

TTM TECHNOLOGIES INC  
Form 10-Q  
May 08, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended April 2, 2018

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)

(714) 327-3000

(Registrant's telephone number, including area code)

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

Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

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

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

Large accelerated filer

Accelerated filer

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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Number of shares of common stock, \$0.001 par value, of registrant outstanding at May 1, 2018: 103,445,382

TABLE OF CONTENTS

	Page
<u>PART I: FINANCIAL INFORMATION</u>	3
<u>Item 1. Financial Statements (unaudited)</u>	3
<u>Consolidated Condensed Balance Sheets as of April 2, 2018 and January 1, 2018</u>	3
<u>Consolidated Condensed Statements of Operations for the quarters ended April 2, 2018 and April 3, 2017</u>	4
<u>Consolidated Condensed Statements of Comprehensive Income for the quarters ended April 2, 2018 and April 3, 2017</u>	5
<u>Consolidated Condensed Statements of Cash Flows for the quarters ended April 2, 2018 and April 3, 2017</u>	6
<u>Notes to Consolidated Condensed Financial Statements</u>	7
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	20
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	27
<u>Item 4. Controls and Procedures</u>	27
<u>PART II: OTHER INFORMATION</u>	28
<u>Item 1. Legal Proceedings</u>	28
<u>Item 1A. Risk Factors</u>	28
<u>Item 6. Exhibits</u>	47
<u>SIGNATURES</u>	48

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements (unaudited)

## TTM TECHNOLOGIES, INC.

## Consolidated Condensed Balance Sheets

	As of April 2, 2018 (Unaudited)	January 1, 2018
(In thousands, except par value)		
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 352,576	\$ 409,326
Accounts receivable, net	504,914	483,903
Contract assets	275,022	—
Inventories	82,116	294,588
Prepaid expenses and other current assets	32,966	33,490
Total current assets	1,247,594	1,221,307
Property, plant and equipment, net	1,039,751	1,056,845
Goodwill	372,571	372,571
Definite-lived intangibles, net	97,088	102,950
Deposits and other non-current assets	29,345	28,209
	\$ 2,786,349	\$ 2,781,882
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Short-term debt, including current portion of long-term debt	\$ 4,616	\$ 4,578
Accounts payable	487,818	497,455
Accrued salaries, wages and benefits	82,932	103,638
Other accrued expenses	102,162	114,685
Total current liabilities	677,528	720,356
Long-term debt, net of discount and issuance costs	977,413	975,479
Other long-term liabilities	77,078	74,667
Total long-term liabilities	1,054,491	1,050,146
Commitments and contingencies (Note 11)		
Equity:		
Common stock, \$0.001 par value; 300,000 shares authorized, 103,445 and 101,820 shares issued and outstanding in 2018 and 2017, respectively		
	103	102
Additional paid-in capital	780,646	777,025
Retained earnings	232,013	193,342
Statutory surplus reserve	37,508	37,508
Accumulated other comprehensive income	4,060	3,403

Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

Total TTM Technologies, Inc. stockholders' equity	1,054,330	1,011,380
	\$ 2,786,349	\$ 2,781,882

See accompanying notes to consolidated condensed financial statements.

TTM TECHNOLOGIES, INC.

Consolidated Condensed Statements of Operations

For the Quarters Ended April 2, 2018 and April 3, 2017

	Quarter ended	
	April 2, 2018	April 3, 2017
	(Unaudited)	
	(In thousands, except per share data)	
Net sales	\$663,582	\$625,247
Cost of goods sold	574,904	520,228
Gross profit	88,678	105,019
Operating expenses:		
Selling and marketing	17,628	16,655
General and administrative	35,188	29,882
Amortization of definite-lived intangibles	5,861	5,912
Total operating expenses	58,677	52,449
Operating income	30,001	52,570
Other income (expense):		
Interest expense	(13,747 )	(13,596 )
Other, net	(1,107 )	(1,710 )
Total other expense, net	(14,854 )	(15,306 )
Income before income taxes	15,147	37,264
Income tax provision	(5,050 )	(4,139 )
Net income	10,097	33,125
Less: Net income attributable to the noncontrolling interest	—	(166 )
Net income attributable to TTM Technologies, Inc. stockholders	\$10,097	\$32,959
Earnings per share attributable to TTM Technologies, Inc. stockholders:		
Basic earnings per share	\$0.10	\$0.33
Diluted earnings per share	\$0.09	\$0.28

See accompanying notes to consolidated condensed financial statements.

TTM TECHNOLOGIES, INC.

Consolidated Condensed Statements of Comprehensive Income

For the Quarters Ended April 2, 2018 and April 3, 2017

	Quarter ended	
	April 2, 2018	April 3, 2017
	(Unaudited)	
	(In thousands)	
Net income	\$10,097	\$33,125
Other comprehensive income:		
Foreign currency translation adjustments, net of tax	622	6,619
Net unrealized gains (losses) on cash flow hedges:		
Unrealized (loss) gain on effective cash flow hedges during the period, net	(6 )	68
Loss realized in net earnings	41	44
Net	35	112
Other comprehensive income, net of tax	657	6,731
Comprehensive income	10,754	39,856
Less: Comprehensive income attributable to the noncontrolling interest	—	(166 )
Comprehensive income attributable to TTM Technologies, Inc. stockholders	\$10,754	\$39,690

See accompanying notes to consolidated condensed financial statements.

## TTM TECHNOLOGIES, INC.

## Consolidated Condensed Statements of Cash Flows

For the Quarters Ended April 2, 2018 and April 3, 2017

	Quarter ended April 2, 2018 (Unaudited) (In thousands)	April 3, 2017
Cash flows from operating activities:		
Net income	\$ 10,097	\$ 33,125
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of property, plant and equipment	39,775	36,077
Amortization of definite-lived intangible assets	5,861	5,912
Amortization of debt discount and issuance costs	3,029	2,601
Stock-based compensation	3,622	3,628
Other	(439 )	394
Changes in operating assets and liabilities:		
Accounts receivable, net	(12,840 )	13,448
Contract Assets	(14,368 )	—
Inventories	(11,104 )	(5,880 )
Prepaid expenses and other current assets	1,015	(3,582 )
Accounts payable	8,657	(9,475 )
Accrued salaries, wages and benefits and other accrued expenses	(47,566 )	(26,664 )
Net cash (used in) provided by operating activities	(14,261 )	49,584



Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

Cash flows from investing activities:			
Purchase of property, plant and equipment and equipment deposits	(42,192 )		(33,259 )
Proceeds from sale of property, plant and equipment and assets held for sale	53		9,881
Net cash used in investing activities	(42,139 )		(23,378 )
Cash flows from financing activities:			
Repayment of long-term debt borrowing	(875 )	—	
Proceeds from exercise of stock options	—		74
Net cash (used in) provided by financing activities	(875 )		74
Effect of foreign currency exchange rates on cash and cash equivalents	525		314
Net (decrease) increase in cash and cash equivalents	(56,750 )		26,594
Cash and cash equivalents at beginning of period	409,326		256,277
Cash and cash equivalents at end of period	\$ 352,576		\$ 282,871
Noncash transactions:			
Property, plant and equipment recorded in accounts payable	65,927		\$ 44,560

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

The Company serves a diversified customer base in various markets throughout the world, including aerospace and defense, automotive components, smartphones and touchscreen tablets, high-end computing, medical, industrial and instrumentation related products, as well as networking/communications infrastructure products. The Company's customers include both original equipment manufacturers (OEMs) and electronic manufacturing services (EMS) providers.

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

Recently Adopted and Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606), which replaces most existing revenue recognition guidance in U.S. GAAP, including industry specific requirements, and provides companies with a single revenue recognition model for recognizing revenue of contracts with customers. The core principle of the new revenue standard is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services.

The Company assessed the new guidance and adopted the new revenue standard on January 2, 2018, which resulted in a change to the timing of revenue recognition for the Company's revenue stream from "point in time" upon physical delivery to an "over time" model. Additionally, the Company has elected the cumulative effect transition method with adjustment to the opening balance of retained earnings at January 2, 2018 for all open contracts as of January 1, 2018. Therefore, comparative information has not been adjusted and continues to be reported under previous U.S. GAAP guidance for the consolidated balance sheet at January 1, 2018 and the consolidated condensed statement of operations for the quarter ended April 3, 2017.

## TTM TECHNOLOGIES, INC.

## Notes to Consolidated Condensed Financial Statements—(Continued)

The cumulative effect of the changes made to the Company's January 2, 2018 consolidated condensed balance sheet for the adoption of the new revenue standard were as follows:

	Balance at January 1, 2018 (In thousands)	New Revenue Standard Adjustment	Balance at January 2, 2018
<b>Balance Sheet</b>			
<b>Assets</b>			
Accounts receivable, net	\$483,903	\$ 8,171	\$492,074
Contract assets	—	260,654	260,654
Inventories	294,588	(223,576 )	71,012
<b>Liabilities</b>			
Other accrued expenses	114,685	13,384	128,069
Other long-term liabilities	74,667	3,291	77,958
<b>Equity</b>			
Retained earnings	193,342	28,574	221,916

As part of adoption of the new revenue standard, the Company recorded an estimated sales returns and allowance as well as a noncurrent deferred tax liability in the amount of \$5,213 and \$3,291, respectively, as of January 2, 2018. Additionally, the Company reclassified its sales returns and allowance balance of \$8,171 as of January 1, 2018, from trade accounts receivable to other accrued liabilities. Sales returns and allowances are recorded as a reduction of revenue and a component of accrued liabilities on the condensed consolidated balance sheet.

Additionally, the below disclosure summarizes the impact of the adoption of new revenue standard on the Company's consolidated condensed balance sheet, statement of operations and statement of cash flows for the quarter ended April 2, 2018 for which the As Reported reflects the new revenue standard and Balances without New Revenue Standard Adjustment reflects the Company's replaced revenue recognition policy of "point in time" and upon physical delivery.

	April 2, 2018	
	Effect of	Balances
	Change	without
	Increase	New
As		Revenue
reported	(Decrease)	Standard
		Adjustment

Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

(In thousands)

Balance Sheet			
Assets			
Accounts receivable, net	\$ 504,914	\$ 8,171	\$ 496,743
Contract assets	275,022	275,022	—
Inventories	82,116	(235,557 )	317,673
Liabilities			
Other accrued expenses	102,162	13,671	88,491
Other long-term liabilities	77,078	3,163	73,915
Equity			
Retained earnings	232,013	30,801	201,212

April 2, 2018

	As reported	Effect of Change Increase	Balances without New Revenue Standard Adjustment
	(In thousands)		
Net sales	\$ 663,582	\$ 14,081	\$ 649,501
Cost of goods sold	574,904	11,981	562,923
Gross profit	88,678	2,100	86,578
Net income	10,097	2,227	7,870

TTM TECHNOLOGIES, INC.

Notes to Consolidated Condensed Financial Statements—(Continued)

	April 2, 2018		
		Effect of	Balances
		Change	without
		Increase	New
	As	(Decrease)	Revenue
	reported		Standard
	(In thousands)		Adjustment
<b>Cash flows from operating activities:</b>			
Net income	\$ 10,097	\$ 2,227	\$ 7,870
<b>Adjustments to reconcile net income to net cash</b>			
<b>used in operating activities:</b>			
Other	(439 )	(127 )	(312 )
<b>Changes in operating assets and liabilities:</b>			
Accounts receivable, net	(12,840)	—	(12,840 )
Contract assets	(14,368)	(14,368 )	—
Inventories	(11,104)	11,981	(23,085 )
Accrued salaries, wages and benefits and other accrued expenses	(47,566)	287	(47,853 )

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. This ASU amends and simplifies existing guidance in order to allow companies to more accurately present the economic effects of risk management activities in the financial statements. ASU 2017-12 also amends the guidance surrounding the recognition of the value of hedged instruments to include the entire change in value, rather than just the effective portion, in other comprehensive income and recognized in earnings at the same time that the hedged item affects earnings for cash flow and net investment hedges. This ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the new guidance to determine the impact it may have on its consolidated financial statements and related disclosures.

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

## (2) Summary of Significant Accounting Policies

## Revenue Recognition

The Company derives revenues primarily from the sale of PCBs and custom electronic assemblies using customer-supplied engineering and design plans. Orders for products generally correspond to the production schedules of the Company's customers and are supported with firm purchase orders. The Company's customers have continuous transfer of control of the work in progress and finished goods as PCBs are being manufactured, as PCBs are built to customer specifications and do not have an alternative use. The customer typically controls the work in progress and finished goods as evidenced either by contractual termination clauses or by the Company's rights to payment for work performed to date, plus a reasonable profit. As a result, in light of the Company's adoption of the "over time" revenue standard as discussed in Note 1 Nature of Operations and Basis of Presentation Recently Adopted and Issued Accounting Standards, beginning in the first quarter of 2018, the Company now recognizes revenue progressively over time based on the extent of progress towards completion of the performance obligation.

The selection of the method to measure progress toward completion requires judgment and is based on the type of PCB or customized electronic assemblies being manufactured. The Company uses the cost-to-cost method as it best depicts the transfer of control to the customer which takes place as we incur costs. Under the cost-to-cost measure of progress, the extent of progress toward completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation. Revenues are recorded proportionally as costs are incurred.

The Company provides customers a limited right of return for defective PCBs and backplane assemblies. The Company accrues an estimate for sales returns and allowances progressively over time based on the extent of progress towards completion of the performance obligation using the Company's judgment based on historical results and anticipated returns. To the extent actual experience varies from our historical experience, revisions to the sales returns and allowances accrual may be required. Sales returns and allowances are recorded as a reduction of revenue and included as a component of accrued liabilities on the condensed consolidated balance sheet.

## TTM TECHNOLOGIES, INC.

## Notes to Consolidated Condensed Financial Statements—(Continued)

The Company has two revenue streams which coincide with the Company's reportable segments of PCB and E-M Solutions. See Note 14 Segment Information.

