

Fabrinet  
Form 10-K  
August 23, 2017  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the fiscal year ended June 30, 2017

Or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-34775

**FABRINET**

(Exact name of registrant as specified in its charter)

Edgar Filing: Fabrinet - Form 10-K

**Cayman Islands**  
(State or other jurisdiction of  
incorporation or organization)

**Not Applicable**  
(I.R.S. Employer  
Identification No.)

**c/o Intertrust Corporate Services (Cayman) Limited**

**190 Elgin Avenue**

**George Town**

**Grand Cayman**

**Cayman Islands**  
(Address of principal executive offices)

**KY1-9005**  
(Zip Code)

**+66 2-524-9600**

(Registrant's telephone number, including area code)

**Securities registered pursuant to Section 12(b) of the Act:**

**Ordinary Shares, \$0.01 par value**  
(Title of each class)

**New York Stock Exchange**  
(Name of exchange on which registered)

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 (§229.405 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

## Edgar Filing: Fabrinet - Form 10-K

emerging growth company in Rule 12b-2 of the Exchange Act. (Check one):

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

Accelerated filer  
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 Act). Yes No

As of December 30, 2016, the last business day of the registrant's most recently completed second fiscal quarter, shares held by non-affiliates of the registrant had an aggregate market value of approximately \$1.5 billion, based on the closing price for the registrant's ordinary shares as reported on the New York Stock Exchange on such date.

As of August 11, 2017, the registrant had 37,365,443 ordinary shares, \$0.01 par value, outstanding.

### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement relating to its 2017 Annual Meeting of Shareholders are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated. Such proxy statement will be filed with the U.S. Securities and Exchange Commission within 120 days after the end of the fiscal year to which this report relates.

**Table of Contents**

**FABRINET**

**ANNUAL REPORT ON FORM 10-K**

**For the Fiscal Year Ended June 30, 2017**

**Table of Contents**

	<b>Page</b>
<b>PART I</b>	
Item 1. <u>Business</u>	2
Item 1A. <u>Risk Factors</u>	14
Item 1B. <u>Unresolved Staff Comments</u>	32
Item 2. <u>Properties</u>	32
Item 3. <u>Legal Proceedings</u>	32
Item 4. <u>Mine Safety Disclosures</u>	32
<b>PART II</b>	
Item 5. <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	33
Item 6. <u>Selected Financial Data</u>	35
Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	36
Item 7A. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	53
Item 8. <u>Financial Statements and Supplementary Data</u>	55
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	98
Item 9A. <u>Controls and Procedures</u>	98
Item 9B. <u>Other Information</u>	99
<b>PART III</b>	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	100
Item 11. <u>Executive Compensation</u>	100
Item 12. <u>Security Ownership or Certain Beneficial Owners and Management and Related Stockholder Matters</u>	100
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	100
Item 14. <u>Principal Accounting Fees and Services</u>	100
<b>PART IV</b>	
Item 15. <u>Exhibits, Financial Statement Schedules</u>	101

---

**Table of Contents**

**PART I**

**ITEM 1. BUSINESS.**

**Overview**

Fabrinet ( we , us and our ) provides advanced optical packaging and precision optical, electro-mechanical and electronic manufacturing services to original equipment manufacturers ( OEMs ) of complex products such as optical communication components, modules and sub-systems, industrial lasers, medical devices and sensors. We offer a broad range of advanced optical and electro-mechanical capabilities across the entire manufacturing process, including process design and engineering, supply chain management, manufacturing, complex printed circuit board assembly, advanced packaging, integration, final assembly and test. Although we focus primarily on low-volume production of a wide variety of high complexity products, which we refer to as low-volume, high-mix, we also have the capability to accommodate high-volume production. Based on our experience with and positive feedback we have received from our customers, we believe we are a global leader in providing these services to the optical communications, industrial lasers and automotive markets.

Our customer base includes companies in complex industries that require advanced precision manufacturing capabilities, such as optical communications, industrial lasers, automotive and sensors. Our customers in these industries support a growing number of end-markets, including automotive, biotechnology, communications, materials processing, medical devices, metrology and semiconductor processing. Our revenues from lasers, sensors and other markets as a percentage of total revenues have decreased from 25.5% for the year ended June 24, 2016 ( fiscal year 2016 ) to 22.0% for the year ended June 30, 2017 ( fiscal year 2017 ), while our revenues from optical communications products as a percentage of total revenues have increased from 74.5% for fiscal year 2016 to 78.0% for fiscal year 2017.

In many cases, we are the sole outsourced manufacturing partner used by our customers for the products that we produce for them. The products that we manufacture for our OEM customers include:

optical communications devices, such as:

selective switching products, such as reconfigurable optical add-drop multiplexers ( ROADMs ), optical amplifiers, modulators and other optical components and modules that collectively enable network managers to route voice, video and data communications traffic through fiber optic cables at various wavelengths, speeds, and over various distances;

tunable lasers, transceivers, and transponders that eliminate, at a significant cost savings to the service provider, the need to stock individual fixed wavelength optical transceivers and transponders used in voice and data communications networks; and

active optical cables providing high-speed interconnect capabilities for data centers and computing clusters, as well as Infiniband, Ethernet, fiber channel and optical backplane connectivity;

solid state, diode-pumped, gas and fiber lasers (collectively referred to as industrial lasers ) used across a broad array of industries, including semiconductor processing (wafer inspection, wafer dicing, wafer scribing), biotechnology and medical device (DNA sequencing, flow cytometry, hematology, antibody detection), metrology (instrumentation, calibration, inspection), and material processing (metal, polymer, textile drilling and cutting, annealing, marking, engraving, and welding); and

sensors, including differential pressure, micro-gyro, fuel and other sensors that are used in automobiles, and non-contact temperature measurement sensors for the medical industry.

## Edgar Filing: Fabrinet - Form 10-K

We also design and fabricate application-specific crystals, lenses, prisms, mirrors, laser components and substrates (collectively referred to as customized optics ) and other custom and standard borosilicate, clear

---

## **Table of Contents**

fused quartz, and synthetic fused silica glass products (collectively referred to as customized glass ). We incorporate our customized optics and glass into many of the products we manufacture for our OEM customers, and we also sell customized optics and glass in the merchant market.

We believe we offer differentiated manufacturing services through our optical and electro-mechanical process technologies and our strategic alignment with our customers. Our dedicated process and design engineers, who have a deep knowledge in materials sciences and physics, are able to tailor our service offerings to accommodate our customers' complex engineering assignments. Our range of capabilities, from the design of customized optics and glass through process engineering and testing of finished assemblies, provides us with a knowledge base that we believe often leads to improvements in our customers' product development cycles, manufacturing cycle times, quality and reliability, manufacturing yields and end product costs. We offer an efficient, technologically advanced and flexible manufacturing infrastructure designed to enable the scale production of low-volume, high-mix products, as well as high-volume products. We specialize in complex prototype and new product introduction services, with specialized resources to meet customers' quick-turn printed circuit board assembly ( PCBA ) and early stage manufacturing requirements. We have a dedicated engineering team to support the advanced optical packaging needs of our customers' cutting edge products, which allows them to accelerate development and time-to-market for such products. We often provide a factory-within-a-factory manufacturing environment to safeguard our customers' intellectual property by physically segregating certain key employees and manufacturing space from the resources we use for other customers. We also provide our customers with a customized software platform to monitor all aspects of the manufacturing process, enabling our customers to remotely access our databases to monitor yields, inventory positions, work-in-progress status and vendor quality data in real time. We believe there is no other manufacturing services provider with a similar breadth and depth of optical and electro-mechanical engineering and process technology capabilities that does not directly compete with its customers in their end-markets. As a result, we believe we are more closely aligned and better able to develop long-term relationships with our customers than our competitors.

We are organized and operate in a single segment. See Note 20, Business segments and geographic information of Notes to Consolidated Financial Statements in Part II, Item 8 of this Annual Report on Form 10-K, which is incorporated herein by reference.

As of June 30, 2017, our facilities comprised approximately 2.0 million total square feet, including approximately 0.2 million square feet of office space and approximately 1.8 million square feet devoted to manufacturing and related activities, of which approximately 0.7 million square feet are clean room facilities. Of the aggregate square footage of our facilities, approximately 1.6 million square feet are located in Thailand and the remaining balance is located in the People's Republic of China ( PRC or China ), the United Kingdom, the United States and the Cayman Islands. See Part I, Item 2. Properties of this Annual Report on Form 10-K.

## **Industry Background**

### ***Optical Communications***

Many optical communications OEMs have reduced internal manufacturing capacity and transitioned to a low-cost and more efficient manufacturing base. By outsourcing production to third parties, OEMs are better able to concentrate their efforts and resources on what they believe are their core strengths, such as research and development, and sales and marketing. Additionally, outsourcing production often allows OEMs to reduce product costs, improve quality, access advanced process design and manufacturing technologies and achieve accelerated time-to-market and time-to-volume production. The principal barrier to the trend towards outsourcing in the optics industry has been the shortage of third-party manufacturing partners with the necessary optical process capabilities and robust intellectual property protection.

Demand for optical communications components and modules is influenced by the level and rate of development of optical communications infrastructure and carrier and enterprise network expansion, as well as

## **Table of Contents**

rapid expansion of data center infrastructures. Carrier demand for optical communications network equipment has increased as a direct result of higher network utilization and increased demand for bandwidth capacity. The increase in network traffic volumes have been driven by increasing demand for voice, data and video services delivered over wired and wireless Internet protocol, or IP, networks. The bandwidth demands for data center access have been largely driven by social media applications and cloud services, and continue to increase very rapidly.

### ***Industrial Lasers, Sensors and Others***

The optical and electro-mechanical process technologies used in the optical communications market also have applications in other similarly complex end-markets that require advanced precision manufacturing capabilities, such as automotive, industrial lasers, medical devices, and sensors. These markets are substantially larger than the optical communications components and modules market. Growth in the industrial lasers, medical, and sensors markets is expected to be driven by demand for:

industrial laser applications across a growing number of end-markets, particularly in semiconductor processing, biotechnology, metrology and materials processing;

precision, non-contact and low power requirement sensors, particularly in automotive, medical and industrial end-markets; and

lower cost products used on both enterprise and consumer levels.

Outsourcing of production by industrial laser and sensor OEMs has historically been limited. We believe industrial laser and sensor OEMs are increasingly recognizing the benefits of outsourcing that OEMs in other industries, such as optical communications, have been able to achieve.

### **Our Competitive Strengths**

We believe we have succeeded in providing differentiated services to the optical communications, industrial lasers, medical, and sensors industries due to our long-term focus on optical and electro-mechanical process technologies, strategic alignment with our customers and our commitment to total customer satisfaction. More specifically, our key competitive strengths include:

***Advanced Optical and Electro-Mechanical Manufacturing Technologies:*** We believe that our optical and electro-mechanical process technologies and capabilities, coupled with our customized optics and glass technologies, provide us with a key competitive advantage. These technologies include:

advanced optical and precision packaging;

reliability and environmental testing;

optical and mechanical material and process analysis;

precision optical fiber and electro-mechanical assembly;

complex printed circuit board assembly;



## Edgar Filing: Fabrinet - Form 10-K

customized software tools for low-volume, high-mix manufacturing;

turn-key manufacturing systems;

fiber metallization and lensing;

fiber handling and fiber alignment;

crystal growth and processing;

precision lapping and polishing;

---

**Table of Contents**

precision glass drawing; and

optical coating.

***Efficient, Flexible and Low Cost Process Engineering and Manufacturing Platform:*** We enable our customers to transition their production to an efficient and flexible manufacturing platform that is specialized for the production of optics and similarly complex products and is located in a low-cost geography. We believe our advanced manufacturing technologies, coupled with our broad engineering capabilities, give us the ability to identify opportunities to improve our customers' manufacturing processes and provide meaningful production cost benefits. We have also developed a series of customized software tools that we believe provide us with a specialized ability to manage the unique aspects of low-volume, high-mix production.

***Customizable Factory-Within-a-Factory Production Environment:*** We offer our customers exclusive engineering teams and manufacturing space for production. We call this concept of segregating production by customer a factory-within-a-factory. We believe our approach maximizes intellectual property protection and provides greater opportunities to reduce cost and improve time to market for our customers' products.

***Vertical Integration Targeting Customized Optics and Glass:*** We believe our capabilities in the design and fabrication of high-value customized optics and glass are complementary to our manufacturing services. Specifically, these capabilities enable us to strategically align our business to our customers' needs by streamlining our customers' product development process and reducing the number of suppliers in our customers' manufacturing supply chains. Also, we use these customized optics and glass products in certain of the components, modules and subsystems we manufacture, which enables us to shorten time to market and reduce the cost for our customers. We believe this level of vertical integration positions us to capitalize on further opportunities to cross-sell our design and fabrication capabilities.

***Turn-Key Supply Chain Management:*** We have created a proprietary set of automated manufacturing resource planning tools designed specifically to address the unique inventory management demands of low-volume, high-mix manufacturing. Over the years, we have developed strong relationships with thousands of suppliers and implemented inventory management strategies with many of them, which enables us to obtain inventory on an as-needed basis and provide on-site stocking programs. We believe our deep expertise, relationships and capabilities in supply chain and materials management often allows us to further reduce costs and cycle times for our customers.

**Our Growth Strategy**

The key elements of our growth strategy are to:

***Strengthen Our Presence in the Optical Communications Market:*** We believe we are a leader in manufacturing products for the optical communications market. The optical communications market is growing rapidly, driven by the growth in demand for increased network bandwidth and penetration from core to metro networks and data center infrastructures. We believe this trend will continue to increase the demand for the products that we manufacture and the services we provide. We continue to invest resources in advanced manufacturing process and optical packaging technologies to support the manufacture of the next generation of complex optical products.

***Leverage Our Technology and Manufacturing Capabilities to Continue to Diversify Our End-Markets:*** We intend to use our technological strengths in precision optical and electro-mechanical manufacturing, advanced packaging and process design engineering to continue our diversification into industrial lasers, medical, sensors, and other select markets that require similar capabilities.

## Edgar Filing: Fabrinet - Form 10-K

***Continue to Extend Our Customized Optics and Glass Vertical Integration:*** We will continue to extend our vertical integration into customized optics and glass in order to gain greater access to key

---

## **Table of Contents**

components used in the complex products we manufacture as well as to continue our diversification into new markets. We believe our customized optics and glass capabilities are highly complementary to our optical and electro-mechanical manufacturing services, and we intend to continue to market these products to our existing manufacturing services customers. In addition, we intend to continue our focus on customized optics and glass through further investment into research and development, as well as through potential acquisitions in what remains a highly fragmented market.

***Evaluate Potential Strategic Alternatives such as Acquisitions and Joint Ventures:*** We will continue to evaluate opportunities to further expand our manufacturing capabilities and diversify our end-markets through the evaluation of various acquisition and joint venture opportunities around the globe. For example, in September 2016 we acquired Global CEM Solutions Ltd. and all of its subsidiaries (collectively, Exception EMS ) to diversify our markets and customer base and accelerate our entrance into the European EMS market.

***Broaden Our Client Base Geographically:*** Our manufacturing services are incorporated into products that are distributed in markets worldwide, but we intend to further build out our client base in strategic regions. We intend to focus on expanding our client base in Europe, Asia-Pacific, and the United States. We believe these regions have a large and robust optics market, as well as a need for advanced manufacturing services in other growth markets, and would benefit from our precision optical and electromechanical manufacturing services.

***Establish New Product Introduction ( NPI ) Centers to Generate and Transfer New Business to Thailand:*** We established Fabrinet West, Inc. as an NPI center in the heart of Silicon Valley. Fabrinet West, Inc. serves as our business development arm with emphasis on new business generation and eventual transfer to Thailand after NPI. Equipped with state-of-the-art surface mount and advanced optical packaging technologies and infrastructure, and with close proximity to a large portion of our customer base, this center helps to accelerate customer NPI and provides seamless access and future transfer to the low-cost manufacturing base in Thailand.

### **Service Offerings**

We offer integrated precision optical, electro-mechanical, and electronic manufacturing services and customized optics and glass fabrication services for our OEM customers.

#### ***Precision Optical, Electro-Mechanical, and Electronic Manufacturing Services***

##### ***Process Design and Engineering***

We continuously analyze our customers' product designs for cost and manufacturability improvements. We perform detailed design for manufacturability studies and design of experiments to assist in optimizing a product's design for the lowest cost possible without compromising the quality specifications of form, fit and function. In the case of a new product design, we may assist in assembling one or more prototype products using the same production line and the same engineering and manufacturing teams that would be used for product qualification and volume production. We often transfer production from a customer's internal prototype or production lines to our own facilities, requiring a copy-exact: the setup of a production process identical to the one used by our customer to minimize the number of variables and expedite qualification.

##### ***Advanced Optical Packaging***

We have a dedicated team of experienced engineers supporting our advanced optical packaging development capabilities. These highly qualified engineers work closely with our customers to understand the development requirements of their new products and assist them to build prototypes, as well as source materials, optimize manufacturing processes and develop schedules to bring these products to volume production. We maintain a real-time roadmap for the packaging requirements of our customers and the industry in general. Our

## **Table of Contents**

advanced packaging team develops and maintains generic recipes that are readily available to be tailored and refined for the specific new applications of our customers, which helps to further accelerate prototype development and product delivery time.

### *Printed Circuit Board Assembly and Test*

Printed circuit board assembly involves attaching electronic components, such as integrated circuits, capacitors, receivers, transceivers and other components and modules to printed circuit boards. We employ a variety of mounting and assembly technologies, including SMT, PTH and ACT, press-fit, and other connection processes that are focused on miniaturization and increasing the density of component placement on printed circuit boards. These technologies, which support the needs of our customers to provide greater functionality in smaller products, include chip-scale packaging, ball grid array, direct chip attach and high density interconnect. We perform in-circuit, functional and environmental testing of printed circuit board assemblies to verify all components are properly inserted, attached and the electrical circuits are complete, and that the board or assembly operates in accordance with its final design and manufacturing specifications.

### *Dedicated New Product Introduction*

We are committed to providing NPI capabilities designed to ensure that our customers' products get to market as quickly as possible. Co-locating strong engineering services in process design, prototyping, design for manufacturability (DFM) and test at these locations gives customers a full suite of NPI services for quick-turn PCBA to box-build to full system assembly. Stringent IP protection protocols are strictly enforced throughout the entire process, safeguarding our customers' intellectual property. Our NPI sites are outfitted with state-of-the-art production equipment that mirrors the equipment used in our low-cost manufacturing facilities, ensuring a fast, smooth transition to a low-cost production environment once the product is qualified.

### *Qualifications*

Production line and environmental qualifications require a variety of process engineering and technical skills, and the use of specialized equipment. Many of the products that we produce for our customers require extensive environmental and reliability qualification involving, in some cases, a three to six months or longer duration prior to volume production. The qualification phase may include a customer's certification of a production line or process and one or a series of qualification tests for mechanical integrity and environmental endurance as specified by an industry standards organization, such as Telcordia for telecommunication equipment. We have extensive expertise in the planning, executing, troubleshooting and ultimate success of these qualifications and testing environments, which provides our customers a higher likelihood of completing these qualifications in a timely fashion.

### *Continuous Improvement and Optimization*

Once we have completed the qualification phase and stabilized production yields, we shift our focus to cost and quality optimization. This requires a close working relationship with our customer to optimize processes and identify alternative sources for materials to improve efficiency, yields and cost. Design and process improvements may include reducing the number of parts, simplifying the assembly process, eliminating non-value add operations, using standard materials and optimizing manufacturing lines.

### *Supply Chain and Inventory Management*

Our expertise in supply chain and materials management often allows us to further reduce costs and cycle times for our customers. Our procurement and materials management services include planning, purchasing, expediting, warehousing and financing materials from thousands of suppliers. We have created a proprietary set of automated manufacturing resource planning tools to manage our inventory. We have also implemented inventory management strategies with certain suppliers that enable us to use inventory on an as-needed basis and provide on-site stocking programs.

---

## **Table of Contents**

### *Quality Control*

We believe the integration of our manufacturing and test controls, quality systems, and software platforms contribute significantly to our ability to deliver high-quality products on a consistent basis and reduce the risk that we will be required to repair or replace defective products. Our manufacturing execution system ( MES ) is directly integrated with our test system and enterprise resource planning ( ERP ) database allowing us to respond to any process deviations in real time. We work with customers to develop product-specific test strategies. We also provide a variety of test management services, including material and process testing and reliability testing. In addition to providing yield, manufacturing data tracking and other information, our data tracking system also performs process route checking to ensure that the products follow correct process steps, and the test results meet all specified criteria. Our test capabilities include traditional PCBA testing, mechanical testing and optical testing, which includes parametric testing, such as insertion loss, return loss and extinction ratio, and functional testing (e.g., bit error ratio).

### *Customized Glass and Crystal Optics Fabrication*

We design and fabricate our own customized glass and crystal optics, which are core components of the higher level assemblies that we manufacture for our customers. Our fabrication facilities are located in Fuzhou, China and Mountain Lakes, New Jersey. Our customized glass and crystal optics products include the following:

*Fiber Optic Ferrules and Alignment Sleeves; Fiber Optic Substrates; Precision Glass Tubing, Precision Capillaries and Rods:* These single bore and multi-bore products, in various shapes and dimensions, are used principally in optical communications, medical and industrial applications.

*Laser Optics:* Includes crystals (such as YVO4, Nd: YVO4, Cr: YAG, and BBO), optics, high reflectivity mirrors, lenses, prisms and windows used in laser applications.

*Medical Optics:* Includes mirrors, lenses, filters, waveplates, windows, and prisms incorporated into various medical equipment products.

*Storage Optics:* Includes mirrors, polarizing beam splitters or PBS, and waveplates incorporated into optical storage products.

*Surveying Optics:* Includes penta prisms, corner cubes, and T-Windows incorporated into precision surveying products.

*Telecom Optics:* Includes lenses (such as spherical, a-spherical, C-lens, and cylindrical), waveplates, mirrors, prisms, filters and YVO4 crystals used for telecommunications applications.

*Telecommunication Subassemblies:* Includes fiber pigtailed (both single and dual), assemblies and collimators used in many fiber optic components such as isolators, circulators, optical switches and three-port filters.

### **Technology**

Based on our experience with customers and our qualitative assessment of our capabilities, we believe we provide a broader array of process technologies to the optics industry than any other manufacturing services provider. We also continue to invest in customized optics and glass technology including in the areas of crystal growth, crystal and glass processing, optical coating, polishing and lapping, optical assemblies and precision glass drawing. We intend to continue to increase our process engineering capabilities and manufacturing technologies to extend our product portfolio and continue to gain market share in the optics industry. Our internally developed and licensed technologies include the following:

## Edgar Filing: Fabrinet - Form 10-K

*Advanced Optical Packaging:* We have extensive experience in developing manufacturing processes and performing value engineering to improve our customers' product performance, quality, reliability and manufacturing yields. In many cases, we partner with our customers to develop custom manufacturing solutions for their optics products.

## **Table of Contents**

*Reliability Testing:* Our reliability laboratory enables us to test the degree to which our results and specifications conform to our customers' requirements. Through the reliability laboratory, we are able to perform most of the tests required by industry standards, including damp heat, thermal aging, thermal shock, temperature cycling, shock and vibration, accelerated life testing and stress screening. The reliability laboratory is critical to verification of root cause failure analysis.

*Optical and Mechanical Material and Process Analysis:* Our in-house material and process laboratory analyzes materials to support incoming inspection, process development, process monitoring, failure analysis and verification of compliance with the applicable environmental standards.

*Precision Optical Fiber and Electro-Mechanical Assembly:* We have extensive experience in precision optical and electro-mechanical assemblies in clean room environments, clean room control discipline, cleaning technologies and electro-static discharge ( ESD ) protection.

*Fiber Metallization and Lensing:* We use our fiber metallization and fiber lensing capabilities to assist our customers in packaging their products. Many optical component package designs require metallized fiber and some designs also require lensing at the tip of the fiber. We have in-house capabilities that enable us to produce these products at a low cost, with short lead times and high quality.

*Fiber Handling and Fiber Alignment:* The technique with which optical fiber is handled can have a significant impact on the functionality and reliability of optics products due to the risk of damage or flaws introduced to the fiber surface or micro-cracks to the core of the fiber, which may impact alignment or signal quality, among other things. We have implemented a number of processes, techniques, and best practices to avoid stressing or otherwise damaging fiber during stripping, cleaving and connectorization. Such techniques are also designed to achieve optimal alignment of fiber in the shortest period of time during these processes.

*Optical Testing:* We have the capability to perform parametric and functional tests for a wide variety of optical devices. In many cases, we are also able to help our customers develop their own proprietary software and test fixtures.

*Crystal Growth and Processing:* Our crystal growth technology produces non-linear optical crystals and crystals used in laser applications. Our processing capabilities include dicing, grinding, polishing and inspection with high dimension, tolerance and surface quality.

*Precision Glass Drawing:* We have developed the specialized capabilities necessary to draw precision structures within tight tolerances using borosilicate, clear fused quartz and synthetic fused silica glass. Using these processes, we produce customized rectangular and circular glass tubes and rods in various configurations and with multiple bores that are accurately drawn in precise locations within the tubing. These tubes can be sliced into thin wafers for use in various applications, such as ultra-filtration of bacteria, micro-organism counting, and identification of organisms and substances. These tubes can also be cut into larger lengths to produce ferrules and sleeves for use in fiber optic communications components.

*Optical Coating:* We provide a wide variety of coating from simple single layer anti-reflection coatings to complex multi-layer stacks. The types of coating we provide include anti-reflection, partial reflection and high reflection.

We continuously invest in new and optimized processes to accommodate the next generation of optical devices, such as optical packaging, anti-reflective coating and complex printed circuit board technologies. We believe many of these manufacturing processes and technologies will be key to developing and commercializing the next generation of optical devices, which may include multi-function passive optics and photonic integrated circuits (which are devices that incorporate various optical components and modules into a packaged chip), receivers integrated with an optical amplifier, and active optical cabling. We also anticipate our customers will continue to desire our vertically integrated capabilities, designing customized optics and glass to be incorporated into optical components, modules and complete network or laser systems.





---

## **Table of Contents**

### **Customers, Sales and Marketing**

The optical communications market we serve is highly concentrated. Therefore, we expect a significant percentage of our total revenues will continue to come from a small number of customers. During fiscal year 2017 and fiscal year 2016, we had one customer that contributed 10% or more of our total revenues. This customer accounted for 17% and 20%, respectively, of our total revenues during such fiscal years.

The production of optical devices is characterized by a lengthy qualification process. In particular, the qualification and field testing of the products that we produce for our customers may take three to six months or longer to complete. Generally, we must qualify our production process with our customers, and the products that we manufacture must also meet the product quality requirements of our customers' customers. While most of our customers do not purchase our services until they qualify the services and satisfactorily complete factory audits and vendor evaluations, we typically produce a test run of their products to demonstrate that the products we produce will meet their qualification standards in advance of receiving an order. As part of this process, our engineers work closely with the customer's design and procurement teams. We believe that the rigorous product transfer and qualification processes, and the close relationships that we develop with our customers during those processes, results in greater visibility into product life cycles and longer-term customer engagements.

### **Backlog**

We are substantially dependent on orders we receive and fill on a short-term basis. Although we often receive a 12-month forecast from our customers, our customer contracts do not provide any assurance of future sales, and sales are typically made pursuant to individual purchase orders that have short lead times and are subject to revision or cancellation. Because of the possibility of changes in delivery or acceptance schedules, cancellations of orders, returns or price reductions, we do not believe that backlog is a reliable indicator of our future revenues.

### **Suppliers of Raw Materials**

Our manufacturing operations use a wide variety of optical, semiconductor, mechanical and electronic components, assemblies and raw materials. We generally purchase materials from our suppliers through standard purchase orders, as opposed to long-term supply agreements. We rely on sole-source suppliers for a number of critical materials. Some of these sole-source suppliers are small businesses, which presents risks to us based on their financial health and reliability, which we continually monitor. We have historically experienced supply shortages for various reasons, including reduced yields by our suppliers, which have prevented us from manufacturing products for our customers in a timely manner. While we continually undertake programs to ensure the long-term availability of raw materials, there can be no assurance that we will be successful in doing so or that we will not be subject to future supply constraints.

### **Quality**

We have an extensive quality management system that focuses on continual process improvement and achieving high levels of customer satisfaction. We employ a variety of enhanced statistical engineering techniques and other tools to improve product and service quality. In addition, we generally offer a warranty ranging from one to five years on the products that we assemble. Generally, this warranty is limited to our workmanship and our liability is capped at the price of the product.

Our quality management systems help to ensure that the products we provide to our customers meet or exceed industry standards. We maintain the following certifications: ISO9001 for Manufacturing Quality Management Systems; ISO14001 for Environmental Management Systems; TL9000 for Telecommunications Industry Quality Certification; ISO/TS16949 for Automotive Industry Quality Certification; ISO13485 for Medical Devices Industry Quality Certification; AS9100 for Aerospace Industry Quality Certification; and

## **Table of Contents**

OHSAS18001 for Occupational Health and Safety Management Systems. We also maintain compliance with various additional standards imposed by the U.S. Food and Drug Administration, or FDA, with respect to the manufacture of medical devices.

In addition to these standards, we are committed to the deployment of sustainable manufacturing, lean initiatives, and continuous improvement throughout our operations. The implementation of lean manufacturing initiatives helps improve efficiency and reduce waste in the manufacturing process in areas such as inventory on hand, set up times, and floor space and the number of people required for production, while Kaizen and Six Sigma ensures continuous improvement by reducing process variation.

## **Competition**

Although the manufacturing services market is highly competitive, we believe that there are significant barriers to entry in our existing and target markets, including lengthy sales cycles, the need to demonstrate complex precision optical and electro-mechanical engineering and manufacturing capabilities to a prospective customer and the ability to protect a customer's intellectual property.

Our overall competitive position depends upon a number of factors, including:

our manufacturing technologies and capacity;

the quality of our manufacturing processes and products;

our supply chain tools and data management systems;

our ability to safeguard and protect our customers' intellectual property;

our engineering and prototyping capabilities;

our ability to strengthen and broaden our engineering services and know-how to participate in the growth of emerging technologies;

our ability to deliver on-time;

our ability to deliver continuous cost improvements; and

our responsiveness and flexibility.

Competitors in the market for optical manufacturing services include Benchmark Electronics, Inc., Celestica Inc., Sanmina-SCI Corporation, Jabil Circuit, Inc. and Venture Corporation Limited, as well as the internal manufacturing capabilities of our customers. Our customized optics and glass operations face competition from companies such as Browave Corporation, Fujian Casteck Crystals, Inc., Photop Technologies, Inc. and Research Electro-Optic, Inc. Our UK competitors for printed circuit board assemblies include STI Limited and Axiom Manufacturing Services Limited.

## **Intellectual Property**

Our success depends, in part, on our ability to protect our customers' intellectual property. We license various technologies from our customers on a non-exclusive, royalty-free, non-transferable basis for the sole purpose of allowing us to manufacture products for those customers in

## Edgar Filing: Fabrinet - Form 10-K

accordance with their specifications. We have no rights to disclose, use, sublicense or sell this licensed technology for any other purpose. The duration of these licenses is limited to the duration of the underlying supply or manufacturing agreement. To meet the demands of certain customers, we created a factory-within-a-factory manufacturing environment that physically separates the manufacturing sites from one another. Some customers, for example, demand anonymity at our facilities while other customers require additional security measures such as biometric devices to safeguard their segregated manufacturing areas.

## **Table of Contents**

We regard our own manufacturing process technologies and customized optics and glass designs as proprietary intellectual property. We own any process engineering technology independently developed in-house by our technical staff. As part of our manufacturing services, to the extent we utilize our own manufacturing process technologies in the manufacture of our customers' products, we grant our customers a royalty-free license to these process engineering technologies for the purpose of allowing our customers to make their products. Any process engineering or other improvements that we develop in connection with the improvement or optimization of a process for the manufacturing of a customer's products are immediately assigned to that customer. To protect our proprietary rights, we rely largely upon a combination of trade secrets, non-disclosure agreements and internal security systems. Historically, patents have not played a significant role in the protection of our proprietary rights. Nevertheless, we currently have a relatively small number of solely-owned and jointly-held PRC patents in various customized optic technologies with expiration dates between 2022 and 2034. We believe that both our evolving business practices and industry trends may result in the continued growth of our patent portfolio and its importance to us, particularly as we expand our business.

## **Environmental Regulation**

We are subject to a variety of international and U.S. laws and other legal requirements relating to the use, disposal, cleanup of and human exposure to hazardous materials. To date, such laws and regulations have not materially affected our business. We do not anticipate any material capital expenditures for environmental control facilities for the foreseeable future. While to date we are not aware of any material exposures, there can be no assurance that environmental matters will not arise in the future or that costs will not be incurred with respect to sites as to which no problem is currently known.

## **Social Responsibility**

Our corporate social responsibility practices focus on creating better social, economic and environmental outcomes for all stakeholders in the global electronics supply chain. These outcomes include: improved conditions for workers, increased efficiency and productivity for customers and suppliers, economic development, and a clean environment for our communities. We are committed to implementing programs that focus on driving continuous improvements in social, ethical, and environmental compliance throughout all of our global operating units in accordance with our Code of Business Conduct. As a guide to achieve this end, we look at principles, policies and standards as prescribed by the Electronics Industry Citizenship Coalition (EICC), an association of global electronics companies whose mission is to enable companies to improve the social and environmental conditions in the global supply chain. Fabrinet is a full member of the EICC.

