TTM TECHNOLOGIES INC
Form 10-Q
August 09, 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 July 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 incorporation or organization)	(I.R.S. Employer Identification No.)

1665 Scenic Avenue Suite 250, Costa Mesa, California 92626

(Address of principal executive offices)

(714) 327-3000

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 August 1, 2018: 103,674,563

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)

TTM TECHNOLOGIES, INC.

Consolidated Condensed Balance Sheets

	As of July 2, 2018 (Unaudited)	January 1, 2018
	(In thousands, except par value)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 204,100	$ 409,326
Accounts receivable, net	541,587	483,903
Contract assets	300,717	—
Inventories	121,285	294,588
Prepaid expenses and other current assets	34,950	33,490
Total current assets	1,202,639	1,221,307
Property, plant and equipment, net	1,072,578	1,056,845
Goodwill	758,849	372,571
Definite-lived intangibles, net	414,600	102,950
Deposits and other non-current assets	30,266	28,209
	$ 3,478,932	$ 2,781,882
LIABILITIES AND EQUITY		
Current liabilities:		
Short-term debt, including current portion of long-term debt	$ 40,729	$ 4,578
Accounts payable	448,455	497,455
Contract liabilities	7,680	—
Accrued salaries, wages and benefits	88,273	103,638
Other accrued expenses	104,139	114,685
Total current liabilities	689,276	720,356
Long-term debt, net of discount and issuance costs	1,555,425	975,479
Other long-term liabilities	92,938	74,667
Total long-term liabilities	1,648,363	1,050,146
Commitments and contingencies (Note 14)		
Equity:		
Common stock, $0.001 par value; 300,000 shares authorized, 103,674 and 101,820 shares issued and outstanding in 2018 and 2017, respectively	104	102
Additional paid-in capital	786,702	777,025
Retained earnings	315,975	193,342
Statutory surplus reserve	37,550	37,508

Accumulated other comprehensive income	962	3,403
Total stockholders’ equity	1,141,293	1,011,380
	$ 3,478,932	$ 2,781,882

See accompanying notes to consolidated condensed financial statements.

TTM TECHNOLOGIES, INC.

Consolidated Condensed Statements of Operations

For the Quarter and Two Quarters Ended July 2, 2018 and July 3, 2017

	Quarter Ended		Two Quarters ended	
	July 2, 2018	July 3, 2017	July 2, 2018	July 3, 2017
	(Unaudited)			
	(In thousands, except per share data)			
Net sales	$716,887	$627,182	$1,380,469	$1,252,429
Cost of goods sold	600,747	531,315	1,175,651	1,051,543
Gross profit	116,140	95,867	204,818	200,886
Operating expenses:				
Selling and marketing	18,619	15,851	36,247	32,506
General and administrative	46,298	29,050	81,486	58,932
Amortization of definite-lived intangibles	19,489	5,910	25,350	11,822
Total operating expenses	84,406	50,811	143,083	103,260
Operating income	31,734	45,056	61,735	97,626
Other income (expense):				
Interest expense	(20,453)	(12,922)	(34,200)	(26,518)
Other, net	6,178	(5,825)	5,071	(7,535)
Total other expense, net	(14,275)	(18,747)	(29,129)	(34,053)
Income before income taxes	17,459	26,309	32,606	63,573
Income tax benefit (provision)	66,545	(5,558)	61,495	(9,697)
Net income	84,004	20,751	94,101	53,876
Less: Net income attributable to the noncontrolling interest	—	(160)	—	(326)
Net income attributable to TTM Technologies, Inc. stockholders	$84,004	$20,591	$94,101	$53,550
Earnings per share attributable to TTM Technologies, Inc. stockholders:				
Basic earnings per share	$0.81	$0.20	$0.91	$0.53
Diluted earnings per share	$0.65	$0.18	$0.75	$0.46

See accompanying notes to consolidated condensed financial statements.

TTM TECHNOLOGIES, INC.

