

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

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended June 28, 2019

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 (Cayman) Limited
190 Elgin Avenue
George Town
Grand Cayman
Cayman Islands

8(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:

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (\$229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit 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 Act). Yes No

As of December 28, 2018, the last business day of the registrant's most recently completed second fiscal quarter, shares held by non-affiliates of the registrant had an aggregate market value of approximately \$1.9 billion, based on the closing price for the registrant's ordinary shares as reported on the New York Stock Exchange on such date.

As of August 12, 2019, the registrant had 36,858,545 ordinary shares, \$0.01 par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement relating to its 2019 Annual Meeting of Shareholders are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated. Such proxy statement will be filed with the U.S. Securities and Exchange Commission within 120 days after the end of the fiscal year to which this report relates.

FABRINET
ANNUAL REPORT ON FORM 10-K
For the Fiscal Year Ended June 28, 2019

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PART I

ITEM 1. BUSINESS.

Overview

We provide advanced optical packaging and precision optical, electro-mechanical and electronic manufacturing services to original equipment manufacturers (“OEMs”) of complex products such as optical communication components, modules and sub-systems, industrial lasers, automotive components, 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. Although we focus primarily on low-volume production of a wide variety of high complexity products, which we refer to as “low-volume, high-mix,” we also have the capability to accommodate high-volume production. Based on our experience with and positive feedback from our customers, we believe we are a global leader in providing these services to the optical communications, industrial lasers and automotive markets.

Our customer base includes companies in complex industries that require advanced precision manufacturing capabilities, such as optical communications, industrial lasers, automotive and sensors. Our customers in these industries support a growing number of end-markets, including automotive, biotechnology, communications, materials processing, medical devices, metrology and semiconductor processing. Our total revenues for the year ended June 28, 2019 (“fiscal year 2019”) increased by \$212.4 million, or 15.5%, from \$1.37 billion for the year ended June 29, 2018 (“fiscal year 2018”) to \$1.58 billion for fiscal year 2019. Our revenues from lasers, sensors and other markets as a percentage of total revenues decreased from 27.1% in fiscal year 2018 to 25.2% in fiscal year 2019, while our revenues from optical communications products as a percentage of total revenues increased from 72.9% in fiscal year 2018 to 74.8% in fiscal year 2019.

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

- optical communications devices, such as:
 - selective switching products, such as reconfigurable optical add-drop multiplexers (“ROADMs”), optical amplifiers, modulators and other optical components and modules that collectively enable network managers to route voice, video and data communications traffic through fiber optic cables at various wavelengths, speeds, and over various distances;
 - tunable lasers, transceivers, and transponders that eliminate, at a significant cost savings to the service provider, the need to stock individual fixed wavelength optical transceivers and transponders used in voice and data communications networks; and
 - active optical cables providing high-speed interconnect capabilities for data centers and computing clusters, as well as Infiniband, Ethernet, fiber channel and optical backplane connectivity;
- solid state, diode-pumped, gas and fiber lasers (collectively referred to as “industrial lasers”) used across a broad array of industries, including semiconductor processing (wafer inspection, wafer dicing, wafer scribing), biotechnology and medical device (DNA sequencing, flow cytometry, hematology, antibody detection), metrology (instrumentation, calibration, inspection), and material processing (metal, polymer, textile drilling and cutting, annealing, marking, engraving, and welding); and
- sensors, including differential pressure, micro-gyro, fuel and other sensors that are used in automobiles, and non-contact temperature measurement sensors for the medical industry.

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

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

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

As of June 28, 2019, our facilities comprised approximately 2.0 million total square feet, including approximately 0.2 million square feet of office space and approximately 1.8 million square feet devoted to manufacturing and related activities, of which approximately 0.8 million square feet are clean room facilities. Of the aggregate square footage of our facilities, approximately 1.5 million square feet are located in Thailand and the remaining balance is located in the People’s Republic of China (“PRC” or “China”), the United Kingdom, the United States and the Cayman Islands. See Part I, Item 2. Properties of this Annual Report on Form 10-K.

Industry Background

Optical Communications

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

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

Industrial Lasers, Sensors and Others

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

- industrial laser applications across a growing number of end-markets, particularly in semiconductor processing, biotechnology, metrology and materials processing;
- precision, non-contact and low power requirement sensors, particularly in automotive, medical and industrial end-markets; and
- lower cost products used on both enterprise and consumer levels.

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

Our Competitive Strengths

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

- ***Advanced Optical and Electro-Mechanical Manufacturing Technologies:*** We believe that our optical and electro-mechanical process technologies and capabilities, coupled with our customized optics and glass technologies, provide us with a key competitive advantage. These technologies include:
 - advanced optical and precision packaging;
 - reliability and environmental testing;
 - optical and mechanical material and process analysis;
 - precision optical fiber and electro-mechanical assembly;
 - complex printed circuit board assembly;
 - customized software tools for low-volume, high-mix manufacturing;
 - turn-key manufacturing systems;
 - fiber metallization and lensing;
 - fiber handling and fiber alignment;
 - crystal growth and processing;
 - precision lapping and polishing;
 - precision glass drawing; and
 - optical coating.
- ***Efficient, Flexible and Low Cost Process Engineering and Manufacturing Platform:*** We enable our customers to transition their production to an efficient and flexible manufacturing platform that is specialized for the production of optics and similarly complex products and is located in a low-cost geography. We believe our advanced manufacturing technologies, coupled with our broad engineering

capabilities, give us the ability to identify opportunities to improve our customers' manufacturing processes and provide meaningful production cost benefits. We have also developed a series of customized software tools that we believe provide us with a specialized ability to manage the unique aspects of low-volume, high-mix production.

- **Customizable Factory-Within-a-Factory Production Environment:** We offer our customers exclusive engineering teams and manufacturing space for production. We call this concept of segregating production by customer a "factory-within-a-factory." We believe our approach maximizes intellectual property protection and provides greater opportunities to reduce cost and improve time to market for our customers' products.
- **Vertical Integration Targeting Customized Optics and Glass:** We believe our capabilities in the design and fabrication of high-value customized optics and glass are complementary to our manufacturing services. Specifically, these capabilities enable us to strategically align our business to our customers' needs by streamlining our customers' product development process and reducing the number of suppliers in our customers' manufacturing supply chains. Also, we use these customized optics and glass products in certain of the components, modules and subsystems we manufacture, which enables us to shorten time to market and reduce the cost for our customers. We believe this level of vertical integration positions us to capitalize on further opportunities to cross-sell our design and fabrication capabilities.
- **Turn-Key Supply Chain Management:** We have created a proprietary set of automated manufacturing resource planning tools designed specifically to address the unique inventory management demands of "low-volume, high-mix" manufacturing. Over the years, we have developed strong relationships with thousands of suppliers and implemented inventory management strategies with many of them, which enables us to obtain inventory on an as-needed basis and provide on-site stocking programs. We believe our deep expertise, relationships and capabilities in supply chain and materials management often allows us to further reduce costs and cycle times for our customers.

Our Growth Strategy

The key elements of our growth strategy are to:

- **Strengthen Our Presence in the Optical Communications Market:** We believe we are a leader in manufacturing products for the optical communications market. The optical communications market is growing rapidly, driven by the growth in demand for increased network bandwidth and penetration from core to metro networks and data center infrastructures. We believe this trend will continue to increase the demand for the products that we manufacture and the services we provide. We continue to invest resources in advanced manufacturing process and optical packaging technologies to support the manufacture of the next generation of complex optical products.
- **Leverage Our Technology and Manufacturing Capabilities to Continue to Diversify Our End-Markets:** We intend to use our technological strengths in precision optical and electro-mechanical manufacturing, advanced packaging and process design engineering to continue our diversification into industrial lasers, medical, sensors, and other select markets that require similar capabilities.
- **Continue to Extend Our Customized Optics and Glass Vertical Integration:** We will continue to extend our vertical integration into customized optics and glass in order to gain greater access to key components used in the complex products we manufacture as well as to continue our diversification into new markets. We believe our customized optics and glass capabilities are highly complementary to our optical and electro-mechanical manufacturing services, and we intend to continue to market these products to our existing manufacturing services customers. In addition, we intend to continue our focus on customized optics and glass through further investment into research and development, as well as through potential acquisitions in what remains a highly fragmented market.

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- **Evaluate Potential Strategic Alternatives such as Acquisitions and Joint Ventures:** We will continue to evaluate opportunities to further expand our manufacturing capabilities and diversify our end-markets through the evaluation of various acquisition and joint venture opportunities around the globe.
- **Broaden Our Client Base Geographically:** Our manufacturing services are incorporated into products that are distributed in markets worldwide, but we intend to further build out our client base in strategic regions. We intend to focus on expanding our client base in Europe, Asia-Pacific, the Middle East and the United States. We believe these regions have a large and robust optics market, as well as a need for advanced manufacturing services in other growth markets, and would benefit from our precision optical and electromechanical manufacturing services.
- **Establish New Product Introduction (“NPI”) Centers to Generate and Transfer New Business to Thailand:** We established Fabrinet West, Inc. as an NPI center in the heart of Silicon Valley. Fabrinet West, Inc. serves as our business development arm with emphasis on new business generation and eventual transfer to Thailand after NPI. Equipped with state-of-the-art surface mount and advanced optical packaging technologies and infrastructure, and with close proximity to a large portion of our customer base, this center helps to accelerate customer NPI and provides seamless access and future transfer to the low-cost manufacturing base in Thailand.

In March 2018, we began laying the groundwork for a new NPI facility in Israel, where we expect to continue our proven model of providing local NPI services, helping our customers with design for manufacturability, and then transferring those programs to Thailand for volume manufacturing.

Service Offerings

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

Precision Optical, Electro-Mechanical, and Electronic Manufacturing Services

Process Design and Engineering

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

Advanced Optical Packaging

We have a dedicated team of experienced engineers supporting our advanced optical packaging development capabilities. These highly qualified engineers work closely with our customers to understand the development requirements of their new products and assist them to build prototypes, as well as source materials, optimize manufacturing processes and develop schedules to bring these products to volume production. We maintain a real-time roadmap for the packaging requirements of our customers and the industry in general. Our advanced packaging team develops and maintains generic recipes that are readily available to be tailored and refined for the specific new applications of our customers, which helps to further accelerate prototype development and product delivery time.

Printed Circuit Board Assembly and Test

Printed circuit board assembly involves attaching electronic components, such as integrated circuits, capacitors, receivers, transceivers and other components and modules to printed circuit boards. We employ a

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

Dedicated New Product Introduction

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

Qualifications

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

Continuous Improvement and Optimization

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

Supply Chain and Inventory Management

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

Quality Control

We believe the integration of our manufacturing and test controls, quality systems, and software platforms contribute significantly to our ability to deliver high-quality products on a consistent basis and reduce the risk that we will be required to repair or replace defective products. Our manufacturing execution system ("MES") is

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directly integrated with our test system and enterprise resource planning (“ERP”) database allowing us to respond to any process deviations in real time. We work with customers to develop product-specific test strategies. We also provide a variety of test management services, including material and process testing and reliability testing. In addition to providing yield, manufacturing data tracking and other information, our data tracking system also performs process route checking to ensure that the products follow correct process steps, and the test results meet all specified criteria. Our test capabilities include traditional PCBA testing, mechanical testing and optical testing, which includes parametric testing, such as insertion loss, return loss and extinction ratio, and functional testing (e.g., bit error ratio).

Customized Glass and Crystal Optics Fabrication

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

- *Fiber Optic Ferrules and Alignment Sleeves; Fiber Optic Substrates; Precision Glass Tubing, Precision Capillaries and Rods:* These single bore and multi-bore products, in various shapes and dimensions, are used principally in optical communications, medical and industrial applications.
- *Laser Optics:* Includes crystals (such as YVO4, Nd: YVO4, Cr: YAG, and BBO), optics, high reflectivity mirrors, lenses, prisms and windows used in laser applications.
- *Medical Optics:* Includes mirrors, lenses, filters, waveplates, windows, and prisms incorporated into various medical equipment products.
- *Storage Optics:* Includes mirrors, polarizing beam splitters or PBS, and waveplates incorporated into optical storage products.
- *Surveying Optics:* Includes penta prisms, corner cubes, and T-Windows incorporated into precision surveying products.
- *Telecom Optics:* Includes lenses (such as spherical, a-spherical, C-lens, and cylindrical), waveplates, mirrors, prisms, filters and YVO4 crystals used for telecommunications applications.
- *Telecommunication Subassemblies:* Includes fiber pigtailed (both single and dual), assemblies and collimators used in many fiber optic components such as isolators, circulators, optical switches and three-port filters.

Technology

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

- *Advanced Optical Packaging:* We have extensive experience in developing manufacturing processes and performing value engineering to improve our customers’ product performance, quality, reliability and manufacturing yields. In many cases, we partner with our customers to develop custom manufacturing solutions for their optics products.
- *Reliability Testing:* Our reliability laboratory enables us to test the degree to which our results and specifications conform to our customers’ requirements. Through the reliability laboratory, we are able to perform most of the tests required by industry standards, including damp heat, thermal aging, thermal shock, temperature cycling, shock and vibration, accelerated life testing and stress screening. The reliability laboratory is critical to verification of root cause failure analysis.

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- *Optical and Mechanical Material and Process Analysis:* Our in-house material and process laboratory analyzes materials to support incoming inspection, process development, process monitoring, failure analysis and verification of compliance with the applicable environmental standards.
- *Precision Optical Fiber and Electro-Mechanical Assembly:* We have extensive experience in precision optical and electro-mechanical assemblies in clean room environments, clean room control discipline, cleaning technologies and electro-static discharge (“ESD”) protection.
- *Fiber Metallization and Lensing:* We use our fiber metallization and fiber lensing capabilities to assist our customers in packaging their products. Many optical component package designs require metallized fiber and some designs also require lensing at the tip of the fiber. We have in-house capabilities that enable us to produce these products at a low cost, with short lead times and high quality.
- *Fiber Handling and Fiber Alignment:* The technique with which optical fiber is handled can have a significant impact on the functionality and reliability of optics products due to the risk of damage or flaws introduced to the fiber surface or micro-cracks to the core of the fiber, which may impact alignment or signal quality, among other things. We have implemented a number of processes, techniques, and best practices to avoid stressing or otherwise damaging fiber during stripping, cleaving and connectorization. Such techniques are also designed to achieve optimal alignment of fiber in the shortest period of time during these processes.
- *Optical Testing:* We have the capability to perform parametric and functional tests for a wide variety of optical devices. In many cases, we are also able to help our customers develop their own proprietary software and test fixtures.
- *Crystal Growth and Processing:* Our crystal growth technology produces non-linear optical crystals and crystals used in laser applications. Our processing capabilities include dicing, grinding, polishing and inspection with high dimension, tolerance and surface quality.
- *Precision Glass Drawing:* We have developed the specialized capabilities necessary to draw precision structures within tight tolerances using borosilicate, clear fused quartz and synthetic fused silica glass. Using these processes, we produce customized rectangular and circular glass tubes and rods in various configurations and with multiple bores that are accurately drawn in precise locations within the tubing. These tubes can be sliced into thin wafers for use in various applications, such as ultra-filtration of bacteria, micro-organism counting, and identification of organisms and substances. These tubes can also be cut into larger lengths to produce ferrules and sleeves for use in fiber optic communications components.
- *Optical Coating:* We provide a wide variety of coating from simple single layer anti-reflection coatings to complex multi-layer stacks. The types of coating we provide include anti-reflection, partial reflection and high reflection.

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

Customers, Sales and Marketing

The optical communications market we serve is highly concentrated. Therefore, we expect a significant percentage of our total revenues will continue to come from a small number of customers. During fiscal years

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2019 and 2018, we had one customer, Lumentum Operations LLC, that contributed 10% or more of our total revenues, with 20% of our total revenues in fiscal year 2019 and 16% in fiscal year 2018.

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

Backlog

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

Suppliers of Raw Materials

Our manufacturing operations use a wide variety of optical, semiconductor, mechanical and electronic components, assemblies and raw materials. We generally purchase materials from our suppliers through standard purchase orders, as opposed to long-term supply agreements. We rely on sole-source suppliers for a number of critical materials. Some of these sole-source suppliers are small businesses, which presents risks to us based on their financial health and reliability, which we continually monitor. We have historically experienced supply shortages resulting from various causes, including reduced yields by our suppliers, which have prevented us from manufacturing products for our customers in a timely manner. While we continually undertake programs to strengthen our supply chain, we are experiencing, and expect for the foreseeable future to continue to experience, strain on our supply chain, as well as periodic supplier problems. We have incurred, and expect to continue to incur for the foreseeable future, costs to address these problems.

