
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 27, 2015

OR

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number: 001-34775

FABRINET

(Exact name of registrant as specified in its charter)

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)

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 (the "Exchange Act") during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes No

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

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

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

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

As of April 24, 2015, the registrant had 35,426,423 ordinary shares, \$0.01 par value, outstanding.

**FABRINET
FORM 10-Q
QUARTER ENDED MARCH 27, 2015**

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PART I: FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FABRINET

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands of U.S. dollars, except share data)

	March 27, 2015	June 27, 2014
Assets		
Current assets		
Cash and cash equivalents	\$128,946	\$233,477
Marketable securities	125,398	—
Trade accounts receivable, net	120,054	101,168
Inventory, net	126,660	124,570
Deferred tax assets	1,486	1,561
Prepaid expenses	2,272	1,691
Other current assets	1,822	2,010
Total current assets	<u>506,638</u>	<u>464,477</u>
Non-current assets		
Property, plant and equipment, net	133,998	97,244
Intangibles, net	45	72
Deferred tax assets	1,690	1,775
Deferred debt issuance costs	2,573	989
Total non-current assets	<u>138,306</u>	<u>100,080</u>
Total assets	<u>\$644,944</u>	<u>\$564,557</u>
Liabilities and Shareholders' Equity		
Current liabilities		
Bank borrowings, including revolving loan and current portion of long-term loan from banks	\$ 36,000	\$ 6,000
Trade accounts payable	103,053	94,853
Equipment-related payables	4,170	1,130
Income tax payable	979	1,024
Accrued payroll, bonus and related expenses	9,977	8,612
Accrued expenses	7,120	4,345
Other payables	6,258	4,665
Total current liabilities	<u>167,557</u>	<u>120,629</u>
Non-current liabilities		
Long-term loans from bank, non-current portion	6,000	10,500
Deferred tax liability	1,017	1,040
Severance liabilities	5,001	4,453
Other non-current liabilities	1,691	1,099
Total non-current liabilities	<u>13,709</u>	<u>17,092</u>
Total liabilities	<u>181,266</u>	<u>137,721</u>
Commitments and contingencies (Note 15)		
Shareholders' equity		
Preferred shares (5,000,000 shares authorized, \$0.01 par value; no shares issued and outstanding as of March 27, 2015 and June 27, 2014)	—	—
Ordinary shares (500,000,000 shares authorized, \$0.01 par value; 35,426,140 shares and 35,152,772 shares issued and outstanding as of March 27, 2015 and June 27, 2014, respectively)	354	352
Additional paid-in capital	87,088	80,882
Retained earnings	376,210	345,602
Accumulated other comprehensive income	26	—
Total shareholders' equity	<u>463,678</u>	<u>426,836</u>
Total Liabilities and Shareholders' Equity	<u>\$644,944</u>	<u>\$564,557</u>

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

FABRINET
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

	Three Months Ended		Nine Months Ended	
	March 27, 2015	March 28, 2014	March 27, 2015	March 28, 2014
<i>(in thousands of U.S. dollars, except share data)</i>				
Revenues	\$ 189,453	\$ 167,657	\$ 567,131	\$ 517,770
Cost of revenues	(167,796)	(150,374)	(503,907)	(461,312)
Gross profit	21,657	17,283	63,224	56,458
Selling, general and administrative expenses	(9,670)	(7,352)	(28,721)	(20,959)
Expenses related to reduction in workforce	—	—	(1,153)	—
Income related to flooding, net	—	38,151	—	44,748
Operating income	11,987	48,082	33,350	80,247
Interest income	258	560	956	1,262
Interest expense	(125)	(172)	(375)	(566)
Foreign exchange (loss) gain, net	(87)	(254)	(110)	46
Other (expense) income	(75)	173	(106)	544
Income before income taxes	11,958	48,389	33,715	81,533
Income tax expense	(1,113)	(727)	(3,108)	(135)
Net income	10,845	47,662	30,607	81,398
Other comprehensive income, before tax:				
Change in fair value of marketable securities	450	—	(43)	—
Less: Reclassification adjustment for net loss realized and included in net income	62	—	69	—
Total change in unrealized gain on marketable securities, before tax	512	—	26	—
Income tax expense related to items of other comprehensive income	—	—	—	—
Total other comprehensive income, net of tax	512	—	26	—
Net comprehensive income	<u>\$ 11,357</u>	<u>\$ 47,662</u>	<u>\$ 30,633</u>	<u>\$ 81,398</u>
Earnings per share				
Basic	\$ 0.31	\$ 1.36	\$ 0.87	\$ 2.33
Diluted	\$ 0.30	\$ 1.33	\$ 0.85	\$ 2.29
Weighted-average number of ordinary shares outstanding (thousands of shares)				
Basic	35,406	35,078	35,328	34,878
Diluted	36,110	35,790	35,871	35,504

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

FABRINET

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended	
	March 27, 2015	March 28, 2014
<i>(in thousands of U.S. dollars)</i>		
Cash flows from operating activities		
Net income for the period	\$ 30,607	\$ 81,398
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	9,261	7,685
Amortization of intangibles	61	72
Loss from sales and maturities of available-for-sale securities	62	—
Gain on disposal of property, plant and equipment	(41)	(1)
Amortization of investment premium	757	—
Amortization of deferred debt issuance costs	377	—
Income related to flooding	—	(45,211)
Proceeds from insurers for inventory losses related to flooding	—	7,416
Reversal of allowance for doubtful accounts	3	(62)
Unrealized (gain) loss on exchange rate and fair value of derivative	(55)	1,027
Share-based compensation	5,806	4,538
Deferred income tax	137	(132)
Other non-cash expenses	1,141	255
Reversal of uncertain tax positions	—	(1,538)
Inventory obsolescence	332	673
Changes in operating assets and liabilities		
Trade accounts receivable	(18,889)	37
Inventory	(2,422)	(19,537)
Other current assets and non-current assets	(574)	(889)
Trade accounts payable	8,200	24,392
Income tax payable	(45)	351
Other current liabilities and non-current liabilities	5,763	5,642
Liabilities to third parties due to flood losses	—	(7,512)
Net cash provided by operating activities	<u>40,481</u>	<u>58,604</u>
Cash flows from investing activities		
Purchase of available-for-sale securities	(159,396)	—
Proceeds from sales of available-for-sale securities	22,873	—
Proceeds from maturities of available-for-sale securities	10,332	—
Purchase of property, plant and equipment	(42,980)	(7,280)
Purchase of intangibles	(34)	(1)
Proceeds from disposal of property, plant and equipment	46	1
Proceeds from insurers in settlement of claims related to flood damage	—	37,795
Net cash (used in) provided by investing activities	<u>(169,159)</u>	<u>30,515</u>
Cash flows from financing activities		
Payment of debt issuance costs	(1,780)	—
Proceeds from revolving loan	30,000	—
Repayment of long-term loans from bank	(4,500)	(7,251)
Proceeds from issuance of ordinary shares under employee share option plans	736	3,956
Withholding tax related to net share settlement of restricted share units	(334)	(198)
Net cash provided by (used in) financing activities	<u>24,122</u>	<u>(3,493)</u>
Net (decrease) increase in cash and cash equivalents	<u>(104,556)</u>	<u>85,626</u>
Movement in cash and cash equivalents		
Cash and cash equivalents at beginning of period	233,477	149,716
(Decrease) increase in cash and cash equivalents	(104,556)	85,626
Effect of exchange rate on cash and cash equivalents	25	(1,678)
Cash and cash equivalents at end of period	<u>\$ 128,946</u>	<u>\$ 233,664</u>

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

FABRINET
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of U.S. dollars unless otherwise noted)

1. Business and organization

General

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. “We”, “us”, “our” and the “Company” refer 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 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, advanced packaging, integration, final assembly and test. The Company focuses primarily on the production of low-volume, high-mix products. The subsidiaries of Fabrinet include Fabrinet Co., Ltd. (“Fabrinet Thailand”), Fabrinet USA, Inc., FBN New Jersey Manufacturing, Inc., Fabrinet China Holdings, Casix, Inc. (“Casix”), Fabrinet Pte., Ltd., Fabrilink SEZC, Fabrinet West, Inc., and Fabritek, Inc.

Fabrilink SEZC, Fabrinet West, Inc., and Fabritek, Inc. were incorporated in January 2015.

2. Accounting policies

Basis of presentation

The accompanying unaudited condensed consolidated financial statements for Fabrinet as of March 27, 2015 and for the three and nine months ended March 27, 2015 and March 28, 2014 includes only normal recurring adjustments, necessary for a fair statement of the financial statements set forth herein, in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information and rules and regulations of the Securities and Exchange Commission (“SEC”). Accordingly, such information does not include all of the information and footnotes required by U.S. GAAP for annual financial statements. For further information, please refer to the consolidated financial statements and footnotes thereto included in the Company’s Annual Report on Form 10-K for the year ended June 27, 2014.

The balance sheet as of June 27, 2014 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements. The results for the three and nine months ended March 27, 2015 and March 28, 2014 may not be indicative of results for the year ending June 26, 2015 or any future periods.

Use of Estimates

The preparation of the Company’s condensed 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 expense 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, and inventory obsolescence, 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.

Fiscal years

The Company utilizes a 52-53 week fiscal year ending on the Friday in June closest to June 30. The three months ended March 27, 2015 and March 28, 2014 each consisted of 13 weeks. The nine months ended March 27, 2015 and March 28, 2014 each consisted of 39 weeks. Fiscal year 2015 will be comprised of 52 weeks and will end on June 26, 2015.

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 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

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 reasonable assured, and title and risk of loss have passed to the customer.

New Accounting Pronouncements – not yet adopted by the Company

In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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. The update is effective for fiscal years beginning after December 15, 2015. Early adoption is permitted for financial statements that have not been previously issued. The Company is currently evaluating the impact of adoption of this update on its consolidated financial statements.

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. ASU No. 2015-02 is effective for fiscal years, and for interim periods within those fiscal years beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. The Company is currently evaluating the impact of adoption of this update on its consolidated financial statements.

In January 2015, the FASB issued ASU No. 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. Presently, an event or transaction is presumed to be an ordinary and usual activity of the reporting entity unless evidence clearly supports its classification as an extraordinary item. The following criteria must both be met for extraordinary classification: (a) the underlying event or transaction should 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) the underlying event or transaction should not reasonably be expected to recur in the foreseeable future. This amendment is effective for fiscal years and interim periods beginning after December 15, 2015. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The Company does not expect that the adoption of this update will have an effect on its consolidated financial statements.

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In August 2014, the FASB issued ASU No. 2014-15, “Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern”. The amendments require management to evaluate, for each annual and interim reporting period, an entity’s ability to continue as a going concern when relevant conditions and events, considered in the aggregate, indicate that it is probable that the entity will be unable to meet its obligations that become due within one year after the date that the financial statements are issued (or available to be issued). This ASU is effective for annual periods and interim reporting periods beginning after December 15, 2016. The Company does not expect that the adoption of this update will have an effect on its consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-12, “Compensation – Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved After the Requisite Service Period”. This ASU requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. This update further clarifies that compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. This update is required to be adopted by all public companies for annual periods and interim reporting periods beginning after December 15, 2015. Early adoption of this ASU is permitted. The Company is currently evaluating the impact of adoption of this update on its consolidated financial statements.

In May 2014, the FASB issued ASU No. 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 ASU is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period, with earlier adoption not being permitted. This ASU can be adopted either retrospectively to each prior reporting period presented or as a cumulative-effect adjustment as of the date of adoption. The Company is currently evaluating the impact of adoption of this update on its consolidated financial statements.

3. 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 dividing reported net income by the weighted-average number of ordinary shares and dilutive ordinary equivalent shares outstanding during each period. Dilutive ordinary equivalent shares consist of share options and restricted share units. The earnings per ordinary share was calculated as follows:

<i>(amount in thousands except per share amounts)</i>	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>March 27, 2015</u>	<u>March 28, 2014</u>	<u>March 27, 2015</u>	<u>March 28, 2014</u>
Net income attributable to shareholders	\$ 10,845	\$ 47,662	\$ 30,607	\$ 81,398
Weighted-average number of ordinary shares outstanding (thousands of shares)	35,406	35,078	35,328	34,878
Incremental shares arising from the assumed exercise of share options and vesting of restricted share units (thousands of shares)	704	712	543	626
Weighted-average number of ordinary shares for diluted earnings per ordinary share (thousands of shares)	36,110	35,790	35,871	35,504
Basic earnings per ordinary share	\$ 0.31	\$ 1.36	\$ 0.87	\$ 2.33
Diluted earnings per ordinary share	\$ 0.30	\$ 1.33	\$ 0.85	\$ 2.29
Outstanding share options excluded in the computation of diluted earnings per ordinary share (1)			69,354	44,644

(1) These share options were not included in the computation of diluted earnings per ordinary share for three and nine months ended March 27, 2015 and March 28, 2014, respectively, because the exercise price of the options was greater than the average market price of the underlying shares.

4. Cash, cash equivalents and marketable securities

The Company's cash, cash equivalents, and available-for-sale securities can be analyzed as follows:

<i>(amount in thousands)</i>	Carrying Cost	Unrealized Gain	Fair Value	
			Cash and Cash Equivalents	Marketable Securities
As of March 27, 2015				
Cash	\$ —	\$ —	\$ 124,064	\$ —
Cash equivalents	4,882	—	4,882	—
Corporate bonds and commercial papers	102,761	25	—	102,786
U.S. agency and U.S. treasury securities	18,670	—	—	18,670
Sovereign and municipal securities	3,941	1	—	3,942
Total	\$ 130,254	\$ 26	\$ 128,946	\$ 125,398

<i>(amount in thousands)</i>	Carrying Cost	Unrealized Loss	Fair Value	
			Cash and Cash Equivalents	Marketable Securities
As of June 27, 2014				
Cash	\$ —	\$ —	\$ 214,283	\$ —
Cash equivalents	—	—	19,194	—
Total	\$ —	\$ —	\$ 233,477	\$ —

All highly liquid investments with original maturities of three months or less at the date of purchase are classified as cash equivalents. 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 its 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 investments consist of investment in U.S. Treasuries and fixed income securities and have been classified and accounted for as available-for-sale.

The following table summarizes the cost and estimated fair value of fixed income securities classified as available-for-sale securities based on stated effective maturities as of March 27, 2015:

<i>(amount in thousands)</i>	Carrying Cost	Fair Value
Due within one year	\$ 37,218	\$ 37,216
Due between one to three years	88,154	88,182
Total	\$ 125,372	\$ 125,398

The Company's investments in available-for-sale securities are 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 condensed 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. During the three and nine months ended March 27, 2015, the net realized loss recognized by the Company was \$0.1 million and \$0.1 million, respectively.

The Company reviews its available-for-sale 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.

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As of March 27, 2015, the Company considered the declines in market value of its available-for-sale 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 three and nine months ended March 27, 2015.

As of March 27, 2015, 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 10, the Company must comply with this covenant from and after the effective date of the Facility Agreement.

5. 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 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 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 are inputs other than quoted prices included within Level 1 that are observable for assets or liabilities, either directly or indirectly. If the assets or liabilities have a specified (contractual) term, Level 2 inputs must be observable for substantially the full term of assets or liabilities.

Level 3 inputs are unobservable inputs for assets or liabilities, 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 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 Using			
	Level 1	Level 2	Level 3	Total
As of March 27, 2015				
Assets				
Cash equivalents	\$ —	\$ 4,882	\$ —	\$ 4,882
Corporate bonds and commercial papers	—	102,786	—	102,786
U.S. agency and U.S. treasury securities	—	18,670	—	18,670
Sovereign and municipal securities	—	3,942	—	3,942
Derivative assets	—	183 ⁽¹⁾	—	183
Total	<u>\$ —</u>	<u>\$ 130,463</u>	<u>\$ —</u>	<u>\$ 130,463</u>
Liabilities				
Derivative liabilities	\$ —	\$ 20 ⁽²⁾	\$ —	\$ 20
Total	<u>\$ —</u>	<u>\$ 20</u>	<u>\$ —</u>	<u>\$ 20</u>

(1) Foreign currency options with notional amount of \$40.0 million.

(2) Foreign currency options with notional amount of \$5.0 million and forward contracts with notional amount of Canadian dollars 0.4 million.

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<i>(amount in thousands)</i> As of June 27, 2014	Fair Value Measurements at Reporting Date Using			
	Level 1	Level 2	Level 3	Total
Assets				
Cash equivalents	\$ —	\$ 19,194	\$ —	\$ 19,194
Derivative assets	—	135 ⁽³⁾	—	135
Total	\$ —	\$ 19,329	\$ —	\$ 19,329
Liabilities				
Derivative liabilities	\$ —	\$ 1 ⁽⁴⁾	\$ —	\$ 1
Total	\$ —	\$ 1	\$ —	\$ 1

(3) Foreign currency options with notional amount of \$15.0 million.

(4) Foreign currency forward contracts with notional amount of Canadian dollars 0.9 million.

Derivative Financial Instruments

The Company uses foreign currency contracts to manage the foreign exchange risk associated with certain foreign currency-denominated assets and liabilities. As a result of foreign currency fluctuations, the U.S. dollar equivalent values of its foreign currency-denominated assets and liabilities change. The Company has not designated such foreign currency contracts as hedging instruments under the accounting standard for derivatives and hedging. The forward exchange contracts and option contracts outstanding as of March 27, 2015 and June 27, 2014 had a maturity in one to six months duration. 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.

The derivative assets and liabilities are classified in other current assets and accrued expenses, respectively, on the condensed consolidated balance sheets. The change in the fair value of the derivatives is recorded in foreign exchange gain (loss) on the condensed consolidated statements of operations and comprehensive income.

6. Allowance for doubtful accounts

The activities and balances for allowance for doubtful accounts were as follows:

<i>(amount in thousands)</i>	Nine Months Ended	
	March 27, 2015	March 28, 2014
Balance, beginning of period	\$ 37	\$ 109
Charged to expense/(Credited to income)	3	(62)
Balance, end of period	\$ 40	\$ 47

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<i>(amount in thousands)</i>	As of March 27, 2015	As of June 27, 2014
Raw materials	\$ 44,443	\$ 40,885
Work in progress	64,216	56,376
Finished goods	15,117	22,970
Goods in transit	5,776	6,899
	<u>129,552</u>	<u>127,130</u>
Less: Inventory obsolescence	(2,892)	(2,560)
Inventory, net	<u>\$126,660</u>	<u>\$124,570</u>

8. Property, Plant and Equipment

On February 24, 2015, one of Fabrinet's subsidiaries purchased a building of approximately 74,000 square feet and the associated 4.05 acres of land located in Santa Clara, California, for the purpose of expanding the Company's manufacturing facilities in the United States. The purchase price of the land and building was \$17.0 million and \$8.5 million, respectively.

9. Intangibles

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

<i>(amount in thousands)</i>	Gross Carrying Amount	Accumulated Amortization	Net
As of March 27, 2015			
Software	\$ 3,492	\$ (3,447)	\$ 45
Total intangibles	<u>\$ 3,492</u>	<u>\$ (3,447)</u>	<u>\$ 45</u>

<i>(amount in thousands)</i>	Gross Carrying Amount	Accumulated Amortization	Net
As of June 27, 2014			
Software	\$ 3,458	\$ (3,386)	\$ 72
Total intangibles	<u>\$ 3,458</u>	<u>\$ (3,386)</u>	<u>\$ 72</u>

The Company recorded amortization expense relating to intangibles of \$0.02 million and \$0.02 million for the three months ended March 27, 2015 and March 28, 2014, respectively, and \$0.06 million and \$0.07 million for the nine months ended March 27, 2015 and March 28, 2014, respectively.

Based on the carrying amount of intangibles as of March 27, 2015, and assuming no future impairment of the underlying assets, the estimated future amortization at the end of each fiscal year in June is as follows:

<i>(amount in thousands)</i>	
2015	\$ 8
2016	12
2017	8
2018	7
2019	7
Thereafter	3
Total	<u>\$ 45</u>

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10. Borrowings

The Company's total borrowing, including revolving and long-term borrowings, consisted of the following:

(amount in thousands)

Rate (1)	Conditions	Maturity	As of March 27, 2015	As of June 27, 2014
Short-term borrowing:				
Revolving borrowing:				
LIBOR + 1.75% per annum	Repayable in 1 to 6 months	April 2015 (2)	\$ 30,000	\$ —
Current portion of long-term borrowing			6,000	6,000
			<u>\$ 36,000</u>	<u>\$ 6,000</u>
Long-term borrowing:				
LIBOR + 2.8% per annum	Repayable in quarterly installments within 6 years	March 2017	\$ 12,000	\$ 16,500
Less: Current portion			(6,000)	(6,000)
Non-current portion			<u>\$ 6,000</u>	<u>\$ 10,500</u>

(1) LIBOR is London Interbank Offered Rate.

(2) On April 16, 2015, 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 date to May 18, 2015.

On April 25, 2014, a subsidiary entered into an amendment to the bank borrowing agreement. Under the amendment of the contract, the long-term loan is secured by certain property, plant and equipment. The carrying amount of assets secured and pledged as collateral as of March 27, 2015 and June 27, 2014 was \$50.6 million and \$52.3 million, respectively. This subsidiary is also required to comply with the maximum ratios of debt to equity and minimum levels of debt service coverage ratios, and Fabrinet must maintain an effective shareholding ratio. The carrying amounts of bank borrowings approximate their fair value.

As of March 27, 2015 and June 27, 2014, the Company was in compliance with its long-term bank borrowing agreement. In addition to financial ratios, certain of the Company's credit facilities include customary events of default.