## (3) Contract Asset

A contract asset is recognized when the Company has recognized revenue, but not issued an invoice for payment. Contract assets are classified as current assets and transferred to receivables when the entitlement to payment becomes unconditional. All of the Company's contract assets are generally converted to trade account receivables within 90 days, at which time the Company is entitled to payment of the fixed price upon delivery of the finished product. Contract assets were \$275,022 as of April 2, 2018 and represent unbilled amounts for work performed to date, plus a reasonable profit. There were no contract assets as of January 1, 2018.

## (4) Goodwill

As of April 2, 2018 and January 1, 2018, goodwill was as follows:

	Total (In thousands)
Balance as of January 1, 2018 and April 2, 2018	
Goodwill	\$ 543,971
Accumulated impairment losses	(171,400 )
	\$ 372,571

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

## (5) Definite-lived Intangibles

As of April 2, 2018 and January 1, 2018, the components of definite-lived intangibles were as follows:

	Gross Amount (In thousands)	Accumulated Amortization	Foreign Currency Translation Adjustment	Net Carrying Amount	Weighted
					Average Amortization Period (years)
April 2, 2018					



Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

Customer relationships	\$203,634	\$ (106,700 )	\$ —	\$96,934	8.1
Technology	3,000	(2,846 )	—	154	3
	\$206,634	\$ (109,546 )	\$ —	\$97,088	
January 1, 2018:					
Customer relationships	\$203,563	\$ (101,089 )	\$ 72	\$102,546	8.1
Technology	3,000	(2,596 )	—	404	3
	\$206,563	\$ (103,685 )	\$ 72	\$102,950	

The January 1, 2018 definite-lived intangible balances include foreign currency translation adjustments related to foreign subsidiaries with functional currencies other than the U.S. Dollar.

Definite-lived intangibles are generally amortized using the straight line method of amortization over the useful life, with the exception of certain customer relationship intangibles, which are amortized using an accelerated method of amortization based on estimated cash flows. Amortization expense was \$5,861 and \$5,912 for the quarters ended April 2, 2018 and April 3, 2017, respectively.

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

(In thousands)	
Remaining 2018	\$ 17,001
2019	18,746
2020	18,746
2021	14,921
2022	12,329
Thereafter	15,345
	\$ 97,088

## TTM TECHNOLOGIES, INC.

## Notes to Consolidated Condensed Financial Statements—(Continued)

## (6) Long-term Debt and Letters of Credit

The following table summarizes the long-term debt of the Company as of April 2, 2018 and January 1, 2018:

	Interest Rate	Principal	Interest Rate	Principal
	as of April 2, 2018	as of April 2, 2018	as of January 1, 2018	Outstanding as of January 1, 2018
	(In thousands)			
Term Loan due September 2024	4.38%	\$348,250	4.06%	\$ 349,125
Senior Notes due October 2025	5.63%	375,000	5.63%	375,000
Convertible Senior Notes due December 2020	1.75%	249,985	1.75%	249,985
U.S. ABL Revolving Loan due May 2020	3.13%	17,000	3.06%	17,000
Asia ABL Revolving Loan due May 2020	3.28%	30,000	2.96%	30,000
Capital Lease	6.43%	1,987	6.43%	1,919
		1,022,222		1,023,029
Less: Long-term debt unamortized discount		(28,225 )		(30,513 )
Long-term debt unamortized debt issuance costs		(11,968 )		(12,459 )
		982,029		980,057
Less: current maturities		(4,616 )		(4,578 )
Long-term debt, less current maturities		\$ 977,413		\$ 975,479

## Term Loan Facility

During the fiscal year 2017, the Company entered into a \$350,000 Term Loan Facility due 2024. The Term Loan Facility, of which \$3,500 is included in short-term debt and \$344,750 is included in long-term debt, was issued at a discount at 99.5% and bears interest, at the Company's option, at a floating rate of LIBOR, plus an applicable interest margin of 2.5%, or an alternate base rate, (defined as the greater of the JP Morgan prime, the New York Fed bank rate plus 0.9% or LIBOR plus 1.0%), subject to a 1.0% floor plus an applicable margin of 1.5%. At April 2, 2018 the interest rate on the outstanding borrowings under the Term Loan Facility was 4.38%. There is no provision, other than an event of default, for the interest margin to increase. The Term Loan Facility will mature on September 28, 2024. The Term Loan Facility is secured by a significant amount of the domestic assets of the Company and a pledge of 65% of voting stock of the Company's first tier foreign subsidiaries and is structurally senior to the Company's Senior Notes and Convertible Senior Notes. See Senior Notes and Convertible Senior Notes below.

The Company is required to make scheduled payments of the outstanding Term Loan Facility on a quarterly basis beginning January 1, 2018. Based on certain parameters defined in the Term Loan Facility, including a First Lien

Leverage Ratio, the Company may be required to make an additional principal payment on an annual basis beginning after fiscal year 2018, if the Company's First Lien Leverage Ratio is greater than 2.0. Any additional annual payments or prepayments would reduce future required scheduled payments. Any remaining outstanding balance under the Term Loan Facility are due at the maturity date of September 28, 2024.

Borrowings under the Term Loan Facility are subject to certain affirmative and negative covenants, including limitations on indebtedness, corporate transactions, investments and dispositions, and share payments.

#### Senior Notes

The \$375,000 of Senior Notes, which is included in long-term debt, bear interest at a rate of 5.63% per annum. Interest is payable semiannually in arrears on April 1 and October 1 of each year beginning April 1, 2018. The Senior Notes will mature on October 1, 2025.

Borrowings under the Senior Notes are subject to certain affirmative and negative covenants, including limitations on indebtedness, corporate transactions, investments, dispositions, and share payments.

#### Convertible Senior Notes due 2020

The Company maintains 1.75% convertible senior notes in the amount of \$249,985 due December 15, 2020. The convertible senior notes bear interest at a rate of 1.75% per annum. Interest is payable semiannually in arrears on June 15 and December 15 of each year. The convertible senior notes are senior unsecured obligations and rank equally to the Company's future unsecured senior indebtedness and are senior in right of payment to any of the Company's future subordinated indebtedness.

TTM TECHNOLOGIES, INC.

Notes to Consolidated Condensed Financial Statements—(Continued)

As of April 2, 2018 and January 1, 2018, the following summarizes the equity components of the convertible senior notes included in additional paid-in capital:

	As of April 2, 2018 and January 1, 2018		
	Embedded conversion Embedded option — conversion		
	Convertible option — Senior Notes Convertible Issuance		
	Senior Notes (in thousands)	Costs	Total
Convertible senior notes due 2020	\$60,216	\$ (1,916)	) \$58,300

The components of interest expense resulting from the convertible senior notes for the quarters ended April 2, 2018 and April 3, 2017 are as follows:

	Quarter Ended April 2, April 3, 2018 2017 (In thousands)	
Contractual coupon interest	\$1,094	\$1,094
Amortization of debt discount	\$2,230	\$2,091
Amortization of debt issuance costs	\$224	\$209

#### Asset-Based Lending Agreements

The Company maintains a \$200,000 U.S. Asset-Based Lending Credit Agreement (U.S. ABL), and a \$150,000 Asia Asset-Based Lending Credit Agreement (Asia ABL) (collectively the ABL Revolving Loans).

The U.S. ABL consists of three tranches comprised of a revolving credit facility for up to \$200,000, a letter of credit facility for up to \$50,000, and swingline loans for up to \$30,000, provided that at no time may amounts outstanding under the tranches exceed in aggregate \$200,000 or the applicable borrowing base, which is a percentage of the principal amount of Eligible Accounts, as defined in the U.S. ABL agreement. Borrowings under the U.S. ABL bear interest at either a floating rate of LIBOR plus a margin of 125 basis points or JP Morgan Chase Bank's prime rate plus a margin of 25 basis points, at the Company's option. At April 2, 2018, the interest rate on the outstanding borrowings under the U.S. ABL was 3.13%. The applicable margin can vary based on the remaining availability of the facility, from 125 to 175 basis points for LIBOR-based loans and from 25 to 75 basis points for JP Morgan Chase Bank's prime rate-based loans. Other than availability and an event of default, there are no other provisions for the interest margin to increase. The U.S. ABL will mature on May 31, 2020. Loans made under the U.S. ABL are secured first by all of the Company's domestic cash, receivables and certain inventories as well as by a second position against a significant amount of the domestic assets of the Company and a pledge of 65% of the voting stock of the Company's first tier foreign subsidiaries and are structurally senior to the Company's Senior Notes and Convertible Senior Notes. See Senior Notes and Convertible Senior Notes above. At April 2, 2018, \$17,000 of the U.S. ABL was outstanding and classified as long-term debt, which is consistent with its maturity date.

The Asia ABL consists of two tranches comprised of a revolving credit facility for up to \$150,000 and a letter of credit facility for up to \$100,000, provided that at no time may amounts outstanding under both tranches exceed in aggregate \$150,000 or the applicable borrowing base, which is a percentage of the principal amount of Eligible Accounts, as defined in the Asia ABL agreement. Borrowings under the Asia ABL bear interest at a floating rate of LIBOR plus 140 basis points. At April 2, 2018, the interest rate on the outstanding borrowings under the Asia ABL was 3.28%. There is no provision, other than an event of default, for the interest margin to increase. The Asia ABL will mature on May 22, 2020. Loans made under the Asia ABL are secured by a portion of the Company's Asia Pacific cash and receivables and are structurally senior to the Company's domestic obligations, including the Senior Notes and Convertible Senior Notes. See Senior Notes and Convertible Senior Notes above. At April 2, 2018, \$30,000 of the Asia ABL was outstanding and classified as long-term debt, which is consistent with its maturity date.

The Company has up to \$50,000 and \$100,000 Letters of Credit Facilities under the U.S. ABL and the Asia ABL, respectively. As of April 2, 2018, letters of credit in the amount of \$7,252 were outstanding under the U.S. ABL and \$26,976 were outstanding under the Asia ABL with various expiration dates through June 2019. Available borrowing capacity under the U.S. ABL and the Asia ABL was \$175,748 and \$93,024, respectively, which considers letters of credit outstanding at April 2, 2018.

## TTM TECHNOLOGIES, INC.

## Notes to Consolidated Condensed Financial Statements—(Continued)

The Company is required to pay a commitment fee of 0.25% to 0.375% per annum on any unused portion of the U.S. ABL or Asia ABL. The Company incurred total commitment fees related to unused borrowing availability of \$241 and \$187 for the quarters ended April 2, 2018 and April 3, 2017, respectively. Under the occurrence of certain events, the ABL Revolving Loans are subject to various financial and operational covenants, including maintaining minimum fixed charge coverage ratios.

## Other Credit Facility

Additionally, the Company is party to a revolving loan credit facility (Chinese Revolver) with a lender in China. Under this arrangement, the lender has made available to the Company approximately \$33,400 in unsecured borrowing with all terms of the borrowing to be negotiated at the time the Chinese Revolver is drawn upon. There are no commitment fees on the unused portion of the Chinese Revolver, and this arrangement expires in January 2019. As of April 2, 2018, the Chinese Revolver had not been drawn upon.

## Debt Issuance and Debt Discount

As of April 2, 2018 and January 1, 2018, remaining unamortized debt discount and debt issuance costs for the Term Loan Facility, Senior Notes and Convertible Senior Notes are as follows:

	As of April 2, 2018			As of January 1, 2018			
	Debt	Debt	Effective	Debt	Debt	Effective	
	Issuance Costs	Discount	Interest Rate	Issuance Costs	Discount	Interest Rate	
	(in thousands)						
Term Loan due September 2024	\$2,695	\$1,636	3.96	% \$2,788	\$1,691	3.96	%
Senior Notes due October 2025	6,608	—	5.92	% 6,782	—	5.92	%
Convertible Senior Notes	2,665	26,589	6.48	% 2,889	28,822	6.48	%
	\$11,968	\$28,225		\$12,459	\$30,513		

The above debt discount and debt issuance costs are recorded as a reduction of the debt and are amortized into interest expense using an effective interest rate over the duration of the debt.

Remaining unamortized debt issuance costs for the ABL Revolving Loans of \$2,171 and \$2,421 as of April 2, 2018 and January 1, 2018, respectively, are included in other non-current assets and are amortized to interest expense over the duration of the ABL Revolving Loans using the straight line method of amortization.

At April 2, 2018, the remaining weighted average amortization period for all unamortized debt discount and debt issuance costs was 3.8 years.

## (7) Income Taxes

The Company's effective tax rate is impacted by tax rates in China and Hong Kong, the U.S. federal income tax rate, apportioned state income tax rates, generation of other credits and deductions available to the Company as well as changes in valuation allowances and certain non-deductible items.

During the quarter ended April 2, 2018, the Company's effective tax rate was impacted by a net discrete expense of \$746 related to accrued interest expense on existing uncertain tax positions. Additionally, no tax benefit was recorded on the losses incurred in certain foreign jurisdictions as a result of corresponding increases in the valuation allowances in these jurisdictions. The Company expects its earnings attributable to foreign subsidiaries will be indefinitely reinvested outside of the U.S., except as noted below and, therefore, no deferred tax liabilities for U.S. income taxes on undistributed earnings are recorded. Foreign earnings from certain subsidiaries may be repatriated to the parent holding company located in the Cayman Islands, and therefore, a deferred tax liability has been recorded on the undistributed earnings of these subsidiaries.

#### Effects of the Tax Cuts and Jobs Act

On December 22, 2017, the Tax Cuts and Jobs Act (Tax Act) was enacted. Accounting Standard Codification (ASC) 740, Accounting for Income Taxes, requires companies to recognize the effect of tax law changes in the period of enactment regardless of the effective date of those tax law changes. Certain provisions of the Tax Act were effective September 27, 2017, others were effective or identified as of December 31, 2017 or January 1, 2018.

Given the timing of enactment of the Tax Act and the significance of the legislation, the SEC staff issued Staff Accounting Bulletin No. 118 (SAB 118), which allows registrants to record provisional amounts during a one year "measurement period" similar to that used when accounting for business combinations. However, the measurement period should not extend beyond one year from the Tax Act enactment date and is deemed to have ended when the registrant has obtained, prepared and analyzed the information necessary to finalize its accounting.

TTM TECHNOLOGIES, INC.