Quality

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

Our quality management systems help to ensure that the products we provide to our customers meet or exceed industry standards. We maintain the following certifications: 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; and OHSAS 18001 for Occupational Health and Safety Management Systems. We also maintain compliance with various additional standards imposed by the U.S. Food and Drug Administration, or FDA, with respect to the manufacture of medical devices.

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Additionally, we are required to register with the FDA and other regulatory bodies and are subject to continual review and periodic inspection for compliance with various regulations, including testing, quality control and documentation procedures. We hold the following additional certifications: ANSI ESD S20.20 for facilities and manufacturing process control, in compliance with ESD standard; Transported Asset Protection Association, or TAPA, for Logistic Security Management System; and CSR-DIW for Corporate Social Responsibility in Thailand. In the European Union, we are required to maintain certain ISO certifications in order to sell our precision optical, electro-mechanical and electronic manufacturing services and we must undergo periodic inspections by regulatory bodies to obtain and maintain these certifications.

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

Competition

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

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

- our manufacturing technologies and capacity;
- the quality of our manufacturing processes and products;
- our supply chain tools and data management systems;
- our ability to safeguard and protect our customers' intellectual property;
- our engineering and prototyping capabilities;
- our ability to strengthen and broaden our engineering services and know-how to participate in the growth of emerging technologies;
- our ability to deliver on-time;
- our ability to deliver continuous cost improvements; and
- our responsiveness and flexibility.

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

Intellectual Property

Our success depends, in part, on our ability to protect our customers' intellectual property. We license various technologies from our customers on a non-exclusive, royalty-free, non-transferable basis for the sole purpose of allowing us to manufacture products for those customers in accordance with their specifications. We have no rights to disclose, use, sublicense or sell this licensed technology for any other purpose. The duration of

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these licenses is limited to the duration of the underlying supply or manufacturing agreement. To meet the demands of certain customers, we created a factory-within-a-factory manufacturing environment that physically separates the manufacturing sites from one another. Some customers, for example, demand anonymity at our facilities while other customers require additional security measures such as biometric devices to safeguard their segregated manufacturing areas.

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

Environmental Regulation

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

Social Responsibility

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

Corporate Structure

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

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Employees

As of June 28, 2019, we employed approximately 11,670 full-time employees worldwide, including approximately 11,372 employees in manufacturing operations and 298 employees in business development and general and administrative functions. None of our employees are represented by a labor union. We have not experienced any work stoppages, slowdowns, or strikes. We consider our relations with our employees to be positive.

Available Information

Our website is located at www.fabrinet.com. The information posted on our website is not incorporated into this Annual Report on Form 10-K. Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to reports filed or furnished pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, are available free of charge through the “Investors” section of our website as soon as reasonably practicable after we electronically file such material with, or furnish it to, the U.S. Securities and Exchange Commission (“SEC”). The SEC maintains a website at www.sec.gov that contains reports, proxy statements and other information regarding SEC registrants, including Fabrinet.

ITEM 1A. RISK FACTORS

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

Risks Related to Our Business

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

We have depended, and will continue to depend, upon a small number of customers for a significant percentage of our total revenues. During fiscal years 2019 and 2018, we had one customer, Lumentum Operations LLC, that contributed 10% or more of our total revenues, with 20% of our total revenues in fiscal year 2019 and 16% in fiscal year 2018. 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 adverse conditions in the credit markets, continual uncertainty in global economies, the impact of the U.S.-China trade dispute, and the impact of Brexit. Certain of our customers have gone out of business, declared bankruptcy, been acquired, or announced their withdrawal from segments of the optics market. We generate significant accounts payable and inventory for the services that we provide to our customers, which could expose us to substantial and potentially unrecoverable costs if we do not receive payment from our customers.

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, Cisco entered into an agreement in July 2019 to acquire Acacia Communications, Lumentum Holdings Inc. completed its acquisition of Oclaro, Inc. in December 2018, and II-VI Incorporated entered into an agreement in November 2018 to acquire Finisar Corporation. In some cases, consolidation among our customers has led to a reduction in demand for our services as customers acquired the capacity to manufacture products in-house.

Consolidation among our customers and their customers will continue to adversely affect our business, financial condition and operating results in several ways. Consolidation among our customers and their

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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 74.8% and 72.9% of our total revenues for fiscal year 2019 and fiscal year 2018, 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 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 quarterly and annual revenues, gross profit margins, and operating results to fluctuate from period to period:

- our ability to acquire new customers and retain our existing customers by delivering superior quality and customer service;
- the cyclicity of the optical communications market, as well as the industrial lasers, medical and sensors markets;
- competition;
- our ability to achieve favorable pricing for our services;
- the effect of fluctuations in foreign currency exchange rates;
- our ability to manage our headcount and other costs; and
- changes in the relative mix in our revenues.

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

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

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

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

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

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

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

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

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

We provide manufacturing services to companies, and rely on suppliers, that have in the past and may in the future experience financial difficulty, particularly in light of uncertainty in the credit markets and the overall economy that affected access to capital and liquidity. As a result, we devote significant resources to monitor receivables and inventory balances with certain of our customers. If our customers experience financial difficulty, we could have difficulty recovering amounts owed to us from these customers, or demand for our services from these customers could decline. For example, in July 2014, one of our customers filed for bankruptcy protection under the Local Trade Court in France; although the bankruptcy of this customer did not have a significant effect on our consolidated financial statements, the same may not be the case if a significant customer were to file for bankruptcy protection in the future. As another example, another customer temporarily ceased operations in December 2018 and is currently on a payment plan with us. We have not recorded any impairment charges related to this customer but are continuing to monitor its situation. 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.

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 March 29, 2019, we experienced a \$3.1 million foreign exchange loss, which negatively affected our net income per share for the same period by \$0.08.

Our customer contracts generally require that our customers pay us in U.S. dollars. However, the majority of our payroll and other operating expenses are paid in Thai baht. As a result of these arrangements, we have

significant exposure to changes in the exchange rate between the Thai baht and the U.S. dollar, and our operating results are adversely impacted when the U.S. dollar depreciates relative to the Thai baht and other currencies. We have experienced such depreciation in the U.S. dollar as compared with the Thai baht, and our results have been adversely impacted by this fluctuation in exchange rates. As of June 28, 2019, the U.S. dollar had depreciated approximately 9.5% against the Thai baht since June 30, 2017. Further, while we attempt to hedge against certain exchange rate risks, we typically enter into hedging contracts with maturities of up to 12 months, leaving us exposed to longer term changes in exchange rates.

Also, we have significant exposure to changes in the exchange rate between the Chinese Renminbi (“RMB”) and pound sterling (“GBP”) and the U.S. dollar. The expenses of our subsidiaries located in the PRC and the United Kingdom are denominated in RMB and GBP, respectively. Currently, RMB are convertible in connection with trade- and service-related foreign exchange transactions, foreign debt service, and payment of dividends. The PRC government may at its discretion restrict access in the future to foreign currencies for current account transactions. If this occurs, our PRC subsidiary may not be able to pay us dividends in U.S. dollars without prior approval from the PRC State Administration of Foreign Exchange. In addition, conversion of RMB for most capital account items, including direct investments, is still subject to government approval in the PRC. This restriction may limit our ability to invest the earnings of our PRC subsidiary. As of June 28, 2019, the U.S. dollar had depreciated approximately 0.6% against the RMB since June 30, 2017. 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 June 28, 2019, the U.S. dollar had appreciated approximately 2.7% against the GBP since June 30, 2017. Any appreciation in the value of the RMB and GBP against the U.S. dollar could negatively impact our operating results.

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

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

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

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

Managing our inventory is complex. We are generally required to procure material based upon the anticipated demand of our customers. The inaccuracy of these forecasts or estimates could result in excess supply or shortages of certain materials. Inventory that is not used or expected to be used as and when planned may become excess or obsolete. Generally, we are unable to use most of the materials purchased for one of our

customers to manufacture products for any of our other customers. Additionally, we could experience reduced or delayed product shipments or incur additional inventory write-downs and cancellation charges or penalties, which would increase costs and could harm our business, financial condition and operating results. While our agreements with customers are structured to mitigate our risks related to excess or obsolete inventory, enforcement of these provisions may result in material expense, and delay in payment for inventory. If any of our significant customers becomes unable or unwilling to purchase inventory or does not agree to such contractual provisions in the future, our business, financial condition and operating results may be harmed.

We conduct operations in a number of countries, which creates logistical and communications challenges for us and exposes us to other risks 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. Total revenues from the bill-to-location of customers outside of North America accounted for 52.3%, 53.1%, and 53.4% of our total revenues for fiscal year 2019, fiscal year 2018 and fiscal year 2017, respectively. We expect that total revenues from the bill-to-location of customers outside of North America will continue to account for a significant portion of our total revenues. Our customers also depend on international sales, which further exposes us to the risks associated with international operations. Conducting business outside the United States subjects us to a number of additional 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's 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, in early 2018, the U.S. Department of Commerce prohibited the export and sale of a broad category of U.S. products, as well as the provision of services, to ZTE Corporation, and in 2019, 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
- potential political, legal and economic instability, foreign conflicts, 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, the United Kingdom and the United States that may limit our business opportunities. Various countries regulate the import of certain technologies and have enacted laws 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, in May 2019, the U.S. Commerce Department's Bureau of Industry and Security (BIS) added Huawei and certain affiliates to the BIS Entity List. This action denied Huawei the ability to purchase products, software and technology that are subject to U.S. Export Administration Regulations (EAR). Although we do not sell directly to Huawei, some of our customers do sell to Huawei directly. To ensure compliance, some of our customers immediately suspended shipments to Huawei in order to begin assessments of the products they sold to Huawei (and its affiliates), to determine whether these products were subject to the restrictions resulting from the ban. This had an immediate impact on our customer orders in the fourth quarter of fiscal 2019, which affected our revenue for the 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 result.

The U.S. Presidential Administration recently imposed tariffs on a wide-range of products and goods manufactured in China that are directly or indirectly imported into the United States, and it has announced plans to impose additional tariffs on products and goods manufactured in China. In response, various countries and economic regions have announced plans or intentions to impose retaliatory tariffs on a wide-range of products they import from the United States. These newly imposed, announced and threatened U.S. tariffs and retaliatory tariffs could have the effect of increasing 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. The institution of trade tariffs both globally and between the U.S. and China specifically could also cause a decrease in the sales of our customers' products to end users located in China, 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.

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

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

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

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

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

We most recently expanded our manufacturing capacity by building a new facility in Chonburi, Thailand, which was completed in March 2017. We may continue to devote significant resources to the expansion of our manufacturing capacity, and any such expansion will be expensive, will require management's time and may disrupt our operations. In the event we are unsuccessful in our attempts to expand our manufacturing capacity, our business, financial condition and operating results could be harmed.

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

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

The majority of our assets and manufacturing operations are located in Thailand. Therefore, political, social, business and economic conditions in Thailand have a significant effect on our business. In March 2019, Thailand was assessed as a medium-high overall risk by AON Political Risk, a risk management, insurance and consulting firm. Any changes to tax regimes, laws, exchange controls or political action in Thailand may harm our business, financial condition and operating results.

Thailand has a history of political unrest that includes the involvement of the military as an active participant in the ruling government. In recent years, political unrest in the country has sparked political demonstrations and, in some instances, violence. In March 2019, Thailand held its first general election since the Thai military took over the government in a coup in May 2014. In June 2019, General Prayut Chan-o-cha was elected as Prime Minister, and in July 2019, the new Prime Minister's nominees for cabinet ministers were appointed. Any future political instability in the Kingdom of 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.

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

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

We anticipate that we will continue to invest in our customized optics manufacturing facilities located in Fuzhou, China. Because these operations are located in the PRC, they are subject to greater political, legal and economic risks than the geographies in which the facilities of many of our competitors and customers are located. In particular, the political and economic climate in the PRC (both at national and regional levels) is fluid and unpredictable. In March 2019, AON Political Risk assessed the PRC as a medium overall risk. A large part of the PRC's economy is still being operated under varying degrees of control by the PRC government. By imposing industrial policies and other economic measures, such as control of foreign exchange, taxation, import and export tariffs, environmental regulations, land use rights, intellectual property and restrictions on foreign participation in the domestic market of various industries, the PRC government exerts considerable direct and indirect influence on the development of the PRC economy. Many of the economic reforms carried out by the PRC government are unprecedented or experimental and are expected to change further. Any changes to the political, legal or economic climate in the PRC could harm our business, financial condition and operating results.

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

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

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

of the U.S. and world financial markets also could increase the volatility of the market price of our ordinary shares and may limit the capital resources available to us, our customers and our suppliers.

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.

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

Volatility and disruption in the capital and credit markets, depressed consumer confidence, and negative global economic conditions have affected levels of business and consumer spending. Concerns about the potential default of various national bonds and debt backed by individual countries as well as the politics impacting these, could negatively impact the U.S. and global economies and adversely affect our financial results. In particular, Brexit and economic uncertainty in Europe has led to reduced demand in some of our customers' optical communications product portfolios. Brexit could also lead to economic and legal uncertainty, including significant volatility in global stock markets and currency exchange rates, and increasingly divergent laws and regulations as the United Kingdom determines which European Union laws to replace or replicate. Any of these effects of Brexit, among others, could adversely affect our financial results.

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.

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

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yield assumptions and quality metrics used in calculating the price of a product, we may not be able to recover the costs associated with our failure to do so. Consequently, our operating results and profitability may be harmed.

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

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

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

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

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

As a manufacturer of products for the optics industry, we are required to meet certain certification standards, including the following: ISO9001 for Manufacturing Quality Management Systems; ISO14001 for Environmental Management Systems; TL9000 for Telecommunications Industry Quality Certification; IATF16949 for Automotive Industry Quality Certification; ISO13485 for Medical Devices Industry Quality Certification; AS9100 for Aerospace Industry Quality Certification; NADCAP (National Aerospace and Defense Contractors Accreditation Program) for Quality Assurance throughout the Aerospace and Defense Industries; and OHSAS18001 for Occupational Health and Safety Management Systems. We also maintain compliance with various additional standards imposed by the U.S. Food and Drug Administration, or FDA, with respect to the manufacture of medical devices.

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

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

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

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

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

limited number of suppliers offering “conflict free” metals that can be used in the products we manufacture for our customers.

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

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

We are subject to income and other taxes in Thailand, the PRC, the United Kingdom and the United States. Our effective income tax rate, provision for income taxes and future tax liability could be adversely affected by numerous factors, including the results of tax audits and examinations, income before taxes being lower than anticipated in countries with lower statutory tax rates and higher than anticipated in countries with higher statutory tax rates, changes in income tax rates, changes in the valuation of deferred tax assets and liabilities, failure to meet obligations with respect to tax exemptions, and changes in tax laws and regulations. Our U.S. federal and state tax returns remain open to examination for the tax years 2014 through 2017. In addition, tax returns that remain open to examination in Thailand, the PRC and the United Kingdom range from the tax years 2013 through 2018. The results of audits and examinations of previously filed tax returns and continuing assessments of our tax exposures may have an adverse effect on our provision for income taxes and tax liability.

We base our tax position upon the anticipated nature and conduct of our business and upon our understanding of the tax laws of the various countries in which we have assets or conduct activities. However, our tax position is subject to review and possible challenge by tax authorities and to possible changes in law, which may have retroactive effect. Fabrinet (the “Cayman Islands Parent”) is an exempted company incorporated in the Cayman Islands. We maintain manufacturing operations in Thailand, the PRC, the United Kingdom and the United States. We cannot determine in advance the extent to which some jurisdictions may require us to pay taxes or make payments in lieu of taxes. 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 is also currently available to us through June 2020 and June 2026 on income generated from projects to manufacture certain products at our Pinehurst campus and Chonburi campus, respectively. Such preferential tax treatment is contingent on various factors, including the export of our customers’ products out of Thailand and our agreement not to move our manufacturing facilities out of our current province in Thailand for at least 15 years from the date on which preferential tax treatment was granted (i.e., at least until June 2020 in the case of our Pinehurst campus and until June 2026 in the case of our Chonburi campus). 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.

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

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

- the integration of the acquired assets, information systems and facilities into our business may be difficult, time-consuming and costly, and may adversely impact our profitability;
- we may lose key employees of the acquired companies or divisions;
- we may issue additional ordinary shares, which would dilute our current shareholders' percentage ownership in us;
- we may incur indebtedness to pay for the transactions;
- we may assume liabilities, some of which may be unknown at the time of the transactions;
- we may record goodwill and non-amortizable intangible assets that will be subject to impairment testing and potential periodic impairment charges;
- we may incur amortization expenses related to certain intangible assets;
- we may devote significant resources to transactions that may not ultimately yield anticipated benefits;
- we may incur greater than expected expenses or lower than expected revenues;
- we may assume obligations with respect to regulatory requirements, including environmental regulations, which may prove more burdensome than expected; or
- we may become subject to litigation.