Consolidated Condensed Statements of Comprehensive Income

For the Quarter and Two Quarters Ended July 2, 2018 and July 3, 2017

	Quarter Ended		Two Quarters ended	
	July 2, 2018	July 3, 2017	July 2, 2018	July 3, 2017
	(Unaudited) (In thousands)			
Net income	$84,004	$20,751	$94,101	$53,876
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments, net	(1,701)	12,019	(1,079)	18,638
Net unrealized gains (losses) on cash flow hedges:				
Unrealized (loss) gain on effective cash flow hedges during the period, net	(1,739)	96	(1,745)	164
Loss realized in the statement of operations	342	43	383	87
Net	(1,397)	139	(1,362)	251
Other comprehensive (loss) gain, net of tax	(3,098)	12,158	(2,441)	18,889
Comprehensive income, net of tax	80,906	32,909	91,660	72,765
Less: Comprehensive income attributable to the noncontrolling interest	—	(160)	—	(326)
Comprehensive income attributable to TTM Technologies, Inc. stockholders	$80,906	$32,749	$91,660	$72,439

See accompanying notes to consolidated condensed financial statements.

TTM TECHNOLOGIES, INC.

Consolidated Condensed Statements of Cash Flows

For the Two Quarters Ended July 2, 2018 and July 3, 2017

	Two Quarters ended	
	July 2, 2018	July 3, 2017
	(Unaudited)	
	(In thousands)	
Cash flows from operating activities:		
Net income	$94,101	$53,876
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of property, plant and equipment	80,073	72,223
Amortization of definite-lived intangible assets	25,350	11,822
Amortization of debt discount and issuance costs	6,358	5,304
Deferred income taxes	(64,769)	95
Stock-based compensation	9,489	8,628
Other	56	3,476
Changes in operating assets and liabilities, net of acquisition:		
Accounts receivable, net	(17,056)	(20,039)
Contract assets	(16,478)	—
Inventories	5,685	(13,273)
Prepaid expenses and other current assets	356	(3,529)
Accounts payable	(33,778)	10,509
Contract liabilities	(98)	—
Accrued salaries, wages and benefits and other accrued expenses	(47,911)	(20,394)
Net cash provided by operating activities	41,378	108,698
Cash flows from investing activities:		
Acquisition, net of cash acquired	(596,396)	—
Purchase of property, plant and equipment and equipment deposits	(81,338)	(87,106)
Proceeds from sale of property, plant and equipment and assets held for sale	251	18,102
Net cash used in investing activities	(677,483)	(69,004)
Cash flows from financing activities:		
Proceeds from incremental long-term borrowings	600,000	—
Repayment of long-term debt borrowing	(3,718)	(50,000)
Repayment of assumed long-term debt in acquisition	(178,604)	—
Proceeds from borrowings of revolving loan	23,000	—
Payment of debt issuance costs	(7,653)	—
Payment of original issue discount	(1,500)	—
Proceeds from exercise of stock options	192	74
Redemption of convertible notes	—	(15)
Net cash provided by (used in) financing activities	431,717	(49,941)
Effect of foreign currency exchange rates on cash and cash equivalents	(838)	917
Net decrease in cash and cash equivalents	(205,226)	(9,330)
Cash and cash equivalents at beginning of period	409,326	256,277

Cash and cash equivalents at end of period	$204,100	$246,947
Noncash transactions:		
Property, plant and equipment recorded in accounts payable	$54,369	$69,373

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) as well as a global designer and manufacturer of high-frequency radio frequency (RF) and microwave components and assemblies. 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 certain of the Company's revenue streams from "point in time" upon physical delivery to an "over time" model. Additionally, the Company 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 and two quarters ended July 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 was as follows:

	Balance at January 1, 2018	New Revenue Standard Adjustment	Balance at January 2, 2018
	(In thousands)		
Balance Sheet			
Assets			
Accounts receivable, net	$483,903	$ 8,171	$492,074
Contract assets	—	260,654	260,654
Inventories	294,588	(223,576)	71,012
Liabilities			
Other accrued expenses	114,685	13,384	128,069
Other long-term liabilities	74,667	3,291	77,958
Equity			
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 disclosure below summarizes the impact of the adoption of the new revenue standard on the Company's consolidated condensed balance sheet as of July 2, 2018, statement of operations for the quarter and two quarters ended July 2, 2018 and statement of cash flows for the two quarters ended July 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, for certain revenue streams, as appropriate.

