500, for the period beginning April 18, 2011 and ending on April 16, 2013. The interest rate swap will apply a fixed interest rate against the first interest payments of a portion of the \$350,000 Term Loan over the term of the interest rate swap.

Table of Contents

The notional amount of the interest rate swap decreases to zero over its term, consistent with the Company's risk management objectives. The notional value underlying the hedge at March 26, 2012 was \$111,900. Under the terms of the interest rate swap, the Company will pay a fixed rate of 2.50% and will receive floating 1-month LIBOR during the swap period. The Company has designated this interest rate swap as a cash flow hedge.

At inception, the fair value of the interest rate swap was zero. As of March 26, 2012 and December 31, 2011, the fair value of the swap was recorded as a liability of \$2,352 and \$2,721, respectively, in other long-term liabilities. The change in the fair value of the interest rate swap is recorded as a component of accumulated other comprehensive income, net of tax, in the Company's consolidated condensed balance sheet. No ineffectiveness was recognized for the quarters ended March 26, 2012 and March 28, 2011. During the quarter ended March 26, 2012, the interest rate swap increased interest expense by \$609. There was no impact to interest expense for the quarter ended March 28, 2011 as the interest rate swap did not hedge interest rate cash flows until the period beginning April 18, 2011.

Additionally, the Company, through its acquisition of the Asia Pacific operating segment in 2010, assumed a long-term pay-fixed, receive floating (1-month LIBOR), amortizing interest rate swap arrangement with an initial notional amount of \$40,000, for the period beginning October 8, 2008 and ending on July 30, 2012. This interest rate swap applied to the Asia Pacific segment's pre-acquisition, long-term borrowings, which were paid in full on the acquisition date. The notional amount of the interest rate swap decreases to zero over its term and was \$16,000 as of March 26, 2012. Under the terms of the interest rate swap, the Company will pay a fixed rate of 3.43% and will receive floating 1-month LIBOR during the swap period. As the borrowings attributable to this interest rate swap were paid upon acquisition, the Company did not designate this interest rate swap as a cash flow hedge. As of March 26, 2012 and December 31, 2011, the fair value of the swap was recorded as a liability of \$214 and \$314, respectively, in other accrued expenses. The change in the fair value of this interest rate swap is recorded as other, net in the consolidated condensed statement of operations.

Foreign Exchange Contracts

The Company enters into foreign currency forward contracts to mitigate the impact of changes in foreign currency exchange rates and to reduce the volatility of purchases and other obligations generated in currencies other than the functional currencies. The Company's foreign subsidiaries may at times purchase forward exchange contracts to manage their foreign currency risks in relation to certain purchases of machinery denominated in foreign currencies other than the Company's foreign functional currency. The notional amount of the foreign exchange contracts at March 26, 2012 and December 31, 2011 was approximately \$43,616 and \$44,707, respectively. The Company has designated certain of these foreign exchange contracts as cash flow hedges.

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

	Balance Sheet Location	Asset / (Liability) Fair Value	
		March 26, 2012	December 31, 2011
(In thousands)			
Cash flow derivative instruments designated as hedges:			
Foreign exchange contracts	Prepaid expenses and other current assets	\$ 2	\$
Foreign exchange contracts	Deposits and other non-current assets	45	
Foreign exchange contracts	Other accrued expenses	(328)	
Foreign exchange contracts	Other long-term liabilities	(212)	(1,111)
Interest rate swap	Other long-term liabilities	(2,352)	(2,721)
Cash flow derivative instruments not designated as hedges:			
Foreign exchange contracts	Prepaid expenses and other current assets		89
Foreign exchange contracts	Other accrued expenses	(814)	(631)
Foreign exchange contracts	Other long-term liabilities		(97)
Interest rate swap	Other accrued expenses	(214)	(314)
		\$ (3,873)	\$ (4,785)

Table of Contents

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

Financial Statement Caption	March 26, 2012		For the Quarter Ended		March 28, 2011	
	Effective Portion Gain/(Loss) Recognized in Other Comprehensive Income	Gain/(Loss) Reclassified into Income	Ineffective Portion Gain/(Loss) Reclassified into Income	Effective Portion Gain/(Loss) Recognized in Other Comprehensive Income	Gain/(Loss) Reclassified into Income	Ineffective Portion Gain/(Loss) Reclassified into Income
(In thousands)						
Cash flow hedge:						
Interest rate swap	Interest expense	\$ 369	\$ (609)	\$	\$ (235)	\$
Foreign currency forward	Other, net	618			814	
		\$ 987	\$ (609)	\$	\$ 579	\$

The following table provides a summary of the activity associated with the designated cash flow hedges reflected in accumulated other comprehensive income for the quarters ended March 26, 2012 and March 28, 2011:

	For the Quarter Ended	
	March 26, 2012	March 28, 2011
(In thousands)		
Beginning balance unrealized loss, net of tax	\$ (3,262)	\$ (3,121)
Changes in fair value, net of tax	927	617
Reclassification to earnings	(45)	
Ending balance unrealized loss, net of tax	\$ (2,380)	\$ (2,504)

The amounts recorded in accumulated other comprehensive income for the cash flow hedge related to the interest rate swap are reclassified into interest expense during the operative period of the swap, beginning April 18, 2011 and ending on April 16, 2013, and in the same period in which the related interest on the floating-rate debt obligation affects earnings. The Company expects that approximately \$1,822 will be reclassified into the statement of operations, net of tax, in the next 12 months.