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

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

We anticipate that our current cash and cash equivalents, together with cash provided by operating activities and funds available through our working capital and credit facilities, will be sufficient to meet our current and anticipated needs for general corporate purposes for at least the next 12 months. 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.

The phase-out of the London Interbank Offered Rate (“LIBOR”) could affect interest rates under our existing credit facility agreement, as well as our ability to seek future debt financing.

LIBOR is the basic rate of interest used in lending between banks on the London interbank market and is widely used as a reference for setting the interest rates on loans globally. We generally use LIBOR as a reference rate to calculate interest rates under our credit facility agreement (“Facility Agreement”). In 2017, the United Kingdom’s Financial Conduct Authority, which regulates LIBOR, announced that it intends to phase out LIBOR by the end of 2021. It is unclear if LIBOR will cease to exist at that time or if new methods of calculating LIBOR will be established such that it continues to exist after 2021. The U.S. Federal Reserve, in conjunction with the Alternative Reference Rates Committee, a steering committee comprised of large U.S. financial institutions, is considering replacing U.S. dollar LIBOR with a new index, the Secured Overnight Financing Rate (“SOFR”), calculated using short-term repurchase agreements backed by Treasury securities. Whether or not SOFR, or another alternative reference rate, attains market traction as a LIBOR replacement tool remains in question. If LIBOR ceases to exist, we will need to agree upon a replacement index with the banks under our Facility Agreement, and certain of the interest rates under our Facility Agreement may change. The new rates may not be as favorable to us as those in effect prior to any LIBOR phase-out. In addition, the transition process may involve, among other things, increased volatility or illiquidity in markets for instruments that currently rely on LIBOR. The transition may also result in reductions in the value of certain instruments or the effectiveness of related transactions such as hedges, increased borrowing costs, uncertainty under applicable documentation, or difficult and costly consent processes. Any such effects of the transition away from LIBOR, as well as other unforeseen effects, may result in expenses, difficulties, complications or delays in connection with future financing efforts, which could have a material adverse impact on our business, financial condition and results of operations.

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

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

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

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

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

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

The Sarbanes-Oxley Act of 2002, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, as well as other rules implemented by the SEC and the New York Stock Exchange ("NYSE"), impose various requirements on public companies, including requiring changes in corporate governance practices. These and proposed corporate governance laws and regulations under consideration may further increase our compliance costs. If compliance with these various legal and regulatory requirements diverts our management's attention from other business concerns, it could have a material adverse effect on our business, financial condition and operating results. The Sarbanes-Oxley Act requires, among other things, that we assess the effectiveness of our internal control over financial reporting annually and disclosure controls and procedures quarterly. While we are able to assert in this Annual Report on Form 10-K that our internal control over financial reporting was effective as of June 28, 2019, we cannot predict the outcome of our testing in future periods. If we are unable to assert in any future reporting periods that our internal control over financial reporting is effective (or if our independent registered public accounting firm is unable to express an opinion on the effectiveness of our internal controls), we could lose investor confidence in the accuracy and completeness of our financial reports, which would have an adverse effect on our share price.

Given the nature and complexity of our business and the fact that some members of our management team are located in Thailand while others are located in the United States, control deficiencies may periodically occur. For example, following an internal investigation by the Audit Committee of our board of directors in September 2014 concerning various accounting cut-off issues, we identified certain significant deficiencies in our internal control over financial reporting, which have been remediated. While we have ongoing measures and procedures to prevent and remedy control deficiencies, if they occur there can be no assurance that we will be successful or that we will be able to prevent material weaknesses or significant deficiencies in our internal control over financial reporting in the future. Moreover, if we identify deficiencies in our internal control over financial reporting that are deemed to be material weaknesses in future periods, the market price of our ordinary shares could decline and we could be subject to potential delisting by the NYSE and review by the NYSE, the SEC, or other regulatory authorities, which would require the expenditure by us of additional financial and management resources. As a result, our shareholders could lose confidence in our financial reporting, which would harm our business and the market price of our ordinary shares.

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

The preparation of financial statements in accordance with U.S. GAAP involves making estimates, judgments and assumptions that affect reported amounts of assets (including goodwill and 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.

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.

Our business 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.

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 June 28, 2019 are primarily investments in a fixed income portfolio, including certificates of deposit, time deposits, corporate bonds and commercial papers, U.S. agency and U.S. Treasury securities, and sovereign and municipal securities. Our investment portfolio may become impaired by deterioration of the capital markets. We follow an established investment policy and set of guidelines to monitor and help mitigate our exposure to interest rate and credit risk. The policy sets forth credit quality standards and limits our exposure to any one issuer, as well as our maximum exposure to various asset classes. The policy also provides that we may not invest in short-term investments with a maturity in excess of three years.

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

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Should financial market conditions worsen, investments in some financial instruments may pose risks arising from market liquidity and credit concerns. In addition, any deterioration of the capital markets could cause our other income and expense to vary from expectations. As of June 28, 2019, we did not record any impairment charges associated with our investment 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.

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

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

Risks Related to Ownership of Our Ordinary Shares

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

Our revenues, expenses and results of operations have fluctuated in the past and are likely to do so in the future from quarter to quarter and year to year due to the risk factors described in this section and elsewhere in this Annual Report on Form 10-K. In addition to market and industry factors, the price and trading volume of our ordinary shares may fluctuate in response to a number of events and factors relating to us, our competitors, our customers and the markets we serve, many of which are beyond our control. Factors such as variations in our total revenues, earnings and cash flow, announcements of new investments or acquisitions, changes in our pricing practices or those of our competitors, commencement or outcome of litigation, sales of ordinary shares by us or our principal shareholders, fluctuations in market prices for our services and general market conditions could cause the market price of our ordinary shares to change substantially. Any of these factors may result in large and sudden changes in the volume and price at which our ordinary shares trade. Among other things, volatility and weakness in our share price could mean that investors may not be able to sell their shares at or above the prices they paid. Volatility and weakness could also impair our ability in the future to offer our ordinary shares or convertible securities as a source of additional capital and/or as consideration in the acquisition of other businesses.

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

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

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

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

Based upon estimates of the value of our assets, which are based in part on the trading price of our ordinary shares, we do not expect to be a passive foreign investment company, or PFIC, for U.S. federal income tax purposes for the taxable year 2019 or for the foreseeable future. However, despite our expectations, we cannot assure you that we will not be a PFIC for the taxable year 2019 or any future year because our PFIC status is determined at the end of each year and depends on the composition of our income and assets during such year. If we are a PFIC, our U.S. investors will be subject to increased tax liabilities under U.S. tax laws and regulations and to burdensome reporting requirements.

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

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

- establish a classified board of directors;
- prohibit our shareholders from calling meetings or acting by written consent in lieu of a meeting;
- limit the ability of our shareholders to propose actions at duly convened meetings; and
- authorize our board of directors, without action by our shareholders, to issue preferred shares and additional ordinary shares.

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

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

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

The Companies Law permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. Dissenting shareholders have the right to be

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paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

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

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

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

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

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

Certain judgments obtained against us by our shareholders may not be enforceable.

The Cayman Islands Parent is a Cayman Islands exempted company and substantially all of our assets are located outside of the United States. Given our domicile and the location of our assets, it may be difficult to enforce in U.S. courts judgments obtained in U.S. courts based on the civil liability provisions of the U.S. federal securities laws against us. 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 United States or any state. In particular, a judgment in a U.S. court would not be recognized and accepted by Thai courts without a re-trial or examination of the merits of the case. In addition, there is uncertainty as to whether such Cayman Islands, Thai or PRC courts would be competent to hear original actions brought in the Cayman Islands, Thailand or the PRC against us predicated upon the securities laws of the United States or any state.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

Not applicable.

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ITEM 2. PROPERTIES.

Our principal registered office is located at c/o Intertrust Corporate Services (Cayman) Limited, 190 Elgin Avenue, George Town, Grand Cayman, KYI-9005, Cayman Islands. We have facilities located in Thailand, the PRC, the United States, the United Kingdom and the Cayman Islands that are used for manufacturing and/or general administration purposes. The following table presents the approximate square footage of our principal facilities as of June 28, 2019:

<u>Location</u>	<u>Owned/Leased</u>	<u>Approximate Square Footage</u>
Pinehurst Campus, Bangkok, Thailand	Owned	1,028,000 square feet
Hemaraj Campus, Chonburi, Thailand	Owned	517,000 square feet
Fuzhou, Fujian, PRC	Leased ⁽¹⁾	300,000 square feet
Santa Clara, California, United States	Owned	72,000 square feet
Wiltshire, United Kingdom	Leased ⁽²⁾	71,000 square feet
Mountain Lakes, New Jersey, United States	Leased ⁽³⁾	28,000 square feet
Grand Cayman, Cayman Islands	Leased ⁽⁴⁾	1,700 square feet

⁽¹⁾ Buildings located at this facility have lease terms that expire on various dates: September 30, 2020, March 31, 2021, or September 30, 2023.

⁽²⁾ Leased until August 31, 2023.

⁽³⁾ Leased until June 30, 2020.

⁽⁴⁾ Leased until January 31, 2022.

ITEM 3. LEGAL PROCEEDINGS.

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

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

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

Our ordinary shares are listed on the New York Stock Exchange under the symbol “FN”.

Holders of Record

As of August 12, 2019, there were approximately 6 shareholders of record of our ordinary shares. Because many of our ordinary shares are held by brokers and other institutions on behalf of shareholders, we are unable to estimate the total number of shareholders represented by these record holders.

Dividends

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

Sales of Unregistered Securities

None.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

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, at such time and such prices as management may decide. In February 2018 and May 2019, we announced that our board of directors approved increases of \$30.0 million and \$50.0 million, respectively, to the original share repurchase authorization, bringing the aggregate authorization to \$110.0 million. The repurchased shares will be held as treasury stock. During the year ended June 28, 2019, 100,000 shares were repurchased under the program, at an average price per share of \$53.78, for an aggregate purchase price of \$5.4 million. As of June 28, 2019, we had a remaining authorization to purchase up to an additional \$62.2 million worth of our ordinary shares.

The following table summarizes share repurchase activity for the three months ended June 28, 2019:

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid Per Share</u>	<u>Total Number of Shares Purchased As Part of Publicly Announced Program</u>	<u>Maximum Approximate Dollar Value of Shares That May Yet Be Purchased Under the Program</u>
March 30, 2019 – April 26, 2019	—	\$ —	—	\$ 12,220,607
April 27, 2019 – May 24, 2019	—	\$ —	—	\$ 62,220,607
May 25, 2019 – June 28, 2019	—	\$ —	—	\$ 62,220,607
Total	—	\$ —	—	\$ 62,220,607

Equity Compensation Plan Information

The equity compensation plan information required by this item, which includes a summary of the number of outstanding equity awards granted to employees and directors, as well as the number of securities remaining

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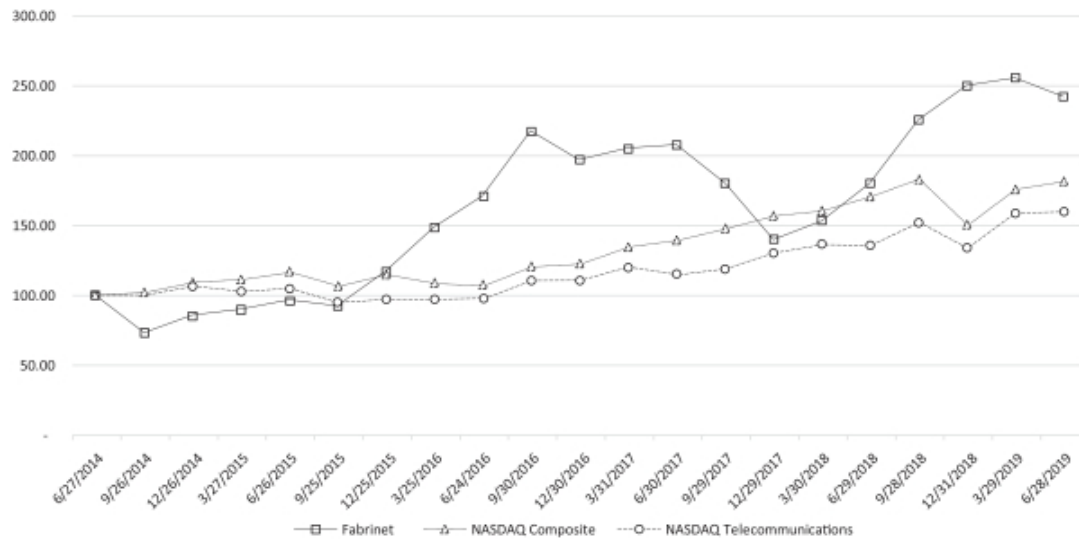
available for future issuance, under our equity compensation plans as of June 28, 2019, is incorporated by reference to our Proxy Statement for our 2019 Annual Meeting of Shareholders to be filed with the SEC within 120 days after the end of our fiscal year ended June 28, 2019.

Five-Year Performance Graph

The following performance graph shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities under that Section, and shall not be deemed to be incorporated by reference into any filing of Fabrinet under the Securities Act of 1933, as amended, or the Exchange Act.

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

The graph assumes that \$100 was invested in Fabrinet’s ordinary shares and in each of the indices discussed above on June 27, 2014, and that all dividends were reinvested. Historic stock performance is not necessarily indicative of future stock price performance.



ITEM 6. SELECTED FINANCIAL DATA.

The selected consolidated financial data presented below should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and the related notes included elsewhere in this Annual Report on Form 10-K. The selected financial data set forth below as of June 28, 2019 and June 29, 2018, and for the fiscal years ended June 28, 2019, June 29, 2018 and June 30, 2017 are derived from the audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K. The selected financial data as of June 30, 2017, June 24, 2016 and June 26, 2015, and for the fiscal years ended June 30, 2017, June 24, 2016 and June 26, 2015 are derived from the audited consolidated financial statements not included in this Annual Report on Form 10-K. No retrospective accounting changes have impacted the periods presented. Each of the fiscal years in the table below consisted of 52 weeks,

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except fiscal year 2017, which consisted of 53 weeks. The results presented below are not necessarily indicative of financial results to be achieved in future periods.

	Years Ended				
	June 28, 2019 (fiscal year 2019)	June 29, 2018 (fiscal year 2018)	June 30, 2017 (fiscal year 2017)	June 24, 2016 (fiscal year 2016)	June 26, 2015 (fiscal year 2015)
<i>(amount in thousands, except per share data)</i>					
Selected Consolidated Statements of Operations Data:					
Revenues	\$ 1,584,335	\$ 1,371,925	\$ 1,420,490	\$ 976,747	\$ 773,587
Cost of revenues	(1,405,111)	(1,218,513)	(1,249,030)	(857,224)	(685,814)
Gross profit	179,224	153,412	171,460	119,523	87,773
Selling, general and administrative expenses	(55,067)	(57,812)	(65,626)	(49,753)	(39,460)
Other income related to flooding, net	—	—	—	36	—
Expenses related to reduction in workforce	(1,516)	(1,776)	—	—	(1,153)
Operating income	122,641	93,824	105,834	69,806	47,160
Interest income	6,699	3,925	1,977	1,535	1,253
Interest expense	(5,381)	(3,606)	(3,321)	(1,569)	(616)
Foreign exchange gain (loss), net	1,406	(6,587)	(1,142)	(1,916)	(19)
Other income (expense)	868	473	509	376	(152)
Income before income taxes	126,233	88,029	103,857	68,232	47,626
Income tax expense	(5,278)	(3,862)	(6,742)	(6,335)	(3,984)
Net income	120,955	84,167	97,115	61,897	43,642
Other comprehensive (loss) income, net of tax	(1,129)	(909)	(939)	635	(44)
Net comprehensive income	\$ 119,826	\$ 83,258	\$ 96,176	\$ 62,532	\$ 43,598
Earnings per share:					
Basic	\$ 3.29	\$ 2.26	\$ 2.63	\$ 1.73	\$ 1.23
Diluted	\$ 3.23	\$ 2.21	\$ 2.57	\$ 1.68	\$ 1.21
Weighted average number of ordinary shares outstanding (thousands of shares):					
Basic	36,798	37,257	36,927	35,857	35,354
Diluted	37,415	38,035	37,852	36,872	35,984

