TTM TECHNOLOGIES INC
Form 10-Q
November 05, 2012
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, DC 20549**

# Form 10-Q

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

**For the quarterly period ended September 24, 2012**

**Commission File Number: 0-31285**

# TTM TECHNOLOGIES, INC.

**(Exact name of registrant as specified in its charter)**

| **DELAWARE** | **91-1033443** |
|---|---|
| **(State or other jurisdiction of** | **(I.R.S. Employer** |

**incorporation or organization)** **Identification No.)**
**1665 Scenic Avenue, Suite 250, Costa Mesa, California 92626**

**(Address of principal executive offices, zip code)**

**(714) 327-3000**

**(Registrant s telephone number, including area code)**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x 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 x 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 x | 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 x

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

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## PART I. FINANCIAL INFORMATION

**Item 1.** ***Financial Statements***

## TTM TECHNOLOGIES, INC.

### Consolidated Condensed Balance Sheets

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

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

See accompanying notes to consolidated condensed financial statements.

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**TTM TECHNOLOGIES, INC.**

**Consolidated Condensed Statements of Operations**

**For the Quarter and Three Quarters Ended September 24, 2012 and September 26, 2011**

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

See accompanying notes to consolidated condensed financial statements.

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**TTM TECHNOLOGIES, INC.**

**Consolidated Condensed Statements of Comprehensive Income**

**For the Quarter and Three Quarters Ended September 24, 2012 and September 26, 2011**

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

See accompanying notes to consolidated condensed financial statements.

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**TTM TECHNOLOGIES, INC.**

**Consolidated Condensed Statements of Cash Flows**

**For the Three Quarters Ended September 24, 2012 and September 26, 2011**

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

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

Supplemental disclosures of noncash investing and financing activities:

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

See accompanying notes to consolidated condensed financial statements.

**TTM TECHNOLOGIES, INC.**

**Notes to Consolidated Condensed Financial Statements**

**(Unaudited)**

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

**(1) Nature of Operations and Basis of Presentation**

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

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

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

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

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

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

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

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

**TTM TECHNOLOGIES, INC.**

**Notes to Consolidated Condensed Financial Statements (Continued)**

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

**(3) Accounts and Notes Receivable Factoring and Sales Arrangements**

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

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

**(4) Inventories**

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

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

**(5) Goodwill and Definite-lived Intangibles**

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

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**TTM TECHNOLOGIES, INC.**

**Notes to Consolidated Condensed Financial Statements (Continued)**

***Goodwill***

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

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

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

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

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

***Definite-lived Intangibles***

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

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

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

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

**TTM TECHNOLOGIES, INC.**

**Notes to Consolidated Condensed Financial Statements (Continued)**

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

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

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

**(6) Long-lived Asset Impairment**

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

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

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

believes the manufacturing buildings are reflected at fair value.

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

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**TTM TECHNOLOGIES, INC.**

**Notes to Consolidated Condensed Financial Statements (Continued)**

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

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

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

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

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

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

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

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

**TTM TECHNOLOGIES, INC.**

**Notes to Consolidated Condensed Financial Statements (Continued)**

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

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

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

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

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

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

***Other Letters of Credit***

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

**TTM TECHNOLOGIES, INC.**

**Notes to Consolidated Condensed Financial Statements (Continued)**

**(8) Convertible Senior Notes**

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

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

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

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

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

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

***Conversion***

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

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**TTM TECHNOLOGIES, INC.**

**Notes to Consolidated Condensed Financial Statements (Continued)**

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

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

***Note Repurchase***

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

***Convertible Note Hedge and Warrant Transaction***

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

**(9) Income Taxes**

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

**(10) Financial Instruments**

***Derivatives***

*Interest Rate Swaps*

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

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

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

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**TTM TECHNOLOGIES, INC.**

**Notes to Consolidated Condensed Financial Statements (Continued)**

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

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

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

*Foreign Exchange Contracts*

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

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

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

| | | |
|---|---|---|
| | $ (2,492) | $ (4,785) |

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**TTM TECHNOLOGIES, INC.**

**Notes to Consolidated Condensed Financial Statements (Continued)**

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

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

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

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

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

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

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

**TTM TECHNOLOGIES, INC.**

**Notes to Consolidated Condensed Financial Statements (Continued)**

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

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

***Other Financial Instruments***

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

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

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

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

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

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

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

**(11) Accumulated Other Comprehensive Income**

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

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

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**TTM TECHNOLOGIES, INC.**

**Notes to Consolidated Condensed Financial Statements (Continued)**

**(12) Significant Customers and Concentration of Credit Risk**

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

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

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

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

**(13) Fair Value Measures**

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

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

| | September 24, 2012 | Fair Value Measurements Using: | | |
|---|---|---|---|---|
| | | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs |
| | | (In thousands) | | |
| Money market funds | $ 137,503 | $ 137,503 | | |
| Available for sale securities | 504 | 504 | | |
| Foreign exchange derivative assets | 12 | | $ 12 | |
| Interest rate swap derivative liabilities | 1,158 | | 1,158 | |
| Foreign exchange derivative liabilities | 1,346 | | 1,346 | |

| | December 31, 2011 | Fair Value Measurements Using: | | |
|---|---|---|---|---|
| | | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs |
| | | (In thousands) | | |
| 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 quarter or three quarters ended September 24, 2012 or September 26, 2011.

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

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**TTM TECHNOLOGIES, INC.**

**Notes to Consolidated Condensed Financial Statements (Continued)**

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

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

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

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

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

**(14) Commitments and Contingencies**

***Legal Matters***

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

***Environmental Matters***

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

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.

**TTM TECHNOLOGIES, INC.**

**Notes to Consolidated Condensed Financial Statements (Continued)**

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

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

**(15) Earnings Per Share**

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

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

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

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

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

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

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**TTM TECHNOLOGIES, INC.**

**Notes to Consolidated Condensed Financial Statements (Continued)**

**(16) Stock-Based Compensation**

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

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

*Performance-based Restricted Stock Units*

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

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

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

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**TTM TECHNOLOGIES, INC.**

**Notes to Consolidated Condensed Financial Statements (Continued)**

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

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

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

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

*Restricted Stock Units*

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

*Stock Options*

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

*Foreign Employee Share Awards*

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

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

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

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

**TTM TECHNOLOGIES, INC.**

**Notes to Consolidated Condensed Financial Statements (Continued)**

**(17) Segment Information**

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

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

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

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

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

assets related to its Asia Pacific operating segment.

**(18) Related Party Transactions**

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

**TTM TECHNOLOGIES, INC.**

**Notes to Consolidated Condensed Financial Statements (Continued)**

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

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

**(19) Dividend**

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

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

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

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

**OVERVIEW**

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

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

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

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

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

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

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

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.

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

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

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

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

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

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

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

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

***Allowance for Doubtful Accounts***

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

***Inventories***

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

***Sales Returns and Allowances***

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

***Long-lived Assets***

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

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

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

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

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

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

***Derivative Instruments and Hedging Activities***

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

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

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.

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**RESULTS OF OPERATIONS**

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

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

We manage our worldwide operations based on two geographic operating segments: (1) Asia Pacific, which consists of the PCB Subsidiaries and their seven PCB fabrication plants, which include a substrate facility; and (2) North America, which consists of seven domestic PCB fabrication plants, including a facility that provides follow-on value-added services primarily for one of the PCB fabrication plants, and one backplane assembly plant in Shanghai, China, which is ma