## **Corporate Structure**

Fabrinet was incorporated under the laws of the Cayman Islands in August 1999 and commenced business operations in January 2000. We have sixteen direct and indirect subsidiaries, all of which are wholly-owned. As the parent company, we enter into contracts directly with our customers, and have entered into various inter-company agreements with some of our subsidiaries, while our subsidiaries, Casix, Inc., FBN New Jersey Manufacturing, Inc., Fabrinet West, Inc., and Exception EMS Limited, each enter into sales contracts or purchase orders directly with their customers. We have inter-company agreements with Fabrinet Co., Ltd., and FBN New Jersey Manufacturing, Inc., whereby each provides manufacturing services to us. We also have inter-company agreements with Fabrinet USA, Inc., Fabrinet Pte., Ltd. and Fabrinet IHQ Co., Ltd. to provide us certain administrative and business development services.

## **Employees**

As of June 30, 2017, we employed approximately 10,541 full-time employees worldwide, including approximately 10,244 employees in manufacturing operations and 297 employees in business development and general and administrative functions. None of our employees are represented by a labor union. We have not

**Table of Contents**

experienced any work stoppages, slowdowns, or strikes. We consider our relations with our employees to be positive.

**Available Information**

Our website is located at [www.fabrinet.com](http://www.fabrinet.com). The information posted on our website is not incorporated into this Annual Report on Form 10-K. Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to reports filed or furnished pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, are available free of charge through the Investors section of our website as soon as reasonably practicable after we electronically file such material with, or furnish it to, the U.S. Securities and Exchange Commission ( SEC ). You may also access all of our public filings through the SEC 's website at [www.sec.gov](http://www.sec.gov). Further, a copy of this Annual Report on Form 10-K is located at the SEC 's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330.

---

**Table of Contents**

**ITEM 1A. RISK FACTORS**

*Investing in our ordinary shares involves a high degree of risk. You should carefully consider the following risks as well as the other information contained in this Annual Report on Form 10-K, including our consolidated financial statements and the related notes, before investing in our ordinary shares. The risks and uncertainties described below are not the only ones that we may face. Additional risks and uncertainties of which we are unaware, or that we currently deem immaterial, also may become important factors that affect us or our ordinary shares. If any of the following risks actually occur, they may harm our business, financial condition and operating results. In this event, the market price of our ordinary shares could decline and you could lose some or all of your investment.*

**Risks Related to Our Business**

*Our sales depend on and will continue to depend on a small number of customers. A reduction in orders from any of these customers, the loss of any of these customers or a customer exerting significant pricing and margin pressures on us could harm our business, financial condition and operating results.*

We have depended, and will continue to depend, upon a small number of customers for a significant percentage of our total revenues. During fiscal year 2017 and fiscal year 2016, we had one customer that contributed 10% or more of our total revenues. This customer accounted for 17% and 20% of our total revenues, respectively, during such fiscal years. Dependence on a small number of customers means that a reduction in orders from, a loss of, or other adverse actions by any one of these customers would reduce our revenues and could have a material adverse effect on our business, operating results and share price.

Further, our customer concentration increases the concentration of our accounts receivable and our exposure to payment default by any of our key customers. Many of our existing and potential customers have substantial debt burdens, have experienced financial distress or have static or declining revenues, all of which may be exacerbated by adverse conditions in the credit markets, continual uncertainty in global economies, and the impacts of Brexit. Certain of our customers have gone out of business, declared bankruptcy, been acquired, or announced their withdrawal from segments of the optics market. We generate significant accounts payable and inventory for the services that we provide to our customers, which could expose us to substantial and potentially unrecoverable costs if we do not receive payment from our customers.

Reliance on a small number of customers gives those customers substantial purchasing power and leverage in negotiating contracts with us. In addition, although we enter into master supply agreements with our customers, the level of business to be transacted under those agreements is not guaranteed. Instead, we are awarded business under those agreements on a project-by-project basis. Some of our customers have at times significantly reduced or delayed the volume of manufacturing services that they order from us. If we are unable to maintain our relationships with our existing significant customers, our business, financial condition and operating results could be harmed.

*Consolidation in the markets we serve could harm our business, financial condition and operating results.*

Consolidation in the markets we serve has resulted in a reduction in the number of potential customers for our services. In some cases, consolidation among our customers has led to a reduction in demand for our services as customers acquired the capacity to manufacture products in-house.

Consolidation among our customers and their customers may continue and may adversely affect our business, financial condition and operating results in several ways. Consolidation among our customers and their customers may result in a smaller number of large customers whose size and purchasing power give them increased leverage that may result in, among other things, decreases in our average selling prices. In addition to

---

**Table of Contents**

pricing pressures, this consolidation may also reduce overall demand for our manufacturing services if customers obtain new capacity to manufacture products in-house or discontinue duplicate or competing product lines in order to streamline operations. If demand for our manufacturing services decreases, our business, financial condition and operating results could be harmed.

***If the optical communications market does not expand as we expect, our business may not grow as fast as we expect, which could adversely impact our business, financial condition and operating results.***

Our future success as a provider of precision optical, electro-mechanical and electronic manufacturing services for the optical communications market depends on the continued growth of the optics industry and, in particular, the continued expansion of global information networks, particularly those directly or indirectly dependent upon a fiber optic infrastructure. As part of that growth, we anticipate that demand for voice, video, and other data services delivered over high-speed connections (both wired and wireless) will continue to increase. Without network and bandwidth growth, the need for enhanced communications products would be jeopardized. Currently, demand for network services and for high-speed broadband access, in particular, is increasing but growth may be limited by several factors, including, among others: (1) relative strength or weakness of the global economy or certain countries or regions, (2) an uncertain regulatory environment, and (3) uncertainty regarding long-term sustainable business models as multiple industries, such as the cable, traditional telecommunications, wireless and satellite industries, offer competing content delivery solutions. The optical communications market also has experienced periods of overcapacity, some of which have occurred even during periods of relatively high network usage and bandwidth demands. If the factors described above were to slow, stop or reverse the expansion in the optical communications market, our business, financial condition and operating results would be negatively affected.

***Natural disasters (like the 2011 flooding in Thailand), epidemics, acts of terrorism and other political and economic developments could harm our business, financial condition, and operating results.***

Natural disasters, such as the 2011 flooding in Thailand, where most of our manufacturing operations are located, could severely disrupt our manufacturing operations and increase our supply chain costs. These events, over which we have little or no control, could cause a decrease in demand for our services, make it difficult or impossible for us to manufacture and deliver products and for our suppliers to deliver components allowing us to manufacture those products, require large expenditures to repair or replace our facilities, or create delays and inefficiencies in our supply chain. For example, the October and November 2011 flooding in Thailand forced us to temporarily shut down all of our manufacturing facilities in Thailand and cease production permanently at our Chokchai facility in Thailand, which adversely affected our ability to meet our customers' demands during fiscal year 2012. In some countries in which we operate, including the PRC and Thailand, potential outbreaks of infectious diseases such as the H1N1 influenza virus, severe acute respiratory syndrome ( SARS ) or bird flu could disrupt our manufacturing operations, reduce demand for our customers' products and increase our supply chain costs. In addition, increased international political instability, evidenced by the threat or occurrence of terrorist attacks, enhanced national security measures, conflicts in the Middle East and Asia, strained international relations arising from these conflicts and the related decline in consumer confidence and economic weakness, may hinder our ability to do business. Any escalation in these events or similar future events may disrupt our operations and the operations of our customers and suppliers, and may affect the availability of materials needed for our manufacturing services. Such events may also disrupt the transportation of materials to our manufacturing facilities and finished products to our customers. These events have had, and may continue to have, an adverse impact on the U.S. and world economy in general, and customer confidence and spending in particular, which in turn could adversely affect our total revenues and operating results. The impact of these events on the volatility of the U.S. and world financial markets also could increase the volatility of the market price of our ordinary shares and may limit the capital resources available to us, our customers and our suppliers.



---

## **Table of Contents**

***We are not fully insured against all potential losses. Natural disasters or other catastrophes could adversely affect our business, financial condition and operating results.***

Our current property and casualty insurance covers loss or damage to our property and third-party property over which we have custody and control, as well as losses associated with business interruption, subject to specified exclusions and limitations such as coinsurance, facilities location sub-limits and other policy limitations and covenants. Even with insurance coverage, natural disasters or other catastrophic events, including acts of war, could cause us to suffer substantial losses in our operational capacity and could also lead to a loss of opportunity and to a potential adverse impact on our relationships with our existing customers resulting from our inability to produce products for them, for which we would not be compensated by existing insurance. This in turn could have a material adverse effect on our business, financial condition and operating results.

***Our quarterly revenues, gross profit margins and operating results have fluctuated significantly and may continue to do so in the future, which may cause the market price of our ordinary shares to decline or be volatile.***

Our quarterly revenues, gross profit margins, and operating results have fluctuated significantly and may continue to fluctuate significantly in the future. For example, any of the risks described in this Risk Factors section and, in particular, the following factors, could cause our quarterly and annual revenues, gross profit margins, and operating results to fluctuate from period to period:

our ability to acquire new customers and retain our existing customers by delivering superior quality and customer service;

the cyclical nature of the optical communications market, as well as the industrial lasers, medical and sensors markets;

competition;

our ability to achieve favorable pricing for our services;

the effect of fluctuations in foreign currency exchange rates;

our ability to manage our headcount and other costs; and

changes in the relative mix in our revenues.

Therefore, we believe that quarter-to-quarter comparisons of our operating results may not be useful in predicting our future operating results. You should not rely on our results for one quarter as any indication of our future performance. Quarterly variations in our operations could result in significant volatility in the market price of our ordinary shares.

***If we are unable to continue diversifying our precision optical and electro-mechanical manufacturing services across other markets within the optics industry, such as the semiconductor processing, biotechnology, metrology and material processing markets, or if these markets do not grow as fast as we expect, our business may not grow as fast as we expect, which could adversely impact our business, financial condition and operating results.***

We intend to continue diversifying across other markets within the optics industry, such as the semiconductor processing, biotechnology, metrology, and material processing markets, to reduce our dependence on the optical communications market and to grow our business. Currently, the optical communications market contributes the significant majority of our revenues. There can be no assurance that our efforts to further expand and diversify into other markets within the optics industry will prove successful or that these markets will continue to grow as fast as we expect. In the event that the opportunities presented by these markets prove to be less than anticipated, if we are less successful than expected in diversifying into these markets, or if our margins



---

## **Table of Contents**

in these markets prove to be less than expected, our growth may slow or stall, and we may incur costs that are not offset by revenues in these markets, all of which could harm our business, financial condition and operating results.

***We face significant competition in our business. If we are unable to compete successfully against our current and future competitors, our business, financial condition and operating results could be harmed.***

Our current and prospective customers tend to evaluate our capabilities against the merits of their internal manufacturing as well as the capabilities of other third-party manufacturers. We believe the internal manufacturing capabilities of current and prospective customers are our primary competition. This competition is particularly strong when our customers have excess manufacturing capacity, as was the case when the markets that we serve experienced a significant downturn in 2008 and 2009 that resulted in underutilized capacity. Should our existing and potential customers have excess manufacturing capacity at their facilities, it could adversely affect our business. In addition, as a result of the October and November 2011 flooding in Thailand, some of our customers began manufacturing products internally or using other third-party manufacturers that were not affected by the flooding. If our customers choose to manufacture products internally rather than to outsource production to us, or choose to outsource to a third-party manufacturer, our business, financial condition and operating results could be harmed.

Competitors in the market for optical manufacturing services include Benchmark Electronics, Inc., Celestica Inc., Sanmina-SCI Corporation, Jabil Circuit, Inc., and Venture Corporation Limited. Our customized optics and glass operations face competition from companies such as Browave Corporation, Fujian Castech Crystals, Inc., Photop Technologies, Inc., and Research Electro-Optic, Inc. Our UK competitors for printed circuit board assemblies include STI Limited and Axiom Manufacturing Services Limited. Other existing contract manufacturing companies, original design manufacturers or outsourced semiconductor assembly and test companies could also enter our target markets. In addition, we may face more competitors as we attempt to penetrate new markets.

Many of our customers and potential competitors have longer operating histories, greater name recognition, larger customer bases and significantly greater resources than we have. These advantages may allow them to devote greater resources than we can to the development and promotion of service offerings that are similar or superior to our service offerings. These competitors may also engage in more extensive research and development, undertake more far-reaching marketing campaigns, adopt more aggressive pricing policies or offer services that achieve greater market acceptance than ours. These competitors may also compete with us by making more attractive offers to our existing and potential employees, suppliers, and strategic partners. Further, consolidation in the optics industry could lead to larger and more geographically diverse competitors. New and increased competition could result in price reductions for our services, reduced gross profit margins or loss of market share. We may not be able to compete successfully against our current and future competitors, and the competitive pressures we face may harm our business, financial condition and operating results.

***Cancellations, delays or reductions of customer orders and the relatively short-term nature of the commitments of our customers could harm our business, financial condition and operating results.***

We do not typically obtain firm purchase orders or commitments from our customers that extend beyond 13 weeks. While we work closely with our customers to develop forecasts for periods of up to one year, these forecasts are not binding and may be unreliable. Customers may cancel their orders, change production quantities from forecasted volumes or delay production for a number of reasons beyond our control. Any material delay, cancellation or reduction of orders could cause our revenues to decline significantly and could cause us to hold excess materials. Many of our costs and operating expenses are fixed. As a result, a reduction in customer demand could decrease our gross profit and harm our business, financial condition and operating results.

In addition, we make significant decisions, including production schedules, material procurement commitments, personnel needs and other resource requirements, based on our estimate of our customers

---

**Table of Contents**

requirements. The short-term nature of our customers' commitments and the possibility of rapid changes in demand for their products reduce our ability to accurately estimate the future requirements of our customers. Inability to forecast the level of customer orders with certainty makes it difficult to allocate resources to specific customers, order appropriate levels of materials and maximize the use of our manufacturing capacity. This could also lead to an inability to meet a spike in production demand, all of which could harm our business, financial condition and operating results.

***Our exposure to financially troubled customers or suppliers could harm our business, financial condition and operating results.***

We provide manufacturing services to companies, and rely on suppliers, that have in the past and may in the future experience financial difficulty, particularly in light of uncertainty in the credit markets and the overall economy that affected access to capital and liquidity. As a result, we devote significant resources to monitor receivables and inventory balances with certain of our customers. If our customers experience financial difficulty, we could have difficulty recovering amounts owed to us from these customers, or demand for our services from these customers could decline. If our suppliers experience financial difficulty, we could have trouble sourcing materials necessary to fulfill production requirements and meet scheduled shipments. Any such financial difficulty could adversely affect our operating results and financial condition by resulting in a reduction in our revenues, a charge for inventory write-offs, a provision for doubtful accounts, and an increase in working capital requirements due to increases in days in inventory and in days in accounts receivable. For example, in July 2014, one of our customers filed for bankruptcy protection under the Local Trade Court in France; however, the potential losses from this particular customer did not have a significant effect on our consolidated financial statements.

***Fluctuations in foreign currency exchange rates and changes in governmental policies regarding foreign currencies could increase our operating costs, which would adversely affect our operating results.***

Volatility in the functional and non-functional currencies of our entities and the U.S. dollar could seriously harm our business, financial condition, and operating results. The primary impact of currency exchange fluctuations is on our cash, receivables, and payables of our operating activities. We may experience significant unexpected losses from fluctuations in exchange rates.

Our customer contracts generally require that our customers pay us in U.S. dollars. However, the majority of our payroll and other operating expenses are paid in Thai baht. As a result of these arrangements, we have significant exposure to changes in the exchange rate between the Thai baht and the U.S. dollar, and our operating results are adversely impacted when the U.S. dollar depreciates relative to the Thai baht and other currencies. We have experienced such depreciation in the U.S. dollar as compared with the Thai baht, and our results have been adversely impacted by this fluctuation in exchange rates. As of June 30, 2017, the U.S. dollar had depreciated approximately 4% against the Thai baht since June 24, 2016. Further, while we attempt to hedge against certain exchange rate risks, we typically enter into hedging contracts with maturities of up to 12 months, leaving us exposed to longer term changes in exchange rates.

Also, we have significant exposure to changes in the exchange rate between the Chinese Renminbi ( RMB ) and pound sterling ( GBP ) and the U.S. dollar. The expenses of our subsidiaries located in the PRC and the United Kingdom are denominated in RMB and GBP, respectively. Currently, RMB are convertible in connection with trade- and service-related foreign exchange transactions, foreign debt service, and payment of dividends. The PRC government may at its discretion restrict access in the future to foreign currencies for current account transactions. If this occurs, our PRC subsidiary may not be able to pay us dividends in U.S. dollars without prior approval from the PRC State Administration of Foreign Exchange. In addition, conversion of RMB for most capital account items, including direct investments, is still subject to government approval in the PRC. This restriction may limit our ability to invest the earnings of our PRC subsidiary. As of June 30, 2017, the U.S. dollar had appreciated approximately 3% against the RMB since June 24, 2016. There remains significant

---

## **Table of Contents**

international pressure on the PRC government to adopt a substantially more liberalized currency policy. GBP are convertible in connection with trade- and service-related foreign exchange transactions and foreign debt service. As of June 30, 2017, the U.S. dollar had depreciated approximately 0.5% against the GBP since September 14, 2016, the date we acquired Exception EMS Ltd. Any appreciation in the value of the RMB and GBP against the U.S. dollar could negatively impact our operating results.

***We purchase some of the critical materials used in certain of our products from a single source or a limited number of suppliers. Supply shortages have in the past, and could in the future, impair the quality, reduce the availability or increase the cost of materials, which could harm our revenues, profitability and customer relations.***

We rely on a single source or a limited number of suppliers for critical materials used in a significant number of the products we manufacture. We generally purchase these single or limited source materials through standard purchase orders and do not maintain long-term supply agreements with our suppliers. We generally use a rolling 12 month forecast based on anticipated product orders, customer forecasts, product order history, backlog, and warranty and service demand to determine our materials requirements. Lead times for the parts and components that we order vary significantly and depend on factors such as manufacturing cycle times, manufacturing yields, and the availability of raw materials used to produce the parts or components. Historically, we have experienced supply shortages resulting from various causes, including reduced yields by our suppliers, which prevented us from manufacturing products for our customers in a timely manner. Our revenues, profitability and customer relations could be harmed by a stoppage or delay of supply, a substitution of more expensive or less reliable parts, the receipt of defective parts or contaminated materials, an increase in the price of supplies, or an inability to obtain reductions in price from our suppliers in response to competitive pressures.

We continue to undertake programs to strengthen our supply chain. Nevertheless, we are experiencing, and expect for the foreseeable future to continue to experience, strain on our supply chain, and periodic supplier problems. We have incurred, and expect to continue to incur for the foreseeable future, costs to address these problems.

***Managing our inventory is complex and may require write-downs due to excess or obsolete inventory, which could cause our operating results to decrease significantly in a given fiscal period.***

Managing our inventory is complex. We are generally required to procure material based upon the anticipated demand of our customers. The inaccuracy of these forecasts or estimates could result in excess supply or shortages of certain materials. Inventory that is not used or expected to be used as and when planned may become excess or obsolete. Generally, we are unable to use most of the materials purchased for one of our customers to manufacture products for any of our other customers. Additionally, we could experience reduced or delayed product shipments or incur additional inventory write-downs and cancellation charges or penalties, which would increase costs and could harm our business, financial condition and operating results. While our agreements with customers are structured to mitigate our risks related to excess or obsolete inventory, enforcement of these provisions may result in material expense, and delay in payment for inventory. If any of our significant customers becomes unable or unwilling to purchase inventory or does not agree to such contractual provisions in the future, our business, financial condition and operating results may be harmed.

***We conduct operations in a number of countries, which creates logistical and communications challenges for us and exposes us to other risks that could harm our business, financial condition and operating results.***

The vast majority of our operations, including manufacturing and customer support, are located primarily in the Asia-Pacific region. The distances between Thailand, the PRC and our customers and suppliers globally, create a number of logistical and communications challenges for us, including managing operations across multiple time zones, directing the manufacture and delivery of products across significant distances, coordinating

---

**Table of Contents**

the procurement of raw materials and their delivery to multiple locations and coordinating the activities and decisions of our management team, the members of which are based in different countries.

Our customers are located throughout the world. Total revenues from the bill-to-location of customers outside of North America accounted for 53.4%, 46.2%, and 52.1% of our total revenues for fiscal year 2017, fiscal year 2016 and fiscal year 2015, respectively. We expect that total revenues from the bill-to-location of customers outside of North America will continue to account for a significant portion of our total revenues. Our customers also depend on international sales, which further exposes us to the risks associated with international operations. In addition, our international operations and sales subject us to a variety of domestic and foreign trade regulatory requirements.

***Political unrest and demonstrations, as well as changes in the political, social, business or economic conditions in Thailand, could harm our business, financial condition and operating results.***

The majority of our assets and manufacturing operations are located in Thailand. Therefore, political, social, business and economic conditions in Thailand have a significant effect on our business. In March 2017, Thailand was assessed as a medium-high political risk by AON Political Risk, a risk management, insurance and consulting firm. Any changes to tax regimes, laws, exchange controls or political action in Thailand may harm our business, financial condition and operating results.

Thailand has a history of political unrest that includes the involvement of the military as an active participant in the ruling government. In recent years, political unrest in the country has sparked political demonstrations and, in some instances, violence. In May 2014, the Thai military took over the government in a coup, and it continues to rule the country today. It is unknown how long it may take for the current political situation to be resolved and for democracy to be restored, or what effects the current political situation may have on Thailand and the surrounding region. Most recently, in October 2016, Thailand's King Bhumibol Adulyadej died at the age of 88. Any succession crisis in the Kingdom of Thailand could cause new or increased political instability, which could prevent shipments from entering or leaving the country and disrupt our ability to manufacture products in Thailand, and we could be forced to transfer our manufacturing activities to more stable, and potentially more costly, regions.

Further, the Thai government may raise the minimum wage standards for labor and could repeal certain promotional certificates that we have received or tax holidays for certain export and value added taxes that we enjoy, either preventing us from engaging in our current or anticipated activities or subjecting us to higher tax rates. A new regime could nationalize our business or otherwise seize our assets and any other future political instability could harm our business, financial condition and operating results.

***We expect to continue to invest in our manufacturing operations in the PRC, which will continue to expose us to risks inherent in doing business in the PRC, any of which risks could harm our business, financial condition and operating results.***

We anticipate that we will continue to invest in our customized optics manufacturing facilities located in Fuzhou, China. Because these operations are located in the PRC, they are subject to greater political, legal and economic risks than the geographies in which the facilities of many of our competitors and customers are located. In particular, the political and economic climate in the PRC (both at national and regional levels) is fluid and unpredictable. In March 2017, AON Political Risk assessed the PRC as a medium political risk. A large part of the PRC's economy is still being operated under varying degrees of control by the PRC government. By imposing industrial policies and other economic measures, such as control of foreign exchange, taxation, import and export tariffs, environmental regulations, land use rights, intellectual property and restrictions on foreign participation in the domestic market of various industries, the PRC government exerts considerable direct and indirect influence on the development of the PRC economy. Many of the economic reforms carried out by the PRC government are unprecedented or experimental and are expected to change further. Any changes to the

---

**Table of Contents**

political, legal or economic climate in the PRC could harm our business, financial condition and operating results.

Our PRC subsidiary is a wholly foreign-owned enterprise and is therefore subject to laws and regulations applicable to foreign investment in the PRC, in general, and laws and regulations applicable to wholly foreign-owned enterprises, in particular. The PRC has made significant progress in the promulgation of laws and regulations pertaining to economic matters such as corporate organization and governance, foreign investment, commerce, taxation and trade. However, the promulgation of new laws, changes in existing laws and abrogation of local regulations by national laws may have a negative impact on our business and prospects. In addition, these laws and regulations are relatively new, and published cases are limited in volume and non-binding. Therefore, the interpretation and enforcement of these laws and regulations involve significant uncertainties. Laws may be changed with little or no prior notice, for political or other reasons. These uncertainties could limit the legal protections available to foreign investors. Furthermore, any litigation in the PRC may be protracted and result in substantial costs and diversion of resources and management's attention.

***Our business and operations would be adversely impacted in the event of a failure of our information technology infrastructure and/or cyber security attacks.***

We rely upon the capacity, availability and security of our information technology hardware and software infrastructure. For instance, we use a combination of standard and customized software platforms to manage, record, and report all aspects of our operations and, in many instances, enable our customers to remotely access certain areas of our databases to monitor yields, inventory positions, work-in-progress status and vendor quality data. We are constantly expanding and updating our information technology infrastructure in response to our changing needs. Any failure to manage, expand and update our information technology infrastructure or any failure in the operation of this infrastructure could harm our business.

Despite our implementation of security measures, our systems are vulnerable to damages from computer viruses, natural disasters, unauthorized access and other similar disruptions. Any system failure, accident or security breach could result in disruptions to our operations. To the extent that any disruptions, cyber-attack or other security breach results in a loss or damage to our data, or inappropriate disclosure of confidential information, it could harm our business. In addition, we may be required to incur significant costs to protect against damage caused by these disruptions or security breaches in the future.

***Unfavorable worldwide economic conditions may negatively affect our business, operating results and financial condition.***

Volatility and disruption in the capital and credit markets, depressed consumer confidence, and negative global economic conditions have affected levels of business and consumer spending. Concerns about the potential default of various national bonds and debt backed by individual countries as well as the politics impacting these, could negatively impact the U.S. and global economies and adversely affect our financial results. In particular, Brexit and economic uncertainty in Europe has led to reduced demand in some of our customers' optical communications product portfolios. Brexit could also lead to economic and legal uncertainty, including significant volatility in global stock markets and currency exchange rates, and increasingly divergent laws and regulations as the United Kingdom determines which European Union laws to replace or replicate. Any of these effects of Brexit, among others, could adversely affect our financial results. If economic conditions in Europe do not recover or if they continue to deteriorate, our operating results could be harmed.

Uncertainty about worldwide economic conditions poses a risk as businesses may further reduce or postpone spending in response to reduced budgets, tight credit, negative financial news and declines in income or asset values, which could adversely affect our business, financial condition and operating results and increase the volatility of our share price. In addition, our ability to access capital markets may be restricted, which could have an impact on our ability to react to changing economic and business conditions and could also adversely affect our business, financial condition and operating results.

---

## **Table of Contents**

***If we fail to adequately expand our manufacturing capacity, we will not be able to grow our business, which would harm our business, financial condition and operating results. Conversely, if we expand too much or too rapidly, we may experience excess capacity, which would harm our business, financial condition and operating results.***

We may not be able to pursue many large customer orders or sustain our historical growth rates if we do not have sufficient manufacturing capacity to enable us to commit to provide customers with specified quantities of products. If our customers do not believe that we have sufficient manufacturing capacity, they may: (1) outsource all of their production to another source that they believe can fulfill all of their production requirements; (2) look to a second source for the manufacture of additional quantities of the products that we currently manufacture for them; (3) manufacture the products themselves; or (4) otherwise decide against using our services for their new products.

Most recently, we expanded our manufacturing capacity with a new manufacturing facility in Chonburi, Thailand. We may continue to devote significant resources to the expansion of our manufacturing capacity and any such expansion will be expensive, will require management's time and may disrupt our operations. In the event we are unsuccessful in our attempts to expand our manufacturing capacity, our business, financial condition and operating results could be harmed.

However, if we expand our manufacturing capacity and are unable to promptly utilize the additional space due to reduced demand for our services, an inability to win new projects, new customers or penetrate new markets, or if the optics industry does not grow as we expect, we may experience periods of excess capacity, which could harm our business, financial condition and operating results.

***We may experience manufacturing yields that are lower than expected, potentially resulting in increased costs, which could harm our business, operating results and customer relations.***

Manufacturing yields depend on a number of factors, including the following:

the quality of input, materials and equipment;

the quality and feasibility of our customer's design;

the repeatability and complexity of the manufacturing process;

the experience and quality of training of our manufacturing and engineering teams; and

the monitoring of the manufacturing environment.

Lower volume production due to continually changing designs generally results in lower yields. Manufacturing yields and margins can also be lower if we receive or inadvertently use defective or contaminated materials from our suppliers. In addition, our customer contracts typically provide that we will supply products at a fixed price each quarter, which assumes specific production yields and quality metrics. If we do not meet the yield assumptions and quality metrics used in calculating the price of a product, we may not be able to recover the costs associated with our failure to do so. Consequently, our operating results and profitability may be harmed.

***If the products that we manufacture contain defects, we could incur significant correction costs, demand for our services may decline and we may be exposed to product liability and product warranty claims, which could harm our business, financial condition, operating results and customer relations.***

We manufacture products to our customers' specifications, and our manufacturing processes and facilities must comply with applicable statutory and regulatory requirements. In addition, our customers' products and the manufacturing processes that we use to produce them are often complex. As a result, products that we





---

**Table of Contents**

manufacture may at times contain manufacturing or design defects, and our manufacturing processes may be subject to errors or fail to be in compliance with applicable statutory or regulatory requirements. Additionally, not all defects are immediately detectible. The testing procedures of our customers are generally limited to the evaluation of the products that we manufacture under likely and foreseeable failure scenarios. For various reasons (including, among others, the occurrence of performance problems that are unforeseeable at the time of testing or that are detected only when products are fully deployed and operated under peak stress conditions), these products may fail to perform as expected after their initial acceptance by a customer.

We generally provide a warranty of between one to five years on the products that we manufacture for our customers. This warranty typically guarantees that products will conform to our customers' specifications and be free from defects in workmanship. Defects in the products we manufacture, whether caused by a design, engineering, manufacturing or component failure or by deficiencies in our manufacturing processes and whether during or after the warranty period, could result in product or component failures, which may damage our business reputation, whether or not we are indemnified for such failures. We could also incur significant costs to repair or replace defective products under warranty, particularly when such failures occur in installed systems. In some instances, we may also be required to incur costs to repair or replace defective products outside of the warranty period in the event that a recurring defect is discovered in a certain percentage of a customer's products delivered over an agreed upon period of time. We have experienced product or component failures in the past and remain exposed to such failures, as the products that we manufacture are widely deployed throughout the world in multiple environments and applications. Further, due to the difficulty in determining whether a given defect resulted from our customer's design of the product or our manufacturing process, we may be exposed to product liability or product warranty claims arising from defects that are not our fault. In addition, if the number or type of defects exceeds certain percentage limitations contained in our contractual arrangements, we may be required to conduct extensive failure analysis, re-qualify for production or cease production of the specified products.

Product liability claims may include liability for personal injury or property damage. Product warranty claims may include liability to pay for a recall, repair or replacement of a product or component. Although liability for these claims is generally assigned to our customers in our contracts, even where they have assumed liability, our customers may not, or may not have the resources to, satisfy claims for costs or liabilities arising from a defective product. Additionally, under one of our contracts, in the event the products we manufacture do not meet the end-customer's testing requirements or otherwise fail, we may be required to pay penalties to our customer, including a fee during the time period that the customer or end-customer's production line is not operational as a result of the failure of the products that we manufacture, all of which could harm our business, operating results and customer relations. If we engineer or manufacture a product that is found to cause any personal injury or property damage or is otherwise found to be defective, we could incur significant costs to resolve the claim. While we maintain insurance for certain product liability claims, we do not maintain insurance for any recalls and, therefore, would be required to pay any associated costs that are determined to be our responsibility. A successful product liability or product warranty claim in excess of our insurance coverage or any material claim for which insurance coverage is denied, limited, is not available or has not been obtained could harm our business, financial condition and operating results.

***If we are unable to meet regulatory quality standards applicable to our manufacturing and quality processes for the products we manufacture, our business, financial condition or operating results could be harmed.***

As a manufacturer of products for the optics industry, we are required to meet certain certification standards, including the following: ISO9001 for Manufacturing Quality Management Systems; ISO14001 for Environmental Management Systems; TL9000 for Telecommunications Industry Quality Certification; ISO/TS16949 for Automotive Industry Quality Certification; ISO13485 for Medical Devices Industry Quality Certification; AS9100 for Aerospace Industry Quality Certification; and OHSAS18001 for Occupational Health and Safety Management Systems. We also maintain compliance with various additional standards imposed by the U.S. Food and Drug Administration, or FDA, with respect to the manufacture of medical devices.

---

**Table of Contents**

Additionally, we are required to register with the FDA and other regulatory bodies and are subject to continual review and periodic inspection for compliance with various regulations, including testing, quality control and documentation procedures. We hold the following additional certifications: ANSI ESD S20.20 for facilities and manufacturing process control, in compliance with ESD standard; Transported Asset Protection Association, or TAPA, for Logistic Security Management System; and CSR-DIW for Corporate Social Responsibility in Thailand. In the European Union, we are required to maintain certain ISO certifications in order to sell our precision optical, electro-mechanical and electronic manufacturing services and we must undergo periodic inspections by regulatory bodies to obtain and maintain these certifications. If any regulatory inspection reveals that we are not in compliance with applicable standards, regulators may take action against us, including issuing a warning letter, imposing fines on us, requiring a recall of the products we manufactured for our customers, or closing our manufacturing facilities. If any of these actions were to occur, it could harm our reputation as well as our business, financial condition and operating results.