	As of				
	June 28, 2019	June 29, 2018	June 30, 2017	June 24, 2016	June 26, 2015
<i>(amount in thousands)</i>					
Selected Consolidated Balance Sheet Data:					
Cash and cash equivalents	\$ 180,839	\$ 158,102	\$ 133,825	\$ 142,804	\$ 112,978
Short-term investments	\$ 256,493	\$ 174,269	\$ 151,450	\$ 141,709	\$ 142,866
Restricted cash in connection with business acquisition	\$ —	\$ 3,331	\$ 3,312	\$ —	\$ —
Working capital ⁽¹⁾	\$ 296,597	\$ 284,440	\$ 287,752	\$ 205,592	\$ 150,246
Total assets	\$ 1,255,318	\$ 1,088,018	\$ 1,033,075	\$ 855,857	\$ 672,503
Current and long-term debt	\$ 60,938	\$ 64,188	\$ 71,103	\$ 60,407	\$ 40,500
Total liabilities	\$ 392,219	\$ 347,079	\$ 351,501	\$ 301,438	\$ 193,559
Total shareholders' equity	\$ 863,099	\$ 740,939	\$ 681,574	\$ 554,419	\$ 478,944

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

	Years Ended				
	June 28, 2019	June 29, 2018	June 30, 2017	June 24, 2016	June 26, 2015
<i>(amount in thousands)</i>					
Selected Consolidated Statements of Cash Flow Data:					
Net cash provided by operating activities	\$ 147,394	\$ 138,080	\$ 70,934	\$ 47,088	\$ 52,629
Net cash used in investing activities	\$ (98,067)	\$ (58,649)	\$ (90,556)	\$ (39,603)	\$ (195,499)
Net cash (used in) provided by financing activities	\$ (23,223)	\$ (54,106)	\$ 13,432	\$ 22,862	\$ 22,537
Net increase (decrease) in cash, cash equivalents and restricted cash	\$ 26,104	\$ 25,325	\$ (6,190)	\$ 30,347	\$ (120,333)

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

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

- our goals and strategies;
- our and our customers’ estimates regarding future revenues, operating results, expenses, capital requirements and liquidity;
- our expectation that the portion of our future revenues attributable to customers in regions outside of North America will increase compared with the portion of those revenues for fiscal year 2019;
- 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 2020 selling, general and administrative (“SG&A”) expenses will increase compared to our fiscal year 2019 SG&A expenses;
- our expectation that our employee costs will increase in Thailand and the People’s Republic of China (“PRC”), including as a result of a recent change in labor protection law in Thailand that increases the required severance payment compensation for employees with 20 or more years of service;
- our future capital expenditures and our needs for additional financing;
- the expansion of our manufacturing capacity, including into new geographies;
- the growth rates of our existing markets and potential new markets;
- our ability, and the ability of our customers and suppliers, to respond successfully to technological or industry developments;
- our suppliers’ estimates regarding future costs;
- our ability to increase our penetration of existing markets and to penetrate new markets;
- our plans to diversify our sources of revenues;
- our plans to execute acquisitions;
- trends in the optical communications, industrial lasers, and sensors markets, including trends to outsource the production of components used in those markets;
- our ability to attract and retain a qualified management team and other qualified personnel and advisors; and
- competition in our existing and new markets.

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

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uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements. “We,” “us” and “our” 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, industrial lasers, automotive components, 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. Although we focus primarily on low-volume production of a wide variety of high complexity products, which we refer to as “low-volume, high-mix,” we also have the capability to accommodate high-volume production. Based on our experience with and positive feedback from our customers, we believe we are a global leader in providing these services to the optical communications, industrial lasers and automotive markets.

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

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

Fiscal years

We utilize a 52-53 week fiscal year ending on the Friday in June closest to June 30. Fiscal year 2019 ended on June 28, 2019 and consisted of 52 weeks. Fiscal year 2018 ended on June 29, 2018 and consisted of 52 weeks. Fiscal year 2017 ended on June 30, 2017 and consisted of 53 weeks.

Revenues

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

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

	Years Ended		
	June 28, 2019	June 29, 2018	June 30, 2017
Lumentum Operations LLC	20%	16%	17%

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

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

On June 30, 2018, we adopted Revenue from Contracts with Customers (Topic 606), which created Accounting Standards Codification Topic 606 (“ASC 606”), using the modified retrospective method applied to those contracts which were not completed as of June 29, 2018. The modified retrospective method requires us to recognize the cumulative effect of the adoption of ASC 606, for all contracts with customers, to the opening balance of equity at June 30, 2018. Accordingly, our comparative financial information as of June 29, 2018 has not been adjusted and continues to be reported under ASC 605, Revenue Recognition (“ASC 605”).

In accordance with the new revenue standard requirements, the impact of adoption of ASC 606 on our consolidated statements of operations and comprehensive income for the year ended June 28, 2019 was as follows:

Consolidated Statement of Operations and Comprehensive Income
For the Year Ended June 28, 2019

<i>(amount in thousands)</i>	Impact of Adopting ASC 606		
	As Reported	Adjustment	Balance without ASC 606 Adoption
Revenues	\$ 1,584,335	\$ (2,560) ⁽¹⁾	\$ 1,581,775
Cost of revenues	\$(1,405,111)	\$ 1,745 ⁽²⁾	\$ (1,403,366)
Gross profit	\$ 179,224	\$ (815) ⁽³⁾	\$ 178,409
Net income	\$ 120,955	\$ (825) ⁽³⁾	\$ 120,130
Earnings per share			
Basic	\$ 3.29	\$ (0.02)	\$ 3.27
Diluted	\$ 3.23	\$ (0.02)	\$ 3.21

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- (1) Adjustment relates to certain manufacturing contracts with vendor-managed inventory arrangements for which revenue was recognized at shipping.
- (2) Adjustment relates to costs associated with revenue recognized.
- (3) Adjustment relates to net impact on net income upon adoption of ASC 606.

Revenues by Geography

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

The percentage of our revenues generated from a bill-to-location outside of North America decreased from 53.1% in fiscal year 2018 to 52.3% in fiscal year 2019, which was partially due to a decrease in sales to our customers in Europe by 1.4%. 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 of North America will increase as compared with the portion of revenues attributable to such customers during fiscal year 2019.

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

	Years Ended		
	June 28, 2019	June 29, 2018	June 30, 2017
North America	47.7%	46.9%	46.6%
Asia-Pacific	38.4	37.8	38.0
Europe	13.9	15.3	15.4
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Our Contracts

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

During fiscal years 2019, 2018 and 2017, discretionary merit-based bonus awards were made to our non-executive employees. Charges included in cost of revenues for bonus awards to non-executive employees were \$3.9 million, \$3.5 million and \$3.2 million for fiscal years 2019, 2018 and 2017, respectively.

Share-based compensation expense included in cost of revenues was \$5.7 million, \$6.8 million and \$5.3 million for fiscal years 2019, 2018 and 2017, respectively.

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 2020, we expect our SG&A expenses will increase compared with our fiscal year 2019 SG&A expenses.

The compensation committee of our board of directors approved a fiscal year 2019 executive incentive plan with quantitative objectives based solely on achieving certain revenue targets and non-U.S. GAAP gross margin targets for fiscal year 2019. Bonuses under the fiscal year 2019 executive incentive plan are payable after the end of fiscal year 2019. In fiscal year 2018, the compensation committee approved a fiscal year 2018 executive incentive plan with quantitative objectives that were based solely on achieving certain revenue targets and non-U.S. GAAP gross margin targets for fiscal year 2018. Because we did not achieve the targets under our fiscal year 2018 executive incentive plan, no bonuses were paid under such plan. Discretionary merit-based bonus awards are also available to our non-executive employees and payable on a quarterly basis.

Charges included in SG&A expenses for bonus distributions to non-executive and executive employees were \$3.7 million, \$0.5 million and \$4.4 million for fiscal years 2019, 2018 and 2017, respectively.

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Share-based compensation expense included in SG&A expenses was \$11.5 million, \$15.8 million and \$21.2 million for fiscal years 2019, 2018 and 2017, respectively.

Additional Financial Disclosures

Foreign Exchange

As a result of our international operations, we are exposed to foreign exchange risk arising from various currency exposures primarily with respect to the Thai baht. Although a majority of our total revenues is denominated in U.S. dollars, a substantial portion of our payroll plus certain other operating expenses are incurred and paid in Thai baht. The exchange 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 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 option contracts generally have maturities of up to 12 months. All foreign currency exchange contracts are recognized in the consolidated balance sheets at fair value. Gain or loss on our forward and option contracts generally offset the assets, liabilities, and transactions economically hedged.

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

(amount in thousands, except percentages)	As of June 28, 2019			As of June 29, 2018		
	Foreign Currency	\$	%	Foreign Currency	\$	%
Assets						
Thai baht	664,860	\$ 21,628	60.0	980,778	\$ 29,568	60.7
RMB	53,393	7,767	21.5	18,455	2,789	5.7
GBP	5,270	6,682	18.5	12,514	16,392	33.6
Total		<u>\$ 36,077</u>	<u>100.0</u>		<u>\$ 48,749</u>	<u>100.0</u>
Liabilities						
Thai baht	1,961,972	\$ 63,825	90.0	1,401,473	\$ 42,251	84.5
RMB	26,373	3,836	5.4	19,893	3,007	6.0
GBP	2,598	3,294	4.6	3,615	4,735	9.5
Total		<u>\$ 70,955</u>	<u>100.0</u>		<u>\$ 49,993</u>	<u>100.0</u>

The Thai baht assets represent cash and cash equivalents, trade accounts receivable, deposits and other current assets. The Thai baht liabilities represent trade accounts payable, accrued expenses, income tax payable and other payables. We manage our exposure to fluctuations in foreign exchange rates by the use of foreign currency contracts and offsetting assets and liabilities denominated in the same currency in accordance with management's policy. As of June 28, 2019 there were \$72.0 million of foreign currency forward contracts outstanding on the Thai baht payables. As of June 29, 2018 there were \$7.0 million of foreign currency forward contracts and \$30.0 million of foreign currency option 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 and other payables. As of June 28, 2019 and June 29, 2018, we did not have any derivative contracts denominated in RMB.

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The GBP assets represent cash, trade accounts receivable and other current assets. The GBP liabilities represent trade accounts payable and other payables. As of June 28, 2019 and June 29, 2018, we did not have any derivative contracts denominated in GBP.

For fiscal years 2019 and 2018, we recorded an unrealized gain of \$4.8 million and an unrealized loss of \$1.7 million, respectively, related to derivatives that are not designated as hedging instruments in the consolidated statements of operations and comprehensive income.

Currency Regulation and Dividend Distribution

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

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

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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 is currently available to us through June 2020 and June 2026 on income generated from projects to manufacture certain products at our Pinehurst campus and Chonburi campus, respectively. Such preferential tax treatment is contingent on various factors, including the export of our customers' products out of Thailand and our agreement not to move our manufacturing facilities out of our current province in Thailand for at least 15 years from the date on which preferential tax treatment was granted (i.e., at least until June 2020 in the case of our Pinehurst campus and until June 2026 in the case of our Chonburi campus). Currently, the corporate income tax rate for our Thai subsidiary is 20%.

During fiscal year 2018, one of our subsidiaries in the United States generated taxable income sufficient for the utilization of loss carryforwards due to better operating performance and effective control of operating expenses and management determined that it was more likely than not that future taxable income would be sufficient to allow the benefit of the loss to be realized. As of June 29, 2018, we reversed certain deferred tax assets valuation allowance as management expected it was more likely than not that we would realize profits in subsequent fiscal years so that the loss carryforwards could be partially utilized. Consequently, as of June 28, 2019, we have assessed and set up a partial valuation allowance for the deferred tax assets at the same level as in fiscal year 2018.

The Tax Cuts and Jobs Act ("Tax Reform Act") was enacted on December 22, 2017 and provided for significant changes to U.S. tax law. Among other provisions, the Tax Reform Act reduced the U.S. corporate income tax rate to 21% effective in 2018. Under the Tax Reform Act, our U.S. subsidiaries were subject to an average Federal statutory tax rate of 27.6% for fiscal year 2018. Beginning in July 2019 and effective for fiscal year 2019, our U.S. subsidiaries' corporate income tax rate was 21%.

During fiscal year 2019, we completed our assessment of the income tax effects resulting from the Tax Reform Act and we concluded that no cumulative remeasurement adjustments were required. During fiscal year 2018, we made certain provisional accounting estimates, as permitted under Staff Accounting Bulletin No. 118, to account for the impact of the Tax Reform Act. As of June 29, 2018, we applied the new corporate tax rate to compute our current income tax and remeasured our deferred tax assets and liabilities for all U.S. subsidiaries as of June 29, 2018 to reflect the lower rate expected to apply when these provisional accounting estimates were utilized. The remeasurement resulted in (1) a reduction in current income tax expenses of \$0.1 million and (2) a reduction in deferred tax assets of \$0.4 million.

Critical Accounting Policies and Use of Estimates

We prepare our consolidated financial statements in conformity with U.S. GAAP, which requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities on the date of the consolidated financial statements and the reported amounts of revenues and expenses during the financial reporting period. We continually evaluate these estimates and assumptions based on the most recently available information, our own historical experience and on various other assumptions that we believe to

be reasonable under the circumstances. The evaluation results form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Because the use of estimates is an integral component of the financial reporting process, actual results could differ from those estimates. Some of our accounting policies require higher degrees of judgment than others in their application. We consider the policies discussed below to be critical to an understanding of our consolidated financial statements, as their application places the most significant demands on our management's judgment.

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

Our critical accounting policies and the adoption of new accounting policies are disclosed in Note 2 – Summary of significant accounting policies. There were no changes to our accounting policies other than the adoption of Revenue from Contracts with Customers (Topic 606), which resulted from Accounting Standards Codification Topic 606 ("ASC 606").

Revenue Recognition

On June 30, 2018, we adopted ASC 606 using the modified retrospective method, which was applied to those contracts which were not completed as of June 29, 2018. The modified retrospective method required us to recognize the cumulative effect of the adoption of ASC 606, for all contracts with customers, to the opening balance of equity at June 30, 2018.

We derive total revenues primarily from the assembly of products under supply agreements with our customers and the fabrication of customized optics and glass. We recognize revenue relating to contracts that depict the transfer of promised goods or services to customers in an amount reflecting the consideration to which we expect to be entitled in exchange for such goods or services. In order to meet this requirement, we apply the following five steps: (1) identify the contract with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when a performance obligation is satisfied. Revenue is recognized net of any taxes collected from customers, which is subsequently remitted to governmental authorities.

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer. In contracts with multiple performance obligations, we identify each performance obligation and evaluate whether the performance obligation is distinct within the context of the contract at contract inception. The majority of our contracts have a single performance obligation as the promise to transfer the individual goods or services is not separately identifiable from other promises in the contracts and, therefore, not distinct.

Sales of finished goods

We manufacture products that are customized to customers' specifications; however, control of the products is typically transferred to the customer at the point in time the product is either shipped or delivered, depending on the terms of the arrangement, as the criteria for over time recognition are not met. On evaluation of the contracts, we identified that there were no contractual rights to bill profit for work in progress in the event of a contract termination, which is expected to be infrequent. Further, in limited circumstances, contracts provide for substantive acceptance by the customer, which results in the deferral of revenue until formal notice of acceptance is received from the customer. Judgment may be required in determining if an acceptance clause provides for substantive acceptance.

Certain customers may request us to store finished products at our warehouse where customers bear risks of loss themselves. In these instances, we receive a written request from the customer asking us to hold the inventory at our warehouse and refrain from using the ordered goods to fulfill other customer orders. In these situations, revenue is only recognized when the completed goods are ready for shipment and transferred to our warehouse.

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Customers generally are obligated to purchase finished goods that we have manufactured according to their demand requirements. Materials that are not consumed by customers within a specified period of time, or are no longer required due to a product's cancellation or end-of-life, are typically designated as excess or obsolete inventory under our contracts. Once materials are designated as either excess or obsolete inventory, customers are typically required to purchase such inventory from us even if the customer has chosen to cancel production of the related products. The excess or obsolete inventory is shipped to the customer and revenue is recognized upon shipment.

A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. In determining the net consideration to which we expect to be entitled, we evaluate whether the price is subject to refund or adjustment. We generally do not grant return privileges, except for in the case of defective products during the warranty period. We generally provide a warranty of between one to five years on any given product. These standard warranties are assurance type warranties and do not offer any services in addition to the assurance that the product will continue to work as specified.

The sales price is not considered to be fixed or determinable until all contingencies related to the sale have been resolved. We recognized revenue net of rebates and other similar allowances. Revenues are recognized only if these estimates can be reasonably and reliably determined. We base our estimates on historical results taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Services

We provide services for customers that are related to our manufacturing activities. In many cases, although the nature of work performed is service in nature, revenue is only recognizable on shipping of the product because the customer has specific requirements as to how many items can be shipped at any given point in time, i.e. at point-in-time. The related costs are expensed as incurred.