The movements of long-term loans were as follows for the nine months ended March 27, 2015 and March 28, 2014:

(amount in thousands)	Nine Months Ended	
	March 27, 2015	March 28, 2014
Opening net book amount	\$ 16,500	\$ 28,911
Repayment during the period	(4,500)	(7,251)
Closing net book amount	<u>\$ 12,000</u>	<u>\$ 21,660</u>

As of March 27, 2015, future maturities of long-term debt were as follows at the end of each fiscal year below:

(amount in thousands)	
2015	\$ 1,500
2016	6,000
2017	4,500
Total	<u>\$12,000</u>

Credit facilities:

Fabrinet 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

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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, 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. As of March 27, 2015, the outstanding revolving borrowing under the Facility Agreement was \$30.0 million, resulting in available credit facilities of \$170.0 million. Borrowings under the revolving credit facility are classified as current liabilities in the unaudited condensed 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 1 to 6 months, without premium or penalty, upon notice to the administrative agent. On April 16, 2015, 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 date to May 18, 2015.

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 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 March 27, 2015, 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 manufacturing buildings 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.

Undrawn available credit facilities as of March 27, 2015 and June 27, 2014 were as follows:

<i>(amount in thousands)</i>	March 27, 2015	June 27, 2014
Short-term	\$ 1,535	\$ 1,539
Long-term	\$ 170,000	\$ —

11. Income taxes

As of March 27, 2015 and June 27, 2014, the liability for uncertain tax positions including accrued interest and penalties was \$1.5 million and \$0.9 million, respectively. The Company expects the estimated amount of liability associated with its uncertain tax positions to decrease within the next 12 months due to the lapse of the applicable statute of limitations in foreign tax jurisdictions.

The Company files income tax returns in the United States and foreign tax jurisdictions. The tax years from 2010 to 2014 remain open to examination by U.S. federal and state tax authorities, and foreign tax authorities. The Company's income tax is recognized based on the best estimate of the expected annual effective tax rate for the full financial year of each entity in the Company, adjusted for discrete items arising in that quarter. If the Company's estimated annual effective tax rate changes, the Company makes a cumulative adjustment in that quarter.

The effective tax rate for the Company for the three months ended March 27, 2015 and March 28, 2014 was 9.3% and 1.5% of net income, respectively. The increase in the effective tax rate for the three months ended March 27, 2015 was primarily due to the fact that the Company had higher taxable income during the three months ended March 27, 2015 as compared to the three months ended March 28, 2014 because the income related to flooding of \$38.2 million that was recognized during the three months ended March 28, 2014 was not subject to income tax.

The effective tax rate for the Company for the nine months ended March 27, 2015 and March 28, 2014 was 9.2% and 0.2% of net income, respectively. The increase in the effective tax rate for the nine months ended March 27, 2015 was primarily due to the fact that the Company had higher taxable income during the nine months ended March 27, 2015 as compared to the nine months ended March 28, 2014 because the income related to flooding of \$44.7 million that was recognized during the nine months ended March 28, 2014 was not subject to income tax. This impact was offset by the reversal of liabilities for uncertain tax positions, including accrued interest of \$1.5 million in the nine months ended March 27, 2015, and an increase in deferred tax assets of \$0.6 million from the increase in the income tax rate of the Company's subsidiary in China from 15% in the nine months ended March 28, 2014 to 25% in the nine months ended March 27, 2015 due to the expiration of a tax privilege.

12. Share-based compensation

Share-based compensation

In determining the grant date fair value of equity awards, the Company is required to make estimates of the fair value of Fabrinet's ordinary shares, 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, expected terms of the awards, and the vesting period of the respective awards. Forfeitures are estimated at the time of grant and revised if necessary in subsequent periods if actual forfeitures differ from those estimates.

The effect of recording share-based compensation expense for the three and nine months ended March 27, 2015 and March 28, 2014 was as follows:

<i>(amount in thousands)</i>	Three Months Ended		Nine Months Ended	
	March 27, 2015	March 28, 2014	March 27, 2015	March 28, 2014
Share-based compensation expense by type of award:				
Share options	\$ 6	\$ 172	\$ 197	\$ 710
Restricted share units	2,003	1,306	5,609	3,828
Total share-based compensation expense	2,009	1,478	5,806	4,538
Tax effect on share-based compensation expense	—	—	—	—
Net effect on share-based compensation expense	<u>\$ 2,009</u>	<u>\$ 1,478</u>	<u>\$ 5,806</u>	<u>\$ 4,538</u>

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

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(amount in thousands)	Three Months Ended		Nine Months Ended	
	March 27, 2015	March 28, 2014	March 27, 2015	March 28, 2014
Cost of revenue	\$ 379	\$ 290	\$ 1,107	\$ 888
Selling, general and administrative expense	1,630	1,188	4,699	3,650
Total share-based compensation expense	<u>\$ 2,009</u>	<u>\$ 1,478</u>	<u>\$ 5,806</u>	<u>\$ 4,538</u>

The Company did not capitalize any share-based compensation expense as part of any asset costs during the three and nine months ended March 27, 2015 and March 28, 2014.

Share-based award activity

Share options have been granted to directors and employees. As of March 27, 2015, there were 6,665 share options outstanding under Fabrinet's Amended and Restated 1999 Share Option Plan (the "1999 Plan"). Additional option grants may not be made under the 1999 Plan.

As of March 27, 2015, there were an aggregate of 793,322 share options outstanding, 1,104,996 restricted share units outstanding, and 2,978,612 ordinary shares available for future grant under Fabrinet's 2010 Performance Incentive Plan (the "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.

The following summarizes share option 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		\$ 16.27	
Granted	—		—	—
Exercised	(50,867)		\$ 14.50	
Forfeited	(8,249)		\$ 15.91	
Expired	(6,787)		\$ 20.80	
Balance as of March 27, 2015	<u>799,987</u>	741,957	\$ 16.34	
	Number of Shares	Number of Exercisable Options	Weighted-Average Exercise Price	Weighted-Average Grant Date Fair Value
Balance as of June 28, 2013	1,277,311		\$ 15.37	
Granted	—		—	—
Exercised	(311,474)		\$ 12.70	
Forfeited	(12,754)		\$ 16.18	
Expired	(30,848)		\$ 16.93	
Balance as of March 28, 2014	<u>922,235</u>	640,676	\$ 16.20	

The following summarizes information for share options outstanding as of March 27, 2015 under the Share Option Plans:

	Number of Shares Underlying Options	Exercise Price Per Share	Weighted-Average Remaining Contractual Life (years)	Aggregate Intrinsic Value (amount in thousands)
	6,665	\$ 5.75	1.39	
	8,368	\$ 13.77	2.41	
	420,454	\$ 16.83	2.55	
	30,000	\$ 15.05	2.61	
	25,344	\$ 25.50	2.80	
	7,400	\$ 26.16	2.86	
	8,300	\$ 23.62	3.11	
	69,364	\$ 15.16	3.39	
	193,521	\$ 14.12	3.62	
	22,760	\$ 19.36	3.87	
	5,550	\$ 18.60	3.93	
	2,261	\$ 12.83	4.12	
Options outstanding	<u>799,987</u>		<u>2.94</u>	\$ <u>2,030</u>
Options exercisable	<u>741,957</u>		<u>2.89</u>	\$ <u>1,815</u>

As of March 27, 2015, there was \$0.03 million of unrecognized compensation expense related to share options under the Share Option Plans that is expected to be recognized over a weighted-average period of 0.62 years.

Restricted 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.

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

	Number of Shares	Weighted-Average Grant Date Fair Value
Balance as of June 27, 2014	762,295	\$ 14.23
Granted	608,544	\$ 17.52
Issued	(241,231)	\$ 17.70
Forfeited	(24,612)	\$ 15.95
Balance as of March 27, 2015	<u>1,104,996</u>	\$ 15.97
	Number of Shares	Weighted-Average Grant Date Fair Value
Balance as of June 28, 2013	545,668	\$ 12.81
Granted	475,838	\$ 15.31
Issued	(170,468)	\$ 12.93
Forfeited	(12,404)	\$ 14.60
Balance as of March 28, 2014	<u>838,634</u>	\$ 14.18

As of March 27, 2015, there was \$9.4 million of unrecognized share-based compensation expense related to restricted share units under the 2010 Plan that is expected to be recorded over a weighted-average period of 2.97 years.

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For the nine months ended March 27, 2015 and March 28, 2014, the Company withheld an aggregate of 18,730 shares and 12,143 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 the nine months ended March 27, 2015 and March 28, 2014, the Company then remitted cash of \$0.3 million and \$0.2 million, respectively, to the appropriate taxing authorities, and presented it in a financing activity within the condensed consolidated statements of cash flows. The payment had the effect on shares 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.

13. Shareholders' equity

Share capital

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 nine months ended March 27, 2015, Fabrinet issued 50,867 ordinary shares upon the exercise of options, for cash consideration at a weighted-average exercise price of \$14.50 per share, and 222,501 ordinary shares upon the vesting of restricted share units, net of shares withheld.

For the nine months ended March 28, 2014, Fabrinet issued 311,474 ordinary shares upon the exercise of options, for cash consideration at a weighted-average exercise price of \$12.70 per share, and 158,325 ordinary shares upon the vesting of restricted share units, net of shares withheld.

All such issued shares are fully paid.

14. Accumulated other comprehensive income

The Company's accumulated other comprehensive income consists of the accumulated net unrealized loss and the reclassification adjustment for net loss realized and included in other expense in net income on available-for-sale securities. For the nine months ended March 27, 2015, the changes in accumulated other comprehensive income, net of tax were as follows:

<u>(amount in thousands)</u>	<u>Unrealized Gain on Available-for-Sale Securities</u>
Balance as of June 27, 2014	\$ —
Other comprehensive income before reclassification adjustment	(43)
Less: Reclassification adjustment for net loss realized and included in other expense in net income	69
Net current-period other comprehensive income	\$ 26
Balance as of March 27, 2015	<u>\$ 26</u>

15. Commitments and contingencies

Bank guarantees

As of March 27, 2015 and June 27, 2014, there were outstanding bank guarantees given by banks on behalf of Fabrinet Thailand for electricity usage and other normal business amounting to \$0.8 million and \$0.3 million, respectively.

Operating lease commitments

The Company leases a portion of its office, capital equipment, and certain land and buildings for its facilities in Cayman Islands, China, and New Jersey under operating lease arrangements that expire in various calendar years through 2020. Rental expense under these operating leases amounted to \$0.8 million and \$0.7 million for the nine months ended March 27, 2015 and March 28, 2014, respectively.

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As of March 27, 2015, the future minimum lease payments due under non-cancelable leases were as follows at the end of each fiscal year below:

<i>(amount in thousands)</i>	
2015	\$ 291
2016	1,118
2017	1,103
2018	1,103
2019	615
Thereafter	452
Total minimum operating lease payments	<u>\$4,682</u>

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.

As of March 27, 2015, the Company had an outstanding commitment to third parties of \$2.5 million.

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.

16. 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 March 27, 2015 and March 28, 2014, 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 customers. The Company operates primarily in three geographic regions: North America, Asia-Pacific and Europe. The following table presents total revenues by geographic regions:

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<i>(amount in thousands)</i>	Three Months Ended		Nine Months Ended	
	March 27, 2015	March 28, 2014	March 27, 2015	March 28, 2014
North America	\$ 93,335	\$ 84,842	\$278,036	\$247,993
Asia-Pacific	71,251	53,680	219,967	171,373
Europe	24,867	29,135	69,128	98,404
	<u>\$189,453</u>	<u>\$167,657</u>	<u>\$567,131</u>	<u>\$517,770</u>

As of March 27, 2015 and March 28, 2014, the Company had approximately \$25.8 million and \$0.3 million of long-lived assets based in North America, with the substantial remainder of assets based in Asia-Pacific.

Significant customers

The Company had two customers that each contributed to 10% or more of its total account receivable as of March 27, 2015 and June 27, 2014, respectively.

17. Income related to flooding

The Company suspended production at all of its manufacturing facilities in Thailand from October 17, 2011 through November 14, 2011 due to severe flooding in Thailand. The Company never resumed, and has permanently ceased, production at its Chokchai facility. The Company submitted claims for losses to its insurance companies, all of which were settled as of the end of fiscal year 2014.

In the three and nine months ended March 28, 2014, the Company received from its insurer a final payment of \$38.6 million and \$45.2 million against its claim for owned and consigned equipment and inventory claims, respectively, which the Company recognized as income related to flooding. This income was offset by other expenses from write-offs of advance payments to a customer due to flood losses of \$0.5 million.

During the nine months ended March 28, 2014, the Company fulfilled its obligations to a customer in accordance with a settlement agreement entered into during the third quarter of fiscal year 2013 by making a final cash payment of \$5.3 million and transferring equipment, with an aggregate value of \$2.3 million, to such customer. Also, the Company fulfilled its obligations to a customer's insurers in accordance with a settlement agreement entered into during the fourth quarter of fiscal year 2013 by making a final payment of \$2.3 million.

18. Expenses related to reduction in workforce

As part of the Company's ongoing efforts to achieve greater efficiencies in all areas of its business, during the nine months ended March 27, 2015, the Company implemented a reduction in workforce and incurred expenses of approximately \$1.2 million, which represented severance and benefits costs incurred for the termination of approximately 100 employees in accordance with contractual obligations and local regulations.

19. Revenue recognition error related to finished goods awaiting shipment to customers under certain volume supply agreements with customers

As disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended June 27, 2014, the Company determined that certain finished goods sales recognized in each of the first three quarterly reporting periods in the fiscal year ended June 27, 2014 did not qualify for revenue recognition in the period in which they were recorded. The Company evaluated the impact of the errors and determined that the errors did not have a material impact to the consolidated financial statements for the fiscal year ended June 27, 2014, or the interim consolidated financial statements for each of the quarters within fiscal year 2014. Accordingly, the Company has not made any adjustments to the unaudited condensed consolidated financial statements for the three and nine months ended March 28, 2014.

Had adjustments been made in the three and nine months ended March 28, 2014, to reflect revenues and cost of revenues that were inappropriately recorded, revenues, cost of revenues, and net income for the three months ended March 28, 2014, would have been \$2.0 million, \$1.8 million, and \$0.2 million higher, respectively, and for the nine months ended March 28, 2014, would have been \$1.7 million, \$1.5 million, and \$0.2 million lower, respectively.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In addition to historical information, this Quarterly Report on Form 10-Q 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 decrease compared with the portion of those revenues for the nine months ended March 27, 2015;
- our expectation that we will incur significant incremental costs of revenue as a result of our continued diversification into the industrial lasers and sensors markets and other end-markets outside of the optical communications market or our further development of customized optics and glass manufacturing capabilities;
- 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 2015 selling, general and administrative (SG&A) expenses will increase on an absolute dollar basis and as a percentage of revenue compared to fiscal year 2014;
- our expectation that, in addition to incremental costs associated with growing our business generally, we will incur additional SG&A expenses as a result of expanding our business in the United States;
- 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;
- 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.

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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 Quarterly Report on Form 10-Q, in particular, the risks discussed under the heading "Risk Factors" in Part II, 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 such forward-looking statements.

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 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, 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, automotive, and sensors 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; prisms; mirrors; laser components; substrates, and other custom and standard borosilicate, clear fused quartz, and synthetic fused silica glass products. 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.

Audit Committee Investigation

During the fourth quarter of our fiscal year 2014, we discovered certain violations of our policies and procedures relating to finished goods held in our warehouse on behalf of our customers (we refer to finished goods held in our warehouse on behalf of our customers as consignment goods or consignment inventory, and when the finished goods are sold we refer to the related revenue as consignment revenue). Specifically, we identified violations related to certain employees in one of our business units colluding to cause the improper recognition of revenues for certain goods by recording consignment revenues on goods before such goods were finished.

In connection with the above, the Audit Committee of our Board of Directors initiated an investigation concerning various accounting cut-off issues in fiscal year 2014, specifically the transfer of unfinished goods to consignment inventory and other inventory cut-off issues. The investigation found certain process deficiencies concerning the potential to invoice unfinished goods held under consignment arrangements and the need for certain remedial measures. The investigation did not find executive officer involvement in the identified violations.

We continue to develop remedial steps to address these significant deficiencies and improve our internal control over our financial reporting. Specifically, during the nine months ended March 27, 2015, we implemented the following remedial measures for the deficiencies identified in the investigation:

1. Dismissed an employee involved in the violations.
2. Provided training to staff from all departments at the manager level and above on:
 - a. Our Code of Business Conduct, which provided guidance and further clarity to our employees on our policies and procedures related to the conduct of business; and
 - b. Our revenue recognition policies, using the services of a third party advisor. This training focused on the scope and application of the Company's policies concerning revenue recognition and related cut-off procedures.

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3. Evaluated existing inventory procedures and enhanced such procedures, or where necessary, designed and implemented new procedures, including :
 - a. The segregation and storage of consignment inventory in a secure designated warehouse; and
 - b. Physical check of finished goods when our production division delivers products to the designated warehouse.

Impact of the Findings of the Investigation on the Financial Statements and Internal Control

Based on an analysis prepared by Fabrinet, it was determined that the potential exposure relating to the control deficiencies identified during the investigation was not material to our consolidated financial statements for fiscal year 2014. Further, we assessed these control deficiencies to be significant deficiencies rather than material weaknesses on the basis that there was no executive officer involvement in the violations, the potential misstatements were not material to the consolidated financial statements, and the Audit Committee was actively involved in the investigation.

Consignment Revenue Recognition

Subsequent to completion of the Audit Committee's investigation, we evaluated our accounting practices surrounding consignment inventory and consignment revenue. Based on that evaluation, we determined that for certain volume supply agreements with our customers, not all of the revenue recognition criteria prescribed by U.S. GAAP and Staff Accounting Bulletin No. 104 had been met at the time revenue was recorded. Specifically, we misapplied the guidance when assessing the terms of these agreements with respect to when title and risk of loss transfers to our customers. As a result, we determined that certain sales previously recognized did not qualify for revenue recognition in the periods in which they were recognized. We evaluated the impact of the errors on both a quantitative and qualitative basis under the guidance of ASC 250-Accounting Changes and Error Corrections and determined that the errors did not have a material impact to the previously issued consolidated financial statements. We assessed the control implications and concluded that the deficiency constituted a material weakness in internal control over financial reporting (refer to Part I, Item 4 for additional information).

Had adjustments in the prior period been made to reflect revenues that were inappropriately recorded in the three and nine months ended March 28, 2014, revenues for the three and nine months ended March 28, 2014 would have been \$2.0 million higher and \$1.7 million lower, respectively.

During the nine months ended March 27, 2015, we amended certain volume supply agreements such that under certain conditions we recognize consignment revenue upon products being delivered to our secure designated warehouse. Specifically, we recognize consignment revenue when the goods are completed and ready for shipment, and title and risk of loss have passed to the customer. As a result, in the nine months ended March 27, 2015, we recorded revenue of \$8.0 million with \$0.8 million gross profit from these amended volume supply agreements.

Thailand Flooding

We suspended production at all of our manufacturing facilities in Thailand from October 17, 2011 through November 14, 2011 due to severe flooding in Thailand. We never resumed, and have permanently ceased, production at our Chokchai facility. We submitted claims for losses to our insurance companies, all of which were settled as of the end of fiscal year 2014.

In the three and nine month ended March 28, 2014, we received from our insurer a final payment of \$38.6 million and \$45.2 million against our claim for owned and consigned equipment and inventory claims, respectively, which we recognized as income related to flooding. This income was offset by other expenses from write-offs of advance payments to a customer due to flood losses of \$0.5 million.

During the nine months ended March 28, 2014, we fulfilled our obligations to a customer in accordance with a settlement agreement entered into during the third quarter of fiscal year 2013 by making a final cash payment of \$5.3 million and transferring equipment, with an aggregate value of \$2.3 million, to such customer. Also, we fulfilled our obligations to a customer's insurers in accordance with a settlement agreement entered into during the fourth quarter of fiscal year 2013 by making a final payment of \$2.3 million.

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Revenues

Our total revenues increased by \$21.8 million, or 13.0%, to \$189.5 million for the three months ended March 27, 2015, compared with \$167.7 million for the three months ended March 28, 2014. Our total revenues increased by \$49.4 million, or 9.5%, to \$567.1 million for the nine months ended March 27, 2015, compared with \$517.8 million for the nine months ended March 28, 2014. The increase was primarily due to an increase in our customers' demand for both optical and non-optical communications manufacturing services during the three and nine months ended March 27, 2015.

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. While 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 have enabled us to help our OEM customers reduce their manufacturing costs while maintaining or improving the design, quality, reliability, and delivery times for their products.

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. Virtually all 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 49.4% in the three months ended March 28, 2014 to 50.7% in the three months ended March 27, 2015, primarily because of an increase in sales to our customers in the Asia-Pacific region. The percentage of our revenue generated from a bill-to location outside North America decreased from 52.1% in the nine months ended March 28, 2014 to 51.0% in the nine months ended March 27, 2015, primarily because of a decrease in sales to our customers in Europe. We expect that the portion of our future revenues attributable to customers in regions outside North America will decrease as compared with the three and nine months ended March 27, 2015.

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

	Three Months Ended		Nine Months Ended	
	March 27, 2015	March 28, 2014	March 27, 2015	March 28, 2014
North America	49.3%	50.6%	49.0%	47.9%
Asia-Pacific	37.6	32.0	38.8	33.1
Europe	13.1	17.4	12.2	19.0
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

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 and the PRC; the fluctuation of the Thai baht and Chinese Renminbi (RMB) 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 the three and nine months ended March 27, 2015, discretionary merit-based bonus awards were made to our non-executive employees. Charges included in cost of revenues for bonus distributions to non-executive employees were \$0.6 million and \$0.5 million for the three months ended March 27, 2015 and March 28, 2014, respectively, and \$1.8 million and \$1.6 million for the nine months ended March 27, 2015 and March 28, 2014, respectively.

Share-based compensation expense included in cost of revenues was \$0.4 million and \$0.3 million for the three months ended March 27, 2015 and March 28, 2014, respectively, and \$1.1 million and \$0.9 million for the nine months ended March 27, 2015 and March 28, 2014, respectively.

We expect to incur significant incremental costs of revenue as a result of our continued diversification into the industrial lasers, automotive, and sensors markets and other end-markets outside of the optical communications market or our further development of customized optics and glass manufacturing capabilities. We also 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 2015, we expect our SG&A expenses will increase on an absolute dollar basis and as a percentage of revenue compared with fiscal year 2014 due to the startup expenses of our facility in the United States.