***If we fail to attract additional skilled employees or retain key personnel, our business, financial condition and operating results could suffer.***

Our future success depends, in part, upon our ability to attract additional skilled employees and retain our current key personnel. We have identified several areas where we intend to expand our hiring, including business development, finance, human resources, operations and supply chain management. We may not be able to hire and retain such personnel at compensation levels consistent with our existing compensation and salary structure. Our future also depends on the continued contributions of our executive management team, including Mr. David T. Mitchell, our Chairman and Chief Executive Officer, and other key management and technical personnel, each of whom would be difficult to replace. Although we have key person life insurance policies on some of our executive officers, the loss of any of our executive officers or key personnel or the inability to continue to attract qualified personnel could harm our business, financial condition and operating results.

***Failure to comply with applicable environmental laws and regulations could have a material adverse effect on our business, financial condition and operating results.***

The sale and manufacturing of products in certain states and countries may subject us to environmental laws and regulations. In addition, rules adopted by the U.S. Securities and Exchange Commission ( SEC ) implementing the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 impose diligence and disclosure requirements regarding the use of conflict minerals mined from the Democratic Republic of Congo and adjoining countries in the products we manufacture for our customers. Compliance with these rules has resulted in additional cost and expense, including for due diligence to determine and verify the sources of any conflict minerals used in the products we manufacture, and may result in additional costs of remediation and other changes to processes or sources of supply as a consequence of such verification activities. These rules may also affect the sourcing and availability of minerals used in the products we manufacture, as there may be only a limited number of suppliers offering conflict free metals that can be used in the products we manufacture for our customers.

Although we do not anticipate any material adverse effects based on the nature of our operations and these laws and regulations, we will need to ensure that we and, in some cases, our suppliers comply with applicable laws and regulations. If we fail to timely comply with such laws and regulations, our customers may cease doing business with us, which would have a material adverse effect on our business, financial condition and operating results. In addition, if we were found to be in violation of these laws, we could be subject to governmental fines, liability to our customers and damage to our reputation, which would also have a material adverse effect on our business, financial condition and operating results.

---

**Table of Contents**

***We are subject to the risk of increased income taxes, which could harm our business, financial condition and operating results.***

We are subject to income and other taxes in Thailand, the PRC, the United Kingdom and the United States. Our effective income tax rate, provision for income taxes and future tax liability could be adversely affected by numerous factors, including the results of tax audits and examinations, income before taxes being lower than anticipated in countries with lower statutory tax rates and higher than anticipated in countries with higher statutory tax rates, changes in income tax rates, changes in the valuation of deferred tax assets and liabilities, failure to meet obligations with respect to tax exemptions, and changes in tax laws and regulations. Our U.S. federal and state tax returns remain open to examination for the tax years 2014 through 2016. In addition, tax returns that remain open to examination in Thailand, the PRC and the United Kingdom range from the tax years 2012 through 2016. The results of audits and examinations of previously filed tax returns and continuing assessments of our tax exposures may have an adverse effect on our provision for income taxes and tax liability.

We base our tax position upon the anticipated nature and conduct of our business and upon our understanding of the tax laws of the various countries in which we have assets or conduct activities. However, our tax position is subject to review and possible challenge by tax authorities and to possible changes in law, which may have retroactive effect. Fabrinet (the Cayman Islands Parent) is an exempted company incorporated in the Cayman Islands. We maintain manufacturing operations in Thailand, the PRC, the United Kingdom and the United States. We cannot determine in advance the extent to which some jurisdictions may require us to pay taxes or make payments in lieu of taxes. Preferential tax treatment from the Thai government in the form of a corporate tax exemption is currently available to us through June 2020 on income generated from the manufacture of products at Pinehurst Building 6. Such preferential tax treatment is contingent on various factors, including the export of our customers' products out of Thailand and our agreement not to move our manufacturing facilities out of our current province in Thailand for at least 15 years from the date on which preferential tax treatment was granted (i.e., at least until June 2020). We will lose this favorable tax treatment in Thailand unless we comply with these restrictions, and as a result we may delay or forego certain strategic business decisions due to these tax considerations.

There is also a risk that Thailand or another jurisdiction in which we operate may treat the Cayman Islands Parent as having a permanent establishment in such jurisdiction and subject its income to tax. If we become subject to additional taxes in any jurisdiction or if any jurisdiction begins to treat the Cayman Islands Parent as having a permanent establishment, such tax treatment could materially and adversely affect our business, financial condition and operating results.

Certain of our subsidiaries provide products and services to, and may from time to time undertake certain significant transactions with, us and our other subsidiaries in different jurisdictions. For instance, we have intercompany agreements in place that provide for our California and Singapore subsidiaries to provide administrative services for the Cayman Islands Parent, and the Cayman Islands Parent has entered into manufacturing agreements with our Thai subsidiary. In general, related party transactions and, in particular, related party financing transactions, are subject to close review by tax authorities. Moreover, several jurisdictions in which we operate have tax laws with detailed transfer pricing rules that require all transactions with non-resident related parties to be priced using arm's length pricing principles and require the existence of contemporaneous documentation to support such pricing. Tax authorities in various jurisdictions could challenge the validity of our related party transfer pricing policies. Such a challenge generally involves a complex area of taxation and a significant degree of judgment by management. If any taxation authorities are successful in challenging our financing or transfer pricing policies, our income tax expense may be adversely affected and we could become subject to interest and penalty charges, which may harm our business, financial condition and operating results.

## **Table of Contents**

*We may encounter difficulties completing or integrating acquisitions, asset purchases and other types of transactions that we may pursue in the future, which could disrupt our business, cause dilution to our shareholders and harm our business, financial condition and operating results.*

We have grown and may continue to grow our business through acquisitions, asset purchases and other types of transactions, including the transfer of products from our customers and their suppliers. Most recently, we acquired Exception EMS Ltd. in September 2016. Acquisitions and other strategic transactions typically involve many risks, including the following:

the integration of the acquired assets, information systems and facilities into our business may be difficult, time-consuming and costly, and may adversely impact our profitability;

we may lose key employees of the acquired companies or divisions;

we may issue additional ordinary shares, which would dilute our current shareholders' percentage ownership in us;

we may incur indebtedness to pay for the transactions;

we may assume liabilities, some of which may be unknown at the time of the transactions;

we may record goodwill and non-amortizable intangible assets that will be subject to impairment testing and potential periodic impairment charges;

we may incur amortization expenses related to certain intangible assets;

we may devote significant resources to transactions that may not ultimately yield anticipated benefits;

we may incur greater than expected expenses or lower than expected revenues;

we may assume obligations with respect to regulatory requirements, including environmental regulations, which may prove more burdensome than expected; or

we may become subject to litigation.

Acquisitions are inherently risky, and we can provide no assurance that the acquisition of Exception EMS or any future acquisitions will be successful or will not harm our business, financial condition and operating results.

*We may not be able to obtain capital when desired on favorable terms, if at all, or without dilution to our shareholders.*

We anticipate that our current cash and cash equivalents, together with cash provided by operating activities and funds available through our working capital and credit facilities, will be sufficient to meet our current and anticipated needs for general corporate purposes for at least the next 12 months. We operate in a market, however, that makes our prospects difficult to evaluate. It is possible that we may not generate sufficient cash flow from operations or otherwise have the capital resources to meet our future capital needs. If this occurs, we may need

## Edgar Filing: Fabrinet - Form 10-K

additional financing to execute on our current or future business strategies.

Furthermore, if we raise additional funds through the issuance of equity or convertible debt securities, the percentage ownership of our shareholders could be significantly diluted, and these newly-issued securities may have rights, preferences or privileges senior to those of existing shareholders. If adequate additional funds are not available or are not available on acceptable terms, if and when needed, our ability to fund our operations, take advantage of unanticipated opportunities, develop or enhance our manufacturing services, hire additional technical and other personnel, or otherwise respond to competitive pressures could be significantly limited.

---

**Table of Contents**

***Intellectual property infringement claims against our customers or us could harm our business, financial condition and operating results.***

Our services involve the creation and use of intellectual property rights, which subject us to the risk of intellectual property infringement claims from third parties and claims arising from the allocation of intellectual property rights among us and our customers.

Our customers may require that we indemnify them against the risk of intellectual property infringement arising out of our manufacturing processes. If any claims are brought against us or our customers for such infringement, whether or not these claims have merit, we could be required to expend significant resources in defense of such claims. In the event of an infringement claim, we may be required to spend a significant amount of time and money to develop non-infringing alternatives or obtain licenses. We may not be successful in developing such alternatives or obtaining such licenses on reasonable terms or at all, which could harm our business, financial condition and operating results.

***Any failure to protect our customers' intellectual property that we use in the products we manufacture for them could harm our customer relationships and subject us to liability.***

We focus on manufacturing complex optical products for our customers. These products often contain our customers' intellectual property, including trade secrets and know-how. Our success depends, in part, on our ability to protect our customers' intellectual property. We may maintain separate and secure areas for customer proprietary manufacturing processes and materials and dedicate floor space, equipment, engineers and supply chain management to protect our customers' proprietary drawings, materials and products. The steps we take to protect our customers' intellectual property may not adequately prevent its disclosure or misappropriation. If we fail to protect our customers' intellectual property, our customer relationships could be harmed and we may experience difficulty in establishing new customer relationships. In addition, our customers might pursue legal claims against us for any failure to protect their intellectual property, possibly resulting in harm to our reputation and our business, financial condition and operating results.

***We have incurred and will continue to incur significant increased costs as a result of operating as a public company, and our management will be required to continue to devote substantial time to various compliance initiatives.***

The Sarbanes-Oxley Act of 2002, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, as well as other rules implemented by the SEC and the New York Stock Exchange ( NYSE ), impose various requirements on public companies, including requiring changes in corporate governance practices. These and proposed corporate governance laws and regulations under consideration may further increase our compliance costs. If compliance with these various legal and regulatory requirements diverts our management's attention from other business concerns, it could have a material adverse effect on our business, financial condition and operating results. The Sarbanes-Oxley Act requires, among other things, that we assess the effectiveness of our internal control over financial reporting annually and disclosure controls and procedures quarterly. While we were able to assert in this Annual Report on Form 10-K that our internal control over financial reporting was effective as of June 30, 2017, we cannot predict the outcome of our testing in future periods. If we are unable to assert in any future reporting periods that our internal control over financial reporting is effective (or if our independent registered public accounting firm is unable to express an opinion on the effectiveness of our internal controls), we could lose investor confidence in the accuracy and completeness of our financial reports, which would have an adverse effect on our share price.

Given the nature and complexity of our business and the fact that some members of our management team are located in Thailand while others are located in the United States, control deficiencies may periodically occur. For example, following an internal investigation by the Audit Committee of our Board of Directors in September 2014 concerning various accounting cut-off issues, we identified certain significant deficiencies in our internal

---

**Table of Contents**

control over financial reporting, which have been remediated. While we have ongoing measures and procedures to prevent and remedy control deficiencies, if they occur there can be no assurance that we will be successful or that we will be able to prevent material weaknesses or significant deficiencies in our internal control over financial reporting in the future. Moreover, if we identify deficiencies in our internal control over financial reporting that are deemed to be material weaknesses in future periods, the market price of our ordinary shares could decline and we could be subject to potential delisting by the NYSE and review by the NYSE, the SEC, or other regulatory authorities, which would require the expenditure by us of additional financial and management resources. As a result, our shareholders could lose confidence in our financial reporting, which would harm our business and the market price of our ordinary shares.

*There are inherent uncertainties involved in estimates, judgments and assumptions used in the preparation of financial statements in accordance with U.S. GAAP. Any changes in estimates, judgments and assumptions could have a material adverse effect on our business, financial condition and operating results.*

The preparation of financial statements in accordance with U.S. GAAP involves making estimates, judgments and assumptions that affect reported amounts of assets (including intangible assets), liabilities and related reserves, revenues, expenses and income. Estimates, judgments and assumptions are inherently subject to change in the future, and any such changes could result in corresponding changes to the amounts of assets, liabilities, revenues, expenses and income. Any such changes could have a material adverse effect on our business, financial condition and operating results.

*We are subject to governmental export and import controls in several jurisdictions that could subject us to liability or impair our ability to compete in international markets.*

We are subject to governmental export and import controls in Thailand, the PRC, the United Kingdom and the United States that may limit our business opportunities. Various countries regulate the import of certain technologies and have enacted laws that could limit our ability to export or sell the products we manufacture. The export of certain technologies from the United States, the United Kingdom and other nations to the PRC is barred by applicable export controls, and similar prohibitions could be extended to Thailand, thereby limiting our ability to manufacture certain products. Any change in export or import regulations or related legislation, shift in approach to the enforcement of existing regulations, or change in the countries, persons or technologies targeted by such regulations, could limit our ability to offer our manufacturing services to existing or potential customers, which could harm our business, financial condition and operating results.

*The loan agreements for our long-term debt obligations and other credit facilities contain financial ratio covenants that may impair our ability to conduct our business.*

The loan agreements for our long-term and short-term debt obligations contain financial ratio covenants that may limit management's discretion with respect to certain business matters. These covenants require us to maintain a specified debt-to-equity ratio, debt service coverage ratio (earnings before interest and depreciation and amortization plus cash on hand minus short-term debt), a minimum tangible net worth and a minimum quick ratio, which may restrict our ability to incur additional indebtedness and limit our ability to use our cash. In the event of our default on these loans or a breach of a covenant, the lenders may immediately cancel the loan agreement, deem the full amount of the outstanding indebtedness immediately due and payable, charge us interest on a monthly basis on the full amount of the outstanding indebtedness and, if we cannot repay all of our outstanding obligations, sell the assets pledged as collateral for the loan in order to fulfill our obligation. We may also be held responsible for any damages and related expenses incurred by the lender as a result of any default. Any failure by us or our subsidiaries to comply with these agreements could harm our business, financial condition and operating results.



---

**Table of Contents**

***Our investment portfolio may become impaired by deterioration of the capital markets.***

We use professional investment management firms to manage our excess cash and cash equivalents. Our marketable securities as of June 30, 2017 are primarily investments in a fixed income portfolio, including corporate bonds and commercial paper, U.S. agency and U.S. Treasury securities, and sovereign and municipal securities. Our investment portfolio may become impaired by deterioration of the capital markets. We follow an established investment policy and set of guidelines to monitor and help mitigate our exposure to interest rate and credit risk. The policy sets forth credit quality standards and limits our exposure to any one issuer, as well as our maximum exposure to various asset classes. The policy also provides that we may not invest in marketable securities with a maturity in excess of three years.

We regularly review our investment portfolio to determine if any security is other-than-temporarily impaired, which would require us to record an impairment charge in the period any such determination is made. In making this judgment, we evaluate, among other things, the duration and extent to which the fair value of a security is less than its cost; the financial condition of the issuer and any changes thereto; and our intent to sell, or whether we will more likely than not be required to sell, the security before recovery of its amortized cost basis. Our assessment on whether a security is other-than-temporarily impaired could change in the future due to new developments or changes in assumptions related to any particular security.

Should financial market conditions worsen, investments in some financial instruments may pose risks arising from market liquidity and credit concerns. In addition, any deterioration of the capital markets could cause our other income and expense to vary from expectations. As of June 30, 2017, we did not record any impairment charges associated with our investment portfolio of marketable securities, and although we believe our current investment portfolio has little risk of material impairment, we cannot predict future market conditions or market liquidity, or credit availability, and can provide no assurance that our investment portfolio will remain materially unimpaired.

***Energy price volatility may negatively impact our business, financial condition and operating results.***

We, along with our suppliers and customers, rely on various energy sources in our manufacturing and transportation activities. Energy prices have been subject to increases and volatility caused by market fluctuations, supply and demand, currency fluctuation, production and transportation disruption, world events and government regulations. While we are currently experiencing lower energy prices, a significant increase is possible, which could increase our raw material and transportation costs. In addition, increased transportation costs of our suppliers and customers could be passed along to us. We may not be able to increase our prices enough to offset these increased costs, and any increase in our prices may reduce our future customer orders, which could harm our business, financial condition and operating results.

**Risks Related to Ownership of Our Ordinary Shares**

***Our share price may be volatile due to fluctuations in our operating results and other factors, including the activities and operating results of our customers or competitors, any of which could cause our share price to decline.***

Our revenues, expenses and results of operations have fluctuated in the past and are likely to do so in the future from quarter to quarter and year to year due to the risk factors described in this section and elsewhere in this Annual Report on Form 10-K. In addition to market and industry factors, the price and trading volume of our ordinary shares may fluctuate in response to a number of events and factors relating to us, our competitors, our customers and the markets we serve, many of which are beyond our control. Factors such as variations in our total revenues, earnings and cash flow, announcements of new investments or acquisitions, changes in our pricing practices or those of our competitors, commencement or outcome of litigation, sales of ordinary shares by us or our principal shareholders, fluctuations in market prices for our services and general market conditions

---

**Table of Contents**

could cause the market price of our ordinary shares to change substantially. Any of these factors may result in large and sudden changes in the volume and price at which our ordinary shares trade. Among other things, volatility and weakness in our share price could mean that investors may not be able to sell their shares at or above the prices they paid. Volatility and weakness could also impair our ability in the future to offer our ordinary shares or convertible securities as a source of additional capital and/or as consideration in the acquisition of other businesses.

Furthermore, the stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. These fluctuations often have been unrelated or disproportionate to the operating performance of those companies. These broad market and industry fluctuations, as well as general economic, political and market conditions such as recessions, interest rate changes or international currency fluctuations, may cause the market price of our ordinary shares to decline. In the past, companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. We may be the target of this type of litigation in the future. Securities litigation against us could result in substantial costs and divert our management's attention from other business concerns, which could seriously harm our business.

***If securities or industry analysts do not publish research or if they publish misleading or unfavorable research about our business, the market price and trading volume of our ordinary shares could decline.***

The trading market for our ordinary shares depends in part on the research and reports that securities or industry analysts publish about us or our business. If securities or industry analysts stop covering us, or if too few analysts cover us, the market price of our ordinary shares could be adversely impacted. If one or more of the analysts who covers us downgrades our ordinary shares or publishes misleading or unfavorable research about our business, our market price would likely decline. If one or more of these analysts ceases coverage of us or fails to publish reports on us regularly, demand for our ordinary shares could decrease, which could cause the market price or trading volume of our ordinary shares to decline.

***We may become a passive foreign investment company, which could result in adverse U.S. tax consequences to U.S. investors.***

Based upon estimates of the value of our assets, which are based in part on the trading price of our ordinary shares, we do not expect to be a passive foreign investment company, or PFIC, for U.S. federal income tax purposes for the taxable year 2017 or for the foreseeable future. However, despite our expectations, we cannot assure you that we will not be a PFIC for the taxable year 2017 or any future year because our PFIC status is determined at the end of each year and depends on the composition of our income and assets during such year. If we are a PFIC, our U.S. investors will be subject to increased tax liabilities under U.S. tax laws and regulations and to burdensome reporting requirements.

***Certain provisions in our constitutional documents may discourage our acquisition by a third party, which could limit your opportunity to sell shares at a premium.***

Our constitutional documents include provisions that could limit the ability of others to acquire control of us, modify our structure or cause us to engage in change-of-control transactions, including, among other things, provisions that:

establish a classified board of directors;

prohibit our shareholders from calling meetings or acting by written consent in lieu of a meeting;

limit the ability of our shareholders to propose actions at duly convened meetings; and

authorize our board of directors, without action by our shareholders, to issue preferred shares and additional ordinary shares.

---

**Table of Contents**

These provisions could have the effect of depriving you of an opportunity to sell your ordinary shares at a premium over prevailing market prices by discouraging third parties from seeking to acquire control of us in a tender offer or similar transaction.

*Our shareholders may face difficulties in protecting their interests because we are incorporated under Cayman Islands law.*

Our corporate affairs are governed by our amended and restated memorandum and articles of association ( MOA ), by the Companies Law (as amended) of the Cayman Islands and the common law of the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under the laws of the Cayman Islands are not as clearly established under statutes or judicial precedent as in jurisdictions in the United States. Therefore, you may have more difficulty in protecting your interests than would shareholders of a corporation incorporated in a jurisdiction in the United States, due to the comparatively less developed nature of Cayman Islands law in this area.

The Companies Law permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

In addition, there are statutory provisions that facilitate the reconstruction and amalgamation of companies, provided that the arrangement is approved by a majority in number of each class of shareholders and creditors with whom the arrangement is to be made, and who must in addition represent three-fourths in value of each such class of shareholders or creditors, as the case may be, that are present and voting either in person or by proxy at a meeting convened for that purpose. The convening of the meeting and subsequently the arrangement must be sanctioned by the Grand Court of the Cayman Islands. A dissenting shareholder has the right to express to the court the view that the transaction ought not to be approved.

When a takeover offer is made and accepted by holders of 90.0% of the shares within four months, the offeror may, within a two-month period, require the holders of the remaining shares to transfer such shares on the terms of the offer. An objection can be made to the Grand Court of the Cayman Islands but this is unlikely to succeed unless there is evidence of fraud, bad faith or collusion.

If the arrangement and reconstruction is thus approved, the dissenting shareholder would have no rights comparable to appraisal rights, which would otherwise ordinarily be available to dissenting shareholders of a corporation incorporated in a jurisdiction in the United States, providing rights to receive payment in cash for the judicially determined value of the shares. This may make it more difficult for you to assess the value of any consideration you may receive in a merger or consolidation or to require that the offeror give you additional consideration if you believe the consideration offered is insufficient.

Shareholders of Cayman Islands exempted companies have no general rights under Cayman Islands law to inspect corporate records and accounts or to obtain copies of lists of shareholders. Our directors have discretion under our MOA to determine whether or not, and under what conditions, our corporate records may be inspected by our shareholders, but are not obliged to make them available to our shareholders. This may make it more difficult for you to obtain the information needed to establish any facts necessary for a shareholder motion or to solicit proxies from other shareholders in connection with a proxy contest.

Subject to limited exceptions, under Cayman Islands law, a minority shareholder may not bring a derivative action against the board of directors.

**Table of Contents*****Certain judgments obtained against us by our shareholders may not be enforceable.***

The Cayman Islands Parent is a Cayman Islands exempted company and substantially all of our assets are located outside of the United States. In addition, some of our directors and officers are nationals and residents of countries other than the United States. A substantial portion of the assets of these persons is located outside of the United States. As a result, it may be difficult to effect service of process within the United States upon these persons. It may also be difficult to enforce in U.S. courts judgments obtained in U.S. courts based on the civil liability provisions of the U.S. federal securities laws against us and our officers and directors who are not resident in the United States and the substantial majority of whose assets are located outside of the United States. In addition, there is uncertainty as to whether the courts of the Cayman Islands, Thailand or the PRC would recognize or enforce judgments of U.S. courts against us or such persons predicated upon the civil liability provisions of the securities laws of the United States or any state. In particular, a judgment in a U.S. court would not be recognized and accepted by Thai courts without a re-trial or examination of the merits of the case. In addition, there is uncertainty as to whether such Cayman Islands, Thai or PRC courts would be competent to hear original actions brought in the Cayman Islands, Thailand or the PRC against us or such persons predicated upon the securities laws of the United States or any state.

**ITEM 1B. UNRESOLVED STAFF COMMENTS.**

Not applicable.

**ITEM 2. PROPERTIES.**

Our principal registered office is located at c/o Intertrust Corporate Services (Cayman) Limited, 190 Elgin Avenue, George Town, Grand Cayman, KYI-9005, Cayman Islands. We have facilities located in Thailand, the PRC, the United Kingdom, the United States and the Cayman Islands that are used for manufacturing and/or general administration purposes. The following table presents the approximate square footage of our principal facilities as of June 30, 2017:

Location	Owned/Leased	Approximate Square Footage
Pinehurst Campus, Bangkok, Thailand	Owned	1,005,000 square feet
Hemaraj Campus, Chonburi, Thailand	Owned	557,000 square feet
Fuzhou, Fujian, PRC	Leased <sup>(1)</sup>	300,000 square feet
Santa Clara, California, United States	Owned	72,000 square feet
Wiltshire, United Kingdom	Leased <sup>(2)</sup>	71,000 square feet
Mountain Lakes, New Jersey, United States	Leased <sup>(3)</sup>	28,000 square feet
Grand Cayman, Cayman Islands	Leased <sup>(4)</sup>	1,700 square feet

(1) The lease periods for the buildings located at this facility expire on September 30, 2018, September 30, 2020 and March 31, 2021, respectively.

(2) Leased until August 31, 2023.

(3) Leased until June 30, 2020.

(4) Leased until January 31, 2018.

**ITEM 3. LEGAL PROCEEDINGS.**

From time to time, we may be involved in litigation relating to claims arising in the ordinary course of our business. There are currently no material claims or actions pending or threatened against us.

**ITEM 4. MINE SAFETY DISCLOSURES.**

Not applicable.

**Table of Contents****PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.**

Our ordinary shares are listed on the New York Stock Exchange under the symbol FN. The following table sets forth, for the time periods indicated, the highest and lowest intraday sales prices of our ordinary shares as reported on the New York Stock Exchange.

<b>Fiscal Year 2017</b>	<b>High</b>	<b>Low</b>
Fourth Quarter (April 1, 2017 - June 30, 2017)	\$ 46.23	\$ 32.30
Third Quarter (December 31, 2016 - March 31, 2017)	\$ 49.19	\$ 34.01
Second Quarter (October 1, 2016 - December 30, 2016)	\$ 46.13	\$ 34.75
First Quarter (June 25, 2016 - September 30, 2016)	\$ 44.88	\$ 34.17
<b>Fiscal Year 2016</b>	<b>High</b>	<b>Low</b>
Fourth Quarter (March 26, 2016 - June 24, 2016)	\$ 39.05	\$ 29.78
Third Quarter (December 26, 2015 - March 25, 2016)	\$ 30.91	\$ 21.29
Second Quarter (September 26, 2015 - December 25, 2015)	\$ 24.53	\$ 17.88
First Quarter (June 27, 2015 - September 25, 2015)	\$ 20.98	\$ 17.71

The equity compensation plan information required by this item, which includes a summary of the number of outstanding equity awards granted to employees and directors, as well as the number of securities remaining available for future issuance, under our equity compensation plans as of June 30, 2017, is incorporated by reference to our Proxy Statement for our 2017 Annual Meeting of Shareholders to be filed with the SEC within 120 days after the end of our fiscal year ended June 30, 2017.

 **Holders of Record**

As of August 11, 2017, there were approximately 8 shareholders of record of our ordinary shares. Because many of our ordinary shares are held by brokers and other institutions on behalf of shareholders, we are unable to estimate the total number of shareholders represented by these record holders.

 **Dividends**

We currently intend to retain any earnings for use in our business and do not currently intend to pay dividends on our ordinary shares. Dividends, if any, on our ordinary shares will be declared by and subject to the discretion of our board of directors. Even if our board of directors decides to distribute dividends, the form, frequency and amount of such dividends will depend upon our future operations and earnings, capital requirements and surplus, general financial conditions, contractual restrictions, applicable laws and regulations and other factors our board of directors may deem relevant.

 **Sales of Unregistered Securities**

None.

 **Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

None.

 **Five-Year Performance Graph**

The following performance graph shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities under that Section, and shall not be



**Table of Contents**

deemed to be incorporated by reference into any filing of Fabrinet under the Securities Act of 1933, as amended, or the Exchange Act.

The following graph compares the cumulative total return to holders of Fabrinet's ordinary shares with the cumulative total return of the NASDAQ Composite Index, and the NASDAQ Telecommunications Index.

The graph assumes that \$100 was invested on June 29, 2012 in Fabrinet's ordinary shares and on a month-end basis in each of the indices discussed above, including reinvestment of dividends. Historic stock performance is not necessarily indicative of future stock price performance.



**Table of Contents****ITEM 6. SELECTED FINANCIAL DATA.**

The selected consolidated financial data presented below should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes included elsewhere in this Annual Report on Form 10-K. The selected financial data set forth below as of June 30, 2017 and June 24, 2016, and for the fiscal years ended June 30, 2017, June 24, 2016 and June 26, 2015 are derived from the audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K. The selected financial data as of June 26, 2015, June 27, 2014 and June 28, 2013, and for the fiscal years ended June 27, 2014 and June 28, 2013 are derived from the audited consolidated financial statements not included in this Annual Report on Form 10-K. Each of the fiscal years in the table below consisted of 52 weeks, except fiscal year 2017, which consisted of 53 weeks. The results presented below are not necessarily indicative of financial results to be achieved in future periods.

	Years Ended				
	June 30, 2017 (fiscal year 2017)	June 24, 2016 (fiscal year 2016)	June 26, 2015 (fiscal year 2015)	June 27, 2014 (fiscal year 2014)	June 28, 2013 (fiscal year 2013)
<i>(amount in thousands, except per share data)</i>					
<b>Selected Consolidated Statements of Operations Data:</b>					
Revenues	\$ 1,420,490	\$ 976,747	\$ 773,587	\$ 677,854	\$ 641,542
Cost of revenues	(1,249,030)	(857,224)	(685,814)	(603,621)	(572,124)
Gross profit	171,460	119,523	87,773	74,233	69,418
Selling, general and administrative expenses	(65,626)	(49,753)	(39,460)	(27,664)	(23,787)
Other income related to flooding, net		36		44,748	27,211
Expenses related to reduction in workforce			(1,153)		(2,052)
Operating income	105,834	69,806	47,160	91,317	70,790
Interest income	1,977	1,535	1,253	1,793	1,083
Interest expense	(3,321)	(1,569)	(616)	(713)	(1,010)
Foreign exchange (loss) gain, net	(1,142)	(1,916)	(19)	(24)	354
Other income (expense)	509	376	(152)	797	692
Income before income taxes	103,857	68,232	47,626	93,170	71,909
Income tax expense	(6,742)	(6,335)	(3,984)	(1,439)	(2,940)
Net income	97,115	61,897	43,642	91,731	68,969
Other comprehensive (loss) income, net of tax	(939)	635	(44)		
Net comprehensive income	\$ 96,176	\$ 62,532	\$ 43,598	\$ 91,731	\$ 68,969
<b>Earnings per share:</b>					
Basic	\$ 2.63	\$ 1.73	\$ 1.23	\$ 2.63	\$ 2.00
Diluted	\$ 2.57	\$ 1.68	\$ 1.21	\$ 2.58	\$ 1.98
Weighted average number of ordinary shares outstanding (thousands of shares)					
Basic	36,927	35,857	35,354	34,938	34,557
Diluted	37,852	36,872	35,984	35,589	34,846

	As of				
	June 30, 2017	June 24, 2016	June 26, 2015	June 27, 2014	June 28, 2013
<i>(amount in thousands)</i>					
<b>Selected Consolidated Balance Sheet Data:</b>					
Cash and cash equivalents	\$ 133,825	\$ 142,804	\$ 112,978	\$ 233,477	\$ 149,716
Marketable securities	\$ 151,450	\$ 141,709	\$ 142,866	\$	\$
Restricted cash in connection with business acquisition	\$ 3,312	\$	\$	\$	\$
Working capital <sup>(1)</sup>	\$ 287,752	\$ 205,592	\$ 150,246	\$ 130,885	\$ 130,298
Total assets	\$ 1,033,075	\$ 855,857	\$ 672,503	\$ 564,557	\$ 463,579

## Edgar Filing: Fabrinet - Form 10-K

Current and long-term debt	\$ 71,103	\$ 60,407	\$ 40,500	\$ 16,500	\$ 28,911
<b>Total liabilities</b>	<b>\$ 351,501</b>	<b>\$ 301,438</b>	<b>\$ 193,559</b>	<b>\$ 137,721</b>	<b>\$ 138,261</b>
Total shareholders' equity	\$ 681,574	\$ 554,419	\$ 478,944	\$ 426,836	\$ 325,318

(1) Working capital is defined as trade accounts receivable plus inventory, less trade accounts payable.

<i>(amount in thousands)</i>	<b>June 30, 2017</b>	<b>June 24, 2016</b>	<b>Years Ended June 26, 2015</b>	<b>June 27, 2014</b>	<b>June 28, 2013</b>
<b>Selected Consolidated Statements of Cash Flow Data:</b>					
Net cash provided by operating activities	\$ 70,934	\$ 47,088	\$ 52,629	\$ 66,550	\$ 48,750
Net cash (used in) provided by investing activities	\$ (90,556)	\$ (39,603)	\$ (195,499)	\$ 26,988	\$ (5,862)
Net cash provided by (used in) financing activities	\$ 13,432	\$ 22,862	\$ 22,537	\$ (8,171)	\$ (9,128)
Net (decrease) increase in cash, cash equivalents and restricted cash	\$ (6,190)	\$ 30,347	\$ (120,333)	\$ 85,367	\$ 33,760

**Table of Contents**

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**

*In addition to historical information, this Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements relate to future events or to our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. Forward-looking statements include, but are not limited to, statements about:*

our goals and strategies;

our and our customers' estimates regarding future revenues, operating results, expenses, capital requirements and liquidity;

our expectation that the portion of our future revenues attributable to customers in regions outside of North America will increase compared with the portion of those revenues for fiscal year 2017;

our expectation that we will incur incremental costs of revenue as a result of our planned expansion of our business into new geographic markets;

our expectation that our fiscal year 2018 selling, general and administrative (SG&A) expenses will increase on an absolute dollar basis and decrease as a percentage of revenue compared with fiscal year 2017;

our expectation that our employee costs will increase in Thailand and the People's Republic of China (PRC);

our future capital expenditures and our needs for additional financing;

the expansion of our manufacturing capacity, including into new geographies;

the growth rates of our existing markets and potential new markets;

our ability, and the ability of our customers and suppliers, to respond successfully to technological or industry developments;

our suppliers' estimates regarding future costs;

our ability to increase our penetration of existing markets and to penetrate new markets;

our plans to diversify our sources of revenues;

## Edgar Filing: Fabrinet - Form 10-K

our plans to execute acquisitions;

trends in the optical communications, industrial lasers, and sensors markets, including trends to outsource the production of components used in those markets;

our ability to attract and retain a qualified management team and other qualified personnel and advisors; and

competition in our existing and new markets.