Long-Lived Assets

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

Allowance for Doubtful Accounts

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

Inventory Valuation

Our inventory is stated at the lower of cost (on a first-in, first-out basis) or market value. Our industry is characterized by rapid technological change, short-term customer commitments, and rapid changes in demand. We make provisions for estimated excess and obsolete inventory based on regular reviews of inventory quantities

on hand on a quarterly basis and the latest forecasts of product demand and production requirements from our customers. If actual market conditions or our customers' product demands are less favorable than those projected, additional provisions may be required. In addition, unanticipated changes in liquidity or the financial positions of our customers or changes in economic conditions may require additional provisions for inventory due to our customers' inability to fulfill their contractual obligations. During fiscal year 2019 and fiscal year 2018, a change of 10% for excess and obsolete materials, based on product demand and production requirements from our customers, would have affected our net income by approximately \$0.2 million and \$0.3 million, respectively.

Deferred Income Taxes

Our deferred income tax assets represent temporary differences between the carrying amount and the tax basis of existing assets and liabilities that will result in deductible and payable amounts in future years, including net operating loss 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. During fiscal year 2018, one of our subsidiaries in the United States generated taxable income sufficient for the utilization of loss carryforwards due to better operating performance and effective control of operating expenses and management determined that it was more likely than not that future taxable income would be sufficient to allow the benefit of the loss to be realized. As of June 29, 2018, we reversed certain deferred tax assets valuation allowance as management expected it was more likely than not that we would realize profits in subsequent fiscal years so that the loss carryforwards could be partially utilized. Consequently, as of June 28, 2019, we have assessed and set up a partial valuation allowance for the deferred tax assets at the same level as in fiscal year 2018.

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

Share-Based Compensation

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

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

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

The exercise price of the options is stated in the option agreements. The expected life of the options involves estimates of the anticipated timing of the exercise of the vested options. The expected volatility is based

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on the historical volatility of our share price. We have applied the U.S. Treasury Bill interest rate with a maturity date similar to the expected life of our options as the risk-free interest rate and assumed a dividend yield for periods when we paid dividends.

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

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

Intangibles

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

Business acquisition

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

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

Goodwill

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

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Results of Operations

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

<i>(amount in thousands)</i>	Years Ended		
	June 28, 2019	June 29, 2018	June 30, 2017
Revenues	\$ 1,584,335	\$ 1,371,925	\$ 1,420,490
Cost of revenues	(1,405,111)	(1,218,513)	(1,249,030)
Gross profit	179,224	153,412	171,460
Selling, general and administrative expenses	(55,067)	(57,812)	(65,626)
Expenses related to reduction in workforce	(1,516)	(1,776)	—
Operating income	122,641	93,824	105,834
Interest income	6,699	3,925	1,977
Interest expense	(5,381)	(3,606)	(3,321)
Foreign exchange gain (loss), net	1,406	(6,587)	(1,142)
Other income, net	868	473	509
Income before income taxes	126,233	88,029	103,857
Income tax expense	(5,278)	(3,862)	(6,742)
Net income	120,955	84,167	97,115
Other comprehensive (loss) income, net of tax	(1,129)	(909)	(939)
Net comprehensive income	\$ 119,826	\$ 83,258	\$ 96,176

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

	Years Ended		
	June 28, 2019	June 29, 2018	June 30, 2017
Revenues	100.0%	100.0%	100.0%
Cost of revenues	(88.7)	(88.8)	(87.9)
Gross profit	11.3	11.2	12.1
Selling, general and administrative expenses	(3.5)	(4.2)	(4.6)
Expenses related to reduction in workforce	(0.1)	(0.1)	—
Operating income	7.7	6.9	7.5
Interest income	0.4	0.3	0.1
Interest expense	(0.3)	(0.3)	(0.2)
Foreign exchange gain (loss), net	0.1	(0.5)	(0.1)
Other income, net	0.0	0.1	0.0
Income before income taxes	7.9	6.5	7.3
Income tax expense	(0.3)	(0.3)	(0.5)
Net income	7.6	6.2	6.8
Other comprehensive (loss) income, net of tax	0.0	(0.1)	(0.1)
Net comprehensive income	7.6%	6.1%	6.7%

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

(amount in thousands)	Years Ended		
	June 28, 2019	June 29, 2018	June 30, 2017
Optical communications	\$ 1,184,936	\$ 1,000,256	\$ 1,108,637
Lasers, sensors, and other	399,399	371,669	311,853
Total	<u>\$ 1,584,335</u>	<u>\$ 1,371,925</u>	<u>\$ 1,420,490</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.

We utilize a 52-53 week fiscal year ending on the Friday in June closest to June 30. Fiscal year 2019 ended on June 28, 2019 and consisted of 52 weeks. Fiscal year 2018 ended on June 29, 2018 and consisted of 52 weeks. Fiscal year 2017 ended on June 30, 2017 and consisted of 53 weeks.

Comparison of Fiscal Year 2019 with Fiscal Year 2018

Total revenues. Our total revenues increased by \$212.4 million, or 15.5%, to \$1.58 billion for fiscal year 2019, compared with \$1.37 billion for fiscal year 2018. This increase was primarily due to an increase in customers' demand for optical communications manufacturing services, particularly telecom manufacturing services, for fiscal year 2019. Revenues from optical communications products represented 74.8% of our total revenues for fiscal year 2019, compared with 72.9% for fiscal year 2018.

Cost of revenues. Our cost of revenues increased by \$186.6 million, or 15.3%, to \$1.41 billion, or 88.7% of total revenues, for fiscal year 2019, compared with \$1.22 billion, or 88.8% of total revenues, for fiscal year 2018. The increase in cost of revenues was primarily due to a proportional increase in sales volume.

Gross profit. Our gross profit increased by \$25.8 million, or 16.8%, to \$179.2 million, or 11.3% of total revenues, for fiscal year 2019, compared with \$153.4 million, or 11.2% of total revenues, for fiscal year 2018. The increase in gross profit percentage in fiscal year 2019 was due to higher revenue and fixed costs leverage.

SG&A expenses. Our SG&A expenses decreased by \$2.7 million, or 4.7%, to \$55.1 million, or 3.5% of total revenues, for fiscal year 2019, compared with \$57.8 million, or 4.2% of total revenues, for fiscal year 2018. Our SG&A expenses decreased during fiscal year 2019, compared with fiscal year 2018, mainly due to (1) a decrease in share-based compensation expenses of \$4.3 million because we did not expect to achieve the pre-defined performance targets for vesting of certain performance-based restricted share units awarded under our 2017 Inducement Equity Incentive Plan and (2) a decrease in executive severance payments of \$2.1 million and a decrease in key executive benefits of \$1.8 million in connection with the transition of the Executive Chairman of our board of directors to non-executive Chairman during fiscal year 2018. The decrease was offset by (1) an increase of \$2.4 million in executive cash bonuses under our fiscal year 2019 executive incentive plan due to our expectation that certain pre-defined revenue targets and non-U.S. GAAP gross margin targets would be achieved; (2) an increase in severance payment of \$1.0 million in connection with non-executive management separations; (3) an increase in public company cost of \$0.6 million; and (4) an increase in severance liability expense of \$0.4 million due to an increase in headcount as well as a change in labor protection law in Thailand that increased the required severance payment compensation for employees with 20 or more years of service from 300 days of wage to 400 days of wage.

Operating income. Our operating income increased by \$28.8 million to \$122.6 million, or 7.7% of total revenues, for fiscal year 2019, compared with \$93.8 million, or 6.9% of total revenues, for fiscal year 2018.

Interest income. Our interest income increased by \$2.8 million to \$6.7 million for fiscal year 2019, compared with \$3.9 million for fiscal year 2018. The increase was primarily due to the higher weighted average

interest rate compared to the same period in the last year and an increase in the average balance of our outstanding cash and cash equivalents and short-term investments.

Interest expense. Our interest expense increased by \$1.8 million to \$5.4 million for fiscal year 2019, compared with \$3.6 million for fiscal year 2018. The increase was due to (1) unrealized loss of \$2.6 million from mark-to-market of interest rate swap related to our term loan; and (2) an increase of \$0.5 million from the increase in the fixed interest rate from interest rate swap. The increase was offset by (1) the amortization and write off of deferred debt issuance costs from loan borrowing paid up in fiscal year 2018 of \$1.0 million; and (2) a decrease in loan commitment fee of \$0.3 million.

Foreign exchange gain (loss), net. We recorded foreign exchange gain, net of \$1.4 million for fiscal year 2019, compared with foreign exchange loss, net of \$6.6 million for fiscal year 2018. The foreign exchange gain for fiscal year 2019 was mainly due to unrealized gain of \$4.8 million for mark-to-market of forward contracts related to hedging of Thai baht spending, compared to unrealized loss of \$2.6 million in fiscal year 2018. Moreover, we recorded realized foreign exchange loss from receipts and payments of \$4.6 million in fiscal year 2018.

Income before income taxes. We recorded income before income taxes of \$126.2 million for fiscal year 2019, compared with \$88.0 million for fiscal year 2018.

Income tax expense. Our provision for income tax reflects an effective tax rate of 4.6% for fiscal year 2019 and 5.0% for fiscal year 2018.

Net income. We recorded net income of \$121.0 million, or 7.6% of total revenues, for fiscal year 2019, compared with net income of \$84.2 million, or 6.2% of total revenues, for fiscal year 2018.

Other comprehensive loss. Our other comprehensive loss increased by \$0.2 million to \$1.1 million for fiscal year 2019 compared with \$0.9 million for fiscal year 2018.

Comparison of Fiscal Year 2018 with Fiscal Year 2017

Total revenues. Our total revenues decreased by \$48.6 million, or 3.4%, to \$1.37 billion for fiscal year 2018, compared with \$1.42 billion for fiscal year 2017. This decrease was primarily due to a decrease in customers' demand for optical communications manufacturing services, particularly telecom manufacturing services, for fiscal year 2018, driven by a slower growth rate in the data center market following a peak year in fiscal year 2017, partially offset by an increase in customers' demand for non-optical communications manufacturing services. Revenues from optical communications products represented 72.9% of our total revenues for fiscal year 2018, compared with 78.0% for fiscal year 2017.

Cost of revenues. Our cost of revenues decreased by \$30.5 million, or 2.4%, to \$1.22 billion, or 88.8% of total revenues, for fiscal year 2018, compared with \$1.25 billion, or 87.9% of total revenues, for fiscal year 2017. The decrease in cost of revenues was primarily due to a proportional decrease in sales volume.

Gross profit. Our gross profit decreased by \$18.0 million, or 10.5%, to \$153.4 million, or 11.2% of total revenues, for fiscal year 2018, compared with \$171.5 million, or 12.1% of total revenues, for fiscal year 2017.

SG&A expenses. Our SG&A expenses decreased by \$7.8 million, or 11.9%, to \$57.8 million, or 4.2% of total revenues, for fiscal year 2018, compared with \$65.6 million, or 4.6% of total revenues, for fiscal year 2017. Our SG&A expenses decreased during fiscal year 2018, compared with fiscal year 2017, mainly due to (1) decreases in incentive-based compensation of \$9.2 million because we did not achieve the targets under our fiscal year 2018 executive incentive plan, and expenses related to merger and acquisition activities of \$1.7 million because we did not acquire any businesses during fiscal year 2018; partially offset by (2) an increase related to a payment of \$2.1 million in severance during fiscal year 2018 to the Executive Chairman of our board of directors in connection with his transition to non-executive Chairman of our board of directors.

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Operating income. Our operating income decreased by \$12.0 million to \$93.8 million, or 6.8% of total revenues, for fiscal year 2018, compared with \$105.8 million, or 7.5% of total revenues, for fiscal year 2017.

Interest income. Our interest income increased by \$1.9 million to \$3.9 million for fiscal year 2018, compared with \$2.0 million for fiscal year 2017. The increase was primarily due to an increase in our average outstanding cash and short-term investments balances and interest rates.

Interest expense. Our interest expense increased by \$0.3 million to \$3.6 million for fiscal year 2018, compared with \$3.3 million for fiscal year 2017. The increase was primarily due to an increase in the average interest rate.

Foreign exchange loss, net. We recorded foreign exchange loss, net of \$6.6 million for fiscal year 2018, compared with \$1.1 million for fiscal year 2017. The increase was primarily due to the fluctuation of the Thai baht and RMB against our functional currency, the U.S. dollar.

Income before income taxes. We recorded income before income taxes of \$88.0 million for fiscal year 2018, compared with \$103.9 million for fiscal year 2017.

Income tax expense. Our provision for income tax reflects an effective tax rate of 5.0% for fiscal year 2018, compared with an effective tax rate of 5.5% for fiscal year 2017. The decrease in income tax expense was primarily due to the fact that we had more income not subject to tax during fiscal year 2018 as compared with fiscal year 2017. The impact from the Tax Cuts and Jobs Act resulted in a reduction in income tax expense of \$0.1 million during fiscal year 2018.

Net income. We recorded net income of \$84.2 million, or 6.2% of total revenues, for fiscal year 2018, compared with net income of \$97.1 million, or 6.8% of total revenues, for fiscal year 2017.

Other comprehensive (loss) income. Our other comprehensive loss remained flat at \$0.9 million, or 0.1% of total revenues for each of fiscal year 2018 and fiscal year 2017.

Liquidity and Capital Resources

Cash Flows and Working Capital

We primarily finance our operations through cash flow from operating activities. As of June 28, 2019 and June 29, 2018, we had cash, cash equivalents, and short-term investments of \$437.3 million and \$332.4 million, respectively, and outstanding debt of \$60.9 million and \$64.2 million, respectively.

Our cash and cash equivalents, which primarily consist of cash on hand, demand deposits and liquid investments with original maturities of three months or less, are placed with banks and other financial institutions. The weighted average interest rate on our cash and cash equivalents for fiscal year 2019, fiscal year 2018 and fiscal year 2017 was 1.9%, 0.8% and 0.6%, 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 fiscal year 2019, we repaid a term loan of \$3.3 million under our Facility Agreement. As of June 28, 2019, we had long-term borrowing of \$60.9 million under our Facility Agreement. We anticipate that our

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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 investments in short-term marketable securities, liquidity funds, certificates of deposit and time deposits of \$256.5 million as of June 28, 2019.

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

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>(amount in thousands)</i>	Years Ended		
	June 28, 2019	June 29, 2018	June 30, 2017
Net cash provided by operating activities	\$ 147,394	\$ 138,080	\$ 70,934
Net cash used in investing activities	\$ (98,067)	\$ (58,649)	\$ (90,556)
Net cash (used in) provided by financing activities	\$ (23,223)	\$ (54,106)	\$ 13,432
Net increase (decrease) in cash, cash equivalents and restricted cash	\$ 26,104	\$ 25,325	\$ (6,190)
Cash, cash equivalents and restricted cash, beginning of period	\$ 161,433	\$ 137,137	\$ 142,804
Cash, cash equivalents and restricted cash, end of period	\$ 188,241	\$ 161,433	\$ 137,137

Operating Activities

Net cash provided by operating activities increased by \$9.3 million, or 6.7%, to \$147.4 million for fiscal year 2019, compared with net cash provided by operating activities of \$138.1 million for fiscal year 2018 due to better working capital management. This increase was due to an increase in net income of \$36.8 million and a decrease in cash paid to settle accounts payable of \$35.3 million. These increases in cash were offset by a decrease in cash receipts related to the timing of collection of trade accounts receivable of \$31.3 million, an increase in gain on exchange rate and fair value of derivative instruments of \$11.2 million, an increase in ending inventories intended for sale in future quarters of \$24.6 million and a decrease in share-based compensation of \$5.4 million.

Net cash provided by operating activities increased by \$67.1 million, or 94.7%, to \$138.1 million for fiscal year 2018, compared with net cash provided by operating activities of \$70.9 million for fiscal year 2017 due to better working capital management. This increase was due to an increase in cash received from trade accounts receivable of \$82.0 million and a decrease in ending inventories of \$34.4 million. These were offset by decreases in net income of \$12.9 million and cash paid to trade accounts payable of \$34.8 million.

Investing Activities

Net cash used in investing activities increased by \$39.4 million, or 67.2 %, to \$98.1 million for fiscal year 2019, compared with net cash used in investing activities of \$58.6 million for fiscal year 2018. The increase was primarily due to a net increase in investment in short-term investments of \$56.0 million, offset by a decrease of \$16.5 million in the purchase of property, plant and equipment and intangible assets.

Net cash used in investing activities decreased by \$31.9 million, or 35.2 %, to \$58.6 million for fiscal year 2018, compared with net cash used in investing activities of \$90.6 million for fiscal year 2017. The decrease was

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primarily due to a decrease of \$34.4 million in the purchase of property, plant and equipment as the construction of our new facility in Chonburi, Thailand was completed in March 2017 and there was no significant purchase of property, plant and equipment during fiscal year 2018, and a decrease of \$9.9 million related to merger and acquisition activities because we did not acquire any businesses during fiscal year 2018. These decreases were offset by a net increase in investment in marketable securities of \$12.9 million.