The compensation committee of our board of directors approved a fiscal year 2015 executive incentive plan with quantitative objectives, based on achieving certain revenue and non-GAAP earnings per share targets for our fiscal year ending June 26, 2015, as well as qualitative objectives, based on achieving individual performance goals. Bonuses under our fiscal year 2015 executive incentive plan are payable after the end of fiscal year 2015. In fiscal year 2014, the compensation committee approved a fiscal year 2014 executive incentive plan with quantitative objectives, based on achieving certain revenue and gross margin percentage targets for our fiscal year ended June 27, 2014, as well as qualitative objectives, based on achieving individual performance goals. In the three months ended December 26, 2014, the compensation committee awarded bonuses to our executive employees for Company and individual achievements of performance under our fiscal 2014 executive incentive plan. Discretionary merit-based bonus awards were also available to our non-executive employees and were payable as of March 27, 2015.

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Charges included in SG&A expenses for bonus distributions to non-executive and executive employees were \$1.4 million and \$0.7 million for the three months ended March 27, 2015 and March 28, 2014, respectively, and \$2.6 million and \$2.2 million for the nine months ended March 27, 2015 and March 28, 2014, respectively.

Share-based compensation expense included in SG&A expenses was \$1.6 million and \$1.2 million for the three months ended March 27, 2015 and March 28, 2014, respectively, and \$4.7 million and \$3.7 million for the nine months ended March 27, 2015 and March 28, 2014, 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, Canadian dollars, Euros, and Japanese yen, the appreciation of which may also negatively impact our financial results.

In addition, we are exposed to foreign exchange risk in connection with the credit facility and cross currency swap arrangements we entered into with TMB Bank Public Company Limited (the "Bank") in May 2011 for the construction of Pinehurst Building 6. The terms of the contract with the Bank provide the following facilities: (1) a term loan facility for up to Thai baht 960 million (equal to \$30.0 million) with a fixed interest rate of 5.28% per annum, (2) a hedging facility for currency interest rate swaps with a notional amount of \$30.0 million, and (3) a settlement limit of Thai baht 65 million, subject to certain terms and conditions as set forth therein. Borrowings and interest under the term loan have been scheduled to be repaid on a quarterly basis between September 2011 and March 2017. As of March 27, 2015, we had outstanding borrowings under the term loan facility of \$12.0 million. Under the terms of the cross currency swap arrangement amounts drawn in Thai baht were converted to U.S. dollars for repayment by us on a quarterly basis at the floating rate of 3-month London Interbank Offered Rate (LIBOR) plus 2.8% per annum.

In order to manage the risks arising from fluctuations in foreign currency exchange rates, we use derivative financial instruments. We may enter into short-term forward exchange currency contracts or put option contracts to help manage currency exposures associated with certain assets and liabilities, primarily short-term obligations. The forward exchange contracts and put option contracts generally had original maturities of one to six months, and no forward exchange contract or put option contract has had an original maturity greater than one year. All foreign currency exchange contracts are recognized on the condensed consolidated balance sheet at fair value. As we do not apply hedge accounting to these instruments, the change in the fair value of the derivatives is recorded in foreign exchange (loss) gain, net on the condensed consolidated statements of operations and comprehensive income. The gains and losses on our forward exchange contracts and put option contracts generally offset losses and gains on the assets, liabilities, and transactions economically hedged and, accordingly, generally do not subject us to the risk of significant accounting losses.

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

<i>(amount in thousands, except percentages)</i>	As of March 27, 2015			As of June 27, 2014		
	Currency	\$	%	Currency	\$	%
Assets						
Thai baht	535,823	\$16,446	51.2	1,536,887	\$47,318	79.6
RMB	96,250	15,677	48.8	74,813	12,156	20.4
Total		<u>\$32,123</u>	<u>100.0</u>		<u>\$59,474</u>	<u>100.0</u>
Liabilities						
Thai baht	901,342	\$27,665	85.9	735,490	\$22,644	81.1
RMB	27,991	4,559	14.1	32,512	5,283	18.9
Total		<u>\$32,224</u>	<u>100.0</u>		<u>\$27,927</u>	<u>100.0</u>

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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 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 March 27, 2015 and June 27, 2014, there were \$45.0 million and \$15.0 million, respectively, in put option contracts outstanding on the Thai baht payables.

The RMB assets represent cash and cash equivalents, accounts receivable and other current assets. The RMB liabilities represent trade accounts payable, accrued expenses and other payables. As of March 27, 2015 and June 27, 2014, we did not have any selling RMB to U.S. dollar forward or put option contracts.

As of March 27, 2015 and June 27, 2014, unrealized gain from the fair market value of derivatives amounted to \$0.2 million and \$0.1 million, respectively.

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.

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.

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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 twenty 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 from July 2010 through June 2015 on income generated from the manufacture of products at Pinehurst Building 5 and 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 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. Additionally, in December 2011, the Thailand Revenue Department announced a reduction in corporate income tax rates for tax periods beginning on or after January 1, 2012. As a result of the announcement, corporate income tax rates for our Thai subsidiary were reduced from 30% in fiscal year 2012 to 23% in fiscal year 2013, and 20% in fiscal year 2014 and fiscal year 2015. In November 2014, the Thailand Revenue Department announced an extension of the 20% corporate income tax rate for another year to fiscal year 2016.

Our subsidiary in China had been granted a tax privilege to reduce its corporate income tax rate from 25% to 15% but the privilege expired on December 31, 2013.

Critical Accounting Policies and Use of Estimates

We prepare our condensed 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 condensed 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 condensed consolidated financial statements, as their application places the most significant demands on our management's judgment.

Our critical accounting policies are disclosed in our Annual Report on Form 10-K for the fiscal year ended June 27, 2014. During the second quarter of fiscal year 2015, we invested in marketable securities. The accounting policy is disclosed in Note 4 of the Notes to our unaudited condensed consolidated financial statements. In addition, a portion of our revenue is generated from consignment inventory segregated and stored on our customer's request at a secure designated warehouse. The accounting policy relating to this revenue is further disclosed in Note 2 of the Notes to our unaudited condensed consolidated financial statements under the revenue recognition section of such note.

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Results of Operations

The following table sets forth a summary of our unaudited condensed 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.

	Three Months Ended		Nine Months Ended	
	March 27, 2015	March 28, 2014	March 27, 2015	March 28, 2014
<i>(amount in thousands)</i>				
Revenues	\$ 189,453	\$ 167,657	\$ 567,131	\$ 517,770
Cost of revenues	(167,796)	(150,374)	(503,907)	(461,312)
Gross profit	21,657	17,283	63,224	56,458
Selling, general and administrative expenses	(9,670)	(7,352)	(28,721)	(20,959)
Expenses related to reduction in workforce	—	—	(1,153)	—
Income related to flooding, net	—	38,151	—	44,748
Operating income	11,987	48,082	33,350	80,247
Interest income	258	560	956	1,262
Interest expense	(125)	(172)	(375)	(566)
Foreign exchange (loss) gain, net	(87)	(254)	(110)	46
Other (expense) income	(75)	173	(106)	544
Income before income taxes	11,958	48,389	33,715	81,533
Income tax expense	(1,113)	(727)	(3,108)	(135)
Net income	10,845	47,662	30,607	81,398
Other comprehensive income	512	—	26	—
Net comprehensive income	\$ 11,357	\$ 47,662	\$ 30,633	\$ 81,398

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

	Three Months Ended		Nine Months Ended	
	March 27, 2015	March 28, 2014	March 27, 2015	March 28, 2014
Revenues	100.0%	100.0%	100.0%	100.0%
Cost of revenues	(88.6)	(89.7)	(88.8)	(89.1)
Gross profit	11.4	10.3	11.2	10.9
Selling, general and administrative expenses	(5.1)	(4.4)	(5.1)	(4.0)
Expenses related to reduction in workforce	—	—	(0.2)	—
Income related to flooding, net	—	22.8	—	8.6
Operating income	6.3	28.7	5.9	15.5
Interest income	0.2	0.3	0.2	0.2
Interest expense	(0.1)	(0.1)	(0.1)	(0.1)
Foreign exchange (loss) gain, net	(0.1)	(0.2)	(0.0)	0.0
Other (expense) income	(0.0)	0.1	(0.0)	0.1
Income before income taxes	6.3	28.8	5.9	15.7
Income tax expense	(0.6)	(0.4)	(0.6)	0.0
Net income	5.7	28.4	5.4	15.7
Other comprehensive income	0.3	—	0.0	—
Net comprehensive income	6.0%	28.4%	5.4%	15.7%

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

	Three Months Ended		Nine Months Ended	
	March 27, 2015	March 28, 2014	March 27, 2015	March 28, 2014
<i>(amount in thousands)</i>				
Optical communications	\$ 136,537	\$ 119,770	\$ 405,600	\$ 374,040
Lasers, sensors and other	52,916	47,887	161,531	143,730
Total	\$ 189,453	\$ 167,657	\$ 567,131	\$ 517,770

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

Comparison of Three and Nine Months Ended March 27, 2015 with Three and Nine Months Ended March 28, 2014

Total revenues.

Our total revenues increased by \$21.8 million, or 13.0%, to \$189.5 million for the three months ended March 27, 2015, compared with \$167.7 million for the three months ended March 28, 2014. This increase was primarily due to an increase in customers' demand for both optical and non-optical communications manufacturing services during the three months ended March 27, 2015. Revenues from optical communications products represented 72.1% of our total revenues for the three months ended March 27, 2015, compared to 71.4% for the three months ended March 28, 2014.

Our total revenues increased by \$49.4 million, or 9.5%, to \$567.1 million for the nine months ended March 27, 2015, compared with \$517.8 million for the nine months ended March 28, 2014. This increase was primarily due to an increase in customers' demand for both optical and non-optical communications manufacturing services during the nine months ended March 27, 2015. Revenues from optical communications products represented 71.5% of our total revenues for the nine months ended March 27, 2015, compared to 72.2% for the nine months ended March 28, 2014.

Cost of revenues.

Our cost of revenues increased by \$17.4 million, or 11.6%, to \$167.8 million, or 88.6% of total revenues, for the three months ended March 27, 2015, compared with \$150.4 million, or 89.7% of total revenues, for the three months ended March 28, 2014. The percentage increase in cost of revenues was lower in percentage terms as compared with the percentage increase of total revenues primarily due to a change in favorable product mix during the three months ended March 27, 2015. Cost of revenues also included share-based compensation expense of \$0.4 million for the three months ended March 27, 2015, compared with \$0.3 million for the three months ended March 28, 2014.

Our cost of revenues increased by \$42.6 million, or 9.2%, to \$504.0 million, or 88.9% of total revenues, for the nine months ended March 27, 2015, compared with \$461.3 million, or 89.1% of total revenues, for the nine months ended March 28, 2014. The percentage increase in cost of revenue was lower in percentage terms as compared with the percentage increase of total revenues primarily due to a change in favorable product mix during the nine months ended March 27, 2015. Cost of revenues also included share-based compensation expense of \$1.1 million for the nine months ended March 27, 2015, compared with \$0.9 million for the nine months ended March 28, 2014.

Gross profit.

Our gross profit increased by \$4.4 million, or 25.3%, to \$21.7 million, or 11.4% of total revenues, for the three months ended March 27, 2015, compared with \$17.3 million, or 10.3% of total revenues, for the three months ended March 28, 2014. Our gross profit increased by \$6.8 million, or 12.0%, to \$63.2 million, or 11.2% of total revenues, for the nine months ended March 27, 2015, compared with \$56.5 million, or 10.9% of total revenues, for the nine months ended March 28, 2014.

The improvement in gross profit margin during the three and nine months ended March 27, 2015, compared with the three and nine months ended March 28, 2014, was related to the change in product mix during the three and nine months ended March 27, 2015.

SG&A expenses.

Our SG&A expenses increased by \$2.3 million, or 31.1%, to \$9.6 million, or 5.1% of total revenues, for the three months ended March 27, 2015, compared with \$7.4 million, or 4.4% of total revenues, for the three months ended March 28, 2014. Our SG&A expenses increased in absolute dollars and as a percentage of revenue due primarily to an increase in executive salaries and other benefits of \$0.5 million, an increase in expenses relating to our new facility in the United States of \$1.1 million, and an increase in sales and marketing expenses of \$0.2 million. We also recorded share-based compensation charges of \$1.6 million for the three months ended March 27, 2015, compared with \$1.2 million for the three months ended March 28, 2014.

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Our SG&A expenses increased by \$7.7 million, or 36.9%, to \$28.7 million, or 5.1% of total revenues, for the nine months ended March 27, 2015, compared with \$21.0 million, or 4.0% of total revenues, for the nine months ended March 28, 2014. Our SG&A expenses increased in absolute dollars and as a percentage of revenue due primarily to \$4.1 million in costs relating to our Audit Committee investigation concerning various accounting cut-off issues in fiscal year 2014, an increase in expenses relating to our new facility in the United States of \$1.1 million, and an increase in sales and marketing expenses of \$1.1 million. We also recorded share-based compensation charges of \$4.7 million for the nine months ended March 27, 2015, compared with \$3.7 million for the nine months ended March 28, 2014.

Expenses related to reduction in workforce.

During the nine months ended March 27, 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.

Income related to flooding.

In the three months ended March 27, 2015, we did not have income related to flooding. In the three months ended March 28, 2014, we recognized \$38.6 million of income related to flooding, which consisted of a final payment from our insurers against our claim for owned and customer-owned equipment and inventory, offsets by a recognition of \$0.5 million of other expenses from write-offs of advance payments to a customer due to flood losses.

In the nine months ended March 27, 2015, we did not have income related to flooding. In the nine months ended March 28, 2014, we recognized \$45.2 million of income related to flooding, which consisted of payments from our insurers against our claim for owned and customer-owned equipment and inventory, offsets by a recognition of \$0.5 million of other expenses from write-offs of advance payments to a customer due to flood losses.

Operating income.

Our operating income decreased by \$36.1 million to \$12.0 million, or 6.3% of total revenues, for the three months ended March 27, 2015, compared with \$48.1 million, or 28.7% of total revenues, for the three months ended March 28, 2014.

Our operating income decreased by \$46.9 million to \$33.4 million, or 5.9% of total revenues, for the nine months ended March 27, 2015, compared with \$80.2 million, or 15.5% of total revenues, for the nine months ended March 28, 2014.

Interest income.

Our interest income decreased by \$0.3 million to \$0.3 million, or 0.1% of total revenues, for the three months ended March 27, 2015, compared with \$0.6 million for the three months ended March 28, 2014. Our interest income decreased by \$0.3 million to \$1.0 million, or 0.2% of total revenue, for the nine months ended March 27, 2015, compared with \$1.3 million for the nine months ended March 28, 2014.

Interest expense.

Our interest expense decreased by \$0.1 million to \$0.1 million for the three months ended March 27, 2015, compared with \$0.2 million for the three months ended March 28, 2014. Our interest expense decreased by \$0.2 million to \$0.4 million for the nine months ended March 27, 2015, compared with \$0.6 million for the nine months ended March 28, 2014. These decreases were due to a decrease in our average long-term loan balances resulting from repayment during the fourth quarter of fiscal year 2014.

Income before income taxes.

We recorded income before income taxes of \$12.0 million and \$33.7 million for the three and nine months ended March 27, 2015, respectively, compared with income before income taxes of \$48.4 million and \$81.5 million for the three and nine months ended March 28, 2014, respectively.

Income tax expense.

Our provision for income tax reflects an effective tax rate of 9.3% for the three months ended March 27, 2015, compared with an effective tax rate of 1.5% for the three months ended March 28, 2014. The increase was primarily due to the fact that we had higher taxable income during the three months ended March 27, 2015 as compared to the three months ended March 28, 2014 because the income related to flooding of \$38.2 million that was recognized during the three months ended March 28, 2014 was not subject to income tax.

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Our provision for income tax reflects an effective tax rate of 9.2% for the nine months ended March 27, 2015, compared with an effective tax rate of 0.2% for the nine months ended March 28, 2014. The increase was primarily due to the fact that we had higher taxable income during the nine months ended March 27, 2015 as compared to the nine months ended March 28, 2014 because the income related to flooding of \$44.7 million that was recognized during the nine months ended March 28, 2014 was not subject to income tax. This impact was offset with the reversal of liabilities for uncertain tax positions, including accrued interest of \$1.5 million in the nine months ended March 27, 2015 and an increase in deferred tax assets of \$0.6 million from the increase in the income tax rate of the Company's subsidiary in China from 15% in the nine months ended March 28, 2014 to 25% in the nine months ended March 27, 2015 due to the expiration of a tax privilege.

Net income.

We recorded net income of \$10.8 million, or 5.7% of total revenues, for the three months ended March 27, 2015, compared with \$47.7 million, or 28.4% of total revenues, for the three months ended March 28, 2014.

We recorded net income of \$30.6 million, or 5.4% of total revenues, for the nine months ended March 27, 2015, compared with \$81.4 million, or 15.7% of total revenues, for the nine months ended March 28, 2014.

Other comprehensive income.

We recorded other comprehensive income related to accumulated net unrealized gain on available-for-sale investments of \$0.5 million and \$0.02 million for the three and nine months ended March 27, 2015, respectively.

Liquidity and Capital Resources

Cash Flows and Working Capital

We primarily finance our operations through cash flow from operations. As of March 27, 2015 and March 28, 2014, we had cash, cash equivalents, and marketable securities of \$254.3 million and \$233.5 million, respectively, and outstanding debt of \$42.0 million and \$21.7 million, respectively.

Our cash and cash equivalents, which primarily consist of cash on hand, demand deposits, and liquid investments with original 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 the three and nine months ended March 27, 2015 was 0.7% and 0.6%, respectively, and for the three and nine months ended March 28, 2014 was 1.1% and 1.0%, 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. The cost of securities sold is based on the specific identification method. Unrealized gains and losses on these securities are recorded as other comprehensive income (loss) and are reported as a separate component of shareholders' equity.

As of June 27, 2014, all claims that we submitted to our insurance companies for flood related losses had been settled. We recognized \$38.6 million and \$45.2 million as income related to flooding in the three and nine months ended March 28, 2014, respectively, towards full and final settlement of our owned and consigned equipment and inventory claims. This income was offset by the recognition of \$0.5 million of other expense in connection with write-offs of advance payments to a customer due to flood losses.

During the nine months ended March 28, 2014, we made a cash payment of \$5.2 million and transferred equipment, with an aggregate value of \$2.3 million, to a customer towards full and final settlement for flood-related losses incurred by this customer in accordance with the settlement agreement entered into during fiscal 2013 with such customer. In addition, during the nine months ended March 28, 2014, we fulfilled our obligations to a customer's insurers by making a payment of \$2.2 million for full and final settlement of our liability to such insurer for damages to customer-owned inventory that occurred during the flooding, in accordance with a settlement agreement entered into during fiscal year 2013 with such insurer. We also made a cash payment of \$0.1 million towards other flood-related settlements during the nine months ended March 28, 2014.

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We believe that our current cash and 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 Part II, Item 1A of this Quarterly Report on Form 10-Q.

We believe that our current manufacturing capacity, including our new facility in the United States, is sufficient to meet our anticipated production requirements for at least the next 12 months. We maintain a long-term credit facility associated with construction of production facilities at our Pinehurst campus in Thailand that will come due within the next 24 months. We anticipate that our internally generated working capital, along with our cash and cash equivalents will be adequate to repay this obligation.

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

<i>(amount in thousands)</i>	Nine Months Ended	
	March 27, 2015	March 28, 2014
Net cash provided by operating activities	\$ 40,481	\$ 58,604
Net cash (used in) provided by investing activities	\$(169,159)	\$ 30,515
Net cash provided by (used in) financing activities	\$ 24,122	\$ (3,493)
Net (decrease) increase in cash and cash equivalents	\$(104,556)	\$ 85,626
Cash and cash equivalent, beginning of period	\$ 233,477	\$149,716
Cash and cash equivalents, end of period	\$ 128,946	\$233,664

Operating Activities

Net cash provided by operating activities decreased by \$18.1 million, or 30.9%, to \$40.5 million for the nine months ended March 27, 2015, compared with net cash provided by operating activities of \$58.6 million for the nine months ended March 28, 2014. This decrease was due to a number of factors, including a decrease of \$50.8 million in net income from the period, against which the income from flooding of \$45.2 million in fiscal 2014 needs to be offset, a decrease of \$7.4 million in the proceeds from insurers for the final settlement of inventory losses related to flooding, a decrease in changes in accounts payable of \$16.2 million and a decrease in collections from customers of \$ 18.9 million, an increase in the changes in inventory of \$ 17.1 million to support customer demands in the subsequent quarter and an increase in changes in final settlement of flood-related liabilities to third parties in the third quarter of fiscal year 2014 of \$7.5 million.

Investing Activities

Net cash used in investing activities increased by \$199.7 million, or 654.3%, to \$169.2 million for the nine months ended March 27, 2015, compared with net cash provided in investing activities of \$30.5 million for the nine months ended March 28, 2014. This increase in net cash used in investing activities was primarily due to an increase of \$126.2 million in available-for-sale securities and an increase of \$35.7 million in purchase of property, plant, and equipment for the purpose of expanding our manufacturing operations in the United States, as well as a decrease of \$37.8 million in proceeds from insurers in settlement of claims related to flood damage.

Financing Activities

Net cash provided by financing activities increased by \$27.6 million, or 790.6%, to \$24.1 million for the nine months ended March 27, 2015, compared with net cash used in financing activities of \$3.5 million for the nine months ended March 28, 2014. This increase in net cash provided by financing activities was primarily due to an increase in proceeds from a revolving loan of \$30.0 million to purchase land and a building in the United States and a decrease of \$3.2 million in proceeds from the issuance of ordinary shares under employee share option plans, offset by the payment of debt issuance costs of \$1.8 million from our credit facility agreement and a decrease in repayment of the Company's long-term loans of \$2.8 million due to the payment to extinguish one of the long-term loan contracts in April 2014.