Notes to Consolidated Condensed Financial Statements—(Continued)

To the extent that a company's accounting for certain income tax effects of the Tax Act is incomplete but is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the Tax Act. More specifically, SAB 118 summarizes a three-step process to be applied at each reporting period to account for and disclose the tax effects of the Tax Act. The steps are (1) to record the effects of the change in tax law for which accounting is complete; (2) to record provisional amounts (or adjustments to provisional amounts) for the effects of the tax law where accounting is not complete, but for which a reasonable estimate has been determined; and (3) where a reasonable estimate cannot yet be made, to continue to apply ASC 740 based on the tax law in effect prior to enactment of the Tax Act.

Amounts recorded where accounting is complete for the year ended January 1, 2018 primarily relate to the reduction in the U.S. corporate income tax rate to 21 percent. The Company revalued its ending gross deferred tax items, previously recorded at 35 percent, using the enacted 21 percent corporate tax rate. This change caused a reduction to the Company's U.S. federal deferred tax assets fully offset by a reduction of its valuation allowance.

Effects of tax law changes where a reasonable estimate of the accounting effects cannot yet be made include the one-time mandatory repatriation transition tax on the net accumulated earnings and profits of the Company's foreign subsidiaries earned post 1986. The Company has performed a preliminary earnings and profits analysis with consideration given to foreign loss carryforwards acquired as a result of the Company's acquisitions and determined on a provisional basis that there should be no income tax effect in the current or any future period. The Company will continue to identify and evaluate data to more thoroughly identify the tax impact and record adjustments, if any, within the measurement period.

The Company has determined that the following provisions that are effective January 1, 2018 and relevant to the Company will not impact the current quarter tax expense, primarily as a result of the full valuation allowance in the U.S.: limitations on certain entertainment expenses, the inclusion of commissions and performance based compensation in determining the excessive compensation limitation, limitation on the current deductibility of net interest expense in excess of 30 percent of adjusted taxable income, and a minimum tax on certain foreign earnings in excess of 10 percent of the foreign subsidiaries tangible assets (i.e., global intangible low-taxed income or GILTI). The Company is still evaluating whether to make a policy election to treat the GILTI tax as a period expense or to provide U.S. deferred taxes on foreign earnings that are expected to generate GILTI income when they reverse in future years.

For the quarter ended April 2, 2018, the Company has not made any changes to its previously provisional estimate of the impact U.S. Tax Reform and the Company continues to analyze and model the impact and will record said impact as it becomes more certain. This includes the mandatory repatriation tax, indefinite criterion assertion on foreign earnings, and deferred taxes on foreign earnings expected to generate GILTI.

(8) Accumulated Other Comprehensive Income

The following provides a summary of the components of accumulated other comprehensive income as of April 2, 2018 and January 1, 2018:



Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

	Foreign Gains (Losses)		
	Currencyon Cash Flow		
	Translation Hedges		Total
	(In thousands)		
Ending balance at January 1, 2018	\$4,145	\$ (742 )	\$3,403
Other comprehensive income (loss) before reclassifications	622	(6 )	616
Amounts reclassified from accumulated other			
comprehensive income	—	41	41
Other comprehensive income	622	35	657
Ending balance at April 2, 2018	\$4,767	\$ (707 )	\$4,060

## TTM TECHNOLOGIES, INC.

## Notes to Consolidated Condensed Financial Statements—(Continued)

For the quarters ended April 2, 2018 and April 3, 2017, \$41 and \$44 net of tax, respectively, were reclassified out of accumulated other comprehensive income to depreciation expense related to cash flow hedges.

## (9) Significant Customers and Concentration of Credit Risk

In the normal course of business, the Company extends credit to its customers. Most customers to which the Company extends credit 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.

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

For both the quarters ended April 2, 2018 and April 3, 2017, one customer accounted for approximately 16% of the Company's net sales. There were no other customers that accounted for 10% or more of net sales for the quarters ended April 2, 2018 and April 3, 2017.

## (10) Fair Value Measures

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

The carrying amount and estimated fair value of the Company's financial instruments at April 2, 2018 and January 1, 2018 were as follows:

	April 2, 2018		January 1, 2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In thousands)			
Term Loan due September 2024	\$343,919	\$349,556	\$344,646	\$346,943
Senior Notes due October 2025	368,392	374,130	368,218	384,769
Convertible Senior Notes	220,731	409,300	218,274	429,199
ABL Revolving Loans	47,000	47,000	47,000	47,000
Capital Lease	1,987	1,987	1,919	1,919

The fair value of the long-term debt was estimated based on quoted market prices or discounting the debt over its life using current market rates for similar debt as of April 2, 2018 and January 1, 2018, which are considered Level 1 and

Level 2 inputs.

The fair value of the convertible senior notes was estimated based on quoted market prices of the securities on an active exchange, which are considered Level 1 and Level 2 inputs.

As of April 2, 2018 and January 1, 2018, the Company's other financial instruments also included cash and cash equivalents, accounts receivable, and accounts payable. Due to short-term maturities, the carrying amount of these instruments approximates fair value. The Company's cash and cash equivalents at April 2, 2018 consisted of \$187,748 held in the U.S., with the remaining \$164,828 held by foreign subsidiaries.

The majority of the Company's non-financial assets and liabilities, which include goodwill, intangible assets, inventories, and property, plant and equipment, are not required to be carried at fair value on a recurring basis. However, if certain triggering events occur (or are tested at least annually in the case of 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.

15

---

## TTM TECHNOLOGIES, INC.

## Notes to Consolidated Condensed Financial Statements—(Continued)

## (11) Commitments and Contingencies

## Legal Matters

The Company is subject to various legal matters, which it considers normal for its business activities. While the Company currently believes that the amount of any reasonably possible loss for known matters would not be material to the Company's financial condition, the outcome of these actions is inherently difficult to predict. In the event of an adverse outcome, the ultimate potential loss could have a material adverse effect on the Company's financial condition or results of operations in a particular period. The Company has accrued amounts for its loss contingencies which are probable and estimable as of April 2, 2018 and January 1, 2018. However, these amounts are not material to the consolidated condensed financial statements of the Company.

## Environmental Matters

The process to manufacture PCBs requires adherence to city, county, state, federal, and foreign environmental regulations regarding the storage, use, handling and disposal of chemicals, solid wastes and other hazardous materials, as well as compliance with air quality standards and chemical use reporting. The Company believes that its facilities in the United States and Canada comply in all material respects with applicable environmental laws and regulations. In China, governmental authorities have adopted new rules and regulations governing environmental issues. An update to the Chinese environmental waste water law was issued in late 2012, allowing for an interim period in which plants subject to such law may install equipment that meets the new regulatory regime. Some of the Company's plants in China are not yet in full compliance with the updated environmental regulations. The Company has established and enacted an investment plan related to the efforts to come into full compliance with the new regulations. The 2018 capital expenditure costs expected for these plans are included in the Company's capital expenditure projections.

## (12) Earnings Per Share

The following is a reconciliation of the numerator and denominator used to calculate basic earnings per share and diluted earnings per share for the quarters ended April 2, 2018 and April 3, 2017:

	Quarter Ended	
	April 2, 2018	April 3, 2017
	(In thousands, except per share amounts)	
<b>Basic earnings:</b>		
Basic earnings	\$ 10,097	\$ 32,959
<b>Diluted earnings:</b>		
Net income attributable to TTM		
Technologies, Inc. stockholders	\$ 10,097	\$ 32,959
Interest expense from convertible senior		
notes, net of tax	—	3,394
Diluted earnings	\$ 10,097	\$ 36,353

Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

Basic weighted average shares	102,508	100,932
Dilutive effect of performance-based restricted stock units, restricted stock units and stock options	1,829	1,867
Dilutive effect of outstanding warrants	3,180	2,183
Dilutive effect of assumed conversion of convertible senior notes outstanding	—	25,940
Diluted shares	107,517	130,922
Earnings per share attributable to TTM Technologies, Inc. stockholders:		
Basic	\$ 0.10	\$ 0.33
Diluted	\$ 0.09	\$ 0.28

## TTM TECHNOLOGIES, INC.

## Notes to Consolidated Condensed Financial Statements—(Continued)

For the quarters ended April 2, 2018 and April 3, 2017, performance-based restricted stock units (PRUs), restricted stock units (RSUs) and stock options to purchase 931 and 179 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 PRUs, RSUs or stock options was greater than the average market price of common shares during the applicable quarter and, therefore, the effect would be anti-dilutive.

For the quarter ended April 2, 2018, the effect of shares of common stock related to the Company's convertible senior notes, based on the if-converted method, was not included in the computation of dilutive earnings per share as the impact would be anti-dilutive.

## (13) Stock-Based Compensation

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

	Quarter Ended	
	April 2, 2018	April 3, 2017
	(In thousands)	
Cost of goods sold	\$529	\$394
Selling and marketing	374	253
General and administrative	2,719	2,981
Stock-based compensation expense recognized	\$3,622	\$3,628

## Performance-based Restricted Stock Units

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

The Company records stock-based compensation expense for PRU awards granted based on management's periodic assessment of the annual financial performance goals to be achieved. For the quarter ended April 2, 2018, management determined that vesting of the PRU awards was probable. PRUs activity for the quarter ended April 2, 2018 was as follows:

	Shares (In thousands)	Weighted Average Fair Value
Outstanding target shares at January 1, 2018	409	\$ 16.39
Granted	331	19.60
Outstanding target shares at April 2, 2018	740	\$ 17.83

The fair value for PRUs granted is calculated using a Monte Carlo simulation model, as the TSR modifier contains a market condition. For the quarters ended April 2, 2018 and April 3, 2017 the following assumptions were used in determining the fair value:

	April 2, 2018 <sup>(1)</sup>	April 3, 2017 <sup>(2)</sup>
Weighted-average fair value	\$ 19.60	\$ 22.90
Risk-free interest rate	2.13 %	1.20 %
Dividend yield	—	—
Expected volatility	40 %	43 %
Expected term in years	1.5	1.8

(1) Reflects the weighted-averages for the third year of the three-year performance period applicable to PRUs granted in 2016, second year of the three-year performance period applicable to PRUs granted in 2017 and first year of the three-year performance period applicable to PRUs granted in 2018.

## TTM TECHNOLOGIES, INC.

## Notes to Consolidated Condensed Financial Statements—(Continued)

(2) Reflects the weighted-averages for the third year of the three-year performance period applicable to PRUs granted in 2015, second year of the three-year performance period applicable to PRUs granted in 2016 and first year of the three-year performance period applicable to PRUs granted in 2017.

## Restricted Stock Units

The Company granted 830 and 946 RSUs during the quarters ended April 2, 2018 and April 3, 2017, respectively. The RSUs granted have a weighted-average fair value per unit of \$15.29 and \$15.78 for the quarters ended April 2, 2018 and April 3, 2017, respectively. The fair value for RSUs granted is based on the closing share price of the Company's common stock on the date of grant.

## Stock Options

The Company did not grant any stock option awards during the quarters ended April 2, 2018 and April 3, 2017.

## Summary of Unrecognized Compensation Costs

The following is a summary of total unrecognized compensation costs as of April 2, 2018:

	Unrecognized Stock- Based Compensation Cost (In thousands)	Remaining Weighted Average Recognition Period (In years)
RSU awards	\$ 25,679	1.6
PRU awards	9,393	1.3
Stock options	86	1.7
	\$ 35,158	

## (14) Segment Information

The reportable segments reported below are the Company's segments for which separate financial information is available and upon which operating results are evaluated by the chief operating decision maker to assess performance and to allocate resources. The Company has two reportable segments: PCB and E-M Solutions. The PCB reportable segment is comprised of multiple operating segments. Factors considered to determine whether operating segments can be aggregated into reportable segments included similarity regarding economic characteristics, products, production processes, type or classes of customers, distribution methods, and regulatory environments.

The Company, including the chief operating decision maker, evaluates segment performance based on reportable 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.

18

---

## TTM TECHNOLOGIES, INC.

## Notes to Consolidated Condensed Financial Statements—(Continued)

The inter-segment sales for the quarters ended April 2, 2018 and April 3, 2017, are sales primarily from the PCB to the E-M Solutions operating segment.

	For the Quarter Ended	
	April 2, 2018	April 3, 2017
	(In thousands)	
<b>Net Sales:</b>		
PCB	\$619,329	\$ 586,695
E-M Solutions	47,151	41,669
Total sales	666,480	628,364
Inter-segment sales	(2,898 )	(3,117 )
Total net sales	\$663,582	\$ 625,247
<b>Operating Segment Income (Loss):</b>		
PCB	\$63,464	\$ 82,256
E-M Solutions	40	(1,642 )
Corporate	(27,642 )	(22,132 )
Total operating segment income	35,862	58,482
Amortization of definite-lived intangibles	(5,861 )	(5,912 )
Total operating income	30,001	52,570
Total other expense	(14,854 )	(15,306 )
Income before income taxes	\$15,147	\$ 37,264

The Corporate category includes operating expenses that are not included in the segment operating performance measures. Corporate consists primarily of corporate governance functions such as finance, accounting, corporate sales, information technology, facilities, corporate operations and human resources personnel. Bank fees and legal, accounting, and other professional service costs associated with the acquisition of Anaren Holdings Corp. in the amount of \$3,973 for the quarter ended April 2, 2018 are included in Corporate. See Note 16 Subsequent Event.

## (15) Related Party Transactions

In the normal course of business, the Company's foreign subsidiaries purchase laminate and prepreg from related parties in which a significant shareholder of the Company holds an equity interest. For the quarters ended April 2, 2018 and April 3, 2017, the Company's foreign subsidiaries purchased \$12,708 and \$13,540, respectively, of laminate and prepreg from these related parties.

As of April 2, 2018 and January 1, 2018, the Company's consolidated condensed balance sheets included \$16,095 and \$14,452, respectively, in accounts payable due to related parties primarily for purchases of laminate and prepreg and such balances are included as a component of accounts payable on the consolidated condensed balance sheets.

## (16) Subsequent Event

On April 18, 2018, the Company completed its acquisition of all of the issued and outstanding common stock of Anaren Holding Corp. for total consideration of \$775,000 in cash subject to customary working capital and certain other adjustments. Other than the equity interests of Anaren, Inc. (Anaren), Anaren Holding Corp. has no material assets or liabilities and has no material independent operations. Anaren is a leading provider of mission-critical radio frequency (RF) solutions, microelectronics, and microwave components and assemblies for the wireless infrastructure and space and defense electronics markets.