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

	For the Quarter Ended	
	March 26, 2012	March 28, 2011
(In thousands)		
Derivative instruments not designated as hedges:		
Interest rate swap	\$ 100	\$ 166
Foreign exchange contracts	242	921
	\$ 342	\$ 1,087

Table of Contents**Other Financial Instruments**

The carrying amount and estimated fair value of the Company's financial instruments at March 26, 2012 and December 31, 2011 were as follows:

	March 26, 2012		December 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In thousands)			
Available for sale securities	\$ 616	\$ 616	\$ 3,566	\$ 3,566
Derivative assets, current	2	2	89	89
Derivative liabilities, current	1,356	1,356	945	945
Derivative assets, non-current	45	45		
Derivative liabilities, non-current	2,564	2,564	3,929	3,929
Long-term debt	355,703	354,014	338,247	337,381
Convertible senior notes	152,698	191,328	151,153	182,000

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

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

The fair value of the long-term debt was estimated based on discounting the par value of the debt over its life for the difference between the debt stated interest rate and current market rates for similar debt at March 26, 2012 and December 31, 2011.

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

At March 26, 2012 and December 31, 2011, the Company's other financial instruments included cash and cash equivalents, accounts receivable, notes receivable, accounts payable and equipment payables. Due to short-term maturities, the carrying amount of these instruments approximates fair value.

(8) Accumulated Other Comprehensive Income

The following provides a summary of the components of accumulated other comprehensive income, net of tax as of March 26, 2012 and December 31, 2011:

	March 26, 2012	December 31, 2011
	(In thousands)	
Foreign currency translation, net of taxes of \$2,889 for 2012 and \$2,872 for 2011	\$ 41,026	\$ 39,772
Unrealized losses related to cash flow hedges, net of tax benefit of \$388 for 2012 and \$449 for 2011	(2,380)	(3,262)
Unrealized gains related to available for sales securities	214	1,086
	\$ 38,860	\$ 37,596

(9) Significant Customers and Concentration of Credit Risk

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

evaluating collection risk.

As of March 26, 2012 and December 31, 2011, the Company's 10 largest customers in the aggregate accounted for 52% and 53%, respectively, of total accounts receivable. If one or more of the Company's significant customers were to become insolvent or were otherwise unable to pay for the manufacturing services provided, it would have a material adverse effect on the Company's financial condition and results of operations.

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

Table of Contents

For both of the quarters ended March 26, 2012 and March 28, 2011, one customer, Apple, accounted for approximately 13% of the Company's net sales. The loss of one or more major customers or a decline in sales to the Company's major customers would have a material adverse effect on the Company's financial condition and results of operation.

(10) Fair Value Measures

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

At March 26, 2012 and December 31, 2011, the following financial assets and liabilities were measured at fair value on a recurring basis using the type of inputs shown:

	March 26, 2012	Fair Value Measurements Using:		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Money market funds	\$ 101,930	\$ 101,930		
Available for sale securities	616	616		
Foreign exchange derivative assets	47		\$ 47	
Interest rate swap derivative liabilities	2,566		2,566	
Foreign exchange derivative liabilities	1,354		1,354	

	December 31, 2011	Fair Value Measurements Using:		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Money market funds	\$ 89,404	\$ 89,404		
Available for sale securities	3,566	3,566		
Foreign exchange derivative assets	89		\$ 89	
Interest rate swap derivative liabilities	3,035		3,035	
Foreign exchange derivative liabilities	1,839		1,839	

There were no transfers of financial assets or liabilities between Level 1 and Level 2 inputs for the quarters ended March 26, 2012 or March 28, 2011.

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

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

The Company is subject to various legal matters, which it considers normal for its business activities. While the Company currently believes that the amount of any reasonably possible or probable loss for known matters would not be material to the Company's financial condition, the outcome of these actions is inherently difficult to predict. In the event of an adverse outcome, the ultimate potential loss could have a material adverse effect on the Company's financial condition or results of operations in a particular period. The Company has accrued amounts for its loss contingencies which are probable and estimable at March 26, 2012 and December 31, 2011. However, these amounts are not material to the consolidated condensed financial statements of the Company.

Table of Contents**Environmental Matters**

The process to manufacture PCBs requires adherence to city, county, state, federal and foreign jurisdiction environmental regulations regarding the storage, use, handling and disposal of chemicals, solid wastes and other hazardous materials as well as air quality standards. Management believes that its facilities comply in all material respects with environmental laws and regulations. The Company has in the past received certain notices of violations and has implemented certain required minor corrective activities. There can be no assurance that violations will not occur in the future.

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

The Company concluded that it was probable that it would incur remediation and monitoring costs for the other three sites of approximately \$564 and \$628 as of March 26, 2012 and December 31, 2011, respectively, the liability for which is included in other long-term liabilities. The Company estimates that it will incur the remediation costs over the next 12 to 84 months. This accrual was discounted at 8% per annum to determine the Company's best estimate of the liability, which the Company estimated as ranging from \$839 to \$1,274 on an undiscounted basis.

