
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 29, 2023

OR

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

For the transition period from _____ to _____

Commission File Number: 001-34775

FABRINET

(Exact name of registrant as specified in its charter)

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

98-1228572
(I.R.S. Employer
Identification No.)

c/o Intertrust Corporate Services
One Nexus Way, Camana Bay
Grand Cayman
Cayman Islands
(Address of principal executive offices)

KY1-9005
(Zip Code)

+66 2-524-9600
(Registrant's telephone number, including area code)

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

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Ordinary Shares, \$0.01 par value	FN	New York Stock Exchange

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 every Interactive Data File required to be submitted 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 such

files). Yes No

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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

As of October 27, 2023, the registrant had 36,330,858 ordinary shares, \$0.01 par value, outstanding.

**FABRINET
FORM 10-Q
QUARTER ENDED SEPTEMBER 29, 2023**

Table of Contents

	Page No.
<u>RISK FACTORS SUMMARY</u>	3
<u>PART I. FINANCIAL INFORMATION</u>	5
<u>Item 1. Financial Statements</u>	5
<u>Condensed Consolidated Balance Sheets as of September 29, 2023 and June 30, 2023 (unaudited)</u>	5
<u>Condensed Consolidated Statements of Operations and Comprehensive Income for the three months ended September 29, 2023 and September 30, 2022 (unaudited)</u>	6
<u>Condensed Consolidated Statements of Shareholders' Equity for the three months ended September 29, 2023 and September 30, 2022 (unaudited)</u>	7
<u>Condensed Consolidated Statements of Cash Flows for the three months ended September 29, 2023 and September 30, 2022 (unaudited)</u>	8
<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	10
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	28
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	38
<u>Item 4. Controls and Procedures</u>	39
<u>PART II. OTHER INFORMATION</u>	40
<u>Item 1. Legal Proceedings</u>	40
<u>Item 1A. Risk Factors</u>	40
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	56
<u>Item 6. Exhibits</u>	57
<u>Signature</u>	58

RISK FACTORS SUMMARY

You should carefully consider the information set forth below under the heading “Risk Factors” in Part II, Item 1A before deciding whether to invest in our securities. Below is a summary of the principal risks associated with an investment in our securities.

- Our sales 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.
- Consolidation in the markets we serve could harm our business, financial condition and operating results.
- 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 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.
- 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 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.
- 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.
- Our exposure to financially troubled customers or suppliers could harm our business, financial condition and 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.
- 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.
- 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 experience manufacturing yields that are lower than expected, potentially resulting in increased costs, which could harm our business, operating results and customer relations.
- 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.
- If we fail to attract additional skilled employees or retain key personnel, our business, financial condition and operating results could suffer.
- 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.
- We conduct operations in a number of countries, which creates logistical and communications challenges for us and exposes us to other risks and challenges that could harm our business, financial condition and operating results.
- We are subject to governmental export and import controls in several jurisdictions that subject us to a variety of risks, including liability, impairment of our ability to compete in international markets, and decreased sales and customer orders.
- We are subject to risks related to the ongoing U.S.-China trade dispute, including increased tariffs on materials that we use in manufacturing, which could adversely affect our business, financial condition and operating results.
- 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.

- We expect to continue to invest in our manufacturing operations in the People's Republic of China ("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.
- Natural disasters, epidemics, acts of terrorism and political and economic developments could harm our business, financial condition and operating results.
- Unfavorable worldwide economic conditions (including inflation and supply chain disruptions) may negatively affect our business, financial condition and operating results.
- The loan agreements for our long-term debt obligations and other credit facilities contain financial ratio covenants that may impair our ability to conduct our business.
- We may not be able to obtain capital when desired on favorable terms, if at all, or without dilution to our shareholders.
- Our investment portfolio may become impaired by deterioration of the capital markets.
- We are not fully insured against all potential losses. Natural disasters or other catastrophes could adversely affect 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.
- Our business and operations would be adversely impacted in the event of a failure of our information technology infrastructure and/or cyber security attacks.
- Intellectual property infringement claims against our customers or us could harm our business, financial condition and operating results.
- Any failure to protect our customers' intellectual property that we use in the products we manufacture for them could harm our customer relationships and subject us to liability.
- We are subject to the risk of increased income taxes, which could harm our business, financial condition and operating results.
- We have incurred and will continue to incur significant increased costs as a result of operating as a public company, and our management will be required to continue to devote substantial resources to various compliance initiatives.
- 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 and operating results could be harmed.
- Failure to comply with applicable environmental laws and regulations could have a material adverse effect on our business, financial condition and operating results.
- 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.
- 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.
- We may become a passive foreign investment company, which could result in adverse U.S. tax consequences to U.S. investors.
- Our business and share price could be negatively affected as a result of activist shareholders.
- Certain provisions in our constitutional documents may discourage our acquisition by a third party, which could limit our shareholders' opportunity to sell shares at a premium.
- Our shareholders may face difficulties in protecting their interests because we are incorporated under Cayman Islands law.
- Certain judgments obtained against us by our shareholders may not be enforceable.
- Energy price volatility may negatively impact our business, financial condition and operating results.

PART I: FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

FABRINET
CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

<i>(in thousands of U.S. dollars, except share data and par value)</i>	September 29, 2023	June 30, 2023
Assets		
Current assets		
Cash and cash equivalents	\$ 308,338	\$ 231,368
Short-term investments	362,428	319,100
Trade accounts receivable, net of allowance for doubtful accounts of \$1,768 and \$965, respectively	535,006	531,767
Inventories	440,095	519,576
Prepaid expenses	6,328	7,849
Other current assets	39,766	42,880
Total current assets	<u>1,691,961</u>	<u>1,652,540</u>
Non-current assets		
Property, plant and equipment, net	306,665	310,350
Intangibles, net	2,598	2,394
Operating right-of-use assets	6,024	1,634
Deferred tax assets	11,363	12,095
Other non-current assets	610	635
Total non-current assets	<u>327,260</u>	<u>327,108</u>
Total Assets	<u>\$ 2,019,221</u>	<u>\$ 1,979,648</u>
Liabilities and Shareholders' Equity		
Current liabilities		
Long-term borrowings, current portion, net	\$ 9,117	\$ 12,156
Trade accounts payable	357,106	381,129
Fixed assets payable	9,313	13,526
Operating lease liabilities, current portion	1,587	1,201
Income tax payable	7,013	6,024
Accrued payroll, bonus and related expenses	22,976	23,748
Accrued expenses	24,034	20,447
Other payables	24,287	23,654
Total current liabilities	<u>455,433</u>	<u>481,885</u>
Non-current liabilities		
Deferred tax liability	5,117	4,799
Operating lease liability, non-current portion	4,052	66
Severance liabilities	22,269	22,159
Other non-current liabilities	2,181	2,081
Total non-current liabilities	<u>33,619</u>	<u>29,105</u>
Total Liabilities	<u>489,052</u>	<u>510,990</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 September 29, 2023 and June 30, 2023)	—	—
Ordinary shares (500,000,000 shares authorized, \$0.01 par value; 39,430,970 shares and 39,284,176 shares issued at September 29, 2023 and June 30, 2023, respectively; and 36,330,476 shares and 36,183,682 shares outstanding at September 29, 2023 and June 30, 2023, respectively)	394	393
Additional paid-in capital	202,432	206,624
Less: Treasury shares (3,100,494 shares as of September 29, 2023 and June 30, 2023)	(194,833)	(194,833)
Accumulated other comprehensive income (loss)	(7,502)	(8,115)
Retained earnings	1,529,678	1,464,589
Total Shareholders' Equity	<u>1,530,169</u>	<u>1,468,658</u>
Total Liabilities and Shareholders' Equity	<u>\$ 2,019,221</u>	<u>\$ 1,979,648</u>

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

FABRINET

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (unaudited)

	Three Months Ended	
	September 29, 2023	September 30, 2022
<i>(in thousands of U.S. dollars, except per share data)</i>		
Revenues	\$ 685,477	\$ 655,429
Cost of revenues	(601,073)	(572,673)
Gross profit	84,404	82,756
Selling, general and administrative expenses	(20,429)	(20,565)
Operating income	63,975	62,191
Interest income	5,898	1,559
Interest expense	(45)	(391)
Foreign exchange gain (loss), net	415	2,085
Other income (expense), net	(80)	(141)
Income before income taxes	70,163	65,303
Income tax expense	(5,074)	(688)
Net income	65,089	64,615
Other comprehensive income (loss), net of tax:		
Change in net unrealized gain (loss) on available-for-sale securities	948	(1,461)
Change in net unrealized gain (loss) on derivative instruments	(561)	(1,218)
Change in net retirement benefits plan – prior service cost	126	168
Change in foreign currency translation adjustment	100	246
Total other comprehensive income (loss), net of tax	613	(2,265)
Net comprehensive income	\$ 65,702	\$ 62,350
Earnings per share		
Basic	\$ 1.80	\$ 1.77
Diluted	\$ 1.78	\$ 1.76
Weighted-average number of ordinary shares outstanding (thousands of shares)		
Basic	36,256	36,528
Diluted	36,481	36,758

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

FABRINET
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (unaudited)
For the Three Months Ended September 29, 2023

<i>(in thousands of U.S. dollars, except share data)</i>	Ordinary Share		Additional Paid-in Capital	Treasury Shares	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
	Shares	Amount					
Balances at June 30, 2023	39,284,176	\$ 393	\$ 206,624	\$ (194,833)	\$ (8,115)	\$ 1,464,589	\$ 1,468,658
Net income	—	—	—	—	—	65,089	65,089
Other comprehensive income (loss)	—	—	—	—	613	—	613
Share-based compensation	—	—	7,956	—	—	—	7,956
Issuance of ordinary shares	146,794	1	(1)	—	—	—	—
Tax withholdings related to net share settlement of restricted share units	—	—	(12,147)	—	—	—	(12,147)
Balances at September 29, 2023	<u>39,430,970</u>	<u>\$ 394</u>	<u>\$ 202,432</u>	<u>\$ (194,833)</u>	<u>\$ (7,502)</u>	<u>\$ 1,529,678</u>	<u>\$ 1,530,169</u>

For the Three Months Ended September 30, 2022

<i>(in thousands of U.S. dollars, except share data)</i>	Ordinary Share		Additional Paid-in Capital	Treasury Shares	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
	Shares	Amount					
Balances at June 24, 2022	39,048,700	\$ 390	\$ 196,667	\$ (147,258)	\$ (12,793)	\$ 1,216,676	\$ 1,253,682
Net income	—	—	—	—	—	64,615	64,615
Other comprehensive income (loss)	—	—	—	—	(2,265)	—	(2,265)
Share-based compensation	—	—	7,723	—	—	—	7,723
Issuance of ordinary shares	196,847	2	(2)	—	—	—	—
Repurchase of 46,977 shares held as treasury shares	—	—	—	(4,900)	—	—	(4,900)
Tax withholdings related to net share settlement of restricted share units	—	—	(16,489)	—	—	—	(16,489)
Balances at September 30, 2022	<u>39,245,547</u>	<u>\$ 392</u>	<u>\$ 187,899</u>	<u>\$ (152,158)</u>	<u>\$ (15,058)</u>	<u>\$ 1,281,291</u>	<u>\$ 1,302,366</u>

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

FABRINET
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

	Three Months Ended	
	September 29, 2023	September 30, 2022
<i>(in thousands of U.S. dollars)</i>		
Cash flows from operating activities		
Net income for the period	\$ 65,089	\$ 64,615
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	11,961	11,055
(Gain) loss on disposal and impairment of property, plant and equipment and intangibles	12	(9)
(Gain) loss from sales and maturities of available-for-sale securities	—	92
Amortization of discount (premium) of short-term investments	(596)	442
(Reversal of) allowance for doubtful accounts	803	(91)
Unrealized loss (gain) on exchange rate and fair value of foreign currency forward contracts	(52)	(386)
Amortization of fair value at hedge inception of interest rate swaps	(88)	(191)
Share-based compensation	7,733	7,723
Deferred income tax	1,377	(219)
Other non-cash expenses	222	(439)
Changes in operating assets and liabilities		
Trade accounts receivable	(4,138)	(24,476)
Inventories	79,481	28,808
Other current assets and non-current assets	3,238	(10,661)
Trade accounts payable	(24,397)	(29,774)
Income tax payable	963	(276)
Severance liabilities	706	617
Other current liabilities and non-current liabilities	2,735	13,804
Net cash provided by operating activities	<u>145,049</u>	<u>60,634</u>
Cash flows from investing activities		
Purchase of short-term investments	(77,692)	(25,609)
Proceeds from sales of short-term investments	—	30,000
Proceeds from maturities of short-term investments	35,909	29,236
Purchase of property, plant and equipment	(11,435)	(10,258)
Purchase of intangibles	(180)	(11)
Proceeds from disposal of property, plant and equipment	318	9
Net cash used in investing activities	<u>(53,080)</u>	<u>23,367</u>
Cash flows from financing activities		
Repayment of long-term borrowings	(3,047)	(6,094)
Repayment of finance lease liability	—	(2)
Repurchase of ordinary shares	—	(4,900)
Withholding tax related to net share settlement of restricted share units	(12,147)	(16,489)
Net cash used in financing activities	<u>(15,194)</u>	<u>(27,485)</u>
Net increase (decrease) in cash, cash equivalents and restricted cash	<u>\$ 76,775</u>	<u>\$ 56,516</u>
Movement in cash, cash equivalents and restricted cash		
Cash, cash equivalents and restricted cash at the beginning of period	\$ 231,368	\$ 198,365
Increase (decrease) in cash, cash equivalents and restricted cash	76,775	56,516
Effect of exchange rate on cash, cash equivalents and restricted cash	195	520
Cash, cash equivalents and restricted cash at the end of period	<u>\$ 308,338</u>	<u>\$ 255,401</u>
Non-cash investing and financing activities		
Construction, software and equipment-related payables	\$ 9,313	\$ 12,541

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

FABRINET**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited) (Continued)**

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

<i>(in thousands of U.S. dollars)</i>	As of September 29, 2023	As of September 30, 2022
Cash and cash equivalents	\$ 308,338	\$ 255,260
Restricted cash	—	141
Cash, cash equivalents and restricted cash	<u>\$ 308,338</u>	<u>\$ 255,401</u>

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

FABRINET
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
(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. The “Company” refers to Fabrinet and its subsidiaries as a group.