Additionally, the Company closed its \$600,000 commitment of incremental loans concurrent with the completion of its acquisition of Anaren. The Company used the proceeds of the incremental loan, along with cash on hand to fund the purchase price of the Anaren acquisition and to pay related fees and expenses.

The acquisition will be accounted for using the acquisition method; however the accounting was incomplete at the time these financial statements were issued. As a result, the purchase price allocation and pro-forma income statement disclosures have not been provided. The first periodic report that will include results of operations for Anaren will be the Company's Form 10-Q for the quarter ended July 2, 2018.

## 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 also be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" set forth in our Annual Report on Form 10-K for the fiscal year ended January 1, 2018, filed with the SEC.

### COMPANY OVERVIEW

We are a leading global printed circuit board (PCB) manufacturer, focusing on quick-turn and volume production of technologically complex PCBs and electro-mechanical solutions (E-M Solutions). We focus on providing time-to-market and volume production of advanced technology products and offer a one-stop manufacturing solution to our customers from engineering support to prototype development through final mass production. This one-stop manufacturing solution allows us to align technology development with the diverse needs of our customers and to enable them to reduce the time required to develop new products and bring them to market. We serve a diversified customer base consisting of approximately 2,000 customers in various markets throughout the world, including aerospace and defense, automotive components, smartphones and touchscreen tablets, high-end computing, and medical, industrial and instrumentation related products as well as networking/communications infrastructure products. Our customers include both original equipment manufacturers (OEMs) and electronic manufacturing services (EMS) providers.

### RECENT DEVELOPMENTS

On April 18, 2018, we completed our acquisition to purchase all of the issued and outstanding common stock of Anaren Holding Corp. for total consideration of \$775.0 million cash subject to customary working capital and certain other adjustments. Other than the equity interests of Anaren, Inc. (Anaren), Anaren Holding Corp. has no material assets or liabilities and has no material independent operations. Anaren is a leading provider of mission-critical radio frequency (RF) solutions, microelectronics, and microwave components and assemblies for the wireless infrastructure and space and defense electronics markets.

Additionally, we closed our \$600.0 million commitment for incremental loans concurrent with the completion of our acquisition of Anaren. We used the proceeds of the incremental loan, along with cash on hand to fund the purchase price of the Anaren acquisition and to pay related fees and expenses.

### FINANCIAL OVERVIEW

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 45% of our net sales for both the quarters ended April 2, 2018 and April 3, 2017. We sell to OEMs both directly and indirectly through EMS providers.

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

End Markets(1)(2)	Quarter Ended			
	April 2, 2018		April 3, 2017	
Aerospace and Defense	18	%	15	%
Automotive	20		20	
Cellular Phone(2)	15		14	
Computing/Storage/Peripherals(2)	12		15	
Medical/Industrial/Instrumentation	15		15	
Networking/Communications	16		20	
Other(3)	4		1	
Total	100	%	100	%

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

(2) Smartphones are included in the Cellular Phone end market, tablets are included in the Computing/Storage/Peripherals end market and other consumer devices include wearables, portable video devices and personal headphones are included in the Other end market.

(3) Revenue recognized progressively over time based on the extent of progress towards completion of the performance obligation, which has not yet been shipped, is included in Other end market along with consumer devices such as wearables, portable video devices and personal headphones.

We derive revenues primarily from the sale of PCBs and custom electronic assemblies using customer-supplied engineering and design plans. Orders for products generally correspond to the production schedules of our customers and are supported with firm purchase orders. Our customers have continuous transfer of control of the work in progress and finished goods as PCBs are being manufactured, as PCBs are built to customer specifications and do not have an alternative use. The customer typically controls the work in progress and finished goods as evidenced either by contractual termination clauses or by our right to payment for work performed to date, plus a reasonable profit. As a result, and in light of our adoption of the new “overtime” revenue standard as further discussed below in the “CRITICAL ACCOUNTING POLICIES AND ESTIMATES,” beginning in the first quarter of 2018, we recognized revenue progressively over time based on the extent of progress towards completion of the performance obligation rather than upon shipment as we had in the past.

The selection of the method to measure progress toward completion requires judgment and is based on the type of PCB or customized electronic assemblies being manufactured. We use the cost-to-cost method as it best depicts the transfer of control to the customer which takes place as we incur costs. Under the cost-to-cost measure of progress, the extent of progress toward completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation. Revenues are recorded proportionally as costs are incurred.

Net sales consist of gross sales less an allowance for returns, which typically have 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 estimate for sales returns and allowances at the time of sale based on historical results.

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

Selling and marketing expenses consist primarily of salaries, labor related benefits, and commissions paid to our internal sales force, independent sales representatives, and our sales support staff, as well as costs associated with marketing materials and trade shows.

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

#### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

See Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations, in our Annual Report on Form 10-K for the fiscal year ended January 1, 2018 for further discussion of critical accounting policies and estimates. There were no material changes to our critical accounting policies and estimates since January 1, 2018, except for the adoption of Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (new revenue standard) on January 2, 2018.

The new revenue standard replaces most existing revenue recognition guidance in U.S. GAAP, including industry specific requirements, and provides companies with a single revenue recognition model for recognizing revenue of contracts with customers. The core principle of the new revenue standard is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. We assessed the new guidance and adopted the new revenue standard on January 2, 2018, which resulted in a change to the timing of revenue recognition for our revenue stream from “point in time” upon physical delivery to an “over time” model.

## RESULTS OF OPERATIONS

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

	Quarter Ended	
	April 2, 2018	April 3, 2017
Net sales	100.0 %	100.0 %
Cost of goods sold	86.6	83.2
Gross profit	13.4	16.8
Operating expenses:		
Selling and marketing	2.7	2.7
General and administrative	5.3	4.8
Amortization of definite-lived intangibles	0.9	0.9
Total operating expenses	8.9	8.4
Operating income	4.5	8.4
Other income (expense):		
Interest expense	(2.1 )	(2.2 )
Other, net	(0.1 )	(0.2 )
Total other expense, net	(2.2 )	(2.4 )
Income before income taxes	2.3	6.0
Income tax provision	(0.8 )	(0.7 )
Net income	1.5	5.3
Less: Net income attributable to the non-		
controlling interest	—	—
Net income attributable to TTM Technologies, Inc.		
stockholders	1.5 %	5.3 %

We have two reportable segments: PCB and E-M Solutions. The PCB reportable segment is comprised of multiple operating segments. Factors considered in determining whether operating segments can be aggregated into reportable segments included similarity regarding economic characteristics, products, production process, type or class of customers, distribution methods and regulatory environments.

The following table compares net sales by reportable segment for the quarters ended April 2, 2018 and April 3, 2017:

	Quarter Ended	
	April 2, 2018	April 3, 2017
Net Sales		
PCB	\$619,329	\$586,695



Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

E-M Solution	47,151	41,669
Total sales	666,480	628,364
Inter-segment sales	(2,898 )	(3,117 )
Total net sales	\$663,582	\$625,247

Net Sales

Total net sales increased \$38.4 million, or 6.1%, from \$625.2 million for the quarter ended April 3, 2017 to \$663.6 million for the quarter ended April 2, 2018.

Net sales for the PCB operating segment, excluding inter-segment sales, increased \$32.8 million, or 5.6%, from \$583.6 million for the quarter ended April 3, 2017 to \$616.4 million for the quarter ended April 2, 2018. This increase is primarily due to higher sales in our Aerospace/Defense and Cellular Phone end markets combined with a \$13.8 million increase related to the adoption of the new revenue standard. Higher sales were the result of an average PCB selling price increase of 4.7%, which was driven mainly by product mix shift, and a 1.1% decrease in PCB shipments as compared to the quarter ended April 3, 2017.

Net sales for the E-M Solutions operating segment increased \$5.5 million from \$41.7 million for the quarter ended April 3, 2017 to \$47.2 million for the quarter ended April 2, 2018. Higher sales were due to higher demand in our Automotive end market.

## Gross Margin

Overall gross margin decreased from 16.8% for the quarter ended April 3, 2017 to 13.4% for the quarter ended April 2, 2018. Gross margin for the PCB operating segment decreased from 18.2% for the quarter ended April 3, 2017 to 14.3% for the quarter ended April 2, 2018 primarily due to lower capacity utilization at our Cellular Phone, Networking/Communications and Computing/Storage/ Peripherals focused facilities, a strengthening Chinese Renminbi which negatively impacted our operating costs, and the absence of \$3.0 million insurance settlement received in 2017. Gross margin for the E-M Solutions operating segment increased from 2.7% for the quarter ended April 3, 2017 to 5.5% for the quarter ended April 2, 2018 primarily due to higher volumes and lower inventory reserves.

Capacity utilization is a key driver for us, particularly in our high volume Asia facilities, as a significant portion of our operating costs are fixed in nature. Capacity utilization for the first quarter of 2017 in our Asia and North America PCB facilities was 81% and 57%, respectively, compared to 78% and 61%, respectively, in the first quarter of 2018.

## Selling and Marketing Expenses

Selling and marketing expenses increased \$0.9 million, from \$16.7 million for the quarter ended April 3, 2017 to \$17.6 million for the quarter ended April 2, 2018. As a percentage of net sales, selling and marketing expenses was 2.7% for both of the quarter ended April 2, 2018 and April 3, 2017. The increase in selling and marketing expense primarily relates to higher labor, commission and travel expenses.

## General and Administrative Expenses

General and administrative expenses increased \$5.3 million from \$29.9 million, or 4.8% of net sales, for the quarter ended April 3, 2017 to \$35.2 million, or 5.3% of net sales, for the quarter ended April 2, 2018. The increase in expense primarily relates to \$4.0 million of acquisition-related costs associated with the acquisition of Anaren on April 18, 2018.

## Other Income (Expense)

Other expense, net decreased \$0.4 million from \$15.3 million for the quarter ended April 3, 2017 to \$14.9 million for the quarter ended April 2, 2018. The decrease in other expense, net was primarily due to a decrease in foreign currency losses for the quarter ended April 2, 2018 as compared to the quarter ended April 3, 2017 due to the appreciation of the Chinese Renminbi (RMB), which is utilized at our China facilities for employee-related expenses, foreign currency denominated purchases, and other costs of running our operations in China. Further our translation of balance sheet accounts denominated in foreign currencies could be impacted if foreign exchange rates between those currencies (principally the RMB) and the U.S. Dollar change.

## Income Taxes

The provision for income taxes increased by \$1.0 million from \$4.1 million for the quarter ended April 3, 2017 to \$5.1 million for the quarter ended April 2, 2018. The increase in income tax expense in 2018 was primarily due to the absence of a benefit that was recognized in the same period in 2017, specifically, the receipt of China's high and new technology enterprise status in one of our subsidiaries in the quarter ended April 3, 2017, which resulted in a tax incentive benefit effective retroactively to 2016.

Effects of the Tax Cuts and Jobs Act

On December 22, 2017, the Tax Cuts and Jobs Act (Tax Act) was enacted. Accounting Standards Codification (ASC) 740, Accounting for Income Taxes, requires companies to recognize the effect of tax law changes in the period of enactment regardless of the effective date of those tax law changes. Certain provisions of the Tax Act were effective September 27, 2017, others were effective or identified as of December 31, 2017 or January 1, 2018.

Given the timing of enactment of the Tax Act and the significance of the legislation, the SEC staff issued Staff Accounting Bulletin No. 118 (SAB 118), which allows registrants to record provisional amounts during a one year “measurement period” similar to that used when accounting for business combinations. However, the measurement period should not extend beyond one year from the Tax Act enactment date and is deemed to have ended when the registrant has obtained, prepared and analyzed the information necessary to finalize its accounting.

To the extent that a company’s accounting for certain income tax effects of the Tax Act is incomplete but is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the Tax Act. More specifically, SAB 118 summarizes a three-step process to be applied at each reporting period to account for and disclose the tax effects of the Tax Act. The steps are (1) to record the effects of the change in tax law for which accounting is complete; (2) to record provisional amounts (or adjustments to provisional amounts) for the effects of the tax law where accounting is not complete, but for which a reasonable estimate has been determined; and (3) where a reasonable estimate cannot yet be made, to continue to apply ASC 740 based on the tax law in effect prior to enactment of the Tax Act.

With respect to the reduction in the U.S. corporate income tax rate to 21 percent, we revalued our ending gross deferred tax items, previously recorded at 35 percent, using the enacted 21 percent corporate tax rate. This change caused a reduction to our U.S. federal deferred tax asset fully offset by a reduction of our valuation allowance. While we are able to make a reasonable estimate of the impact of the reduction in corporate rate, it may be affected by other analyses related to the Tax Act, including, but not limited to, our calculation of deemed repatriation of deferred foreign income and the state tax effect of adjustments made to federal temporary differences, as well as changes to our valuation allowance.

Further effects of tax law changes where we have made a provisional estimate include the one-time mandatory repatriation transition tax on the net accumulated earnings and profits of our foreign subsidiaries earned post 1986. We have performed a preliminary earnings and profits analysis with consideration given to foreign loss carryforwards acquired as a result of our acquisitions and determined that there should be no income tax effect in the current or any future period. We will continue to identify and evaluate data to more thoroughly identify the tax impact and record adjustments, if any, within the measurement period.

We have determined that the following provisions that are effective January 1, 2018 and relevant to us will not impact the current quarter tax expense, primarily as a result of the full valuation allowance in the U.S.: limitations on certain entertainment expenses, the inclusion of commissions and performance based compensation in determining the excessive compensation limitation, limitation on the current deductibility of net interest expense in excess of 30 percent of adjusted taxable income, and a minimum tax on certain foreign earnings in excess of 10 percent of the foreign subsidiaries tangible assets (i.e., global intangible low-taxed income or GILTI). We are still evaluating whether to make a policy election to treat the GILTI tax as a period expense or to provide U.S. deferred taxes on foreign earnings that are expected to generate GILTI income when they reverse in future years.

In addition, significant judgment is required in determining our worldwide provision for income taxes. In the ordinary course of our business, there are many transactions for which 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.