Off-Balance Sheet Commitments and Arrangements

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. In addition, we have not entered into any derivative contracts that are not reflected in our condensed consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We also do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research and development services with us.

Recent Accounting Pronouncements

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

We had cash, cash equivalents, and marketable securities totaling \$254.3 million and \$233.5 million as of March 27, 2015 and June 27, 2014, respectively. Our exposure to interest rate risk primarily relates 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 the nine months ended March 27, 2015 and March 28, 2014, our interest income would have decreased by approximately \$0.1 million and \$0.1 million, respectively, assuming consistent investment levels.

Interest rate risk also refers to our exposure to 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 Singapore Inter-Bank Offered Rate (SIBOR), and the London Inter-Bank Offered Rate (LIBOR), plus an additional margin, depending on the lending institution. If the SIBOR and the LIBOR had increased by 100 basis points during the nine months ended March 27, 2015 and March 28, 2014, our interest expense would have increased by approximately \$0.1 million and \$0.2 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 generally 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 and the PRC. Therefore, a substantial portion of our payroll as well as certain other operating expenses are paid in Thai baht or RMB. 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 or the RMB. We have a particularly significant currency rate exposure to changes in the exchange rate between the Thai baht 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 unaudited condensed 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 unaudited condensed 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 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.

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In addition, we are exposed to foreign exchange risk in connection with the credit facility and cross currency swap arrangements we entered into with TMB Bank Public Company Limited (the “Bank”) in May 2011 for the construction of Pinehurst Building 6. The terms of the contract with the Bank provide the following facilities: (1) a term loan facility for up to Thai baht 960 million (equal to \$30.0 million) with a fixed interest rate of 5.28% per annum, (2) a hedging facility for currency swaps with a notional amount of \$30.0 million, and (3) a settlement limit of Thai baht 65 million, subject to certain terms and conditions as set forth therein. Borrowings and interest under the term loan are scheduled to be repaid on a quarterly basis between September 2011 and March 2017. Under the terms of the cross currency interest rate swap arrangement, all amounts drawn down in Thai baht were converted to U.S. dollars for repayment by us on a quarterly basis at the floating rate of 3-month U.S. LIBOR plus 2.8% per annum.

We attempt to hedge against these exchange rate risks by entering into hedging contracts that are typically one to six months in duration, leaving us exposed to longer term changes in exchange rates. We realized foreign currency loss of \$0.1 million and foreign currency loss of \$0.1 million during the three and nine months ended March 27, 2015, respectively, and foreign currency loss of \$0.3 million and foreign currency gain of \$0.1 million during the three and nine months ended March 28, 2014, 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 and the RMB would have resulted in a decrease in our net dollar position of approximately \$0.01 million as of March 27, 2015 and an increase in our net dollar position of approximately \$3.5 million as of June 27, 2014. We cannot give any assurance as to the effect that future changes in foreign currency rates will have on our condensed 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 March 27, 2015, 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. Our marketable securities as of March 27, 2015 are held in various financial institutions with a maturity limit not to exceed 3 years, and all securities are 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.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management is responsible for establishing and maintaining disclosure controls and procedures designed to ensure that the information we are required to disclose in reports we file or submit under the Securities Exchange Act of 1934, as amended (“Exchange Act”), (i) is recorded, processed, summarized, and reported within time periods specified in the rules and forms of the Securities and Exchange Commission, and (ii) is accumulated and communicated to Fabrinet’s management, including our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), as appropriate, to allow timely decisions regarding required disclosure.

Our management, including our CEO and CFO, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act), as of March 27, 2015, the end of the period covered by this Quarterly Report on Form 10-Q. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Based on their evaluation, our CEO and CFO concluded that the Company’s disclosure controls and procedures were not effective as of that date.

Remediation Steps

As disclosed in our Annual Report for the fiscal year ended June 27, 2014, we identified a material weakness in our internal control over financial reporting such that our disclosure controls and procedures related to revenue recognition for certain volume supply agreements with our customers were not effective. Specifically, we determined that we did not apply appropriate U.S. GAAP knowledge and expertise when assessing the terms of these arrangements with respect to when title and risk of loss transfers to our customers.

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During the third quarter of fiscal year 2015, our management, under the supervision of our CEO and CFO, undertook the following actions intended to remedy this material weakness, and to improve our control processes and procedures with respect to revenue recognition:

- We have engaged a technical accounting consultant to enhance awareness and understanding of U.S. GAAP standards and principles related to relevant technical accounting topics, especially revenue recognition and cut-off criteria. We also will continue to enhance our technical accounting training, led by appropriate technical accounting experts to improve awareness and understanding of all relevant accounting standards to ensure compliance with U.S. GAAP.
- We conducted mandatory revenue recognition training for our management staff using a third party advisor. The training focused on the scope and application of our policy concerning revenue recognition.
- We are implementing procedures to ensure that significant existing customer contracts and other contracts undergo a comprehensive review to ensure that the financial accounting for such contracts is in compliance with U.S. GAAP and that the contracts properly reflect our current business practices.
- We are implementing procedures to ensure that all new customer and other new significant contracts undergo a comprehensive review at inception to ensure that the financial accounting for such contracts is in compliance with U.S. GAAP and that the contracts properly reflect our current business practices.
- All contracts covered above will be reviewed on a quarterly basis to ensure that the existing applicability of the accounting treatment under U.S. GAAP remains appropriate.

We believe that these remedial steps represent significant improvements to our internal controls. We will continue to assess the effectiveness of our remediation efforts in connection with our evaluations of internal control over financial reporting. If not fully remediated, further remediation measures may be required, which may result in additional implementation time. In addition, under the direction of the Audit Committee, management will continue to review and make necessary changes to the overall design of the system of internal controls, and the control environment, to improve the overall effectiveness of internal control over financial reporting.

Changes in Internal Control over Financial Reporting

Other than as discussed above, there have been no changes in the Company's internal control over financial reporting during the three months ended March 27, 2015 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II: OTHER INFORMATION

ITEM 1. 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 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 Quarterly Report on Form 10-Q, including our condensed 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 the three months ended March 27, 2015 and March 28, 2014, we had two customers that each contributed 10% or more of our total revenues, respectively. These customers together accounted for 30% and 45% of our total revenues, respectively, during the period. During the nine months ended March 27, 2015 and March 28, 2014, we had two customers that each contributed 10% or more of our total revenues, respectively. These customers together accounted for 31% and 46% of our total revenues, respectively, during the period. 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 have been exacerbated by the impact of the flooding in Thailand, the recent conditions in the credit markets, and the continual uncertainty in the global economies. 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.

Natural disasters, including the recent 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 October and November 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

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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 United States 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.

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

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 financial condition and results of operations.

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 broadband access, in particular, is increasing but growth may be limited by several factors, including, among others: (i) relative strength or weakness of the global economy or certain countries or regions, (ii) an uncertain regulatory environment, and (iii) 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.

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 lasers and sensors markets;
- competition;
- our ability to achieve favorable pricing for our services;
- 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.

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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 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 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 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 from 2001 through 2004 and again in 2008 and 2009, that resulted in underutilized capacity. Many of our potential customers continue to have excess manufacturing capacity at their facilities. 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 and Venture Corporation Limited. 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. 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 fully 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' 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

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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 recent conditions 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 Company believes that the potential losses from this particular customer will not have a significant effect on the Company's 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 entities. We may experience significant unexpected expenses 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. Further, while we attempt to hedge against certain exchange rate risks, we typically enter into hedging contracts with durations of one to six months, leaving us exposed to longer term changes in exchange rates.

Also, we have significant exposure to changes in the exchange rate between the RMB and the U.S. dollar. The expenses of our PRC subsidiary are denominated in RMB. 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 March 27, 2015, the U.S. dollar had appreciated approximately 0.2% against the RMB since March 29, 2013. There remains significant international pressure on the PRC government to adopt a substantially more liberalized currency policy. Any further and more significant appreciation in the value of the RMB 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 pricing reduction in price from our suppliers in response to competitive pressures.

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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 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 50.7% and 49.4% of our total revenues for the three months ended March 27, 2015 and March 28, 2014, respectively, and 51.0% and 52.1% of our total revenues for the nine months ended March 27, 2015 and March 28, 2014, 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 expose 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 2015, 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 March 2010, protestors held anti-government demonstrations calling for new elections. These demonstrations in Bangkok and other parts of Thailand resulted in the country's worst political violence in nearly two decades with numerous deaths and injuries, as well as destruction of property. Certain hotels and businesses in Bangkok were closed for weeks as the protestors occupied Bangkok's commercial center, and governments around the world issued travel advisories urging their citizens to avoid non-essential travel to Bangkok. In December 2013, anti-government protesters known as the People's Democratic Reform Committee (PDRC) began campaigning for people to join the shutdown of Bangkok and calling for reform before a new election. As a result, certain government agencies in Bangkok were closed and demonstrations continued into the first half of 2014. The ongoing political stalemate reached a culmination on May 22, 2014, when 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.

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Any succession crisis in the Kingdom of Thailand could cause new or increased instability and unrest. In the event that a violent coup were to occur or the current political unrest were to worsen, such activity 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 has raised 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, such as the recent coup 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 2015, the PRC was assessed as a medium-high political risk by AON 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 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 cybersecurity attacks.

We rely upon the capacity, reliability 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.

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. Most recently, in July 2012, Oclaro and Opnext, Inc., both of which were our customers at the time, merged. 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.

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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 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.

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, recent economic uncertainty in Europe has led to reduced demand in some of our customers' optical communications product portfolios. 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, including sequestration, 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 results of operations 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 results of operations and financial condition.

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: (i) outsource all of their production to another source that they believe can fulfill all of their production requirements; (ii) look to a second source for the manufacture of additional quantities of the products that we currently manufacture for them; (iii) manufacture the products themselves; or (iv) otherwise decide against using our services for their new products.

We most recently expanded our manufacturing capacity with the purchase of land and a building in Santa Clara, California. 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.

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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 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 two 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.

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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 these requirements, which require manufacturers to adhere to certain regulations, including testing, quality control and documentation procedures. We hold the following additional certifications: SONY Green Partner for Environmental Management Systems 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. Mitchell, and other key management and technical personnel, each of whom would be difficult to replace. We do not have key person life insurance or long-term employment contracts with any of our key personnel. 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, results of operations and financial condition.

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 our suppliers comply with such laws and regulations as they are enacted. 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, results of operations and financial condition. 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, results of operations and financial condition.

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 results of operations. 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. We were not able to assert in our Annual Report on Form 10-K that our internal control over financial reporting was effective as of June 27, 2014 because of a material weakness with respect to revenue recognition related to certain volume supply agreements as described in Part I, Item 4 of this Quarterly Report on Form 10-Q, and 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.

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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 concerning various accounting cut-off issues, we recently identified certain significant deficiencies in our internal control over financial reporting. 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 or our independent registered public accounting firm 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.

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

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 and the United States, any of which jurisdictions could assert tax claims against us. 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 from July 2010 through June 2015 on income generated from the manufacture of products at Pinehurst Building 5 and 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 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. 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. In addition, we benefit from recent reductions in corporate tax rates in Thailand for fiscal year 2013 to 2016.

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.

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. Acquisitions and other strategic transactions typically involve many risks, including the following:

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- the integration of the acquired assets 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 our previous or 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 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.

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 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.

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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.

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 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 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 and short-term debt obligations and other credit facilities contain financial ratio covenants that may impair our ability to conduct our business.

We have loan agreements for our long-term and short-term debt obligations, which 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.

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 March 27, 2015 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.

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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 March 27, 2015, 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 fluctuations may negatively impact our results of operations.

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 uncertainty currently exists about the future levels of energy prices, a significant increase or decrease is possible. While increased energy prices could increase our raw material and transportation costs, decreased energy prices may not necessarily result in a decrease of 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. In addition, 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 Quarterly Report on Form 10-Q. 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 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 would 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 2014 or for the foreseeable future. However, despite our expectations, we cannot assure you that we will not be a PFIC for the taxable year 2014 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.

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, 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 as under statutes or judicial precedent in existence 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

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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 amended and restated memorandum and articles of association 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.

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 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Sales of Unregistered Securities

Not applicable.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Not applicable.

ITEMS 3, 4 and 5 are not applicable and have been omitted.

ITEM 6. EXHIBITS

The exhibits listed in the accompanying Exhibit Index are filed or incorporated by reference as part of this Quarterly Report on Form 10-Q.

SIGNATURE

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 May 5, 2015.

FABRINET

By: _____ /s/ TOH-SENG NG
Name: **Toh-Seng Ng**
Title: Executive Vice President, Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description</u>	<u>Incorporated by reference herein</u>			
		<u>Form</u>	<u>Exhibit No.</u>	<u>Filing Date</u>	<u>File No.</u>
10.1	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
10.2	Amended and Restated Offer Letter, dated February 5, 2015, by and between Toh-Seng Ng and Fabrinet USA, Inc.	8-K	10.2	February 12, 2015	001-34755
10.3	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	001-34755
10.4	Sale, Purchase and Escrow Agreement, dated as of February 11, 2015, for 4900 Patrick Henry Drive, Santa Clara, California				
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.				

SALE, PURCHASE AND ESCROW AGREEMENT

BETWEEN

DRAWBRIDGE PATRICK HENRY, LLC,
a Delaware limited liability company,
as Seller,

AND

FABRITEK, INC.,
a California corporation,
as Purchaser

AND

FIRST AMERICAN NATIONAL TITLE INSURANCE COMPANY,
as Escrow Agent

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SALE, PURCHASE AND ESCROW AGREEMENT

THIS SALE, PURCHASE AND ESCROW AGREEMENT, dated as of February 11, 2015 (the "Effective Date"), is made by and between DRAWBRIDGE PATRICK HENRY, LLC, a Delaware limited liability company ("Seller"), as seller, and FABRITEK, INC., a California corporation ("Purchaser"), as purchaser, and constitutes (i) a contract of sale and purchase between the parties and (ii) an escrow agreement among Seller, Purchaser and FIRST AMERICAN NATIONAL TITLE INSURANCE COMPANY ("Escrow Agent"), the consent of which appears at the end hereof.

ARTICLE I

RECITALS

1.1 Real Property. Seller owns and holds fee title to that certain land (the "Land") described in Exhibit A, together with all fixtures and improvements (the "Improvements") located thereon, therein or thereunder known as 4900 Patrick Henry Drive and located in Santa Clara, California (collectively, the "Real Property").

1.2 Personal Property. In connection with the Real Property, Seller has obtained certain contractual rights and other intangible assets, including those items described in the first paragraph of Exhibit B, and acquired certain other items of tangible personal property which are located on the Real Property and used by Seller in connection with the operation and maintenance thereof, including, without limitation, the front reception desk (collectively, the "Personal Property"). Notwithstanding anything contained in this Agreement, in no event shall the Personal Property include any personal property delineated on Schedule 1 attached hereto. The Real Property and the Personal Property are collectively referred to as the "Property."

1.3 Purchase and Sale. Seller now desires to sell and Purchaser now desires to purchase all of Seller's right, title and interest in and to the Property (excluding the Non-Assumed Contracts), upon the terms and covenants and subject to the conditions set forth below.

ARTICLE II

PURCHASE PRICE

2.1 Price. In consideration of the covenants herein contained, Seller hereby agrees to sell and Purchaser hereby agrees to purchase the Property for a total purchase price of Twenty-Five Million Five Hundred Forty-Two Thousand Seventy-Five Dollars and 00/100 (\$25,542,075.00) (the "Purchase Price"), which shall be paid by Purchaser as follows:

2.1.1 Initial Deposit. Prior to the Effective Date, Purchaser delivered to Escrow Agent by bank wire of immediately available funds the sum of Two Hundred Fifty Thousand Dollars (\$250,000) (the "Initial Deposit").

2.1.2 Additional Deposit. By no later than Friday, February 13, 2015, at 5:00 p.m., provided Purchaser has not earlier terminated this Agreement in accordance with any of its rights to do so under this Agreement, Purchaser shall deliver to Escrow Agent by bank wire of immediately available funds the sum of Five Hundred Thousand Dollars (\$500,000) (the "Additional Deposit"). Promptly after Purchaser delivers such Additional Deposit to Escrow Agent, Escrow Agent shall release the entire Deposit (as defined below) to Seller pursuant to wire instructions delivered by Seller to Escrow Agent. If Purchaser fails to timely make the Additional Deposit, this Agreement shall automatically terminate, the Deposit shall be returned to Purchaser, and Seller and Purchaser shall have no further rights or obligations under this Agreement, except for provisions which expressly survive the termination of this Agreement. The Initial Deposit and the Additional Deposit, or so much thereof as shall have then been deposited with Escrow Agent shall hereinafter be collectively referred to as the "Deposit." From and after expiration of the Investigation Period and Purchaser's failure to terminate this Agreement pursuant to Section 5.3, the Deposit shall be non-refundable to Purchaser, except in the event of a failure of condition set forth in Section 3.1 or a termination of this Agreement pursuant to Section 10.2, ARTICLE XII, Section 11.1 or Section 11.1.10.

2.1.3 Purchase Price Credit. Seller shall provide Purchaser a credit against the Purchase Price at Closing in the amount of Seventy-Four Thousand Thirty-Five Dollars (\$74,035) on account of certain property condition matters discovered by Purchaser during its due diligence investigation, including, without limitation, with respect to concrete, the roof work and ceiling support beams.

2.1.4 Independent Consideration. One Hundred Dollars (\$100) of the Deposit (the "Independent Consideration") constitutes non-refundable, fully earned option consideration, which, notwithstanding any provision of this Agreement, shall not be refundable to Purchaser for any reason, but shall be applicable to the Purchase Price upon the close of escrow should escrow close pursuant to this Agreement.

2.1.5 Balance of Purchase Price. Purchaser shall, on or prior to 2:00 p.m. on the day before Closing (as defined in Section 6.1), deliver to Escrow Agent, by bank wire transfer of immediately available funds, a sum equal to the balance of the Purchase Price. The balance of the Purchase Price received by Seller at Closing shall be adjusted to reflect prorations and other adjustments pursuant to Section 7.1 and Section 2.3.

2.2 Investments. Following the collection of the Deposit and so long as such Deposit has not been released to Seller as provided above, Escrow Agent shall, at the direction of Purchaser, invest the Deposit in:

2.2.1 obligations of the United States government, its agencies or independent departments;

2.2.2 certificates of deposit issued by a banking institution whose principal office is in New York City with assets in excess of \$1 billion; or

2.2.3 an interest-bearing account of a banking institution whose principal office is in New York City with assets in excess of \$1 billion.

No investment of the Deposit shall have a maturity date beyond the Final Closing Date (as defined in [Section 6.1](#)).

2.3 Interest on the Deposit. Any interest earned on the Deposit while held by Escrow Agent (and prior to release thereof to Seller) shall belong to Purchaser, and Purchaser may withdraw any such interest from time to time and, if not withdrawn by Purchaser, shall be included in the term “Deposit” as used below. If the transaction closes and Purchaser has not withdrawn such interest, then at Closing any interest earned on the Deposit shall be credited to Purchaser by applying the same against the Purchase Price. Notwithstanding anything contained in this Agreement, after release of the Deposit to Seller, Seller shall have no obligation to invest the Deposit and no interest or income earned on such Deposit while held by Seller shall belong to Purchaser or be applied against the Purchase Price.

ARTICLE III

CONDITIONS TO THE PARTIES' OBLIGATIONS

3.1 Conditions to Purchaser's Obligation to Purchase. Purchaser's obligation to purchase is expressly conditioned upon each of the conditions set forth in this [Section 3.1](#). Either party may terminate this Agreement if such conditions are not satisfied or waived on or before the Final Closing Date (after expiration of all express notice and cure periods).

3.1.1 [Performance by Seller.](#) Performance in all material respects of the obligations and covenants of, and deliveries required of, Seller hereunder.

3.1.2 [Delivery of Title and Possession.](#) Delivery at the Closing of (i) the Deed, subject to the Permitted Encumbrances (as such terms are defined in [Section 4.2.1](#)) and (ii) possession as provided in [Section 15.1](#) below.

3.1.3 [Title Insurance.](#) Delivery at the Closing of the standard current form of California Land Title Association (CLTA) owner's policy of title insurance in the amount of the Purchase Price (the “[Title Policy](#)”), or an irrevocable commitment to issue the same, with liability in the amount of the Purchase Price issued by First American National Title Insurance Company (the “[Title Company](#)”), insuring that fee title to the Real Property vests in Purchaser subject only to the Permitted Encumbrances. (At its option, Purchaser may direct the Title Company to issue an American Land Title Association (ALTA) extended owner's policy of title insurance and/or additional title insurance endorsements if Purchaser pays for the extra cost of such extended policy and additional endorsements, provided that the Title Company's failure to issue any such extended policy or additional endorsements shall not affect Purchaser's obligations under this Agreement).

3.1.4 [Seller's Representations.](#) The representations and warranties by Seller set forth in [Section 11.1](#) being true and correct in all material respects as of the Closing (as modified by the terms of [Section 11.1](#)) except as modified by notice by Seller (in accordance with [Section 11.1](#)) to which Purchaser does not object in writing by the later of (i) three business days after receipt thereof or (ii) the end of the Investigation Period.

3.2 Conditions to Seller's Obligation to Sell. Seller's obligation to sell is expressly conditioned upon each of the following:

3.2.1 Performance by Purchaser. Performance in all material respects of the obligations and covenants of, and deliveries required of, Purchaser hereunder.

3.2.2 Receipt of Purchase Price. Delivery by Purchaser to Escrow Agent, and Purchaser's unconditional and irrevocable authorization to Escrow Agent to release to Seller upon Closing, of the Purchase Price and any prorations and adjustments due Seller under ARTICLE VII at the Closing in the manner herein provided.