*These forward-looking statements are subject to certain risks and uncertainties that could cause our actual results to differ materially from those reflected in the forward looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in this Annual Report on Form 10-K, in particular, the risks discussed under the heading Risk Factors in Item 1A, as well as those discussed in other documents we file with the Securities and Exchange Commission. We undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements. Given these risks and uncertainties, readers are cautioned not to place undue reliance on these statements. We, us and our refer to Fabrinet and its subsidiaries as a group.*

---

## **Table of Contents**

### **Overview**

We provide advanced optical packaging and precision optical, electro-mechanical and electronic manufacturing services to original equipment manufacturers ( OEMs ) of complex products such as optical communication components, modules and sub-systems, industrial lasers, medical devices and sensors. We offer a broad range of advanced optical and electro-mechanical capabilities across the entire manufacturing process, including process design and engineering, supply chain management, manufacturing, complex printed circuit board assembly, advanced packaging, integration, final assembly and test. Although we focus primarily on low-volume production of a wide variety of high complexity products, which we refer to as low-volume, high-mix, we also have the capability to accommodate high-volume production. Based on our experience with and positive feedback we have received from our customers, we believe we are a global leader in providing these services to the optical communications, industrial lasers and automotive markets.

Our customer base includes companies in complex industries that require advanced precision manufacturing capabilities such as optical communications, industrial lasers, automotive and sensors. The products that we manufacture for our OEM customers include selective switching products; tunable transponders and transceivers; active optical cables; solid state, diode-pumped, gas and fiber lasers; and sensors. In many cases, we are the sole outsourced manufacturing partner used by our customers for the products that we produce for them.

We also design and fabricate application-specific crystals, lenses, prisms, mirrors, laser components, and substrates (collectively referred to as customized optics ) and other custom and standard borosilicate, clear fused quartz, and synthetic fused silica glass products (collectively referred to as customized glass ). We incorporate our customized optics and glass into many of the products we manufacture for our OEM customers, and we also sell customized optics and glass in the merchant market.

### **Business acquisition**

On September 14, 2016, we acquired Global CEM Solutions Ltd. and all of its subsidiaries (collectively, Exception EMS ), a privately-held group located in Wiltshire, United Kingdom, for cash consideration of approximately \$13.0 million, net of cash acquired. Exception EMS provides contract electronics manufacturing services primarily to the European electronics market with innovative solutions, adding value to the design, manufacture and testing of printed circuit board assemblies. Its customers include industrial, energy, aerospace and defense companies, with approximately 80% of its revenue derived from customers in Europe. See Note 9 Business acquisition to the consolidated financial statements for further details.

### **Fiscal years**

We utilize a 52-53 week fiscal year ending on the Friday in June closest to June 30. Fiscal year 2017 ended on June 30, 2017 and consisted of 53 weeks. Fiscal year 2016 and fiscal year 2015 ended on June 24, 2016 and June 26, 2015, respectively, and each consisted of 52 weeks.

### **Revenues**

We believe our ability to expand our relationships with existing customers and attract new customers is due to a number of factors, including our broad range of complex engineering and manufacturing service offerings, flexible low-cost manufacturing platform, process optimization capabilities, advanced supply chain management, excellent customer service and experienced management team. Although we expect the prices we charge for our manufactured products to decrease over time (partly as a result of competitive market forces), we still believe we will be able to maintain favorable pricing for our services because of our ability to reduce cycle time, adjust our product mix by focusing on more complicated products, improve product quality and yields, and reduce material costs for the products we manufacture. We believe these capabilities will enable us to help our OEM customers reduce their manufacturing costs while maintaining or improving the design, quality, reliability and delivery times of their products.

**Table of Contents**

Revenues, by percentage, from individual customers representing 10% or more of our total revenues in the respective periods were as follows:

	Years Ended		
	June 30, 2017	June 24, 2016	June 26, 2015
Lumentum Operations LLC	17%	20%	20%
Oclaro, Inc.	*(1)	*(1)	10%

(1) Less than 10% of total revenue.

Because we depend upon a small number of customers for a significant percentage of our total revenues, a reduction in orders from, a loss of, or any other adverse actions by, any one of these customers would reduce our revenues and could have a material adverse effect on our business, operating results and share price. Moreover, our customer concentration increases the concentration of our accounts receivable and payment default by any of our key customers will negatively impact our exposure. Many of our existing and potential customers have substantial debt burdens, have experienced financial distress or have static or declining revenues, all of which may be exacerbated by the continued uncertainty in the global economies. Certain customers have gone out of business or have been acquired or announced their withdrawal from segments of the optics market. We generate significant accounts payable and inventory for the services that we provide to our customers, which could expose us to substantial and potentially unrecoverable costs if we do not receive payment from our customers. Therefore, any financial difficulties that our key customers experience could materially and adversely affect our operating results and financial condition by generating charges for inventory write-offs, provisions for doubtful accounts, and increases in working capital requirements due to increased days inventory and in accounts receivable.

Furthermore, reliance on a small number of customers gives those customers substantial purchasing power and leverage in negotiating contracts with us. In addition, although we enter into master supply agreements with our customers, the level of business to be transacted under those agreements is not guaranteed. Instead, we are awarded business under those agreements on a project-by-project basis. Some of our customers have at times significantly reduced or delayed the volume of manufacturing services that they order from us. If we are unable to maintain our relationships with our existing significant customers, our business, financial condition and operating results could be harmed.

**Revenues by Geography**

We generate revenues from three geographic regions: North America, Asia-Pacific, and Europe. Revenues are attributed to a particular geographic area based on the bill-to-location of our customers, notwithstanding that our customers may ultimately ship their products to end customers in a different geographic region. The substantial majority of our revenues are derived from our manufacturing facilities in Asia-Pacific.

The percentage of our revenues generated from a bill-to-location outside of North America increased from 46.2% in fiscal year 2016 to 53.4% in fiscal year 2017, which was partially due to an increase in sales to our customers in Europe due to the acquisition of Exception EMS in September 2016. We expect that the portion of our future revenues attributable to customers in regions outside of North America will continue to increase as compared with the portion of revenues attributable to such customers during fiscal year 2017.

The following table presents percentages of total revenues by geographic regions:

	Years Ended		
	June 30, 2017	June 24, 2016	June 26, 2015
North America	46.6%	53.8%	47.9%
Asia-Pacific	38.0	35.9	40.1
Europe	15.4	10.3	12.0
	100.0%	100.0%	100.0%



---

## **Table of Contents**

### ***Our Contracts***

We enter into supply agreements with our customers which generally have an initial term of up to three years, subject to automatic renewals for subsequent one-year terms unless expressly terminated. Although there are no minimum purchase requirements in our supply agreements, our customers provide us with rolling forecasts of their demand requirements. Our supply agreements generally include provisions for pricing and periodic review of pricing, consignment of our customer's unique production equipment to us, and the sharing of benefits from cost-savings derived from our efforts. We are generally required to purchase materials, which may include long lead-time materials and materials that are subject to minimum order quantities and/or non-cancelable or non-returnable terms, to meet the stated demands of our customers. After procuring materials, we manufacture products for our customers based on purchase orders that contain terms regarding product quantities, delivery locations and delivery dates. Our customers generally are obligated to purchase finished goods that we have manufactured according to their demand requirements. Materials that are not consumed by our customers within a specified period of time, or are no longer required due to a product's cancellation or end-of-life, are typically designated as excess or obsolete inventory under our contracts. Once materials are designated as either excess or obsolete inventory, our customers are typically required to purchase such inventory from us even if they have chosen to cancel production of the related products.

### **Cost of Revenues**

The key components of our cost of revenues are material costs, employee costs, and infrastructure-related costs. Material costs generally represent the majority of our cost of revenues. Several of the materials we require to manufacture products for our customers are customized for their products and often sourced from a single supplier or in some cases, our own subsidiaries. Shortages from sole-source suppliers due to yield loss, quality concerns and capacity constraints, among other factors, may increase our expenses and negatively impact our gross profit margin or total revenues in a given quarter. Material costs include scrap material. Historically, scrap rate diminishes during a product's life cycle due to process, fixturing and test improvement and optimization.

A second significant element of our cost of revenues is employee costs, including indirect employee costs related to design, configuration and optimization of manufacturing processes for our customers, quality testing, materials testing and other engineering services; and direct costs related to our manufacturing employees. Direct employee costs include employee salaries, insurance and benefits, merit-based bonuses, recruitment, training and retention. Historically, our employee costs have increased primarily due to increases in the number of employees necessary to support our growth and, to a lesser extent, costs to recruit, train and retain employees. Our cost of revenues is significantly impacted by salary levels in Thailand, the PRC and the United Kingdom, the fluctuation of the Thai baht, RMB and GBP against our functional currency, the U.S. dollar, and our ability to retain our employees. We expect our employee costs to increase as wages continue to increase in Thailand and the PRC. Wage increases may impact our ability to sustain our competitive advantage and may reduce our profit margin. We seek to mitigate these cost increases through improvements in employee productivity, employee retention and asset utilization.

Our infrastructure costs are comprised of depreciation, utilities, facilities management and overhead costs. Most of our facility leases are long-term agreements. Our depreciation costs include buildings and fixed assets, primarily at our Pinehurst campus in Thailand, and capital equipment located at each of our manufacturing locations.

During fiscal year 2017, fiscal year 2016 and fiscal year 2015, discretionary merit-based bonus awards were made to our non-executive employees. Charges included in cost of revenues for bonus awards to non-executive employees were \$3.2 million, \$2.8 million and \$2.4 million for fiscal year 2017, fiscal year 2016 and fiscal year 2015, respectively.

Share-based compensation expense included in cost of revenues was \$5.3 million, \$2.0 million and \$1.5 million for fiscal year 2017, fiscal year 2016 and fiscal year 2015, respectively.



## **Table of Contents**

We expect to incur incremental costs of revenue as a result of our planned expansion into new geographic markets, though we are not able to determine the amount of these incremental expenses.

### **Selling, General and Administrative Expenses**

Our SG&A expenses primarily consist of corporate employee costs for sales and marketing, general and administrative and other support personnel, including research and development expenses related to the design of customized optics and glass, travel expenses, legal and other professional fees, share-based compensation expense and other general expenses not related to cost of revenues. In fiscal year 2018, we expect our SG&A expenses will increase on an absolute dollar basis and decrease as a percentage of revenue compared with fiscal year 2017.

The compensation committee of our board of directors approved a fiscal year 2017 executive incentive plan with quantitative objectives, based on achieving certain revenue and gross margin targets for our fiscal year ended June 30, 2017. Bonuses under our fiscal year 2017 executive incentive plan are payable after the end of fiscal year 2017. In fiscal year 2016, the compensation committee approved a fiscal year 2016 executive incentive plan with quantitative objectives, based on achieving certain revenue and non-GAAP earnings per share targets for our fiscal year ended June 24, 2016, as well as qualitative objectives, based on achieving individual performance goals. In the three months ended September 30, 2016, the compensation committee awarded bonuses to our executive employees for Company and individual achievements of performance under our fiscal 2016 executive incentive plan. Discretionary merit-based bonus awards were also available to our non-executive employees and were payable as of June 30, 2017.

Charges included in SG&A expenses for bonus distributions to non-executive and executive employees were \$4.4 million, \$4.7 million and \$3.6 million for fiscal year 2017, fiscal year 2016 and fiscal year 2015, respectively.

Share-based compensation expense included in SG&A expenses was \$21.2 million, \$7.9 million and \$6.6 million for fiscal year 2017, fiscal year 2016 and fiscal year 2015, respectively.

### **Additional Financial Disclosures**

#### ***Foreign Exchange***

As a result of our international operations, we are exposed to foreign exchange risk arising from various currency exposures primarily with respect to the Thai baht. Although a majority of our total revenues is denominated in U.S. dollars, a substantial portion of our payroll plus certain other operating expenses are incurred and paid in Thai baht. The exchange rates between the Thai baht and the U.S. dollar have fluctuated substantially in recent years and may continue to fluctuate substantially in the future. We report our financial results in U.S. dollars and our results of operations have been and may continue to be negatively impacted owing to appreciation of the Thai baht against the U.S. dollar. Smaller portions of our expenses are incurred in a variety of other currencies, including RMB, GBP, Canadian dollars, Euros and Japanese yen, the appreciation of which may also negatively impact our financial results.

In order to manage the risks arising from fluctuations in foreign currency exchange rates, we use derivative instruments. We may enter into exchange currency forward or put option contracts to manage foreign currency exposures associated with certain assets and liabilities and other forecasted foreign currency transactions and may designate these instruments as hedging instruments. The forward and put option contracts generally have maturities of up to 12 months. All foreign currency exchange contracts are recognized in the consolidated balance sheet as other current assets and accrued expenses at fair value. Gain or loss on our forward and put option contracts generally offset the assets, liabilities, and transactions economically hedged.

**Table of Contents**

We had foreign currency denominated assets and liabilities in Thai baht, RMB and GBP as follows:

<i>(amount in thousands, except percentages)</i>	As of June 30, 2017			As of June 24, 2016		
	Currency	\$	%	Currency	\$	%
<b>Assets</b>						
Thai baht	395,123	\$ 11,628	47.3	834,536	\$ 23,594	91.3
RMB	26,965	3,980	16.2	14,835	2,255	8.7
GBP	6,896	8,982	36.5			
Total		\$ 24,590	100.0		\$ 25,849	100.0
<b>Liabilities</b>						
Thai baht	1,875,338	\$ 55,189	82.7	1,517,782	\$ 42,912	92.0
RMB	28,451	4,200	6.3	24,654	3,748	8.0
GBP	5,625	7,326	11.0			
Total		\$ 66,715	100.0		\$ 46,660	100.0

The Thai baht assets represent cash and cash equivalents, trade accounts receivable, deposits and other current assets. The Thai baht liabilities represent trade accounts payable, accrued expenses, income tax payable and other payables. We manage our exposure to fluctuations in foreign exchange rates by the use of foreign currency contracts and offsetting assets and liabilities denominated in the same currency in accordance with management's policy. As of June 30, 2017 and June 24, 2016, there was \$1.0 million and \$84.5 million in foreign currency forward contracts, respectively, outstanding on the Thai baht payables.

The RMB assets represent cash and cash equivalents, trade accounts receivable, and other current assets. The RMB liabilities represent trade accounts payable, accrued expenses, income tax payable and other payables. As of June 30, 2017 and June 24, 2016, we did not have any derivative contracts denominated in RMB.

The GBP assets primarily represent cash, trade accounts receivable, and property, plant and equipment, net. The GBP liabilities primarily represent short-term loans, trade accounts payable and other payables. As of June 30, 2017, we did not have any derivative contracts denominated in GBP.

For fiscal year 2017 and fiscal year 2016, we recorded unrealized loss of \$0.02 million and \$1.8 million, respectively, for the changes in fair value of derivatives that are not designated as hedging instruments in the consolidated statements of operations and comprehensive income.

**Currency Regulation and Dividend Distribution**

Foreign exchange regulation in the PRC is primarily governed by the following rules:

Foreign Currency Administration Rules, as amended on August 5, 2008, or the Exchange Rules;

Administration Rules of the Settlement, Sale and Payment of Foreign Exchange (1996), or the Administration Rules; and

Notice on Perfecting Practices Concerning Foreign Exchange Settlement Regarding the Capital Contribution by Foreign-invested Enterprises, as promulgated by the State Administration of Foreign Exchange, or State Administration of Foreign Exchange (SAFE), on August 29, 2008, or Circular 142.

Under the Exchange Rules, RMB is freely convertible into foreign currencies for current account items, including the distribution of dividends, interest payments, trade and service-related foreign exchange transactions. However, conversion of RMB for capital account items, such as

direct investments, loans, security investments and repatriation of investments, is still subject to the approval of SAFE.

---

## **Table of Contents**

Under the Administration Rules, foreign-invested enterprises may only buy, sell, or remit foreign currencies at banks authorized to conduct foreign exchange business after providing valid commercial documents and relevant supporting documents and, in the case of capital account item transactions, obtaining approval from SAFE. Capital investments by foreign-invested enterprises outside of the PRC are also subject to limitations, which include approvals by the Ministry of Commerce, SAFE and the State Development and Reform Commission.

Circular 142 regulates the conversion by a foreign-invested company of foreign currency into RMB by restricting how the converted RMB may be used. Circular 142 requires that the registered capital of a foreign-invested enterprise settled in RMB converted from foreign currencies may only be used for purposes within the business scope approved by the applicable governmental authority and may not be used for equity investments within the PRC. In addition, SAFE strengthened its oversight of the flow and use of the registered capital of foreign-invested enterprises settled in RMB converted from foreign currencies. The use of such RMB capital may not be changed without SAFE's approval and may not be used to repay RMB loans if the proceeds of such loans have not been used.

On January 5, 2007, SAFE promulgated the Detailed Rules for Implementing the Measures for the Administration on Individual Foreign Exchange, or the Implementation Rules. Under the Implementation Rules, PRC citizens who are granted share options by an overseas publicly-listed company are required, through a PRC agent or PRC subsidiary of such overseas publicly-listed company, to register with SAFE and complete certain other procedures.

In addition, the General Administration of Taxation has issued circulars concerning employee share options. Under these circulars, our employees working in the PRC who exercise share options will be subject to PRC individual income tax. Our PRC subsidiary has obligations to file documents related to employee share options with relevant tax authorities and withhold individual income taxes of those employees who exercise their share options.

Furthermore, our transfer of funds to our subsidiaries in Thailand and the PRC are each subject to approval by governmental authorities in case of an increase in registered capital, or subject to registration with governmental authorities in case of a shareholder loan. These limitations on the flow of funds between our subsidiaries and us could restrict our ability to act in response to changing market conditions.

### ***Income Tax***

Our effective tax rate is a function of the mix of tax rates in the various jurisdictions in which we do business. We are domiciled in the Cayman Islands. Under the current laws of the Cayman Islands, we are not subject to tax in the Cayman Islands on income or capital gains. We have received this undertaking for a 20-year period ending August 24, 2019, and after the expiration date, we may request a renewal with the office of the Clerk of the Cabinet for another 20 years.

Throughout the period of our operations in Thailand, we have generally received income tax and other incentives from the Thailand Board of Investment. Preferential tax treatment from the Thai government in the form of a corporate tax exemption is currently available to us through June 2020 on income generated from projects to manufacture certain products at our Pinehurst campus. Such preferential tax treatment is contingent on various factors, including the export of our customers' products out of Thailand and our agreement not to move our manufacturing facilities out of our current province in Thailand for at least 15 years from the date on which preferential tax treatment was granted (i.e., at least until June 2020). In March 2016, the Thailand Revenue Department announced a permanent decrease of corporate income tax rates to 20% for tax periods beginning on or after January 1, 2016. As a result, the corporate income tax rate for our Thai subsidiary is expected to remain at 20% from fiscal year 2017 onward.

## **Table of Contents**

### **Critical Accounting Policies and Use of Estimates**

We prepare our consolidated financial statements in conformity with U.S. GAAP, which requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities on the date of the consolidated financial statements and the reported amounts of revenues and expenses during the financial reporting period. We continually evaluate these estimates and assumptions based on the most recently available information, our own historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Because the use of estimates is an integral component of the financial reporting process, actual results could differ from those estimates. Some of our accounting policies require higher degrees of judgment than others in their application. We consider the policies discussed below to be critical to an understanding of our consolidated financial statements, as their application places the most significant demands on our management's judgment.

A quantitative sensitivity analysis is provided where such information is reasonably available, can be reliably estimated, and provides material information to investors. The amounts used to assess sensitivity are included for illustrative purposes only and do not represent management's predictions of variability.

### ***Revenue Recognition***

We recognize revenue when it is realized or realizable and earned. We consider revenue realized or realizable and earned when there is persuasive evidence of an arrangement, delivery has occurred, the sales price is fixed or determinable, and collectability is reasonably assured. Delivery does not occur until products have been shipped or services have been provided, risk of loss has transferred and in cases where formal acceptance is required, customer acceptance has been obtained or customer acceptance provisions have lapsed. In situations where a formal acceptance is required but the acceptance only relates to whether the product meets its published specifications, revenue is recognized upon shipment provided all other revenue recognition criteria are met. The sales price is not considered to be fixed or determinable until all contingencies related to the sale have been resolved.

We reduce revenue for rebates and other similar allowances. Revenue is recognized only if these estimates can be reliably determined. Our estimates are based on historical results taking into consideration the type of customer, the type of transaction, and the specifics of each arrangement.

In addition to the aforementioned general policies, certain customers may request us to store finished products purchased by them at the Company's warehouse. In these instances, we receive a written request from the customer asking us to hold the inventory at our warehouse and the ordered goods are segregated in our warehouse from other inventory and cannot be used to fulfil other customer orders. In these situations, revenue is only recognized when persuasive evidence of the sales arrangement exists, the goods are completed and ready for shipment, pricing is fixed or determinable, collection is reasonable assured, and title and risk of loss have passed to the customer.

### ***Long-Lived Assets***

We review property, plant and equipment for impairment when events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. An impairment loss is recognized when the carrying amount of a long-lived asset or assets group exceeds its fair value. Recoverability of property and equipment is measured by comparing its carrying amount to the projected undiscounted cash flows the property and equipment are expected to generate. If such assets are considered to be impaired, the impairment loss recognized, if any, is the amount by which the carrying amount of the property and equipment exceeds its fair value.

---

## **Table of Contents**

### ***Allowance for Doubtful Accounts***

We perform ongoing credit evaluations of our customers' financial condition and make provisions for doubtful accounts based on the outcomes of these credit evaluations. We evaluate the collectability of our accounts receivable based on specific customer circumstances, current economic trends, historical experience with collections, and the age of past due receivables. Unanticipated changes in the liquidity or financial position of our customers may require additional provisions for doubtful accounts. Under our specific identification method, it is not practical to assess the sensitivity of our estimates.

### ***Inventory Valuation***

Our inventory is stated at the lower of cost (on a first-in, first-out basis) or market value. Our industry is characterized by rapid technological change, short-term customer commitments, and rapid changes in demand. We make provisions for estimated excess and obsolete inventory based on regular reviews of inventory quantities on hand and the latest forecasts of product demand and production requirements from our customers. If actual market conditions or our customers' product demands are less favorable than those projected, additional provisions may be required. In addition, unanticipated changes in liquidity or the financial positions of our customers or changes in economic conditions may require additional provisions for inventory due to our customers' inability to fulfill their contractual obligations. During fiscal year 2017 and fiscal year 2016, a change of 10% for excess and obsolete materials, based on product demand and production requirements from our customers, would have affected our net income by approximately \$0.3 million and \$0.2 million, respectively.

### ***Deferred Income Taxes***

Our deferred income tax assets represent temporary differences between the carrying amount and the tax basis of existing assets and liabilities that will result in deductible and payable amounts in future years, including net operating loss carryforwards. Based on estimates, the carrying value of our net deferred tax assets assumes that it is more likely than not that we will be able to generate sufficient future taxable income in certain tax jurisdictions to realize these deferred income tax assets. Our judgments regarding future profitability may change owing to future market conditions, changes in U.S. or international tax laws, or other factors. If these estimates and related assumptions change in the future, we may be required to increase or decrease our valuation allowance against the deferred tax assets, resulting in additional or lesser income tax expense. As of June 30, 2017 and June 24, 2016, we have determined that it is more likely than not that deferred tax asset attributable to a subsidiary in the United States will not be realized, primarily due to uncertainties related to the subsidiary's ability to utilize its operating loss carryforward before they expire. As of June 30, 2017 and June 24, 2016, we assessed all of our deferred tax assets as more likely than not to be realizable and, accordingly, recognized a valuation allowance for deferred tax assets of \$6.4 million and \$4.9 million, respectively.

We assess tax positions in a previously filed tax return or a position expected to be taken in a future tax return that is reflected in measuring current or deferred income tax assets and liabilities for interim or annual periods, based on the technical merits of the position. We apply a more likely than not basis (i.e., a likelihood greater than 50 percent), in accordance with the authoritative guidance, and recognize a tax provision in the consolidated financial statements for an uncertain tax position that would not be sustained.

### ***Share-Based Compensation***

Awards granted, including share options, restricted share units and performance share units are accounted for by recognizing the cost of employee services received in exchange for awards of equity instruments, based on the fair value of those awards, in the consolidated financial statements over the requisite service period.

In determining the fair value of share option awards, we are required to make estimates of expected dividends to be issued, expected volatility of our shares, expected forfeitures of the awards, risk free interest rates for the expected terms of the awards and expected terms of the awards.

## **Table of Contents**

For accounting purposes only, the fair value of each option grant is estimated using the Black-Scholes-Merton option pricing model, which takes into account the following factors: (1) the exercise price of the options; (2) the fair value of the underlying ordinary shares; (3) the expected life of the options; (4) the expected volatility of the underlying ordinary shares; (5) the risk-free interest rate during the expected life of the options; and (6) the expected dividend yield of the underlying ordinary shares. However, these fair values are inherently uncertain and highly subjective.

The exercise price of the options is stated in the option agreements. The expected life of the options involves estimates of the anticipated timing of the exercise of the vested options. The expected volatility is based on the historical volatility of our share price. We have applied the U.S. Treasury Bill interest rate with a maturity date similar to the expected life of our options as the risk-free interest rate and assumed a dividend yield for periods when we paid dividends.

The fair value of restricted share units and performance share units are based on the market value of our ordinary shares on the date of grant.

The determination of our share-based compensation expense for both current and future periods requires the input of assumptions, including estimated forfeitures and the price volatility of the underlying ordinary shares. We estimate forfeitures based on past employee retention rates and our expectations of future retention rates, and we will prospectively revise our forfeiture rates based on actual history. Our share-based compensation expense may change based on changes to our actual forfeitures.

### ***Intangibles***

Intangibles are stated at historical cost less amortization. Amortization of customer relationships is calculated using the accelerated method as to reflect the pattern in which the economic benefits of the intangible assets are consumed. Amortization of other intangibles is calculated using the straight-line method.

### ***Business acquisition***

For the acquisition of Exception EMS, we allocated the fair value of purchase consideration to the assets acquired and liabilities assumed based on their fair values at the acquisition date. The allocation of consideration to the individual net assets has been finalized.

The acquired intangible assets, which consist of customer relationships and backlog, are recorded as intangibles in the consolidated balance sheets. The fair value of the acquired intangible assets was determined based on the multi-period excess earnings method. We review intangibles for impairment whenever changes or circumstances indicate the carrying amount may not be recoverable.

### ***Goodwill***

Goodwill arising from the acquisition is primarily attributable to the ability to expand future products and services and the assembled workforce. Goodwill is reviewed annually for impairment or more frequently whenever changes or circumstances indicate the carrying amount of goodwill may not be recoverable.

**Table of Contents****Results of Operations**

The following table sets forth a summary of our consolidated statements of operations and comprehensive income. Note that period-to-period comparisons of operating results should not be relied upon as indicative of future performance.

	Years Ended		
	June 30, 2017	June 24, 2016	June 26, 2015
Revenues	\$ 1,420,490	\$ 976,747	\$ 773,587
Cost of revenues	(1,249,030)	(857,224)	(685,814)
Gross profit	171,460	119,523	87,773
Selling, general and administrative expenses	(65,626)	(49,753)	(39,460)
Other income related to flooding, net		36	
Expenses related to reduction in workforce			(1,153)
Operating income	105,834	69,806	47,160
Interest income	1,977	1,535	1,253
Interest expense	(3,321)	(1,569)	(616)
Foreign exchange loss, net	(1,142)	(1,916)	(19)
Other income (expense), net	509	376	(152)
Income before income taxes	103,857	68,232	47,626
Income tax expense	(6,742)	(6,335)	(3,984)
Net income	97,115	61,897	43,642
Other comprehensive (loss) income, net of tax	(939)	635	(44)
Net comprehensive income	\$ 96,176	\$ 62,532	\$ 43,598

The following table sets forth a summary of our consolidated statements of operations and comprehensive income as a percentage of total revenues for the periods indicated.

	Years Ended		
	June 30, 2017	June 24, 2016	June 26, 2015
Revenues	100.0%	100.0%	100.0%
Cost of revenues	(87.9)	(87.8)	(88.6)
Gross profit	12.1	12.2	11.4
Selling, general and administrative expenses	(4.6)	(5.1)	(5.1)
Other income related to flooding, net		(0.0)	
Expenses related to reduction in workforce			(0.2)
Operating income	7.5	7.1	6.1
Interest income	0.1	0.2	0.2
Interest expense	(0.2)	(0.1)	(0.1)
Foreign exchange loss, net	(0.1)	(0.2)	(0.0)
Other income (expense), net	0.0	0.0	(0.0)
Income before income taxes	7.3	7.0	6.2
Income tax expense	(0.5)	(0.7)	(0.5)



## Edgar Filing: Fabrinet - Form 10-K

Net income	6.8	6.3	5.6
Other comprehensive (loss) income, net of tax	(0.1)	0.1	(0.0)
Net comprehensive income	6.7%	6.4%	5.6%

**Table of Contents**

The following table sets forth our revenues by end market for the periods indicated.

<i>(amount in thousands)</i>	<b>June 30, 2017</b>	<b>Years Ended June 24, 2016</b>	<b>June 26, 2015</b>
Optical communications	\$ 1,108,637	\$ 727,580	\$ 553,245
Lasers, sensors, and other	311,853	249,167	220,342
<b>Total</b>	<b>\$ 1,420,490</b>	<b>\$ 976,747</b>	<b>\$ 773,587</b>

We operate and internally manage a single operating segment. As such, discrete information with respect to separate product lines and segments is not accumulated.

We utilize a 52-53 week fiscal year ending on the Friday in June closest to June 30. Fiscal year 2017 ended on June 30, 2017 and consisted of 53 weeks. Fiscal year 2016 and fiscal year 2015 ended on June 24, 2016 and June 26, 2015, respectively, and each consisted of 52 weeks.

**Comparison of Fiscal Year 2017 with Fiscal Year 2016**

*Total revenues.* Our total revenues increased by \$443.7 million, or 45.4%, to \$1.4 billion for fiscal year 2017, compared with \$976.7 million for fiscal year 2016. This increase was primarily due to (1) an increase in customers' demand for both optical and non-optical communication manufacturing services for fiscal year 2017; and (2) the positive impact from an additional week of revenue during fiscal year 2017. Revenues from optical communications products represented 78.0% of our total revenues for fiscal year 2017, compared with 74.5% for fiscal year 2016.

*Cost of revenues.* Our cost of revenues increased by \$391.8 million, or 45.7%, to \$1.3 billion, or 87.9% of total revenues, for fiscal year 2017, compared with \$857.2 million, or 87.8% of total revenues, for fiscal year 2016. The increase in cost of revenues was primarily due to a proportional increase in sales volume. The increase in cost of revenues also included an increase of \$3.3 million in share-based compensation expenses, primarily due to a higher number of restricted and performance share units granted to our executives when compared to the prior period.

*Gross profit.* Our gross profit increased by \$51.9 million, or 43.5%, to \$171.5 million, or 12.1% of total revenues, for fiscal year 2017, compared with \$119.5 million, or 12.2% of total revenues, for fiscal year 2016.

*SG&A expenses.* Our SG&A expenses increased by \$15.9 million, or 31.9%, to \$65.6 million, or 4.6% of total revenues, for fiscal year 2017, compared with \$49.8 million, or 5.1% of total revenues, for fiscal year 2016. Our SG&A expenses increased in absolute dollars during fiscal year 2017, compared with fiscal year 2016, mainly due to (1) an increase in share-based compensation expenses of \$13.2 million, partially due to the recognition of \$4.3 million related to accelerated vesting of equity awards held by executives during fiscal year 2017; (2) \$2.8 million of SG&A expenses from companies we acquired in September 2016; and (3) an increase of \$1.5 million related to merger and acquisition activities.

*Operating income.* Our operating income increased by \$36.0 million to \$105.8 million, or 7.5% of total revenues, for fiscal year 2017, compared with \$69.8 million, or 7.1% of total revenues, for fiscal year 2016.

*Interest income.* Our interest income increased by \$0.4 million to \$2.0 million for fiscal year 2017, compared with \$1.5 million for fiscal year 2016. The increase was primarily due to an increase in our average outstanding cash and marketable securities balances and interest rates.

*Interest expense.* Our interest expense increased by \$1.8 million to \$3.3 million for fiscal year 2017, compared with \$1.6 million for fiscal year 2016. The increase was primarily due to an increase in the average balance of our outstanding bank borrowings.

---

## **Table of Contents**

*Income before income taxes.* We recorded income before income taxes of \$103.9 million for fiscal year 2017, compared with \$68.2 million for fiscal year 2016.