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

(12) Earnings Per Share

The following is a reconciliation of the numerator and denominator used to calculate basic earnings per share and diluted earnings per share for the quarters ended March 26, 2012 and March 28, 2011:

	Quarter Ended	
	March 26, 2012	March 28, 2011
	(In thousands, except per share amounts)	
Net income attributable to TTM Technologies, Inc. stockholders	\$ 12,595	\$ 27,123
Weighted average shares outstanding	81,413	80,696
Dilutive effect of performance-based stock units, restricted stock units and stock options	815	1,090
Dilutive effect of assumed conversion of convertible notes outstanding		518
Diluted shares	82,228	82,304
Earnings per share attributable to TTM Technologies, Inc stockholders:		
Basic	\$ 0.15	\$ 0.34
Diluted	\$ 0.15	\$ 0.33

For the quarters ended March 26, 2012 and March 28, 2011, performance-based stock units, restricted stock units and stock options to purchase 1,629 and 648 shares of common stock, respectively, were not considered in calculating diluted earnings per share because the options' exercise prices or the total expected proceeds under the treasury stock method for performance-based stock units, restricted stock units or stock options was greater than the average market price of common shares during the period and, therefore, the effect would be anti-dilutive.

Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

Additionally, for the quarter ended March 26, 2012, the effect of 10,963 shares of common stock related to the Company's Convertible Notes, the effect of the convertible note hedge to purchase 10,963 shares of common stock and the warrants sold to purchase 10,963 shares of the Company's common stock were not included in the computation of dilutive earnings per share because the conversion price of the Convertible Notes and the strike price of the warrants to purchase the Company's common stock were greater than the average market price of common shares during the quarter, and therefore, the effect would be anti-dilutive.

Table of Contents**(13) Stock-Based Compensation**

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

	Quarter Ended	
	March 26, 2012	March 28, 2011
	(In thousands)	
Cost of goods sold	\$ 311	\$ 216
Selling and marketing	114	111
General and administrative	1,780	1,427
Stock-based compensation expense recognized	2,205	1,754
Income tax benefit recognized	(578)	(534)
Total stock-based compensation expense after income taxes	\$ 1,627	\$ 1,220

Performance-based Restricted Stock Units

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

The Company records stock-based compensation expense for PRU awards granted based on management's periodic assessment of the probability of the PRU awards vesting. For the quarter ended March 26, 2012, management determined that vesting of the PRU awards was probable. PRUs activity for the quarter ended March 26, 2012 was as follows:

	Shares (In thousands)
Outstanding target shares at December 31, 2011	158
Granted:	
Third tranche of 2010 grant	46
Second tranche of 2011 grant	63
First tranche of 2012 grant	81
Outstanding target shares at March 26, 2012	348

The fair value for PRUs granted is calculated using a Monte Carlo simulation model, as the TSR modifier contains a market condition. For the quarters ended March 26, 2012 and March 28, 2011, the following assumptions were used in determining the fair value:

	March 26, 2012 ¹	March 28, 2011 ²
Weighted-average fair value	\$ 12.51	\$ 22.74
Risk-free interest rate	0.3%	1.0%
Dividend yield		

Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

Expected volatility	55%	59%
Expected term in months	23	33

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

Table of Contents*Restricted Stock Units*

The Company granted 657 and 335 restricted stock units during the quarters ended March 26, 2012 and March 28, 2011, respectively. The units granted have a weighted-average fair value per unit of \$12.00 for the quarter ended March 26, 2012 and \$17.30 for the quarter ended March 28, 2011. The fair value for restricted stock units granted is based on the closing share price of the Company's common stock on the date of grant.

Stock Options

The Company did not grant any stock option awards during the quarters ended March 26, 2012 and March 28, 2011.

Foreign Employee Share Awards

The Company maintains foreign employee share awards, which existed prior to the acquisition of the Asia Pacific operating segment. These grants vest over five tranches. Three tranches have vested as of the first quarter of 2012 and the remaining two tranches will vest annually thereafter, through 2014. The fair value, after adjustment for estimated forfeitures, that is attributed to post-combination service is recognized as an expense over the remaining vesting period and is included as a component of total stock-based compensation expense. At March 26, 2012 and December 31, 2011, there were approximately 33 and 50 shares in the employee share award grants, respectively.

The following is a summary of total unrecognized compensation costs as of March 26, 2012:

	Unrecognized Stock-Based Compensation Cost (In thousands)	Remaining Weighted Average Recognition Period (years)
PRU awards	\$ 3,702	1.8
RSU awards	14,910	1.6
Stock option awards	402	1.5
Foreign employee share awards	199	1.4
	\$ 19,213	

(14) Segment Information

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

Table of Contents

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

	For the Quarter Ended	
	March 26, 2012	March 28, 2011
	(In thousands)	
Net Sales:		
North America	\$ 130,024	\$ 142,250
Asia Pacific	171,758	202,465
Total sales	301,782	344,715
Inter-segment sales	(1,283)	(1,914)
Total net sales	\$ 300,499	\$ 342,801
Operating Segment Income:		
North America	\$ 12,896	\$ 16,765
Asia Pacific	12,825	33,077
Total operating segment income	25,721	49,842
Amortization of definite-lived intangibles	(3,916)	(4,158)
Total operating income	21,805	45,684
Total other expense	(4,830)	(5,314)
Income before income taxes	\$ 16,975	\$ 40,370

The Company accounts for inter-segment sales and transfers as if the sale or transfer were to third parties: at arms length and in conjunction with the Company's revenue recognition policy. The inter-segment sales for the quarter ended March 26, 2012 and March 28, 2011 are sales from the Asia Pacific operating segment to the North America operating segment.