ARTICLE IV

PURCHASER'S DELIVERIES AND SELLER'S DELIVERIES TO ESCROW AGENT

4.1 Purchaser's Deliveries. Purchaser shall, at or before the Closing, deliver to Escrow Agent each of the following:

4.1.1 Purchase Price. The Purchase Price as set forth in ARTICLE II.

4.1.2 Assignment of Leases and Contracts. Four (4) counterparts of the Assignment and Assumption of Leases, Contracts and Other Property Interests (the "Assignment of Leases and Contracts") in the form of Exhibit B, executed by Purchaser.

4.1.3 Bill of Sale. Four (4) counterparts of a bill of sale (the "Bill of Sale") in the form of Exhibit C, executed by Purchaser.

4.1.4 Closing Statement. An executed settlement statement reflecting the prorations and adjustments required under ARTICLE VII.

4.1.5 Closing Documents. Any additional tax forms, recordation forms, 1099s or other documents as may be reasonably required by the Seller or the Title Company to consummate the transaction contemplated by this Agreement.

4.1.6 Cash – Prorations. The amount, if any, required of Purchaser under ARTICLE VII.

4.2 Seller's Deliveries. Seller shall, at or before the Closing, deliver to Escrow Agent each of the following:

4.2.1 Deed. A grant deed (the "Deed") in the form of Exhibit G with respect to the Real Property, executed and acknowledged by Seller, pursuant to which Seller shall convey title to the Real Property subject to the following (collectively, the "Permitted Encumbrances"):

- (1) Non-delinquent real property taxes and all assessments and unpaid installments thereof which are not delinquent.

(2) Any other lien, encumbrance, easement or other exception or matter voluntarily imposed or consented to in writing by Purchaser prior to or as of the Closing.

(3) All exceptions (including printed exceptions) to title contained or disclosed in the Title Report (as defined in Section 5.1.1) other than Title Objections (as defined in Section 5.3.1) identified and not thereafter waived by Purchaser.

(4) All matters, rights and interests shown on that certain survey prepared by Bock & Clark dated October 9, 2014, No. 201403146022.

4.2.2 Assignment of Leases and Contracts. Four (4) executed counterparts of the Assignment of Leases and Contracts, executed by Seller, and (whether through the closing escrow or through such other method of delivery as the parties may establish) the original executed leases, if any, enumerated in Exhibit D (collectively, the “Leases”) (or copies if originals are not in Seller’s possession) and copies of the service contracts, equipment leases, maintenance agreements and other contracts affecting the Property enumerated in Exhibit E (collectively, the “Contracts”) assigned thereby.

4.2.3 Bill of Sale. Four (4) counterparts of the Bill of Sale, executed by Seller.

4.2.4 FIRPTA Affidavit. Four (4) copies of an affidavit in the form of Exhibit F with respect to the Foreign Investment in Real Property Tax Act, executed by Seller.

4.2.5 California Form 593-C. Four (4) certifications in the then current form of Form 593-C of the Franchise Tax Board for the State of California, executed by Seller, certifying that Seller has a permanent place of business in California.

4.2.6 Closing Statement. An executed settlement statement reflecting the prorations and adjustments required under Article VII.

4.2.7 Closing Documents. Any additional tax forms, recordation forms, 1099s or other documents as may be reasonably required by the Purchaser or the Title Company to consummate the transaction contemplated by this Agreement, including an owner’s affidavit in the form attached hereto as Exhibit H and any other customary deliveries required by the Title Company to provide Purchaser with title insurance for mechanics’ liens with respect to work performed by Seller.

4.2.8 Cash – Prorations. The amount, if any, required of Seller under ARTICLE VII.

4.3 Failure to Deliver. The failure of Purchaser or Seller to make any delivery required above by and in accordance with this ARTICLE IV which is not waived by the other party shall constitute a default hereunder by Purchaser or Seller, as applicable and, after written notice and two (2) days opportunity to cure, entitle the non-defaulting party to terminate this Agreement, provided such non-defaulting party is not otherwise in default of this Agreement.

ARTICLE V

INVESTIGATION OF PROPERTY

5.1 Delivery of Documents. Prior to the Effective Date Seller has delivered to Purchaser those documents and materials set forth on Schedule 2 attached hereto, together with the following:

5.1.1 Preliminary Title Report. A current preliminary title report dated December 24, 2014, covering the Real Property issued by the Title Company, together with copies of all documents referred to as exceptions therein (collectively, the "Title Report").

5.1.2 Survey. To the extent in Seller's possession or control, the most recent survey of the Real Property prepared by a licensed surveyor (the "Survey").

5.1.3 Lease and Contracts. Copies of the Leases, if any, and Contracts.

5.1.4 Plans and Specifications. To the extent in Seller's possession or control, copies of all plans and specifications for the Improvements.

5.1.5 Reports. To the extent in Seller's possession or control, copies of all physical and environmental reports related to the Property as prepared by third parties.

5.1.6 Permits. To the extent in Seller's possession or control, copies of all governmental permits, certificates of occupancy and approvals, in each case regarding the Property.

5.1.7 Natural Hazard Disclosure Reports. Natural hazard disclosure reports covering the Real Property, which shall be countersigned and returned to Seller prior to the expiration of the Investigation Period.

Seller shall promptly deliver to Purchaser any other documents with respect to the Property reasonably requested by Purchaser, subject to the limitation at the end of Schedule 2. If requested by Seller, Purchaser shall provide written verification of its receipt of those items listed in this Section 5.1.

5.2 Physical Inspection of Property.

5.2.1 Seller shall allow Purchaser and Purchaser's engineers, architects or other employees and agents reasonable access to the Property during normal business hours for the limited purposes provided herein.

5.2.2 Purchaser and its engineers, architects and other employees, consultants and agents may exercise such access solely for the purposes of (i) reviewing contracts, books and records relating to the Property (other than any appraisals, internal analyses of value, communications with other buyer(s) regarding the potential sale of the Property, and privileged, proprietary or confidential records), soil reports, environmental studies and

reports, surveys, and building and systems plans; (ii) reviewing records relating to operating expenses and other instruments and correspondence relating to the Property; and (iii) inspecting the physical condition of the Property and conducting physical and environmental tests and inspections thereof. PURCHASER SHALL NOT CONDUCT OR ALLOW ANY PHYSICALLY INTRUSIVE TESTING OF, ON OR UNDER THE PROPERTY WITHOUT FIRST OBTAINING SELLER'S WRITTEN CONSENT, IN SELLER'S SOLE AND ABSOLUTE DISCRETION, AS TO THE TIMING AND SCOPE OF THE WORK TO BE PERFORMED; provided, however, with respect to sampling and testing inspections inside of the building on the Property regarding the presence of asbestos, lead paint or mold (a "Building Intrusive Inspection"), such consent may only be withheld, granted or granted upon conditions in Seller's reasonable discretion if Purchaser and its applicable consultant, contractor or subcontractor has first met and conferred with Seller's contractor, Landmark Builders, and a representative of Seller regarding the necessity of the proposed Building Intrusive Inspection given the scope of construction work completed by Seller pursuant to the construction contract dated September 15, 2014 with Landmark Builders (the "Seller Work").

5.2.3 Purchaser agrees that it will cause it and any person accessing the Property hereunder to be covered by insurance in compliance with the requirements set forth on Schedule 3 insuring all activity and conduct of such person while exercising such right of access and naming Seller and its affiliates as insureds, issued by a licensed insurance company qualified to do business in the State in which the Property is located and otherwise reasonably acceptable to Seller.

5.2.4 Purchaser acknowledges that construction is in progress at the Property and agrees that, in the exercise of the right of access permitted hereby, it will (a) comply with any reasonable conditions and restrictions required by or on behalf of Seller's contractor or its subcontractors and (b) not unreasonably interfere with or permit unreasonable interference with such contractor and subcontractors.

5.2.5 Except to the extent due to the gross negligence or willful misconduct of Seller or its agents, employees or contractors, Purchaser agrees to indemnify, defend and hold harmless Seller and its affiliates, members, managers, partners, shareholders, parents, subsidiaries, officers, directors, agents, employees, consultants, contractors, subcontractors and representatives from any loss, injury, damage, cause of action, liability, claim, lien, cost or expense, including reasonable attorneys' fees and costs, arising from the exercise by Purchaser or its engineers, architects, employees, consultants, agents or representatives of the right of access under this Agreement or out of any of the foregoing; provided, however, such indemnity shall not cover any claims, damages, liabilities, losses, costs or expenses resulting from the mere discovery (but not exacerbation) of the presence of hazardous materials at the Property or of the existence of other defects or conditions with respect to the Property, including any diminution of value of the Property as a result thereof. The indemnity in this Section 5.2.5 shall survive the Closing or any termination of this Agreement.

5.2.6 Purchaser agrees to give Seller one (1) business day's prior written or email notice of its intent to conduct any inspections or tests so that Seller will have the opportunity to have a representative present during any such inspection or test, the right to do which Seller expressly reserves. If the Closing does not occur for any reason other than Seller's breach of this Agreement, Purchaser agrees to provide Seller upon Seller's request with a copy of any written inspection or test report or summary prepared by any third party, provided that (a) Purchaser shall not be required to deliver to Seller any proprietary information regarding Purchaser, any reports or analyses concerning the valuation or potential performance of the property, or any information that is privileged or is otherwise legally protected from disclosure and (b) such delivery shall be on an as-is basis, without representation or warranty by Purchaser.

5.2.7 Purchaser agrees that any inspection, test or other study or analysis of the Property shall be performed at Purchaser's expense and in strict accordance with applicable law.

5.2.8 Purchaser agrees at its own expense to promptly repair or restore the Property, if any inspection or test requires or results in any damage to or alteration of the condition of the Property. The obligations set forth in this Section 5.2.8 shall survive the Closing or any termination of this Agreement.

5.2.9 In the event of a conflict between the terms of the Property Access Agreement between the parties dated January 18, 2015 and the terms of this Agreement, the terms of this Agreement shall prevail.

5.3 Investigation Period. Purchaser shall have the right to make the following investigations.

5.3.1 Title and Survey. Prior to the Effective Date, Purchaser had the opportunity to review the Title Report and Survey and based thereon has elected not to make any objections thereto ("Title Objections") other than the following: Items 9, 10 and 13 of the printed exceptions and Item 6 of the pre-printed exceptions. Such election is conclusively deemed to be Purchaser's full and complete approval of the Title Report and the Survey and any matter disclosed therein.

5.3.2 General Investigation. In addition, Purchaser shall have from the Effective Date until Monday, February 9, 2014, at 5:00 PM (Pacific Time) (the "Investigation Period") to notify Seller that, as a result of Purchaser's review of any documents (other than the Title Report or the Survey) or Purchaser's investigation of the Property or for any reason or no reason in Purchaser's sole discretion, Purchaser terminates this Agreement. If Purchaser fails to give notice of termination prior to the expiration of the Investigation Period, such failure shall be conclusively deemed to be Purchaser's election to proceed with the transaction described in this Agreement after consideration of any and all such matters and a satisfaction of this condition and Purchaser shall thereafter have no right to terminate the Agreement pursuant to Section 5.3.

5.4 Effect of Termination. If Purchaser terminates this Agreement in accordance with Section 5.3, then subject to Section 5.2, all further rights and obligations of the parties shall cease and terminate without any further liability of either party to the other (except those obligations which are specifically provided to survive such termination as provided in this Agreement).

5.5 No Obligation to Cure. Nothing contained in this Agreement or otherwise shall require Seller to render its title marketable or to remove or correct any exception or matter disapproved by Purchaser or to spend any money or incur any expense in order to do so; provided, however, that Seller shall remove, as of the Closing, all liens evidencing any deed of trust or mortgage (and related documents) securing financing obtained by Seller, as well as all judgment liens against Seller, mechanics' liens related to any work undertaken by Seller and liens evidencing delinquent taxes which Seller has failed to pay.

5.6 Copies of Third Party Reports. If the Closing does not occur for any reason other than Seller's breach of this Agreement and either the Investigation Period is extended for any reason, including by amendment to this Agreement or Seller otherwise requests, Purchaser, within three days after such extension or request, shall provide Seller with copies of all third party reports and work product generated with respect to the Property on the terms set forth in Section 5.2.6 above.

ARTICLE VI

THE CLOSING

6.1 Date and Manner of Closing. Escrow Agent shall close the escrow (the "Closing") as soon as all conditions to closing contained in this Agreement have been satisfied (or deemed satisfied) or waived in writing which shall in any event be not later than February 24, 2015 (the "Final Closing Date"), time being of the essence (subject only to Seller's express rights of remedy or cure provided herein, in which event Seller will give Purchaser not less than three (3) business days notice of the date of Closing), by recording and delivering all documents and funds as set forth in ARTICLE VIII.

ARTICLE VII

PRORATION, FEES, COSTS AND ADJUSTMENTS

7.1 Prorations. Prior to the Closing, Seller shall determine the amounts of the prorations in accordance with this Agreement and notify Purchaser thereof. Purchaser shall review and approve such determination promptly and prior to the Closing, such approval not to be unreasonably withheld or delayed. Thereafter, Purchaser and Seller shall each inform Escrow Agent of such amounts.

7.1.1 Certain Items Prorated. In accordance with the notifications, Escrow Agent shall prorate between the parties (and the parties shall deposit funds therefor with Escrow Agent or shall instruct Escrow Agent to debit against sums held by Escrow Agent owing to such party), as of 12:01 a.m. on the day of Closing, all income and expenses with respect to the Property and payable to or by the owner of the Property, including, without limitation: (i) all real property taxes and assessments on the basis of the fiscal period for which assessed (if the Closing shall occur before the tax rate is fixed, the apportionment of taxes shall be based on the tax rate for the preceding period applied to the latest assessed valuation and after the Closing, when the actual real property taxes are finally fixed, Seller and Purchaser shall promptly make a recalculation of such proration, and the appropriate party shall make the applicable payment reflecting the recalculation to the other party); (ii)

rents and other tenant payments and tenant reimbursements (collectively, "Tenant Payments"), if any, received under the Leases; (iii) Tenant Payments, whether collected or not, for any tenant which is not delinquent on all Tenant Payments through the month prior to the month of the Closing; (iv) charges for water, sewer, electricity, gas, fuel and other utility charges, all of which shall be read promptly before Closing, unless Seller elects to close its own applicable account, in which event Purchaser shall open its own account and the respective charges shall not be prorated; (v) amounts prepaid and amounts accrued but unpaid on the Assumed Contracts; and (vi) periodic fees for licenses, permits or other authorizations with respect to the Property. The adjustment obligation in item (i) above shall survive the Closing.

7.1.2 Leasing Commissions; Tenant Improvement Costs. [Intentionally deleted.]

7.1.3 Taxes. Real property tax refunds and credits received after the Closing which are attributable to a fiscal tax year prior to the Closing shall belong to Seller. Any such refunds and credits attributable to the fiscal tax year during which the Closing occurs shall be apportioned between Seller and Purchaser after deducting the reasonable out-of-pocket expenses of collection thereof. This apportionment obligation shall survive the Closing.

7.1.4 [Intentionally deleted.]

7.1.5 Adjustments. If real property taxes are apportioned at Closing based on the tax rate for the preceding period applied to the latest assessed valuation (or based on such other estimate as the parties may agree) and when actual or better estimates of tax rates and assessed valuation become available, the parties agree to reapportion such real property taxes based on such updated information. If neither Seller nor Purchaser has received written request from the other within a reasonable period following such date, to reapportion such real property taxes, then Purchaser and Seller shall each be deemed to have waived any right to seek such reapportionment. If after the Closing, supplemental real estate taxes are assessed against the Property by reason of any event occurring prior to the Closing, including with respect to a prior fiscal year, Purchaser and Seller shall adjust the proration of real estate taxes such that Seller is responsible for the taxes for the period prior to Closing and Purchaser is responsible for taxes on and after the Closing. Notwithstanding the foregoing, Purchaser and Seller acknowledge and agree that there shall be no such adjustment with respect to any increases in real estate taxes attributable to the Seller Work but that Seller shall be fully responsible for all supplemental taxes assessed for the period prior to Closing due to the work performed by Seller at the Property in 2012-2013.

7.2 Seller's Closing Costs. Seller shall pay the following closing costs: (i) all premiums and charges of the Title Company for the CLTA portion of the owner's title policy (and excluding any extended coverage or endorsements requested by Purchaser) to be issued at Closing, (ii) the commission due Seller's Broker and that due Purchaser's Broker in the amount of two percent (2%) of the Purchase Price, (iii) all recording and filing charges in connection with the instrument by which Seller conveys the Property, (iv) all City and County transfer taxes, sales taxes and similar charges, if any, applicable to the transfer of the Property to Purchaser, (v) all escrow fees, and (vi) all fees due its attorneys.

7.3 Purchaser's Closing Costs. Except as set forth in Section 7.2 above, Purchaser shall pay all closing costs, including, without limitation: (i) all premiums and charges of the Title Company for any extended owner's title policy coverage and any endorsements requested by Purchaser to be issued at Closing, (ii) the cost of any new survey of the Property or any update of the Survey, (iii) any costs incurred in connection with Purchaser's investigation of the Property pursuant to ARTICLE V, including the cost of any new environmental assessment commissioned by Purchaser, (iv) all fees due its attorneys and all costs of Purchaser's due diligence, including fees due its consultants, and (v) all lenders' fees related to any financing to be obtained by Purchaser. All other closing costs not set forth in Section 7.2 above and this Section 7.3 shall be apportioned between Seller and Purchaser in accordance with the custom in the County of Santa Clara, California.

ARTICLE VIII DISTRIBUTION OF FUNDS AND DOCUMENTS

8.1 Delivery of the Purchase Price. At the Closing, Escrow Agent shall deliver the Purchase Price to Seller.

8.2 Other Monetary Disbursements. Escrow Agent shall, at the Closing, hold for personal pickup or arrange for wire transfer, (i) to Seller, or order, as instructed by Seller, all sums and any proration or other credits to which Seller is entitled and less any appropriate proration or other charges and (ii) to Purchaser, or order, as instructed by Purchaser, any excess funds therefore delivered to Escrow Agent by Purchaser and all sums and any proration or other credits to which Purchaser is entitled and less any appropriate proration or other charges.

8.3 Recorded Documents. Escrow Agent shall cause the Deed and any other documents that Purchaser desires to record to be recorded with the appropriate county recorder and, after recording, returned to the grantee, beneficiary or person acquiring rights under said document or for whose benefit said document was required.

8.4 Documents to Purchaser. Escrow Agent shall at the Closing deliver by overnight express delivery to Purchaser the following:

- (1) one conformed copy of the Deed showing all recording data;
- (2) two originals of the Assignment of Leases and Contracts;
- (3) two originals of the Bill of Sale;
- (4) two originals of the FIRPTA Affidavit;
- (5) two originals of the California Form 593-C;
- (6) one original of the Closing Statement; and
- (7) one original of the Title Policy.

8.5 Documents to Seller. Escrow Agent shall at the Closing deliver by overnight express delivery to Seller, the following:

- (1) one conformed copy of the Deed showing all recording data;

- (2) two originals of the Assignment of Leases and Contracts;
- (3) two originals of the Bill of Sale;
- (4) two originals of the FIRPTA Affidavit;
- (5) two originals of the California Form 593-C;
- (6) one original of the Closing Statement; and
- (7) one copy of the Title Policy.

8.6 All Other Documents. Escrow Agent shall at the Closing deliver by overnight express delivery, each other document received hereunder by Escrow Agent to the person acquiring rights under said document or for whose benefit said document was required.

ARTICLE IX

RETURN OF DOCUMENTS AND FUNDS UPON TERMINATION

9.1 Return of Seller's Documents. If escrow or this Agreement is terminated for any reason, Purchaser shall, within five (5) days following such termination, deliver to Seller all documents and materials relating to the Property previously delivered to Purchaser by Seller and, unless this Agreement is terminated due to Seller's default, copies of all reports, studies, documents and materials obtained by Purchaser from third parties in connection with the Property and Purchaser's investigation thereof as provided in Section 5.2.6. Such items shall be delivered without representation or warranty as to accuracy or completeness and with no right of Seller to rely thereon without the consent of the third party. Escrow Agent shall deliver all documents and materials deposited by Seller and then in Escrow Agent's possession to Seller and shall destroy any documents executed by both Purchaser and Seller. Upon delivery by Escrow Agent to Seller (or such destruction, as applicable) of such documents and materials, Escrow Agent's obligations with regard to such documents and materials under this Agreement shall be deemed fulfilled and Escrow Agent shall have no further liability with regard to such documents and materials to either Seller or Purchaser.

9.2 Return of Purchaser's Documents. If escrow or this Agreement is terminated for any reason, Escrow Agent shall deliver all documents and materials deposited by Purchaser and then in Escrow Agent's possession to Purchaser and shall destroy any documents executed by both Purchaser and Seller. Upon delivery by Escrow Agent to Purchaser (or such destruction, as applicable) of such documents and materials, Escrow Agent's obligations with regard to such documents and materials under this Agreement shall be deemed fulfilled and Escrow Agent shall have no further liability with regard to such documents and materials to either Seller or Purchaser.

9.3 Deposit. If escrow or this Agreement is terminated (i) pursuant to Section 5.3, Section 10.2, ARTICLE XII, Section 11.1 or Section 11.1.10; or (ii) due to the failure of a condition set forth in Section 3.1, then, subject to Section 5.2, Purchaser shall be entitled to obtain the return of the Deposit pursuant to Section 9.4 below. If the Closing does not take place and escrow or this Agreement is terminated for any other reason, Seller shall be entitled to the Deposit by retaining or causing Escrow Agent to deliver the Deposit to Seller pursuant to Section 9.4 below.

9.4 Disbursement of Deposit. If Escrow Agent receives a notice from either party instructing Escrow Agent to deliver the Deposit to such party, Escrow Agent shall deliver a copy of the notice to the other party within three (3) days after receipt of the notice. If the other party does not object to the delivery of the Deposit as set forth in the notice within three (3) business days after receipt of the copy of the notice, Escrow Agent shall, and is hereby authorized to, deliver the Deposit to the party requesting it pursuant to the notice. Any objection hereunder shall be by notice setting forth the nature and grounds for the objection and shall be sent to Escrow Agent and to the party requesting the Deposit. Notwithstanding the foregoing, if Purchaser promptly terminates the Agreement prior to the expiration of the Investigation Period, Escrow Agent shall deliver the Deposit to Purchaser without the necessity of the consent of (or the failure to object by) Seller.