	July 2, 2018		
	As reported	Effect of Change Increase	Balances without New Revenue

		(Decrease)	Standard Adjustment
	(In thousands)		
Balance Sheet			
Assets			
Accounts receivable, net	$541,587	$8,171	$ 533,416
Contract assets	300,717	293,114	7,603
Inventories	121,285	(245,895)	367,180
Liabilities			
Other accrued expenses	104,139	14,033	90,106
Other long-term liabilities	92,938	3,163	89,775
Equity			
Retained earnings	315,975	38,194	277,781

	Quarter ended July 2, 2018			Two Quarters ended July 2, 2018		
	As reported	Effect of Change Increase (Decrease)	Balances without New Revenue Standard Adjustment	As reported	Effect of Change Increase	Balances without New Revenue Standard Adjustment
	(In thousands)			(In thousands)		
Net sales	$716,887	$ 17,730	$ 699,157	$1,380,469	$31,811	$1,348,658
Cost of goods sold	600,747	(10,338)	611,085	1,175,651	22,319	1,153,332
Gross profit	116,140	7,392	108,748	204,818	9,492	195,326
Net income	84,004	7,392	76,612	94,101	9,620	84,481

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TTM TECHNOLOGIES, INC.

Notes to Consolidated Condensed Financial Statements—(Continued)

Included in the Effect of Change Increase (Decrease) columns for the quarter and two quarters ended July 2, 2018 are $14,408, $11,375 and $3,033 of net sales, cost of goods sold and gross profit, respectively, related to the opening balance sheet of Anaren Inc. which was acquired on April 18, 2018 (See Note 3), and not to the activity during the quarter.

	Two Quarters ended July 2, 2018		
	As reported	Effect of Change Increase (Decrease)	Balances without New Revenue Standard Adjustment
	(In thousands)		
Cash flows from operating activities:			
Net income	$94,101	$ 9,620	$ 84,481
Adjustments to reconcile net income to net cash used in operating activities:			
Deferred income taxes	(64,769)	(128)	(64,641)
Changes in operating assets and liabilities:			
Accounts receivable, net	(17,056)	—	(17,056)
Contract assets	(16,478)	(32,460)	15,982
Inventories	5,685	22,319	(16,634)
Accrued salaries, wages and benefits and other accrued expenses	(47,911)	649	(48,560)

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 adoption of this standard is not expected to have a material impact on the consolidated financial statements or related disclosures.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The objective of this update is to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. This ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those annual periods and is to be applied utilizing a modified retrospective approach. The Company is currently planning on electing the package of practical expedients to not reassess prior conclusions related to contracts containing leases, lease classification and initial direct costs, and is evaluating other practical expedients available under the guidance. Additionally, 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, custom electronic assemblies using customer-supplied engineering and design plans. With the acquisition of Anaren Inc. (See Note 3), the Company now also derives revenue from the design, development, and manufacture of components, assemblies, and subsystems which receive, process, and transmit microwave and RF signals which service the aerospace and defense electronics, and wireless communications markets.

The Company has three revenue streams which generally coincide with the Company's reportable segments. These reportable segments are: PCB, E-M Solutions and Anaren. See Note 17 Segment Information.

For the PCBs and custom electronic assemblies, 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 throughout the PCB manufacturing process, 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, the Company records revenue in accordance with 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.

TTM TECHNOLOGIES, INC.

Notes to Consolidated Condensed Financial Statements—(Continued)

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.

Additionally, the Company has certain long-term contracts related to its manufacture of components, assemblies, and subsystems which service the aerospace and defense electronics market. These long-term contracts, many of which provide for periodic payments, are recognized over time under the percentage-of completion method. Estimated manufacturing cost-at-completion for these contracts are reviewed on a periodic basis, and adjustments are made periodically to the estimated cost-at-completion, based on actual costs incurred, progress made, and estimates of costs required to complete the contractual requirements. When the estimated manufacturing cost-at-completion exceeds the contract value, the contract is written down to its net realizable value and the loss resulting from the cost overruns are immediately recognized.