Our effective tax rate was primarily impacted by tax rates in China and Hong Kong, the U.S. federal income tax rate, apportioned state income tax rates, generation of other credits and deductions available to us, as well as changes in valuation allowances, and certain non-deductible items. Certain foreign losses generated are not more likely than not to be realizable, and thus no income tax benefit has been recognized on these losses. We had a net deferred income tax liability of approximately \$7.8 million and \$4.9 million as of April 2, 2018 and January 1, 2018, respectively.

#### Liquidity and Capital Resources

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

Cash flow used in operating activities during the quarter ended April 2, 2018 was \$14.3 million as compared to \$49.6 million of cash flow provided by operating activities in the same period in 2017. The decrease in cash flow was due to increased investment in working capital and a decrease in net income. Cash cycle days increased to 48 days for the quarter ended April 2, 2018 as compared to 46 days for the quarter ended April 3, 2017. As of April 2, 2018, we had net working capital of approximately \$570.1 million compared to \$501.0 million as of January 1, 2018.

Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

Net cash used in investing activities was approximately \$42.1 million and \$23.4 million for the quarters ended April 2, 2018 and April 3, 2017, respectively, primarily reflecting net purchases of property, plant and equipment.

Net cash used in financing activities was approximately \$0.9 million for the quarter ended April 2, 2018 reflecting repayment of long-term debt. Net cash provided by financing activities was approximately \$0.1 million for the quarter ended April 3, 2017 reflecting proceeds from the exercise of common stock options.

As of April 2, 2018, we had cash and cash equivalents of approximately \$352.6 million, of which approximately \$164.8 million was held by our foreign subsidiaries, primarily in China. Cash and cash equivalents held by our foreign locations are expected to be used in local operations.

Our 2018 net capital expenditures are expected to be in the range of \$150.0 million to \$170.0 million.

## Long-term Debt and Letters of Credit

### Term Loan Facility

During the fiscal year 2017, we entered into a \$350.0 million Term Loan Facility due 2024. The Term Loan Facility, of which \$3.5 million is included in short-term debt and \$344.8 million is included in long-term debt, was issued at a discount at 99.5% and bears interest, at our option, at a floating rate of LIBOR, plus an applicable interest margin of 2.5%, or an alternate base rate, (defined as the greater of the JP Morgan prime, the New York Fed bank rate plus 0.9% or LIBOR plus 1%), subject to a 1% floor plus an applicable margin of 1.5%. At April 2, 2018, the interest rate on the outstanding borrowings under the Term Loan Facility was 4.38%. There is no provision, other than an event of default, for the interest margin to increase. The Term Loan Facility will mature on September 28, 2024. The Term Loan Facility is secured by a significant amount of our domestic assets and a pledge of 65% of voting stock of our first tier foreign subsidiaries and is structurally senior to our Senior Notes and Convertible Senior Notes. See Senior Notes and Convertible Senior Notes below.

We are required to make scheduled payments of the outstanding Term Loan Facility on a quarterly basis beginning January 1, 2018. Based on certain parameters defined in the Term Loan Facility, including a First Lien Leverage Ratio, we may be required to make an additional principal payment on an annual basis beginning after fiscal year 2018, if our First Lien Leverage Ratio is greater than 2.0. Any additional annual payments or prepayments would reduce future required scheduled payments. Any remaining outstanding balance under the Term Loan Facility are due at the maturity date of September 28, 2024.

Borrowings under the Term Loan Facility are subject to certain affirmative and negative covenants, including limitations on indebtedness, corporate transactions, investments and dispositions, and share payments. At April 2, 2018, we were in compliance with the covenants under the Term Loan Facility.

Subsequent to the quarter ended April 2, 2018, we closed on our \$600.0 million commitment of incremental loans concurrent with the completion of our acquisition of Anaren on April 18, 2018. We used the proceeds of the incremental loan, along with cash on hand to fund the purchase price of the Anaren acquisition and to pay related fees and expenses.

### Senior Notes

The \$375.0 million of Senior Notes, which is included in long-term debt, bear interest at a rate of 5.63% per annum. Interest is payable semiannually in arrears on April 1 and October 1 of each year beginning April 1, 2018. The Senior Notes will mature on October 1, 2025.

Borrowings under the Senior Notes are subject to certain affirmative and negative covenants, including limitations on indebtedness, corporate transactions, investments, dispositions, and share payments. At April 2, 2018, we were in compliance with the covenants under the Senior Notes.

### Convertible Senior Notes due 2020

We maintain 1.75% convertible senior notes in the amount of \$250.0 million due December 15, 2020. The convertible senior notes bear interest at a rate of 1.75% per annum. Interest is payable semiannually in arrears on June 15 and December 15 of each year. The convertible senior notes are senior unsecured obligations and rank equally to our future unsecured senior indebtedness and senior in right of payment to any of our future subordinated indebtedness. Offering expenses are being amortized to interest expense over the term of the convertible senior notes.

## Asset-Based Lending Agreements

We maintain a \$200.0 million U.S. Asset-Based Lending Credit Agreement (U.S. ABL), and a \$150.0 million Asia Asset-Based Lending Credit Agreement (Asia ABL) (collectively the ABL Revolving Loans).

The U.S. ABL consists of three tranches comprised of a revolving credit facility of up to \$200.0 million, a letter of credit facility for up to \$50.0 million, and swingline loans for up to \$30.0 million, provided that at no time may amounts outstanding under the tranches exceed in aggregate \$200.0 million or the applicable borrowing base, which is a percentage of the principal amount of Eligible Accounts, as defined in the U.S. ABL agreement. Borrowings under the U.S. ABL bear interest at either a floating rate of LIBOR plus a margin of 125 basis points or JP Morgan Chase Bank's prime rate plus a margin of 25 basis points, at our option. At April 2, 2018, the interest rate on the outstanding borrowings under the U.S. ABL was 3.13%. The applicable margin can vary based on the remaining availability of the facility, from 125 to 175 basis points for LIBOR-based loans and from 25 to 75 basis points for JP Morgan Chase Bank's prime rate-based loans. Other than availability and an event of default, there are no other provisions for the interest margin to increase. The U.S. ABL will mature on May 31, 2020. Loans made under the U.S. ABL are secured first by all of our domestic cash, receivables and certain inventories as well as by a second position against a significant amount of our domestic assets and a pledge of 65% of the voting stock of our first tier foreign subsidiaries and are structurally senior to our Senior Notes and Convertible Senior Notes. See Senior Notes and Convertible Senior Notes elsewhere in this section. At April 2, 2018, \$17.0 million of the U.S. ABL was outstanding and classified as long-term debt, which is consistent with its maturity date.

The Asia ABL consists of two tranches comprised of a revolving credit facility for up to \$150.0 million and a letter of credit facility for up to \$100.0 million, provided that at no time may amounts outstanding under both tranches exceed in aggregate \$150.0 million or the applicable borrowing base, which is a percentage of the principal amount of Eligible Accounts, as defined in the Asia ABL agreement. Borrowings under the Asia ABL bear interest at a floating rate of LIBOR plus 140 basis points. At April 2, 2018, the interest rate on the outstanding borrowings under the Asia ABL was 3.28%. There is no provision, other than an event of default, for the interest margin to increase. The Asia ABL will mature on May 22, 2020. Loans made under the Asia ABL are secured by a portion of our Asia cash and receivables and are structurally senior to our domestic obligations, including the Senior Notes and Convertible Senior Notes. See Senior Notes and Convertible Senior Notes elsewhere in this section. At April 2, 2018, \$30.0 million of the Asia ABL was outstanding and classified as long-term debt, which is consistent with its maturity date.

We have up to \$50.0 million and \$100.0 million Letters of Credit Facilities under the U.S. ABL and the Asia ABL, respectively. As of April 2, 2018, letters of credit in the amount of \$7.3 million were outstanding under the U.S. ABL and \$27.0 million were outstanding under the Asia ABL with various expiration dates through June 2019. Available borrowing capacity under the U.S. ABL and the Asia ABL was \$175.7 million and \$93.0 million, respectively, which considers letters of credit outstanding at April 2, 2018.

We are required to pay a commitment fee of 0.25% to 0.375% per annum on any unused portion of the ABL Revolving Loans. We paid commitment fees of \$0.2 million for both of the quarters ended April 2, 2018 and April 3, 2017, respectively. Under the occurrence of certain events, the ABL Revolving Loans are subject to various financial and operational covenants, including maintaining minimum fixed charge coverage ratios. At April 2, 2018, we were in compliance with the covenants under the ABL Revolving Loans.

#### Other Credit Facility

Additionally, we are party to a revolving loan credit facility (Chinese Revolver) with a lender in China. Under this arrangement, the lender has made available to us approximately \$33.4 million in unsecured borrowing with all terms of the borrowing to be negotiated at the time the Chinese Revolver is drawn upon. There are no commitment fees on the unused portion of the Chinese Revolver, and this arrangement expires in January 2019. As of April 2, 2018, the Chinese Revolver had not been drawn upon.

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

#### Contractual Obligations and Commitments

The following table provides information on our contractual obligations as of April 2, 2018:

	Total	Less Than 1 year	1 - 3 Years	4 - 5 Years	After 5 Years
Contractual Obligations (1)	(In thousands)				
Long-term debt obligations	\$772,237	\$4,616	\$53,996	\$7,875	\$705,750
Convertible debt obligations	249,985	—	249,985	—	—
Interest on debt obligations	272,362	42,693	72,526	82,686	74,457
Purchase obligations	115,364	105,303	1,254	635	8,172



Edgar Filing: TTM TECHNOLOGIES INC - Form 10-Q

Operating lease commitments	32,702	15,043	8,128	3,508	6,023
Total contractual obligations	\$1,442,650	\$167,655	\$385,889	\$94,704	\$794,402

(1) Unrecognized uncertain tax benefits of \$42.1 million are not included in the table above as the settlement timing is uncertain.

#### Off Balance Sheet Arrangements

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

#### Seasonality

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

## Item 3. Quantitative and Qualitative Disclosures About Market Risk

## Foreign currency risks

In the normal course of business we are exposed to risks associated with fluctuations in foreign currency exchange rates associated with transactions that are denominated in currencies other than our functional currencies, as well as the effects of translating amounts denominated in a foreign currency to the U.S. Dollar as a normal part of our financial reporting process. One of our China facilities utilizes the Renminbi (RMB) as the functional currency, which results in recognition of translation adjustments included as a component of other comprehensive income. Our foreign exchange exposure results primarily from employee-related and other costs of running our operations in foreign countries, foreign currency denominated purchases and translation of balance sheet accounts denominated in foreign currencies. Our primary foreign exchange exposure is to the RMB. We do not engage in hedging to manage foreign currency risk related to revenue and expenses denominated in RMB. However, we may consider the use of derivatives in the future. In general, our Chinese customers pay us in RMB, which partially mitigates this foreign currency exchange risk.

## Interest rate risk

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

See Liquidity and Capital Resources and Long-term Debt and Letters of Credit appearing in Item 2 of this Form 10-Q for further discussion of our financing facilities and capital structure. As of April 2, 2018, approximately 61.3% of our total debt was based on fixed rates. Based on our borrowings as of April 2, 2018, an assumed 100 basis point change in variable rates would cause our annual interest cost to change by \$4.0 million.

## Debt Instruments

The table below presents information about certain of our debt instruments as of April 2, 2018 and January 1, 2018.

	As of April 2, 2018							Fair Market Value	Weighted Average Interest Rate
	Remaining 2018 (In thousands)	2019	2020	2021	2022	Thereafter	Total		
US\$ Variable Rate	\$1,750	\$3,500	\$50,500	\$4,375	\$3,500	\$331,625	\$395,250	\$396,556	4.25%
US\$ Fixed Rate	1,116	421	250,435	—	—	375,000	626,972	785,417	4.08%
<b>Total</b>	<b>\$2,866</b>	<b>\$3,921</b>	<b>\$300,935</b>	<b>\$4,375</b>	<b>\$3,500</b>	<b>\$706,625</b>	<b>\$1,022,222</b>	<b>\$1,181,973</b>	
	As of January 1, 2018							Fair Market Value	Weighted Average
	2018	2019	2020	2021	2022	Thereafter	Total		

	(In thousands)								Interest Rate
US\$ Variable Rate	\$3,500	\$2,625	\$50,500	\$4,375	\$3,500	\$331,625	\$396,125	\$393,943	3.94%
US\$ Fixed Rate	1,078	407	250,419	—	—	375,000	626,904	815,887	4.08%
Total	\$4,578	\$3,032	\$300,919	\$4,375	\$3,500	\$706,625	\$1,023,029	\$1,209,830	

See Item 7A, Quantitative and Qualitative Disclosures About Market Risk, in our Annual Report on Form 10-K for the year ended January 1, 2018 for further discussion of market risks associated with interest rates.

#### Item 4. Controls and Procedures

##### Evaluation of Disclosure Controls and Procedures

Our management, under the supervision and with the participation of our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this report. Based on this evaluation, our CEO and CFO have concluded that, as of April 2, 2018, such disclosure controls and procedures were effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosures.

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

#### Changes in Internal Control Over Financial Reporting

During the quarter ended April 2, 2018, our management adopted Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers. Changes were made to relevant business processes and control activities related to the revenue recognition to monitor and maintain appropriate internal controls over financial reporting. The modified and new controls were designed to address risks associated with recognizing revenue based on the five-step model provided in the new standard and to ensure completeness and accuracy of the expanded disclosures required by the new standard.

There have been no other changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended April 2, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

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

### Item 1A. Risk Factors

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

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

#### Risks Related to our Business

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

Uncertainty or adverse changes in the economy could lead to a significant decline in demand for the end products manufactured by our customers, which, in turn, could result in a decline in the demand for our products and pressure to reduce our prices. Any decrease in demand for our products could have an adverse impact on our financial condition, operating results and cash flows. Uncertainty and adverse changes in the economy could also increase the cost and decrease the availability of potential sources of financing and increase our exposure to losses from bad debts, either of which could have a material adverse effect on our financial condition, operating results and cash flows.