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

2. Accounting policies

Basis of presentation

The accompanying unaudited condensed consolidated financial statements for Fabrinet as of September 29, 2023 and for the three months ended September 29, 2023 and September 30, 2022 include 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” or “GAAP”) for interim financial information and the 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 Fabrinet’s Annual Report on Form 10-K for the year ended June 30, 2023.

The balance sheet as of June 30, 2023 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 months ended September 29, 2023 may not be indicative of results for the year ending June 28, 2024 or any future periods.

Use of Estimates

The preparation of the Company’s unaudited 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 expenses during the year. The Company bases estimates on historical experience and various assumptions about the future that are believed to be reasonable based on available information. The Company’s reported financial position or results of operations may be materially different under different conditions or when using different estimates and assumptions, particularly with respect to significant accounting policies, which are discussed below. Significant assumptions are used in accounting for share-based compensation, allowance for doubtful accounts, allowance for expected credit losses, income taxes, inventory obsolescence, goodwill and valuation of intangible assets related to business acquisition, among others. Due to the inherent uncertainty involved in making estimates, actual results reported in future periods may be different from these estimates. In the event that the Company’s estimates or assumptions prove to be different 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 September 29, 2023 and September 30, 2022 consisted of 13 and 14 weeks, respectively. Fiscal year 2024 will comprise 52 weeks and will end on June 28, 2024.

Adoption of New Accounting Standards

No new accounting standard was adopted in the first quarter of fiscal year 2024.

3. Revenues from contracts with customers

Revenue by Geographic Area and End Market

Revenues are attributed to a particular geographic area based on the bill-to-location of the Company's customers. The Company operates in three geographic regions: North America; Asia-Pacific and others; and Europe.

The following table presents total revenues by geographic region:

<i>(in thousands, except percentages)</i>	Three Months Ended September 29, 2023	As a % of Total Revenues	Three Months Ended September 30, 2022	As a % of Total Revenues
North America				
U.S.	\$ 254,859		\$ 345,080	
Others ⁽¹⁾	3,460		3,624	
Total revenue in North America	258,319	37.7 %	348,704	53.2 %
Asia-Pacific and others				
Israel ⁽²⁾	210,676		37,277	
India	70,777		80,033	
Malaysia	33,319		49,324	
China	20,260		23,064	
Hong Kong	15,788		32,472	
Thailand	13,027		12,616	
Japan	6,810		10,348	
Others	1,165		3,160	
Total revenue in Asia-Pacific and others	371,822	54.2 %	248,294	37.9 %
Europe				
U.K.	29,774		32,832	
Germany	12,780		13,314	
Others	12,782		12,285	
Total revenue in Europe	\$ 55,336	8.1 %	\$ 58,431	8.9 %
Total revenue	\$ 685,477	100.0 %	\$ 655,429	100.0 %

⁽¹⁾ Others includes revenues from external customers based in our country of domicile, the Cayman Islands, which for each year presented is \$0.

⁽²⁾ Due to increase in revenue from a significant customer.

The following table presents revenues by end market:

<i>(in thousands, except percentages)</i>	Three Months Ended September 29, 2023	As a % of Total Revenues	Three Months Ended September 30, 2022	As a % of Total Revenues
Optical communications	\$ 533,257	77.8 %	\$ 497,561	75.9 %
Automotive, lasers and other	152,220	22.2 %	157,868	24.1 %
Total	\$ 685,477	100.0 %	\$ 655,429	100.0 %

Contract Assets and Liabilities

A contract asset is recognized when the Company has recognized revenues prior to an invoice for payment. Contract assets are recognized in the unaudited condensed consolidated balance sheets under other current assets and transferred to accounts receivable when rights to payment become unconditional.

As of September 29, 2023 and June 30, 2023, the contract assets are de minimis.

A contract liability is recognized when the Company has advance payment arrangements with customers. Contract liabilities are recognized in the unaudited condensed consolidated balance sheets under other payables. The contract liabilities balance is normally recognized as revenue within six months.

The following tables summarize the activity in the Company's contract liabilities during the three months ended September 29, 2023:

<i>(in thousands)</i>	Contract Liabilities
Beginning balance, June 30, 2023	\$ 3,036
Advance payment received during the period	1,497
Revenue recognized	(3,285)
Ending balance, September 29, 2023	<u>\$ 1,248</u>

4. Earnings per ordinary share

Basic earnings per ordinary share is computed by dividing reported net income by the weighted-average number of ordinary shares outstanding during each period. Diluted earnings per ordinary share is computed by calculating the effect of potential dilutive ordinary shares outstanding during the period using the treasury stock method. Dilutive ordinary equivalent shares consist of restricted share units and performance share units.

Earnings per ordinary share was calculated as follows:

<i>(in thousands, except per share data)</i>	Three Months Ended	
	September 29, 2023	September 30, 2022
Net income attributable to shareholders	<u>\$ 65,089</u>	<u>\$ 64,615</u>
Weighted-average number of ordinary shares outstanding	36,256	36,528
Incremental shares arising from the assumed vesting of restricted share units and performance share units	225	230
Weighted-average number of ordinary shares for diluted earnings per ordinary share	36,481	36,758
Basic earnings per ordinary share	\$ 1.80	\$ 1.77
Diluted earnings per ordinary share	\$ 1.78	\$ 1.76

5. Cash, cash equivalents and short-term investments

The Company's cash, cash equivalents, and short-term investments are as follows:

(in thousands)	Carrying Cost	Unrealized Gain/(Loss)	Fair Value		
			Cash and Cash Equivalents	Marketable Securities	Other Investments
As of September 29, 2023					
Cash	\$ 306,108	\$ —	\$ 306,108	\$ —	\$ —
Cash equivalents	2,230	—	2,230	—	—
Liquidity funds	41,723	—	—	—	41,723
Certificates of deposit and time deposits	84,278	826	—	85,104	—
Corporate debt securities	145,138	(3,007)	—	142,131	—
U.S. agency and U.S. treasury securities	93,618	(148)	—	93,470	—
Total	<u>\$ 673,095</u>	<u>\$ (2,329)</u>	<u>\$ 308,338</u>	<u>\$ 320,705</u>	<u>\$ 41,723</u>
As of June 30, 2023					
Cash	\$ 230,967	\$ —	\$ 230,967	\$ —	\$ —
Cash equivalents	401	—	401	—	—
Liquidity funds	41,104	—	—	—	41,104
Certificates of deposit and time deposits	64,278	329	—	64,607	—
Corporate debt securities	161,453	(3,375)	—	158,078	—
U.S. agency and U.S. treasury securities	55,542	(231)	—	55,311	—
Total	<u>\$ 553,745</u>	<u>\$ (3,277)</u>	<u>\$ 231,368</u>	<u>\$ 277,996</u>	<u>\$ 41,104</u>

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 short-term investments 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 short-term investments generally range from three months to three years.

The following table summarizes the cost and estimated fair value of short-term investments classified as available-for-sale securities based on stated effective maturities as of September 29, 2023 and June 30, 2023:

(in thousands)	September 29, 2023		June 30, 2023	
	Carrying Cost	Fair Value	Carrying Cost	Fair Value
Due within one year	\$ 185,691	\$ 186,414	\$ 172,992	\$ 173,137
Due between one to five years	179,066	176,014	149,385	145,963
Total	<u>\$ 364,757</u>	<u>\$ 362,428</u>	<u>\$ 322,377</u>	<u>\$ 319,100</u>

6. 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 the measurement date. The three levels of inputs that may be used to measure fair value are defined as follows:

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

Level 2 inputs 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>(in thousands)</i>	Fair Value Measurements at Reporting Date Using			
	Level 1	Level 2	Level 3	Total
As of September 29, 2023				
Assets				
Cash equivalents	\$ —	\$ 2,230	\$ —	\$ 2,230
Liquidity funds	—	41,723	—	41,723
Certificates of deposit and time deposits	—	85,104	—	85,104
Corporate debt securities	—	142,131	—	142,131
U.S. agency and U.S. treasury securities	—	93,470	—	93,470
Derivative assets – current portion	—	148 ⁽¹⁾	—	148
Total	\$ —	\$ 364,806	\$ —	\$ 364,806
Liabilities				
Derivative liabilities – current portion	\$ —	\$ (6,812)	\$ —	\$ (6,812)
Total	\$ —	\$ (6,812) ⁽²⁾	\$ —	\$ (6,812)

<i>(in thousands)</i>	Fair Value Measurements at Reporting Date Using			
	Level 1	Level 2	Level 3	Total
As of June 30, 2023				
Assets				
Cash equivalents	\$ —	\$ 401	\$ —	\$ 401
Liquidity funds	—	41,104	—	41,104
Certificates of deposit and time deposits	—	64,607	—	64,607
Corporate debt securities	—	158,078	—	158,078
U.S. agency and U.S. treasury securities	—	55,311	—	55,311
Derivative assets – current portion	—	221 ⁽³⁾	—	221
Total	\$ —	\$ 319,722	\$ —	\$ 319,722
Liabilities				
Derivative liabilities – current portion	\$ —	\$ (5,236)	\$ —	\$ (5,236)
Total	\$ —	\$ (5,236) ⁽⁴⁾	\$ —	\$ (5,236)

⁽¹⁾ Foreign currency forward contracts with an aggregate notional amount of \$3.0 million and an interest rate swap agreement with a notional amount of \$60.9 million.

⁽²⁾ Foreign currency forward contracts with an aggregate notional amount of \$142.0 million and 0.2 million Canadian dollars.

⁽³⁾ Foreign currency forward contracts with an aggregate notional amount of \$3.0 million and 0.2 million Canadian dollars and an interest rate swap agreement with a notional amount of \$60.9 million.

⁽⁴⁾ Foreign currency forward contracts with an aggregate notional amount of \$140.0 million.

Derivative Financial Instruments

The Company utilizes derivative financial instruments to hedge (i) foreign exchange risk associated with certain foreign currency denominated assets and liabilities and other foreign currency transactions, and (ii) interest rate risk associated with its long-term debt.

The Company minimizes the credit risk associated with its derivative instruments by limiting the exposure to any single counterparty and by entering into derivative instruments only with counterparties that meet the Company's minimum credit quality standard.

Foreign currency forward and option contracts

As a result of foreign currency rate fluctuations, the U.S. dollar equivalent values of the Company's foreign currency denominated assets and liabilities fluctuate. The Company uses foreign currency forward and option contracts to manage the foreign exchange risk associated with a portion of its foreign currency denominated assets and liabilities and other foreign currency transactions. The Company enters into foreign currency forward and option contracts to hedge fluctuations in the U.S. dollar value of forecasted transactions denominated in Thai baht and Canadian dollars with counterparties that meet the Company's minimum credit quality standard.

The Company may enter into foreign currency forward contracts with maturities of up to 12 months to hedge fluctuations in the U.S. dollar value of forecasted transactions denominated in Thai baht, including inventory purchases, payroll and other operating expenses. The Company considers these forward contracts as dual-purpose hedges, that hedge both the foreign exchange fluctuation (i) from inception through the forecasted expenditure, and (ii) any subsequent revaluation of the account payable or accrual. The Company may designate the forward contracts that hedge the foreign exchange fluctuation from inception through the forecasted expenditure as cash flow hedges. The gain or loss on a derivative instrument designated and qualified as a cash flow hedging instrument is recorded as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged forecasted transaction affects earnings. The reclassified amounts are presented in the same income statement line item as the earnings effect of the hedged item. Once the forecasted transactions are recorded, the Company will discontinue the hedging relationship by designating the derivative instrument and recording subsequent changes in fair value through contract maturity to foreign exchange gain (loss), net in the unaudited condensed consolidated statements of operations and comprehensive income as a natural hedge against the Thai baht denominated assets and liabilities.

The Company may also enter into non-designated foreign currency forward and option contracts to provide an offset to the re-measurement of foreign currency denominated assets and liabilities and to hedge certain forecasted exposures. Changes in the fair value of these non-designated derivatives are recorded as foreign exchange gain (loss), net in the unaudited condensed consolidated statements of operations and comprehensive income.