9.5 No Effect on Rights of Parties; Survival. The return of documents and monies as set forth above shall not affect the right of either party to seek such legal or equitable remedies as such party may have under ARTICLE X with respect to the enforcement of this Agreement. The obligations under this ARTICLE IX shall survive termination of this Agreement.

ARTICLE X

DEFAULT

10.1 Seller's Remedies. If, for any reason whatsoever (other than the failure of a condition set forth in Section 3.1 and other than a termination of this Agreement pursuant to Section 5.3, Section 10.2, ARTICLE XII, Section 11.1 or Section 11.1.10), Purchaser fails to complete the acquisition as herein provided, Purchaser shall be in breach of its obligations hereunder and Seller shall be released from any further obligations hereunder. BY INITIALING BELOW, PURCHASER AND SELLER HEREBY ACKNOWLEDGE AND AGREE THAT SELLER'S ACTUAL DAMAGES IN THE EVENT OF SUCH A BREACH OF THIS AGREEMENT BY PURCHASER WOULD BE EXTREMELY DIFFICULT OR IMPOSSIBLE TO DETERMINE, THAT THE AMOUNT OF THE DEPOSIT IS THE PARTIES' BEST AND MOST ACCURATE ESTIMATE OF THE DAMAGES SELLER WOULD SUFFER IN THE EVENT THE TRANSACTION PROVIDED FOR IN THIS AGREEMENT FAILS TO CLOSE, AND THAT SUCH ESTIMATE IS REASONABLE UNDER THE CIRCUMSTANCES EXISTING ON THE DATE OF THIS AGREEMENT. PURCHASER AND SELLER AGREE THAT SELLER'S RIGHT TO RETAIN THE DEPOSIT SHALL BE THE SOLE REMEDY OF SELLER AT LAW IN THE EVENT OF SUCH A BREACH OF THIS AGREEMENT BY PURCHASER. NOTWITHSTANDING ANYTHING TO THE CONTRARY CONTAINED IN THIS SECTION 10.1, IF PURCHASER BRINGS AN ACTION AGAINST SELLER FOR AN ALLEGED BREACH OR DEFAULT BY SELLER OF ITS OBLIGATIONS UNDER THIS AGREEMENT, RECORDS A LIS PENDENS OR OTHERWISE ENJOINS OR RESTRICTS SELLER'S ABILITY TO SELL AND TRANSFER THE PROPERTY OR REFUSES TO CONSENT TO OR INSTRUCT RELEASE OF THE DEPOSIT TO SELLER IF REQUIRED BY ESCROW AGENT (EACH A "PURCHASER'S ACTION"), SELLER SHALL NOT BE RESTRICTED BY THE PROVISIONS OF THIS SECTION 10.1 FROM BRINGING AN ACTION AGAINST PURCHASER SEEKING EXPUNGEMENT OR RELIEF FROM ANY IMPROPERLY FILED LIS PENDENS, INJUNCTION OR OTHER RESTRAINT, AND/OR RECOVERING FEES, COSTS AND EXPENSES (INCLUDING ATTORNEYS' FEES) WHICH SELLER MAY SUFFER OR INCUR AS A RESULT OF ANY PURCHASER'S ACTION BUT ONLY TO THE EXTENT THAT SELLER IS THE PREVAILING PARTY; AND THE AMOUNT OF ANY SUCH FEES, COSTS AND EXPENSES AWARDED TO SELLER SHALL BE IN ADDITION TO THE LIQUIDATED DAMAGES SET FORTH HEREIN. THE PAYMENT OF SUCH AMOUNT AS LIQUIDATED DAMAGES IS NOT INTENDED AS A

FORFEITURE OR PENALTY WITHIN THE MEANING OF CALIFORNIA CIVIL CODE §3275 OR §3369, BUT IS INTENDED TO CONSTITUTE LIQUIDATED DAMAGES TO SELLER UNDER CALIFORNIA CIVIL CODE §§1671, 1676 AND 1677. NOTHING IN THIS AGREEMENT SHALL, HOWEVER, BE DEEMED TO LIMIT PURCHASER'S LIABILITY TO SELLER FOR DAMAGES OR INJUNCTIVE RELIEF FOR BREACH OF PURCHASER'S INDEMNITY OBLIGATIONS UNDER SECTION 5.2.5 ABOVE OR FOR ATTORNEYS' FEES AND COSTS AS PROVIDED IN SECTION 16.5 BELOW OR FOR BREACH OF THE CONFIDENTIALITY PROVISION SET FORTH IN SECTION 13.6 BELOW.

ACCEPTED AND AGREED TO:

/s/ Michael Embree

Seller

/s/ Toh-Seng Ng

Purchaser

10.2 Purchaser's Remedies. If the sale is not completed as herein provided solely by reason of any material default of Seller, Purchaser shall be entitled, as its sole and exclusive remedy, to either (i) (a) terminate this Agreement (by delivering notice to Seller which includes a waiver of any right, title or interest of Purchaser in the Property) and (b) if Purchaser so elects, pursue an action at law for recovery of Purchaser's actual out-of-pocket third-party costs incurred as part of Purchaser's due diligence efforts hereunder, subject to a cap of \$50,000.00, which action must be commenced, if at all, within the one hundred eighty (180) day period following the occurrence of such material default of Seller (the "Limitation Period"); provided, however, that if, within the Limitation Period, Purchaser gives Seller written notice of such a breach and Seller commences to cure and thereafter terminates such cure effort, Purchaser shall have an additional thirty (30) days from the date of such termination within which to commence an action at law for third-party costs, as aforesaid, as a consequence of Seller's failure to cure or (ii) treat this Agreement as being in full force and effect and pursue only the specific performance of this Agreement, provided that Purchaser must commence any action for specific performance within one hundred eighty (180) days after the scheduled Final Closing Date. Purchaser waives any right to pursue any other remedy at law or equity for such default of Seller, including, without limitation, any right to seek, claim or obtain damages (other than for costs under (i)(b) above), punitive damages or consequential damages. In no case shall Seller ever be liable to Purchaser under any statutory, common law, equitable or other theory of law, either prior to or following the Closing, for any lost rents, profits, "benefit of the bargain," business opportunities or any form of consequential damage in connection with any claim, liability, demand or cause of action in any way or manner relating to the Property, the condition of the Property, this Agreement, or any transaction or matter between the parties contemplated hereunder. Purchaser's remedies hereunder are in addition to the right to receive the return of the Deposit, subject to Section 9.4, to the extent it is not applied to the Purchase Price in connection with Purchaser's action for specific performance.

ARTICLE XI

REPRESENTATIONS AND WARRANTIES

11.1 Seller's Warranties and Representations. The matters set forth in this Section 11.1 constitute representations and warranties by Seller which are now and (subject to matters contained in any notice given pursuant to the next succeeding sentence) shall, in all material respects, at the Closing be true and correct. If Seller has actual knowledge that any of the

representations and warranties contained in this ARTICLE XI may cease to be true, Seller shall give prompt notice to Purchaser (which notice shall include copies of the instrument, correspondence, or document, if any, upon which Seller's notice is based). As used in this Section 11.1, the phrase "to the extent of Seller's actual knowledge" shall mean the actual knowledge of Mark S. Whiting and Michael J. Embree. There shall be no duty imposed or implied to investigate, inquire, inspect, or audit any such matters, and there shall be no personal liability on the part of such parties. Notwithstanding anything in this Agreement to the contrary, if any fact, condition or circumstance is known to Purchaser at any time prior to or as of the expiration of the Investigation Period, and such fact, condition or circumstance contradicts or renders untrue any representation or warranty in this Section 11.1, then such representation or warranty shall be cancelled, superseded and of no effect to the full extent of such contradiction or untruth. Furthermore, if at any time after the expiration of the Investigation Period and prior to Closing, Purchaser discovers a breach (or facts evidencing the reasonable likelihood of a breach) of any representation or warranty made in this Agreement by Seller, Purchaser shall (within three (3) business days after discovery of such breach or facts) provide Seller with written notice thereof. Seller shall thereafter use commercially reasonable efforts, but only after expiration of the Investigation Period, to cure or remedy any such breach within ten (10) days of Seller's receipt of such notice and shall notify Purchaser in writing whether it was successful in doing so by the end of such ten (10) day period (and the Closing shall be extended, if necessary, to enable Seller to cure any such breach within such ten (10) day period). If Seller fails to cure any such breach of any representation or warranty first discovered by Purchaser after the expiration of the Investigation Period and prior to Closing, then Purchaser's sole remedy (which shall be exercised within three (3) business days after the end of Seller's ten (10) day cure period) shall be to either: (i) terminate this Agreement, upon delivery of written notice thereof to Seller, whereupon the Deposit, if then paid, shall be returned to Purchaser, and this Agreement shall automatically terminate and neither party shall have any further rights or obligations hereunder (except as expressly provided in this Agreement); or (ii) to close the acquisition of the Property, take the Property "AS-IS" with no further obligation or liability on the part of Seller as to the representation or warranty breached as set forth in Purchaser's notice and without any reduction in the Purchase Price, escrow retention or other claim against Seller and with such representation or warranty being cancelled, superseded and of no effect to the full extent of such breach. Purchaser shall be deemed to know a representation or warranty is untrue, inaccurate or incorrect if this Agreement or any files, documents, materials, analyses, studies, tests, or reports delivered to, or obtained by, Purchaser prior to the Closing contains information which is inconsistent with such representation or warranty.

11.1.1 No Broker. Seller has not engaged or dealt with any broker or finder in connection with the sale contemplated by this Agreement, except Jeff Houston of CBRE (the "Seller's Broker"). Seller shall pay a brokerage commissions to the Seller's Broker in accordance with a separate agreement. Seller shall indemnify and hold harmless Purchaser from any claims, costs, damages or liabilities (including attorneys' fees) arising from any breach of the representation contained in this Section 11.1.1 or if the same shall be based on any statement, representation or agreement by Seller with respect to the payment of any brokerage commissions or finder's fees.

11.1.2 Organization. Seller has been duly formed, validly exists and is in good standing in the jurisdiction of its formation and in the state in which the Property is located.

11.1.3 Power and Authority. Seller has the legal power, right and authority to enter into this Agreement and to consummate the transactions contemplated hereby and the person(s) executing this Agreement on behalf of Seller is duly authorized to do so.

11.1.4 Proceedings. Seller has not received any written notice of any pending or threatened condemnation or similar proceeding affecting any part of the Property.

11.1.5 Contravention. Seller is not prohibited from consummating the transactions contemplated by this Agreement by any law, regulation, agreement, instrument, restriction, order or judgment.

11.1.6 Compliance. Seller has not received written notice from any governmental authority that the Property is not in material compliance with all applicable laws, except for such failures to comply, if any, which have been remedied.

11.1.7 Litigation. To the extent of Seller's actual knowledge, there is no litigation affecting the Property.

11.1.8 Status. There are currently no (i) tax appeals or certiorari proceedings with respect to the Property, (ii) agreements concerning the operation and maintenance of the Property entered into by Seller which will affect the Property after Closing other than the Contracts or (iii) leases or other occupancy rights with respect to the Property (other than rights of Landmark Builders pursuant to the construction contract with respect to the Seller Work).

11.1.9 PATRIOT Act.

(1) Seller is in compliance with the requirements of Executive Order No. 133224, 66 Fed. Reg. 49079 (Sept. 25, 2001) (the "Order") and other similar requirements contained in the rules and regulations of the Office of Foreign Assets Control, Department of the Treasury ("OFAC") and in any enabling legislation or other Executive Orders or regulations in respect thereof (the Order and such other rules, regulations, legislation, or orders are collectively called the "Orders").

(2) Seller:

(a) is not listed on the Specially Designated Nationals and Blocked Persons List maintained by OFAC pursuant to the Order and/or on any other list of terrorists or terrorist organizations maintained pursuant to any of the rules and regulations of OFAC or pursuant to any other applicable Orders (such lists are collectively referred to as the "Lists");

(b) is not a person or entity who has been determined by competent authority to be subject to the prohibitions contained in the Orders; or

(c) is not owned or controlled by, or acts for or on behalf of, any person or entity on the Lists or any other person or entity who has been determined by competent authority to be subject to the prohibitions contained in the Orders.

11.1.10 PATRIOT Act Notice. Seller hereby covenants and agrees that if Seller obtains knowledge that Seller becomes listed on the Lists or is indicted, arraigned, or custodially detained on charges involving money laundering or predicate crimes to money laundering, Seller shall immediately notify Purchaser in writing, and in such event, Purchaser shall have the right to terminate this Agreement without penalty or liability to Seller immediately upon delivery of written notice thereof to Seller.

11.2 Purchaser's Warranties and Representations. The matters set forth in this Section 11.2 constitute representations, warranties and covenants by Purchaser which are now and shall, at the Closing, be true and correct.

11.2.1 No Broker. Purchaser has not engaged or dealt with any broker or finder in connection with the sale contemplated by this Agreement, except Don Lonsinger of CBRE (the "Purchaser's Broker"). At Closing, Seller shall pay a brokerage commissions to the Purchaser's Broker in the amount of two percent (2%) of the Purchase Price. Purchaser shall indemnify and hold harmless Seller from any claims, costs, damages or liabilities (including attorneys' fees) arising from any breach of the representation contained in this Section 11.2.1, to the extent that (i) any commission is owed such Purchaser's Broker in excess of such two percent (2%) amount based on any statement, representation or agreement by Purchaser, or (ii) if the same shall be based on any statement, representation or agreement by Purchaser with respect to the payment of any brokerage commissions or finder's fees.

11.2.2 Power and Authority. Purchaser has the legal power, right and authority to enter into this Agreement and to consummate the transactions contemplated hereby and the person(s) executing this Agreement on behalf of Purchaser is duly authorized to do so.

11.2.3 Independent Investigation. The consummation of this transaction shall constitute Purchaser's acknowledgment that it has had the opportunity to independently inspect and investigate the Property and has made and entered into this Agreement based upon such inspection and investigation and its own examination of the condition of the Property and Seller's representations in Section 11.1 above.

11.2.4 Purchaser Reliance. Purchaser is experienced in and knowledgeable about the ownership and management of real estate, and it has relied and will rely exclusively on its own consultants, advisors, counsel, employees, agents, principals and/or studies, investigations and/or inspections with respect to the Property, its condition, value and potential and Seller's representations in Section 11.1 above. Purchaser agrees that, notwithstanding the fact that it has received certain information from Seller or its agents or consultants, Purchaser has relied solely upon and will continue to rely solely upon its own analysis and will not rely on any information provided by Seller or its agents or consultants, except as expressly set forth in Section 11.1.

11.2.5 PATRIOT Act.

- (1) Purchaser is in compliance with the Orders.
- (2) Purchaser:

(a) is not listed on the Lists;

(b) is not a person or entity who has been determined by competent authority to be subject to the prohibitions contained in the Orders; or

(c) is not owned or controlled by, or acts for or on behalf of, any person or entity on the Lists or any other person or entity who has been determined by competent authority to be subject to the prohibitions contained in the Orders.

11.2.6 PATRIOT Act Notice. Purchaser hereby covenants and agrees that if Purchaser obtains knowledge that Purchaser becomes listed on the Lists or is indicted, arraigned, or custodially detained on charges involving money laundering or predicate crimes to money laundering, Purchaser shall immediately notify Seller in writing, and in such event, Seller shall have the right to terminate this Agreement without penalty or liability to Purchaser immediately upon delivery of written notice thereof to Purchaser.

11.3 No Other Warranties and Representations. Except as specifically set forth in this ARTICLE XI, Seller has not made or authorized anyone to make, any warranty or representation as to the Leases, the Contracts, any written materials delivered to Purchaser, the persons preparing such materials, the truth, accuracy or completeness of such materials, the present or future physical condition, development potential, zoning, building or land use law or compliance therewith, the operation, income generated by, or any other matter or thing affecting or relating to the Property or any matter or thing pertaining to this Agreement. Purchaser expressly acknowledges that no such warranty or representation has been made and that Purchaser is not relying on any warranty or representation whatsoever other than as is expressly set forth in this ARTICLE XI. Purchaser shall accept the Property "as is" and in its condition on the date of Closing subject only to the express provisions of this Agreement and hereby acknowledges and agrees that, except as expressly set forth in Section 11.1 of this Agreement, **SELLER HAS NOT MADE, DOES NOT MAKE AND SPECIFICALLY NEGATES AND DISCLAIMS ANY REPRESENTATIONS, WARRANTIES OR GUARANTIES OF ANY KIND OR CHARACTER WHATSOEVER, WHETHER EXPRESS OR IMPLIED, ORAL OR WRITTEN, PAST, PRESENT, FUTURE OR OTHERWISE, OF, AS TO, CONCERNING OR WITH RESPECT TO, THE PROPERTY.**

11.3.1 No Environmental Representations. Seller makes no representations or warranties as to whether the Property contains asbestos, radon or any hazardous materials or harmful or toxic substances, or pertaining to the extent, location or nature of same, if any. Further, to the extent that Seller has provided to Purchaser information from any inspection, engineering or environmental reports concerning asbestos, radon or any hazardous materials or harmful or toxic substances, except as expressly set forth in Section 11.1 above, Seller makes no representations or warranties with respect to the accuracy or completeness, methodology of preparation or otherwise concerning the contents of such reports.

11.3.2 Release of Claims. Subject to the express provisions hereof, Purchaser acknowledges and agrees that Seller makes no representation or warranty as to, and Purchaser, for itself, its successors and assigns, hereby waives and releases Seller and its affiliates, members, managers, partners, shareholders, parents, subsidiaries, officers,

directors, agents, employees, consultants, contractors, subcontractors, representatives, successors and assigns, and all persons, firms, corporations and organizations in its behalf ("Released Parties") from any present or future claims, at law or in equity, whether known or unknown, foreseeable or otherwise, arising from or relating to, the Property, this Agreement or the transactions contemplated hereby, including without limitation the presence or alleged presence of asbestos, radon or any hazardous materials or harmful or toxic substances in, on, under or about the Property, including without limitation any claims under or on account of (i) the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as the same may have been or may be amended from time to time, and similar state statutes, and any regulations promulgated thereunder, (ii) any other federal, state or local law, ordinance, rule or regulation, now or hereafter in effect, that deals with or otherwise in any manner relates to, environmental matters of any kind, (iii) this Agreement, or (iv) the common law. This release includes claims of which Purchaser is presently unaware or which Purchaser does not presently suspect to exist which, if known by Purchaser, would materially affect Purchaser's release to Seller. Purchaser specifically waives the provision of California Civil Code Section 1542, which provides as follows:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN TO HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR."

In this connection and to the extent permitted by law, Purchaser hereby agrees, represents and warrants, which representation and warranty shall survive the Closing and not be merged with the Deed, that Purchaser realizes and acknowledges that factual matters now unknown to it may have given or may hereafter give rise to causes of action, claims, demands, debts, controversies, damages, costs, losses and expenses which are presently unknown, unanticipated and unsuspected, and Purchaser further agrees, represents and warrants, which representation and warranty shall survive the Closing and not be merged with the Deed, that the waivers and releases herein have been negotiated and agreed upon in light of that realization and that Purchaser nevertheless hereby intends to release, discharge and acquit Seller from any such unknown causes of action, claims, demands, debts, controversies, damages, costs, losses and expenses which might in any way be included as a material portion of the consideration given to Seller by Purchaser in exchange for Seller's performance hereunder.

Seller has given Purchaser material concessions regarding the transaction contemplated by this Agreement in exchange for Purchaser agreeing to the provisions of this Section 11.3.2. Seller and Purchaser have each initialed this Section 11.3.2 to further indicate their awareness and acceptance of each and every provision hereof.

Notwithstanding anything to the contrary in this Agreement, the foregoing releases shall not release or relieve Seller from liability due to Seller's violation of express representations or covenants under this Agreement or any closing documents or any act of fraud or intentional misrepresentation by Seller.

/s/ M. Embree
Seller's Initials

/s/ T.S.
Purchaser's Initials

This Section 11.3.2 shall survive the Closing forever.

ARTICLE XII

CASUALTY AND CONDEMNATION

Prior to Closing, the entire risk of loss or damage to the Property shall be borne by Seller. Promptly upon learning thereof, Seller shall give Purchaser written notice of any condemnation, damage or destruction of the Property occurring prior to the Closing. If prior to the Closing all or a material portion of the Property is condemned, damaged or destroyed by an insured casualty, Purchaser shall have the option of either (i) applying the proceeds of any condemnation award or payment under any insurance policies (other than business interruption or rental loss insurance) toward the payment of the Purchase Price to the extent such condemnation awards or insurance payments have been received by Seller, receiving from Seller an amount equal to any applicable deductible under any such insurance policy and receiving an assignment from Seller of Seller's right, title and interest in any such awards or payments not theretofore received by Seller, or (ii) terminating this Agreement by delivering written notice of such termination to Seller and Escrow Agent within ten (10) days after Purchaser has received written notice from Seller of such material condemnation, damage or destruction. If, prior to the Closing, a portion of the Property is condemned, damaged or destroyed and such portion is not a material portion of the Property, the proceeds of any condemnation award or payment and any applicable deductible under any insurance policies shall be applied toward the payment of the Purchase Price to the extent such condemnation awards or insurance payments have been received by Seller and Seller shall assign to Purchaser all of Seller's right, title and interest in any unpaid awards or payments. For purposes of this ARTICLE XII, the term "material portion" shall mean condemnation, damage or destruction of a portion of the Property, the value of which is greater than Five Hundred Thousand Dollars (\$500,000) or an absence of reasonable access to the Property. If the damage or destruction arises out of an uninsured risk, Seller shall elect, by written notice within ten (10) days of the occurrence of such damage or destruction either to terminate this Agreement or to close the transaction contemplated hereby with a reduction of the Purchase Price equal to the costs of repairing the Property, as reasonably estimated by an engineer engaged by Seller and reasonably acceptable to Purchaser.