Finally, the Company manufactures components, assemblies, and subsystems which service its wireless communications customers. The Company recognizes revenue at a point in time as the customer does not simultaneously receive or consume the benefits provided by the Company's performance and the asset being manufactured has alternative uses to the Company.

The Company provides customers a limited right of return for defective PCBs, assemblies, components and subsystems. 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 its 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.

(3) Acquisition of Anaren Inc.

On April 18, 2018, the Company completed its acquisition of all issued and outstanding common stock of Anaren Holding Corp. for a total consideration of $787,911 subject to customary working capital and certain other adjustments. Other than the equity interests of Anaren, Inc. (Anaren), Anaren Holding Corp. had no material assets or liabilities and has no material independent operations. Anaren is a leading provider of mission-critical RF solutions, microelectronics, and microwave components and assemblies for the wireless infrastructure and aerospace and defense electronics markets.

For the quarter and two quarters ended July 2, 2018, bank fees and legal, accounting, and other professional service costs associated with the acquisition of $6,852 and $10,825, respectively, have been expensed and recorded as general and administrative expense in the consolidated condensed financial statements. There were no bank fees or legal, accounting, or other professional service costs associated with the acquisition for the quarter and two quarters ended July 3, 2017.

The following summarizes the components of the purchase price:

		(In thousands)
Cash consideration	$	596,396
Cash purchased		12,911
		609,307
Debt assumed		178,604
Total consideration	$	787,911

Preliminary Purchase Price Allocation

The purchase price was allocated to tangible and intangible assets acquired, and liabilities assumed based on preliminary estimates of fair value at the date of the acquisition, April 18, 2018. The excess of the purchase price over the fair value of net assets acquired was allocated to goodwill. The fair value assigned to identifiable intangible assets acquired was based on estimates and assumptions made by management at the time of the acquisition.

TTM TECHNOLOGIES, INC.

Notes to Consolidated Condensed Financial Statements—(Continued)

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

	(In thousands)
Cash	$ 12,911
Trade and notes receivables	32,457
Contract assets	23,585
Inventories	55,958
Other current assets	1,673
Property, plant and equipment	47,329
Identifiable intangible assets	337,000
Goodwill	386,278
Trade accounts payable	(14,629)
Contract liabilities	(7,778)
Other current liabilities	(3,757)
Long-term debt	(178,604)
Non-current deferred tax liabilities	(75,123)
Other liabilities	(7,993)
Total	$ 609,307

Due to the fact that the acquisition occurred in the current interim period, the Company's fair value estimates for the purchase price allocation are preliminary and may change during the allowable measurement period, which is up to the point the Company obtains and analyzes the information that existed as of the date of the acquisition necessary to determine the fair values of the assets acquired and liabilities assumed, but in no case to exceed more than one year from the date of acquisition. As of July 2, 2018, the Company had not finalized the determination of fair values allocated to various assets and liabilities, including, but not limited to, property, plant and equipment, identifiable intangible assets, other assets, deferred taxes, goodwill, tax uncertainties, income taxes payable and liabilities assumed. Any changes in the fair values of the assets acquired and liabilities assumed during the measurement period may result in material adjustments to goodwill.

Inventories

The Company acquired $55,958 of inventories as a result of the acquisition. Finished goods were preliminarily valued at estimated selling prices less costs of disposal and a reasonable profit allowance for the selling effort. Work-in-process inventory was valued at estimated selling prices less costs to complete, costs of disposal and a reasonable profit allowance for the completion and selling effort. Raw materials were preliminarily valued at estimated replacement cost.

Property, Plant and Equipment

The fair value of property, plant and equipment was preliminarily determined by utilizing three approaches: the cost, sales comparison, and income capitalization approaches, each including management assumptions. Each approach assumes valuation of the property at the property’s highest and best use.

TTM TECHNOLOGIES, INC.