As of September 29, 2023, the Company had 145 outstanding U.S. dollar foreign currency forward contracts against Thai baht, with an aggregate notional amount of \$145.0 million and maturity dates ranging from October 2023 through April 2024 and one outstanding Canadian dollar foreign currency forward contract with a notional amount of 0.2 million Canadian dollars and a maturity date in December 2023.

As of June 30, 2023, the Company had 143 outstanding U.S. dollar foreign currency forward contracts against Thai baht with an aggregate notional amount of \$143.0 million and maturity dates ranging from July 2023 through January 2024, and one foreign currency contract with a notional amount of 0.2 million Canadian dollars and with a maturity date in September 2023.

As of September 29, 2023, the hedging relationship over foreign currency forward contracts designated for hedge accounting was determined to be highly effective based on the performance of retrospective and prospective regression testing. As of September 29, 2023, the amount in accumulated other comprehensive income ("AOCI") expected to be reclassified into earnings within 12 months was a loss of \$4.9 million.

As of June 30, 2023, the hedging relationship over foreign currency forward contracts designated for hedge accounting had been tested to be highly effective based on the performance of retrospective and prospective regression testing. As of June 30, 2023, the amount in AOCI expected to be reclassified into earnings within 12 months was a loss of \$4.0 million.

During the three months ended September 29, 2023 and September 30, 2022, the Company included an unrealized gain of \$0.3 million and unrealized loss of \$0.2 million, respectively, from changes in the fair value of a foreign currency forward contract that was not designated for hedge accounting in earnings as foreign exchange gain (loss), net in the unaudited condensed consolidated statements of operations and comprehensive income.

Interest Rate Swap Agreements

The Company entered into interest rate swap agreements to mitigate interest rate risk and improve the interest rate profile of the Company's debt obligations. As of September 29, 2023 and June 30, 2023, the Company had one outstanding interest rate swap agreement with a notional amount of \$60.9 million.

On July 25, 2018, Fabrinet Thailand entered into an interest rate swap agreement to effectively convert the floating interest rate of the term loan under the Company's previous syndicated senior credit facility agreement to a fixed interest rate of 2.86% per annum through the scheduled maturity of the term loan in June 2023 (see Note 10). The Company did not designate this interest rate swap for hedge accounting.

On September 3, 2019, Fabrinet Thailand entered into a term loan agreement under a credit facility agreement with Bank of Ayudhya Public Company Limited, and on September 10, 2019, the Company repaid in full the outstanding term loan under the Company's previous syndicated senior credit facility agreement (see Note 10). In conjunction with the funding of the new term loan, the Company entered into a second interest rate swap agreement. The combination of both of these interest rate swaps effectively converts the floating interest rate of the Company's term loan with Bank of Ayudhya Public Company Limited to a fixed interest rate of 4.36% per annum through the maturity of the term loan in June 2024.

On September 27, 2019, the Company designated these two interest rate swaps as a cash flow hedge for the Company's term loan under the credit facility agreement with Bank of Ayudhya Public Company Limited. The combination of these two interest rate swaps qualified for hedge accounting because the hedges are highly effective, and the Company has designated and documented contemporaneously the hedging relationships involving these interest rate swaps. While the Company intends to continue to meet the conditions for hedge accounting, if hedges do not qualify as highly effective, the changes in the fair value of the derivatives used as hedges would be reflected in earnings. From September 27, 2019, any gains or losses related to these interest rate swaps are recorded in AOCI in the unaudited condensed consolidated balance sheets. The Company reclassifies a portion of the gains or losses from AOCI into earnings at each reporting period based on either the accrued interest amount or the interest payment.

As of September 29, 2023, the amount in AOCI that is expected to be reclassified into earnings within 12 months was a gain of \$0.3 million.

As of June 30, 2023, the amount in AOCI that is expected to be reclassified into earnings within 12 months was a gain of \$0.4 million.

The following table provides a summary of the impact of derivative gain (loss) of the Company's foreign currency forward contracts and interest rate swaps which were designated as cash flow hedges on the unaudited condensed consolidated statements of operations and other comprehensive income:

(in thousands)	Financial statements line item	Three Months Ended	
		September 29, 2023	September 30, 2022
Derivatives gain (loss) recognized in other comprehensive income (loss):			
Foreign currency forward contracts	Other comprehensive income	\$ (1,565)	\$ (2,992)
Interest rate swaps	Other comprehensive income	(78)	516
Total derivatives gain (loss) recognized in other comprehensive income (loss)		\$ (1,643)	\$ (2,476)
Derivatives (gain) loss reclassified from accumulated other comprehensive income (loss) into earnings:			
Foreign currency forward contracts	Cost of revenues	\$ 3,672	\$ 3,794
Foreign currency forward contracts	SG&A	155	160
Foreign currency forward contracts	Foreign exchange loss, net	(3,215)	(2,505)
Interest rate swaps	Interest expense	(89)	(191)
Total derivatives (gain) loss reclassified from accumulated other comprehensive income (loss) into earnings		\$ 523	\$ 1,258
Change in net unrealized gain (loss) on derivatives instruments		\$ (1,120)	\$ (1,218)

Fair Value of derivatives

The following table provides the fair values of the Company's derivative financial instruments for the periods presented:

(in thousands)	September 29, 2023		June 30, 2023	
	Derivative Assets	Derivative Liabilities	Derivative Assets	Derivative Liabilities
Derivatives not designated as hedging instruments				
Foreign currency forward and option contracts	\$ —	\$ (1,910)	\$ 2	\$ (1,256)
Derivatives designated as hedging instruments				
Foreign currency forward contracts	12	(4,902)	4	(3,980)
Interest rate swaps	136	—	215	—
Derivatives, gross balances	\$ 148	\$ (6,812)	\$ 221	\$ (5,236)

The Company recorded the fair value of derivative financial instruments in the unaudited condensed consolidated balance sheets as follows:

Derivative Financial Instruments

Fair Value of Derivative Assets
Fair Value of Derivative Liabilities

Balance Sheet line item

Other current assets, Other non-current assets
Accrued expenses, Other non-current liabilities

7. Inventories

(in thousands)	As of September 29, 2023	As of June 30, 2023
Raw materials	\$ 119,200	\$ 157,379
Work in progress	248,919	305,627
Finished goods	47,916	28,608
Goods in transit	24,060	27,962
Total inventories	\$ 440,095	\$ 519,576

8. Leases

The Company leases facilities under non-cancelable operating lease agreements. The Company leases a portion of its capital equipment and vehicles, certain land and buildings for its facilities in Thailand, the Cayman Islands, the PRC, the U.S., the U.K., Israel and Singapore under operating lease arrangements that expire at various dates through 2029. Certain of these lease arrangements provide the Company the ability to extend the lease from one to five years following the expiration of the current term. However, the Company has excluded all lease extension options from its right of use ("ROU") assets and lease liabilities as the Company is not reasonably assured that it will exercise these options. None of the lease agreements contain residual value guarantees provided by the lessee. The Company also has one intercompany lease transaction in the form of a lease of office and manufacturing space.

Operating leases

As of September 29, 2023, the maturities of the Company's operating lease liabilities were as follows:

(in thousands)	
2024 (remaining nine months)	\$ 1,465
2025	1,136
2026	1,068
2027	1,093
2028	1,119
Thereafter	283
Total undiscounted lease payments	6,164
Less imputed interest	(525)
Total present value of lease liabilities	\$ 5,639 ⁽¹⁾

⁽¹⁾ Includes current portion of operating lease liabilities of \$1.6 million.

Rental expense related to the Company's operating leases is recognized on a straight-line basis over the lease term.

Rental expense for long-term leases for the three months ended September 29, 2023 and September 30, 2022 was \$0.5 million and \$0.6 million, respectively.

Rental expense for short-term leases for the three months ended September 29, 2023 was \$0.4 million and September 30, 2022 was immaterial.

The following summarizes additional information related to the Company's operating leases:

	As of September 29, 2023	As of June 30, 2023
Weighted-average remaining lease term (in years)	4.5	1.2
Weighted-average discount rate	3.9 %	3.4 %

The following table presents supplemental disclosure for the unaudited condensed consolidated statement of cash flows related to operating and finance leases for the three months ended September 29, 2023 and September 30, 2022:

	Three Months Ended	
	September 29, 2023	September 30, 2022
<i>(in thousands)</i>		
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	\$ 959	\$ 641
Financing cash flows from finance leases	\$ —	\$ 2
ROU assets obtained in exchange for lease liabilities	\$ 4,936	\$ —

9. Intangibles

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

<i>(in thousands)</i>	Gross Carrying Amount	Accumulated Amortization	Net
As of September 29, 2023			
Software	\$ 10,968	\$ (8,370)	\$ 2,598

<i>(in thousands)</i>	Gross Carrying Amount	Accumulated Amortization	Net
As of June 30, 2023			
Software	\$ 10,533	\$ (8,139)	\$ 2,394

The Company recorded amortization expense relating to intangibles of \$0.2 million and \$0.4 million for the three months ended September 29, 2023 and September 30, 2022, respectively.

The weighted-average remaining life of software and customer relationships was:

<i>(years)</i>	As of September 29, 2023	As of June 30, 2023
Software	2.6	3.1

Based on the carrying amount of intangibles as of September 29, 2023, and assuming no future impairment of the underlying assets, the estimated future amortization during each fiscal year was as follows:

(in thousands)

2024 (remaining nine months)	\$	1,206
2025		640
2026		435
2027		244
2028		73
Total	\$	<u>2,598</u>

10. Borrowings

The Company's total borrowings, including current and non-current portions of long-term borrowings, consisted of the following:

(in thousands)

Rate	Conditions	Maturity	As of September 29, 2023	As of June 30, 2023
Long-term borrowings, current portion, net:				
Term loan borrowings:				
3-month LIBOR +1.35% per annum ⁽¹⁾	Repayable in quarterly installments	June 2024	\$ 9,141	\$ 12,188
Less: Unamortized debt issuance costs, current portion			(24)	(32)
Long-term borrowings, current portion, net			<u>\$ 9,117</u>	<u>\$ 12,156</u>

(1) The Company has entered into interest rate swaps that effectively fix a series of future interest payments on its term loans. Refer to Note 6.

The movements of long-term borrowings for the three months ended September 29, 2023 and September 30, 2022 were as follows:

(in thousands)

	Three Months Ended	
	September 29, 2023	September 30, 2022
Opening balance	\$ 12,188	\$ 27,421
Repayments during the period	(3,047)	(6,094)
Closing balance	<u>\$ 9,141</u>	<u>\$ 21,327</u>

As of September 29, 2023, future maturities of long-term borrowings during each fiscal year were as follows:

(in thousands)

2024 (remaining nine months)	\$	9,141
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Credit facility agreements:

On August 20, 2019, Fabrinet Thailand (the "Borrower") and Bank of Ayudhya Public Company Limited (the "Bank") entered into a credit facility agreement (the "2019 Credit Facility Agreement"), which provides for a facility of 110.0 million Thai baht (approximately \$3.6 million based on the applicable exchange rate as of September 27, 2019) and \$160.9 million that may be used for, among other things, an overdraft facility, short-term loans against promissory notes, a letter of guarantee facility, a term loan facility and foreign exchange facilities. The Bank may approve any request for extension of credit under the 2019 Credit Facility Agreement and may increase or decrease any facility amount in its sole discretion.

Under the 2019 Credit Facility Agreement, on August 20, 2019, the Borrower and the Bank entered into a term loan agreement (the "Term Loan Agreement") pursuant to which the Borrower drew down on September 3, 2019 a term loan in the original principal amount of \$60.9 million. The proceeds from the term loan, together with cash on hand, were used to repay outstanding obligations under the Company's previous syndicated senior credit facility agreement.

The term loan accrues interest at 3-month LIBOR plus 1.35% and is repayable in quarterly installments of \$3.0 million, commencing on September 30, 2019. On March 9, 2023, the Borrower and the Bank amended the Term Loan Agreement to replace the interest rate reference from LIBOR to the Secured Overnight Financing Rate ("SOFR") effective from September 29, 2023. The term loan will mature on June 30, 2024. The Borrower may prepay the term loan in whole or in part at any time without premium or penalty. Any portion of the term loan repaid or prepaid may not be borrowed again. During the three months ended September 29, 2023, the Company recorded \$0.1 million of interest expense in connection with this term loan, including the impact from interest rate swaps.

Any borrowings under the 2019 Credit Facility Agreement, including those borrowings under the Term Loan Agreement, are guaranteed by Fabrinet and secured by land and buildings owned by the Borrower in the Pathumthani and Chonburi Provinces in Thailand.

The Term Loan Agreement contains affirmative and negative covenants applicable to the Borrower, including delivery of financial statements and other information, compliance with laws, maintenance of insurance, and restrictions on granting security interests or liens on its assets, disposing of its assets, incurring indebtedness and making acquisitions. While the term loan is outstanding, the Borrower is required to maintain a loan to value of the mortgaged real property ratio of not greater than 65%. If the loan to value ratio is not maintained, the Borrower will be required to provide additional security or prepay a portion of the term loan in order to restore the required ratio. The Company is also required to maintain a debt service coverage ratio of at least 1.25 times and a debt-to-equity ratio of less than or equal to 1.0 times. In the case of any payment of a dividend by the Company, its debt service coverage ratio must be at least 1.50 times. As of September 29, 2023, the Company was in compliance with all of its financial covenants under the Term Loan Agreement.