*Income tax expense.* Our provision for income tax reflects an effective tax rate of 5.5% for fiscal year 2017, compared with an effective tax rate of 6.7% for fiscal year 2016. The decrease was primarily due to the fact that we had higher income not subject to tax during fiscal year 2017 as compared with fiscal year 2016.

*Net income.* We recorded net income of \$97.1 million, or 6.8% of total revenues, for fiscal year 2017, compared with net income of \$61.9 million, or 6.3% of total revenues, for fiscal year 2016.

*Other comprehensive (loss) income.* We recorded other comprehensive loss of \$0.9 million, or 0.1% of total revenues, for fiscal year 2017, compared with other comprehensive income of \$0.6 million, or 0.1% of total revenues, for fiscal year 2016.

### ***Comparison of Fiscal Year 2016 with Fiscal Year 2015***

*Total revenues.* Our total revenues increased by \$203.2 million, or 26.3%, to \$976.7 million for fiscal year 2016, compared with \$773.6 million for fiscal year 2015. This increase was primarily due to (1) an increase in customers' demand for both optical and non-optical communication manufacturing services for fiscal year 2016 and (2) our inability to recognize \$16.5 million of consignment revenue during fiscal year 2015 because of certain consignment revenue recognition issues previously disclosed that resulted in lower revenue in fiscal year 2015. Revenues from optical communications products represented 74.5% of our total revenues for fiscal year 2016, compared with 71.5% for fiscal year 2015.

*Cost of revenues.* Our cost of revenues increased by \$171.4 million, or 25.0%, to \$857.2 million, or 87.8% of total revenues, for fiscal year 2016, compared with \$685.8 million, or 88.6% of total revenues, for fiscal year 2015. The increase in cost of revenues on an absolute dollar basis was primarily due to an increase in sales volume, which was partially offset by a more favorable product mix. Cost of revenues also included non-cash share-based compensation expense of \$2.0 million for fiscal year 2016, compared with \$1.5 million for fiscal year 2015.

*Gross profit.* Our gross profit increased by \$31.8 million, or 36.2%, to \$119.5 million, or 12.2% of total revenues, for fiscal year 2016, compared with \$87.8 million, or 11.4% of total revenues, for fiscal year 2015. The increase in gross profit margin during fiscal year 2016, compared with fiscal year 2015, was primarily related to an increase in sales volume and more favorable product mix during fiscal year 2016.

*SG&A expenses.* Our SG&A expenses increased by \$10.3 million, or 26.1%, to \$49.8 million, or 5.1% of total revenues, for fiscal year 2016, compared with \$39.5 million, or 5.1% of total revenues, for fiscal year 2015. Our SG&A expenses increased in absolute dollars during fiscal year 2016, compared with fiscal year 2015, mainly due to (1) an increase of \$4.6 million in expenses relating to our new manufacturing facility in the United States which commenced operations during the third quarter of fiscal year 2015; (2) the recognition of \$1.4 million in severance and related benefit costs to executives who left the Company during fiscal year 2016; (3) an increase of \$1.3 million in sales and marketing expenses; and (4) an increase of \$1.0 million in executive and management bonuses, salaries, and other benefits.

*Other income related to flooding.* In fiscal year 2016, we recognized other income related to flooding of \$0.04 million, which consisted of a \$0.9 million final payment from an insurer against our claim for flood damage, offset by expenses in relation to flood of \$0.86 million, which mainly consisted of \$0.6 million of repaired cost of equipment and \$0.2 million of inventory losses.

*Expenses related to reduction in workforce.* During fiscal year 2015, we implemented a reduction in workforce and incurred expenses of approximately \$1.2 million, which represented severance and benefits costs associated with the termination of approximately 100 employees in accordance with contractual obligations and local regulations. No expenses related to reduction in workforce were incurred during fiscal year 2016.

---

## **Table of Contents**

*Operating income.* Our operating income increased by \$22.6 million to \$69.8 million, or 7.1% of total revenues, for fiscal year 2016, compared with \$47.2 million, or 6.1% of total revenues, for fiscal year 2015.

*Interest income.* Our interest income increased by \$0.3 million to \$1.5 million for fiscal year 2016, compared with \$1.3 million for fiscal year 2015. This increase mainly was due to increases in the amount on which interest is earned as well as an increase in interest rates.

*Interest expense.* Our interest expense increased by \$1.0 million to \$1.6 million for fiscal year 2016, compared with \$0.6 million for fiscal year 2015. This increase was due to increases in average loan balances resulting from drawdown of revolving loans during the year.

*Income before income taxes.* We recorded income before income taxes of \$68.2 million for fiscal year 2016, compared with \$47.6 million for fiscal year 2015.

*Income tax expense.* Our provision for income tax reflects an effective tax rate of 6.7% for fiscal year 2016, compared with an effective tax rate of 6.3% for fiscal year 2015. The increase was primarily due to the fact that we had higher taxable income during fiscal year 2016 as compared with fiscal year 2015.

*Net income.* We recorded net income of \$61.9 million, or 6.3% of total revenues, for fiscal year 2016, compared with net income of \$43.6 million, or 5.6% of total revenues, for fiscal year 2015.

*Other comprehensive income (loss).* We recorded other comprehensive income of \$0.6 million, or 0.1% of total revenues, for fiscal year 2016, compared with other comprehensive loss of \$0.04 million, or 0.01% of total revenues, for fiscal year 2015.

## **Liquidity and Capital Resources**

We primarily finance our operations through cash flow from operations activities. As of June 30, 2017 and June 24, 2016, we had cash, cash equivalents, and marketable securities of \$285.3 million and \$284.5 million, respectively, and outstanding debt of \$71.1 million and \$60.4 million, respectively.

Our cash and cash equivalents, which primarily consist of cash on hand, demand deposits and liquid investments with maturities of three months or less, are placed with banks and other financial institutions. The weighted average interest rate on our cash and cash equivalents for fiscal year 2017, fiscal year 2016 and fiscal year 2015 was 0.6%, 0.7% and 0.7%, respectively.

Our cash investments are made in accordance with an investment policy approved by the Audit Committee of our Board of Directors. In general, our investment policy requires that securities purchased be rated A1, P-1, F1 or better. No security may have an effective maturity that exceeds three years. Our investments in fixed income securities are primarily classified as available-for-sale securities and are recorded at fair value in the consolidated balance sheets. The cost of securities sold is based on the specific identification method. Unrealized gains and losses on these securities are recorded as other comprehensive (loss) income and are reported as a separate component of shareholders' equity.

During fiscal year 2017, we borrowed a revolving loan of \$27.5 million and repaid a term loan of \$18.1 million under our syndicated senior credit facility agreement ( " Facility Agreement " ). As a result, as of June 30, 2017, we had a long-term borrowing of \$36.4 million and short-term borrowing of \$34.0 million under our Facility Agreement. To better manage our cash on hand, we also held investments in short-term marketable securities of \$151.5 million as of June 30, 2017.

We believe that our current cash, cash equivalents, marketable securities, cash flow from operations, and funds available through our credit facility will be sufficient to meet our working capital and capital expenditure needs for the next 12 months. Our ability to sustain our working capital position is subject to a number of risks that we discuss in Item 1A of this Annual Report on Form 10-K.

**Table of Contents**

In December 2015, we began construction of a new manufacturing facility at our campus in Chonburi, Thailand, which we substantially completed in the first quarter of fiscal year 2017. We begin our operations at this new facility in the fourth quarter of fiscal year 2017. We believe that our current manufacturing capacity is sufficient to meet our anticipated production requirements for at least the next few quarters. We maintain a long-term loan associated with construction of production facilities at our Pinehurst campus in Thailand that will come due within the next 12 months.

The following table shows our cash flows for the periods indicated:

<i>(amount in thousands)</i>	<b>Years Ended</b>		
	<b>June 30, 2017</b>	<b>June 24, 2016</b>	<b>June 26, 2015</b>
Net cash provided by operating activities	\$ 70,934	\$ 47,088	\$ 52,629
Net cash used in investing activities	\$ (90,556)	\$ (39,603)	\$ (195,499)
Net cash provided by financing activities	\$ 13,432	\$ 22,862	\$ 22,537
Net (decrease) increase in cash, cash equivalents and restricted cash	\$ (6,190)	\$ 30,347	\$ (120,333)
Cash, cash equivalents and restricted cash, beginning of period	\$ 142,804	\$ 112,978	\$ 233,477
Cash, cash equivalents and restricted cash, end of period	\$ 137,137	\$ 142,804	\$ 112,978

**Operating Activities**

Net cash provided by operating activities increased by \$23.8 million, or 50.6%, to \$70.9 million for fiscal year 2017, compared with net cash provided by operating activities of \$47.1 million for fiscal year 2016. This increase was due to an increase in net income of \$35.2 million from revenue growth, depreciation and amortization of \$6.4 million from additional investments in equipment to support our new facility in Chonburi, Thailand, and share-based compensation of \$16.6 million mainly related to additional grants of equity awards to employees during the year. These were offset with decreases in movement of trade accounts payable, and other current and non-current liabilities of \$18.0 million and \$14.6 million, respectively.

Net cash provided by operating activities decreased by \$5.5 million, or 10.5%, to \$47.1 million for fiscal year 2016, compared with net cash provided by operating activities of \$52.6 million for fiscal year 2015. This decrease was due to an increase in net income of \$18.3 million, a decrease of \$35.8 million in cash payment to vendors, offset by a decrease of \$27.2 million in cash collection from customers and a decrease of \$44.2 million in inventory as a result of higher customer demand during fiscal year 2016; as well as a decrease of \$9.1 million in other current and non-current liabilities mainly from payable related to the new manufacturing facility in Thailand.

**Investing Activities**

Net cash used in investing activities increased by \$50.9 million, or 128.7%, to \$90.6 million for fiscal year 2017, compared with net cash used in investing activities of \$39.6 million for fiscal year 2016. The increase was primarily due to an increase of \$27.6 million in the purchase of property, plant and equipment primarily for our new facility in Chonburi, Thailand, a net increase of \$11.4 million in marketable securities and the net payment of \$9.9 million in connection with the acquisition of Exception EMS.

Net cash used in investing activities decreased by \$155.9 million, or 79.7%, to \$39.6 million for fiscal year 2016, compared with net cash used in investing activities of \$195.5 million for fiscal year 2015. The decrease was primarily due to a net increase in available-for-sales securities of \$144.6 million during fiscal year 2016.

**Financing Activities**

Net cash provided by financing activities decreased by \$9.4 million, or 41.2%, to \$13.4 million for fiscal year 2017, compared with net cash provided by financing activities of \$22.9 million for fiscal year 2016. This

**Table of Contents**

decrease was primarily due to a decrease of \$50.0 million in proceeds from long-term bank loans, and an increase of \$12.1 million in the repayment of long-term bank loans. These were offset by a net increase of short-term loan from bank of \$50.8 million.

Net cash provided by financing activities increased by \$0.3 million, or 1.4%, to \$22.9 million for fiscal year 2016, compared with net cash provided by financing activities of \$22.5 million for fiscal year 2015. This increase was primarily due to an increase of \$38.0 million in proceeds from bank loans and an increase of \$4.6 million in proceeds from the issuance of ordinary shares under our employee share option plans, offset by an increase of \$41.5 million from the repayments of loans.

**Contractual Obligations**

The following table sets forth certain of our contractual obligations as of June 30, 2017:

<i>(amount in thousands)</i>	<b>Total</b>	<b>Payments Due by Period</b>			
		<b>Less than 1 year</b>	<b>1-3 years</b>	<b>3-5 years</b>	<b>More than 5 years</b>
Long-term debt obligations	\$ 36,400	\$ 13,600	\$ 22,800	\$	\$
Interest expense obligation <sup>(1)</sup>	1,761	1,084	676	1	
Capital lease obligations	1,368	344	919	105	
Operating lease obligations	5,328	1,744	2,108	956	520
Severance liabilities <sup>(2)</sup>	8,488	680	1,042	1,318	5,448
Deferred liability in connection with business acquisition	3,312		3,312		
Provision for uncertain income tax position	2,049		1,335	710	4
<b>Total</b>	<b>\$ 58,706</b>	<b>\$ 17,452</b>	<b>\$ 32,192</b>	<b>\$ 3,090</b>	<b>\$ 5,972</b>

<sup>(1)</sup> Interest expense obligation reflects the interest rate on long-term debt obligation as of June 30, 2017. The interest rates ranged between 3.05% and 3.56%. For further discussion of long-term and short-term debt obligations, see Note 13 of our audited consolidated financial statements.

<sup>(2)</sup> Severance liabilities as of June 30, 2017 are determined based on management assumptions, see Note 14 of our audited consolidated financial statements.

As of June 30, 2017, our long-term debt obligations consisted of approximately \$36.4 million outstanding under a loan agreement. The loan prescribes maximum ratios of debt to equity and minimum levels of debt service coverage ratios (i.e., earnings before interest expenses and depreciation and amortization plus cash on hand minus short-term debts divided by current portion of long-term debts plus interest expenses). These financial ratio covenants could restrict our ability to incur additional indebtedness and limit our ability to use our cash. Our long-term debt obligation also includes customary events of default.

As of June 30, 2017, we were in compliance with our long-term loan agreements. Nonetheless, in the event of a default on these loans or a breach of a financial ratio covenant, the lenders may immediately cancel the loan agreements, deem the full amount of the outstanding indebtedness immediately due and payable; charge us interest on a monthly basis on the full amount of the outstanding indebtedness and, if we cannot repay all of our outstanding obligations, sell the assets pledged as collateral for the loans in order to fulfill our obligations to the lenders. We may also be held responsible for any damages and related expenses incurred by the lender as a result of any default.

We entered into the Facility Agreement with a consortium of banks on May 22, 2014. The Facility Agreement, led by Bank of America, provides for a \$200.0 million credit line, comprised of a \$150.0 million revolving loan facility and a \$50.0 million delayed draw term loan facility. The revolving loan facility contains

**Table of Contents**

an accordion feature permitting us to request an increase in the facility up to \$100.0 million subject to customary terms and conditions and provided that no default or event of default exists at the time of request. The revolving loan facility terminates and all amounts outstanding are due and payable in full on May 22, 2019. The principal amount of any drawn term loans must be repaid according to the scheduled quarterly amortization payments, with final payment of all amounts outstanding, plus accrued interest, being due May 22, 2019.

On February 26, 2015, we entered into the Second Amendment to the Facility Agreement. The amendment extended the availability period for draws on the term loan facility from May 21, 2015 to July 31, 2015. It also allows us, upon the satisfaction of certain conditions, to designate from time to time one or more of Fabrinet's subsidiaries as borrowers under the Facility Agreement. On July 31, 2015, we entered into the Third Amendment to the Facility Agreement. The amendment extended the availability period for draws on the term loan facility from July 31, 2015 to July 31, 2016.

As of June 30, 2017, we had \$36.4 million of long-term borrowing and \$34.0 million of revolving borrowing outstanding under the Facility Agreement; as a result, there were available credit facilities of \$116.0 million.

In connection with our acquisition of Exception EMS, we assumed lease agreements for certain machine and equipment, which are accounted for as capital leases. As of June 30, 2017, we included approximately \$1.9 million of capital lease assets and \$1.4 million of capital lease liability in our consolidated balance sheets associated with these acquired lease agreements.

As of June 30, 2017, we also had certain operating lease arrangements in which the lease payments are calculated using the straight-line method. Our rental expenses under these leases were \$1.9 million, \$1.2 million and \$1.1 million for fiscal year 2017, fiscal year 2016 and fiscal year 2015, respectively.

**Capital Expenditures**

The following table sets forth our capital expenditures, which include amounts for which payments have been accrued, for the periods indicated.

<i>(amount in thousands)</i>	<b>Years Ended</b>		
	<b>June 30, 2017</b>	<b>June 24, 2016</b>	<b>June 26, 2015</b>
Capital expenditures	\$ 56,194	\$ 55,166	\$ 56,130

Our capital expenditures for fiscal year 2017, fiscal year 2016 and fiscal year 2015 principally related to investment in our new facilities in Thailand and the United States. During fiscal year 2017, we purchased equipment and entered into an agreement to purchase a parcel of land in Chonburi, to support the expansion of our manufacturing operations in Thailand. During fiscal year 2016, we purchased a parcel of land and began construction of our Chonburi campus. During fiscal year 2015, we purchased a building and associated land in Santa Clara, California. During fiscal year 2018, we expect to purchase additional equipment for our new manufacturing facilities in the United States and Thailand.

**Off-Balance Sheet Commitments and Arrangements**

As of June 30, 2017, we did not have any off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

**Recent Accounting Pronouncements**

See Note 2 of the Notes to Consolidated Financial Statements for recent accounting pronouncements that could have an effect on us.

---

**Table of Contents**

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

***Interest Rate Risk***

We had cash, cash equivalents, and marketable securities totaling \$285.3 million, \$284.5 million and \$255.8 million, as of June 30, 2017, June 24, 2016 and June 26, 2015, respectively. We have interest rate risk exposure relating to the interest income generated by excess cash invested in highly liquid investments with maturities of three months or less from the original dates of purchase. The cash, cash equivalents, and marketable securities are held for working capital purposes. We have not used derivative financial instruments in our investment portfolio. We have not been exposed nor do we anticipate being exposed to material risks due to changes in market interest rates. Declines in interest rates, however, will reduce future investment income. If overall interest rates had declined by 10 basis points during fiscal year 2017, fiscal year 2016 and fiscal year 2015, our interest income would have decreased by approximately \$0.3 million, \$0.1 million and \$0.1 million, respectively, assuming consistent investment levels.

We also have interest rate risk exposure in movements in interest rates associated with our interest bearing liabilities. The interest bearing liabilities are denominated in U.S. dollars and the interest expense is based on the London Inter-Bank Offered Rate (LIBOR), plus an additional margin, depending on the lending institution. If the LIBOR had increased by 100 basis points during fiscal year 2017, fiscal year 2016 and fiscal year 2015, our interest expense would have increased by approximately \$0.8 million, \$0.1 million and \$0.1 million, respectively, assuming consistent borrowing levels.

We maintain an investment portfolio in a variety of financial instruments, including, but not limited to, U.S. government and agency bonds, corporate obligations, money market funds, asset-backed securities, and other investment-grade securities. The majority of these investments pay a fixed rate of interest. The securities in the investment portfolio are subject to market price risk due to changes in interest rates, perceived issuer creditworthiness, marketability, and other factors. These investments are classified as available-for-sale and, consequently, are recorded on our consolidated balance sheets at fair value with unrealized gains or losses reported as a separate component of shareholders' equity.

Investments in both fixed-rate and floating-rate interest earning instruments carry a degree of interest rate risk. The fair market values of our fixed-rate securities decline if interest rates rise, while floating-rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future investment income may be less than we expect because of changes in interest rates or we may suffer losses in principal if forced to sell securities that have experienced a decline in market value because of changes in interest rates.

***Foreign Currency Risk***

As a result of our foreign operations, we have significant expenses, assets and liabilities that are denominated in foreign currencies. Substantially all of our employees and most of our facilities are located in Thailand, the PRC and the United Kingdom. Therefore, a substantial portion of our payroll as well as certain other operating expenses are paid in Thai baht, RMB or GBP. The significant majority of our revenues are denominated in U.S. dollars because our customer contracts generally provide that our customers will pay us in U.S. dollars.

As a consequence, our gross profit margins, operating results, profitability and cash flows are adversely impacted when the dollar depreciates relative to the Thai baht, GBP or the RMB. We have a particularly significant currency rate exposure to changes in the exchange rate between the Thai baht, GBP and the U.S. dollar. We must translate foreign currency-denominated results of operations, assets and liabilities for our foreign subsidiaries to U.S. dollars in our audited consolidated financial statements. Consequently, increases and decreases in the value of the U.S. dollar compared with such foreign currencies will affect our reported results of operations and the value of our assets and liabilities on our audited consolidated balance sheets, even if our results of operations or the value of those assets and liabilities has not changed in its original currency. These



**Table of Contents**

transactions could significantly affect the comparability of our results between financial periods or result in significant changes to the carrying value of our assets, liabilities and shareholders' equity.

We attempt to hedge against these exchange rate risks by entering into derivative instruments that are typically one to eighteen months in duration, leaving us exposed to longer term changes in exchange rates. During the year ended June 30, 2017, we recognized foreign exchange loss of \$1.0 million, \$1.6 million and \$0.02 million in the consolidated statements of operations and comprehensive income during fiscal year 2017, fiscal year 2016 and fiscal year 2015, respectively. As foreign currency exchange rates fluctuate relative to the U.S. dollar, we expect to incur foreign currency translation adjustments and may incur foreign currency exchange losses. For example, a 10% weakening in the U.S. dollar against the Thai baht, the RMB and the GBP would have resulted in a decrease in our net dollar position of approximately \$4.8 million and \$2.3 million as of June 30, 2017 and June 24, 2016, respectively. We cannot give any assurance as to the effect that future changes in foreign currency rates will have on our consolidated financial position, operating results or cash flows.

***Credit Risk***

Credit risk refers to our exposures to financial institutions, suppliers and customers that have in the past and may in the future experience financial difficulty, particularly in light of recent conditions in the credit markets and the global economy. As of June 30, 2017 and June 24, 2016, our cash and cash equivalents were held in deposits and highly liquid investment products with maturities of three months or less with banks and other financial institutions having credit ratings of A minus or above. As of June 30, 2017 and June 24, 2016, our marketable securities were held in various financial institutions with a maturity limit not to exceed three years, and all securities were rated A1, P-1, F1, or better. We continue to monitor our surplus cash and consider investment in corporate and U.S. government debt as well as certain available-for-sale securities in accordance with our investment policy. We generally monitor the financial performance of our suppliers and customers, as well as other factors that may affect their access to capital and liquidity. Presently, we believe that we will not incur material losses due to our exposures to such credit risk.

---

**Table of Contents**

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.  
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

**Consolidated Financial Statements of Fabrinet**

	<b>Page</b>
<u>Report of Independent Registered Public Accounting Firm</u>	56
<u>Consolidated Balance Sheets as of June 30, 2017 and June 24, 2016</u>	57
<u>Consolidated Statements of Operations and Comprehensive Income for the Years Ended June 30, 2017, June 24, 2016 and June 26, 2015</u>	58
<u>Consolidated Statements of Shareholders' Equity for the Years Ended June 30, 2017, June 24, 2016 and June 26, 2015</u>	59
<u>Consolidated Statements of Cash Flows for the Years Ended June 30, 2017, June 24, 2016 and June 26, 2015</u>	60
<u>Notes to Consolidated Financial Statements for the Years Ended June 30, 2017, June 24, 2016 and June 26, 2015</u>	62
 <b>Supplementary Financial Data</b>	
<u>Selected Quarterly Financial Data (unaudited) for the Years Ended June 30, 2017 and June 24, 2016</u>	98

---

**Table of Contents**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**To the Board of Directors and Shareholders of Fabrinet**

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and comprehensive income, of shareholders' equity and of cash flows present fairly, in all material respects, the financial position of Fabrinet and its subsidiaries (the Company) at June 30, 2017 and June 24, 2016, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2017 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers ABAS Ltd.

PricewaterhouseCoopers ABAS Ltd.

Bangkok, Thailand

August 23, 2017

**Table of Contents****FABRINET****CONSOLIDATED BALANCE SHEETS**

<i>(in thousands of U.S. dollars, except share data)</i>	<b>June 30, 2017</b>	<b>June 24, 2016</b>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 133,825	\$ 142,804
Marketable securities	151,450	141,709
Trade accounts receivable, net	264,349	196,145
Inventory, net	238,665	181,499
Deferred tax assets		1,358
Prepaid expenses	6,306	3,114
Other current assets	4,159	6,662
<b>Total current assets</b>	<b>798,754</b>	<b>673,291</b>
<b>Non-current assets</b>		
Restricted cash in connection with business acquisition	3,312	
Property, plant and equipment, net	216,881	178,410
Intangibles, net	5,840	499
Goodwill	3,806	
Deferred tax assets	2,905	1,806
Deferred debt issuance costs on revolving loan and other non-current assets	1,577	1,851
<b>Total non-current assets</b>	<b>234,321</b>	<b>182,566</b>
<b>Total Assets</b>	<b>\$ 1,033,075</b>	<b>\$ 855,857</b>
<b>Liabilities and Shareholders Equity</b>		
<b>Current liabilities</b>		
Bank borrowings, net of unamortized debt issuance costs	\$ 48,402	\$ 24,307
Trade accounts payable	215,262	172,052
Fixed assets payable	8,141	20,628
Capital lease liability, current portion	344	
Income tax payable	1,976	2,010
Accrued payroll, bonus and related expenses	13,852	12,300
Accrued expenses	9,227	8,072
Other payables	14,068	16,356
<b>Total current liabilities</b>	<b>311,272</b>	<b>255,725</b>
<b>Non-current liabilities</b>		
Long-term loan from bank, net of unamortized debt issuance costs	22,701	36,100
Deferred tax liability	1,981	854
Capital lease liability, non-current portion	1,024	
Deferred liability in connection with business acquisition	3,312	
Severance liabilities	8,488	6,684
Other non-current liabilities	2,723	2,075
<b>Total non-current liabilities</b>	<b>40,229</b>	<b>45,713</b>

Edgar Filing: Fabrinet - Form 10-K

<b>Total Liabilities</b>	351,501	301,438
Commitments and contingencies (Note 19)		
Shareholders' equity		
Preferred shares (5,000,000 shares authorized, \$0.01 par value; no shares issued and outstanding as of June 30, 2017 and June 24, 2016)		
Ordinary shares (500,000,000 shares authorized, \$0.01 par value; 37,340,496 shares and 36,156,446 shares issued and outstanding as of June 30, 2017 and June 24, 2016, respectively)	373	362
Additional paid-in capital	133,293	102,325
Accumulated other comprehensive (loss) income	(348)	591
Retained earnings	548,256	451,141
<b>Total Shareholders' Equity</b>	681,574	554,419
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 1,033,075</b>	<b>\$ 855,857</b>

The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents****FABRINET****CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME**

	Years Ended		
	June 30, 2017	June 24, 2016	June 26, 2015
<i>(in thousands of U.S. dollars, except per share data)</i>			
Revenues	\$ 1,420,490	\$ 976,747	\$ 773,587
Cost of revenues	(1,249,030)	(857,224)	(685,814)
Gross profit	171,460	119,523	87,773
Selling, general and administrative expenses	(65,626)	(49,753)	(39,460)
Other income related to flooding, net		36	
Expenses related to reduction in workforce			(1,153)
Operating income	105,834	69,806	47,160
Interest income	1,977	1,535	1,253
Interest expense	(3,321)	(1,569)	(616)
Foreign exchange loss, net	(1,142)	(1,916)	(19)
Other income (expense), net	509	376	(152)
Income before income taxes	103,857	68,232	47,626
Income tax expense	(6,742)	(6,335)	(3,984)
Net income	97,115	61,897	43,642
Other comprehensive (losses) gains, net of tax:			
Change in net unrealized (losses) gains on marketable securities	(471)	443	(44)
Change in net unrealized (losses) gains on derivative instruments	(158)	192	
Change in foreign currency translation adjustment	(310)		
Total other comprehensive (loss) income, net of tax	(939)	635	(44)
Net comprehensive income	\$ 96,176	\$ 62,532	\$ 43,598
<b>Earnings per share</b>			
Basic	\$ 2.63	\$ 1.73	\$ 1.23
Diluted	\$ 2.57	\$ 1.68	\$ 1.21
<b>Weighted average number of ordinary shares outstanding</b> (thousands of shares)			
Basic	36,927	35,857	35,354
Diluted	37,852	36,872	35,984

The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents****FABRINET****CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY**

	Ordinary Share		Additional	Accumulated Other	Retained	Total
	Shares	Amount	Capital	Comprehensive Income (Loss)	Earnings	
<i>(in thousands of U.S. dollars, except share data)</i>						
Balances at June 27, 2014	35,152,772	352	80,882		345,602	426,836
Net income					43,642	43,642
Other comprehensive loss				(44)		(44)
Share-based compensation expense			8,027			8,027
Issuance of ordinary shares	284,882	2	833			835
Tax withholdings related to net share settlement of restricted share units			(352)			(352)
Balances at June 26, 2015	35,437,654	354	89,390	(44)	389,244	478,944
Net income					61,897	61,897
Other comprehensive income				635		635
Share-based compensation expense			9,927			9,927
Issuance of ordinary shares	718,792	8	5,471			5,479
Tax withholdings related to net share settlement of restricted share units			(2,463)			(2,463)
Balances at June 24, 2016	36,156,446	362	102,325	591	451,141	554,419
Net income					97,115	97,115
Other comprehensive loss				(939)		(939)
Share-based compensation expense			26,507			26,507
Issuance of ordinary shares	1,184,050	11	5,886			5,897
Tax withholdings related to net share settlement of restricted share units			(1,425)			(1,425)
Balances at June 30, 2017	37,340,496	373	133,293	(348)	548,256	681,574

The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents****FABRINET****CONSOLIDATED STATEMENTS OF CASH FLOWS**

<i>(in thousands of U. S. dollars)</i>	<b>June 30, 2017</b>	<b>Years Ended June 24, 2016</b>	<b>June 26, 2015</b>
<b>Cash flows from operating activities</b>			
Net income for the year	\$ 97,115	\$ 61,897	\$ 43,642
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	23,793	17,357	12,947
Gain on disposal of property, plant and equipment	(30)	(73)	(42)
Loss from sales and maturities of marketable securities	822	194	120
Amortization of investment (discount) premium	(193)	798	985
Amortization of deferred debt issuance costs	1,396	758	527
Income related to flooding		(828)	
Proceeds from insurers in settlement of claim related to flood damage		272	
(Reversal of) allowance for doubtful accounts	(1)	(17)	13
Unrealized loss on exchange rate and fair value of derivative	1,884	1,905	671
Share-based compensation	26,507	9,927	8,027
Deferred income tax	754	864	(878)
Other non-cash expenses	2,173	1,744	1,722
Inventory obsolescence (reversal of)	42	(521)	397
Loss from written-off inventory due to flood loss		233	
Changes in operating assets and liabilities			
Trade accounts receivable	(64,142)	(61,013)	(33,797)
Inventory	(53,802)	(50,598)	(6,440)
Other current assets and non-current assets	(2,231)	(5,901)	(283)
Trade accounts payable	38,293	56,308	20,466
Income tax payable	(67)	573	446
Other current liabilities and non-current liabilities	(1,379)	13,209	4,106
<b>Net cash provided by operating activities</b>	<b>70,934</b>	<b>47,088</b>	<b>52,629</b>
<b>Cash flows from investing activities</b>			
Purchase of marketable securities	(122,778)	(108,341)	(203,407)
Proceeds from sales of marketable securities	39,578	41,836	29,036
Proceeds from maturities of marketable securities	72,361	67,113	30,356
Payments in connection with business acquisition, net of cash acquired	(9,917)		
Purchase of property, plant and equipment	(68,262)	(40,616)	(51,398)
Gain on cash settlement of hedged forward contracts		34	
Proceeds from disposal of property, plant and equipment	230	194	48
Purchase of intangibles	(1,768)	(379)	(134)
Proceeds from insurers in settlement of claims related to flood damage		556	
<b>Net cash used in investing activities</b>	<b>(90,556)</b>	<b>(39,603)</b>	<b>(195,499)</b>
<b>Cash flows from financing activities</b>			
Payment of debt issuance costs		(654)	(1,946)
Proceeds of short-term loan from bank	27,500	18,000	30,000
Repayment of short-term loan from bank	(157)	(41,500)	
Proceeds of long-term loan from bank		50,000	
Repayment of long-term loan from bank	(18,100)	(6,000)	(6,000)



## Edgar Filing: Fabrinet - Form 10-K

Proceeds from issuance of ordinary shares under employee share option plan	5,890	5,479	835
Repayment of capital lease liability	(276)		
Withholding tax related to net share settlement of restricted share units	(1,425)	(2,463)	(352)
Net cash provided by financing activities	13,432	22,862	22,537
<b>Net (decrease) increase in cash, cash equivalents and restricted cash</b>	<b>\$ (6,190)</b>	<b>\$ 30,347</b>	<b>\$ (120,333)</b>

**Table of Contents**

<i>(in thousands of U. S. dollars)</i>	<b>June 30, 2017</b>	<b>Years Ended June 24, 2016</b>	<b>June 26, 2015</b>
<b>Movement in cash, cash equivalents and restricted cash</b>			
Cash, cash equivalents and restricted cash at beginning of period	\$ 142,804	\$ 112,978	\$ 233,477
(Decrease) increase in cash, cash equivalents and restricted cash	(6,190)	30,347	(120,333)
Effect of exchange rate on cash, cash equivalents and restricted cash	523	(521)	(166)
<b>Cash, cash equivalents and restricted cash at end of period</b>	<b>\$ 137,137</b>	<b>\$ 142,804</b>	<b>\$ 112,978</b>

**Supplemental disclosures**

Cash paid for			
Interest	\$ 1,924	\$ 1,091	\$ 590
Taxes	\$ 5,218	\$ 5,473	\$ 2,841
Cash received for interest	\$ 1,753	\$ 1,049	\$ 749

**Non-cash investing and financing activities**

Construction, software related and equipment related payables	\$ 8,434	\$ 20,628	\$ 6,026
---	----------	-----------	----------

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the consolidated balance sheets that sum to the total of same amounts shown in the consolidated statements of cash flows:

<i>(amount in thousands)</i>	<b>June 30, 2017</b>	<b>As of June 24, 2016</b>	<b>June 26, 2015</b>
Cash and cash equivalents	\$ 133,825	\$ 142,804	\$ 112,978
Restricted cash in connection with business acquisition (non-current assets)	3,312		
<b>Cash, cash equivalents and restricted cash</b>	<b>\$ 137,137</b>	<b>\$ 142,804</b>	<b>\$ 112,978</b>

The accompanying notes are an integral part of these consolidated financial statements.