ARTICLE XIII

CONDUCT PRIOR TO CLOSING

13.1 Conduct. From and after the date hereof, Seller shall operate the Property in accordance with its standard business procedures and maintain reasonable and customary levels and coverages of insurance. In addition, prior to the Closing, Seller shall (i) complete, in a good and workmanlike, lien-free manner, and pay for in full (subject to retained amounts described in Exhibit I), all of the Seller Work, including the work described in the finish schedule dated January 29, 2015, delivered by Seller to Buyer, except for that work described in Exhibit I (the "Post-Closing Work") and (ii) provide unconditional lien waivers to Purchaser for all such work;

provided, however, that such unconditional lien waivers shall not be required if the Title Company is willing to issue the Title Policy without exception for mechanic's liens. If Seller is unable (or reasonably believes it will be unable) to complete any portion of the Seller Work (other than the Post-Closing Work) prior to Closing, Seller shall be entitled to extend the Final Closing Date for a period of up to thirty (30) days by written notice to Purchaser, which notice shall include a specific description of the portion of the Seller Work which has not or is anticipated not to be completed prior to Closing (the "Unfinished Seller Work"); provided, however, if Seller provides such written notice, Purchaser shall be entitled by written notice delivered to Seller within two (2) days of receipt of Seller's notice to instead have such Unfinished Work added to Exhibit I, in which event (A) the Post-Closing Work shall be deemed to include the Unfinished Seller Work, and (ii) the Final Closing Date shall not be extended as set forth in Seller's notice above. Seller shall complete the Post-Closing Work no later than forty-five (45) days after the Final Closing Date, and Seller shall use commercially reasonable efforts to perform all Post-Closing Work in a manner which reasonably minimizes disruption to the operations and any construction work of Purchaser on the Property. Seller shall cause Purchaser to be named as an additional insured on any liability insurance required to be carried by Landmark Builders under the construction contract for the Seller Work and shall cause such insurance to be maintained in effect during the course of the Post-Closing Work. Before any personnel enter the Property after Closing to perform the Post-Closing Work, Seller shall deliver certificates of insurance to Purchaser evidencing such coverage.

13.2 Actions Prohibited. From and after the Effective Date until the Closing or earlier termination of this Agreement, Seller shall not, without the prior written approval of Purchaser, which approval will not be unreasonably withheld or delayed:

13.2.1 make any material alterations or additions to the Property except as (a) required for maintenance and repair or (b) required by this Agreement;

13.2.2 sell, transfer, encumber or change the status of title of all or any portion of the Property;

13.2.3 change or attempt to change, directly or indirectly, the current zoning of the Real Property in a manner materially adverse to it; or

13.2.4 cancel, amend or modify, in a manner materially adverse to the Property, any license or permit held by Seller with respect to the Property or any part thereof which would be binding upon Purchaser after the Closing.

13.3 Assumed Contracts; Non-Assumed Contracts. By no later than the end of the Investigation Period, Purchaser shall notify Seller in writing as to which of the Contracts Purchaser does not elect to assume at Closing. If Purchaser fails to timely deliver such notice, Purchaser shall be deemed to have elected not to assume the Contracts. Seller shall notify the vendors under those Contracts which Purchaser has not agreed to assume (or deemed not to have agreed to assume) (the "Non-Assumed Contracts") as of Closing that, provided that Closing occurs hereunder, Seller shall terminate such Contracts, effective as of the Final Closing Date, and Seller shall pay any applicable termination fees; provided however, if any such Non-Assumed Contracts do not permit Seller to terminate same as of the Final Closing Date, Purchaser shall be required at Closing to assume in writing all obligations thereunder arising from and after the Final Closing Date (except for the termination fee, which shall be paid by Seller) until the effective date of the termination.

13.4 Modification of Existing Leases and Contracts. Prior to the expiration of the Investigation Period, Seller may cancel, amend and modify any of the Leases and any of the Contracts, provided notice is given to Purchaser within five (5) business days after such action and in any event at least five (5) business days prior to the expiration of the Investigation Period. After the expiration of the Investigation Period, Seller may not cancel, amend, or modify any material Contracts or Leases, in a manner binding upon Purchaser after the Closing, unless Seller gives Purchaser notice within five (5) business days after such action and provided such action is (i) required by any of the Leases or any of the Contracts or (ii) approved by Purchaser. Notwithstanding the foregoing or anything else contained in this Agreement, Seller shall be entitled to terminate the Non-Assumed Contracts.

13.5 New Leases and Contracts. From and after the Effective Date until the Closing or earlier termination of this Agreement, Seller shall not, without the prior written approval of Purchaser, enter into any new Leases of the Property. From and after the Effective Date until the Closing or earlier termination of this Agreement, Seller shall not enter into any contracts, in a manner binding upon Purchaser after the Closing, unless Seller gives Purchaser notice within five (5) business days after such action and provided such action is (i) required by any of the Leases or Contracts or (ii) approved by Purchaser. If Seller shall request Purchaser's approval to any of the foregoing matters, Purchaser shall have three (3) business days from its receipt of such request to give Seller notice of its approval or disapproval of such matter. If Purchaser does not give such notice, such matter shall be deemed approved by Purchaser.

13.6 Confidentiality. Purchaser shall, prior to the Closing, maintain the confidentiality of this sale and purchase and shall not, except as required by law or governmental regulation applicable to Purchaser, disclose the terms of this Agreement or of such sale and purchase to any third parties whomsoever other than investors or prospective investors in Purchaser or the principals of Broker, Escrow Agent, the Title Company and such other persons whose assistance is required in carrying out the terms of this Agreement; provided, however, after expiration of the Investigation Period and so long as Purchaser has not terminated this Purchase Agreement, Purchaser shall be entitled to personally inform its customers, suppliers, architects, contractors and other persons reasonably connected to Purchaser's business of the fact that Purchaser is acquiring the Property. Notwithstanding the foregoing, except as required by law, in no event shall Purchaser shall at any time issue a press release, post on Purchaser's web-site (or that of an affiliate thereof) or otherwise communicate with media representatives regarding this sale and purchase unless such release or communication has received the prior written approval of Seller. Purchaser agrees that all documents and information regarding the Property of whatsoever nature made available to it by Seller or Seller's agents and the results of all tests and studies of the Property (collectively, the "Proprietary Information") are confidential and Purchaser shall not, prior to the Closing, disclose any Proprietary Information to any other person except those assisting it with the analysis of the Property and its agents, employees, contractors, representatives and current and prospective lenders and investors, and only after procuring such person's agreement to abide by these confidentiality restrictions, except to the extent disclosure is required by law or in litigation between Seller and Purchaser. The requirements of this Section 13.6 shall not apply to information which (a) is now public knowledge, or becomes public knowledge in the future, or then through acts or omissions of Purchaser in violation of this Section 13.6; (b) was properly known to Purchaser without any restriction on use or disclosure, (c) is disclosed at any time to Purchaser by a third party that had a lawful right to disclose it without any restriction on use or disclosure, or (d) is developed by the Purchaser independently of its Property inspections.

13.7 Right to Cure. If any title defect or other matter which would entitle Purchaser to terminate this Agreement shall first arise after the date of this Agreement and prior to the Closing or if Seller shall have breached any representation or warranty hereunder, Seller may elect, by written notice to Purchaser, to cure such title defect or other matter by causing it to be removed or insured over to cure such breach and Seller may adjourn the Closing for up to five days to do so. Nothing contained in this Section 13.7 shall require Seller to cure any such title defect or other matter or to incur any liability or expense to do so.

ARTICLE XIV

NOTICES

All notices, demands or other communications given hereunder, by the parties hereto or their respective counsel on their behalf, shall be in writing, and shall be deemed to have been duly delivered (i) upon the delivery (or refusal to accept delivery) by messenger or overnight express delivery service (or, if such date is not on a business day, on the business day next following such date), or (ii) on the third (3rd) business day next following the date of its mailing by certified mail, postage prepaid, at a post office maintained by the United States Postal Service, or (iii) upon the receipt by facsimile transmission as evidenced by a receipt transmission report (followed by delivery by one of the other means identified in (i)-(ii)), or (iv) upon email transmission provided prior to 5PM Pacific Time, otherwise such delivery shall be deemed to have been on the next day (followed by delivery by one of the other means identified in (i)-(iii)), addressed as follows:

If to Purchaser, to:

Fabrinet
3736 Fallon Road, #428
Dublin, CA 94568
Attention: Colin R. Campbell
Telephone: (925) 381-5370
Telecopy: (662) 524-9661
colinc@fabrinet.com

and to:

Wilson Sonsini Goodrich & Rosati
650 Page Mill Road
Palo Alto, CA 94304
Attention: Susan P Reinstra, Esq.
Telephone: (650) 493-9300
Telecopy: (650) 493-6811
sreinstra@wsgr.com

If to Seller, to:

Drawbridge Patrick Henry, LLC
c/o Drawbridge Realty Partners, LP
Three Embarcadero Center, Suite 2310
San Francisco, California 94111
Attention: Mark S. Whiting/Charles B. McEachron
Telephone: (415) 391-8300
Telecopy: (415) 391-4430
mwhiting@dbrtrust.com; cmceachron@dbrtrust.com

with a copy to:

Goldberg Real Estate Law
Four Embarcadero Center, 14th Floor
San Francisco, CA 94111
Attention: Mark R. Goldberg, Esq. mark@goldberg-relaw.com
Facsimile: 866-795-0514

If to Escrow Agent, to:

First American National Title
1737 N. First Avenue, Suite 100
San Jose, CA 95112
Attn: Carol M. Herrera/Michael D. Hickey
cmherrera@firstam.com
mhickey@firstam.com
Facsimile: 408-451-7836

Either party may, by notice given as aforesaid, change the address or addresses, or designate an additional address or additional addresses, for its notices, provided, however, that no notice of a change of address shall be effective until actual receipt of such notice.

ARTICLE XV

TRANSFER OF POSSESSION

15.1 Transfer of Possession. Possession of the Property shall be transferred to Purchaser at the time of Closing subject to the Permitted Encumbrances.

15.2 Delivery of Documents at Closing. At the time of Closing, Seller shall deliver to Purchaser originals or copies of any additional documents, instruments or records in the possession of Seller or its agents which are necessary for the ownership and operation of the Property. Purchaser acknowledges and agrees that the documents set forth on Schedule 4 shall be delivered by Seller to Purchaser on a post-closing basis promptly on receipt by Seller.

ARTICLE XVI

GENERAL PROVISIONS

16.1 Captions. Captions in this Agreement are inserted for convenience of reference only and do not define, describe or limit the scope or the intent of this Agreement or any of the terms hereof.

16.2 Exhibits. All exhibits referred to herein and attached hereto are a part hereof.

16.3 Entire Agreement. This Agreement contains the entire agreement between the parties relating to the transaction contemplated hereby and all prior or contemporaneous agreements, understandings, representations and statements, oral or written, are merged herein.

16.4 Modification. No modification, waiver, amendment, discharge or change of this Agreement shall be valid unless the same is in writing and signed by the party against which the enforcement of such modification, waiver, amendment, discharge or change is or may be sought.

16.5 Attorneys' Fees. Should any party hereto employ an attorney for the purpose of enforcing or construing this Agreement, or any judgment based on this Agreement, in any legal proceeding whatsoever, including insolvency, bankruptcy, arbitration, declaratory relief or other litigation, the prevailing party shall be entitled to receive from the other party or parties thereto reimbursement for all reasonable attorneys' fees and all costs, whether incurred at the trial or appellate level, including but not limited to service of process, filing fees, court and court reporter costs, investigative costs, expert witness fees and the cost of any bonds, whether taxable or not, and such reimbursement shall be included in any judgment, decree or final order issued in that proceeding. The "prevailing party" means the party in whose favor a judgment, decree, or final order is rendered.

16.6 Governing Law. This Agreement shall be construed and enforced in accordance with the laws of the State in which the Property is located.

16.7 Time of Essence. Time is of the essence to this Agreement and to all dates and time periods set forth herein. If any date in this Agreement falls on a day other than a business day, then, in such event, such date shall be extended to the next business day.

16.8 Survival of Warranties. Only those warranties and representations contained in Sections 11.1 and 11.2 and the provisions of Section 1.1.1 shall survive the Closing, the delivery of the Deed and the payment of the Purchase Price, provided that (i) such representations and warranties (but not such provisions) shall cease and terminate nine (9) months after the date of Closing, except in respect of any representation or warranty as to which Purchaser or Seller, as the case may be, shall have commenced, on or before the expiration of such nine (9) month period, a legal proceeding based on the breach thereof as of the date of Closing, and then only for so long as such proceeding shall continue and limited to the breach therein claimed, (ii) Seller shall have no liability to Purchaser with respect thereto unless and until the damages suffered by Purchaser as a result thereof shall equal or exceed \$50,000 in the aggregate, and (iii) the maximum total liability for which Seller shall be responsible with respect to all representations and warranties shall not exceed the Maximum Liability Cap in the aggregate. Unless otherwise expressly herein stated to survive, all other representations, covenants, indemnities, conditions and agreements contained herein shall merge into and be superseded by the various documents executed and delivered at Closing and shall not survive the Closing. Seller shall have no liability to Purchaser after Closing for any matter disclosed by Seller or learned by Purchaser prior to Closing.

16.9 Assignment by Purchaser. Purchaser shall not be entitled to assign any of Purchaser's rights or duties under this Agreement without the prior written consent of Seller; provided, however, that Purchaser will be entitled to assign this Agreement to an affiliated entity wholly-owned and controlled by Purchaser which has, in Seller's reasonable judgment, the financial capacity to perform the obligations of Purchaser thereunder. No such assignment by Purchaser shall relieve Purchaser of its obligations under this Agreement. In connection with any such permitted assignment, (i) Purchaser shall deliver to Seller written notice of its intention to do so at least ten (10) Business Days prior to Closing, which notice shall include the legal name and structure of the proposed assignee, as well as any other information that Seller may reasonably request including compliance with Section 11.2.6; and (ii) Purchaser and the proposed assignee shall execute an assignment and assumption of this Agreement in form and substance satisfactory to Seller.

16.10 Severability. If any term, covenant, condition, provision or agreement herein contained is held to be invalid, void or otherwise unenforceable by any court of competent jurisdiction, the fact that such term, covenant, condition, provision or agreement is invalid, void or otherwise unenforceable shall in no way affect the validity or enforceability of any other term, covenant, condition, provision or agreement herein contained.

16.11 Successors and Assigns. All terms of this Agreement shall be binding upon, inure to the benefit of and be enforceable by, the parties hereto and their respective legal representatives, successors and assigns (subject to Section 16.9).

16.12 Interpretation. Seller and Purchaser acknowledge each to the other that both they and their counsel have reviewed and revised this Agreement and that the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Agreement or any amendments or exhibits hereto.

16.13 Counterparts. This Agreement may be executed in any number of counterparts, each of which so executed shall be deemed an original; such counterparts shall together constitute but one agreement.

16.14 Recordation. This Agreement may not be recorded and any attempt to do so shall be of no effect whatsoever.

16.15 Limitation on Liability. In any action brought to enforce the obligations of Seller under this Agreement or any other document delivered in connection herewith, the judgment or decree shall be subject to the provisions of Section 16.8 and shall, otherwise in any event, be enforceable against Seller only up to a maximum of \$750,000 ("Maximum Liability Cap"). No shareholder, officer, director, employee or agent of or consultant to, or of, Seller shall be held to any personal liability hereunder, and no resort shall be had to their property or assets, for the satisfaction of any claims hereunder or in connection with the affairs of Seller. Furthermore, Seller's liability under this Agreement is explicitly limited to the amount of Seller's interest in the Property, including any proceeds thereof. Purchaser shall have no recourse against any other property or assets of Seller, or to any of the past, present or future, direct or indirect, affiliates, members, managers, partners, shareholders, parents, subsidiaries, officers, directors, agents, employees, consultants, contractors, subcontractors and representatives of Seller (collectively, "Seller Parties") or of any of the assets or property of any of the foregoing other than Seller for the

payment or collection of any amount, judgment, judicial process, arbitral award, fee or cost or for any other obligation or claim arising out of or based upon this Agreement and requiring the payment of money by Seller. Except as otherwise expressly set forth in this Section 16.14.1, no Seller Party other than Seller shall be subject to levy, lien, execution, attachment or other enforcement procedure for the satisfaction of any of Purchaser's rights or remedies under or with respect to this Agreement, at law, in equity or otherwise. Purchaser shall not seek enforcement of any judgment, award, right or remedy against any property or asset of Seller or any Seller Parties other than Seller's interest in the Property or any proceeds thereof. The provisions of this Section shall survive the termination of this Agreement.

16.16 Business Day. As used in this Agreement, "business day" shall be deemed to be any day other than a day on which banks in the State of California shall be permitted or required to close and all references to time of day herein shall refer to time in effect in the City of San Francisco.

16.17 Waiver of Jury Trial. PURCHASER AND SELLER HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE THE RIGHT TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION BASED HEREON, ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS AGREEMENT OR ANY DOCUMENTS CONTEMPLATED TO BE EXECUTED IN CONNECTION HEREWITH, OR ANY COURSE OF CONDUCT, COURSE OF DEALINGS, STATEMENTS (WHETHER ORAL OR WRITTEN) OR ANY ACTIONS OF EITHER PARTY ARISING OUT OF OR RELATED IN ANY MANNER WITH THIS AGREEMENT OR THE PROPERTY (INCLUDING WITHOUT LIMITATION, ANY ACTION TO RESCIND OR CANCEL THIS AGREEMENT OR ANY CLAIMS OR DEFENSES ASSERTING THAT THIS AGREEMENT WAS FRAUDULENTLY INDUCED OR IS OTHERWISE VOID OR VOIDABLE). THIS WAIVER IS A MATERIAL INDUCEMENT FOR SELLER TO ENTER INTO AND ACCEPT THIS AGREEMENT AND THE DOCUMENTS TO BE DELIVERED BY PURCHASER AT CLOSING, AND SHALL SURVIVE THE CLOSING OR TERMINATION OF THIS AGREEMENT. Each party hereby authorizes and empowers the other to file this Section 16.16 and this Agreement with the clerk or judge of any court of competent jurisdiction as a written consent to waiver of jury trial. Purchaser and Seller agree and intend that this paragraph constitutes a written consent to waiver of trial by jury within the meaning of California Code of Civil Procedure Section 631(a)(2).

16.18 Disclosures

16.18.1 Natural Hazard Disclosure. Escrow Agent will order and provide Purchaser with a natural hazard disclosure report prepared by a natural hazards consulting firm ("Natural Hazard Expert") relating to the Property for the purposes of enabling Seller to fulfill its disclosure obligations, if and to the extent such obligations exist, with respect to the natural hazards referred to in California Civil Code Section 1103 et seq. and to report the results of its examination to Purchaser and Seller in writing. Purchaser acknowledges and agrees that nothing contained in any disclosure shall release Purchaser from its obligation, if any, to fully investigate the condition on the Property, including, without limitation, whether the Property is located in any natural hazard areas. Purchaser further acknowledges and agrees that (i) the natural hazard disclosures will be made in the standard form of report prepared by a third party, (ii) Seller shall have no liability for the accuracy or completeness of any such information, (iii) the matters set forth in the natural

hazard disclosures may change on or prior to the Close of Escrow and (iv) Seller has no obligation to update, modify or supplement the natural hazard disclosures. The written report prepared by the Natural Hazard Expert regarding the results of its examination fully and completely discharges Seller from its disclosure obligations referred to herein, and, for the purposes of this Agreement, the provisions of California Civil Code Section 1103.4 regarding the non-liability of Seller for errors and/or omissions not within its personal knowledge shall be deemed to apply, and the Natural Hazard Expert shall be deemed to be an expert dealing with matters within the scope of its expertise with respect to the examination and written report regarding the natural hazards referred to above. Purchaser agrees to provide Seller with a written acknowledgment of its receipt of the Natural Hazard Disclosure Statement.

16.18.2 Energy Performance Disclosure Information. Purchaser acknowledges that Seller is required to disclose certain information concerning the energy performance of the Property pursuant to California Public Resources Code Section 25402.10 and the regulations adopted pursuant thereto (collectively, the “Energy Disclosure Requirements”). Purchaser acknowledges receipt of the Data Verification Checklist, as defined in the Energy Disclosure Requirements (collectively, the “Energy Disclosure Information”) prior to the Effective Date, and agrees that Seller has timely complied in full with Seller’s obligations under the Energy Disclosure Requirements. Purchaser acknowledges and agrees that (i) Seller makes no representation or warranty regarding the energy performance of the Property or the accuracy or completeness of the Energy Disclosure Information, (ii) the Energy Disclosure Information is for the current occupancy and use of the Property and that the energy performance of the Property may vary depending on future occupancy and/or use of the Property, (iii) Seller has no duty to update the Energy Disclosure Information except as expressly required pursuant to the Energy Disclosure Requirements and (iv) Seller shall have no liability to Purchaser for any errors or omissions in the Energy Disclosure Information. Further, Purchaser hereby releases Seller from any liability Seller may have to Purchaser relating to the Energy Disclosure Information, including, without limitation, any liability arising as a result of Seller’s failure to disclose the Energy Disclosure Information to Purchaser prior to the execution of this Agreement. Purchaser’s election to proceed with the transaction described in this Agreement after expiration of the Investigation Period shall be deemed Purchaser’s approval of the energy performance of the Property and the Energy Performance Disclosure Information. The terms of this Section shall survive the recordation of the Deed or any earlier termination of this Agreement.