(15) Related Party Transactions***Supply and Lease Arrangements***

The Company's foreign subsidiaries enter into long-term supply arrangements to purchase laminate and prepreg from a related party in which a significant shareholder of the Company holds an approximate 16% shareholding. These supply arrangements expire on December 31, 2012. The Company's foreign subsidiaries also purchased laminate and prepreg from the laminate companies of the said significant shareholder of the Company. For the quarters ended March 26, 2012 and March 28, 2011, the Company purchased \$21,526 and \$24,133, respectively, of laminate and prepreg from these related parties.

Additionally, a related party leases employee housing space from a foreign subsidiary of the Company. For the quarters ended March 26, 2012 and March 28, 2011, the net income for these activities was \$48 and \$64, respectively.

At March 26, 2012 and December 31, 2011, the Company's consolidated condensed balance sheet included \$31,940 and \$36,851, respectively, in accounts payable due to and \$73 and \$44, respectively, in accounts receivable due from a related party for the supply and lease arrangements.

(16) Subsequent Event

Subsequent to March 26, 2012, one of the Company's majority owned foreign subsidiaries declared a dividend in the amount of approximately \$47,600, which includes approximately \$9,500 for its noncontrolling interest shareholder. The dividend is expected to be paid by the end of the

third quarter of 2012.

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

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

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

OVERVIEW

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

Based on customer inputs regarding new product introductions and overall prospects for our business, the majority of our net sales for 2012 are expected in the second half of the year. Labor expense is likely to increase in our Asia Pacific segment beginning in the second quarter of 2012 due to both PRC government-mandated wage increases and additional compensation we will offer our labor force as a result of a reduction of overtime hours that we will implement to meet standards required by some of our global customers. This increased labor expense is likely to reduce the gross and operating margins of our Asia Pacific segment in 2012.

In January 2012 we temporarily closed a significant facility, Dongguan Shengyi Electronics Ltd. (SYE), located in Dongguan, China, for repairs and upgrades. The SYE facility is expected to reopen during the third quarter 2012. A majority of SYE's production and a significant portion of its work force have been temporarily transferred to our other facilities located in South China during this period. Net sales in our Asia Pacific operating segment in the first quarter of 2012 were reduced by approximately \$2.5 million as a result of this temporary closure and we estimate net sales will be reduced by approximately \$3.0 to \$6.0 million for the second quarter of 2012.

While our customers include both OEM and EMS providers, we measure customers based on OEM companies as they are the ultimate end customers. We measure customers as those companies that have placed orders of \$2,000 or more in the preceding 12-month period. As of March 26, 2012, we had approximately 1,210 customers, and as of March 28, 2011, we had approximately 1,175 customers. Sales to our 10 largest customers accounted for 49% and 46% of our net sales in the first quarter ended March 26, 2012 and March 28, 2011, respectively. We sell to OEMs both directly and indirectly through EMS companies.

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

End Markets(1)	Quarter Ended	
	March 26, 2012	March 28, 2011
Aerospace/Defense	17%	16%
Cellular Phone	10	9
Computing/Storage/Peripherals	24	27
Medical/Industrial/Instrumentation/Other	10	8
Networking/Communications	32	34
Other	7	6
Total	100%	100%

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

Table of Contents

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

We also deliver a significant percentage of compressed lead-time work with lead times of 11 to 20 days. We typically receive a premium price for this work as well. Purchase orders may be cancelled prior to shipment. We charge customers a fee, based on percentage completed, if an order is cancelled once it has entered production. We derive revenues primarily from the sale of PCBs and backplane assemblies using customer-supplied engineering and design plans. We recognize revenues when persuasive evidence of a sales arrangement exists, the sales terms are fixed or determinable, title and risk of loss have transferred, and collectibility is reasonably assured generally when products are shipped to the customer. Net sales consist of gross sales less an allowance for returns, which typically has been less than 2% of gross sales. We provide our customers a limited right of return for defective PCBs and backplane assemblies. We record an estimated amount for sales returns and allowances at the time of sale based on historical information.

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

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

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

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

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

Table of Contents

Allowance for Doubtful Accounts

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

Inventories

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

Sales Returns and Allowances

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

Long-lived Assets

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

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

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

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

Table of Contents

Derivative Instruments and Hedging Activities

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

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

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

Income Taxes

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

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

Self Insurance

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

Table of Contents**RESULTS OF OPERATIONS**

There were 86 and 87 days for the quarters ended March 26, 2012 and March 28, 2011, respectively. The following table sets forth the relationship of various items to net sales in our consolidated condensed statement of operations:

	Quarter Ended	
	March 26, 2012	March 28, 2011
Net sales	100.0%	100.0%
Cost of goods sold	81.2	76.1
Gross profit	18.8	23.9
Operating expenses:		
Selling and marketing	2.9	2.6
General and administrative	7.4	6.7
Amortization of definite-lived intangibles	1.2	1.3
Total operating expenses	11.5	10.6
Operating income	7.3	13.3
Other income (expense):		
Interest expense	(2.1)	(1.8)
Other, net	0.4	0.3
Total other expense, net	(1.7)	(1.5)
Income before income taxes	5.6	11.8
Income tax provision	(1.5)	(3.3)
Net income	4.1	8.5
Less: Net loss (income) attributable to noncontrolling interest	0.1	(0.6)
Net income attributable to TTM Technologies, Inc. stockholders	4.2%	7.9%

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

The following table compares net sales by reportable segment for the quarters ended March 26, 2012 and March 28, 2011:

	Quarter Ended	
	March 26, 2012	March 28, 2011
	(In thousands)	
Net Sales:		
North America	\$ 130,024	\$ 142,250
Asia Pacific	171,758	202,465
Total sales	301,782	344,715

Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

Inter-segment sales	(1,283)	(1,914)
Total net sales	\$ 300,499	\$ 342,801

Net Sales

Net sales decreased \$42.3 million, or 12.3%, from \$342.8 million for the first quarter ended March 28, 2011 to \$300.5 million for the first quarter ended March 26, 2012.