---

**Table of Contents**

**FABRINET**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(in thousands of U.S. dollars unless otherwise noted)**

**1. Business and organization**

***Description of Business***

Fabrinet ( Fabrinet or the Parent Company ) was incorporated on August 12, 1999, and commenced operations on January 1, 2000. The Parent Company is an exempted company incorporated in the Cayman Islands, British West Indies. The Company refers to Fabrinet and its subsidiaries as a group.

The Company provides advanced optical packaging and precision optical, electro-mechanical and electronic manufacturing services to original equipment manufacturers ( OEMs ) of complex products, such as optical communication components, modules and sub-systems, industrial lasers, medical devices and sensors. The Company offers a broad range of advanced optical and electro-mechanical capabilities across the entire manufacturing process, including process design and engineering, supply chain management, manufacturing, complex printed circuit board assembly, advanced packaging, integration, final assembly and test. The Company focuses primarily on the production of low-volume, high-mix products. The principal subsidiaries of Fabrinet include Fabrinet Co., Ltd. ( Fabrinet Thailand ), Casix, Inc. ( Casix ), Fabrinet West, Inc. ( Fabrinet West ) and Exception EMS Ltd.

**2. Summary of significant accounting policies**

***Principles of consolidation***

The Company utilizes a 52-53 week fiscal year ending on the Friday in June closest to June 30. Fiscal year 2017 ended on June 30, 2017 and consisted of 53 weeks. Fiscal year 2016 and fiscal year 2015 ended on June 24, 2016 and June 26, 2015, respectively, and each consisted of 52 weeks.

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ( U.S. GAAP ) and include Fabrinet and its subsidiaries. All inter-company accounts and transactions have been eliminated.

Where necessary, comparative figures have been reclassified to conform to the current period accounting policies and presentation adopted.

On September 14, 2016, the Company acquired Global CEM Solutions, Ltd. and all of its subsidiaries (collectively, Exception EMS ), a privately-held group located in Wiltshire, United Kingdom. The consolidated financial statements of the Company include the financial position, results of operations and the cash flows of Exception EMS commencing as of the acquisition date. See Note 9 Business acquisition for further details on the accounting for this transaction.

***Use of estimates***

The preparation of the Company's consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements, and the reported amount of total revenues and expenses during the year. The Company bases estimates on historical experience and various assumptions about the future that are believed to be reasonable based on available information. The Company's reported financial position or results of operations may be materially different under different conditions or when using different estimates and assumptions, particularly with respect to significant accounting policies, which are discussed below. Significant assumptions are used in accounting for share-based compensation, allowance for doubtful accounts, income taxes, inventory obsolescence and valuation

## **Table of Contents**

of intangible assets related to business acquisition, among others. Due to the inherent uncertainty involved in making estimates, actual results reported in future periods may be different from these estimates. In the event that estimates or assumptions prove to differ from actual results, adjustments will be made in subsequent periods to reflect more current information.

### ***Foreign currency transactions and translation***

The consolidated financial statements are presented in United States dollars ( \$ or USD ). The functional currency of Fabrinet and most of its subsidiaries is the USD.

With respect to subsidiaries that use USD as their functional currency, transactions denominated in a currency other than USD are translated into USD at the rates of exchange in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate prevailing at the consolidated balance sheet dates. Transaction gains and losses are included in other income (expense) or foreign exchange gain (loss) in the accompanying consolidated statements of operations and comprehensive income.

Fabrinet translates the assets and liabilities of its subsidiaries that do not use USD as their functional currency into USD using exchange rates in effect at the end of each period. Revenue and expenses for such subsidiaries are translated using rates that approximate those in effect during the period. Gains and losses from these translations are recognized in foreign currency translation adjustment included in accumulated other comprehensive income (loss) ( AOCI ).

### ***Cash and cash equivalents***

All highly liquid investments with original maturities of three months or less at the date of purchase are classified as cash equivalents. Cash and cash equivalents consist of cash deposited in checking accounts, time deposits with maturities of less than three months, money market accounts, and marketable securities with maturities of three months or less at the date of purchase.

### ***Marketable securities***

Management determines the appropriate classification of its investments at the time of purchase and reevaluates the designations at each balance sheet date. The Company may sell certain of the Company's marketable securities prior to their stated maturities for strategic reasons including, but not limited to, anticipation of credit deterioration and duration management. The maturities of the Company's marketable securities generally range from three months to three years. The Company's marketable securities consist of investment in U.S. Treasury and fixed income securities and have been classified and accounted for as available-for-sale.

The Company's investments in marketable securities are classified as available-for-sale securities and reported at fair value. Unrealized gains and losses related to changes in the fair value of securities are recognized in accumulated other comprehensive income, net of tax, in the Company's consolidated balance sheets. Changes in the fair value of available-for-sale securities impact the Company's net income only when such securities are sold or other-than-temporary impairment is recognized. Realized gains and losses on the sale of securities are determined by specific identification of each security's cost basis.

The Company reviews its marketable securities on a regular basis to evaluate whether or not any security has experienced an other-than-temporary decline in fair value. The Company considers factors such as the length of time and extent to which the market value has been less than the cost, the financial condition and near-term prospects of the issue and the Company's intent to sell, or whether it is more likely than not the Company will be required to sell the investment before recovery of the investment's amortized cost basis. If the Company believes that an other-than-temporary decline exists in one of these securities, the Company will write down these investments to fair value.

**Table of Contents*****Trade accounts receivable***

Accounts receivable are carried at anticipated realizable value. The Company assesses the collectability of its accounts receivable based on specific customer circumstances, current economic trends, historical experience with collection and the age of past due receivables and provides an allowance for doubtful receivables based on a review of all outstanding amounts at the period end. Bad debts are written-off when identified.

Unanticipated changes in the liquidity or financial position of the Company's customers may require revision to the allowances for doubtful accounts.

***Inventory***

Inventory is stated at the lower of cost or market value. Cost is estimated using the standard costing method, computed on a first-in, first-out basis, with adjustments for variances to reflect actual costs not in excess of net realizable market value. Market value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses. The Company assesses the valuation of inventory on a quarterly basis and writes down the value for estimated excess and obsolete inventory based upon estimates of future demand.

***Leases******Operating leases***

Payments made under operating leases are expensed on a straight-line basis over the lease term.

***Capital lease***

Certain machine and equipment held under capital leases are classified as property, plant and equipment and amortized using the straight-line method over the terms of the lease contracts. The related obligations from the capital lease are recorded as liabilities in the consolidated balance sheets.

***Property, plant and equipment***

Land is stated at historical cost. Other property, plant and equipment, except for construction in process and machinery under installation, are stated at historical cost less accumulated depreciation. Depreciation is calculated using the straight-line method to write-off the cost of each asset to its residual value over its estimated useful life as follows:

Land improvements	10 years
Building and building improvements	7 - 30 years
Leasehold improvements	Shorter of useful life or lease term
Manufacturing equipment	3 - 7 years
Office equipment	3 - 7 years
Motor vehicles	3 - 5 years
Computer hardware	3 - 5 years

Construction in process and machinery under installation is stated at historic cost and depreciation begins after it is constructed and fully installed and is ready for its intended use in the operations of the Company.

Gains and losses on disposal are determined by comparing proceeds with carrying amounts and are included in operating income in the consolidated statements of operations and comprehensive income.

The Company tests long-lived assets or asset groups for recoverability when events or changes in circumstances indicate that their carrying amount may not be recoverable. Recoverability of long-lived

## **Table of Contents**

assets or asset groups is measured by comparing their carrying amount to the projected undiscounted cash flows that the long-lived assets or asset groups are expected to generate. If such assets are considered to be impaired, the impairment loss recognized, if any, is the amount by which the carrying amount of the property and equipment exceeds its fair value.

### ***Intangibles***

Intangibles are stated at historical cost less amortization. Amortization of customer relationships is calculated using the accelerated method as to reflect the pattern in which the economic benefits of the intangible assets are consumed. Amortization of other intangibles is calculated using the straight-line method.

### ***Business acquisition***

For the acquisition of Exception EMS, the Company allocated the fair value of purchase consideration to the assets acquired and liabilities assumed based on their fair values at the acquisition date. The allocation of consideration to the individual net assets was finalized in the fourth quarter of fiscal year 2017.

The acquired intangible assets, which consist of customer relationships and backlog, are recorded as intangibles in the consolidated balance sheets. The fair value of the acquired intangible assets was determined based on the multi-period excess earnings method. The Company reviews intangibles for impairment whenever changes or circumstances indicate the carrying amount may not be recoverable.

In connection with the business acquisition, \$3.3 million of cash for deferred consideration, net of foreign currency translation adjustment, was placed into an escrow account which is under the Company's control. However, the Company has contractually agreed to remit this deferred consideration to the sellers of Exception EMS, subject to the resolution of claims that the Company may make against the funds with respect to indemnification and other claims within 24 months from the closing date of the transaction. The cash is presented as restricted cash in the consolidated balance sheets within non-current assets and the related liability is presented within non-current liabilities for the deferred consideration.

### ***Goodwill***

Goodwill arising from the acquisition is primarily attributable to the ability to expand future products and services and the assembled workforce. Goodwill is reviewed annually for impairment or more frequently whenever changes or circumstances indicate the carrying amount of goodwill may not be recoverable.

### ***Borrowing costs***

Borrowing costs are accounted for on an accrual basis and are charged to the consolidated statements of operations and comprehensive income in the year incurred, except for interest costs on general and specific borrowings attributable to finance certain qualifying assets. Such costs to finance qualifying assets are capitalized during the period of time that is required to complete and prepare the assets for their intended use, as part of the cost of the assets. All other borrowing costs are expensed as incurred.

Where funds are not borrowed for a specific acquisition, construction or production of assets, the capitalization rate used to determine the amount of interest to be capitalized is the weighted average interest rate applicable to the Company's outstanding borrowings during the year. Where funds are borrowed specifically for the acquisition, construction or production of assets, the amount of borrowing costs eligible for capitalization on the respective assets is determined as the actual borrowing costs are incurred on that borrowing during the respective periods.

### ***Fair value of financial instruments***

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction

## **Table of Contents**

between market participants on the measurement date. A fair value hierarchy is established which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs for the valuation of an asset or liability as of the measurement date. The three levels of inputs that may be used to measure fair value are defined as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 inputs for similar assets and liabilities in active markets other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 inputs that are significant to the fair value measurement and unobservable (i.e. supported by little or no market activity), which require the reporting entity to develop its own valuation techniques and assumptions.

The Company utilizes the market approach to measure fair value for its financial assets and liabilities. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

The carrying amounts of certain financial instruments, which include cash and cash equivalents, trade accounts receivable, and trade accounts payable, approximate their fair values due to their short maturities. The carrying amounts of borrowings approximate their fair values as the applicable interest rate is based on market interest rates. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

### ***Derivatives***

The derivatives assets and liabilities are recognized on the consolidated balance sheets as other current assets or accrued expenses and are measured at fair value.

The Company applies hedge accounting to arrangements that qualify and are designated for cash flow or fair value hedge accounting treatment. Hedge accounting is discontinued prospectively if the hedging relationship ceases to be effective or the hedging or hedged items cease to exist as a result of maturity, sale, termination or cancellation.

Derivatives designated and qualifying as hedges of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges which include forward currency contracts. In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative is initially recorded in AOCI, while any ineffective portion is recognized directly in earnings, as a component of other income (expense). The portion of gain or loss on the derivative instrument remains in AOCI until the forecasted transaction is recognized in earnings.

The Company also enters into derivative contracts that are intended to economically hedge certain of the Company's risks. The changes in the fair value of the derivatives are recorded directly in earnings as a component of other income (expense). In accordance with the fair value measurement guidance, the Company's accounting policy is to measure the credit risk of its derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio. The Company executes derivative instruments with financial institutions that are credit-worthy, which the Company defines as institutions that hold an investment grade credit rating.

### ***Concentration of credit risk***

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash and cash equivalents, marketable securities, derivatives and accounts receivable.

Cash, cash equivalents and marketable securities are maintained with several financial institutions. Deposits held with banks may exceed the amount of insurance provided on such deposits. Generally, these deposits

---

## **Table of Contents**

may be redeemed upon demand and are maintained with financial institutions with reputable credit and therefore bear minimal credit risk. The Company seeks to mitigate its credit risks by spreading such risks across multiple counterparties and monitoring the risk profiles of these counterparties. The Company limits its investments in marketable securities to securities with a maturity not in excess of three years, and all marketable securities that the Company invests in are rated A1, P-1, F1, or better.

The Company performs ongoing credit evaluations for credit worthiness of its customers and usually does not require collateral from its customers. Management has implemented a program to closely monitor near term cash collection and credit exposures to mitigate any material losses.

### ***Revenue recognition***

The Company derives total revenues primarily from the assembly of products under supply agreements with its customers and the fabrication of customized optics and glass. Revenues represent the invoiced value of products, net of trade discounts and allowances, and exclude goods and services tax. The Company recognizes revenues when realized or realizable and earned. The Company considers revenues realized or realizable and earned when there is persuasive evidence of an arrangement, delivery has occurred, the sales price is fixed or determinable, and collectability is reasonably assured. Delivery does not occur until products have been shipped or services have been provided to the customer, risk of loss has transferred to the customer and customer acceptance has been obtained, customer acceptance provisions have lapsed, or the Company has objective evidence that the criteria specified in the customer acceptance provisions have been satisfied. In situations where a formal acceptance is required but the acceptance only relates to whether the product meets its published specifications, revenues are generally recognized upon shipment provided all other revenue recognition criteria are met. The sales price is not considered to be fixed or determinable until all contingencies related to the sale have been resolved. The Company reduces revenues for rebates and other similar allowances. Revenues are recognized only if these estimates can be reasonably and reliably determined. The Company bases its estimates utilizing historical results taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. In addition to the aforementioned general policies, the following are the specific revenue recognition policies for each major category of revenues.

### ***Services***

The Company provides services for its customers that range from process design to product manufacturing. The Company recognizes service revenues when the services have been performed. The related costs are expensed as incurred.

Services revenue of \$75.4 million, \$31.7 million and \$32.3 million were recognized in the consolidated statements of operations and comprehensive income for the years ended June 30, 2017, June 24, 2016 and June 26, 2015, respectively.

### ***Sales of goods***

Revenues from sales of goods are generally recognized when the product is shipped to the customer and when there are no unfulfilled obligations that affect the customer's final acceptance of the arrangement. Any cost of warranties and remaining obligations that are inconsequential or perfunctory are accrued when the corresponding revenues are recognized.

Certain customers may request the Company to store finished products purchased by them at the Company's warehouse. In these instances, the Company receives a written request from the customer asking the Company to hold the inventory at the Company's warehouse and the ordered goods are segregated in the Company's warehouse from other inventory and cannot be used to fulfill other customer orders. In these situations, revenue is only recognized when persuasive evidence of the sales arrangement exists, the goods are completed and ready for shipment, pricing is fixed or determinable, collection is reasonably assured, and title and risk of loss have passed to the customer.



## **Table of Contents**

### ***Warranty provision***

Provisions for estimated expenses relating to product warranties are made at the time the products are sold using historical experience. Generally, this warranty is limited to workmanship and the Company's liability is capped at the price of the product. The provisions will be adjusted when experience indicates an expected settlement will differ from initial estimates.

Warranty cost allowances of \$1.0 million, \$0.1 million and \$0.03 million were recognized in the consolidated statements of operations and comprehensive income for the years ended June 30, 2017, June 24, 2016 and June 26, 2015, respectively.

### ***Shipping and handling costs***

The Company records costs related to shipping and handling in cost of revenues for all periods presented.

### ***Share-based compensation***

Share-based compensation is recognized in the consolidated financial statements based on grant-date fair value. The value of the portion of the award that is ultimately expected to vest is recognized as expense ratably over the requisite service period. The Company estimates the fair value of share option awards utilizing the Black-Scholes-Merton option-pricing model (BSM), net of estimated forfeitures. For restricted share units and performance share units, the fair values are based on the market value of our ordinary shares on the date of grant.

### ***Employee contribution plan***

The Company operates a defined contribution plan, known as a provident fund, in its subsidiaries in Thailand and the United Kingdom. The assets of these plans are in separate trustee-administered funds. The provident fund is funded by matching payments from employees and by the subsidiaries on a monthly basis. Current contributions to the provident fund are accrued and paid to the fund manager on a monthly basis. The Company sponsors the Fabrinet U.S. 401(k) Retirement Plan (the 401(k) Plan), a Defined Contribution Plan under ERISA, at its subsidiaries in the United States, which provides retirement benefits for its eligible employees through tax deferred salary deductions.

### ***Severance liabilities***

Under labor protection laws applicable in Thailand and the Company's subsidiary in Thailand's employment policy, all employees of such subsidiary with more than 120 days of service are entitled to severance pay on forced termination or retrenchment or in the event that the employee reaches the retirement age of 55. The entitlement to severance pay is determined according to an employee's individual employment tenure with the Company and is subject to a maximum benefit of 10 months of salary unless otherwise agreed upon in an employee's employment contract. For employees of other subsidiaries who have a specific termination date, the entitlement to severance pay is determined according to their employment tenure, until their designated termination date.

The Company accounts for these severance liabilities on an actuarial basis using the Projected Unit Credit Method, using the long-term Thai government bond yield as a discount rate. There are no separate plan assets held in respect of these liabilities.

### ***Annual leave***

Employee entitlements to annual leave are recognized when they accrue to the employee. On termination of employment, accrued employee entitlement to annual leave is paid in cash.

---

## **Table of Contents**

### ***Income taxes***

The Company uses the asset and liability method of accounting for income taxes, whereby deferred tax assets and liabilities are recognized for future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date. Deferred tax assets are reduced by a valuation allowance if, based on the weight of the available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Fabrinet's subsidiaries are subject to income tax audits by the respective tax authorities in all of the jurisdictions in which they operate. The determination of tax liabilities in each of these jurisdictions requires the interpretation and application of complex and sometimes uncertain tax laws and regulations. The Company recognizes liabilities based on its estimate of whether, and the extent to which, additional tax liabilities are more-likely-than-not. If the Company ultimately determines that the payment of such a liability is not probable, then it reverses the liability and recognizes a tax benefit during the period in which the determination is made that the liability is no longer probable. The recognition and measurement of current taxes payable or refundable and deferred tax assets and liabilities requires that the Company makes certain estimates and judgments. Changes to these estimates or a change in judgment may have a material impact on the Company's tax provision in a future period.

The authoritative guidance provides for recognition of deferred tax assets if the realization of such deferred tax assets is more likely than not to occur based on an evaluation of both positive and negative evidence and the relative weight of the evidence. The Company has determined that it is more likely than not that deferred tax asset attributable to a subsidiary in the United States will not be realized, primarily due to uncertainties related to its ability to utilize its net operating loss carryforward before they expire. Accordingly, the Company has established a valuation allowance for such deferred tax asset. If there is a change in the Company's ability to realize its deferred tax assets for which a valuation allowance has been established, then its tax provision may decrease in the period in which it determines that realization is more likely than not. Likewise, if the Company determines that it is not more likely than not that its deferred tax assets will be realized, then a valuation allowance may be established for such deferred tax assets and the Company's tax provision may increase in the period in which it makes the determination.

The accounting standard clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribes a recognition threshold and measurement attributes for financial statement disclosure of tax positions taken or expected to be taken on a tax return.

The Company recognizes a tax benefit in the financial statements for an uncertain tax position only if management's assessment is that the position is more likely than not (i.e., a likelihood greater than 50 percent) to be sustained upon examination by the tax jurisdiction based solely on the technical merits of the position. The term "tax position" refers to a position in a previously filed tax return or a position expected to be taken in a future tax return that is reflected in measuring current or deferred income tax assets and liabilities for interim or annual periods. The accounting interpretation also provides guidance on measurement methodology, derecognition thresholds, financial statement classification and disclosures, recognition of interest and penalties, and accounting for the cumulative-effect adjustment at the date of adoption.

### **New Accounting Pronouncements not yet adopted by the Company**

In January 2017, the FASB issued ASU 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. This amendment modified the concept of impairment assessment from the condition that exists when the carrying amount of goodwill exceeds its implied fair value to the condition that exists when the carrying amount of a reporting unit exceeds its fair value. Public

---

**Table of Contents**

companies that are SEC filers should adopt the amendment for its annual and any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is currently evaluating the impact of the adoption of this update on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-03, Accounting Changes and Error Corrections (Topic 250) and Investments – Equity Method and Joint Ventures (Topic 323): Amendments to SEC Paragraphs Pursuant to Staff Announcements at the September 22, 2016 and November 17, 2016 Emerging Issues Task Force (EITF) Meetings. The amendment provides guidance to the Company in relation to the disclosure of the impact that ASU 2014-09, ASU 2016-02 and ASU 2016-13 will have on the Company's financial statements when adopted. The Company is currently evaluating the impact of the adoption of this update on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, Business Combination (Topic 805): Clarifying the Definition of a Business. This amendment clarifies the definition of a business to assist entities when evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or business. For public companies, this ASU is effective for annual periods beginning after December 15, 2017, including interim periods within those periods. Early adoption is permitted for the transactions that occur before the issuance date or effective date of the amendment, only when the transaction has not been reported in financial statements that have been issued or made available for issuance. The Company does not expect that the adoption of this update will have a material impact to its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force). The amendments in this ASU provide guidance on the presentation of certain cash receipts and cash payments in the statement of cash flows in order to reduce diversity in existing practice. The amendments in ASU 2016-15 are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The Company is currently evaluating the impact of the adoption of this update on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. This ASU simplifies several aspects of the accounting for share-based payment award transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. The amendments in this update are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods, for public companies. Early adoption is permitted for any entity in any interim or annual period. The Company is currently evaluating the impact of the adoption of this update on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-05, Derivatives and Hedging (Topic 815), to clarify that a change in the counterparty to a derivative instrument that has been designated as a hedging instrument under Topic 815, does not, in and of itself, require a de-designation of the hedging relationship, provided that all other hedge accounting criteria continue to be met. This guidance is effective for public entities for financial statements issued for fiscal years beginning after December 15, 2016 and interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact of the adoption of this update on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Lease (Topic 842). The core principle of Topic 842 is that a lessee should recognize the lease assets and liabilities that arise from leases in the statement of financial position. For public business entities, this update is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted. The Company is currently evaluating the impact of the adoption of this update on its consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. This new guidance requires

---

## **Table of Contents**

certain equity investments to be measured at fair value, use of the exit price notion and separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements. The ASU on recognition and measurement will take effect for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is currently evaluating the impact of the adoption of this update on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), issued as a new Topic, Accounting Standards Codification. The core principle of this amendment is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This update is effective for public companies, as amended by ASU 2015-14, for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Earlier application of this guidance is permitted, but not before the original date of December 15, 2016, which can be adopted either retrospectively to each prior reporting period presented or as a cumulative-effect adjustment as of the date of adoption. Subsequently, in March 2016 and April 2016, the FASB issued ASU 2016-08 and ASU 2016-10, respectively, to clarify the implementation guidance on principle versus agent considerations and address the potential diversity in practice at initial application and cost; and the complexity of applying Topic 606, both at transition and on an ongoing basis related to identification of performance obligations and licensing arrangements; and ASU 2016-12 and ASU 2016-20, in May 2016 and December 2016, respectively, to improve in certain aspects of Topic 606, with the same effective date as ASU 2015-14. The Company is continuing to assess the impact of adopting this new guidance on its consolidated financial statements, including whether the effect will be material. The Company has not decided on the method of adoption. Additionally, as the Company continues to assess the new standard along with industry trends and additional interpretive guidance, the Company may adjust its implementation plan accordingly. The process is still ongoing and the Company expects to make significant progress in the coming quarters.

### **New Accounting Pronouncements adopted by the Company**

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, which requires the statement of cash flows to explain the change during the period in the total of cash, cash equivalents and restricted cash or restricted cash equivalents. The Company has early adopted this update in the second quarter of fiscal year 2017 on a retrospective basis but there was no impact to the presentation of the comparative period in the consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes, which will require entities to present deferred tax assets ( DTAs ) and deferred tax liabilities ( DTLs ) as non-current in a classified balance sheet. The ASU simplifies the current guidance, which requires entities to separately present DTAs and DTLs as current and non-current in a classified balance sheet. The Company has early adopted this update in the first quarter of fiscal year 2017. The Company adopted this update on a prospective basis and did not change the presentation of the comparative period.

In September 2015, the FASB issued ASU 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments which require an acquirer to recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The Company adopted this update in the first quarter of fiscal year 2017 and applied it on a prospective basis. See Footnote 9 Business acquisition, for further disclosure on measurement period adjustments recorded in the year ended June 30, 2017.

In July 2015, the FASB issued ASU 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory. The update provides the guidance that an entity, that measured inventory by using first-in, first-out or average cost, should measure inventory at the lower of cost and net realizable value. Subsequent measurement is unchanged for inventory measured using last-in, first-out or the retail inventory method.

---

## **Table of Contents**

The Company adopted this update in the first quarter of fiscal year 2017 with no impact to the consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, *Interest Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. The update requires debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability instead of being presented as an asset. Debt disclosures will include the face amount of the debt liability and the effective interest rate. The update requires retrospective application and represents a change in accounting principle.

Additionally, in August 2015, the FASB issued ASU 2015-15, *Interest Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements* to amend ASU 2015-03. The Company adopted this amendment retrospectively in the first quarter of fiscal year 2017. As of June 30, 2017 and June 24, 2016, debt issuance costs of \$0.3 million and \$0.6 million, respectively, related to a recognized debt liability are presented in the balance sheet as a direct reduction of the carrying amount of the related debts.

In February 2015, the FASB issued ASU 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis*. ASU No. 2015-02 amended the process that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. In the first quarter of fiscal year 2017, the Company adopted this update with no impact to the consolidated financial statements.

In January 2015, the FASB issued ASU 2015-01, *Income Statement Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items*. The objective of this amendment is to reduce the complexity in accounting standards by eliminating the concept of extraordinary items from U.S. GAAP. To meet for extraordinary classification the underlying event or transaction should (a) possess a high degree of abnormality and be of a type clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the entity and (b) not reasonably be expected to recur in the foreseeable future. In the first quarter of fiscal year 2017, the Company adopted this update with no impact to the consolidated financial statements.

### **3. Income taxes**

#### *Cayman Islands*

Fabrinet is domiciled in the Cayman Islands. Under the current laws of the Cayman Islands, Fabrinet is not subject to tax in the Cayman Islands on income or capital gains. Fabrinet has received this undertaking for a 20-year period ending August 24, 2019, and after the expiration date, Fabrinet can make a request for renewal with the office of the Clerk of the Cabinet for another 20 years.

Income of the Company exempted from corporate income tax in the Cayman Islands amounted to \$64.2 million, \$41.0 million and \$27.0 million in the years ended June 30, 2017, June 24, 2016 and June 26, 2015, respectively.

#### *Thailand*

Fabrinet Thailand is where the majority of the Company's operations and production takes place. The Company was not subject to tax for the period from July 2010 through June 2015 on income generated from the manufacture of products at Pinehurst Building 5, and is not subject to tax from July 2012 through June 2020 on income generated from the manufacture of products at Pinehurst Building 6. Such preferential tax treatment is contingent on, among other things, the export of the Company's customers' products out of Thailand and the Company's agreement not to move its manufacturing facilities out of its current province in Thailand for at least 15 years from the date on which preferential tax treatment was granted i.e., at least until June 2020. Additionally, in March 2016, the Thailand Revenue Department announced the permanent decrease of corporate income tax rates to 20% for tax periods beginning on or after January 1, 2016. As a result, corporate income tax rates for Fabrinet Thailand remain at 20% from fiscal year 2017 onwards.

**Table of Contents**

People's Republic of China

The corporate income tax rate for Casix is 25%.

The Company's income tax expense consisted of the following:

<i>(amount in thousands)</i>	<b>Years Ended</b>		
	<b>June 30, 2017</b>	<b>June 24, 2016</b>	<b>June 26, 2015</b>
Current	\$ 6,299	\$ 5,413	\$ 4,191
Deferred	443	922	(207)
<b>Total income tax expense</b>	<b>\$ 6,742</b>	<b>\$ 6,335</b>	<b>\$ 3,984</b>

The reconciliation between the Company's taxes that would arise by applying the statutory tax rate of the country of the Company's principal operations, Thailand, to the Company's effective tax charge is shown below:

<i>(amount in thousands)</i>	<b>Years Ended</b>		
	<b>June 30, 2017</b>	<b>June 24, 2016</b>	<b>June 26, 2015</b>
Income before income taxes <sup>(1)</sup>	\$ 103,857	\$ 68,232	\$ 47,626
Tax expense calculated at a statutory corporate income tax rate of 20%	20,771	13,646	9,525
Effect of income taxes from locations with tax rates different from Thailand	1,469	1,573	1,134
Income not subject to tax <sup>(2)</sup>	(17,212)	(10,493)	(7,094)
Income tax on unremitted earnings	1,058	741	1,263
Effect of different tax rate in relation to deferred tax utilization <sup>(3)</sup>		894	(221)
Effect of foreign exchange rate adjustment	667	375	(365)
Tax rebate from research and development application	(226)	(145)	(102)
Others	215	(256)	(156)
<b>Corporate income tax expense</b>	<b>\$ 6,742</b>	<b>\$ 6,335</b>	<b>\$ 3,984</b>

<sup>(1)</sup> Income before income taxes was mostly generated from domestic income in the Cayman Islands.

<sup>(2)</sup> Income not subject to tax relates to income earned in the Cayman Islands and income subject to an investment promotion privilege for Building 5 and Building 6. Income not subject to tax per ordinary share on a diluted basis (in dollars) was \$0.18, \$0.06 and \$0.20 for the years ended June 30, 2017, June 24, 2016 and June 26, 2015, respectively.

<sup>(3)</sup> The balances were effect of different tax rate in relation to the rate recognized deferred taxes during the fiscal year and the rate when deferred taxes will be utilized in the following fiscal years.

The Company's deferred tax assets and deferred tax liabilities, net of valuation allowance, at each balance sheet date are as follows:

<i>(amount in thousands)</i>	<b>Years Ended</b>	
	<b>June 30, 2017</b>	<b>June 24, 2016</b>
<b>Deferred tax assets:</b>		
Depreciation	\$ 1,674	\$ 1,679

Edgar Filing: Fabrinet - Form 10-K

Severance liability	1,127	955
Reserves and allowance	1,046	1,363
Loss carrying forward	496	
Others	10	
Total	\$ 4,353	\$ 3,997

**Table of Contents**

<i>(amount in thousands)</i>	Years Ended	
	June 30, 2017	June 24, 2016
<i>Deferred tax liabilities:</i>		
Temporary differences from intangibles and changes in the fair value of assets acquired	\$ (944)	\$
Deferred tax from unremitted earnings	(2,485)	(1,687)
Total	(3,429)	(1,687)
Net	\$ 924	\$ 2,310

As of June 30, 2017 and June 24, 2016, the Company recognized deferred tax assets of \$6.4 million and \$4.9 million, respectively, from tax on net operating loss carrying forward of Fabrinet West. Utilization of the tax net operating losses carrying forward may be subject to substantial limitations according to the subsidiary's future operation, which may result in the reduced utilization of a portion of the Company's net operating losses.

Income tax liabilities have not been established for withholding tax and other taxes that would be payable on the unremitted earnings of Fabrinet Thailand. Such amounts of Fabrinet Thailand are permanently reinvested; unremitted earnings for Fabrinet Thailand totaled \$97.3 million and \$68.8 million as of June 30, 2017 and June 24, 2016, respectively. Unrecognized deferred tax liabilities for such unremitted earnings were \$5.2 million and \$4.2 million as of June 30, 2017 and June 24, 2016, respectively.

Deferred tax liabilities of \$0.8 million and \$0.7 million have been established for withholding tax on the unremitted earnings of Casix for the year ended June 30, 2017, which are included in non-current deferred tax liability as of June 30, 2017 and June 24, 2016, respectively.

***Uncertain income tax positions***

Interest and penalties related to uncertain tax positions are recognized in income tax expense. The Company had approximately \$0.6 million and \$0.4 million of accrued interest and penalties related to uncertain tax positions on the consolidated balance sheets as of June 30, 2017 and June 24, 2016, respectively. The Company recorded interest and penalties of \$0.3 million, \$0.2 million and \$0.1 million for the years ended June 30, 2017, June 24, 2016 and June 26, 2015, respectively, in the consolidated statements of operations and comprehensive income. With regard to the Thailand jurisdiction, tax years 2012 through 2016 remain open to examination by the local authorities.

The following table indicates the changes to the Company's uncertain income tax positions for the years ended June 30, 2017, June 24, 2016 and June 26, 2015 included in other non-current liabilities.