The integration of Anaren may present significant challenges to TTM, and although TTM expects the acquisition will result in cost savings, synergies, and other benefits to TTM, TTM may not realize those benefits because of difficulties related to integration, the realization of synergies, and other challenges.

TTM and Anaren have operated independently until consummation of the acquisition on April 18, 2018, and there can be no assurances that their businesses can be integrated successfully. It is possible that the integration process could result in the loss of key TTM or Anaren employees, the loss of customers, the disruption of either company's or both companies' ongoing businesses or other unexpected integration issues, higher than expected integration costs and an overall post-completion integration process that takes longer than originally anticipated. Specifically, the following issues and potential risks, among others, must be addressed in integrating the operations of TTM and Anaren in order to realize the anticipated benefits of the acquisition so the combined company performs as expected:

• failure to implement the business plan for the combined company;

28

---

combining the businesses of TTM and Anaren and meeting the capital requirements of the combined company in a manner that permits the combined company to achieve the cost savings or revenue synergies anticipated to result from the acquisition, the failure of which would result in the anticipated benefits of the acquisition not being realized in the time frame currently anticipated or at all;

satisfying the requirements of our customers and meeting their expectations while we integrate operations;

integration of the contracting activities of TTM and Anaren, particularly with respect to the companies' respective military and government contracts;

harmonizing the companies' operating practices, employee development and compensation programs, internal controls, and other policies, procedures, and processes;

costs, including legal and settlement costs, associated with TTM's and Anaren's legal proceedings, and other costs, including legal and settlement costs, associated with the combined company's other loss contingencies, in each case whether known or unknown and whether relating to past, present or future facts, events, circumstances, or occurrences, any of which could be materially adverse to the business, results of operations, assets, or financial condition of TTM or Anaren and, following the acquisition, the financial position, results of operations, and liquidity of the combined company and the ability of the combined company to achieve expected benefits of the acquisition;

potential deterioration in the financial performance of TTM and Anaren, including any potential deviation in results of operations from historical levels;

difficulties in the retention and assimilation of employees;

- demands on management related to the increase in the size of our company after the acquisition;

the diversion of management's attention from the management of daily operations to the integration of operations;

unanticipated changes in applicable laws and regulations;

the imposition of divestiture requirements or a required exit from business lines to obtain regulatory approvals;

difficulties and risks in the integration of departments and systems (including accounting, health information and management information systems), technologies (including software), books and records and procedures, as well as in maintaining uniform standards and controls (including internal control over financial reporting and related procedures and policies); and

other unanticipated issues, expenses, or liabilities that could materially adversely affect our ability to realize any expected synergies on a timely basis, or at all.

If we cannot successfully integrate Anaren, we may experience material negative consequences to our business, financial condition, or results of operations. Successful integration of TTM and Anaren will depend on our ability to manage these operations, to realize opportunities for revenue growth and to eliminate redundant and excess costs. Because of difficulties in combining the two companies, we may not be able to achieve the benefits that we expect to achieve as a result of the acquisition.

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

We have substantial debt and, as a result, we have significant debt service obligations. We maintain \$250.0 million of Convertible Senior Notes due 2020 at an interest rate of 1.75%, a \$348.3 million Term Loan Facility due 2024 (Term Loan Facility) at a floating rate of LIBOR plus 2.5%, \$375.0 million of Senior Notes due 2025 (Senior Notes) at an interest rate of 5.63%, a \$200.0 million U.S. Asset-Based Lending Credit Agreement (U.S. ABL), and a \$150.0 million Asia Asset-Based Lending Credit Agreement (Asia ABL). We and a number of our direct and indirect subsidiaries also have various credit facilities and letters of credit. Such agreements also contain certain financial covenants which require us to maintain, under the occurrence of certain events, a consolidated fixed charge coverage ratio.

In addition on April 18, 2018, we closed our \$600.0 million commitment of incremental loans (Incremental Facility) concurrent with the completion of the acquisition of Anaren.

Subject to the limits contained in the credit agreements governing the Term Loan Facility (including the Incremental Facility), the U.S. ABL, the Asia ABL, the indenture governing the Senior Notes, and our other debt instruments, we may be able to incur substantial additional debt from time to time to finance working capital, capital expenditures, investments or acquisitions, or for other purposes. If we do so, the risks related to our high level of debt could intensify. Specifically, our high level of debt could have important consequences to us and our shareholders. For example, it could:

- make it more difficult for us to satisfy our obligations with respect to our indebtedness, which could in turn result in an event of default on such indebtedness;

29

---

require us to use a substantial portion of our cash flow from operations for debt service payments, thereby reducing the availability of cash for working capital, capital expenditures, acquisitions and other general corporate purposes; impair our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions and other investments or general corporate purposes, which may limit our ability to execute our business strategy; diminish our ability to withstand a downturn in our business, the industry in which we operate or the economy generally and restrict us from exploiting business opportunities or making acquisitions; limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate or the general economy; increase our vulnerability to general adverse economic and industry conditions, including movements in interest rates, which could result in increased borrowing costs; limit management's discretion in operating our business; and place us at a competitive disadvantage as compared to our competitors that have less debt as it could limit our ability to capitalize on future business opportunities and to react to competitive pressures or adverse changes.

In addition, the indenture governing the Senior Notes and the credit agreements governing the Term Loan Facility (including the Incremental Facility), the U.S. ABL and the Asia ABL contain restrictive covenants that will limit our ability to engage in activities that may be in our long-term best interest. Our failure to comply with those covenants could result in an event of default which, if not cured or waived, could result in the acceleration of all our debt.

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

We are required to make scheduled payments on all term loan facilities on a quarterly basis. Based on certain parameters defined in the term loan facilities, including a First Lien Leverage Ratio, we may be required to make an additional principal payment on an annual basis, beginning after fiscal year 2018, if our First Lien Leverage Ratio is greater than 2.0.

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

If our cash flows and capital resources are insufficient to fund our debt service obligations, we could face substantial liquidity problems and could be forced to reduce or delay investments and capital expenditures or to dispose of material assets or operations, seek additional capital (which could include obtaining additional equity capital on terms that may be onerous or highly dilutive) or restructure or refinance our indebtedness. We may not be able to effect any such alternative measures, if necessary, on commercially reasonable terms or at all and, even if successful, those alternative actions may not allow us to meet our scheduled debt service obligations. The credit agreements governing the Term Loan Facility (including the Incremental Facility), the U.S. ABL and the Asia ABL, the indenture governing the Senior Notes will restrict our ability to dispose of assets and use the proceeds from those dispositions and may also restrict our ability to raise debt or equity capital to be used to repay other indebtedness when it becomes due. We may not be able to consummate those dispositions or to obtain proceeds in an amount sufficient to meet any debt service obligations then due.

In addition, we conduct certain of our operations through our subsidiaries. Accordingly, repayment of our indebtedness may be dependent on the generation of cash flow by our subsidiaries and their ability to make such cash available to us, by dividend, debt repayment or otherwise. Unless they are guarantors of the Senior Notes or our other



indebtedness, our subsidiaries do not have any obligation to pay amounts due on our indebtedness or to make funds available for that purpose. Our subsidiaries may not be able to, or may not be permitted to, make distributions to enable us to make payments in respect of our indebtedness. Each subsidiary is a distinct legal entity, and under certain circumstances, legal and contractual restrictions may limit our ability to obtain cash from our subsidiaries. While the indenture governing the Senior Notes and the credit agreements governing the Term Loan Facility (including the Incremental Facility), the U.S. ABL and the Asia ABL will limit the ability of our subsidiaries to incur consensual restrictions on their ability to pay dividends or make other intercompany payments to us, these limitations are subject to qualifications and exceptions. In the event that we do not receive distributions from our subsidiaries, we may be unable to make required principal and interest payments on our indebtedness.

Our inability to generate sufficient cash flows to satisfy our debt obligations, or to refinance our indebtedness on commercially reasonable terms or at all, would materially and adversely affect our financial position and results of operations and our ability to satisfy our obligations under our indebtedness.

If we cannot make scheduled payments on our debt, we will be in default and holders of the Senior Notes could declare all outstanding principal and interest to be due and payable, the lenders under the Term Loan Facility (including the Incremental Facility),

the U.S. ABL and the Asia ABL could terminate their commitments to loan money, the lenders could foreclose against the assets securing their borrowings and we could be forced into bankruptcy or liquidation.

Despite our current level of indebtedness, we and our subsidiaries may still be able to incur substantially more debt. This could further exacerbate the risks to our financial condition described above.

We and our subsidiaries may be able to incur significant additional indebtedness in the future. Although the indenture governing the Senior Notes and the credit agreements governing the Term Loan Facility (including the Incremental Facility), the U.S. ABL and the Asia ABL will contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of qualifications and exceptions, and the additional indebtedness incurred in compliance with these restrictions could be substantial. These restrictions also will not prevent us from incurring obligations that do not constitute indebtedness.

Our variable rate indebtedness subjects us to interest rate risk, which could cause our debt service obligations to increase significantly.

Borrowings under the Term Loan Facility (including the Incremental Facility), the U.S. ABL and the Asia ABL are at variable rates of interest and expose us to interest rate risk. If interest rates were to increase, our debt service obligations on the variable rate indebtedness would increase even though the amount borrowed remained the same, and our net income and cash flows, including cash available for servicing our indebtedness, will correspondingly decrease. For illustrative purposes and assuming all loans under the Term Loan Facility (including the Incremental Facility), the U.S. ABL and the Asia ABL were fully drawn, each quarter point change in interest rates would result in a \$3.2 million change in annual interest expense on our indebtedness under the Term Loan Facility (including the Incremental Facility), the U.S. ABL and the Asia ABL. In the future, we may enter into interest rate swaps that involve the exchange of floating for fixed rate interest payments in order to reduce interest rate volatility. However, we may not maintain interest rate swaps with respect to all of our variable rate indebtedness, and any swaps we enter into may not fully mitigate our interest rate risk.

A lowering or withdrawal of the ratings assigned to our debt securities by rating agencies may increase our future borrowing costs and reduce our access to capital.

When issued, our debt will have a non-investment grade rating, and any rating assigned could be lowered or withdrawn entirely by a rating agency if, in that rating agency's judgment, future circumstances relating to the basis of the rating, such as adverse changes, so warrant. Consequently, real or anticipated changes in our credit ratings will generally affect the market value of the Senior Notes. Credit ratings are not recommendations to purchase, hold or sell the Senior Notes. Additionally, credit ratings may not reflect the potential effect of risks relating to the structure or marketing of the Senior Notes.

Any future lowering of our ratings likely would make it more difficult or more expensive for us to obtain additional debt financing.

Changes in prices or availability of raw materials could have a material adverse effect on our business, financial condition, and results of operations and reduce our gross margins.

To manufacture PCBs, we use raw materials such as laminated layers of fiberglass, copper foil, chemical solutions, gold, copper and other commodity products, which we order from our suppliers. In the case of backplane assemblies, components include connectors, sheet metal, capacitors, resistors and diodes, many of which are custom made and controlled by our customers' approved vendors. If raw material and component prices increase or if there is inflationary pressure on the cost of the metals that we use to produce our product, especially copper, it may reduce our

gross margins. Further, if the supply of materials which we use in our manufacturing process becomes limited, our ability to obtain the quantities necessary to meet our customers' demand may be impacted which could cause us to encounter reduced revenue levels or price increases which would impact our profit margins. If either of these situations occurs our financial condition and results of operations could be negatively impacted.

The Company may experience cash flow volatility.

We experience fluctuations in our revenues and cost structure and the resulting cash flows and expect that this will continue to occur in the future. We experience fluctuations in our cash flows for reasons that include (i) the types and complexity, number, size, timing and duration of client engagements; (ii) the timing of revenue recognition under U.S. GAAP; (iii) the seasonality of our business; (iv) fluctuations in costs of labor; (v) fluctuations in the cost and availability of raw materials; (vi) fluctuations in demand for our products; (vii) the length of billing and collection cycles and changes in amounts that may become uncollectible; (viii) changes in the frequency and complexity of government regulatory and enforcement activities; (ix) timing of customer payments; (x) fluctuations in the exchange rates of various currencies against the U.S. dollar; and (xi) economic factors beyond our control. Such fluctuations could affect our ability to meet our obligations including debt repayments. Any failure to meet our financial obligations could have a material adverse effect on our financial position and results of operations.

We are subject to risks of currency fluctuations.

A portion of our cash, other current assets and current liabilities is held in currencies other than the U.S. dollar. Changes in exchange rates among other currencies and the U.S. dollar will affect the value of these assets or liabilities as re-measured to U.S. dollars on our balance sheet. To the extent that we ultimately decide to repatriate some portion of these funds to the United States, the actual value transferred could be impacted by movements in exchange rates. Any such type of movement could negatively impact the amount of cash available to fund operations or to repay debt. Additionally, we have revenues and costs denominated in currencies other than the U.S. dollar (primarily the RMB). Fluctuations in the exchange rates between the U.S. dollar and the RMB could result in increases or decreases in our costs or revenues which could negatively impact our business, financial condition, and results of operations. Significant inflation or disproportionate changes in foreign exchange rates could occur as a result of general economic conditions, acts of war or terrorism, changes in governmental monetary or tax policy, or changes in local interest rates. Further, China's government imposes controls over the convertibility of RMB into foreign currencies, which subjects us to further currency exchange risk.

Our results of operations are often subject to demand fluctuations and seasonality. With a high level of fixed operating costs, even small revenue shortfalls would decrease our gross margins.

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

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

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

Recently enacted changes in tax law could materially affect our financial position and results of operations.

On December 22, 2017, the President of the United States signed into law H.R. 1 (the "U.S. Tax Reform"). We are in the process of determining the impact to our financial statements of all aspects of U.S. Tax Reform and intend to reflect the impact of such reform in the financial statements during the period in which such amounts can be reasonably estimated. The U.S. Tax Reform includes a number of provisions, including the lowering of the U.S. corporate tax rate from 35% to 21%, effective January 1, 2018. There are also provisions that may partially offset the benefit of such rate reduction, such as the repeal of the deduction for domestic production activities. The U.S. Tax Reform also includes international provisions, which generally establish a territorial-style system for taxing foreign-source income of domestic multinational corporations. Financial statement impacts could include adjustments for the re-measurement of deferred tax assets (liabilities) and the accrual for deemed repatriation tax on unremitted foreign earnings and profits. There is substantial uncertainty regarding the details of the U.S. Tax Reform. The

intended and unintended consequences of the U.S. Tax Reform on our business are not yet widely understood and, due to the large and expanding scale of our international business activities, the changes to the taxation of our activities effected by the U.S. Tax Reform could increase our worldwide effective tax rate and could materially impact our financial position or results of operations.