Notes to Consolidated Condensed Financial Statements—(Continued)

Identifiable Intangible Assets

Acquired identifiable intangible assets include customer relationships, developed technology and backlog. The fair value of the identifiable intangible assets was preliminarily determined using various income approach methods including excess earnings to determine the present value of expected future cash flows for each identifiable intangible asset based on discount rates which incorporate a risk premium to take into account the risks inherent in those expected cash flows. The expected cash flows were estimated using available historical data adjusted based on the Company's historical experience and the expectations of market participants. The preliminary estimated fair value assigned to each class of intangible assets and the related weighted average amortization periods are as follows:

	Estimated fair value (In thousands)	Weighted-average amortization period
Customer relationships	$ 268,000	12.2 years
Developed technology	39,500	9.4 years
Backlog	29,500	0.9 years
	$ 337,000	

Goodwill

Goodwill represents the excess of the purchase price over the fair value of assets acquired and liabilities assumed. Prior to the Company's acquisition of Anaren, the Company had two reportable segments: PCB and E-M Solutions. Due to the acquisition, the Company has reassessed its reportable segments and determined that it has three reportable segments: PCB, E-M Solutions and Anaren. However, beginning in the third quarter of 2018, the Company will no longer report Anaren as a reportable segment as the Company will integrate it into the PCB reportable segment. The excess purchase price over the fair value of assets acquired and liabilities assumed has been completely allocated to the Anaren reportable segment.

The Company believes that the acquisition of Anaren will produce the following significant benefits:

- Provide the Company with differentiated RF expertise in aerospace and defense and embedded technology that the Company believes is critical to wireless infrastructure markets.
- Augment the Company's strong aerospace and defense position and provide new opportunities for growth in the automotive and optical networking market.
- Deepen the Company's engagement and interaction with leading customers in the aerospace and defense and wireless communication infrastructure markets.
-

- Strengthen the Company's management and engineering teams with the addition of talented members having extensive experience in RF design;

The Company believes that these primary factors support the amount of goodwill recognized as a result of the purchase price paid for Anaren, in relation to other acquired tangible and intangible assets. The goodwill acquired in the acquisition is not deductible for income tax purposes.

Results of Operations

Included in the consolidated condensed statements of operations for the quarter and two quarters ended July 2, 2018 are net sales of $62,011, excluding intercompany sales, and pre-tax net income of $13,307 from the Anaren operations.

Pro forma Financial Information

The unaudited pro forma financial information below gives effect to this acquisition as if it had occurred at the beginning of fiscal 2017, or January 3, 2017. The pro forma financial information presented includes the effects of adjustments related to the amortization of acquired identifiable intangible assets and acquired inventory, depreciation of acquired fixed assets, and other non-recurring transactions costs directly associated with the acquisitions such as legal, accounting and banking fees.

TTM TECHNOLOGIES, INC.

Notes to Consolidated Condensed Financial Statements—(Continued)

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

	Quarter Ended		Two Quarters Ended	
	July 2, 2018	July 3, 2017	July 2, 2018	July 3, 2017
	(In thousands)		(In thousands)	
Net sales	$722,294	$693,508	$1,449,143	$1,369,519
Net income attributable to TTM Technologies, Inc. stockholders	91,347	22,390	107,692	49,139
Basic earnings per share	$0.88	$0.22	$1.05	$0.48
Dilutive earnings per share	$0.70	$0.19	$0.86	$0.42

(4) Contract Asset and Liabilities

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. 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 subject to customer payment terms. Contract assets were $300,717 as of July 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.

A contract liability is recognized when the Company has received payment in advance for the future transfer of goods or services. The Company’s contract liabilities are generally converted to revenue within 90 days. Contract liabilities were $7,680 as of July 2, 2018 and represent customer advances for work yet to be performed, plus a reasonable profit. There were no contract liabilities as of January 1, 2018.