<i>(amount in thousands)</i>	As of June 30, 2017	As of June 24, 2016	As of June 26, 2015
Beginning balance	\$ 1,420	\$ 1,420	\$ 868
Additions during the year			552
Reductions for tax positions of prior years			
Ending balance	\$ 1,420	\$ 1,420	\$ 1,420

**4. Earnings per ordinary share**

Basic earnings per ordinary share is computed by dividing reported net income by the weighted average number of ordinary shares outstanding during each period. Diluted earnings per ordinary share is computed by calculating the effect of potential dilutive ordinary shares outstanding during the year using the treasury





**Table of Contents**

stock method. Dilutive ordinary equivalent shares consist of share options, restricted share units and performance share units. The earnings per ordinary share was calculated as follows:

<i>(amount in thousands except per share amounts)</i>	Years Ended		
	June 30, 2017	June 24, 2016	June 26, 2015
Net income attributable to shareholders	\$ 97,115	\$ 61,897	\$ 43,642
Weighted-average number of ordinary shares outstanding (thousands of shares)	36,927	35,857	35,354
Incremental shares arising from the assumed exercise of share options and vesting of restricted share units and performance share units (thousands of shares)	925	1,015	630
Weighted-average number of ordinary shares for diluted earnings per ordinary share (thousands of shares)	37,852	36,872	35,984
Basic earnings per ordinary share	\$ 2.63	\$ 1.73	\$ 1.23
Diluted earnings per ordinary share	\$ 2.57	\$ 1.68	\$ 1.21
Outstanding share options excluded in the computation of diluted earnings per ordinary share <sup>(1)</sup>			39,544

<sup>(1)</sup> These share options were not included in the computation of diluted earnings per ordinary share because the exercise price of the options was greater than the average market price of the underlying shares.

**5. Cash, cash equivalents and marketable securities**

The Company's cash, cash equivalents, and marketable securities can be analyzed as follows:

<i>(amount in thousands)</i>	Carrying Cost	Unrealized (Loss)/Gain	Fair Value	
			Cash and Equivalents	Marketable Securities
As of June 30, 2017				
Cash	\$ 131,240	\$	\$ 131,240	\$
Cash equivalents	2,585		2,585	
Corporate bonds and commercial papers	98,247	27		98,274
U.S. agency and U.S. treasury securities	50,768	(102)		50,666
Sovereign and municipal securities	2,507	3		2,510
<b>Total</b>	<b>\$ 285,347</b>	<b>\$ (72)</b>	<b>\$ 133,825</b>	<b>\$ 151,450</b>

<i>(amount in thousands)</i>	Carrying Cost	Unrealized Gain	Fair Value	
			Cash and Equivalents	Marketable Securities
As of June 24, 2016				
Cash	\$ 136,754	\$	\$ 136,754	\$

## Edgar Filing: Fabrinet - Form 10-K

Cash equivalents	6,050		6,050	
Corporate bonds and commercial papers	112,128	394		112,522
U.S. agency and U.S. treasury securities	28,028	2		28,030
Sovereign and municipal securities	1,154	3		1,157
<b>Total</b>	<b>\$ 284,114</b>	<b>\$ 399</b>	<b>\$ 142,804</b>	<b>\$ 141,709</b>

The cash equivalents include short-term bank deposits, investments in money market funds, and marketable securities with maturities of three months or less at the date of purchase. The effective interest rate on short

**Table of Contents**

term bank deposits was 0.6% and 0.7% per annum for the years ended June 30, 2017 and June 24, 2016, respectively.

As of June 30, 2017 and June 24, 2016, 66% of our cash and cash equivalents were held by the Parent Company.

The following table summarizes the cost and estimated fair value of marketable securities classified as available-for-sale securities based on stated effective maturities as of June 30, 2017:

<i>(amount in thousands)</i>	<b>Carrying Cost</b>	<b>Fair Value</b>
Due within one year	\$ 14,369	\$ 14,363
Due between one to three years	133,634	133,574
Due after three years	3,519	3,513
 Total	 \$ 151,522	 \$ 151,450

During the year ended June 30, 2017, the net realized loss from changes in fair value of marketable securities recognized by the Company was \$0.8 million.

As of June 30, 2017 and June 24, 2016, the Company considered the declines in market value of its marketable securities investment portfolio to be temporary in nature and did not consider any of its securities other-than-temporarily impaired. The Company typically invests in highly-rated securities, and its investment policy generally limits the amount of credit exposure to any one issuer. The policy requires investments generally to be investment grade, with the primary objective of minimizing the potential risk of principal loss. Fair values were determined for each individual security in the investment portfolio. When evaluating an investment for other-than-temporary impairment, the Company reviews factors such as the length of time and extent to which fair value has been below its cost basis, the financial condition of the issuer and any changes thereto, changes in market interest rates, and the Company's intent to sell, or whether it is more likely than not it will be required to sell, the investment before recovery of the investment's cost basis. No impairment losses were recorded for the years ended June 30, 2017 and June 24, 2016.

As of June 30, 2017 and June 24, 2016, cash, cash equivalents, and marketable securities included bank deposits of \$40.0 million held in various financial institutions located in the United States in order to support the availability of the Facility Agreement and comply with covenants. Under the terms and conditions of the Facility Agreement, the Company shall maintain cash, cash equivalents and/or marketable securities in an aggregate amount not less than \$40.0 million in unencumbered deposits, and/or securities in accounts located in the United States at all times during the term of the Facility Agreement. As discussed in Note 13, the Company must comply with this covenant from and after the effective date of the Facility Agreement.

**Table of Contents****6. Fair Value**

The following table provides details of the financial instruments measured at fair value on a recurring basis, including:

<i>(amount in thousands)</i>	Fair Value Measurements at Reporting Date			
	Level 1	Level 2	Level 3	Total
As of June 30, 2017				
<b>Assets</b>				
Cash equivalents	\$	\$ 2,585	\$	\$ 2,585
Corporate bonds and commercial papers		98,274		98,274
U.S. agency and U.S. treasury securities		50,666		50,666
Sovereign and municipal securities		2,510		2,510
Derivative assets		15 <sup>(1)</sup>		15
<b>Total</b>	\$	\$ 154,050	\$	\$ 154,050
<b>Liabilities</b>				
Derivative liabilities	\$	\$	\$	\$
<b>Total</b>	\$	\$	\$	\$

<i>(amount in thousands)</i>	Fair Value Measurements at Reporting Date			
	Level 1	Level 2	Level 3	Total
As of June 24, 2016				
<b>Assets</b>				
Cash equivalents	\$	\$ 6,050	\$	\$ 6,050
Corporate bonds and commercial papers		112,522		112,522
U.S. agency and U.S. treasury securities		28,030		28,030
Sovereign and municipal securities		1,157		1,157
Derivative assets		158 <sup>(2)</sup>		158
<b>Total</b>	\$	\$ 147,917	\$	\$ 147,917
<b>Liabilities</b>				
Derivative liabilities	\$	\$ 1,754 <sup>(3)</sup>	\$	\$ 1,754
<b>Total</b>	\$	\$ 1,754	\$	\$ 1,754

(1) Foreign currency forward contract with notional amount of \$1.0 million and Canadian dollars 0.6 million.

(2) Foreign currency forward contract with notional amount of \$7.0 million.

(3) Foreign currency forward contract with notional amount of \$77.5 million and Canadian dollars 0.6 million.

**Derivative Financial Instruments**

As a result of foreign currency rate fluctuations, the U.S. dollar equivalent values of the Company's foreign currency denominated assets and liabilities change. The Company uses foreign currency contracts to manage the foreign exchange risk associated with certain foreign currency denominated assets and liabilities and other foreign currency transactions. The Company minimizes the credit risk in derivative instruments by limiting its exposure to any single counterparty and by entering into derivative instruments only with counterparties that meet the Company's minimum credit quality standard. As of June 30, 2017, the Company recognized the fair value of foreign currency forward contracts of \$0.02 million as derivative assets in the consolidated balance sheets under other current assets. As of June 24, 2016, the Company recognized the fair

value of foreign currency forward contracts of \$0.2 million as derivative assets and

**Table of Contents**

\$1.7 million as derivative liabilities in the consolidated balance sheets under other current assets and accrued expenses, respectively.

As of June 30, 2017, the Company had no foreign currency forward contracts designated as cash flow hedges. During the year ended June 30, 2017, the Company discontinued cash flow hedges and recognized a gain from unwinding foreign currency forward contracts of \$0.3 million as foreign exchange gain, net in the consolidated statements of operations and comprehensive income.

As of June 24, 2016, the Company hedged forecasted foreign currency transactions related to the construction costs of a new manufacturing building at the Company's Chonburi Campus with certain forward contracts, designated as cash flow hedges. The Company had two outstanding forward contracts with notional amount of \$7.0 million, which mature during August 2016 and September 2016. The Company included unrealized gain of \$0.2 million from changes in fair value of these foreign currency forward contracts, designated as hedging instrument in AOCI in the consolidated balance sheets. As of June 24, 2016, gain of \$0.01 million in AOCI is expected to be reclassified as earning within the next 12 months. During the year ended June 24, 2016, there was no ineffective portion or discontinued cash flow hedges recognized in the consolidated statements of operations and comprehensive income.

As of June 30, 2017, the Company had 2 outstanding foreign currency forward contracts with notional amount of \$1.0 million and Canadian dollars 0.6 million, with maturity dates from July through September 2017. These foreign currency forward contracts were not designated for hedge accounting and were used to hedge fluctuations in the U.S. dollar value of forecasted transactions denominated in Thai baht and Canadian dollars. During the year ended June 30, 2017, the Company included unrealized gain of \$0.02 million from changes in fair value of foreign currency contracts in the consolidated statements of operations and comprehensive income.

As of June 24, 2016, the Company had 14 outstanding foreign currency forward contracts with notional amount of \$77.5 million and Canadian dollars 0.6 million, which matured during July to December 2016. These foreign currency forward contracts were not designated for hedge accounting and were used to hedge fluctuations in the U.S. dollar value of forecasted transactions denominated in Thai baht and Canadian dollar. During the year ended June 24, 2016, the Company included unrealized loss of \$1.8 million from changes in fair value of foreign currency contracts in the consolidated statements of operations and comprehensive income.

**7. Trade accounts receivable, net**

<i>(amount in thousands)</i>	<b>As of June 30, 2017</b>	<b>As of June 24, 2016</b>
Trade accounts receivable	\$ 264,389	\$ 196,178
Less: Allowance for doubtful account	(40)	(33)
<b>Trade accounts receivable, net</b>	<b>\$ 264,349</b>	<b>\$ 196,145</b>

As of June 30, 2017, trade accounts receivable of \$3.0 million were secured to short-term loans from bank (see Note 13).

**Table of Contents****8. Inventory**

<i>(amount in thousands)</i>	<b>As of June 30, 2017</b>	<b>As of June 24, 2016</b>
Raw materials	\$ 88,640	\$ 58,199
Work in progress	105,732	94,762
Finished goods	33,998	21,593
Goods in transit	13,025	9,381
	241,395	183,935
Less: Inventory obsolescence	(2,730)	(2,436)
<b>Inventory, net</b>	<b>\$ 238,665</b>	<b>\$ 181,499</b>

**9. Business acquisition**

On September 14, 2016, the Company acquired 100% shareholding in Exception EMS for cash consideration of approximately \$13.0 million, net of \$0.5 million cash acquired. Exception EMS provides contract electronics manufacturing services to the global electronics industry with innovative solutions, adding value to the design, manufacture and testing of printed circuit board assemblies. Pursuant to the acquisition agreement, the Company has placed \$3.3 million of cash, net of foreign currency translation adjustment, for deferred consideration in an escrow account which is under the Company's control. However, the Company has contractually agreed to remit this deferred consideration to the sellers of Exception EMS, subject to the resolution of claims that the Company may make against the funds with respect to indemnification and other claims within 24 months from the closing date of the transaction.

The Company has accounted for this acquisition under the provisions of business combinations accounting, in accordance with Accounting Standards Codification Topic 805 Business Combinations. Accordingly, the estimated fair value of the acquisition consideration was allocated to the assets acquired and the liabilities assumed based on their respective fair values on the acquisition date. The Company has made certain estimates and assumptions in determining the allocation of the acquisition consideration.

The allocation of consideration to the individual net assets acquired was finalized in the fourth quarter of fiscal year 2017. As the functional currency of Exception EMS is pound sterling ( GBP ), for the year ended June 30, 2017, the Company recognized a \$0.3 million loss from foreign currency translation adjustment in its consolidated statements of operations and comprehensive income.

During the year ended June 30, 2017, the Company recorded a measurement period adjustment to recognized deferred tax liabilities of \$1.2 million related to taxable temporary differences from intangibles and changes in the fair value of assets acquired. Therefore, goodwill which was previously reported at acquisition date of \$2.7 million was changed to \$3.9 million.



**Table of Contents**

The Company's allocation of the total purchase price for the acquisition is summarized below:

<i>(amount in thousands)</i>	<b>Purchase price allocation</b>
Cash	\$ 474
Accounts receivable	4,064
Inventory	3,490
Other current assets	427
Property, plant and equipment	5,678
Intangibles	4,492
Goodwill	3,883
Other non-current assets	516
Current liabilities	(6,796)
Deferred tax liabilities	(1,148)
Other non-current liabilities	(1,563)
 Total fair value of assets acquired and liabilities assumed	 \$ 13,517
 Total purchase price, net of cash acquired	 \$ 13,043

In connection with the Company's acquisition of Exception EMS, the Company assumed lease agreements for certain machine and equipment, which are accounted for as capital leases. As of June 30, 2017, the Company included approximately \$1.9 million of capital lease assets and \$1.4 million of capital lease liability in the consolidated balance sheets associated with these acquired lease agreements.

During the year ended June 30, 2017, the Company incurred approximately \$1.5 million in transaction costs related to the acquisition, which primarily consisted of legal, accounting and valuation-related expenses. These expenses were recorded in selling, general and administrative expense in the accompanying consolidated statements of operations and comprehensive income.

Pro forma results of operations for the acquisition have not been presented as they were not material to the Company's results of operations.

**Identifiable intangibles**

The acquired identifiable intangible assets include customer relationships and backlog. The fair value of the identified intangible assets was determined based on the multi-period excess earnings method, which applied the following key assumptions:

Risk free rate:	30-year UK Government Bond adjusted by spot yield to reflect recent volatility
Long-term revenue growth:	5.0% - 8.0%
Churn rate:	10%
Operating margin:	4.0% - 6.0%

Customer relationships represent the fair value of future projected revenues derived from the estimated sale of products to existing customers of the acquired company. The fair value of \$4.4 million will be amortized over an estimated useful life of ten years.

Backlog represents the fair value of sales orders backlog as of the valuation date. The fair value of \$0.1 million will be amortized over an estimated useful life of three years.

**Goodwill**

Goodwill arising from the acquisition is primarily attributable to the ability to expand future products and services and the assembled workforce. Goodwill is not deductible for tax purposes.



**Table of Contents****10. Property, plant and equipment, net**

The components of property, plant and equipment, net were as follows:

<i>(amount in thousands)</i>	<b>Land and Land Improvements</b>	<b>Building and Building Improvements</b>	<b>Manufacturing Equipment</b>	<b>Office Equipment</b>	<b>Motor Vehicles</b>	<b>Computers</b>	<b>Construction and Machinery Under Installation</b>	<b>Total</b>
<b>As of June 30, 2017</b>								
Cost	\$ 39,096	\$ 138,578	\$ 127,085	\$ 7,688	\$ 534	\$ 19,642	\$ 6,058	\$ 338,681
Less: Accumulated depreciation	(2)	(31,881)	(72,130)	(4,163)	(376)	(13,248)		(121,800)
Net book value	\$ 39,094	\$ 106,697	\$ 54,955	\$ 3,525	\$ 158	\$ 6,394	\$ 6,058	\$ 216,881
<b>As of June 24, 2016</b>								
Cost	\$ 39,048	\$ 95,386	\$ 96,041	\$ 5,826	\$ 443	\$ 15,578	\$ 23,248	\$ 275,570
Less: Accumulated depreciation		(25,438)	(56,564)	(3,500)	(366)	(11,292)		(97,160)
Net book value	\$ 39,048	\$ 69,948	\$ 39,477	\$ 2,326	\$ 77	\$ 4,286	\$ 23,248	\$ 178,410

During the year ended June 30, 2017, property, plant and equipment, net included \$5.0 million in assets acquired from the acquisition of Exception EMS, of which \$1.9 million was capital leased assets. During the year ended June 24, 2016, the Company purchased a parcel of land in Chonburi, Thailand, with an aggregate purchase price of approximately \$12.4 million, to support the expansion of its production capacity and capabilities in Thailand.

Leased assets included above comprise certain machine and equipment from capital lease agreements assumed from the acquisition of Exception EMS.

<i>(amount in thousands)</i>	<b>As of June 30, 2017</b>
Cost Capital leases	\$ 2,725
Less: Accumulated depreciation	(856)
Net book value	\$ 1,869

Depreciation expense amounted to \$22.5 million, \$17.3 million and \$12.9 million for the years ended June 30, 2017, June 24, 2016 and June 26, 2015, respectively, and have been allocated between cost of revenues and selling, general and administrative expenses in the consolidated statements of operations and comprehensive income.

The cost of fully depreciated property, plant and equipment written-off during the years ended June 30, 2017, June 24, 2016 and June 26, 2015 amounted to \$5.4 million, \$2.0 million and \$1.1 million, respectively.

During the years ended June 30, 2017 and June 24, 2016, the Company capitalized \$0.5 million and \$0.1 million of borrowing costs in construction in progress of its new manufacturing building at Chonburi Campus. The Company stopped capitalizing borrowing costs in the third quarter of fiscal year 2017 upon the completion of this campus.

**Table of Contents****11. Intangibles**

The following tables present details of the Company's intangibles:

<i>(amount in thousands)</i>	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Foreign Currency Translation Adjustment</b>	<b>Net</b>
As of June 30, 2017				
Software	\$ 5,944	\$ (3,850)	\$	\$ 2,094
Customer relationships	4,373	(606)	(88)	3,679
Backlog	119	(51)	(1)	67
<b>Total intangibles</b>	<b>\$ 10,436</b>	<b>\$ (4,507)</b>	<b>\$ (89)</b>	<b>\$ 5,840</b>

<i>(amount in thousands)</i>	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Foreign Currency Translation Adjustment</b>	<b>Net</b>
As of June 24, 2016				
Software	\$ 3,786	\$ (3,287)	\$	\$ 499
Customer relationships				
Backlog				
<b>Total intangibles</b>	<b>\$ 3,786</b>	<b>\$ (3,287)</b>	<b>\$</b>	<b>\$ 499</b>

In connection with the acquisition of Exception EMS, the Company recorded \$4.4 million of customer relationships and \$0.1 million of backlog. As of June 30, 2017, the weighted-average remaining life of customer relationships and backlog was 6.9 years and 1.6 years, respectively.

The Company recorded amortization expense relating to intangibles of \$1.2 million, \$0.1 million and \$0.1 million for the years ended June 30, 2017, June 24, 2016 and June 26, 2015, respectively.

As of June 30, 2017, the estimated future amortization of intangible assets during each fiscal year was as follows:

<i>(amount in thousand)</i>	
2018	\$ 1,482
2019	1,339
2020	934
2021	787
2022	527
Thereafter	771
<b>Total</b>	<b>\$ 5,840</b>

**12. Goodwill**

As of June 30, 2017, the Company recorded \$3.8 million of goodwill, in connection with the acquisition of Exception EMS, in the consolidated balance sheets.

The changes in the carrying amount of goodwill were as follows:

<i>(amount in thousands)</i>	<b>Goodwill</b>
Balance as of June 24, 2016	\$
Addition in connection with business acquisition	3,883
Foreign currency translation adjustment	(77)
Balance as of June 30, 2017	\$ 3,806

**Table of Contents**

Goodwill is not deductible for tax purposes. Goodwill is reviewed annually for impairment or more frequently whenever changes or circumstances indicate the carrying amount of goodwill may not be recoverable. As of June 30, 2017, the Company performed the annual impairment test for goodwill, which indicated there was no goodwill impairment.

**13. Borrowings**

The Company's total borrowings, including revolving and long-term borrowings, consisted of the following (dollars in thousands):

Rate <sup>(1)</sup>	Conditions	Maturity	As of June 30, 2017	As of June 24, 2016
Short-term borrowing:				
Revolving borrowing:				
LIBOR + 1.75% per annum	Repayable in			
	1 to 6 months	July 2017 <sup>(2)</sup>	\$ 34,000	\$ 6,500
Short-term loans from bank:				
Bank of England base rate +1.85%	Repayable based on			
	credit terms of secured accounts receivable		1,003	
Current portion of long-term borrowing			13,600	18,100
			48,603	24,600
Less: Unamortized debt issuance costs			(201)	(293)
			\$ 48,402	\$ 24,307
Long-term borrowing:				
LIBOR + 2.80% per annum	Repayable in			
	quarterly installments	March 2017	\$	\$ 4,500
Term loan borrowing:				
LIBOR + 1.75% per annum	Repayable in			
	quarterly installments	May 2019	36,400	\$ 50,000
			36,400	54,500
Less: Current portion			(13,600)	(18,100)
Unamortized debt issuance costs			(99)	(300)
Non-current portion			\$ 22,701	\$ 36,100

<sup>(1)</sup> LIBOR is London Interbank Offered Rate.

<sup>(2)</sup> In June 2017, the maturity date of this revolving borrowing was extended to mature in July 2017.

The movements of long-term loans were as follows for the years ended June 30, 2017 and June 24, 2016:

Years ended

## Edgar Filing: Fabrinet - Form 10-K

<i>(amount in thousands)</i>	<b>June 30, 2017</b>	<b>June 24, 2016</b>
Opening net book amount	\$ 54,500	\$ 10,500
Additional loan during the period		50,000
Repayment during the period	(18,100)	(6,000)
Closing net book amount	\$ 36,400	\$ 54,500

**Table of Contents**

As of June 30, 2017, the future maturities of long-term debt during each fiscal year were as follows:

<i>(amount in thousand)</i>	
2018	\$ 13,600
2019	22,800
<b>Total</b>	<b>\$ 36,400</b>

**Credit facilities:**

The Company entered into a syndicated senior credit facility agreement (the Facility Agreement) with a consortium of banks on May 22, 2014. The Facility Agreement, led by Bank of America, provides for a \$200.0 million credit line, comprised of a \$150.0 million revolving loan facility and a \$50.0 million delayed draw term loan facility. The revolving loan facility contains an accordion feature permitting Fabrinet to request an increase in the facility up to \$100.0 million subject to customary terms and conditions and provided that no default or event of default exists at the time of request. The revolving loan facility terminates and all amounts outstanding are due and payable in full on May 22, 2019. The principal amount of any drawn term loans must be repaid according to the scheduled quarterly amortization payments, with final payment of all amounts outstanding, plus accrued interest, being due on May 22, 2019.

On February 26, 2015, the Company entered into the Second Amendment to the Facility Agreement. The amendment extended the availability period for draws on the term loan facility from May 21, 2015 to July 31, 2015. It also allows the Company, upon the satisfaction of certain conditions, to designate from time to time one or more of its subsidiaries as borrowers under the Facility Agreement. On July 31, 2015, the Company entered into the Third Amendment to the Facility Agreement. The amendment extended the availability period for draws on the term loan facility from July 31, 2015 to July 31, 2016. The Company fully drew down the term loan facility of \$50.0 million in fiscal year 2016. As of June 30, 2017, \$34.0 million of revolving borrowing and \$36.4 million of term loan borrowing was outstanding under the Facility Agreement, resulting in available credit facilities of \$116.0 million. Borrowings under the revolving credit facility are classified as current liabilities in the audited consolidated balance sheet as the Company has the periodic option to renew or pay, all or a portion of, the outstanding balance at the end of the maturity date, which is in the range of one to six months, without premium or penalty, upon notice to the administrative agent. Subsequent to the balance sheet date, the Company sent a notice to the bank to renew the maturity date of this revolving borrowing. The bank approved the notice and extended the maturity to July 2017.

Loans under the Facility Agreement bear interest, at Fabrinet's option, at a rate per annum equal to a LIBOR rate plus a spread of 1.75% to 2.50%, or a base rate, determined in accordance with the Facility Agreement, plus a spread of 0.75% to 1.50%, in each case with such spread determined based on Fabrinet's consolidated total leverage ratio for the preceding four fiscal quarter period. Interest is due and payable quarterly in arrears for loans bearing interest at the base rate and at the end of an interest period (or at each three-month interval in the case of loans with interest periods greater than three months) in the case of loans bearing interest at the LIBOR rate.

Fabrinet's obligations under the Facility Agreement are guaranteed by certain of its existing and future direct material subsidiaries. In addition, the Facility Agreement is secured by Fabrinet's present and future accounts receivable, deposit accounts and cash, and a pledge of the capital stock of certain of Fabrinet's direct subsidiaries. Fabrinet is required to maintain at least \$40.0 million of cash, cash equivalents, and marketable securities at financial institutions located in the United States. Further, Fabrinet is required to maintain any of its deposits accounts or securities accounts with balances in excess of \$10.0 million in a jurisdiction where a control agreement, or the equivalent under the local law, can be effected. The Facility Agreement contains customary affirmative and negative covenants. Negative covenants include, among other things, limitations on liens, indebtedness, investments, mergers, sales of assets, changes in the nature of the business, dividends and distributions, affiliate transactions and capital expenditures. The Facility Agreement contains financial covenants requiring Fabrinet to maintain: (i) a minimum tangible net worth of



**Table of Contents**

not less than \$200.0 million plus 50% of quarterly net income, exclusive of quarterly losses; (ii) a minimum debt service coverage ratio of not less than 1.50:1.00; (iii) a maximum senior leverage ratio of not more than 2.50:1.00; and (iv) a minimum quick ratio of not less than 1.10:1.00. Each of these financial covenants is calculated on a consolidated basis for the consecutive four fiscal quarter period then ended. As of June 30, 2017, the Company was in compliance with all covenants under the Facility Agreement.

The Facility Agreement also contains customary events of default including, among other things, payment defaults, breaches of covenants or representations and warranties, cross-defaults with certain other indebtedness, bankruptcy and insolvency events and change in control of Fabrinet, subject to grace periods in certain instances. Upon an event of default, the lenders may terminate their commitments, declare all or a portion of the outstanding obligations payable by Fabrinet to be immediately due and payable and exercise other rights and remedies provided for under the Facility Agreement.

Fabrinet intends to use the proceeds of the credit line to finance its future expansion in the United States and Thailand, and for general corporate purposes including mergers and acquisitions of complementary manufacturing businesses or technology, although Fabrinet has no current commitments with respect to any such acquisitions.

**Short-term borrowings from bank**

In connection with the acquisition of Exception EMS, the Company assumed a secured borrowing agreement that is secured by trade accounts receivable of Exception EMS. As of June 30, 2017, the carrying amount of trade accounts receivable secured to the loans was \$3.0 million. The secured borrowing agreement contains certain covenants that Exception EMS is required to comply with: (1) the value of credit notes may not exceed 4% of the value of assigned debts measured on a monthly basis, and (2) rolling cash flow must be provided to the financial institution along with monthly management information. As of June 30, 2017, the subsidiary was in compliance with all covenants under the secured borrowing agreement.

As of June 30, 2017, the Company drew down \$1.0 million from this facility, which is recorded as short-term loans in the consolidated balance sheets. The agreement bears interest for discount charge at 1.85% per annum above Bank of England base rate.

Undrawn available credit facilities classified by available period of future borrowing as of June 30, 2017 and June 24, 2016 were as follows:

<i>(amount in thousands)</i>	<b>June 30, 2017</b>	<b>June 24, 2016</b>
Short-term	\$ 1,965	\$ 1,414
Long-term	\$ 116,000	\$ 143,500

**14. Severance liabilities**

The following table provides the information of the severance liabilities:

<i>(amount in thousands)</i>	<b>As of June 30, 2017</b>	<b>As of June 24, 2016</b>
Balance, beginning of the fiscal year	\$ 6,684	\$ 5,477
Charged to selling, general and administrative expenses in the consolidated statements of operations and comprehensive income	1,804	1,207
Balance, end of the fiscal year	\$ 8,488	\$ 6,684

**Table of Contents**

The amount recognized in the consolidated balance sheets under non-current liabilities was determined as follows:

<i>(amount in thousands)</i>	As of June 30, 2017	As of June 24, 2016
Present value of defined benefit obligation	\$ 8,488	\$ 6,684
Total	\$ 8,488	\$ 6,684

The amount recognized in the consolidated statements of operations and comprehensive income was as follows:

<i>(amount in thousands)</i>	June 30, 2017	Years Ended June 24, 2016	June 26, 2015
Current service cost	\$ 1,451	\$ 842	\$ 360
Interest cost	213	203	203
Benefit paid		(11)	(10)
Actuarial loss on obligation	140	173	471
Total	\$ 1,804	\$ 1,207	\$ 1,024

The principal actuarial assumptions used were as follows:

	June 30, 2017	Years Ended June 24, 2016	June 26, 2015
Discount rate	1.93% - 3.6%	2.0% - 3.2%	4.0%
Future salary increases	3.5% - 10.0%	4.1% - 10.0%	4.2%

**15. Share-based compensation*****Share-based compensation***

In determining the fair value of share option awards, the Company is required to make estimates of expected dividends to be issued, expected volatility of Fabrinet's ordinary shares, expected forfeitures of the awards, risk free interest rates for the expected term of the awards and expected terms of the awards. Forfeitures are estimated at the time of grant and revised if necessary in subsequent periods if actual forfeitures differ from those estimates. The fair value of restricted share units is based on the market value of our ordinary shares on the date of grant.

The effect of recording share-based compensation expense for the years ended June 30, 2017, June 24, 2016 and June 26, 2015 was as follows:

<i>(amount in thousands)</i>	June 30, 2017	Years Ended June 24, 2016	June 26, 2015
Share-based compensation expense by type of award:			
Share options	\$	\$ 16	\$ 226
Restricted share units	22,412	9,911	7,801
Performance share units	4,095		

## Edgar Filing: Fabrinet - Form 10-K

Total share-based compensation expense	26,507	9,927	8,027
Tax effect on share-based compensation expense			
Net effect on share-based compensation expense	\$ 26,507	\$ 9,927	\$ 8,027

**Table of Contents**

Share-based compensation expense was recorded in the consolidated statements of operations and comprehensive income as follows:

<i>(amount in thousands)</i>	<b>Years Ended</b>		
	<b>June 30, 2017</b>	<b>June 24, 2016</b>	<b>June 26, 2015</b>
Cost of revenue	\$ 5,318	\$ 1,979	\$ 1,450
Selling, general and administrative expense	21,189	7,948	6,577
<b>Total share-based compensation expense</b>	<b>\$ 26,507</b>	<b>\$ 9,927</b>	<b>\$ 8,027</b>

The Company did not capitalize any share-based compensation expense as part of any asset costs during the years ended June 30, 2017, June 24, 2016 and June 26, 2015.

***Share-based award activity***

Share options have been granted to directors and employees. As of June 30, 2017, there were no share options outstanding under Fabrinet's Amended and Restated 1999 Share Option Plan ( 1999 Plan ). Additional option grants may not be made under the 1999 Plan.

As of June 30, 2017, there were an aggregate of 96,688 share options outstanding, 1,058,605 restricted share units outstanding and 227,268 performance share units outstanding under Fabrinet's 2010 Performance Incentive Plan ( 2010 Plan ). As of June 30, 2017, there were 1,111,573 ordinary shares available for future grant under Fabrinet's 2010 Performance Incentive Plan ( 2010 Plan ). The 1999 Plan and 2010 Plan are collectively referred to as the Share Option Plans .

***Share options***

Fabrinet's board of directors has the authority to determine the type of option and the number of shares subject to an option. Options generally vest and become exercisable over four years and expire, if not exercised, within seven years of the grant date. In the case of a grantee's first grant, 25 percent of the underlying shares subject to an option vest 12 months after the vesting commencement date and 1/48 of the underlying shares vest monthly over each of the subsequent 36 months. In the case of any additional grants to a grantee, 1/48 of the underlying shares subject to an option vest monthly over four years, commencing one month after the vesting commencement date.

**Table of Contents**

The following table summarizes share options activity:

	Number of Shares	Number of Exercisable Options	Weighted- Average Exercise Price	Weighted- Average Grant Date Fair Value
Balance as of June 27, 2014	865,890	666,305	\$ 16.27	
Granted				
Exercised	(56,968)		\$ 14.67	
Forfeited	(8,347)		\$ 15.90	
Expired	(8,556)		\$ 21.44	
Balance as of June 26, 2015	792,019	758,451	\$ 16.33	
Granted				
Exercised	(325,530)		\$ 16.83	
Forfeited	(755)		\$ 17.10	
Expired	(1,400)		\$ 23.62	
Balance as of June 24, 2016	464,334	464,334	\$ 15.95	
Granted				
Exercised	(367,641)		\$ 16.02	
Forfeited				
Expired	(5)		\$ 5.75	
Balance as of June 30, 2017	96,688	96,688	\$ 15.70	
Expected to vest as of June 30, 2017	96,688		\$ 15.70	

The fair value of each share option grant was determined by the Company using the methods and assumptions discussed below. Each of these inputs is subjective and generally requires significant judgment and management estimate to determine.