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

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

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

The market for our manufacturing services is characterized by rapidly changing technology and continual implementation of new production processes. The future success of our business will depend in large part upon our ability to maintain and enhance our technological capabilities, to manufacture products that meet changing customer needs, and to successfully anticipate or respond to technological changes on a cost-effective and timely basis. We expect that the investment necessary to maintain our technological position will increase as customers make demands for products and services requiring more advanced technology on a quicker turnaround basis. For example, in 2018 we expect to continue to make significant capital expenditures to expand our HDI, mSAP, and other advanced manufacturing capabilities. We may not be able to obtain access to additional sources of funds in order to respond to technological changes as quickly as our competitors. In addition, failure to adopt and implement technological improvements quickly may cause inefficiencies as our product yields or quality may decrease, resulting in increased costs.

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

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

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

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

We have significant manufacturing operations in Asia and Canada and sales offices located in Asia and Europe, and we continue to consider additional opportunities to make foreign investments and construct new foreign facilities.

For the quarter ended April 2, 2018, we generated approximately 68.1% of our net sales from non-U.S. operations, and a significant portion of our manufacturing material was provided by international suppliers during this period. The United States' trade policies and those of foreign countries are subject to change which could adversely affect our ability to purchase and sell goods and materials without significant tariffs, taxes or duties that may be imposed on the materials we purchase or the goods we sell, thereby increasing the cost of such materials and potentially decreasing our margins. Further, our revenues could be impacted if our customers' ability to sell their goods is reduced by such tariffs, taxes or duties. In addition, we are subject to risks relating to significant international operations, including but not limited to:

- managing international operations;
- imposition of governmental controls;
- unstable regulatory environments;
- compliance with employment laws;

- implementation of disclosure controls, internal controls, financial reporting systems, and governance standards to comply with U.S. accounting and securities laws and regulations;
- limitations on imports or exports of our product offerings;
- fluctuations in the value of local currencies;
- inflation or changes in political and economic conditions;
- labor unrest, rising wages, difficulties in staffing, and geographical labor shortages;
- government or political unrest;
- longer payment cycles;
- language and communication barriers, as well as time zone differences;
- cultural differences;
- increases in duties and taxation levied on our products;
- other potentially adverse tax consequences;

- imposition of restrictions on currency conversion or the transfer of funds;
- travel restrictions;
- expropriation of private enterprises;
- the potential reversal of current favorable policies encouraging foreign investment and trade; and
- the potential for strained trade relationships between the United States and its trading partners.

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

We manufacture products to our customers' specifications, which are highly complex and may contain design or manufacturing errors or failures, despite our quality control and quality assurance efforts. Defects in the products we manufacture, whether caused by a design, manufacturing, or materials failure or error, may result in delayed shipments, customer dissatisfaction, a reduction or cancellation of purchase orders, or liability claims against us. If these defects occur either in large quantities or too frequently, our business reputation may be impaired. Since our products are used in products that are integral to our customers' businesses, errors, defects, or other performance problems could result in financial or other damages to our customers beyond the cost of the PCB, for which we may be liable. Although our invoices and sales arrangements generally contain provisions designed to limit our exposure to product liability and related claims, existing or future laws or unfavorable judicial decisions could negate these limitation of liability provisions. In addition, we manufacture products for a range of automotive customers. If any of our products are or are alleged to be defective, we may be required to participate in a recall of such products. As suppliers become more integral to the vehicle design process and assume more of the vehicle assembly functions, vehicle manufacturers are increasingly looking to their suppliers for contributions when faced with product liability claims or recalls. In addition, vehicle manufacturers, which have traditionally borne the costs associated with warranty programs offered on their vehicles, are increasingly requiring suppliers to guarantee or warrant their products and may seek to hold us responsible for some or all of the costs related to the repair and replacement of parts supplied by us to the vehicle manufacturer.

We depend upon a relatively small number of OEM customers for a large portion of our sales, and a decline in sales to major customers would materially adversely affect our business, financial condition, and results of operations.

A small number of customers are responsible for a significant portion of our sales. Our five largest OEM customers accounted for approximately 32% and 34% of our net sales for the quarters ended April 2, 2018 and April 3, 2017 respectively, and one customer represented 16% of our sales for the quarter ended April 2, 2018. Sales attributed to OEMs include both direct sales as well as sales that the OEMs place through EMS providers. Our customer concentration could fluctuate, depending on future customer requirements, which will depend in large part on market conditions in the electronics industry segments in which our customers participate. The loss of one or more significant customers or a decline in sales to our significant customers would materially adversely affect our business, financial condition, and results of operations. In addition, we generate significant accounts receivable in connection with providing manufacturing services to our customers. If one or more of our significant customers were to become insolvent or were otherwise unable to pay for the manufacturing services provided by us, our business, financial condition, and results of operations would be materially adversely affected.

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



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

Given the high fixed costs of our operations, decreases in capacity utilization rates can have a significant effect on our business. Accordingly, our ability to maintain or enhance gross margins will continue to depend, in part, on maintaining satisfactory capacity utilization rates. In turn, our ability to maintain satisfactory capacity utilization will depend on the demand for our products, the volume of orders we receive, and our ability to offer products that meet our customers' requirements at competitive prices. If current or future production capacity fails to match current or future customer demands, our facilities would be underutilized, our sales may not fully cover our fixed overhead expenses, and we would be less likely to achieve expected gross margins. If forecasts and assumptions used to support the realizability of our long-lived assets change in the future, significant impairment charges could result that would materially adversely affect our business, financial condition, and results of operations.

In addition, we generally schedule our quick turnaround production facilities at less than full capacity to retain our ability to respond to unexpected additional quick-turn orders. However, if these orders are not received, we may forego some production and

could experience continued excess capacity. If we conclude we have significant, long-term excess capacity, we may decide to permanently close one or more of our facilities and lay off some of our employees. Closures or lay-offs could result in our recording restructuring charges such as severance, other exit costs, and asset impairments, as well as potentially causing disruptions in our ability to supply customers.

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

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

We participate in the competitive, cyclical automotive industry, which is subject to strict quality control standards. Failure to meet quality standards may adversely affect our business, financial condition and results of operations.

A significant portion of our sales are to customers within the automotive industry. The automotive industry has historically experienced multi-year cycles of growth and decline. In recent years, we have witnessed a growth cycle. If sales of automobiles should decline or go into a cyclical down turn, our sales could decline and this could have a materially adverse impact on our business, financial condition and result of operations.

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

Our results can be adversely affected by rising labor costs.

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

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

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

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

A large percentage of our business is conducted with customers who are in the telecommunication industry. This industry is characterized by intense competition, relatively short product life cycles, and significant fluctuations in product demand. This industry

is heavily dependent on the end markets it serves and therefore can be affected by the demand patterns of those markets. If the volatility in this industry continues, it may have a material adverse effect on our business, financial condition, and results of operations.

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

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

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

Certain of our foreign subsidiaries have deferred income tax assets. Based on our forecast for future taxable earnings for these foreign subsidiaries, we believe we will utilize the deferred income tax assets in future periods. However, if our estimates of future earnings decline, we may have to increase our valuation allowance against our net deferred income tax assets, resulting in a higher income tax provision, which would reduce our results of operations.

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

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

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

As of April 2, 2018, our consolidated balance sheet reflected \$469.7 million of goodwill and definite-lived intangible assets. We periodically evaluate whether events and circumstances have occurred, such that the potential for reduced expectations for future cash flows coupled with further decline in the market price of our stock and market capitalization may indicate that the remaining balance of goodwill and definite-lived intangible assets may not be

recoverable. If factors indicate that assets are impaired, we would be required to reduce the carrying value of our goodwill and definite-lived intangible assets, which could harm our results during the periods in which such a reduction is recognized.

Our ability to use net operating loss carryforwards to offset future taxable income for U.S. federal income tax purposes is subject to limitations, and future transfers of shares of our common stock, when aggregated with the November 2016 and February 2017 secondary sales of our shares, could cause us to experience an “ownership change” that could further limit our ability to utilize our net operating losses.

Under U.S. federal income tax law, a corporation’s ability to utilize its net operating losses (NOL’s) to offset future taxable income may be significantly limited if it experiences an “ownership change” as defined in Section 382 of the Internal Revenue Code of 1986, as amended (the Code). In general, an ownership change will occur if there is a cumulative change in a corporation’s ownership by “5-percent shareholders” that exceeds 50 percentage points over a rolling three-year period.

A corporation that experiences an ownership change will generally be subject to an annual limitation on its pre-ownership change NOLs equal to the value of the corporation immediately before the ownership change, multiplied by the long-term tax-exempt rate (subject to certain adjustments). The annual limitation for a taxable year is generally increased by the amount of any “recognized built-in gains” for such year and the amount of any unused annual limitation in a prior year. As a result of our acquisition of Viasystems, the NOLs acquired were subject to this limitation. In February 2017 and November 2016, 4,000,000 and 13,800,000

shares of common stock, respectively, were sold by Su Sih, our largest shareholder and a “5-percent shareholder.” Additional future transfers or sales of our common stock during the rolling period by “5-percent shareholders” could cause us to experience an ownership change under Section 382, which could further limit our use of NOLs.

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

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

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

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

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

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

Additionally, our OEM customers often direct a significant portion of their purchases through a relatively limited number of EMS companies. Sales to EMS companies represented approximately 37% and 34% of our net sales for the quarters ended April 2, 2018 and April 3, 2017, respectively. Our contractual relationship is often with the EMS companies, who are obligated to pay us for our products. Because we expect our OEM customers to continue to direct our sales to EMS companies, we expect to continue to be subject to this credit risk with a limited number of EMS customers. If one or more of our significant customers were to become insolvent or were otherwise unable to pay us, our business, financial condition, and results of operations would be materially adversely affected.

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

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

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

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

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

Acquisitions may cause us to:

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

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

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

Under its current leadership, the government of China has been pursuing economic reform policies, including the encouragement of foreign trade and investment and greater economic decentralization. No assurance can be given, however, that the government of China will continue to pursue such policies, that such policies will be successful if pursued, or that such policies will not be significantly altered from time to time. Despite progress in developing its legal system, China does not have a comprehensive and highly developed system of laws, particularly with respect to foreign investment activities and foreign trade. Enforcement of existing and future laws and contracts is uncertain, and implementation and interpretation thereof may be inconsistent. As the Chinese legal system develops, the promulgation of new laws, changes to existing laws, and the preemption of local regulations by national laws may adversely affect foreign investors. Further, any litigation in China may be protracted and may result in substantial



costs and diversion of resources and management's attention. In addition, though changes in government policies and rules are timely published or communicated, there is usually no indication of the duration of any grace period before which full implementation and compliance will be required. As a result, we may operate our business in violation of new rules and policies before full compliance can be achieved. These uncertainties could limit the legal protections available to us.

We depend on the U.S. government for a significant portion of our business, which involves unique risks. Changes in government defense spending or regulations could have a material adverse effect on our business, financial condition, and results of operations.

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

For the quarter ended April 2, 2018, aerospace and defense sales accounted for approximately 18% of our total net sales. The substantial majority of aerospace and defense sales are related to both U.S. and foreign military and defense programs. While we do not sell any significant volume of products directly to the U.S. government, we are a supplier to the U.S. government and its agencies, as well as foreign governments and agencies. Consequently, our sales are affected by changes in the defense budgets of the U.S. and foreign governments and may be affected by federal budget sequestration measures.

The domestic and international threat of terrorist activity, emerging nuclear states, and conventional military threats have led to an increase in demand for defense products and services and homeland security solutions in the recent past. The U.S. government, however, is facing unprecedented budgeting constraints. The termination or failure to fund one or more significant contracts by the U.S. government could have a material adverse effect on our business, financial condition, and results of operations.

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

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

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

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

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

Our operations are regulated under a number of domestic and foreign environmental and safety laws and regulations that govern, among other things, the discharge of hazardous materials into the air and water, as well as the handling, storage, recycling, and disposal of such materials. These laws and regulations include the Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act, the Superfund Amendment and Reauthorization Act, the Comprehensive Environmental Response, Compensation and Liability Act, the Toxic Substances Control Act, and the Federal Motor Carrier Safety Improvement Act, as well as analogous state, local, and foreign laws. Compliance with these environmental laws is a major consideration for us because our manufacturing processes use and generate materials classified as hazardous. Because we use hazardous materials and generate hazardous wastes in our manufacturing processes, we may be subject to potential financial liability for costs associated with the investigation and remediation of our own sites, or sites at which we have arranged for the disposal of hazardous wastes, if such sites become contaminated. Even if we fully comply with applicable environmental laws and are not directly at fault for the contamination, we may still be liable. The wastes we generate include spent ammoniacal and cupric etching solutions, metal stripping solutions, waste acid solutions, waste alkaline cleaners, waste oil, and waste waters that contain heavy metals such as copper, tin, lead, nickel, gold, silver, cyanide, and fluoride, and both filter cake and spent ion exchange resins from equipment used for on-site waste treatment.

Environmental law violations, including the failure to maintain required environmental permits, could subject us to fines, penalties, and other sanctions, including the revocation of our effluent discharge permits. This could require us to cease or limit

production at one or more of our facilities and could have a material adverse effect on our business, financial condition, and results of operations. Even if we ultimately prevail, environmental lawsuits against us would be time consuming and costly to defend.

Environmental laws have generally become more stringent and we expect this trend to continue over time, especially in developing countries, imposing greater compliance costs and increasing risks and penalties associated with violation. We operate in environmentally sensitive locations, and we are subject to potentially conflicting and changing regulatory agendas of political, business, and environmental groups. Changes or restrictions on discharge limits, emissions levels, material storage, handling, or disposal might require a high level of unplanned capital investment or relocation to another global location where prohibitive regulations do not exist. It is possible that environmental compliance costs and penalties from new or existing regulations may materially adversely affect our business, financial condition, and results of operations.