Net sales for the North America segment decreased \$12.2 million, or 8.6%, from \$142.2 million in the first quarter of 2011 to \$130.0 million in the first quarter of 2012. This decrease was primarily due to lower demand in our Networking/Communications and Aerospace/Defense end markets, resulting in a 12% decline in PCB sales volume partially offset by an 8% increase in the average PCB selling price. In addition, demand for backplane assemblies dropped by 21% from the first quarter of 2011.

Net sales for the Asia Pacific segment, excluding inter-segment sales, decreased \$30.1 million, or 15.0%, from \$200.6 million in the first quarter of 2011 to \$170.5 million in the first quarter of 2012. This decrease was primarily due to lower demand in our Computing and Networking/Communications end markets, resulting in a 27% decline in PCB shipments from the first quarter of 2011. The average PCB selling price increased by 16%, which was driven by the mix shift from conventional PCBs and standard HDI PCBs toward higher priced advanced HDI PCBs.

Table of Contents***Cost of Goods Sold***

Cost of goods sold decreased \$16.9 million, or 6.5%, from \$260.9 million for the first quarter ended March 28, 2011 to \$244.0 million for the first quarter ended March 26, 2012.

Cost of goods sold for the North America segment decreased \$7.6 million, or 6.8%, from \$111.1 million for the first quarter of 2011 to \$103.5 million for the first quarter of 2012. As a percentage of net sales, cost of goods sold increased from 78.1% for the first quarter of 2011 to 79.6% for the first quarter of 2012, primarily due to higher labor expense and lower cost absorption due to the decline in net sales, partially offset by a lower mix of backplane assemblies, which have a higher direct material content.

Cost of goods sold for the Asia Pacific segment decreased \$9.3 million, or 6.2%, from \$149.8 million for the first quarter of 2011 to \$140.5 million for the first quarter of 2012. As a percentage of net sales, cost of goods sold increased from 74.7% for the first quarter of 2011 to 82.4% for the first quarter of 2012, primarily due to higher labor costs in China, increased depreciation expense and lower cost absorption due to the decline in net sales. Included in cost of goods sold for the first quarter of 2012 are approximately \$3.9 million of costs related to the temporary closure of our SYE facility in Dongguan, China. These costs consist primarily of labor costs and depreciation expense.

Gross Profit

As a result of the foregoing, gross profit decreased \$25.4 million, or 31.0%, from \$81.9 million for the first quarter ended March 28, 2011 to \$56.5 million for the first quarter ended March 26, 2012. Overall gross margin decreased from 23.9% for the first quarter of 2011 to 18.8% for the first quarter of 2012 due primarily to higher labor costs, lower cost absorption on lower production in our conventional PCB facilities, which has caused our capacity utilization to decline, and costs related to the temporary closure of SYE.

Selling and Marketing Expenses

Selling and marketing expenses decreased \$0.4 million, or 4.4%, from \$9.0 million for the first quarter ended March 28, 2011 to \$8.6 million for the first quarter ended March 26, 2012 primarily due to a decrease in commission expense. As a percentage of net sales, selling and marketing expenses were 2.6% for the first quarter of 2011 as compared to 2.9% for the first quarter of 2012. The increase in selling and marketing expense as a percentage of net sales is due to lower net sales and the fixed portion of selling expense, while commission expense remained consistent as a percentage of net sales.

General and Administrative Expense

General and administrative expenses decreased \$1.0 million from \$23.1 million, or 6.7% of net sales, for the first quarter ended March 28, 2011 to \$22.1 million, or 7.4% of net sales, for the first quarter ended March 26, 2012. The decrease in expense primarily relates to lower accounting fees and bad debt expense. As a percentage of net sales, general and administrative increased due to a decline in net sales.

Other Income (Expense)

Other expense, net decreased \$0.5 million from \$5.3 million for the first quarter ended March 28, 2011 to \$4.8 million for the first quarter ended March 26, 2012. The decrease in other expense, net was primarily due to a \$0.8 million realized gain on sale of securities during the first quarter of 2012, partially offset by a \$0.4 million decrease in foreign currency transaction gains.

Income Taxes

The provision for income taxes decreased \$6.7 million from \$11.3 million for the first quarter ended March 28, 2011 to \$4.6 million for the first quarter ended March 26, 2012 primarily due to less pre-tax income. Our effective tax rate was 27.9% for the first quarter of 2011 and 27.4% for the first quarter of 2012. Our effective tax rate is primarily impacted by the U.S. federal income tax rate, apportioned state income tax rates, tax rates in China and Hong Kong, generation of other credits and deductions available to us, and certain non-deductible items. Certain foreign losses generated are not more than likely to be realizable, and thus no income tax benefit has been recognized on these losses. Additionally, as of March 26, 2012 and December 31, 2011, we had net deferred income tax assets of approximately \$12.2 million and \$14.0 million, respectively. Based on our forecast for future taxable earnings, we believe it is more likely than not that we will utilize the deferred income tax assets in future periods.