Financing Activities

Net cash used in financing activities decreased by \$30.9 million, or 57.1%, to \$23.2 million for fiscal year 2019, compared with net cash provided by financing activities of \$54.1 million for fiscal year 2018. This decrease was primarily due to a decrease in cash paid for the repurchase of ordinary shares of \$37.0 million and a decrease in cash paid for long-term loans of \$8.0 million. These were offset by (1) an increase in cash paid for withholding tax related to net share settlement of restricted share units of \$5.1 million, (2) a decrease in cash received from short-term loans from bank of \$5.0 million, and (3) the release of restricted cash in connection with a business acquisition of \$3.5 million.

Net cash used in financing activities increased by \$67.5 million, or 502.8%, to \$54.1 million for fiscal year 2018, compared with net cash provided by financing activities of \$13.4 million for fiscal year 2017. This increase was primarily due to (1) an increase in cash paid for repurchase of ordinary shares of \$42.4 million, (2) a decrease in cash received from short-term loans of \$22.5 million, (3) an increase in cash paid for withholding tax related to net share settlement of restricted share units of \$4.1million, and (4) a decrease in cash received from the issuance of ordinary shares under our employee share option plans of \$4.5 million. These were offset by a decrease in repayment of long-term loans of \$6.9 million.

Contractual Obligations

The following table sets forth certain of our contractual obligations as of June 28, 2019:

(amount in thousands)	Payments Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt obligations	\$60,938	\$ 3,250	\$ 6,500	\$51,188	\$ —
Interest expense obligation ⁽¹⁾	8,563	2,383	4,340	1,840	—
Capital lease obligations	500	398	102	—	—
Operating lease obligations	5,709	1,746	2,561	1,402	—
Severance liabilities ⁽²⁾	15,473	840	2,255	2,260	10,118
Provision for uncertain income tax position	2,100	931	913	256	—
Total	\$93,283	\$ 9,548	\$16,671	\$56,946	\$ 10,118

⁽¹⁾ Interest expense obligation reflects the interest rate on long-term debt obligation as of June 28, 2019. The interest rates ranged between 3.6% and 4.0%. For further discussion of long-term and short-term debt obligations, see Note 15 of our audited consolidated financial statements.

⁽²⁾ Severance liabilities as of June 28, 2019 are determined based on management assumptions. See Note 16 of our audited consolidated financial statements.

As of June 28, 2019, our long-term debt obligations consisted of approximately \$60.9 million outstanding under a loan agreement. The loan prescribes maximum ratios of total leverage and minimum levels of debt service coverage ratios (i.e., earnings before interest expenses and depreciation and amortization plus cash on hand minus short-term debts divided by current portion of long-term debts plus interest expenses). These financial ratio covenants could restrict our ability to incur additional indebtedness and limit our ability to use our cash. Our long-term debt obligation also includes customary events of default.

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As of June 28, 2019, we were in compliance with our long-term loan agreements. Nonetheless, in the event of a default on these loans or a breach of a financial ratio covenant, the lenders may immediately cancel the loan agreements, deem the full amount of the outstanding indebtedness immediately due and payable; charge us interest on a monthly basis on the full amount of the outstanding indebtedness and, if we cannot repay all of our outstanding obligations, sell the assets pledged as collateral for the loans in order to fulfill our obligations to the lenders. We may also be held responsible for any damages and related expenses incurred by the lender as a result of any default.

We entered into the Facility Agreement with a consortium of banks on May 22, 2014, which provided for a \$200.0 million credit line, comprised of a \$150.0 million revolving loan facility and a \$50.0 million delayed draw term loan facility with a maturity date of May 22, 2019. The revolving loan facility contained an accordion feature permitting us to request an increase in the facility up to \$100.0 million subject to customary terms and conditions and provided that no default or event of default exists at the time of request.

On February 26, 2015, we entered into the Second Amendment to the Facility Agreement, which extended the availability period for draws on the term loan facility from May 21, 2015 to July 31, 2015 and allowed us, upon the satisfaction of certain conditions, to designate from time to time one or more of Fabrinet's subsidiaries as borrowers under the Facility Agreement. On July 31, 2015, we entered into the Third Amendment to the Facility Agreement, which extended the availability period for draws on the term loan facility from July 31, 2015 to July 31, 2016. On July 22, 2016, we entered into the Fourth Amendment to the Facility Agreement to change the timing of filing certain financial information with the bank.

On June 4, 2018, we entered into the Fifth Amendment to the Facility Agreement to (1) reduce the revolving commitments thereunder from \$150.0 million to \$25.0 million, (2) extend the termination date of the revolving commitments from May 22, 2019 to June 4, 2023, (3) refinance the then-existing term loan and revolving loans under the Facility Agreement into a \$65.0 million term loan that matures on June 4, 2023, and (4) reduce the applicable interest rate margins and commitment fees. The revolving loan facility contains an accordion feature permitting us to request an increase in the facility up to \$200.0 million subject to customary terms and conditions and provided that no default or event of default exists at the time of request. The revolving loan facility terminates and all amounts outstanding are due and payable in full on June 4, 2023. The principal amount of any drawn term loans must be repaid according to the scheduled quarterly amortization payments, with final payment of all amounts outstanding, plus accrued interest, being due June 4, 2023.

As of June 28, 2019, \$60.9 million of the term loan was outstanding under the Facility Agreement and there were available revolving credit facilities of \$25.0 million.

As of June 28, 2019, we also had certain operating lease arrangements in which the lease payments are calculated using the straight-line method. Our rental expenses under these leases were \$1.9 million, \$1.8 million and \$1.7 million for fiscal year 2019, fiscal year 2018 and fiscal year 2017, respectively.

Capital Expenditures

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

<i>(amount in thousands)</i>	Years Ended		
	June 28, 2019	June 29, 2018	June 30, 2017
Capital expenditures	\$ 20,834	\$ 30,535	\$ 56,194

Our capital expenditures for fiscal year 2019, fiscal year 2018 and fiscal year 2017 principally related to investment in our new facilities in Thailand and the United States. During fiscal year 2019, we purchased additional equipment to continue to support the expansion of our manufacturing facilities in Thailand. During

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fiscal year 2018, we purchased additional equipment to continue to support the expansion of our manufacturing facilities in Thailand and the United Kingdom. During fiscal year 2017, we purchased equipment and entered into an agreement to purchase an additional parcel of land in Chonburi, to support the expansion of our manufacturing operations in Thailand, which was fully paid for during fiscal year 2018. During fiscal year 2020, we expect our capital expenditures to increase compared to fiscal year 2019 mainly related to investment in existing and new manufacturing facilities.

Off-Balance Sheet Commitments and Arrangements

As of June 28, 2019, we had an outstanding standby letter of credit of 6.0 million Euros related to our support of a customer with the transfer of certain manufacturing operations from Berlin, Germany to our facilities in Thailand. As of June 28, 2019, the standby letter of credit was backed by cash collateral of \$7.4 million.

Recent Accounting Pronouncements

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

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

Interest Rate Risk

We had cash, cash equivalents, and short-term investments totaling \$437.3 million, \$332.4 million and \$285.3 million, as of June 28, 2019, June 29, 2018 and June 30, 2017, 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 fiscal year 2019, fiscal year 2018 and fiscal year 2017, our interest income would have decreased by approximately \$0.3 million, \$0.3 million and \$0.3 million, respectively, assuming consistent investment levels.

We also have interest rate risk exposure in movements in interest rates associated with our interest bearing liabilities. The interest bearing liabilities are denominated in U.S. dollars and the interest expense is based on the London Inter-Bank Offered Rate ("LIBOR"), plus an additional margin, depending on the lending institution. If the LIBOR had increased by 100 basis points during fiscal year 2019, fiscal year 2018 and fiscal year 2017, our interest expense would have increased by approximately \$0.6 million, \$0.6 million and \$0.8 million, respectively, assuming consistent borrowing levels.

We therefore entered into an interest rate swap agreement (the "Swap Agreement") to manage this risk and increase the profile of our debt obligation. The terms of the Swap Agreement 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 increase. As we did not designate the Swap Agreement as a hedging instrument, the net position of gain or loss from the Swap Agreement is recognized as interest expense in the consolidated statements of operations and comprehensive income.

We maintain an investment portfolio in a variety of financial instruments, including, but not limited to, U.S. government and agency bonds, corporate obligations, money market funds, asset-backed securities, and other investment-grade securities. The majority of these investments pay a fixed rate of interest. The securities in the investment portfolio are subject to market price risk due to changes in interest rates, perceived issuer creditworthiness, marketability, and other factors. These investments are classified as available-for-sale and,

consequently, are recorded on our consolidated balance sheets at fair value with unrealized gains or losses reported as a separate component of shareholders' equity.

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

Foreign Currency Risk

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

As a consequence, our gross profit margins, operating results, profitability and cash flows are adversely impacted when the dollar depreciates relative to the Thai baht, GBP or the RMB. We have a particularly significant currency rate exposure to changes in the exchange rate between the Thai baht, GBP, 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 audited consolidated financial statements. Consequently, increases and decreases in the value of the U.S. dollar compared with such foreign currencies will affect our reported results of operations and the value of our assets and liabilities on our audited consolidated balance sheets, even if our results of operations or the value of those assets and liabilities has not changed in its original currency. These 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. We recognized an unrealized gain of \$4.8 million, unrealized loss of \$1.7 million and unrealized gain of \$0.02 million in the consolidated statements of operations and comprehensive income during fiscal year 2019, fiscal year 2018 and fiscal year 2017, respectively. As foreign currency exchange rates fluctuate relative to the U.S. dollar, we expect to incur foreign currency translation adjustments and may incur foreign currency exchange losses. For example, a 10% weakening in the U.S. dollar against the Thai baht, RMB and GBP would have resulted in a decrease in our net dollar position of approximately \$0.4 million, \$0.9 million and \$4.8 million as of June 28, 2019, June 29, 2018 and June 30, 2017, respectively. We cannot give any assurance as to the effect that future changes in foreign currency rates will have on our consolidated financial position, operating results or cash flows.

Credit Risk

Credit risk refers to our exposures to financial institutions, suppliers and customers that have in the past and may in the future experience financial difficulty, particularly in light of recent conditions in the credit markets and the global economy. As of June 28, 2019 and June 29, 2018, our cash and cash equivalents were held in deposits and highly liquid investment products with maturities of three months or less with banks and other financial institutions having credit ratings of A minus or above. As of June 28, 2019 and June 29, 2018, our short-term investments were held in various financial institutions with a maturity limit not to exceed three years, and all securities were rated A1, P-1, F1, or better. We continue to monitor our surplus cash and consider investment in corporate and U.S. government debt as well as certain available-for-sale securities in accordance with our investment policy. We generally monitor the financial performance of our suppliers and customers, as well as other factors that may affect their access to capital and liquidity. Presently, we believe that we will not incur material losses due to our exposures to such credit risk.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Fabrinet

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Fabrinet and its subsidiaries (the “Company”) as of June 28, 2019 and June 29, 2018, and the related consolidated statements of operations and comprehensive income, consolidated statements of changes in shareholders’ equity and consolidated statements of cash flows for each of the three years in the period ended June 28, 2019, including the related notes (collectively referred to as the “consolidated financial statements”). We also have audited the Company’s internal control over financial reporting as of June 28, 2019, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of June 28, 2019 and June 29, 2018, and the results of its operations and its cash flows for each of the three years in the period ended June 28, 2019 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 28, 2019, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Basis for Opinions

The Company’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management’s Annual Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting

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

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

/s/ PricewaterhouseCoopers ABAS Ltd.
Bangkok, Thailand
August 20, 2019

We have served as the Company's auditor since 1999.

FABRINET
CONSOLIDATED BALANCE SHEETS

<i>(in thousands of U.S. dollars, except share data and par value)</i>	<u>June 28, 2019</u>	<u>June 29, 2018</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 180,839	\$ 158,102
Restricted cash in connection with business acquisition	—	3,331
Short-term investments	256,493	174,269
Trade accounts receivable, net	260,602	246,912
Contract assets	12,447	—
Inventory, net	293,612	257,687
Prepaid expenses	8,827	8,061
Other current assets	11,015	5,948
Total current assets	<u>1,023,835</u>	<u>854,310</u>
Non-current assets		
Long-term restricted cash	7,402	—
Property, plant and equipment, net	210,686	219,640
Intangibles, net	3,887	4,880
Goodwill	3,705	3,828
Deferred tax assets	5,679	5,280
Other non-current assets	124	80
Total non-current assets	<u>231,483</u>	<u>233,708</u>
Total Assets	<u>\$1,255,318</u>	<u>\$1,088,018</u>
Liabilities and Shareholders' Equity		
Current liabilities		
Bank borrowings	\$ 3,250	\$ 3,250
Trade accounts payable	257,617	220,159
Contract liabilities	2,239	—
Capital lease liability, current portion	398	451
Income tax payable	1,801	709
Deferred liability in connection with business acquisition	—	3,331
Accrued payroll, bonus and related expenses	16,510	13,476
Accrued expenses	8,997	9,013
Other payables	22,236	19,728
Total current liabilities	<u>313,048</u>	<u>270,117</u>
Non-current liabilities		
Long-term loan from bank	57,688	60,938
Deferred tax liability	3,561	2,284
Capital lease liability, non-current portion	102	516
Severance liabilities	15,209	10,162
Other non-current liabilities	2,611	3,062
Total non-current liabilities	<u>79,171</u>	<u>76,962</u>
Total Liabilities	<u>392,219</u>	<u>347,079</u>
Commitments and contingencies (Note 21)		
Shareholders' equity		
Preferred shares (5,000,000 shares authorized, \$0.01 par value; no shares issued and outstanding as of June 28, 2019 and June 29, 2018)	—	—
Ordinary shares (500,000,000 shares authorized, \$0.01 par value; 38,230,753 shares and 37,723,733 shares issued as of June 28, 2019 and June 29, 2018, respectively; and 36,841,650 shares and 36,434,630 shares outstanding as of June 28, 2019 and June 29, 2018, respectively)	382	377
Additional paid-in capital	158,299	151,797
Less: Treasury shares (1,389,103 shares and 1,289,103 shares as of June 28, 2019 and June 29, 2018, respectively)	(47,779)	(42,401)
Accumulated other comprehensive loss	(2,386)	(1,257)
Retained earnings	754,583	632,423
Total Shareholders' Equity	<u>863,099</u>	<u>740,939</u>
Total Liabilities and Shareholders' Equity	<u>\$1,255,318</u>	<u>\$1,088,018</u>

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

FABRINET
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

	Years Ended		
	June 28, 2019	June 29, 2018	June 30, 2017
<i>(in thousands of U.S. dollars, except per share data)</i>			
Revenues	\$ 1,584,335	\$ 1,371,925	\$ 1,420,490
Cost of revenues	(1,405,111)	(1,218,513)	(1,249,030)
Gross profit	179,224	153,412	171,460
Selling, general and administrative expenses	(55,067)	(57,812)	(65,626)
Expenses related to reduction in workforce	(1,516)	(1,776)	—
Operating income	122,641	93,824	105,834
Interest income	6,699	3,925	1,977
Interest expense	(5,381)	(3,606)	(3,321)
Foreign exchange gain (loss), net	1,406	(6,587)	(1,142)
Other income, net	868	473	509
Income before income taxes	126,233	88,029	103,857
Income tax expense	(5,278)	(3,862)	(6,742)
Net income	120,955	84,167	97,115
Other comprehensive loss, net of tax:			
Change in net unrealized gain (loss) on available-for-sale securities	2,043	(1,019)	(471)
Change in net unrealized loss on derivative instruments	(1)	(1)	(158)
Change in retirement benefits plan – prior service cost	(2,537)	—	—
Change in foreign currency translation adjustment	(634)	111	(310)
Total other comprehensive loss, net of tax	(1,129)	(909)	(939)
Net comprehensive income	\$ 119,826	\$ 83,258	\$ 96,176
Earnings per share			
Basic	\$ 3.29	\$ 2.26	\$ 2.63
Diluted	\$ 3.23	\$ 2.21	\$ 2.57
Weighted average number of ordinary shares outstanding			
<i>(thousands of shares)</i>			
Basic	36,798	37,257	36,927
Diluted	37,415	38,035	37,852