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

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

The process to manufacture PCBs requires adherence to domestic and foreign environmental regulations regarding the storage, use, handling, recycling, and disposal of chemicals, solid wastes, and other hazardous materials, as well as compliance with air quality standards and chemical use reporting. In China, governmental authorities have adopted new rules and regulations governing environmental issues. An update to Chinese environmental waste water law was issued in late 2012, allowing for an interim period in which plants subject to such law may install equipment that meet the new regulatory regime. Our plants in China are not yet in full compliance with the newly adopted environmental regulations. We have developed plans for these new regulations and we are in the process of implementing these plans. However, there can be no assurance that violations will not occur in the future.

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

The PCB industry is intensely competitive, highly fragmented, and rapidly changing. We expect competition to continue, which could result in price reductions, reduced gross margins, and loss of market share. Our principal PCB and substrate competitors include AT & S Austria Technologie & Systemtechnik AG, Chin Poon Industrial Co., LTD., Compeq Manufacturing Co., Ltd., IBIDEN Co., Ltd., ISU Petasys Co., Ltd., Multek Corporation, Sanmina Corporation, Tripod Technology Corp., Unimicron Technology Corp., and Wus Printed Circuit Co., Ltd. Our principal E-M Solutions competitors include Amphenol Corp, Flex, Jabil Circuit, Inc. and Sanmina Corporation. In

addition, we increasingly compete on an international basis, and new and emerging technologies may result in new competitors entering our markets.

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

- greater financial and manufacturing resources that can be devoted to the development, production, and sale of their products;
- more established and broader sales and marketing channels;
- more manufacturing facilities worldwide, some of which are closer in proximity to OEMs;
- manufacturing facilities that are located in countries with lower production costs;
- lower capacity utilization, which in peak market conditions can result in shorter lead times to customers;
- ability to add additional capacity faster or more efficiently;
- preferred vendor status with existing and potential customers;
- greater name recognition; and
- larger customer bases.

40

---

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

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

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

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

During the third quarter of 2012, the SEC adopted rules implementing the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank). These rules impose diligence and disclosure requirements regarding the use of "conflict minerals" mined from the Democratic Republic of Congo and neighboring countries. While these new rules continue to be the subject of ongoing litigation and, as a result, uncertainty, we submitted a conflict minerals report on Form SD with the SEC for the past four years, most recently on May 30, 2017. Compliance with these rules results in additional costs and expenses, including costs and expenses incurred for due diligence to determine and verify the sources of any conflict minerals used in our products, in addition to the costs and expenses of remediation and other changes to products, processes, or sources of supply as a consequence of such verification efforts. These rules may also affect the sourcing and availability of minerals used in the manufacture of our PCBs, as there may be only a limited number of suppliers offering "conflict free" minerals that can be used in our products. There can be no assurance that we will be able to obtain such minerals in sufficient quantities or at competitive prices. Also, since our supply chain is complex, we may, at a minimum, face reputational challenges with our customers, stockholders, and other stakeholders if we are unable to sufficiently verify the origins of the minerals used in our products. We may also encounter customers who require that all of the components of our products be certified as conflict free. If we are not able to meet customer requirements, such customers may choose to disqualify us as a supplier, which could impact our sales and the value of portions of our inventory.

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

We rely on information technology networks and systems, some of which are owned and operated by third parties, to collect, process, transmit, and store electronic information. In particular, we depend on our information technology infrastructure for a variety of functions, including worldwide financial reporting, inventory management, procurement, invoicing, and email communications. Any of these systems may be susceptible to outages due to fire, floods, power loss, telecommunications failures, hacking, terrorist attacks, and similar events. In addition, in the ordinary course of our business, we collect and store sensitive data in our data centers and on our networks, including

intellectual property, our proprietary and confidential business information and that of our customers, suppliers and business partners, and personally identifiable information of our employees. The secure collection, processing, storage, maintenance and transmission of this information is critical to our operations. Despite the implementation of network security measures, our systems and those of third parties on which we rely may also be vulnerable to computer viruses, break-ins, cyber attacks, attacks by hackers or breached due to employee or third party (including suppliers and business partners) error, malfeasance or other disruptions. If we or our vendors are unable to prevent such outages and breaches, our operations could be disrupted. If unauthorized parties gain access to our information systems or such information is used in an unauthorized manner, misdirected, altered, lost, or stolen during transmission, any theft or misuse of such information could result in, among other things, unfavorable publicity, governmental inquiry and oversight, difficulty in marketing our services, allegations by our customers that we have not performed our contractual obligations, loss of customers, litigation by affected parties, and possible financial obligations for damages related to the theft or misuse of such information, any of which could have a material adverse effect on our business, financial condition, and results of operations.

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

The destruction or closure of any of our facilities for a significant period of time as a result of fire, explosion, blizzard, act of war or terrorism, flood, tornado, earthquake, lightning, other natural disasters, an outbreak of epidemics such as Ebola or severe acute

respiratory syndrome, required maintenance, or other events could harm us financially, increasing our costs of doing business and limiting our ability to deliver our manufacturing services on a timely basis.

Our insurance coverage with respect to damages to our facilities or our customers' products caused by natural disasters is limited and is subject to deductibles and coverage limits. Such coverage may not be adequate or continue to be available at commercially reasonable rates and terms.

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

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

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

The effects of such pricing pressures on our business may be exacerbated by inflationary pressures that affect our costs of supply. When we are unable to extract comparable concessions from our suppliers on prices they charge us, this in turn reduces gross profit if we are unable to raise prices. Further, uncertainty or adverse changes in the economy could also lead to a significant decline in demand for our products and pressure to reduce our prices. As a result of the recent global economic downturn, many businesses have taken a more conservative stance in ordering inventory. Any decrease in demand for our products, coupled with pressure from the market and our customers to decrease our prices, would materially adversely affect our business, financial condition, and results of operations.

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

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

Sales to EMS companies represented approximately 37% and 34% of our net sales for the quarters ended April 2, 2018 and April 3, 2017, respectively. Sales to EMS providers include sales directed by OEMs as well as orders placed with us at the EMS providers' discretion. EMS providers source on a global basis to a greater extent than OEMs. The growth of EMS providers increases the purchasing power of such providers and has in the past, and could in the future, result in increased price competition or the loss of existing OEM customers. In addition, some EMS providers, including some of our customers, have the ability to directly manufacture PCBs and create backplane assemblies. If a significant number of our other EMS customers were to acquire these abilities, our customer base might shrink, and our sales might decline substantially. Moreover, if any of our OEM customers outsource the production of PCBs and



creation of backplane assemblies to these EMS providers, our business, financial condition, and results of operations may be materially adversely affected.

If we are unable to manage our growth effectively, our business, financial condition, and results of operations could be materially adversely affected.

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

Our international sales are subject to laws and regulations relating to corrupt practices, trade, and export controls and economic sanctions. Any non-compliance could have a material adverse effect on our business, financial condition, and results of operations.

We operate on a global basis and are subject to anti-corruption, anti-bribery, and anti-kickback laws and regulations, including restrictions imposed by the Foreign Corrupt Practices Act (the FCPA). The FCPA and similar anti-corruption, anti-bribery, and anti-kickback laws in other jurisdictions generally prohibit companies and their intermediaries and agents from making improper payments to government officials or any other persons for the purpose of obtaining or retaining business. We operate and sell our products in

many parts of the world that have experienced governmental corruption to some degree and, in certain circumstances, strict compliance with anti-corruption, anti-bribery, and anti-kickback laws may conflict with local customs and practices. We also, from time to time, undertake business ventures with state-owned companies or enterprises.

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

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

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

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

Employee theft or fraud could result in loss.

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

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

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

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

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

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

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

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

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

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

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

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

Our business is capital-intensive, and our ability to increase revenue, profit, and cash flow depends upon continued capital spending. To the extent that the funds generated by our ongoing operations are insufficient to cover our liquidity requirements, we may need to raise additional funds through financings. If we are unable to fund our operations and make capital expenditures as currently planned or if we do not have sufficient liquidity to service the interest and principal payments on our debt, it would have a material adverse effect on our business, financial condition, and results of operations. If we do not achieve our expected operating results, we would need to reallocate our sources and uses of operating cash flows. This may include borrowing additional funds to service debt payments, which may impair our ability to make investments in our business. Looking ahead at long-term needs, we may need to raise additional funds for a number of purposes, including the following:

- to fund capital equipment purchases to increase production capacity, upgrade and expand our technological capabilities and replace aging equipment or introduce new products;
- to refinance our existing indebtedness;
- to fund our operations beyond 2018;
- to fund working capital requirements for future growth that we may experience;

- to enhance or expand the range of services we offer;
- to increase our sales and marketing activities; or

to respond to competitive pressures or perceived opportunities, such as investment, acquisition, and international expansion activities.

Should we need to raise funds through incurring additional debt, we may become subject to covenants even more restrictive than those contained in our current debt instruments. There can be no assurance that additional capital, including any future equity or debt financing, would be available on a timely basis, on favorable terms, or at all. If such funds are not available to us when required or on acceptable terms, our business, financial condition, and results of operations could be materially adversely affected.

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

The manufacturing of PCBs requires significant quantities of electricity and water. Our operations in Asia have historically purchased substantially all of the electrical power for their manufacturing plants in China from local power plants. Because China's economy has recently been in a state of growth, the strain on the nation's power plants is increasing, which has led to continuing

power outages in various parts of the country. There may be times when our operations in China may be unable to obtain adequate sources of electricity to meet production requirements. Various regions in China have in the past experienced shortages of both electricity and water and unexpected interruptions of power supply. From time to time, the Chinese government rations electrical power, which can lead to unscheduled production interruptions at our manufacturing facilities.

In addition, certain areas in which our North America operations have manufacturing facilities, particularly in California, have experienced power and resource shortages from time to time, including mandatory periods without electrical power, changes to water availability, and significant increases in utility and resource costs.

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

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

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

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

We have limited patent or trade secret protection for our manufacturing processes. We rely on the collective experience of our employees involved in our manufacturing processes to ensure that we continuously evaluate and adopt new technologies in our industry. Although we are not dependent on any one employee or a small number of employees, if a significant number of our employees involved in our manufacturing processes were to leave our employment, and we were not able to replace these people with new employees with comparable experience, our manufacturing processes might suffer as we might be unable to keep up with innovations in the industry. As a result, we may lose our ability to continue to compete effectively. For example, we have experienced a significant amount of employee attrition in our China operations each year, which has negatively impacted our yield, costs of production, and service times.

Infringement of our intellectual property rights could negatively affect us, and we may be exposed to intellectual property infringement claims from third parties that could be costly to defend, could divert management's attention and resources, and if successful, could result in liability.

We rely on a combination of copyright, patent, trademark, and trade secret laws, confidentiality procedures, contractual provisions, and other measures to establish and protect our proprietary and confidential information. All of these measures afford only limited protection. These measures may be invalidated, circumvented, breached, or challenged, and others may develop intellectual property, technologies or processes that are similar, or superior to, our intellectual property or technology. We may not have adequate controls and procedures in place to protect our proprietary and confidential information. Despite our efforts to protect our intellectual property and proprietary rights, unauthorized parties may attempt to copy, and succeed in, copying, our products or may obtain or use information that we regard as proprietary or confidential. If it becomes necessary for us to resort to litigation to protect our intellectual property rights, any proceedings could be burdensome, costly, and distracting to management, and we may not prevail. Further, adequate remedies may not be available in the event of an unauthorized use or disclosure of our proprietary or confidential information. Failure to successfully establish or enforce our intellectual property rights could materially and adversely affect our business, financial condition, and results of operations.

Furthermore, there is a risk that we may infringe on the intellectual property rights of others. As is the case with many other companies in the PCB industry, we from time to time receive communications from third parties asserting patent rights over our products and enter into discussions with such third parties. Irrespective of the validity or the successful assertion of such claims, we could incur costs in either defending or settling any intellectual property disputes alleging infringement. If any claims, whether or not they have merit, are brought against our customers for such infringement, we could be required to expend significant resources in defending such claims. In the event we are subject to any infringement claims, we may be required to spend a significant amount of

money to develop non-infringing alternatives or obtain licenses. We may not be successful in developing such alternatives or in obtaining such licenses on reasonable terms, or at all, and may be required to modify or cease marketing our products or services, which could disrupt the production processes, damage our reputation, and materially and adversely affect our business, financial condition, and results of operations.

Our business, financial condition, and results of operations could be materially adversely affected by climate change initiatives.

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



Item 6. Exhibits

Exhibit

Number Exhibits

- 10.1 Fourth Amendment to Term Loan Credit Agreement, by and among TTM Technologies, Inc., as Borrower, the several Lenders from time to time parties thereto, JPMorgan Chase Bank, N.A., as Administrative Agent, Barclays Bank PLC, as Syndication Agent, Deutsche Bank Securities Inc. and Sun Trust Bank, as Co-Documentation Agents, and Sun Trust Bank, as participant, dated as of April 18, 2018 <sup>(1)</sup>
- 31.1 CEO Certification Pursuant to Section 302 of the Sarbanes — Oxley Act of 2002.
- 31.2 CFO Certification Pursuant to Section 302 of the Sarbanes — Oxley Act of 2002.
- 32.1 CEO Certification Pursuant to Section 906 of the Sarbanes — Oxley Act of 2002.
- 32.2 CFO Certification Pursuant to Section 906 of the Sarbanes — Oxley Act of 2002.
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Documents
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Documents
- 101.LAB XBRL Taxonomy Extension Label Linkbase Documents
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Documents

(1) Incorporated by reference to Exhibit 10.1 of the Registrant’s Form 8-K as filed with the Securities and Exchange Commission (the “Commission”) on April 18, 2018.

SIGNATURES

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

TTM Technologies, Inc.

/s/ Thomas T. Edman

Dated: May 8, 2018 Thomas T. Edman  
President and Chief Executive Officer

/s/ Todd B. Schull

Dated: May 8, 2018 Todd B. Schull  
Executive Vice President and Chief Financial Officer