The events of default under the Term Loan Agreement include failure to timely pay amounts due under the Term Loan Agreement or the related finance documents, failure to comply with the covenants under the Term Loan Agreement or the related finance documents, cross default with other indebtedness of the Borrower, events of bankruptcy or insolvency in respect of the Borrower, and the occurrence of any event or series of events that in the opinion of the Bank has or is reasonably likely to have a material adverse effect.

As of September 29, 2023, there was \$9.1 million outstanding under the term loan.

On March 9, 2023, Fabrinet Thailand and the Parent Company (the "Borrowers") and the Bank entered into a credit facility agreement (the "2023 Credit Facility Agreement"), which provides a facility of \$55.0 million.

Any borrowings under the 2023 Credit Facility Agreement are secured by land and buildings owned by the Borrowers in the Pathumthani and Chonburi Provinces in Thailand.

Under the 2023 Credit Facility Agreement, the Borrowers are required to maintain a loan to value of the mortgaged real property ratio of not greater than 60%. The Borrowers are also required to maintain a debt service coverage ratio of at least 1.25 times and a debt-to-equity ratio of less than or equal to 1.0 times. In the case of any payment of a dividend by the Company, its debt service coverage ratio must be at least 1.50 times.

As of September 29, 2023, there was no amount outstanding under the 2023 Credit Facility Agreement.

11. Income taxes

As of September 29, 2023 and June 30, 2023, the liability for uncertain tax positions including accrued interest and penalties was \$1.4 million and \$1.5 million, respectively. The Company expects the estimated amount of liability associated with its uncertain tax positions to increase within the next 12 months due to additional provisions on uncertain tax positions from one of the subsidiaries and interest on these positions.

The Company files income tax returns in the United States and foreign tax jurisdictions. The tax years from 2016 to 2022 remain open to examination by U.S. federal and state, 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 September 29, 2023 and September 30, 2022 was 7.2% and 1.1%, respectively, of net income. The increase was due to an increase in income subject to tax during the three months ended September 29, 2023 as compared to the three months ended September 30, 2022. In addition, a full valuation allowance of \$2.1 million for deferred tax assets was set up during the three months ended September 29, 2023 due to management's belief that the Company's subsidiary in Israel would continue to have losses in the foreseeable future such that the deferred tax assets of such subsidiary would not be utilized.

12. Share-based compensation

Share-based compensation

The grant date fair value of restricted share units and performance share units is based on the market value of the Company's ordinary shares on the date of grant.

The effect of recording share-based compensation expense for the three months ended September 29, 2023 and September 30, 2022 was as follows:

<i>(in thousands)</i>	Three Months Ended	
	September 29, 2023	September 30, 2022
Share-based compensation expense by type of award:		
Restricted share units	\$ 4,879	\$ 4,901
Performance share units	2,854	2,822
Total share-based compensation expense	7,733	7,723
Tax effect on share-based compensation expense	—	—
Net effect on share-based compensation expense	<u>\$ 7,733</u>	<u>\$ 7,723</u>

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

<i>(in thousands)</i>	Three Months Ended	
	September 29, 2023	September 30, 2022
Cost of revenue	\$ 2,165	\$ 1,915
Selling, general and administrative expense	5,568	5,808
Total share-based compensation expense	<u>\$ 7,733</u>	<u>\$ 7,723</u>

The Company did not capitalize any share-based compensation expense as part of any asset costs during the three months ended September 29, 2023 and September 30, 2022.

Share-based award activity

On December 12, 2019, the Company's shareholders approved Fabrinet's 2020 Equity Incentive Plan (the "2020 Plan"). Upon the approval of the 2020 Plan, Fabrinet's Amended and Restated 2010 Performance Incentive Plan (the "2010 Plan") was simultaneously terminated. The 2020 Plan provides for the grant of equity awards thereunder with respect to (i) 1,700,000 ordinary shares, plus (ii) up to 1,300,000 ordinary shares that, as of immediately prior to the termination of the 2010 Plan, had been reserved but not issued pursuant to any awards granted under the 2010 Plan and are not subject to any awards thereunder. Upon termination of the 2010 Plan, 1,281,619 ordinary shares were reserved for issuance under the 2020 Plan pursuant to clause (ii) of the preceding sentence.

On November 2, 2017, the Company adopted the 2017 Inducement Equity Incentive Plan (the "2017 Inducement Plan") with a reserve of 160,000 ordinary shares authorized for future issuance solely for the granting of inducement share options and equity awards to new employees. The 2017 Inducement Plan was adopted without shareholder approval in reliance on the "employment inducement exemption" provided under the New York Stock Exchange Listed Company Manual.

The 2020 Plan, 2010 Plan and 2017 Inducement Plan are collectively referred to as the "Equity Incentive Plans."

The following table summarizes the number of equity awards outstanding and ordinary shares available for grant under each of the Equity Incentive Plans as of September 29, 2023:

<i>(share units)</i>	Restricted Share Units outstanding	Performance Share Units outstanding	Ordinary Shares available for future grant
2020 Plan	320,011	171,078	1,777,609
2017 Inducement Plan	—	—	111,347
Total	320,011	171,078	1,888,956

Restricted share units and performance share units

Restricted share units and performance share units have been granted under the Equity Incentive Plans.

Restricted share units granted to employees generally vest in equal installments over three or four years on each anniversary of the vesting commencement date. 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.

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

The following table summarizes restricted share unit activity under the Equity Incentive Plans:

	Number of Shares	Weighted- Average Grant Date Fair Value Per Share
Balance as of June 30, 2023	368,765	\$ 97.49
Granted	95,393	\$ 158.91
Vested	(139,438)	\$ 85.02
Forfeited	(4,709)	\$ 108.19
Balance as of September 29, 2023	320,011	\$ 121.07

	Number of Shares	Weighted- Average Grant Date Fair Value Per Share
Balance as of June 24, 2022	459,626	\$ 75.14
Granted	122,743	\$ 117.35
Vested	(180,824)	\$ 64.19
Forfeited	(9,446)	\$ 90.47
Balance as of September 30, 2022	392,099	\$ 93.03

The following table summarizes performance share unit activity under the Equity Incentive Plans:

	Number of Shares	Weighted- Average Grant Date Fair Value Per Share
Balance as of June 30, 2023	204,016	\$ 108.81
Granted	73,936	\$ 158.91
Vested	(106,874)	\$ 101.05
Forfeited	—	\$ —
Balance as of September 29, 2023	<u>171,078</u>	<u>\$ 135.31</u>
	Number of Shares	Weighted- Average Grant Date Fair Value Per Share
Balance as of June 24, 2022	285,882	\$ 81.64
Granted	97,142	\$ 117.35
Vested	(179,008)	70.05
Forfeited	—	\$ —
Balance as of September 30, 2022	<u>204,016</u>	<u>\$ 108.81</u>

The fair value of restricted share units and performance share units is based on the market value of Fabrinet's ordinary shares on the date of grant.

As of September 29, 2023, there was \$21.3 million and \$15.5 million of unrecognized share-based compensation expense related to restricted share units and performance share units, respectively, under the Equity Incentive Plans that is expected to be recorded over a weighted-average period of 2.9 and 1.5 years, respectively.

For the three months ended September 29, 2023 and September 30, 2022, the Company withheld an aggregate of 99,518 shares and 162,985 shares, respectively, upon the vesting of restricted share units and performance shares units, based upon the closing share price on the vesting date to settle employee tax withholding obligations. For the three months ended September 29, 2023 and September 30, 2022, the Company then remitted cash of \$12.1 million and \$16.5 million, respectively, to the appropriate taxing authorities and presented it as a financing activity within the unaudited condensed consolidated statements of cash flows. The payment 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 three months ended September 29, 2023, Fabrinet issued 146,794 ordinary shares upon the vesting of restricted share units and performance share units under the Equity Incentive Plans, net of shares withheld.

For the three months ended September 30, 2022, Fabrinet issued 196,847 ordinary shares upon the vesting of restricted share units and performance share units under the Equity Incentive Plans, net of shares withheld.

All such issued shares are fully paid.

Treasury shares

In August 2017, the Company's board of directors approved a share repurchase program to permit the Company to repurchase up to \$30.0 million worth of its issued and outstanding ordinary shares in the open market in accordance with applicable rules and regulations. In February 2018, May 2019, August 2020, August 2022, and August 2023, the Company's board of directors approved an increase of \$30.0 million, \$50.0 million, \$58.5 million, \$78.7 million, and \$47.6 million, respectively, to the original share repurchase authorization, bringing the aggregate authorization to \$294.8 million.

During the three months ended September 29, 2023, the Company did not repurchase any shares. As of September 29, 2023, the Company had a remaining authorization to repurchase up to \$100.0 million worth of its ordinary shares under the share repurchase program. Shares repurchased under the share repurchase program are held as treasury shares.

14. Accumulated other comprehensive income (loss)

The changes in AOCI for the three months ended September 29, 2023 and September 30, 2022 were as follows:

<i>(in thousands)</i>	Unrealized net (Losses)/Gains on Available-for-sale Securities	Unrealized net (Losses)/Gains on Derivative Instruments	Retirement benefit plan - Prior service cost	Foreign Currency Translation Adjustment	Total
Balance as of June 30, 2023	\$ (3,279)	\$ (3,541)	\$ (330)	\$ (965)	\$ (8,115)
Other comprehensive income (loss) before reclassification	948	(1,643)	—	100	(595)
Amounts reclassified out of AOCI to the unaudited condensed consolidated statements of operations and comprehensive income	—	523	90	—	613
Tax effects	—	559	36	—	595
Other comprehensive income (loss)	\$ 948	\$ (561)	\$ 126	\$ 100	\$ 613
Balance as of September 29, 2023	<u>\$ (2,331)</u>	<u>\$ (4,102)</u>	<u>\$ (204)</u>	<u>\$ (865)</u>	<u>\$ (7,502)</u>

<i>(in thousands)</i>	Unrealized net (Losses)/Gains on Available-for-sale Securities	Unrealized net (Losses)/Gains on Derivative Instruments	Retirement benefit plan - Prior service cost	Foreign Currency Translation Adjustment	Total
Balance as of June 24, 2022	\$ (6,018)	\$ (5,082)	\$ (803)	\$ (890)	\$ (12,793)
Other comprehensive income (loss) before reclassification	(1,553)	(2,476)	—	246	(3,783)
Amounts reclassified out of AOCI to the unaudited condensed consolidated statements of operations and comprehensive income	92	1,258	168	—	1,518
Tax effects	—	—	—	—	—
Other comprehensive income (loss)	\$ (1,461)	\$ (1,218)	\$ 168	\$ 246	\$ (2,265)
Balance as of September 30, 2022	<u>\$ (7,479)</u>	<u>\$ (6,300)</u>	<u>\$ (635)</u>	<u>\$ (644)</u>	<u>\$ (15,058)</u>

15. Commitments and contingencies

Bank guarantees

As of September 29, 2023 and June 30, 2023, there were outstanding bank guarantees on behalf of the Company's subsidiary in Thailand for electricity usage and other normal business expenses totaling \$2.0 million and \$1.5 million, respectively, or Thai baht 73.2 million and 53.0 million, respectively. In addition, there were other immaterial bank guarantees on behalf of the Company's subsidiary in Israel to support the operations related to the Israeli Customs department.

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 September 29, 2023, the Company had purchase obligations and other commitments to third parties of \$1.22 billion.

Capital expenditures

As of September 29, 2023, the Company had total capital expenditure commitments to third parties of \$12.3 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 that engage in business activities for which discrete financial information is available that is evaluated regularly by the chief operating decision maker (the “CODM”) in deciding how to allocate resources and in assessing performance. The Company’s CODM is Fabrinet’s Chief Executive Officer. As of September 29, 2023, 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.

For the Company’s revenues by geographic region, see “Revenue by Geographic Area and End Market” in Note 3.

The following table presents long-lived assets by the country in which they are based:

<i>(in thousands)</i>	September 29, 2023	June 30, 2023
Long-Lived Assets:		
Thailand	\$ 261,117	\$ 264,382
U.S.	25,538	25,267
China	16,531	17,407
Israel	2,998	2,796
Others	481	498
Total	\$ 306,665	\$ 310,350

Significant customers

The Company had three customers that each contributed to 10% or more of the Company's total trade accounts receivable as of September 29, 2023 and June 30, 2023.

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 belief that we will be able to maintain favorable pricing on our services;
- our expectation that the portion of our revenues attributable to customers in regions outside of North America for the remainder of fiscal year 2024 will be in line with the portion of revenues attributable to such customers during the three months ended September 29, 2023;
- 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 2024 selling, general and administrative (“SG&A”) expenses will increase compared to our fiscal year 2023 SG&A expenses;
- our expectation that our employee costs will increase in Thailand and the 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 expectations regarding the potential impact of macroeconomic conditions and international political instability on our business, financial condition and operating results;
- 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;
- our plans to execute acquisitions;
- trends in the optical communications, automotive markets, and industrial lasers, including trends to outsource the production of components used in those markets;
- our ability to attract and retain a qualified management team and other qualified personnel and advisors; and
- competition in our existing and new markets.

These forward-looking statements are subject to certain risks and uncertainties that could cause our actual results to differ materially from those reflected in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in this 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. “We,” “us” or “our” collectively refer to Fabrinet and its subsidiaries.