16.19 1031 Exchange Cooperation. Purchaser may acquire the Property as part of an Internal Revenue Code Section 1031 tax deferred exchange for the benefit of Purchaser and Seller may convey the Property as part of an Internal Revenue Code Section 1031 tax deferred exchange for the benefit of Seller. Seller and/or Purchaser, as the case may be, agree to assist and cooperate with the other in such exchange at no cost, expense or liability to itself and further agree to execute any and all documents (subject to the reasonable approval of legal counsel) as are reasonably necessary in connection with such exchange; provided, however, such exchange may not delay Closing and the party engaging in the exchange shall indemnify, defend, protect and hold harmless the other party from and against any loss, cost, damage, claim, liability or expense (including attorneys’ fees) in connection therewith. Purchaser may be assigning all contract rights and obligations hereunder to a “qualified intermediary” or “exchange accommodation titleholder” as such terms are defined in the Internal Revenue Code, relevant Treasury regulations and relevant revenue procedures. As part of such exchange, neither Purchaser nor Seller shall be obligated to take title to, acquire or convey any other property as part of such exchange. No permitted assignment hereunder shall relieve Purchaser of liability hereunder.

ARTICLE XVII

ESCROW AGENT DUTIES AND DISPUTES

17.1 Other Duties of Escrow Agent. Escrow Agent shall not be bound in any way by any other agreement or contract between Seller and Purchaser, whether or not Escrow Agent has knowledge thereof. Escrow Agent's only duties and responsibilities with respect to the Deposit shall be to hold the Deposit and other documents delivered to it as agent and to dispose of the Deposit and such documents in accordance with the terms of this Agreement. Seller and Purchaser shall each be entitled to submit escrow instructions to the Escrow Agent in connection with the Closing so long as such instructions are consistent with the provisions of this Agreement.

17.2 Disputes. Escrow Agent is acting as a stakeholder only with respect to the Deposit. If there is any dispute as to whether Escrow Agent is obligated to deliver the Deposit or as to whom the Deposit is to be delivered, Escrow Agent shall not make any delivery, but shall hold the Deposit until receipt by Escrow Agent of an authorization in writing, signed by all the parties having an interest in the dispute, directing the disposition of the Deposit, or, in the absence of authorization, Escrow Agent shall hold the Deposit until the final determination of the rights of the parties in an appropriate proceeding. Escrow Agent shall have no responsibility to determine the authenticity or validity of any notice, instruction, instrument, document or other item delivered to it, and it shall be fully protected in acting in accordance with any written notice, direction or instruction given to it under this Agreement and believed by it to be authentic. If written authorization is not given, or proceedings for a determination are not begun, within one hundred eighty (180) days after the date scheduled for the closing of title and diligently continued, Escrow Agent may, but is not required to, bring an appropriate action or proceeding for leave to deposit the Deposit with a court of the State of California pending a determination.

17.3 Reports. Escrow Agent shall be responsible for the timely filing of any reports or returns required pursuant to the provisions of Section 6045(e) of the Internal Revenue Code of 1986 (and any similar reports or returns required under any state or local laws) in connection with the closing of the transaction contemplated by this Agreement.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, this Sale, Purchase and Escrow Agreement has been executed as of the date first set forth above.

SELLER:

DRAWBRIDGE PATRICK HENRY, LLC,
a Delaware limited liability company

By: Drawbridge Realty Operating Partnership, LLC,
a Delaware limited liability company,
Sole Member

By: /s/ Michael Embree

Its: _____

PURCHASER:

FABRITEK, INC.,
a California corporation

By: /s/ Toh-Seng Ng

Name: Toh-Seng Ng

Its: President

CONSENT AND AGREEMENT OF ESCROW AGENT

The undersigned Escrow Agent hereby agrees to (i) accept the foregoing Agreement, (ii) be escrow agent under said Agreement, and (iii) be bound by said Agreement in the performance of its duties as escrow agent.

**FIRST AMERICAN NATIONAL TITLE INSURANCE
COMPANY**

By: /s/ Carol Herrera

Carol Herrera

[Print Name]

Its: Escrow Officer

Title

EXHIBIT A

DESCRIPTION OF LAND

All of that certain real property located in the City of Santa Clara, and County of Santa Clara, State of California and more particularly described as follows:

Parcel 20, as shown on Parcel Map filed December 29, 1976 in Book 386 of Maps, at Pages 4 and 5, Santa Clara County Records.

APN: 104-01-118

EXHIBIT B

**ASSIGNMENT AND ASSUMPTION OF LEASES,
CONTRACTS AND OTHER PROPERTY INTERESTS**

For good and valuable consideration, the receipt of which is hereby acknowledged, **DRAWBRIDGE PATRICK HENRY, LLC**, a Delaware limited liability company ("Assignor"), hereby irrevocably assigns, transfers and sets over to _____, a _____ corporation ("Assignee") all of Assignor's right, title and interest in and to (i) the lease agreements (the "Leases") enumerated on Schedule A attached hereto and made a part hereof, (ii) to the extent assignable, the contracts (other than the Non-Assumed Contracts (as defined in the Purchase Agreement, defined below)) (the "Contracts") enumerated in Schedule B attached hereto and made a part hereof, (iii) to the extent assignable, any governmental permits and approvals (the "Permits and Approvals") related to the improvements (the "Improvements") located on the land (the "Land") being conveyed by Assignor to Assignee by Deed, dated the date hereof, and (iv) to the extent assignable, all contract rights (including, without limitation, all existing third-party warranties and indemnities, if any, on materials and equipment constituting a part of or used in the operation and maintenance of the Improvements), licenses, permits, certificates of occupancy, development rights, plans and specifications, surveys, soils reports, insurance proceeds by reason of damage to the Improvements, condemnation awards and all other rights, privileges or entitlements for the use and operation of the Land and the Improvements.

Assignee hereby assumes all obligations in connection with the Lease, the Contracts and the Permits and Approvals, arising or first becoming due and payable after the date hereof.

Assignor hereby represents and warrants only that it has not previously assigned the Lease, the Contracts, the Permits and Approvals, contract rights and other rights assigned hereby. Assignor makes no other representation or warranty in connection with this Assignment and, except for the foregoing, this Assignment is made without recourse to Assignor.

All terms of this Assignment shall be binding upon, inure to the benefit of and be enforceable by the parties hereto and their respective legal representatives, successors and assigns.

No modification, waiver, amendment, discharge or change of this Assignment shall be valid unless the same is in writing and signed by the party against which the enforcement of such modification, waiver, amendment, discharge or change is or may be sought.

This Assignment shall be construed and enforced in accordance with the laws of the State of California.

In any action brought to enforce the obligations of Assignor under this Assignment, the judgment or decree shall be subject to Sections 16.8 and 16.15 of that certain Sale, Purchase and Escrow Agreement, dated as of _____, between Assignor, Assignee, and First American National Title Insurance Company (the "Purchase Agreement").

This Assignment may be executed in any number of counterparts, each of which so executed shall be deemed an original; such counterparts shall together constitute but one agreement.

IN WITNESS WHEREOF, Assignor and Assignee have each executed this Assignment of this _____ day of _____ .

ASSIGNOR:

DRAWBRIDGE PATRICK HENRY, LLC,
a Delaware limited liability company

By: Drawbridge Realty Operating Partnership, LLC,
a Delaware limited liability company,
Sole Member

By: _____
Its: _____

ASSIGNEE:

a _____ corporation

By: _____
Name: _____
Its: _____

SCHEDULE A
TO
ASSIGNMENT AND ASSUMPTION OF LEASES,
CONTRACTS AND OTHER PROPERTY INTERESTS

LIST OF LEASES

None.

SCHEDULE B
TO
ASSIGNMENT AND ASSUMPTION OF LEASES,
CONTRACTS AND OTHER PROPERTY INTERESTS

LIST OF CONTRACTS

[to be inserted]

EXHIBIT C

FORM OF BILL OF SALE

KNOW ALL MEN BY THESE PRESENTS, that **DRAWBRIDGE PATRICK HENRY, LLC**, a Delaware limited liability company ("Seller"), for good and valuable consideration paid by _____, a ("Purchaser"), hereby sells to Purchaser, its successors and assigns, the personal property ("Personal Property") more particularly referred to in Schedule A attached hereto.

TO HAVE AND TO HOLD the same unto Purchaser, its successors and assigns to and for its own use and behalf forever.

Purchaser agrees to pay all sales taxes payable by reason of the transfer to Purchaser of said Personal Property.

This Bill of Sale shall be without representation or warranty by, and without recourse to, Seller.

This Bill of Sale may be executed in any number of counterparts, each of which so executed shall be deemed an original; such counterparts shall together constitute but one agreement.

IN WITNESS WHEREOF, Seller and Purchaser have caused these presents to be signed by their duly authorized officers as of _____.

SELLER:

DRAWBRIDGE PATRICK HENRY, LLC,
a Delaware limited liability company

By: Drawbridge Realty Operating Partnership, LLC,
a Delaware limited liability company,
Sole Member

By: _____
Its: _____

PURCHASER:

a _____

By: _____
Name: _____
Its: _____

EXHIBIT D

LEASES

None.

EXHIBIT E

CONTRACTS

- 1) Bay Alarm Contract – Fire System Maintenance – dated April 9, 2012
- 2) Bay Alarm – Commercial Alarm Services Agreement – dated January 24, 2012
- 3) Bay Alarm – Elevator Monitoring Alarm – dated July 13, 2012
- 4) Environmental Systems, Inc. – HVAC Preventive Maintenance Service Agreement – dated November 6, 2012
- 5) Moreno & Associates, Inc. – Janitorial Services – dated October 23, 2012
- 6) Dinsmore Landscape Company – Landscape Maintenance – dated May 7, 2014
- 7) Pacific Coast Fire – Fire Sprinkler Maintenance – dated April 10, 2013
- 8) Security Code 3 – Security Patrols – dated September 15, 2014
- 9) Security Code 3 – Security Patrols – dated October 5, 2012
- 10) ThyssenKrupp Elevator Corporation – Elevator Maintenance Agreement – last executed March 1, 2013

EXHIBIT F

**FIRPTA AFFIDAVIT
TRANSFEROR'S CERTIFICATION OF NON-FOREIGN STATUS**

To inform **[PURCHASER ENTITY]**, a ("Transferee"), that withholding of tax under Section 1445 of the Internal Revenue Code of 1986, as amended (the "Code"), will not be required upon the transfer of certain real property to Transferee by **[Insert non-disregarded Drawbridge entity]**, a Delaware limited liability company ("Transferor"), the undersigned hereby certifies the following on behalf of Transferor:

1. Transferor is not a foreign corporation, foreign partnership, foreign trust or foreign estate (as those terms are defined in the Code and the Income Tax Regulations promulgated thereunder);
2. Transferor is not a disregarded entity as defined in §1.1445-2(b)(2)(iii);
3. Transferor's U.S. employer identification number is _____; and
4. Transferor's office address is Three Embarcadero Center, Suite 2310, San Francisco, California 94111.

Transferor understands that this Certification may be disclosed to the Internal Revenue Service by Transferee and that any false statement contained herein could be punished by fine, imprisonment, or both.

Under penalty of perjury I declare that I have examined this Certification and to the best of my knowledge and belief it is true, correct and complete, and I further declare that I have authority to sign this document on behalf of Transferor.

Dated: _____

[Insert Drawbridge Parent Entity],
a Delaware limited liability company

By: _____
Its: _____

EXHIBIT G
FORM OF DEED

Recording Requested By and
When Recorded Mail to:

Attn: _____

MAIL TAX STATEMENTS TO:

Attn: _____

GRANT DEED

Assessor Parcel Number: _____

For valuable consideration, receipt of which is acknowledged, DRAWBRIDGE PATRICK HENRY, LLC, a Delaware limited liability company ("Grantor"), hereby grants to _____, a ("Grantee"), the real property in the City of Santa Clara, County of Santa Clara, State of California, described in Exhibit A attached hereto and made a part hereof (the "Property"), together with all of Grantor's right, title and interest in and to all easements, privileges and rights appurtenant thereto and all minerals, oil and gas thereunder.

This conveyance is subject to matters of record specified on Exhibit B attached hereto and made a part hereof.

[Signature page to follow]

IN WITNESS WHEREOF, Grantor has caused this instrument to be executed by its Authorized Signatory.

Dated: _____, 2015.

DRAWBRIDGE PATRICK HENRY, LLC,
a Delaware limited liability company

By: Drawbridge Realty Operating Partnership, LLC,
a Delaware limited liability company,
Sole Member

By: _____
Its: _____

EXHIBIT A
TO
GRANT DEED

LEGAL DESCRIPTION

EXHIBIT B
TO
GRANT DEED

PERMITTED EXCEPTIONS

[INSERT FROM TITLE POLICY ISSUED AT CLOSING]

A notary public or other officer completing this certificate verifies only the identity of the individual who signed the document to which this certificate is attached, and not the truthfulness, accuracy, or validity of that document.

State of California _____

County of _____

On _____ before me, _____ (here insert name and title of the officer), personally appeared _____, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature

(Seal)

EXHIBIT H

FORM OF OWNER'S AFFIDAVIT

The undersigned first being duly sworn, deposes and says:

1. Relying solely on the undersigned's existing owner's policy of title insurance with respect to the land, and without any other inquiry, that they are the owner of the certain real property in the State of California, described in your Preliminary Title Report No. NCS-

2. That the land is improved by a:

- Office Buildings
- Apartment Building
- Commercial Buildings
- Combination Office and Commercial Building
- Industrial Building
- Other:

3. First American Title Insurance Company through its agent First American Title Guaranty Company (collectively referred to as "First American") has been requested to issue a form of policy of title insurance showing as an exception to title in Schedule B therein all existing leases affecting the real property referred to above and described in the Commitment/Preliminary Title Report issued in connection with this transaction.

In addition to any other requirements it may have, First American has requested that the undersigned provide it with a certified list of all of the lessees under existing leases.

Therefore, in response to such request made by First American, the undersigned hereby declares that the rent roll attached hereto as Exhibit A represents all of the lessees under all subsisting leases affecting the subject property.

The undersigned also declares that to the best of its actual knowledge, no leases contain provisions for either options to purchase or the rights of first refusal, or both, other than: None.

First American and Buyer/Borrower have been provided with copies of all the leases, including any modifications and amendments thereto.

4. That there have been no repairs, work of improvement or materials furnished to the premises within 90 days, except: None.

That the work of improvement, if any:

- Started _____
- Was completed on within last 90 days.
- Will be completed in _____

5. That there are no unpaid bills for labor or material because of any improvements made to the above premises, except: None.

6. That to the best of undersigned's actual knowledge, there is no one in possession of, or who has access to the premises other than

- The undersigned
- Tenants based only on month-to-month rental agreements
- Lessees based upon existing leases shown on the rent roll attached hereto
- See Attached Rent Roll.

7. Intentionally deleted.

8. That the undersigned has not received any supplemental tax bill which is unpaid.

9. The undersigned has not received written notice of any release reports or commitment statements which have been issued under California Civil Code 850, et seq.

10. That this Affidavit is given for the purpose of inducing First American Title Insurance Company and its Agents, Offices and Subsidiaries to issue its Policy(ies) of Title Insurance which may provide coverage as to the items mentioned above and that the statements made herein are true and correct to the best of my/our own knowledge.

11. The undersigned acknowledge that they have read the foregoing and fully understand the legal aspects of any misrepresentation and/or untrue statements made herein and indemnify and hold harmless First American Title Insurance and First American Title Guaranty against liability occasioned by reason of reliance upon the statements made herein.

[SIGNATURE ON NEXT PAGE]

Date: _____

[SELLER],
a _____ limited liability company

By: _____
Its: _____

[Insert Notary]

EXHIBIT A

RENT ROLL

None.

EXHIBIT I

POST-CLOSING WORK

Post-Closing Work:

- Installation of landscape light poles
- Any punchlist items identified by Seller prior to Closing, which punchlist shall be subject to review and reasonable approval by Purchaser

Other Matters:

Seller shall be entitled to retain up to \$15,000 on account of the Post-Closing Work identified above; provided, however, upon satisfactory completion of such Post-Closing Work, Seller shall promptly release such retained amount.

SCHEDULE 1

EXCLUDED PERSONAL PROPERTY

None.

SCHEDULE 2

LIST OF PROPERTY DOCUMENTS

1. Copies of the past 3 years real estate tax bills for the Property.
2. Copies of any and all service, leasing and maintenance contracts and other contracts which would be binding upon the Property after the close of escrow entered into by Seller, including, but not limited to, management agreements, leasing commission agreements (especially relative to any unpaid current or future commissions), service contracts and labor union contracts.
3. The most current, certified "as built" property survey, if available.
4. Final "as built" plans and specifications, to the extent available, including soils reports and structural, mechanical and electrical calculations for all improvements, including plans and specifications for the work performed by Seller in the Property in 2012-2013.
5. Copies of all use permits, building permits, certificates of occupancy and any other similar kinds of governmental approvals and permits for the Property.
6. Copies of all casualty, liability and other insurance policies; copies of any claims filed against such insurance and copies of all insurance loss control reports; and copies of fire department inspection reports; provided, in each instance only to the extent relating to the Property.
7. A schedule of all personal property owned by Seller located on the Property.
8. Any ALTA surveys of the Land in Seller's possession or control.
9. Any soil or environmental reports on the Property in Seller's possession or control, including the Phase I Environmental Site Assessment prepared by Isis Environmental in 2011.
10. A copy of any conditions, covenants and restrictions recorded against the Property.
11. Such additional documents in the possession of Seller as Buyer may reasonably request concerning the Property.
12. All reports relating to the Property from any architectural, engineering, fire, safety or other such professionals and consultants.
13. Minutes of weekly construction meetings related to the Seller Work prior to the date of this Agreement.

Notwithstanding anything contained in this Agreement, Seller shall only be obligated to deliver the foregoing documents and materials to Purchaser if in Seller's possession, custody or control and in no event shall Seller have any obligation to deliver any documents or materials to the extent such documents or materials consist of appraisals, internal analyses of value, communications with other buyer(s) regarding the potential sale of the Property, or are otherwise privileged, protected or confidential.

SCHEDULE 3

INSURANCE REQUIREMENTS

Prior to performing inspections at the Property, Purchaser (herein, “**Indemnitor**”) and its agents, contractors and consultants performing activities at the Property (“**Indemnitor’s Agents**”) to the extent such Indemnitor’s Agent is performing work at the Property and then only with respect to the coverage set forth in Paragraph A.1 below, shall have and maintain insurance coverage in form and substance reasonably acceptable to Seller (herein “**Indemnitee**”) complying with the requirements set forth below.

A. Required Types of Insurance Coverage

1. Workers’ Compensation and Employers’ Liability

- (a) Statutory Worker’s Compensation insurance as required by law.
- (b) Employers’ Liability insurance with limits of at least \$1,000,000 per occurrence.

2. General Liability Insurance

- (a) Commercial General Liability policy form on an occurrence basis including Premises/Operations Liability, Contractual Liability (which shall include coverage for, but shall not limit, Indemnitor’s indemnification obligations hereunder), Independent Contractors Coverage and Products/Completed Operations Liability with the explosion, collapse and underground (XCU) exclusions eliminated.
- (b) Limits of Liability: Two Million Dollars (\$2,000,000) combined single limit for Bodily Injury and Property Damage coverage. Limits of Liability may be provided under a Commercial General Liability and Umbrella Liability Policy, if desired.

B. Additional Requirements

1. Except where prohibited by law, all property insurance policies shall contain provisions that the insurance companies waive the rights of recovery or subrogation against Indemnitee, Indemnitee’s agents and employees, and their insurers.
2. Such insurance shall not be subject to cancellation except upon thirty (30) days’ prior written notice to Indemnitee.
3. All insurance required hereunder shall be with insurance companies which (i) are rated by Best’s Insurance Reports, (ii) have a rating of at least A-(VII) and (iii) are licensed to do business in the state where the property is located. Prior to commencement of the performance of the Inspections, Indemnitor shall deliver to Indemnitee certificates of insurance evidencing the coverages required hereunder or such other evidence of compliance with the foregoing insurance requirements as is required by, and reasonably satisfactory and acceptable to, Indemnitee.

4. The following parties shall be named as additional insureds on ISO Form CG 20 26 under the Commercial General Liability, Automobile Liability (if any) and Umbrella Liability insurance policies required to be maintained by Indemnitor:

Drawbridge Patrick Henry, LLC
and Drawbridge Realty Operating Partnership, LLC,
c/o Drawbridge Realty Operating Partnership, LLC
Three Embarcadero Center, Suite 2310
San Francisco, California 94111
Attention: Mark S. Whiting/Charles B. McEachron
Telephone: (415) 391-8300
Telecopy: (415) 391-4430

5. All Commercial General Liability and Umbrella Liability policies maintained by Indemnitor shall contain a cross-liability provision and shall provide primary coverage as to Indemnitee, and any other insurance available to Indemnitee shall be noncontributing therewith.

SCHEDULE 4

CONSTRUCTION DOCUMENTS TO BE DELIVERED POST-CLOSING

Operations Manual

Any written warranties from Landmark Builders or its subcontractors received by Seller

Record drawings for plumbing only.

CERTIFICATION

I, David T. Mitchell, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Fabrinet;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 5, 2015

/s/ DAVID T. MITCHELL

David T. Mitchell
Chief Executive Officer and Chairman of the Board of Directors (Principal
Executive Officer)

CERTIFICATION

I, Toh-Seng Ng, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Fabrinet;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 5, 2015

/s/ TOH-SENG NG

Toh-Seng Ng
Executive Vice President, Chief Financial Officer (Principal Financial and
Accounting Officer)

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**

I, David T. Mitchell, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of Fabrinet for the fiscal quarter ended March 27, 2015 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in this Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of Fabrinet.

Date: May 5, 2015

By: /s/ DAVID T. MITCHELL
Name: David T. Mitchell
Title: Chief Executive Officer and Chairman of the Board of Directors
(Principal Executive Officer)

I, Toh-Seng Ng, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of Fabrinet for the fiscal quarter ended March 27, 2015 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in this Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of Fabrinet.

Date: May 5, 2015

By: /s/ TOH-SENG NG
Name: Toh-Seng Ng
Title: Executive Vice President, Chief Financial Officer (Principal Financial and Accounting Officer)