Table of Contents

Liquidity and Capital Resources

Our principal sources of liquidity have been cash provided by operations, the issuance of Convertible Notes and the issuance of term and revolving debt. Our principal uses of cash have been to finance capital expenditures, meet debt service requirements, fund working capital requirements and finance acquisitions. We anticipate that servicing debt, financing capital expenditures, funding working capital requirements, and acquisitions will continue to be the principal demands on our cash in the future. We have approximately \$121.0 million of debt payments due in the next 12 months.

As of March 26, 2012, we had net working capital of approximately \$264.1 million compared to \$234.4 million as of December 31, 2011. This increase in working capital is primarily attributable to proceeds from long-term debt borrowings during the first quarter of 2012.

As of March 26, 2012, we had cash and cash equivalents of approximately \$223.8 million, \$80.9 million of which was located in Asia. Cash and cash equivalents located in our Asia Pacific operating segment are expected to remain for use in local operations. Cash and cash equivalents located in our backplane assembly facility in Shanghai, China, which is managed in conjunction with our U.S. operations, are expected to be repatriated.

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

Subsequent to March 26, 2012, one of our majority owned foreign subsidiaries declared a dividend in the amount of approximately \$47.6 million, which includes approximately \$9.5 million for its noncontrolling interest shareholder. We expect to pay this dividend by the end of the third quarter of 2012.

Based on our current level of operations, we believe that cash generated from operations, cash on hand and cash available from borrowings under our existing credit arrangements will be adequate to meet our currently anticipated capital expenditure, debt service, working capital, and acquisition needs for the next 12 months. We believe that there is minimal risk of not being in compliance with our existing financial covenants so as to accelerate the maturity of the Credit Agreement. However, the semiannual repayments on our existing term loan increase as the related debt nears maturity in 2013. Should we choose to maintain a significant level of annual capital expenditures or to pursue an acquisition during the next two years, refinancing of our existing debt would likely be necessary. Any such refinancing would seek to address all possible demands on our liquidity listed above. In the event we decide to engage in a significant refinancing transaction, the adequacy of our liquidity will depend on our ability to achieve access to capital markets.

Credit Agreement

We are party to a credit agreement (Credit Agreement) consisting of a \$350.0 million senior secured Term Loan, a \$87.5 million senior secured Revolving Loan, a \$65.0 million Factoring Facility, and a \$80.0 million Letters of Credit Facility, all of which will mature on November 16, 2013. The Credit Agreement is secured by substantially all of the assets of our Asia Pacific operating segment and is senior to all other of our debt, including the Convertible Senior Notes. We have fully and unconditionally guaranteed the full and punctual payment of all obligations of the Asia Pacific operating segment under the Credit Agreement.

Borrowings under the Credit Agreement bear interest at a floating rate of LIBOR (term election by us) plus an applicable interest margin. Borrowings bear interest at a rate of LIBOR plus 2.0% under the Term Loan, LIBOR plus 2.25% under the Revolving Loan, and LIBOR plus 1.25% under the Factoring Facility. At March 26, 2012, the weighted average interest rate on the outstanding borrowings was 2.29%.

Borrowings under the Credit Agreement are subject to certain financial and operating covenants that include maintaining maximum total leverage ratios and minimum net worth, current assets, and interest coverage ratios for both us and our Asia Pacific segment. At March 26, 2012, we were in compliance with the covenants.

We are required to pay a commitment fee of 0.20% per annum on any unused portion of loan or facility under the Credit Agreement. We incurred \$0.1 million for both of the first quarters ended March 26, 2012 and March 28, 2011 in commitment fees related to the unused portion of any loan or facility under the Credit Agreement. As of March 26, 2012, the remaining Term Loan of \$245.0 million; \$63.0 million under the Revolving Loan, which is included as long-term debt; and \$57.5 million of Letters of Credit were outstanding. Available borrowing capacity under the Revolving Loan and Factoring Facility was \$24.5 million and \$65.0 million, respectively.

Table of Contents

Bank Loans

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

Convertible Notes

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

At any time prior to November 15, 2014, holders may convert their Convertible Notes into cash and, if applicable, into shares of our common stock based on a conversion rate of 62.6449 shares of our common stock per \$1,000 principal amount of Convertible Notes, subject to adjustment, under the following circumstances: (1) during any calendar quarter beginning after June 30, 2008 (and only during such calendar quarter), if the last reported sale price of our common stock for at least 20 trading days during the 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the applicable conversion price on each applicable trading day of such preceding calendar quarter; (2) during the five business day period after any 10 consecutive trading day period in which the trading price per note for each day of that 10 consecutive trading day period is less than 98% of the product of the last reported sale price of our common stock and the conversion rate on such day; or (3) upon the occurrence of specified corporate transactions described in the prospectus supplement related to the Convertible Notes, which can be found on the SEC's website at www.sec.gov. As of March 26, 2012, none of the conversion criteria had been met.