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, automotive components, industrial lasers, medical devices and sensors. We offer a broad range of advanced optical and electro-mechanical capabilities across the entire manufacturing process, including process design and engineering, supply chain management, manufacturing, complex printed circuit board assembly, advanced packaging, integration, final assembly and testing. 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 extensive experience and the positive feedback we have received from our customers, we believe we are a global leader in providing these services to the optical communications, automotive markets, and industrial lasers.

Our customer base includes companies in complex industries that require advanced precision manufacturing capabilities such as optical communications, automotive, industrial lasers, 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 manufacture for them.

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

Revenues

We believe we are able to expand our relationships with existing customers and attract new customers due to, among other factors, our broad range of complex engineering and manufacturing service offerings, flexible low-cost manufacturing platform, process optimization capabilities, advanced supply chain management, excellent customer service, and experienced management team. Although we expect the prices we charge for our manufactured products to decrease over time (partly as a result of competitive market forces), we believe we will be able to continue 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.

We expect that disruptions in our supply chain and fluctuations in the availability of parts and materials will continue to have an adverse impact on our ability to generate revenue, despite strong demand from our customers. Furthermore, in some cases, our efforts to identify and secure alternative supply chain sources have resulted in our customers or their end customers requiring requalification and validation of components, a process that can often be lengthy and has negatively impacted the timing of our revenue. In addition, we expect the near-term inventory correction that our optical communications customers are experiencing to persist, which will have an adverse impact on our ability to generate revenue.

Revenues by Geography

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

The percentage of our revenues generated from a bill-to location outside of North America increased from 46.8% in the three months ended September 30, 2022 to 62.3% in the three months ended September 29, 2023, primarily because of the increase in sales to our customers outside of North America and decrease in sales to our customers in North America.

Based on the short and medium-term indications and forecasts from our customers, we expect that the portion of our future revenues attributable to customers in regions outside North America for the remainder of fiscal year 2024 will be in line with the portion of revenues attributable to such customers during the three months ended September 29, 2023.

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

	Three Months Ended	
	September 29, 2023	September 30, 2022
North America	37.7 %	53.2 %
Asia-Pacific and others	54.2	37.9
Europe	8.1	8.9
	<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 that 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. The excess or obsolete inventory is shipped to the customer and revenue is recognized upon shipment.

Cost of Revenues

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

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

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

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

Selling, General and Administrative Expenses

Our SG&A expenses primarily consist of corporate employee costs for sales and marketing, general and administrative and other support personnel, including research and development expenses related to the design of customized optics and glass, travel expenses, legal and other professional fees, share-based compensation expense and other general expenses not related to cost of revenues. In fiscal year 2024, we expect our SG&A expenses will increase compared with our fiscal year 2023 SG&A expenses, mainly due to an increase in employee costs, sales and marketing cost and investing in information technology hardware.

The compensation committee of our board of directors approved a fiscal year 2024 executive incentive plan with quantitative objectives based solely on achieving certain revenue targets and non-GAAP operating margin targets for fiscal year 2024. Bonuses under the fiscal year 2024 executive incentive plan are payable after the end of fiscal year 2024. In fiscal year 2023, the compensation committee approved a fiscal year 2023 executive incentive plan with quantitative objectives that were based solely on achieving certain revenue targets and non-GAAP operating margin targets for fiscal year 2023.

Additional Financial Disclosures

Foreign Exchange

As a result of our international operations, we are exposed to foreign exchange risk arising from various currency exposures, and 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 rate between the Thai baht and the U.S. dollar has 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 could in the future be negatively impacted if the Thai baht appreciates against the U.S. dollar. Smaller portions of our expenses are incurred in a variety of other currencies, including RMB, GBP, Canadian dollars, Euros, and Japanese yen, the appreciation of which may also negatively impact our financial results.

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

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

(in thousands, except percentages)	As of September 29, 2023			As of June 30, 2023		
	Foreign Currency	\$	%	Foreign Currency	\$	%
Assets						
Thai baht	815,248	\$ 22,299	65.4 %	754,443	\$ 21,198	60.9 %
RMB	46,709	6,506	19.1	66,501	9,203	26.4
GBP	4,122	5,283	15.5	3,487	4,401	12.7
Total		\$ 34,088	100.0 %		\$ 34,802	100.0 %
Liabilities						
Thai baht	3,181,857	\$ 87,031	89.1 %	2,956,730	\$ 83,078	88.8 %
RMB	76,503	10,655	10.9	74,652	10,331	11.0
GBP	23	28	0.0	114	144	0.2
Total		\$ 97,714	100.0 %		\$ 93,553	100.0 %

The Thai baht assets represent cash and cash equivalents, trade accounts receivable, deposits and other current assets. The Thai baht liabilities represent trade accounts payable, accrued expenses, income tax payable and other payables. We manage our exposure to fluctuations in foreign exchange rates by the use of foreign currency contracts and offsetting assets and liabilities denominated in the same currency in accordance with management's policy. As of September 29, 2023, there was \$145.0 million of foreign currency forward contracts outstanding on the Thai baht payables. As of June 30, 2023, there was \$143.0 million of foreign currency forward contracts outstanding on the Thai baht payables.

The RMB assets represent cash and cash equivalents, trade accounts receivable, and other current assets. The RMB liabilities represent trade accounts payable, accrued expenses, income tax payable, accrued payroll, bonus and related expenses and other payables. As of September 29, 2023 and June 30, 2023, we did not have any derivative contracts denominated in RMB.

The GBP assets represent cash and trade accounts receivable. The GBP liabilities represent trade accounts payable and other payables. As of September 29, 2023 and June 30, 2023, we did not have any derivative contracts denominated in GBP.

For the three months ended September 29, 2023 and September 30, 2022, we recorded a gain of \$0.3 million and loss of \$0.2 million, respectively, related to derivatives that are not designated as hedging instruments in the unaudited condensed consolidated statements of operations and comprehensive income.

Currency Regulation and Dividend Distribution

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

- Foreign Currency Administration Rules, as amended on August 5, 2008, or the Exchange Rules;
- Administration Rules of the Settlement, Sale and Payment of Foreign Exchange (1996), or the Administration Rules; and
- Notice on Perfecting Practices Concerning Foreign Exchange Settlement Regarding the Capital Contribution by Foreign-invested Enterprises, as promulgated by the State Administration of Foreign Exchange ("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.

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 until March 6, 2039.

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 on income generated from projects to manufacture certain products at our Chonburi campus is currently available to us through June 2026. Similar preferential tax treatment was available to us through June 2020 with respect to products manufactured at our Pinehurst campus Building 6. After June 2020, 50% of our income generated from products manufactured at our Pinehurst campus will be exempted from tax through June 2025. New preferential tax treatment is available to us for products manufactured at our Chonburi campus Building 9, where income generated will be tax exempt through 2031, capped at our actual investment amount. Such preferential tax treatment is contingent on various factors, including the export of our customers' products out of Thailand and our agreement not to move our manufacturing facilities out of our current province in Thailand for at least 15 years from the date on which preferential tax treatment was granted. Currently, the corporate income tax rate for our Thai subsidiary is 20%.

As of September 29, 2023, the corporate income tax rates for our subsidiaries in the PRC, the U.S., the U.K. and Israel are 25%, 21%, 25% and 23%, respectively.

Our deferred income tax assets represent temporary differences between the carrying amount and the tax basis of existing assets and liabilities that will result in deductible and payable amounts in future years, including net operating loss carry forwards. Based on estimates, the carrying value of our net deferred tax assets assumes that it is more likely than not that we will be able to generate sufficient future taxable income in certain tax jurisdictions to realize these deferred income tax assets. Our judgments regarding future profitability may change depending on future market conditions, changes in U.S. or international tax laws, or other factors. If these estimates and related assumptions change in the future, we may be required to increase or decrease our valuation allowance against the deferred tax assets, resulting in additional or lesser income tax expense.

Our subsidiary in Israel generates losses since inception and management expected that such subsidiary would continue to have net operating losses in the foreseeable future; therefore, management believed it was more likely than not that all of the deferred tax assets of such subsidiary would not be utilized. Thus, a full valuation allowance of \$2.1 million for the deferred tax assets was set up as of September 29, 2023.

Critical Accounting Policies and Use of Estimates

We prepare our unaudited 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 unaudited 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 of these estimates 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 unaudited 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 30, 2023. The adoption of new accounting policies and accounting standards are disclosed in Note 2 to the unaudited condensed consolidated financial statements. There were no changes to our accounting policies.

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.

<i>(in thousands)</i>	Three Months Ended	
	September 29, 2023	September 30, 2022
Revenues	\$ 685,477	\$ 655,429
Cost of revenues	(601,073)	(572,673)
Gross profit	84,404	82,756
Selling, general and administrative expenses	(20,429)	(20,565)
Operating income	63,975	62,191
Interest income	5,898	1,559
Interest expense	(45)	(391)
Foreign exchange gain (loss), net	415	2,085
Other income (expense), net	(80)	(141)
Income before income taxes	70,163	65,303
Income tax expense	(5,074)	(688)
Net income	65,089	64,615
Other comprehensive income (loss), net of tax	613	(2,265)
Net comprehensive income	\$ 65,702	\$ 62,350

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

	Three Months Ended	
	September 29, 2023	September 30, 2022
Revenues	100.0 %	100.0 %
Cost of revenues	(87.7)	(87.4)
Gross profit	12.3	12.6
Selling, general and administrative expenses	(3.0)	(3.1)
Operating income	9.3	9.5
Interest income	0.8	0.3
Interest expense	0.0	(0.1)
Foreign exchange gain (loss), net	0.1	0.3
Other income (expense), net	0.0	0.0
Income before income taxes	10.2	10.0
Income tax expense	(0.7)	(0.1)
Net income	9.5	9.9
Other comprehensive income (loss), net of tax	0.1	(0.4)
Net comprehensive income	9.6 %	9.5 %

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

<i>(in thousands)</i>	Three Months Ended	
	September 29, 2023	September 30, 2022
Optical communications	\$ 533,257	\$ 497,561
Automotive, lasers and other	152,220	157,868
Total	<u>\$ 685,477</u>	<u>\$ 655,429</u>

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 Months Ended September 29, 2023 with Three Months Ended September 30, 2022

Revenues

Our revenues increased by \$30.1 million, or 4.6%, to \$685.5 million for the three months ended September 29, 2023 (a thirteen-week quarter), compared with \$655.4 million for the three months ended September 30, 2022 (a fourteen-week quarter). This increase was primarily due to an increase in our key customers' demand for optical communications products. Revenues from optical communications products, which represented \$533.3 million, or 77.8%, of our revenues for the three months ended September 29, 2023, increased by \$35.7 million, or 7.2%, compared to the same period in the prior fiscal year, mainly due to an increase in revenues from data communication products, primarily for artificial intelligence applications, offset by a decline in revenues from telecommunication products as inventory absorption within the telecommunication market continued during the three months ended September 29, 2023. Revenues from non-optical communications products, which represented \$152.2 million, or 22.2%, of our revenues for the three months ended September 29, 2023, decreased by \$5.6 million, or 3.6%, compared to the same period in the prior fiscal year, primarily due to a decline in revenues from industrial laser products and other non-optical communications products, partially offset by an increase in revenues from automotive products.

Cost of revenues

Our cost of revenues increased by \$28.4 million, or 5.0%, to \$601.1 million, or 87.7% of revenues, for the three months ended September 29, 2023, compared with \$572.7 million, or 87.4% of revenues, for the three months ended September 30, 2022. The increase was in line with the increase in sales volume.

Gross profit

Our gross profit increased by \$1.6 million, or 1.9%, to \$84.4 million, or 12.3% of revenues, for the three months ended September 29, 2023, compared with \$82.8 million, or 12.6% of revenues, for the three months ended September 30, 2022. The increase was primarily due to an increase in sales volume.

SG&A expenses

Our SG&A expenses decreased by \$0.2 million, or 1.0%, to \$20.4 million, or 3.0% of revenues, for the three months ended September 29, 2023, compared with \$20.6 million, or 3.1% of revenues, for the three months ended September 30, 2022. The decrease was primarily due to (1) a decrease in executive benefits of \$0.3 million and (2) a decrease in share-based compensation expenses of \$0.2 million, offset by (1) an increase in sales and marketing expenses of \$0.2 million and (2) an increase in insurance expenses of \$0.1 million.

Operating income

Our operating income increased by \$1.8 million, or 2.9%, to \$64.0 million, or 9.3% of revenues, for the three months ended September 29, 2023, compared with \$62.2 million, or 9.5% of revenues, for the three months ended September 30, 2022. The increase was primarily due to an increase in revenues.

Interest income

Our interest income increased by \$4.3 million, or 268.8%, to \$5.9 million, or 0.8% of revenues, for the three months ended September 29, 2023, compared with \$1.6 million, or 0.3% of revenues, for the three months ended September 30, 2022. The increase was primarily due to a higher weighted average interest rate during the three months ended September 29, 2023 compared to the same period in the prior fiscal year.

Interest expense

Our interest expense decreased by \$0.4 million for the three months ended September 29, 2023, compared with the three months ended September 30, 2022. The decrease was primarily due to a decrease in the amount of an outstanding long-term loan.