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

FABRINET
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

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

	Ordinary Share		Additional Paid-in Capital	Treasury Shares	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
	Shares	Amount					
Balances at June 24, 2016	36,156,446	362	102,325	—	591	451,141	554,419
Net income	—	—	—	—	—	97,115	97,115
Other comprehensive loss	—	—	—	—	(939)	—	(939)
Share-based compensation	—	—	26,507	—	—	—	26,507
Issuance of ordinary shares	1,184,050	11	5,886	—	—	—	5,897
Tax withholdings related to net share settlement of restricted share units	—	—	(1,425)	—	—	—	(1,425)
Balances at June 30, 2017	37,340,496	373	133,293	—	(348)	548,256	681,574
Net income	—	—	—	—	—	84,167	84,167
Other comprehensive loss	—	—	—	—	(909)	—	(909)
Share-based compensation	—	—	22,581	—	—	—	22,581
Issuance of ordinary shares	383,237	4	1,432	—	—	—	1,436
Repurchase of 1,289,103 shares held as treasury shares	—	—	—	(42,401)	—	—	(42,401)
Tax withholdings related to net share settlement of restricted share units	—	—	(5,509)	—	—	—	(5,509)
Balances at June 29, 2018	37,723,733	377	151,797	(42,401)	(1,257)	632,423	740,939
Net income	—	—	—	—	—	120,955	120,955
Other comprehensive loss	—	—	—	—	(1,129)	—	(1,129)
Cumulative effect adjustment from adoption of ASC 606	—	—	—	—	—	1,205	1,205
Share-based compensation	—	—	17,157	—	—	—	17,157
Issuance of ordinary shares	507,020	5	(6)	—	—	—	(1)
Repurchase of 100,000 shares held as treasury shares	—	—	—	(5,378)	—	—	(5,378)
Tax withholdings related to net share settlement of restricted share units	—	—	(10,649)	—	—	—	(10,649)
Balances at June 28, 2019	<u>38,230,753</u>	<u>382</u>	<u>158,299</u>	<u>(47,779)</u>	<u>(2,386)</u>	<u>754,583</u>	<u>863,099</u>

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

FABRINET
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended		
	June 28, 2019	June 29, 2018	June 30, 2017
<i>(in thousands of U. S. dollars)</i>			
Cash flows from operating activities			
Net income	\$ 120,955	\$ 84,167	\$ 97,115
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	29,944	29,087	23,793
(Gain) loss on disposal and impairment of property, plant and equipment	(4)	18	(30)
Loss on disposal of intangibles	149	447	—
Loss from sales and maturities of available-for-sale securities	135	364	822
Amortization of investment discount	(592)	(506)	(193)
Amortization of deferred debt issuance costs	—	994	1,396
Allowance for doubtful accounts (reversal)	36	(23)	(1)
Unrealized (gain) loss on exchange rate and fair value of derivative	(6,980)	4,222	1,884
Share-based compensation	17,157	22,581	26,507
Deferred income tax	879	(2,074)	754
Severance liabilities	3,343	1,801	1,519
Other non-cash expenses	(450)	332	654
(Reversal of) Inventory obsolescence	(563)	(436)	42
Changes in operating assets and liabilities			
Trade accounts receivable	(13,494)	17,852	(64,142)
Contract assets	(2,570)	—	—
Inventory	(44,035)	(19,432)	(53,802)
Other current assets and non-current assets	(186)	(4,464)	(2,231)
Trade accounts payable	38,807	3,502	38,293
Contract liabilities	2,239	—	—
Income tax payable	1,092	(1,267)	(67)
Other current liabilities and non-current liabilities	1,532	915	(1,379)
Net cash provided by operating activities	<u>147,394</u>	<u>138,080</u>	<u>70,934</u>
Cash flows from investing activities			
Purchase of short-term investments	(233,080)	(152,908)	(122,778)
Proceeds from sales of short-term investments	99,142	61,795	39,578
Proceeds from maturities of short-term investments	54,215	67,417	72,361
Payments in connection with business acquisition, net of cash acquired	—	—	(9,917)
Purchase of property, plant and equipment	(18,661)	(33,825)	(68,262)
Proceeds from disposal of property, plant and equipment	599	449	230
Purchase of intangibles	(282)	(1,577)	(1,768)
Net cash used in investing activities	<u>(98,067)</u>	<u>(58,649)</u>	<u>(90,556)</u>
Cash flows from financing activities			
Proceeds of short-term loan from bank	—	5,000	27,500
Repayment of short-term loan from bank	—	(1,003)	(157)
Repayment of long-term loan from bank	(3,250)	(11,212)	(18,100)
Proceeds from issuance of ordinary shares under employee share option plan	—	1,436	5,890
Repayment of capital lease liability	(468)	(417)	(276)
Repurchase of ordinary shares	(5,378)	(42,401)	—
Release of restricted cash held in connection with business acquisition	(3,478)	—	—
Withholding tax related to net share settlement of restricted share units	(10,649)	(5,509)	(1,425)
Net cash (used in) provided by financing activities	<u>(23,223)</u>	<u>(54,106)</u>	<u>13,432</u>
Net increase (decrease) in cash, cash equivalents and restricted cash	<u>\$ 26,104</u>	<u>\$ 25,325</u>	<u>\$ (6,190)</u>

FABRINET

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

<i>(in thousands of U. S. dollars)</i>	Years Ended		
	June 28, 2019	June 29, 2018	June 30, 2017
Movement in cash, cash equivalents and restricted cash			
Cash, cash equivalents and restricted cash at beginning of period	\$ 161,433	\$ 137,137	\$ 142,804
Increase (decrease) in cash, cash equivalents and restricted cash	26,104	25,325	(6,190)
Effect of exchange rate on cash, cash equivalents and restricted cash	704	(1,029)	523
Cash, cash equivalents and restricted cash at end of period	\$ 188,241	\$ 161,433	\$ 137,137

Supplemental disclosures

Cash paid for			
Interest	\$ 2,605	\$ 2,219	\$ 1,924
Taxes	\$ 7,637	\$ 1,352	\$ 5,218
Cash received for interest	\$ 5,811	\$ 3,945	\$ 1,753

Non-cash investing and financing activities

Construction, software and equipment related payables	\$ 7,317	\$ 5,144	\$ 8,434
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The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the consolidated balance sheets that sums to the total of the same amounts shown in the consolidated statements of cash flows:

<i>(amount in thousands)</i>	As of		
	June 28, 2019	June 29, 2018	June 30, 2017
Cash and cash equivalents	\$ 180,839	\$ 158,102	\$ 133,825
Restricted cash	7,402	3,331	3,312
Cash, cash equivalents and restricted cash	\$ 188,241	\$ 161,433	\$ 137,137

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

FABRINET

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

1. **Business and organization**

General

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

The Company provides advanced optical packaging and precision optical, electro-mechanical and electronic manufacturing services to original equipment manufacturers (“OEMs”) of complex products, such as optical communication components, modules and sub-systems, industrial lasers, automotive components, 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 UK Limited (“Fabrinet UK”).

2. **Summary of significant accounting policies**

Principles of consolidation

The Company utilizes a 52-53 week fiscal year ending on the Friday in June closest to June 30. Fiscal year 2019 ended on June 28, 2019 and consisted of 52 weeks. Fiscal year 2018 ended on June 29, 2018 and consisted of 52 weeks. Fiscal year 2017 ended on June 30, 2017 and consisted of 53 weeks.

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

On September 14, 2016, the Company acquired Global CEM Solutions, Ltd. and all of its subsidiaries (collectively, “Fabrinet UK”), a privately-held group located in Wiltshire, United Kingdom. The consolidated financial statements of the Company include the financial position, results of operations and the cash flows of Fabrinet UK commencing as of the acquisition date. See Note 11, Business acquisition for further details on the accounting for this transaction.

Use of estimates

The preparation of the Company’s consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements, and the reported amount of total revenues and expenses during the year. The Company bases estimates on historical experience and various assumptions about the future that are believed to be reasonable based on available information. The Company’s reported financial position or results of operations may be materially different under different conditions or when using different estimates and assumptions, particularly with respect to significant accounting policies, which are discussed below. Significant assumptions are used in accounting for share-based compensation, allowance for doubtful accounts, income taxes, inventory obsolescence and valuation of intangible assets related to a business acquisition, among others. Due to the inherent uncertainty involved in making estimates, actual results reported in future periods may be different from these estimates. In the event that estimates or assumptions prove to differ from actual results, adjustments will be made in subsequent periods to reflect more current information.

Changes in Accounting Policies

Except for the adoption of the new revenue recognition accounting standard disclosed in Note 3—Revenues from contracts with customers, the Company has consistently applied the accounting policies to all periods presented in these consolidated financial statements.

Foreign currency transactions and translation

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

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

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

Cash and cash equivalents

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

Short-term investments

Management determines the appropriate classification of its investments at the time of purchase and re-evaluates the designations at each balance sheet date. The Company may sell certain of the Company’s 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 Company’s short-term investments consist of investments in U.S. Treasury, fixed income securities, liquidity funds which invest in short-term debt securities and certificates of deposit and time deposits and have been classified and accounted for as available-for-sale.

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

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

Trade accounts receivable

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

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

Contract assets

A contract asset is recognized when the Company has recognized revenues prior to an invoice for payment. Contract assets are classified separately on the consolidated balance sheets and transferred to accounts receivable when rights to payment become unconditional. The Company reviews for impairment of contract assets on a quarterly basis for any events or changes in circumstances that indicate that their carrying amount may not be recoverable.

Contract liabilities

A contract liability is recognized when the Company has advance payment arrangements with customers. The contract liabilities balance is normally recognized as revenue within six months.

Inventory

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

Leases

Operating leases

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

Capital lease

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

Property, plant and equipment

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

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

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

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

The Company reviews long-lived assets or asset groups for recoverability on a quarterly basis for any events or changes in circumstances that indicate that their carrying amount may not be recoverable. Recoverability of long-lived assets or asset groups is measured by comparing their carrying amount to the projected undiscounted cash flows that the long-lived assets or asset groups are expected to generate. If such assets are considered to be impaired, the impairment loss recognized, if any, is the amount by which the carrying amount of the property and equipment exceeds its fair value.

Intangibles

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

Intangible assets are reviewed for impairment quarterly or more frequently whenever changes or circumstances indicate the carrying amount of related assets may not be recoverable.

Business acquisition

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

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

In connection with the acquisition of Fabrinet UK, \$3.4 million of cash, net of foreign currency translation adjustment, for deferred consideration, was placed into an escrow account under the Company's control. The Company contractually agreed to remit this deferred consideration to the sellers of Fabrinet UK, subject to the resolution of claims that the Company may make against the funds with respect to indemnification and other claims within 24 months from the closing date of the transaction. As of June 28, 2019, there were no balances of restricted cash and deferred consideration in connection with business acquisitions. As of June 29, 2018, the cash is presented as restricted cash in the consolidated balance sheets within current assets and the related liability is presented within current liabilities for the deferred consideration.

Goodwill

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

Treasury shares

Treasury share purchases are accounted for under the cost method whereby the entire cost of the acquired stock is recorded as treasury shares. Gains and losses in excess of par value on the subsequent reissuance of shares are credited or charged to additional paid-in capital in the consolidated balance sheets using the average-cost method.

Borrowing costs

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

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

Fair value of financial instruments

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. A fair value hierarchy is established which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs for the valuation of an asset or liability as of the measurement date. The three levels of inputs that may be used to measure fair value are defined as follows:

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

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

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

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

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

Derivatives

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

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

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

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

Concentration of credit risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash and cash equivalents, short-term investments, derivatives and accounts receivable.

Cash, cash equivalents and short-term investments are maintained with several financial institutions. Deposits held with banks may exceed the amount of insurance provided on such deposits. Generally, these deposits may be redeemed upon demand and are maintained with financial institutions with reputable credit and therefore bear minimal credit risk. The Company seeks to mitigate its credit risks by spreading such risks across multiple counterparties and monitoring the risk profiles of these counterparties. The Company limits its investments in marketable securities to securities with a maturity not in excess of three years, and all marketable securities that the Company invests in are rated A1, P-1, F1, or better.

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

Revenue recognition

The Company derives total revenues primarily from the assembly of products under supply agreements with its customers and the fabrication of customized optics and glass. The Company recognizes revenue relating to contracts that depict the transfer of promised goods or services to customers in an amount reflecting the consideration to which the Company expects to be entitled in exchange for such goods or services. In order to meet this requirement, the Company applies the following five steps: (1) identify the contract with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when a performance obligation is satisfied. Revenue is recognized net of any taxes collected from customers, which is subsequently remitted to governmental authorities.

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A performance obligation is a promise in a contract to transfer a distinct good or service to the customer. In contracts with multiple performance obligations, the Company identifies each performance obligation and evaluates whether the performance obligation is distinct within the context of the contract at contract inception. The majority of the Company's contracts have a single performance obligation as the promise to transfer the individual goods or services is not separately identifiable from other promises in the contracts and, therefore, not distinct.

Sales of finished goods

The Company manufactures products that are customized to customers' specifications; however, control of the products is typically transferred to the customer at the point in time the product is either shipped or delivered, depending on the terms of the arrangement, as the criteria for over time recognition are not met. On evaluation of the contracts, the Company identified that there were no contractual rights to bill profit for work in progress in the event of a contract termination, which is expected to be infrequent. Further, in limited circumstances, contracts provide for substantive acceptance by the customer, which results in the deferral of revenue until formal notice of acceptance is received from the customer. Judgment may be required in determining if an acceptance clause provides for substantive acceptance.

Certain customers may request the Company to store finished products at the Company's warehouse where customers bear risks of loss themselves. In these instances, the Company receives a written request from the customer asking the Company to hold the inventory at the Company's warehouse and refrain from using the ordered goods to fulfill other customer orders. In these situations, revenue is only recognized when the completed goods are ready for shipment and transferred to the Company's warehouse.

Customers generally are obligated to purchase finished goods that the Company has manufactured according to their demand requirements. Materials that are not consumed by customers within a specified period of time, or are no longer required due to a product's cancellation or end-of-life, are typically designated as excess or obsolete inventory under the Company's contracts. Once materials are designated as either excess or obsolete inventory, customers are typically required to purchase such inventory from the Company even if the customer has chosen to cancel production of the related products. The excess or obsolete inventory is shipped to the customer and revenue is recognized upon shipment.

A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. In determining the net consideration to which the Company expects to be entitled, the Company evaluates whether the price is subject to refund or adjustment. The Company generally does not grant return privileges, except for in the case of defective products during the warranty period. The Company generally provides a warranty of between one to five years on any given product. These standard warranties are assurance type warranties and do not offer any services in addition to the assurance that the product will continue to work as specified.

The sales price is not considered to be fixed or determinable until all contingencies related to the sale have been resolved. The Company recognized revenue net of rebates and other similar allowances. Revenues are recognized only if these estimates can be reasonably and reliably determined. The Company bases its estimates on historical results taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Services

The Company provides services for customers that are related to the Company's manufacturing activities. In many cases, although the nature of work performed is service in nature, revenue is only recognizable on shipping of the product because the customer has specific requirements as to how many items can be shipped at any given point in time, i.e. at point-in-time. The related costs are expensed as incurred.

Service revenues of \$106.1 million, \$73.5 million and \$92.8 million were recognized in the consolidated statements of operations and comprehensive income for the years ended June 28, 2019, June 29, 2018 and June 30, 2017, respectively.

Warranty provision

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

Warranty cost allowances (reversal) of \$0.07 million, (\$0.02 million) and \$1.0 million were recognized in the consolidated statements of operations and comprehensive income for the years ended June 28, 2019, June 29, 2018 and June 30, 2017, respectively.

Share-based compensation

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

Employee contribution plan

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

Severance liabilities

Under labor protection laws applicable in Thailand and the Company's subsidiary in Thailand's employment policy, all employees of such subsidiary with more than 120 days of service are entitled to severance pay on forced termination or retrenchment or in the event that the employee reaches the retirement age of 55. The entitlement to severance pay is determined according to an employee's individual employment tenure with the Company and is subject to a maximum benefit of 400 days of salary unless otherwise agreed upon in an employee's employment contract. For employees of other subsidiaries who have a specific termination date, the entitlement to severance pay is determined according to their employment tenure, until their designated termination date.

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

The Company's subsidiary in the United Kingdom operates a defined benefit pension plan that defines the pension benefit an employee will receive on retirement, usually dependent upon several factors including but not limited to age, length of service and remuneration. The defined benefit obligation is calculated using the projected unit credit method. Annually the Company engages independent actuaries to calculate the

obligation. The present value is determined by discounting the estimated future payments using market yields on high quality corporate bonds that are denominated in sterling and that have terms approximating the estimated period of the future payments (discount rate). The plan assets are held separately from those of the Company in independently administered funds and are measured at fair value.

Severance liabilities are recognized in the Company's consolidated balance sheet under non-current liabilities. The related expenses, if incurred during the period, are recognized in the Company's consolidated statements of operations and comprehensive income as selling, general and administrative expenses. Prior service cost is initially recognized to other comprehensive income (loss) at the date of plan amendment. Such prior service cost is amortized as expenses as a component of net periodic pension cost by the weighted average remaining years of service to full eligibility date of active employees.