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

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

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

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

Other Letters of Credit

In addition to the letters of credit obtained pursuant to the Credit Agreement, the Company maintains several unused letters of credit: a \$2.3 million standby letter of credit expiring on December 31, 2012 associated with its insured workers compensation program; two standby letters in the amount of \$1.1 million in aggregate expiring on December 31, 2012 and February 28, 2013 related to the lease of two of its production facilities; and various other letters of credit aggregating to approximately \$1.5 million related to purchases of machinery and equipment with various expiration dates through September 2012.

Table of Contents**Contractual Obligations and Commitments**

The following table provides information on our contractual obligations as of March 26, 2012:

	Total	Less Than 1 Year	1 - 3 Years (In thousands)	4 - 5 Years	After 5 Years
Contractual Obligations(1)(2)					
Long-term debt obligations	\$ 355,723	\$ 120,972	\$ 234,747	\$ 4	\$
Convertible debt obligations	175,000			175,000	
Interest on debt obligations	31,921	14,162	14,915	2,844	
Interest rate swap liabilities	2,699	2,558	141		
Foreign currency forward contract liabilities	1,353	1,141	212		
Equipment payables	65,286	57,707	7,579		
Purchase obligations	68,544	61,075	7,469		
Operating lease commitments	7,781	2,172	2,287	2,042	1,280
Total contractual obligations	\$ 708,307	\$ 259,787	\$ 267,350	\$ 179,890	\$ 1,280

- (1) Unrecognized uncertain tax benefits of \$0.9 million are not included in the table above as we have not determined when the amount will be paid.
- (2) Estimated environmental liabilities of \$0.6 million, not included in the table above, are accrued and recorded as liabilities in our consolidated condensed balance sheet as of March 26, 2012.

Off Balance Sheet Arrangements

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

Seasonality

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

Impact of Inflation

We believe that our results of operations are not materially impacted by moderate changes in the inflation rate as we expect that we generally will be able to continue to pass along component price increases to our customers. Severe increases in inflation, however, could affect the global and U.S. economies and have an adverse impact on our business, financial condition and results of operations. In addition, we may not be able to pass along to our major customers significant increases in the costs of gold, copper and other commodities used in our products, which could have a material adverse impact on our gross profit margins.

Recently Issued Accounting Pronouncements

Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

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

In September 2011, the FASB issued an update to an accounting standard related to testing goodwill for impairment whereby an entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a

Table of Contents

determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 and early adoption is permitted. We have adopted the amendments on January 1, 2012 and our adoption did not have a material impact.

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

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

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

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

Interest rate risk

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

We entered into a two-year pay-fixed, receive floating (1-month LIBOR), amortizing interest rate swap arrangement with an initial notional amount of \$146.5 million, for the period beginning April 18, 2011 and ending on April 16, 2013. The interest rate swap will apply a fixed interest rate against the first interest payments of a portion of the \$350.0 million Term Loan for this period. The notional amount of the interest rate swap decreases to zero over its term, consistent with our risk management objectives. The notional value underlying the hedge at March 26, 2012 was \$111.9 million. Under the terms of the interest rate swap, the Company will pay a fixed rate of 2.50% and will receive floating 1-month LIBOR during the swap period.

To the extent the instruments are considered to be effective, changes in fair value are recorded as a component of accumulated other comprehensive income. To the extent there is any hedge ineffectiveness, changes in fair value relating to the ineffective portion are immediately recognized in earnings as interest expense. No ineffectiveness was recognized for the quarter ended March 26, 2012. At inception, the fair value of the interest rate swap was zero. As of March 26, 2012 and December 31, 2011, the fair value of the swap was recorded as a liability of \$2.4 million and \$2.7 million, respectively, in other long-term liabilities. The change in the fair value of the interest rate swap is recorded as a component of accumulated other comprehensive income, net of tax, in our consolidated condensed balance sheet. During the quarter ended March 26, 2012, the interest rate swap increased interest expense by \$0.6 million. There was no impact to interest expense for the quarter ended March 28, 2011 as the interest rate swap does not hedge interest rate cash flows until the period beginning April 18, 2011. We have designated this interest rate swap as a cash flow hedge.

We also, through our acquisition of the Asia Pacific segment in 2010, assumed a long term pay-fixed, receive floating (1-month LIBOR), amortizing interest rate swap arrangement with an initial notional amount of \$40.0 million, for the period beginning October 8, 2008 and ending on July 30, 2012. The notional amount of the interest rate swap amortizes to zero over its term, consistent with our risk management objectives. The notional value underlying the hedge at March 26, 2012 was \$16.0 million. Under the terms of the interest rate swap, we will pay a fixed rate of 3.43% and will receive floating 1-month LIBOR during the swap period. As the borrowings attributable to this interest rate swap were paid off upon acquisition, we did not designate this interest rate swap as a cash flow hedge. As of March 26, 2012 and December 31, 2011, the fair value of the swap was recorded as a liability of \$0.2 million and \$0.3 million, respectively, in other accrued expenses. The change in the fair value of this interest rate swap is recorded as other, net in the consolidated condensed statement of operations.

Table of Contents

As of March 26, 2012, approximately 57% of our total debt was based on fixed rates, including notional amounts related to interest rate swaps. Based on our borrowings as of March 26, 2012 an assumed 1% change in variable rates would cause our annual interest cost to change by \$2.3 million.