Foreign exchange gain (loss), net

We recorded foreign exchange gain, net of \$0.4 million, or 0.1% of revenues, for the three months ended September 29, 2023, compared with foreign exchange gain, net of \$2.1 million, or 0.3% of revenues for the three months ended September 30, 2022. The decrease in foreign exchange gain was mainly due to (1) lower unrealized gain from revaluation of outstanding Thai baht assets and liabilities of \$1.5 million, (2) realized loss from payment/receipt of \$0.7 million, and (3) unrealized loss from revaluation of currencies other than Thai baht of \$0.5 million, offset by (1) unrealized gain from mark-to-market forward contracts of \$0.6 million, and (2) lower foreign exchange loss, totaling \$0.4 million from our subsidiaries in the PRC and the U.K.

Income before income taxes

We recorded income before income taxes of \$70.2 million for the three months ended September 29, 2023, compared with \$65.3 million for the three months ended September 30, 2022.

Income tax expense

Our provision for income tax reflects effective tax rates of 7.2% and 1.1% for the three months ended September 29, 2023 and September 30, 2022, respectively. The increase was due to an increase in income subject to tax during the three months ended September 29, 2023 as compared to the three months ended September 30, 2022. In addition, a full valuation allowance of \$2.1 million for deferred tax assets was set up during the three months ended September 29, 2023 due to management's belief that our subsidiary in Israel would continue to have losses in the foreseeable future such that the deferred tax assets of such subsidiary would not be utilized.

Net income

We recorded net income of \$65.1 million, or 9.5% of revenues, for the three months ended September 29, 2023, compared with \$64.6 million, or 9.9% of revenues, for the three months ended September 30, 2022.

Other comprehensive income (loss)

We recorded other comprehensive income of \$0.6 million, or 0.1% of revenues, for the three months ended September 29, 2023, compared with other comprehensive loss of \$2.3 million, or 0.4% of revenues, for the three months ended September 30, 2022. The change was mainly due to (1) unrealized gain from mark-to-market of available-for-sale debt securities of \$2.4 million, and (2) lower unrealized loss from mark-to-market of forward contracts and interest rate swap agreement of \$0.7 million, offset by (1) lower unrealized gain from foreign currency translation adjustment of \$0.1 million, and (2) lower gain from retirement benefits plan of \$0.1 million.

Liquidity and Capital Resources

Cash Flows and Working Capital

We primarily finance our operations through cash flow from operations. As of September 29, 2023 and September 30, 2022, we had cash, cash equivalents, and short-term investments of \$670.8 million and \$499.8 million, respectively, and outstanding debt of \$9.1 million and \$21.3 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 was 4.1% and 1.5% for the three months ended September 29, 2023 and September 30, 2022, 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 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.

During the three months ended September 29, 2023, we repaid \$3.0 million of the term loan under our 2019 Credit Facility Agreement. As a result, as of September 29, 2023, we had a long-term borrowing of \$9.1 million under our 2019 Credit Facility Agreement (see Note 10 of Notes to Unaudited Condensed Consolidated Financial Statements for further details). We anticipate that our internally generated working capital, along with our cash and cash equivalents will be adequate to repay these obligations. To better manage our cash on hand, we held short-term investments of \$362.4 million as of September 29, 2023.

We believe that our current cash and cash equivalents, short-term investments, cash flow from operations, and funds available through our credit facility will be sufficient to meet our working capital and capital expenditure needs for at least 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 also believe that our current manufacturing capacity is sufficient to meet our anticipated production requirements for at least the next few quarters.

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

<i>(in thousands)</i>	Three Months Ended	
	September 29, 2023	September 30, 2022
Net cash provided by operating activities	\$ 145,049	\$ 60,634
Net cash provided by (used in) investing activities	\$ (53,080)	\$ 23,367
Net cash used in financing activities	\$ (15,194)	\$ (27,485)
Net increase in cash, cash equivalents and restricted cash	\$ 76,775	\$ 56,516

Operating Activities

Cash provided by operating activities is net income adjusted for certain non-cash items and changes in certain assets and liabilities. The increase in cash provided by operating activities during the three months ended September 29, 2023 as compared to the three months ended September 30, 2022 was primarily driven by efficient cash-favorable working capital changes.

Investing Activities

Investing cash flows consist primarily of investment purchases, sales, maturities, and disposals; and capital expenditures. Cash used in investing activities for the three months ended September 29, 2023 as compared to cash provided in investing activities for the three months ended September 30, 2022 was primarily due to an increase of investment purchases, offset by an increase in proceeds from maturities of short-term investments.

Financing Activities

Financing cash flows consist primarily of repayment of long-term debt, share repurchases, and withholding tax related to net share settlement of restricted share units. Cash used in financing activities was lower for the three months ended September 29, 2023 as compared to the three months ended September 30, 2022 primarily due to no share repurchases and a decrease in withholding tax related to net share settlement of restricted share units, and lower of the repayment of long-term borrowings due to one fewer installment from one fewer week in the first quarter of fiscal year 2024 compared to fiscal year 2023.

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, restricted cash and short-term investments totaling \$670.8 million and \$550.5 million as of September 29, 2023 and June 30, 2023, respectively. We have interest rate risk exposure relating to the interest income generated by excess cash invested in highly liquid investments with maturities of three months or less from the original dates of purchase. The cash, cash equivalents, and short-term investments 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 three months ended September 29, 2023 and September 30, 2022, our interest income would have decreased by approximately \$0.1 million for both periods, assuming consistent investment levels.

We also have interest rate risk exposure in movements in interest rates associated with our interest-bearing liabilities. The interest-bearing liabilities are denominated in U.S. dollars. Until September 29, 2023, the interest expense was based on LIBOR, plus an additional margin, depending on the lending institution. If the LIBOR had increased by 100 basis points during the three months ended September 29, 2023 and September 30, 2022, our interest expense would have increased by approximately de minimis and \$0.1 million, respectively, assuming consistent borrowing levels. As a result of the phase-out of LIBOR, we amended the Term Loan Agreement to replace the interest rate reference from LIBOR to the SOFR effective from September 29, 2023 (see Note 10).

We therefore entered into interest rate swap agreements (the “Swap Agreements”) to manage this risk and increase the profile of our debt obligation. The terms of the Swap Agreements allow us to effectively convert the floating interest rate to a fixed interest rate. This locks the variable interest expenses associated with our floating rate borrowings and results in fixed interest expenses that are unsusceptible to market rate increases. We designated the Swap Agreements as a cash flow hedge, and they qualify for hedge accounting because the hedges are highly effective. While we intend to continue to meet the conditions for hedge accounting, if hedges do not qualify as highly effective, the changes in the fair value of the derivatives used as hedges would be reflected in our earnings. From September 27, 2019, any gains or losses related to these outstanding interest rate swaps will be recorded in accumulated other comprehensive income in the unaudited condensed consolidated balance sheets, with subsequent reclassification to interest expense when settled.

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 unaudited condensed consolidated balance sheets at fair value with unrealized gains or losses reported as a separate component of shareholders’ equity.

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

Foreign Currency Risk

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

As a consequence, our gross profit margins, operating results, profitability and cash flows are adversely impacted when the dollar depreciates relative to the Thai baht, the GBP or the RMB. We have a particularly significant currency rate exposure to changes in the exchange rate between the Thai baht, the GBP, the RMB 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.

We attempt to hedge against these exchange rate risks by entering into derivative instruments that are typically one to eighteen months in duration, leaving us exposed to longer term changes in exchange rates. Beginning December 28, 2019, we designated the foreign currency forward contracts used to hedge fluctuations in the U.S. dollar value of forecasted transactions denominated in Thai baht as cash flow hedges, as they qualified for hedge accounting because the hedges are highly effective. While we intend to continue to meet the conditions for hedge accounting, if hedges do not qualify as highly effective, the changes in the fair value of the derivatives used as hedges would be reflected in our earnings. Any gains or losses related to these outstanding foreign currency forward contracts will be recorded in accumulated other comprehensive income (loss) in the unaudited condensed consolidated balance sheets, with subsequent reclassification to the same statement of operations and comprehensive income line item as the earnings effect of hedge items when settled. We recorded unrealized gain of \$0.3 million and unrealized loss of \$0.2 million for the three months ended September 29, 2023 and September 30, 2022, respectively, related to derivatives that are not designated as hedging instruments. As foreign currency exchange rates fluctuate relative to the U.S. dollar, we expect to incur foreign currency translation adjustments and may incur foreign currency exchange losses. For example, a 10% weakening in the U.S. dollar against the Thai baht, the RMB and the GBP would have resulted in a decrease in our net dollar position of approximately \$6.8 million and \$6.0 million as of September 29, 2023 and June 30, 2023, respectively. We cannot give any assurance as to the effect that future changes in foreign currency rates will have on our unaudited 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 September 29, 2023, 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 short-term investments as of September 29, 2023 are held in various financial institutions with a maturity limit not to exceed three 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 and held-to-maturity 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, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, our chief executive officer and chief financial officer concluded that as of the end of the period covered by this Quarterly Report on Form 10-Q, our disclosure controls and procedures were effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and include controls and procedures designed to ensure that the information required to be disclosed by us in such reports is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosures. Management's assessment of the effectiveness of our internal control over financial reporting is expressed at the level of reasonable assurance because a control system, no matter how well designed and operated, can provide only reasonable, but not absolute, assurance that the control system's objectives will be met.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the three months ended September 29, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II: OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we may 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 unaudited 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.

Company and Operational Risks

Our sales 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 revenues. During the three months ended September 29, 2023 and September 30, 2022, we had four customers and three customers, respectively, that each contributed 10% or more of our revenues. Such customers together accounted for 61.5% and 46.0% of our revenues during the respective periods. 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, financial condition and operating results.

Further, our customer concentration increases the concentration of our accounts receivable and our exposure to payment default by any of our key customers. Many of our existing and potential customers have substantial debt burdens, have experienced financial distress or have static or declining revenues, all of which may be exacerbated by the current global economic downturn and subsequent adverse conditions in the credit markets, as well as the impact of the U.S.-China trade dispute. 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.

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

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

Consolidation in the markets we serve has resulted in a reduction in the number of potential customers for our services. For example, Lumentum Holdings Inc. completed its acquisition of NeoPhotonics Corporation in August 2022; Coherent Corp. (formerly known as II-VI Incorporated) completed its acquisition of Coherent, Inc. in July 2022; and Cisco Systems, Inc. completed its acquisition of Acacia Communications Inc. in March 2021. In some cases, consolidation among our customers has led to a reduction in demand for our services as customers have acquired the capacity to manufacture products in-house.

Consolidation among our customers and their customers will continue to 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.

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.

Revenues from optical communications products represented 77.8% and 75.9% of our revenues for the three months ended September 29, 2023 and September 30, 2022, respectively. Our future success as a provider of precision optical, electro-mechanical and electronic manufacturing services for the optical communications market depends on the continued growth of the optics industry and, in particular, the continued expansion of global information networks, particularly those directly or indirectly dependent upon a fiber optic infrastructure. As part of that growth, we anticipate that demand for voice, video, and other data services delivered over high-speed connections (both wired and wireless) will continue to increase. Without network and bandwidth growth, the need for enhanced communications products would be jeopardized. Currently, demand for network services and for high-speed broadband access, in particular, is increasing but growth may be limited by several factors, including, among others: (1) relative strength or weakness of the global economy or the economy in certain countries or regions, (2) an uncertain regulatory environment, and (3) uncertainty regarding long-term sustainable business models as multiple industries, such as the cable, traditional telecommunications, wireless and satellite industries, offer competing content delivery solutions. The optical communications market also has experienced periods of overcapacity, some of which have occurred even during periods of relatively high network usage and bandwidth demands. If the factors described above were to slow, stop or reverse the expansion in the optical communications market, our business, financial condition and operating results would be negatively affected.

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 revenues, gross profit margins, and operating results to fluctuate from quarter to quarter:

- any reduction in customer demand or our ability to fulfill customer orders as a result of disruptions in our supply chain;
- our ability to acquire new customers and retain our existing customers;
- the cyclicity of the optical communications, automotive, industrial lasers, medical and sensors markets;
- competition;
- our ability to achieve favorable pricing for our services;
- the effect of fluctuations in foreign currency exchange rates;
- our ability to manage our headcount and other costs; and
- changes in the relative mix in our revenues.

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

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

We intend to continue diversifying across other markets within the optics industry, such as the semiconductor processing, biotechnology, metrology, and material processing markets, to reduce our dependence on the optical communications market and to grow our business. Currently, the optical communications market contributes the significant majority of our revenues. There can be no assurance that our efforts to further expand and diversify into other markets within the optics industry will prove successful or that these markets will continue to grow as fast as we expect. If 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 other third-party manufacturers. We believe the internal manufacturing capabilities of current and prospective customers are our primary competition. This competition is particularly strong when our customers have excess manufacturing capacity, as was the case when the markets that we serve experienced a significant downturn in 2008 and 2009 that resulted in underutilized capacity. Should our existing and potential customers have excess manufacturing capacity at their facilities, it could adversely affect our business. In addition, as a result of the 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 different third-party manufacturer, our business, financial condition and operating results could be harmed.

Competitors in the market for optical manufacturing services include Benchmark Electronics, Inc., Celestica Inc., Sanmina-SCI Corporation, Jabil Circuit, Inc., and Venture Corporation Limited. Our customized optics and glass operations face competition from companies such as Browave Corporation, Fujian Castech Crystals, Inc., Photop Technologies, Inc., and Research Electro-Optic, Inc. 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 new competitors as we attempt to penetrate new markets.