The total fair value of share options vested during the years ended June 30, 2017, June 24, 2016 and June 26, 2015 was nil, \$0.2 million and \$1.1 million, respectively. The total intrinsic value of options exercised during the years ended June 30, 2017, June 24, 2016 and June 26, 2015 was \$8.9 million, \$3.6 million and \$0.2 million, respectively. In conjunction with these exercises, there was no tax benefit realized by the Company due to the fact that it is exempted from income tax. The amount of cash received from the exercise of share options was \$5.9 million during the year ended June 30, 2017.

**Valuation Method** The Company estimated the fair value of the Company's ordinary shares to be used in the BSM by taking into consideration a number of assumptions, as discussed below.

**Expected Dividend** The Company used zero as an annualized dividend yield since it did not anticipate paying any cash dividends in the near future.

**Expected Volatility** The Company determined the expected volatility based on the Company's historical volatility over the last four years.

**Risk-Free Interest Rate** The Company based the risk-free interest rate on the implied yield currently available on U.S. Treasury zero-coupon issues with a remaining term equivalent to the expected term of the option.

**Expected Term** Expected terms used in the BSM represent the periods that the company's share options are expected to be outstanding and are determined based on the Company's historical experience of similar awards, giving consideration to the contractual terms of the share options, vesting schedules and expectations of future employee behavior.

**Vesting Period** Fabrinet's share options generally vest and become exercisable over a four-year period, and expire seven years from the date of grant. For an initial grant, 25 percent of the underlying shares subject to an option vest 12 months after the vesting commencement date and 1/48

of the underlying shares

**Table of Contents**

vest monthly over each of the subsequent 36 months. In the case of any additional grants to an optionee, 1/48 of the underlying shares subject to an option vest monthly over four years, commencing one month after the vesting commencement date.

*Fair Value* The fair value of Fabrinet's share options granted to employees was estimated using the weighted-average for each assumption of expected volatility, risk-free rate of return, and expected term.

The following table summarizes information for share options outstanding as of June 30, 2017 under the Share Option Plans:

	Number of Shares Underlying Options	Exercise Price Per Share	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value <i>(amount in thousands)</i>
	25,238	\$ 14.12	1.36	
	30,000	\$ 15.05	0.35	
	6,100	\$ 15.16	1.13	
	28,300	\$ 16.83	0.29	
	5,550	\$ 18.60	1.67	
	1,500	\$ 25.50	0.54	
Options outstanding	96,688		0.72	\$ 2,607
Options exercisable	96,688		0.72	\$ 2,607
Expected to vest as of June 30, 2017	96,688		0.72	\$ 2,607

As of June 30, 2017, there was no unrecognized compensation cost under the Share Option Plans.

*Restricted share units and performance share units*

Restricted share units are one type of share-based award that may be granted under the 2010 Plan. Restricted share units granted to non-employee directors generally cliff vest 100% on the first of January, approximately one year from the grant date, provided the director continues to serve through such date. Restricted share units granted to employees generally vest in four equal installments over four years on each anniversary of the vesting commencement date.

Performance share units granted to executives will vest at the end of a two-year performance period based on the Company's achievement of pre-defined performance criteria, which consist of revenue and gross margin targets. The actual number of performance share units that may vest at the end of the performance period ranges from 0% to 100% of the award grant.

The Company has entered into an employment agreement, as amended on August 12, 2016, with one executive of the Company that provided for accelerated vesting of equity awards under certain circumstances. Pursuant to such agreement, because the executive's employment with the Company continued through February 20, 2017, (1) all outstanding equity awards granted to the executive prior to August 2016 became 100% vested on February 20, 2017 and (2) certain restricted share units granted to the executive in August 2016 became 100% vested on February 20, 2017.

**Table of Contents**

The following table summarizes restricted share unit activity under the 2010 Plan:

	<b>Number of Shares</b>	<b>Weighted- Average Grant Date Fair Value Per Share</b>
Balance as of June 27, 2014	762,295	\$ 14.23
Granted	666,582	\$ 17.53
Issued	(247,593)	\$ 14.44
Forfeited	(40,357)	\$ 16.68
Balance as of June 26, 2015	1,140,927	\$ 16.03
Granted	654,589	\$ 21.15
Issued	(507,621)	\$ 15.60
Forfeited	(106,493)	\$ 18.34
Balance as of June 24, 2016	1,181,402	\$ 18.34
Granted	861,356	\$ 38.95
Issued	(853,535)	\$ 21.16
Forfeited	(130,618)	\$ 29.31
Balance as of June 30, 2017	1,058,605	\$ 31.59
Expected to vest as of June 30, 2017	1,024,706	\$ 31.56

The following summarizes performance share unit activity under the 2010 Plan:

	<b>Number of Shares</b>	<b>Weighted- Average Grant Date Fair Value Per Share</b>
Balance as of June 24, 2016		
Granted	234,678	\$ 40.48
Issued		
Forfeited	(7,410)	
Balance as of June 30, 2017	227,268	\$ 40.48
Expected to vest as of June 30, 2017	227,268	

The fair value of restricted share units and performance share units are based on the market value of our ordinary shares on the date of grant.

The total fair value of restricted share units and performance share unit vested during the year ended June 30, 2017, June 24, 2016 and June 26, 2015 was \$18.1 million, \$7.9 million and \$3.6 million, respectively. The aggregate intrinsic value of restricted share units outstanding as of June 30, 2017 was \$45.2 million.

As of June 30, 2017, there was \$16.1 million and \$5.1 million of unrecognized share-based compensation expense related to restricted share units and performance share units, respectively, under the 2010 Plan that is expected to be recorded over a weighted-average period of 2.46 years and 1.13 years, respectively.



## Edgar Filing: Fabrinet - Form 10-K

For the years ended June 30, 2017 and June 24, 2016, the Company withheld an aggregate of 37,126 shares and 114,359 shares, respectively, upon the vesting of restricted share units, based upon the closing share price on the vesting date to settle the employees' minimum statutory obligation for the applicable income and other employment taxes. For fiscal year 2017 and fiscal year 2016, the Company then remitted cash of \$1.4 million and \$2.5 million, respectively, to the appropriate taxing authorities, and presented it as a financing activity within the consolidated statements of cash flows. The payment had the effect on shares

**Table of Contents**

issued by the Company as it reduced the number of shares that would have been issued on the vesting date and was recorded as a reduction of additional paid-in capital.

**16. Employee benefit plans*****Employee contribution plan***

The Company operates a defined contribution plan, known as a provident fund, in its subsidiaries in Thailand and the United Kingdom. The assets of these plans are in separate trustee-administered funds. The provident fund is funded by matching payments from employees and by the subsidiaries on a monthly basis. Current contributions to the provident fund are accrued and paid to the fund manager on a monthly basis. The Company's contributions to the provident fund amounted to \$3.6 million, \$2.8 million and \$2.3 million during the years ended June 30, 2017, June 24, 2016 and June 26, 2015, respectively.

The Company sponsors the Fabrinet U.S. 401(k) Retirement Plan ( 401(k) Plan ), a Defined Contribution Plan under ERISA, at its subsidiaries in the United States which provides retirement benefits for eligible employees through tax deferred salary deductions. The 401(k) Plan allows employees to contribute up to 80% of their annual compensation, subject to annual contributions limits established by the Internal Revenue Service. The Company provides for a 100% match of employees' contributions to the 401(k) Plan up to the first 6% of annual compensation. All matching contributions are made in cash and vest immediately. The Company's matching contributions to the 401(k) Plan were \$0.6 million, \$0.5 million and \$0.3 million during the years ended June 30, 2017, June 24, 2016 and June 26, 2015, respectively.

***Executive incentive plan and employee performance bonuses***

For the year ended June 30, 2017, the Company maintained an executive incentive plan with quantitative objectives, based on achieving certain revenue and gross margin targets. For the years ended June 24, 2016 and June 26, 2015, the Company maintained an executive incentive plan with quantitative objectives, based on achieving certain revenue and non-GAAP earnings per share targets as well as qualitative objectives, based on achieving individual performance goals for the applicable fiscal year. During the years ended June 30, 2017, June 24, 2016 and June 26, 2015, discretionary merit-based bonus awards were also available to Fabrinet's non-executive employees.

Bonus distributions to employees were \$7.6 million, \$7.5 million and \$6.0 million for the years ended June 30, 2017, June 24, 2016 and June 26, 2015, respectively.

**17. Shareholders equity**

Fabrinet's authorized share capital is 500,000,000 ordinary shares, par value of \$0.01 per ordinary share, and 5,000,000 preferred shares, par value of \$0.01 per preferred share.

For the year ended June 30, 2017, Fabrinet issued 367,641 ordinary shares upon the exercise of options, for cash consideration at a weighted average exercise price of \$16.02 per share, and 816,409 ordinary shares upon the vesting of restricted share units, net of shares withheld.

For the year ended June 24, 2016, Fabrinet issued 325,530 ordinary shares upon the exercise of options, for cash consideration at a weighted average exercise price of \$16.83 per share, and 393,262 ordinary shares upon the vesting of restricted share units, net of shares withheld.

For the year ended June 26, 2015, Fabrinet issued 56,968 ordinary shares upon the exercise of options, for cash consideration at a weighted average exercise price of \$14.67 per share, and 227,914 ordinary shares upon the vesting of restricted share units, net of shares withheld.

All such issued shares are fully paid.

**Table of Contents****18. Accumulated other comprehensive income (loss)**

The changes in AOCI by component for the years ended June 30, 2017 and June 24, 2016 were as follows:

<i>(amount in thousands)</i>	Unrealized net (Losses)/Gains on Marketable Securities	Unrealized net (Losses)/Gains on Derivative Instruments	Foreign Currency Translation Adjustment	Total
Balance as of June 26, 2015	\$ (44)	\$	\$	\$ (44)
Other comprehensive income before reclassification	637	(298)		339
Amounts reclassified from AOCI	(194)	490		296
Tax effects				
Other comprehensive income	399	192		591
Balance as of June 24, 2016	399	192		591
Other comprehensive income before reclassification	351		(310)	41
Amounts reclassified from AOCI	(822)	(158)		(980)
Tax effects				
Other comprehensive income	(471)	(158)	(310)	(939)
Balance as of June 30, 2017	\$ (72)	\$ 34	\$ (310)	\$ (348)

The following table presents the pre-tax amounts reclassified from AOCI into the consolidated statements of operations and comprehensive income for the years ended June 30, 2017 and June 24, 2016, respectively (amounts in thousands).

AOCI components	Financial statements line item	Years ended	
		June 30, 2017	June 24, 2016
Unrealized losses on marketable securities	Interest income	\$ (822)	\$ (194)
Unrealized gains on derivative instruments	Cost of revenues		471
	Selling, general and administrative expenses	(158)	19
Total amounts reclassified from AOCI		\$ (980)	\$ 296

**19. Commitments and contingencies****Bank guarantees**

As of June 30, 2017 and June 24, 2016, there were outstanding bank guarantees given by a bank on behalf of our subsidiary in Thailand for electricity usage and other normal business amounting to \$1.5 and \$0.8 million, respectively.

**Operating lease commitments**

## Edgar Filing: Fabrinet - Form 10-K

The Company leases a portion of its capital equipment, vehicle, and certain land and buildings for its facilities in Thailand, Cayman Islands, China, the United States and the United Kingdom under operating lease arrangements that expire in various years through 2023. Rental expense under these operating leases amounted to \$1.7 million, \$1.2 million and \$1.1 million for the years ended June 30, 2017, June 24, 2016 and June 26, 2015, respectively.

**Table of Contents**

As of June 30, 2017, the future minimum lease payments due under non-cancelable operating leases during each fiscal year were as follows:

<i>(amount in thousands)</i>	
2018	\$ 1,744
2019	1,162
2020	946
2021	540
2022	416
Thereafter	520
<b>Total future minimum operating lease payments</b>	<b>\$ 5,328</b>

**Capital lease commitments**

In connection with the acquisition of Exception EMS, the Company assumed the capital lease commitments of several machines and equipment, with various expiration dates until September 2020. The equipment can be purchased at the determined prices upon expiration of such contracts.

As of June 30, 2017, the future minimum lease payments under non-cancelable capital leases during each fiscal year were as follows:

<i>(amount in thousands)</i>	
2018	\$ 466
2019	479
2020	422
2021	105
<b>Total</b>	<b>1,472</b>
Less: Future finance charge on capital leases	(104)
<b>Present value of capital lease</b>	<b>\$ 1,368</b>

Representing capital lease liabilities

Current	\$ 344
Non-current	1,024
<b>Total capital lease liabilities</b>	<b>\$ 1,368</b>

As of June 30, 2017, the present value of capital lease during each fiscal year were as follows:

<i>(amount in thousands)</i>	
2018	\$ 344
2019	510
2020	409
2021	105
<b>Total future minimum capital lease payments</b>	<b>\$ 1,368</b>

***Purchase obligations***

Purchase obligations represent legally-binding commitments to purchase inventory and other commitments made in the normal course of business to meet operational requirements. Although open purchase orders are considered enforceable and legally binding, their terms generally give the Company the option to cancel, reschedule and/or adjust its requirements based on its business needs prior to the delivery of goods or performance of services. Obligations to purchase inventory and other commitments are generally expected to be fulfilled within one year.

**Table of Contents**

On December 23, 2016, the Company entered into an agreement to purchase a parcel of land in Chonburi, Thailand, to support the expansion of the Company's production in Thailand. The aggregate purchase price is approximately \$5.6 million, of which the first installment of \$1.1 million was paid by the Company on January 10, 2017. The Company expects to pay the remaining balance of the purchase price on or before December 25, 2017.

As of June 30, 2017, the Company had an outstanding commitment to third parties of \$10.6 million, of which \$4.5 million was from the commitment to purchase land in Chonburi, Thailand.

**Indemnification of directors and officers**

Cayman Islands law does not limit the extent to which a company's memorandum and articles of association may provide for indemnification of directors and officers, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy, such as to provide indemnification against civil fraud or the consequences of committing a crime. Fabrinet's amended and restated memorandum and articles of association provide for indemnification of directors and officers for actions, costs, charges, losses, damages and expenses incurred in their capacities as such, except that such indemnification does not extend to any matter in respect of any fraud or dishonesty that may attach to any of them.

In accordance with Fabrinet's form of indemnification agreement for its directors and officers, Fabrinet has agreed to indemnify its directors and officers against certain liabilities and expenses incurred by such persons in connection with claims by reason of their being such a director or officer. Fabrinet maintains a director and officer liability insurance policy that may enable it to recover a portion of any future amounts paid under the indemnification agreements.

**20. Business segments and geographic information**

Operating segments are defined as components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company's chief operating decision maker is Fabrinet's chief executive officer. As of June 30, 2017, June 24, 2016 and June 26, 2015, the Company operated and internally managed a single operating segment. Accordingly, the Company does not accumulate discrete information with respect to separate product lines and does not have separate reportable segments.

Total revenues are attributed to a particular geographic area based on the bill-to-location of the customer. The Company operates primarily in three geographic regions: North America, Asia-Pacific and Europe. The following table presents total revenues by geographic regions:

<i>(amount in thousands)</i>	Years Ended		
	June 30, 2017	June 24, 2016	June 26, 2015
North America	\$ 661,267	\$ 525,161	\$ 370,836
Asia-Pacific	539,317	351,033	309,941
Europe	219,906	100,553	92,810
Total	\$ 1,420,490	\$ 976,747	\$ 773,587

As of June 30, 2017 and June 24, 2016, the Company had approximately \$34.9 million and \$34.7 million, respectively, of long-lived assets based in North America, with the substantial remainder of assets based in Asia-Pacific.

**Table of Contents**

The following table presents revenues by end market:

<i>(amount in thousands)</i>	<b>June 30, 2017</b>	<b>Years Ended June 24, 2016</b>	<b>June 26, 2015</b>
Optical communications	\$ 1,108,637	\$ 727,580	\$ 553,245
Lasers, sensors, and other	311,853	249,167	220,342
<b>Total</b>	<b>\$ 1,420,490</b>	<b>\$ 976,747</b>	<b>\$ 773,587</b>

**Significant customers**

Total revenues, by percentage, from individual customers representing 10% or more of total revenues in the respective periods were as follows:

	<b>June 30, 2017</b>	<b>Years Ended June 24, 2016</b>	<b>June 26, 2015</b>
Lumentum Operations LLC	17%	20%	20%
Oclaro, Inc.	* (1)	* (1)	10%

(1) Less than 10% of total revenue.

Accounts receivable from individual customers representing 10% or more of accounts receivable as of June 30, 2017 and June 24, 2016, respectively, were as follows:

	<b>As of June 30, 2017</b>	<b>As of June 24, 2016</b>
Lumentum Operations LLC	15%	18%
NeoPhotonics Corporation	12%	* (1)
Acacia Communications Inc.	10%	* (1)
Valeo	* (1)	11%

(1) Less than 10% of total accounts receivable.

**21. Financial instruments****Objectives and significant terms and conditions**

The principal financial risks faced by the Company are foreign currency risk and interest rate risk. The Company borrows at floating rates of interest to finance its operations. A minority of sales and purchases and a majority of labor and overhead costs are entered into in foreign currencies. In order to manage the risks arising from fluctuations in currency exchange rates, the Company uses derivative instruments. Trading for speculative purposes is prohibited under Company policies.

The Company enters into short-term foreign currency forward and option contracts to manage foreign currency exposures associated with certain assets, liabilities and other forecasted foreign currency transactions and may designate these instruments as hedging instruments. The foreign currency forward and option contracts generally have maturity of up to six months. All foreign currency exchange contracts are recognized on the consolidated balance sheets at fair value. Gain or loss on the Company's derivative instruments generally offset the assets, liabilities and transactions economically hedged.



*Foreign currency risk*

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the Thai baht, Chinese Renminbi ( RMB ) GBP.

**Table of Contents**

As of June 30, 2017 and June 24, 2016, the Company had outstanding foreign currency assets and liabilities as follows:

<i>(amount in thousands)</i>	As of June 30, 2017		As of June 24, 2016	
	Currency	\$	Currency	\$
<b>Assets</b>				
Thai baht	395,123	\$ 11,628	834,536	\$ 23,594
RMB	26,965	3,980	14,835	2,255
GBP	6,896	8,982		
<b>Total</b>		<b>\$ 24,590</b>		<b>\$ 25,849</b>
<b>Liabilities</b>				
Thai baht	1,875,338	\$ 55,189	1,517,782	\$ 42,912
RMB	28,451	4,200	24,654	3,748
GBP	5,625	7,326		
<b>Total</b>		<b>\$ 66,715</b>		<b>\$ 46,660</b>

The Thai baht assets represent cash and cash equivalents, trade accounts receivable, deposits and other current assets. The Thai baht liabilities represent trade accounts payable, accrued expenses, income tax payable and other payables. The Company manages its exposure to fluctuations in foreign exchange rates by the use of foreign currency contracts and offsetting assets and liabilities denominated in the same currency in accordance with management's policy. As of June 30, 2017 and June 24, 2016, there was \$1.0 million and \$84.5 million in foreign currency forward contracts, respectively, outstanding on the Thai baht payables.

The RMB assets represent cash and cash equivalents, trade accounts receivable and other current assets. The RMB liabilities represent trade accounts payable, accrued expenses, income tax payable and other payables. As of June 30, 2017 and June 24, 2016, there were no derivative contracts denominated in RMB.

The GBP assets primarily represent cash, trade accounts receivable and property, plant and equipment, net. The GBP liabilities primarily represent short-term loans, trade accounts payable and other payables. As of June 30, 2017, there were no derivative contracts denominated in GBP.

For fiscal year 2017 and fiscal year 2016, the Company recorded unrealized loss of \$0.02 million and \$1.8 million, respectively, related to derivatives that are not designated as hedging instruments in its consolidated statements of operations and comprehensive income.

**Interest Rate Risk**

The Company's principal interest bearing assets are time deposits and short-term investments with maturities of three months or less held with high quality financial institutions. The Company's principal interest bearing liabilities are bank loans which bear interest at floating rates.

**22. Income related to flooding**

During the week of August 10, 2015, the Company's subsidiary in China temporarily suspended production in its manufacturing facility due to flooding caused by Typhoon Soudelor and resumed operations on August 15, 2015. During the year ended June 24, 2016, the Company recognized income related to flooding of \$0.04 million, which consisted of a \$0.9 million final payment from an insurer against the Company's claim for flood damage, offset by expenses in relation to flood of \$0.86 million, which mainly consisted of \$0.6 million of repaired cost of equipment and \$0.2 million of inventory losses.

**Table of Contents**

**23. Subsequent event**

In August 2017, the Company's Board of Directors approved a share repurchase program to permit the Company to repurchase up to \$30.0 million worth of its issued and outstanding ordinary shares in the open market in accordance with applicable rules and regulations, at such time and such prices as management may decide.

The repurchased shares will be held as treasury stock.

**Table of Contents****UNAUDITED QUARTERLY FINANCIAL INFORMATION**

The following table sets forth a summary of the Company's quarterly financial information for each of the four quarters in the fiscal years ended June 30, 2017 and June 24, 2016:

<i>(in thousands, except per share data)</i>	<b>Three Months Ended</b>							
	<b>Jun 30, 2017</b>	<b>Mar 31, 2017</b>	<b>Dec 30, 2016</b>	<b>Sep 30, 2016</b>	<b>Jun 24, 2016</b>	<b>Mar 25, 2016</b>	<b>Dec 25, 2015</b>	<b>Sep 25, 2015</b>
Total revenues	\$ 370,454	\$ 366,837	\$ 351,156	\$ 332,043	\$ 276,388	\$ 250,888	\$ 233,038	\$ 216,433
Gross profit	\$ 44,760	\$ 44,046	\$ 43,046	\$ 39,608	\$ 33,842	\$ 31,177	\$ 28,493	\$ 26,011
Net income	\$ 27,401	\$ 21,656	\$ 25,292	\$ 22,766	\$ 19,669	\$ 20,822	\$ 19,803	\$ 1,603
<b>Basic net income per share:</b>								
Net income	\$ 0.73	\$ 0.58	\$ 0.69	\$ 0.63	\$ 0.55	\$ 0.58	\$ 0.55	\$ 0.05
Weighted-average shares used in basic net income per share calculations	37,334	37,116	36,848	36,404	36,075	35,964	35,812	35,579
<b>Diluted net income per share:</b>								
Net income	\$ 0.72	\$ 0.57	\$ 0.67	\$ 0.61	\$ 0.53	\$ 0.56	\$ 0.54	\$ 0.04
Weighted-average shares used in diluted net income per share calculations	38,118	37,872	37,805	37,330	37,258	37,089	36,826	36,315

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.**

Not applicable.

**ITEM 9A. CONTROLS AND PROCEDURES.****Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our Chief Executive Officer ( CEO ) and Chief Financial Officer ( CFO ), evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended ( Exchange Act )), as of the end of the period covered by this Annual Report on Form 10-K. Based on their evaluation, our management concluded that our disclosure controls and procedures were effective to provide reasonable assurance that the information we are required to disclose in reports we file or submit under the Exchange Act, (i) is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the U.S. Securities and Exchange Commission, and (ii) is accumulated and communicated to Fabrinet's management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

**Changes in Internal Control over Financial Reporting**

During the year ended June 30, 2017, we implemented formal controls and procedures over business combination accounting which we applied. There were no changes in our internal control over financial reporting that occurred during the quarter ended June 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



**Table of Contents**

**Management's Annual Report on Internal Control over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting of the Company as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately, and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Management has assessed the effectiveness of our internal control over financial reporting as of June 30, 2017. In making this assessment, management used the criteria described in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ( COSO ).

Based on their assessment, management concluded that we maintained effective internal control over financial reporting as of the end of fiscal year 2017, based on the criteria in *Internal Control - Integrated Framework* (2013) issued by COSO. The effectiveness of our internal control over financial reporting as of June 30, 2017 has been audited by PricewaterhouseCoopers ABAS Ltd., an independent registered public accounting firm, as stated in their report which appears herein.

**ITEM 9B. OTHER INFORMATION.**

Not applicable.

**Table of Contents**

**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.**

Information responsive to this item is incorporated herein by reference to our definitive proxy statement with respect to our 2017 Annual Meeting of Shareholders to be filed with the SEC within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K (the 2017 Proxy Statement ).

**ITEM 11. EXECUTIVE COMPENSATION.**

Information responsive to this item is incorporated herein by reference to our 2017 Proxy Statement.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.**

Information responsive to this item is incorporated herein by reference to our 2017 Proxy Statement.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.**

Information responsive to this item is incorporated herein by reference to our 2017 Proxy Statement.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.**

Information responsive to this item is incorporated herein by reference to our 2017 Proxy Statement.

**Table of Contents**

**PART IV**

**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.**

(a) The following documents are filed as part of, or incorporated by reference into, this Annual Report on Form 10-K:

1. *Financial Statements*: See Index to Consolidated Financial Statements under Item 8 of this Annual Report on Form 10-K.
2. *Financial Statement Schedules*: All schedules are omitted because they are not required, are not applicable or the information is included in the consolidated financial statements or notes thereto.
3. *Exhibits*: We have filed, or incorporated by reference into this Annual Report on Form 10-K, the exhibits listed on the accompanying Exhibit Index immediately following the signature page of this Annual Report on Form 10-K.

(b) Exhibits: See Item 15(a)(3), above.

(c) Financial Statement Schedules: See Item 15(a)(2), above.



**Table of Contents****SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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, on August 23, 2017.

**FABRINET**

By: /s/ TOH-SENG NG  
 Name: **Toh-Seng Ng**  
 Title: **Executive Vice President and Chief Financial Officer**

**POWER OF ATTORNEY**

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints David T. Mitchell and Toh-Seng Ng and each of them, as his true and lawful attorney-in-fact and agent with full power of substitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K and to file the same, with all exhibits thereto and all documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming that said attorney-in-fact and agent, or his substitute, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<b>Signature</b>	<b>Title</b>	<b>Date</b>
/s/ DAVID T. MITCHELL  <b>David T. Mitchell</b>	Chief Executive Officer and Chairman of the Board of Directors (Principal Executive Officer)	August 23, 2017
/s/ TOH-SENG NG  <b>Toh-Seng Ng</b>	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	August 23, 2017
/s/ HOMA BAHRAMI  <b>Homa Bahrami</b>	Director	August 23, 2017
/s/ THOMAS F. KELLY  <b>Thomas F. Kelly</b>	Director	August 23, 2017
/s/ FRANK H. LEVINSON  <b>Frank H. Levinson</b>	Director	August 23, 2017
/s/ ROLLANCE E. OLSON  <b>Rollance E. Olson</b>	Director	August 23, 2017



**Table of Contents****EXHIBIT INDEX**

Exhibit Number	Description	Form	Incorporated by reference herein		File No.
			Exhibit No.	Filing Date	
3.1	Amended and Restated Memorandum and Articles of Association	S-1/A	3.1	May 3, 2010	333-163258
4.1	Specimen Ordinary Share Certificate	S-1/A	4.1	June 14, 2010	333-163258
10.1.1+	Fabrinet 2010 Performance Incentive Plan, as amended	10-K	10.2.1	October 16, 2014	001-34775
10.1.2+	Form of Share Option Agreement under the Fabrinet 2010 Performance Incentive Plan	10-Q	10.2	February 5, 2013	001-34775
10.1.3+	Form of Restricted Share Agreement under the Fabrinet 2010 Performance Incentive Plan	10-Q	10.3	February 5, 2013	001-34775
10.1.4+	Form of Restricted Share Unit Agreement under the Fabrinet 2010 Performance Incentive Plan	10-Q	10.4	February 5, 2013	001-34775
10.1.5+	Form of Performance Share Unit Agreement under the Fabrinet 2010 Performance Incentive Plan	10-Q	10.5	November 9, 2016	001-34775
10.2.1+	Amended and Restated Employment Agreement, dated May 24, 2015, by and between David T. Mitchell and the registrant	10-K	10.3	August 19, 2013	011-34775
10.2.2+	Letter Agreement, dated August 12, 2016, by and between David T. Mitchell and the registrant	8-K	10.1	August 18, 2016	011-34775
10.3.1+	Amended and Restated Offer Letter, dated February 5, 2015, by and between Dr. Harpal Gill and Fabrinet USA, Inc.	8-K	10.1	February 12, 2015	001-34755
10.3.2+	Letter Agreement, dated August 12, 2016, by and between Dr. Harpal Gill and Fabrinet USA, Inc.	8-K	10.2	August 18, 2016	001-34755
10.4+	Employment Agreement, dated July 1, 2007, by and between Dr. Harpal Gill and Fabrinet Co., Ltd.	S-1	10.5	November 7, 2007	333-147191
10.5+	Description of Fiscal 2016 Executive Incentive Plan	8-K, Item 5.02	N/A	August 19, 2015	001-34755

**Table of Contents**

Exhibit Number	Description	Form	Incorporated by reference herein		File No.
			Exhibit No.	Filing Date	
10.6+	Description of Fiscal 2017 Executive Incentive Plan	8-K, Item 5.02	N/A	August 18, 2016	001-34755
10.7+	Description of Fiscal 2016 Long-Term Equity Plan	8-K, Item 5.02	N/A	August 28, 2015	001-34755
10.8.1+	Offer Letter, dated November 5, 2015, between Hong Hou and Fabrinet USA, Inc.	10-Q	10.1	May 3, 2016	001-34755
10.8.2+	Letter Agreement, dated October 31, 2016, by and between Hong Hou and Fabrinet USA, Inc.	8-K	10.3	August 18, 2016	001-34755
10.9.1+	Amended and Restated Offer Letter, dated February 5, 2015, between the registrant and Toh-Seng Ng	8-K	10.2	February 12, 2015	001-34755
10.9.2+	Letter Agreement, dated August 12, 2016, by and between Toh-Seng Ng and Fabrinet USA, Inc.	8-K	10.3	August 18, 2016	001-34755
10.10+	Form of Indemnification Agreement	S-1/A	10.10	January 28, 2010	333-163258
10.11	Manufacturing Agreement, dated May 29, 2005, by and between the registrant and FBN New Jersey Holdings Corp.	S-1	10.10	November 7, 2007	333-147191
10.12	Manufacturing Agreement, dated January 2, 2000, by and between the registrant and Fabrinet Co., Ltd.	S-1	10.11	November 7, 2007	333-147191
10.13	Administrative Services Agreement, dated January 2, 2000, by and between the registrant and Fabrinet USA, Inc.	S-1	10.12	November 7, 2007	333-147191
10.14	Administrative Services Agreement, dated July 3, 2008, by and between the registrant and Fabrinet Pte. Ltd.	S-1	10.14	November 20, 2009	333-163258
10.15.1	Credit Agreement, dated as of May 22, 2014, by and among Fabrinet, the guarantors from time to time party thereto, the lenders from time to time party thereto and Bank of America, N.A. as administrative agent.	8-K	10.1	May 22, 2014	001-34775

**Table of Contents**

Exhibit Number	Description	Form	Incorporated by reference herein		File No.
			Exhibit No.	Filing Date	
10.15.2	First Amendment to Credit Agreement, effective as of September 25, 2014, by and among Fabrinet, the guarantors party thereto, the lenders party thereto and Bank of America, N.A. as administrative agent.	10-Q	10.1	November 5, 2014	001-34775
10.15.3	Second Amendment to Credit Agreement, dated as of February 26, 2015, by and among Fabrinet, the guarantors party thereto, the lenders party thereto and Bank of America, N.A. as administrative agent.	8-K	10.1	March 2, 2015	001-34775
10.15.4	Third Amendment to Credit Agreement, dated as of July 31, 2015, by and among Fabrinet, the designated borrowers party thereto, the guarantors party thereto, the lenders party thereto and Bank of America, N.A. as administrative agent.	8-K	10.1	August 5, 2015	001-34775
10.16	Security and Pledge Agreement, dated as of May 22, 2014, by and between Fabrinet and Bank of America, N.A. as administrative agent.	8-K	10.2	May 22, 2014	001-34775
10.17	Lease Agreement, dated July 1, 2013, by and between Donly Corporation and FBN New Jersey Manufacturing, Inc. DBA VitroCom	10-K	10.16	August 16, 2013	001-34775
10.18	Primary Contract Manufacturing Agreement, dated January 1, 2008, by and between JDS Uniphase Corporation and the registrant	S-1/A	10.27	January 19, 2010	333-163258
10.19	Land Purchase Agreement, dated September 2, 2015, by and among Fabrinet Co., Ltd. and Hemaraj Land and Development Public Company Limited	10-Q	10.4	November 3, 2015	001-34775
10.20	Construction Contract, dated October 30, 2015, by and among Fabrinet Co., Ltd. and Standard Performance Co., Ltd.	10-Q	10.1	February 2, 2016	001-34775

**Table of Contents**

Exhibit Number	Description	Form	Incorporated by reference herein		File No.
			Exhibit No.	Filing Date	
21.1	List of Subsidiaries				
23.1	Consent of PricewaterhouseCoopers ABAS Ltd.				
24.1	Power of Attorney (incorporated by reference to the signature page of this Annual Report on Form 10-K)				
31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				
31.2	Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				
32.1	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				
101.INS	XBRL Instance				
101.SCH	XBRL Taxonomy Extension Schema				
101.CAL	XBRL Taxonomy Extension Calculation Linkbase				
101.DEF	XBRL Taxonomy Extension Definition Linkbase				
101.LAB	XBRL Taxonomy Extension Label Linkbase				
101.PRE	XBRL Taxonomy Extension Presentation Linkbase				

+ Indicates management contract or compensatory plan.  
 Confidential treatment has been requested for portions of this exhibit.