(5) Inventories

Inventories as of July 2, 2018 and January 1, 2018 consisted of the following:

	As of	
	July 2, 2018	January 1, 2018
	(in thousands)	
Inventories:		

Raw materials	$105,603	$75,835
Work-in-process	12,407	120,031
Finished goods	3,275	98,722
	$121,285	$294,588

(6) Goodwill

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

	PCB	Anaren	Total
	(In thousands)		
Balance as of January 1, 2018			
Goodwill	$543,971	$—	$543,971
Accumulated impairment losses	(171,400)	—	(171,400)
	372,571	—	372,571
Goodwill recognized during the two quarters ended July 2, 2018	—	386,278	386,278
Balance as of July 2, 2018			
Goodwill	543,971	386,278	930,249
Accumulated impairment losses	(171,400)	—	(171,400)
	$372,571	$386,278	$758,849

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Notes to Consolidated Condensed Financial Statements—(Continued)

The assignment of goodwill related to the acquisition is preliminary and will be completed in conjunction with the final purchase price allocation.

(7) Definite-lived Intangibles

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

	Gross Amount	Accumulated Amortization	Foreign Currency Translation Adjustment	Net Carrying Amount	Weighted Average Amortization Period
	(In thousands)				(years)
July 2, 2018					
Customer relationships	$203,634	$ (112,306)	$ —	$91,328	8.1
Technology	3,000	(3,000)	—	—	3
Acquired intangibles from acquisition					
Customer relationships	268,000	(4,605)	—	263,395	12.2
Developed technology	39,500	(986)	—	38,514	9.4
Backlog	29,500	(8,137)	—	21,363	0.9
	$543,634	$ (129,034)	$ —	$414,600	
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 estimated 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 $19,489 and $5,910 for the quarters ended July 2, 2018 and July 3, 2017, respectively, and $25,350 and $11,822 for the two quarters ended July 2, 2018 and July 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	$ 38,084
2019	53,293
2020	45,430
2021	42,118
2022	39,013
Thereafter	196,662
	$ 414,600

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Notes to Consolidated Condensed Financial Statements—(Continued)

(8) Long-term Debt and Letters of Credit

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

	Interest Rate as of July 2, 2018	Principal Outstanding as of July 2, 2018	Interest Rate as of January 1, 2018	Principal Outstanding as of January 1, 2018
	(In thousands)			
Term Loan due September 2024	4.60%	$ 945,879	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	3.60%	40,000	3.06%	17,000
Asia ABL Revolving Loan due May 2020	3.50%	30,000	2.96%	30,000
Capital Lease	6.43%	1,556	6.43%	1,919
		1,642,420		1,023,029
Less: Long-term debt unamortized discount		(27,359)		(30,513)
Long-term debt unamortized debt issuance costs		(18,907)		(12,459)
		1,596,154		980,057
Less: current maturities		(40,729)		(4,578)
Long-term debt, less current maturities		$ 1,555,425		$ 975,479

Term Loan Facility

On April 18, 2018, the Company closed its $600,000 commitment of incremental loans concurrent with the completion of its acquisition of Anaren. These incremental loans increased the Company’s existing balance of its Term Loan Facility due 2024 from $348,250 to $948,250. This Term Loan Facility had an outstanding balance of $945,879 as of July 2, 2018, of which $40,000 is included in short-term debt and $905,879 is included in long-term debt. The Term Loan Facility was issued at a weighted average discount of 99.7% and bears interest, at the Company’s option, at a floating rate of LIBOR, plus an applicable interest margin of 2.50%, or an alternate base rate, (defined as the greater of the JP Morgan prime, the New York Fed bank rate plus 0.5% or LIBOR plus 1.0%), subject to a 1.0% floor plus an applicable margin of 1.5%. At July 2, 2018 the interest rate on the outstanding borrowings under the Term Loan Facility was 4.60%. 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. Subsequent to July 2, 2018, the Company made an optional debt principal prepayment of $40,000. As a result of the prepayment, the Company is no longer required to make any quarterly scheduled payments until October 2022. However, 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. Any remaining outstanding balance under the Term Loan Facility is 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.

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Notes to Consolidated Condensed Financial Statements—(Continued)

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.

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

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

	Quarter Ended		Two Quarters Ended	
	July 2, 2018	July 3, 2017	July 2, 2018	July 3, 2017
	(In thousands)		(In thousands)	

Contractual coupon interest	$1,093	$1,093	$ 2,187