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

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

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

In addition, we make significant decisions with respect to 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 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.

Some of our customers and suppliers have in the past and may in the future experience financial difficulty, particularly in light of adverse conditions in the credit markets that have affected access to capital and liquidity. In addition, the failures of Silicon Valley Bank and Signature Bank in March 2023 created significant market disruption and uncertainty within the U.S. banking sector, in particular with respect to regional banks. During challenging economic times, our customers may face difficulties in gaining timely access to sufficient credit, which could impact their ability to make timely payments to us. 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 larger working capital requirements due to increased days in inventory and days in accounts receivable.

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. The semiconductor supply chain is complex, and, in recent years, there has been a significant global shortage of semiconductors. Demand for consumer electronics surged during the COVID-19 pandemic and remains strong, which in turn has increased the demand for semiconductors. At the same time, wafer foundries that support chipmakers have not invested enough in recent years to increase capacities to the levels needed to support the increased demand from all of their customers. Further exacerbating the shortage is the long production lead-time for wafers, which can be as long as 30 weeks in some cases. A shortage of semiconductors or other key components can cause a significant disruption to our production schedule and have a substantial adverse effect on our business, financial condition and operating results.

Our revenues, profitability and customer relations will be harmed by continued fluctuations in the availability of materials, a stoppage or delay of supply, a substitution of more expensive or less reliable parts, the receipt of defective parts or contaminated materials, an increase in the price of supplies, or an inability to obtain reductions in price from our suppliers in response to competitive pressures. We continue to undertake programs to strengthen our supply chain. Nevertheless, we are experiencing, and expect for the foreseeable future to experience, strain on our supply chain, as well as periodic supplier problems. These supply chain issues have impacted, and will continue to impact, our ability to generate revenue. In addition, we have incurred, and expect for the foreseeable future to incur, increased costs related to our efforts 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 materials 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.

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

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

Most recently, we expanded our manufacturing capacity by building a new facility at our Chonburi campus in Thailand in 2022. 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 successfully expand our manufacturing capacity but are unable to promptly utilize the additional space due to reduced demand for our services or an inability to win new projects, add new customers or penetrate new markets, or if the optics industry does not grow as we expect, we may experience periods of excess capacity, which could harm our business, financial condition and operating results.

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

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

- the quality of input, materials and equipment;
- the quality and feasibility of our customer's design;
- the repeatability and complexity of the manufacturing process;
- the experience and quality of training of our manufacturing and engineering teams; and
- the monitoring of the manufacturing environment.

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

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

We manufacture products to our customers' specifications, and our manufacturing processes and facilities must comply with applicable statutory and regulatory requirements. In addition, our customers' products and the manufacturing processes that we use to produce them are often complex. As a result, products that we 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 detectable. The testing procedures of our customers are generally limited to the evaluation of the products that we manufacture under likely and foreseeable failure scenarios. For various reasons (including, among others, the occurrence of performance problems that are unforeseeable at the time of testing or that are detected only when products are fully deployed and operated under peak stress conditions), these products may fail to perform as expected after their initial acceptance by a customer.

We generally provide a warranty of between one to five years on the products that we manufacture for our customers. This warranty typically guarantees that products will conform to our customers' specifications and be free from defects in workmanship. Defects in the products we manufacture, whether caused by a design, engineering, manufacturing or component failure or by deficiencies in our manufacturing processes, and whether such defects are discovered 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 attributable to our manufacturing process. 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 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 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 and other key management and technical personnel, each of whom would be difficult to replace. Although we have key person life insurance policies on some of our executive officers, the loss of any of our executive officers or key personnel or the inability to continue to attract qualified personnel could harm our business, financial condition and operating results.

Risks Related to Our International Operations

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 losses from fluctuations in exchange rates. For example, in the three months ended December 30, 2022, we experienced a \$3.9 million foreign exchange loss, which negatively affected our net income per share for the same period by \$0.11.

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. As of September 29, 2023, the U.S. dollar had appreciated approximately 9.1% against the Thai baht since September 24, 2021. While we attempt to hedge against certain exchange rate risks, we typically enter into hedging contracts with maturities of up to 12 months, leaving us exposed to longer term changes in exchange rates.

Additionally, we have significant exposure to changes in the exchange rate between the Chinese Renminbi ("RMB") and pound sterling ("GBP") and the U.S. dollar. The expenses of our subsidiaries located in the PRC and the United Kingdom are denominated in RMB and GBP, respectively. Currently, RMB are convertible in connection with trade and service-related foreign exchange transactions, foreign debt service, and payment of dividends. The PRC government may at its discretion restrict access in the future to foreign currencies for current account transactions. If this occurs, our PRC subsidiary may not be able to pay us dividends in U.S. dollars without prior approval from the PRC State Administration of Foreign Exchange. In addition, conversion of RMB for most capital account items, including direct investments, is still subject to government approval in the PRC. This restriction may limit our ability to invest the earnings of our PRC subsidiary. As of September 29, 2023, the U.S. dollar had appreciated approximately 12.8% against the RMB since September 24, 2021. There remains significant international pressure on the PRC government to adopt a substantially more liberalized currency policy. GBP are convertible in connection with trade- and service-related foreign exchange transactions and foreign debt service. As of September 29, 2023, the U.S. dollar had appreciated approximately 11.5% against the GBP since September 24, 2021. Any appreciation in the value of the RMB and GBP against the U.S. dollar could negatively impact our operating results.

We conduct operations in a number of countries, which creates logistical and communications challenges for us and exposes us to other risks and challenges 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, and our principal manufacturing facilities are located in Thailand. Revenues from the bill-to-location of customers outside of North America accounted for 62.3% and 46.8% of our revenues for the three months ended September 29, 2023 and September 30, 2022, respectively. We expect that revenues from the bill-to-location of customers outside of North America will continue to account for a significant portion of our revenues. Our customers also depend on international sales, which further exposes us to the risks associated with international operations. Conducting business outside the United States subjects us to a number of risks and challenges, including:

- compliance with a variety of domestic and foreign laws and regulations, including trade regulatory requirements;
- periodic changes in a specific country or region's economic conditions, such as recession;
- unanticipated restrictions on our ability to sell to foreign customers where sales of products and the provision of services may require export licenses or are prohibited by government action (for example, the U.S. Department of Commerce has prohibited the export and sale of a broad category of U.S. products, as well as the provision of services, to ZTE Corporation and to Huawei, both of which are customers of certain of our customers);
- fluctuations in currency exchange rates;
- inadequate protection of intellectual property rights in some countries; and
- political, legal and economic instability, foreign armed conflicts (such as the Israel-Hamas war and the Russia-Ukraine war), and the impact of regional and global infectious illnesses in the countries in which we and our customers and suppliers are located.

Our failure to manage the risks and challenges associated with our international operations could have a material adverse effect on our business.

We are subject to governmental export and import controls in several jurisdictions that subject us to a variety of risks, including liability, impairment of our ability to compete in international markets, and decreased sales and customer orders.

We are subject to governmental export and import controls in Thailand, the PRC, Israel and the United States that may limit our business opportunities. Various countries regulate the import of certain technologies and have enacted laws or taken actions that could limit (1) our ability to export or sell the products we manufacture and (2) our customers' ability to export or sell products that we manufacture for them. The export of certain technologies from the United States, the United Kingdom and other nations to the PRC is barred by applicable export controls, and similar prohibitions could be extended to Thailand, thereby limiting our ability to manufacture certain products. Any change in export or import regulations or related legislation, shift in approach to the enforcement of existing regulations, or change in the countries, persons or technologies targeted by such regulations could limit our ability to offer our manufacturing services to existing or potential customers, which could harm our business, financial condition and operating results.

For example, the May 2019 addition of Huawei and certain affiliates by the U.S. Commerce Department's Bureau of Industry and Security ("BIS") to the BIS Entity List denied Huawei the ability to purchase products, software and technology that are subject to U.S. Export Administration Regulations. Although we do not sell directly to Huawei, some of our customers do sell to Huawei (and its affiliates) directly. To ensure compliance, some of our customers immediately suspended shipments to Huawei in order to assess whether their products were subject to the restrictions resulting from the ban. This had an immediate impact on our customer orders in the three months ended June 28, 2019, which affected our revenue for that quarter. We expect this ban to continue to adversely affect orders from our customers for the foreseeable future.

We are subject to risks related to the ongoing U.S.-China trade dispute, including increased tariffs on materials that we use in manufacturing, which could adversely affect our business, financial condition and operating results.

In August 2019, the U.S. imposed tariffs on a wide range of products and goods manufactured in the PRC that are directly or indirectly imported into the U.S. Although the U.S. announced on January 15, 2020 the reduction of certain tariffs on Chinese imported goods and delayed the implementation of certain other related tariffs, we have no assurance that the U.S. will not continue to increase or impose tariffs on imports from the PRC or alter trade agreements and terms between the PRC and the U.S., which may include limiting trade with the PRC. Trade restrictions, including tariffs, quotas, embargoes, safeguards and customs restrictions, could increase the cost of materials we use to manufacture certain products, which could result in lower margins. The tariffs could also result in disruptions to our supply chain, as suppliers struggle to fill orders from companies trying to purchase goods in bulk ahead of announced tariffs taking effect. The adoption of trade tariffs both globally and between the U.S. and the PRC specifically could also cause a decrease in the sales of our customers' products to end-users located in the PRC, which could directly impact our revenues in the form of reduced orders. If existing tariffs are raised further, or if new tariffs are imposed on additional categories of components used in our manufacturing activities, and if we are unable to pass on the costs of such tariffs to our customers, our operating results would be harmed.

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. 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. Any future political instability in Thailand could prevent shipments from entering or leaving the country, disrupt our ability to manufacture products in Thailand, and force us to transfer our operations to more stable, and potentially more costly, regions, which would harm our business, financial condition and operating results.

Further, the Thai government may raise the minimum wage standards for labor and could repeal certain promotional certificates that we have received or tax holidays for certain export and value added taxes that we enjoy, either preventing us from engaging in our current or anticipated activities or subjecting us to higher tax rates.

We expect to continue to invest in our manufacturing operations in the People's Republic of China ("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, the PRC. 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. 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.

Natural disasters, epidemics, acts of terrorism and political and economic developments could harm our business, financial condition and operating results.

Natural disasters 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 or 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 2011 flooding in Thailand forced us to temporarily shut down all of our manufacturing facilities in Thailand and cease production permanently at our former Chokchai facility, which adversely affected our ability to meet our customers' demands during fiscal year 2012.

In some countries in which we operate, including the PRC, the U.S., and Thailand, outbreaks of infectious diseases such as COVID-19, H1N1 influenza virus, severe acute respiratory syndrome or bird flu could disrupt our manufacturing operations, reduce demand for our customers' products and increase our supply chain costs. For example, the outbreak of COVID-19 resulted in a two-week suspension of operations at our facility in Fuzhou, the PRC in February 2020 and caused labor shortages for us and some of our suppliers and customers in the PRC during the three months ended March 27, 2020, which negatively affected our revenues during the same period.

In addition, increased international political instability, the threat or occurrence of terrorist attacks, conflicts in the Middle East, Asia and Europe (including the Israel-Hamas war and the Russia-Ukraine war), strained international relations arising from these conflicts and the related decline in consumer confidence and economic weakness, may hinder our ability to do business. Any escalation in these events or similar future events may disrupt our operations and the operations of our customers and suppliers and may affect the availability of materials needed for our manufacturing services. Such events may also disrupt the transportation of materials to our manufacturing facilities and finished products to our customers. These events have had, and may continue to have, an adverse impact on the U.S. and world economy in general, and customer confidence and spending in particular, which in turn could adversely affect our total revenues and operating results. The impact of these events on the volatility of the U.S. and world financial markets also could increase the volatility of the market price of our ordinary shares and may limit the capital resources available to us, our customers and our suppliers.

Financial Risks

Unfavorable worldwide economic conditions (including inflation and supply chain disruptions) may negatively affect our business, financial condition and operating results.

The current volatility and adverse conditions in the capital and credit markets have negatively affected levels of business and consumer spending, heightening concerns about the likelihood of a global recession and potential default of various national bonds and debt backed by individual countries. Such developments, as well as the policies impacting these, could adversely affect our financial results. In particular, the economic disruption caused by COVID-19 has led to reduced demand in some of our customers' optical communications product portfolios and significant volatility in global stock markets and currency exchange rates. Uncertainty about worldwide economic conditions poses a risk as businesses may further reduce or postpone spending in response to reduced budgets, tight credit, negative financial news and declines in income or asset values, which could adversely affect our business, financial condition and operating results and increase the volatility of our share price. In addition, our ability to access capital markets may be restricted, which could have an impact on our ability to react to changing economic and business conditions and could also adversely affect our business, financial condition and operating results.

Inflation has also risen globally to historically high levels. If the inflation rate continues to increase, the costs of labor and other expenses could also increase. There is no assurance that our revenues will increase at the same rate to maintain the same level of profitability. Inflation and government efforts to combat inflation, such as raising the benchmark interest rate, could increase market volatility and have an adverse effect on the financial market and global economy. In addition, we expect that disruptions in our supply chain and fluctuations in the availability of parts and materials will continue to have a significant impact on our ability to generate revenue, despite strong demand from our customers. Such adverse conditions could negatively impact demand for our products, which could adversely affect our business, financial condition and operating results.