Foreign currency risks

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

We enter into foreign currency forward contracts to mitigate the impact of changes in foreign currency exchange rates and to reduce the volatility of purchases and other obligations generated in currencies other than the functional currencies. Our foreign subsidiaries may at times purchase forward exchange contracts to manage their foreign currency risks in relation to certain purchases of machinery denominated in foreign currencies other than our foreign functional currency. The notional amount of the foreign exchange contracts at March 26, 2012 and December 31, 2011 was approximately \$43.6 million and \$44.7 million, respectively. The Company has designated certain of these foreign exchange contracts as cash flow hedges.

The table below presents information about certain of the foreign currency forward contracts at March 26, 2012 and December 31, 2011:

	As of March 26, 2012		As of December 31, 2011	
	Notional Amount	Average Contract Rate or Strike	Notional Amount	Average Contract Rate or Strike
	(In thousands in USD)	Amount	(In thousands in USD)	Amount
Receive foreign currency/pay USD				
Euro	\$ 39,353	1.36	\$ 41,196	1.36
Japanese Yen	4,263	0.01	3,511	0.01
	\$ 43,616		\$ 44,707	
Estimated fair value, net liability	\$ 1,307		\$ 1,750	

Table of Contents**Debt Instruments**

The table below presents information about certain of our debt instruments (bank borrowings) as of March 26, 2012 and December 31, 2011.

	Remaining 2012	2013	2014	March 26, 2012		Fair Market Value	Weighted Average Interest Rate
				2015 (In thousands)	Total		
Variable Rate:							
US\$	\$ 64,500	\$ 255,500	\$	\$	\$ 320,000	\$ 318,291	2.25%
RMB	3,968	24,915	6,824		35,707	35,707	6.31%
Total Variable Rate	68,468	280,415	6,824		355,707	353,998	
Fixed Rate:							
US\$	4	4	4	175,004	175,016	191,344	3.25%
Total Fixed Rate	4	4	4	175,004	175,016	191,344	
Total	\$ 68,472	\$ 280,419	\$ 6,828	\$ 175,004	\$ 530,723	\$ 545,342	

	2012	2013	2014	December 31, 2011		Fair Market Value	Weighted Average Interest Rate
				2015 (In thousands)	Total		
Variable Rate:							
US\$	\$ 117,000	\$ 192,500	\$	\$	\$ 309,500	\$ 308,554	2.26%
RMB	3,958	24,852			28,810	28,810	6.14%
Total Variable Rate	120,958	217,352			338,310	337,364	
Fixed Rate:							
US\$	4	4	4	175,005	175,017	182,017	3.25%
Total Fixed Rate	4	4	4	175,005	175,017	182,017	
Total	\$ 120,962	\$ 217,356	\$ 4	\$ 175,005	\$ 513,327	\$ 519,381	

Interest Rate Swap Contracts

The table below presents information regarding our interest rate swaps as of March 26, 2012.

	2012	2013	Fair Market Value
Average interest payout rate	2.59%	2.50%	
Interest payout amount	(2,305)	(676)	
Average interest received rate	0.24%	0.24%	

Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

Interest received amount	216	65	
Fair value loss at March 26, 2012			(2,566)

Table of Contents

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain a system of disclosure controls and procedures for financial reporting to give reasonable assurance that information required to be disclosed in our reports submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. These controls and procedures also give reasonable assurance that information required to be disclosed in such reports is accumulated and communicated to management to allow timely decisions regarding required disclosures.

Our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), together with management, evaluated the effectiveness of our disclosure controls and procedures as of March 26, 2012, pursuant to Rules 13a-15(e) of the Exchange Act. Based on that evaluation, our CEO and CFO concluded that our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) were effective such that information relating to the Company, including our consolidated subsidiaries, required to be disclosed in our SEC reports, (i) is recorded, processed, summarized and reported within the time frames specified in SEC rules and forms, and (ii) is accumulated and communicated to company management, including our CEO and CFO, as appropriate to allow timely discussion regarding disclosure.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during the quarter ended March 26, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we may become a party to various legal proceedings arising in the ordinary course of our business. There can be no assurance that we will prevail in any such litigation. We believe that the amount of any reasonably possible or probable loss for known matters would not be material to our financial condition; however, the outcome of these actions is inherently difficult to predict. In the event of an adverse outcome, the ultimate potential loss could have a material adverse effect on our financial condition or results of operations and 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 in Part I Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2011, in analyzing an investment in our common stock. If any of the risks in our Annual Report on Form 10-K occurs, our business, financial condition, and results of operations would likely suffer, the trading price of our common stock could fall, and you could lose all or part of the money you paid for our common stock.

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

Table of Contents

Item 6. Exhibits

Exhibit

Number	Exhibits
10.10	Amendment No. 1 to Restated Employment Agreement, dated as of January 16, 2012, by and between Kenton K. Alder and the Registrant. (1)
10.17	Form of Executive Change in Control Severance Agreement and schedule of agreements.(1)
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

* Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

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

Table of Contents

SIGNATURES

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

TTM Technologies, Inc.

/s/ Kenton K. Alder
Kenton K. Alder
President and Chief Executive Officer

Dated: May 7, 2012

/s/ Steven W. Richards
Steven W. Richards
Chief Financial Officer and Secretary

Dated: May 7, 2012

Table of Contents

EXHIBIT INDEX

Exhibit

Number	Exhibits
10.10	Amendment No. 1 to Restated Employment Agreement, dated as of January 16, 2012, by and between Kenton K. Alder and the Registrant. (1)
10.17	Form of Executive Change in Control Severance Agreement and schedule of agreements.(1)
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

* Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

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