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

The loan agreements for our long-term and short-term debt obligations contain financial ratio covenants that may limit management's discretion with respect to certain business matters. These covenants require us to maintain a specified maximum total leverage ratio, minimum 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.

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. However, we operate in a market 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.

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 short-term investments as of September 29, 2023 are primarily investments in a fixed income portfolio, including liquidity funds, certificates of deposit and time deposits, corporate debt securities, and U.S. agency and U.S. Treasury 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 short-term investments with a maturity in excess of three years.

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 September 29, 2023, we did not record any impairment charges associated with our portfolio of short-term investments, 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.

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

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

Intellectual Property and Cybersecurity Risks

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

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

Despite our implementation of security measures, our systems are vulnerable to damage caused by 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 disruption, cyber-attack or other security breach results in a loss or damage to our data or inappropriate disclosure of confidential information, our business could be harmed. In addition, we may be required to incur significant costs to protect against damage caused by these disruptions or security breaches in the future.

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

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

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

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

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

Tax, Compliance and Regulatory Risks

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

We are subject to income and other taxes in Thailand, the PRC, the U.K., the U.S. and Israel. Our effective income tax rate, provision for income taxes and future tax liability could be adversely affected by numerous factors, including the results of tax audits and examinations, income before taxes being lower than anticipated in countries with lower statutory tax rates and higher than anticipated in countries with higher statutory tax rates, changes in income tax rates, changes in the valuation of deferred tax assets and liabilities, failure to meet obligations with respect to tax exemptions, and changes in tax laws and regulations. From time to time, we engage in discussions and negotiations with tax authorities regarding tax matters in various jurisdictions. As of September 29, 2023, our U.S. federal and state tax returns remain open to examination for the tax years 2018 through 2021. In addition, tax returns that remain open to examination in Thailand, the PRC, the U.K. and Israel range from the tax years 2016 through 2022. The results of audits and examinations of previously filed tax returns and continuing assessments of our tax exposures may have an adverse effect on our provision for income taxes and tax liability.

We base our tax position upon the anticipated nature and conduct of our business and upon our understanding of the tax laws of the various countries in which we have assets or conduct activities. However, our tax position is subject to review and possible challenge by tax authorities and to possible changes in law, which may have retroactive effect. Fabrinet (the “Cayman Islands Parent”) is an exempted company incorporated in the Cayman Islands. We maintain manufacturing operations in Thailand, the PRC, the U.S. and Israel. We cannot determine in advance the extent to which some jurisdictions may require us to pay taxes or make payments in lieu of taxes. Under the current laws of the Cayman Islands, we are not subject to tax in the Cayman Islands on income or capital gains until March 6, 2039.

Preferential tax treatment from the Thai government in the form of a corporate tax exemption on income generated from projects to manufacture certain products at our Chonburi campus is available to us through June 2026. Similar preferential tax treatment was available to us through June 2020 with respect to products manufactured at our Pinehurst campus. After June 2020, 50% of our income generated from products manufactured at our Pinehurst campus will be exempted from tax through June 2025. New preferential tax treatment is available to us for products manufactured at our Chonburi campus Building 9, where income generated will be tax exempt through 2031, capped at our actual investment amount. Such preferential tax treatment is contingent on various factors, including the export of our customers’ products out of Thailand and our agreement not to move our manufacturing facilities out of our current province in Thailand for at least 15 years from the date on which preferential tax treatment was granted. We will lose this favorable tax treatment in Thailand unless we comply with these restrictions, and as a result we may delay or forego certain strategic business decisions due to these tax considerations.

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

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

Several governments are considering tax reform proposals that, if enacted, could increase our tax expense. The Organization for Economic Co-operation and Development (OECD) announced that it has reached agreement among its member countries to implement Pillar Two rules, a global minimum tax at 15% for certain multinational enterprises. Some countries have issued laws and regulations to conform to this regime. More countries are expected to follow. We will continue to monitor legislative and regulatory developments to assess the impact on our business, financial condition and operating results.

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

The Sarbanes-Oxley Act of 2002, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, as well as other rules implemented by the SEC and the New York Stock Exchange (“NYSE”), impose various requirements on public companies, including requiring changes in corporate governance practices. These and proposed corporate governance laws and regulations under consideration may further increase our compliance costs. If compliance with these various legal and regulatory requirements diverts our management’s attention from other business concerns, it could have a material adverse effect on our business, financial condition and operating results. The Sarbanes-Oxley Act requires, among other things, that we assess the effectiveness of our internal control over financial reporting annually and disclosure controls and procedures quarterly. While we were able to assert in our Annual Report on Form 10-K that our internal control over financial reporting was effective as of June 30, 2023, we cannot predict the outcome of our testing in future periods. If we are unable to assert in any future reporting periods that our internal control over financial reporting is effective (or if our independent registered public accounting firm is unable to express an opinion on the effectiveness of our internal controls), we could lose investor confidence in the accuracy and completeness of our financial reports, which would have an adverse effect on our share price.

Given the nature and complexity of our business and the fact that some members of our management team are located in Thailand while others are located in the U.S., control deficiencies may periodically occur. While we have ongoing measures and procedures to prevent and remedy control deficiencies, if they occur there can be no assurance that we will be successful or that we will be able to prevent material weaknesses or significant deficiencies in our internal control over financial reporting in the future. Moreover, if we identify deficiencies in our internal control over financial reporting that are deemed to be material weaknesses in future periods, the market price of our ordinary shares could decline and we could be subject to potential delisting by the NYSE and review by the NYSE, the SEC, or other regulatory authorities, which would require us to expend 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.

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 and 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: ISO 9001 for Manufacturing Quality Management Systems; ISO 14001 for Environmental Management Systems; TL 9000 for Telecommunications Industry Quality Certification; IATF 16949 for Automotive Industry Quality Certification; ISO 13485 for Medical Devices Industry Quality Certification; AS 9100 for Aerospace Industry Quality Certification; NADCAP (National Aerospace and Defense Contractors Accreditation Program) for Quality Assurance throughout the Aerospace and Defense Industries; ISO 45001 for Occupational Health and Safety Management Systems; and ISO 22301 for Business Continuity Management Systems. We also maintain compliance with various additional standards imposed by the FDA with respect to the manufacture of medical devices.

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

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

The sale and manufacturing of products in certain states and countries may subject us to environmental laws and regulations. In addition, rules adopted by the SEC implementing the Dodd- Frank Wall Street Reform and Consumer Protection Act of 2010 impose diligence and disclosure requirements regarding the use of “conflict minerals” mined from the Democratic Republic of Congo and adjoining countries in the products we manufacture for our customers. Compliance with these rules has resulted in additional cost and expense, including for due diligence to determine and verify the sources of any conflict minerals used in the products we manufacture, and may result in additional costs of remediation and other changes to processes or

sources of supply as a consequence of such verification activities. These rules may also affect the sourcing and availability of minerals used in the products we manufacture, as there may be only a limited number of suppliers offering “conflict free” metals that can be used in the products we manufacture for our customers.

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

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. 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 and could also impair our ability in the future to offer our ordinary shares or convertible securities as a source of additional capital and/or as consideration in the acquisition of other businesses.

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

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

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

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

Based upon estimates of the value of our assets, which are based in part on the trading price of our ordinary shares, we do not expect to be a passive foreign investment company (“PFIC”) for U.S. federal income tax purposes for the taxable year 2023 or for the foreseeable future. However, despite our expectations, we cannot guarantee that we will not become a PFIC for the taxable year 2023 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 become a PFIC, our U.S. investors will be subject to increased tax liabilities under U.S. tax laws and regulations as well as burdensome reporting requirements.

Our business and share price could be negatively affected as a result of activist shareholders.

If an activist investor takes an ownership position in our ordinary shares, responding to actions by such activist shareholder could be costly and time-consuming, disrupt our operations and divert the attention of management and our employees. Additionally, perceived uncertainties as to our future direction as a result of shareholder activism or changes to the composition of our board of directors may lead to the perception of a change in the direction of our business or other instability, which may be exploited by our competitors, cause concern to our current or potential customers, and make it more difficult to attract and retain qualified personnel. If customers choose to delay, defer or reduce transactions with us or do business with our competitors instead of us because of any such issues, then our business, financial condition and operating results would be adversely affected. In addition, our share price could experience periods of increased volatility as a result of shareholder activism.

Certain provisions in our constitutional documents may discourage our acquisition by a third party, which could limit our shareholders' 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 our shareholders of an opportunity to sell their ordinary shares at a premium over prevailing market prices by discouraging third parties from seeking to acquire control of us in a tender offer or similar transaction.

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

Our corporate affairs are governed by our amended and restated memorandum and articles of association (“MOA”), by the Companies Law (as amended) of the Cayman Islands and the common law of the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under the laws of the Cayman Islands are not as clearly established under statutes or judicial precedent as in jurisdictions in the U.S. Therefore, our shareholders may have more difficulty in protecting their interests than would shareholders of a corporation incorporated in a jurisdiction in the U.S., 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 is unlikely to succeed unless there is evidence of fraud, bad faith or collusion.

If the arrangement and reconstruction is thus approved, the dissenting shareholder would have no rights comparable to appraisal rights, which would otherwise ordinarily be available to dissenting shareholders of a corporation incorporated in a

jurisdiction in the U.S., providing rights to receive payment in cash for the judicially determined value of the shares. This may make it more difficult for our shareholders to assess the value of any consideration they may receive in a merger or consolidation or to require that the offeror give them additional consideration if they believe the consideration offered is insufficient.

Shareholders of Cayman Islands exempted companies have no general rights under Cayman Islands law to inspect corporate records and accounts or to obtain copies of lists of shareholders. Our directors have discretion under our MOA to determine whether or not, and under what conditions, our corporate records may be inspected by our shareholders, but are not obliged to make them available to our shareholders. This may make it more difficult for our shareholders 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 U.S. Given our domicile and the location of our assets, it may be difficult to enforce in U.S. courts judgments obtained against us in U.S. courts based on the civil liability provisions of the U.S. federal securities laws. 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 predicated upon the civil liability provisions of the securities laws of the U.S. 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 predicated upon the securities laws of the U.S. or any state.

General Risks

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

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

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

The following table summarizes share repurchase activity for the three months ended September 29, 2023:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased As Part of Publicly Announced Program (1)	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Program (1)
July 1, 2023 – July 28, 2023	—	\$ —	—	\$ 52,434,440
July 29, 2023 – August 25, 2023	—	\$ —	—	\$ 100,000,000
August 26, 2023 – September 29, 2023	—	\$ —	—	\$ 100,000,000
Total	—	—	—	—

(1) On August 18, 2017, we announced that our board of directors had approved a share repurchase program to permit us to repurchase up to \$30.0 million worth of our issued and outstanding ordinary shares in the open market in accordance with applicable rules and regulations, including pursuant to pre-set trading plans adopted in accordance with Rule 10b5-1 under the Exchange Act of 1934. In February 2018, May 2019, August 2020, August 2022, and August 2023, we announced that our board of directors approved increases of \$30.0 million, \$50.0 million, \$58.5 million, \$78.7 million, and \$47.6 million, respectively, to the original share repurchase authorization, bringing the aggregate authorization to \$294.8 million. The repurchased shares will be held as treasury stock. Our share repurchase program does not have an expiration date. During the three months ended September 29, 2023, repurchases under our share repurchase program were made in accordance with Rule 10b-18, including pursuant to a pre-set trading plan adopted in accordance with Rule 10b5-1. During the three months ended September 29, 2023, there was no shares repurchases. As of September 29, 2023, we had a remaining authorization to repurchase up to \$100.0 million worth of our ordinary shares.

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

ITEM 5. OTHER INFORMATION

Securities Trading Plans of Directors and Executive Officers

During our last fiscal quarter, no director or officer, as defined in Rule 16a-1(f), adopted or terminated a "Rule 10b5-1 trading arrangement" or a "non-Rule 10b5-1 trading arrangement," each as defined in Regulation S-K Item 408.

ITEM 6. EXHIBITS

<u>Exhibit Number</u>	<u>Description</u>	<u>Incorporated by reference herein</u>		
		<u>Form</u>	<u>Exhibit No.</u>	<u>Filing Date</u>
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	Inline XBRL Instance			
101.SCH	Inline XBRL Taxonomy Extension Schema			
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase			
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase			
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase			
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase			
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)			

CERTIFICATION

I, Seamus Grady, 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: November 7, 2023

/s/ SEAMUS GRADY

Seamus Grady

Chief Executive Officer (Principal Executive Officer)

CERTIFICATION

I, Csaba Sverha, 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: November 7, 2023

/s/ CSABA SVERHA

Csaba Sverha

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, Seamus Grady, 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 September 29, 2023 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: November 7, 2023

By: /s/ SEAMUS GRADY
Name: Seamus Grady
Title: Chief Executive Officer (Principal Executive Officer)

I, Csaba Sverha, 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 September 29, 2023 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: November 7, 2023

By: /s/ CSABA SVERHA
Name: Csaba Sverha
Title: Executive Vice President, Chief Financial Officer (Principal Financial and Accounting Officer)