Annual leave

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

Income taxes

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

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

The authoritative guidance provides for recognition of deferred tax assets if the realization of such deferred tax assets is more likely than not to occur based on an evaluation of both positive and negative evidence and the relative weight of the evidence. A company shall reduce its deferred tax assets by a valuation allowance if, based on the weight of available evidence, it is "more likely than not" (i.e., a likelihood of greater than 50 percent) that some portion or all of the deferred tax assets will not be realized. The valuation allowance shall be sufficient to reduce the deferred tax asset to the amount that is more likely than not to be realized. The valuation allowance shall be monitored and considered from all available evidence, both positive and negative, to determine whether, based on the weight of that evidence, a valuation allowance for deferred tax assets is not needed.

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

The Company recognizes a tax benefit in the financial statements for an uncertain tax position only if management's assessment is that the position is "more likely than not" to be sustained upon examination by

the tax jurisdiction based solely on the technical merits of the position. The term “tax position” refers to a position in a previously filed tax return or a position expected to be taken in a future tax return that is reflected in measuring current or deferred income tax assets and liabilities for interim or annual periods. The accounting interpretation also provides guidance on measurement methodology, derecognition thresholds, financial statement classification and disclosures, recognition of interest and penalties, and accounting for the cumulative-effect adjustment at the date of adoption.

New Accounting Pronouncements—not yet adopted by the Company

In May 2019, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2019-05, “Financial Instruments—Credit Losses (Topic 326)” The amendments in this Update provide entities that have certain instruments within the scope of Subtopic 326-20, Financial Instruments—Credit Losses—Measured at Amortized Cost, with an option to irrevocably elect the fair value option in Subtopic 825-10, Financial Instruments—Overall, applied on an instrument-by-instrument basis for eligible instruments, upon adoption of Topic 326. The fair value option election does not apply to held-to-maturity debt securities. An entity that elects the fair value option should subsequently apply the guidance in Subtopics 820-10, Fair Value Measurement—Overall, and 825-10. For public business entities, this update is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact of the adoption of this update on its consolidated financial statements.

In April 2019, FASB issued ASU 2019-04, “Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Financial Instruments (Topic 825) Codification Improvements.” The amendments in this Update apply to all reporting entities within the scope of the affected accounting guidance. For public business entities, this update is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact of the adoption of this update on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, “Fair Value Measurement (Topic 820), Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement.” This ASU is intended to improve the effectiveness of disclosures in the notes to the financial statements, including (1) the development of a framework that promotes consistent decisions by the FASB about disclosure requirements and (2) the appropriate exercise of discretion by reporting entities. The amendment modifies the disclosure requirements on transferring between level 1 and level 2 and valuation processes of level 3 fair value measurements. The amendments in this update are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The Company is currently evaluating the impact of the adoption of this update on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, “Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.” This amendment modified the concept of impairment assessment from the condition that exists when the carrying amount of goodwill exceeds its implied fair value to the condition that exists when the carrying amount of a reporting unit exceeds its fair value. Public companies that are SEC filers should adopt the amendment for annual and any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company does not expect the amendments will impact its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842)”: The amendment requires the Company to establish the principles that lessees and lessors shall apply to report useful information to users of financial statements about the amount, timing, and uncertainty of cash flows arising from a lease: (1) a lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) a right of use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. For public companies, this update is effective in the fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early

adoption is permitted. The FASB has issued three additional updates to the standard which (1) provide guidance on comparative reporting requirements for initial adoption and also provide additional guidance for lessors, on separating lease and non-lease components in a contract and allocating the consideration in the contract to the separate components (ASU 2018-11); (2) provide guidance on transition disclosure in the annual period in which a change in accounting principle is made; and (3) narrow aspects of the guidance issued in the amendments in update 2016-02 on various matters (ASU 2018-10). The effective date for all amendments is the same as ASU 2016-02.

The Company will adopt the new lease accounting standard (“ASC 842”) using the modified retrospective transition approach, effective on June 29, 2019. Accordingly, the Company’s comparative financial statements as of June 28, 2019 will not be adjusted. ASC 842 also provides practical expedients for the Company’s ongoing accounting. The Company plans to elect the short-term lease recognition exemption for its operating leases with term of less than 12 months, which will not require recognition of right of use assets or lease liabilities for these leases.

The most significant impact of the adoption of ASC 842 is expected to be recognition of right of use assets and lease liabilities for the operating leases with a term of greater than 12 months, while the accounting for finance leases will remain substantially unchanged. ASC 842 will require the Company to provide significant new disclosures about its leasing activities in its interim financial information effective in the first quarter of fiscal year 2020. The Company has assessed the preliminary impact of adopting ASC 842 to the Company’s first quarter financial statements of fiscal year 2020 to be recognized right of use under non-current assets of \$4.8 million, lease liabilities totaling \$5.2 million, with \$1.3 million under current liabilities and \$3.9 million under non-current liabilities, and a decrease in retained earnings of \$0.4 million.

New Accounting Pronouncements—adopted by the Company

In November 2017, the FASB issued ASU 2017-14, “Income Statement—Reporting Comprehensive Income (Topic 220), Revenue Recognition (Topic 605), and Revenue from Contracts with Customers (Topic 606): Amendments to SEC Paragraphs Pursuant to the Staff Accounting Bulletin (“SAB”) No. 116 and SEC Release No. 33-10403”. This ASU amended, superseded and added certain SEC paragraphs in Topic 220, Topic 605 and Topic 606 to reflect the August 2017 issuance of SEC Staff Accounting Bulletin (SAB) 116 and SEC Release No. 33-10403. The SEC staff issued SAB 116 to align its revenue guidance with Accounting Standards Codification (ASC) 606. For public business entities, this update is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early application is permitted. The Company adopted this standard along with the implementation of ASC 606 effective June 30, 2018 with immaterial impact to the consolidated financial statements.

In September 2017, the FASB issued ASU 2017-13, “Revenue Recognition (Topic 605), Revenue from Contracts with Customers (Topic 606), Leases (Topic 840), and Leases (Topic 842): Amendments to SEC Paragraphs Pursuant to the Staff Announcement at the July 20, 2017 EITF Meeting and Rescission of Prior SEC Staff Announcements and Observer Comments.” The amendment delays the mandatory adoption of Topic 606 and Topic 842 for certain entities, revises the guidance related to performance-based incentive fees in Topic 605 and revises the guidance related to leases in Topic 840 and Topic 842. The revisions to the lease guidance eliminate language specific to certain sale-leaseback arrangements, guarantees of lease residual assets and loans made by lessees to owner-lessors. Also included is an amendment to Topic 842 to retain the guidance in Topic 840 covering the impact of changes in tax rates on investments in leveraged leases. This guidance, which is effective immediately, generally relates to the adoption of Topic 606 and Topic 842. The Company adopted this standard along with the implementation of ASC 606 effective June 30, 2018 with immaterial impact to the consolidated financial statements.

In January 2017, the FASB issued ASU 2017-03, “Accounting Changes and Error Corrections (Topic 250) and Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects: Amendments to SEC Paragraphs Pursuant to Staff Announcements at the September 22, 2016 and November 17, 2016 EITF Meetings.” The amendment provides guidance to the

Company in relation to the disclosure of the impact that ASU 2014-09, ASU 2016-02 and ASU 2016-13 will have on the Company’s financial statements when adopted. The Company adopted this standard along with the implementation of ASC 606 effective June 30, 2018 with immaterial impact to the consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, “Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force).” The amendments in this ASU provide guidance on the presentation of certain cash receipts and cash payments in the statement of cash flows in order to reduce diversity in existing practice. The amendments in ASU 2016-15 are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The Company adopted this new update effective June 30, 2018 with no impact to the consolidated financial statements.

3. Revenues from contracts with customers

On June 30, 2018, the Company adopted Revenue from Contracts with Customers (Topic 606), under Accounting Standards Codification Topic 606 (“ASC 606”), and applied the modified retrospective method to those contracts which were not completed as of June 29, 2018. The modified retrospective method requires the Company to recognize the cumulative effect of the adoption of ASC 606, for all contracts with customers, to the opening balance of equity at June 30, 2018. Accordingly, the Company’s comparative financial information as of June 29, 2018 has not been adjusted and continues to be reported under ASC 605, Revenue Recognition (“ASC 605”).

The cumulative effect adjustment recorded was based on the timing difference of revenue recognition between ASC 605 and ASC 606 and mostly related to certain manufacturing contracts with vendor-managed inventory arrangements. Under ASC 605, revenue for such contracts was recognized at the earlier of when the inventory was consumed by the customers or if not consumed, on the expiration of time specified in the contract. On adoption of ASC 606, revenue is recognized when inventory is shipped to customers.

The following table shows the impact of adoption of ASC 606 on the adoption date of June 29, 2018 on the consolidated balance sheets:

Consolidated Balance Sheets

<i>(amount in thousands)</i>	Impact of Adopting ASC 606		
	Balance at June 29, 2018	Adjustment	Balance at June 30, 2018
Assets			
Contract assets	\$ —	\$ 9,877 ⁽¹⁾	\$ 9,877
Inventory, net	\$ 257,687	\$ (8,672) ⁽²⁾	\$ 249,015
Liabilities and Shareholders’ Equity			
Retained earnings	\$ 632,423	\$ 1,205 ⁽³⁾	\$ 633,628

⁽¹⁾ Majority of adjustment relates to certain manufacturing contracts with vendor-managed inventory arrangements for which revenue was recognized on shipment.

⁽²⁾ Adjustment relates to reduction of finished goods inventory for certain vendor-managed inventory arrangements.

⁽³⁾ Adjustment relates to cumulative effect adjustment upon adoption of ASC 606.

Contract Assets and Liabilities

A contract asset is recognized when the Company has recognized revenues prior to an invoice for payment. Contract assets are classified separately on the consolidated balance sheets and transferred to accounts receivable when rights to payment become unconditional. During the year ended June 28, 2019, the Company had no impairment for contract assets recognized.

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A contract liability is recognized when the Company has advance payment arrangements with customers. The contract liabilities balance is normally recognized as revenue within six months.

The following tables summarize the activity in the Company's contract assets and contract liabilities during the year ended June 28, 2019:

<i>(amount in thousands)</i>	Contract Assets
Beginning balance, June 30, 2018	\$ —
Cumulative effect adjustment upon adoption of ASC 606	9,877
Revenue recognized	112,739
Amounts collected or invoiced	(110,169)
Ending balance, June 28, 2019	<u>\$ 12,447</u>

<i>(amount in thousands)</i>	Contract Liabilities
Beginning balance, June 30, 2018	\$ —
Additions during the year, net	4,458
Revenue recognized	(2,219)
Ending balance, June 28, 2019	<u>\$ 2,239</u>

Contract Costs

Consistent with the guidance in ASC 340-40-25-1, the incremental costs of obtaining a contract with a customer are recognized as an asset (not expensed as incurred) if these costs are expected to be recovered. Incremental costs of obtaining a contract are those the Company would not have incurred if the contract had not been obtained (e.g., sales commissions or similar incentive payments linked directly to new or modified customer contracts). Costs that would have been incurred regardless of whether a customer contract was obtained (e.g., costs of pursuing the contact, legal advice, etc.) are expensed as incurred, unless those costs are explicitly chargeable to the customer. During the year ended June 28, 2019, the Company did not have any incremental costs of obtaining a contract.

Shipping and Handling

Shipping costs billed to customers are recorded as revenue. Shipping and handling expense related to costs incurred to deliver product are recognized within cost of goods sold. The Company accounts for shipping and handling activities that occur after control has transferred as a fulfillment cost, as opposed to a separate performance obligation, and the costs of shipping and handling are recognized concurrently with the related revenue.

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The impact of adoption of ASC 606 on the Company's consolidated statements of operations and comprehensive income for the year ended June 28, 2019 and consolidated balance sheets as of June 28, 2019 was as follows:

Consolidated Statement of Operations and Comprehensive Income For the Year Ended June 28, 2019

<i>(amount in thousands)</i>	Impact of Adopting ASC 606		
	As Reported	Adjustment	Balance without ASC 606 Adoption
Revenues	\$ 1,584,335	\$ (2,560) ⁽¹⁾	\$ 1,581,775
Cost of revenues	\$ (1,405,111)	\$ 1,745 ⁽²⁾	\$ (1,403,366)
Gross profit	\$ 179,224	\$ (815) ⁽³⁾	\$ 178,409
Net income	\$ 120,955	\$ (825) ⁽³⁾	\$ 120,130
Earnings per share			
Basic	\$ 3.29	\$ (0.02)	\$ 3.27
Diluted	\$ 3.23	\$ (0.02)	\$ 3.21

(1) Adjustment relates to certain manufacturing contracts with vendor-managed inventory arrangements for which revenue was recognized at shipping.

(2) Adjustment relates to costs associated with revenue recognized.

(3) Adjustment relates to net impact on net income upon adoption of ASC 606.

Consolidated Balance Sheets As of June 28, 2019

<i>(amount in thousands)</i>	Impact of Adopting ASC 606		
	As Reported	Adjustments	Balance without ASC 606 Adoption
Assets			
Contract assets	\$ 12,447	\$ (12,447) ⁽¹⁾	\$ —
Inventory, net	\$ 293,612	\$ 10,417 ⁽²⁾	\$ 304,029
Liabilities and Shareholders' Equity			
Contract liabilities	\$ 2,239	\$ (2,239) ⁽³⁾	\$ —
Retained earnings	\$ 754,583	\$ (2,030) ⁽⁴⁾	\$ 752,553

(1) Majority of adjustment relates to certain manufacturing contracts with vendor-managed inventory arrangements for which revenue was recognized on shipment.

(2) Adjustment relates to reduction of finished goods inventory for vendor-managed inventory.

(3) Adjustment relates to advance payment arrangements with customers result in the recognition of contract liabilities.

(4) Adjustment relates to cumulative effect adjustment upon adoption of ASC 606.

Revenue by Geographic Area

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

<i>(amount in thousands)</i>	Year ended June 28, 2019	As a % of Total Revenues	Year ended June 29, 2018	As a % of Total Revenues
North America	\$ 756,278	47.7%	\$ 643,236	46.9%
Asia-Pacific	608,386	38.4	519,203	37.8
Europe	219,671	13.9	209,486	15.3
	<u>\$1,584,335</u>	<u>100.0%</u>	<u>\$1,371,925</u>	<u>100.0%</u>

The following table sets forth revenues by end market.

<i>(amount in thousands)</i>	Year ended June 28, 2019	As a % of Total Revenues	Year ended June 29, 2018	As a % of Total Revenues
Optical communications	\$1,184,936	74.8%	\$1,000,256	72.9%
Lasers, sensors and other	399,399	25.2	371,669	27.1
	<u>\$1,584,335</u>	<u>100.0%</u>	<u>\$1,371,925</u>	<u>100.0%</u>

4. Income taxes

Cayman Islands

Fabrinet is domiciled in the Cayman Islands. Under the current laws of the Cayman Islands, Fabrinet is not subject to tax in the Cayman Islands on income or capital gains until March 6, 2039.

Income of the Company exempted from corporate income tax in the Cayman Islands amounted to \$104.6 million, \$58.4 million and \$64.2 million in the years ended June 28, 2019, June 29, 2018 and June 30, 2017, respectively.

Thailand

Fabrinet Thailand is where the majority of the Company's operations and production takes place. The Company is not subject to tax from July 2012 through June 2020 on income generated from the manufacture of products at Pinehurst Building 6, and is not subject to tax from July 2018 through June 2026 on income generated from the manufacture of products at its Chonburi campus. Such preferential tax treatment is contingent on various factors, including the export of our customers' products out of Thailand and our agreement not to move our manufacturing facilities out of our current province in Thailand for at least 15 years from the date on which preferential tax treatment was granted (i.e., at least until June 2020 in the case of our Pinehurst campus and until June 2026 in the case of our Chonburi campus). Currently, the corporate income tax rate for our Thai subsidiary is 20%.

People's Republic of China

The corporate income tax rate for Casix is 25%.

The United States

The Tax Cuts and Jobs Act ("Tax Reform Act") was enacted on December 22, 2017 and provided for significant changes to U.S. tax law. Among other provisions, the Tax Reform Act reduced the U.S. corporate income tax rate to 21% effective January 1, 2018. The subsidiaries in the U.S. were subject to an average Federal statutory tax rate of 27.6% for fiscal year 2018 and 21% for fiscal year 2019.

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The United Kingdom

The corporate income tax rate for U.K. subsidiaries is 19%.

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

<i>(amount in thousands)</i>	Years Ended		
	June 28, 2019	June 29, 2018	June 30, 2017
Current	\$4,384	\$ 5,457	\$5,986
Deferred	894	(1,595)	756
Total income tax expense	<u>\$5,278</u>	<u>\$ 3,862</u>	<u>\$6,742</u>

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

<i>(amount in thousands)</i>	Years Ended		
	June 28, 2019	June 29, 2018	June 30 2017
Income before income taxes ⁽¹⁾	<u>\$126,233</u>	<u>\$ 88,029</u>	<u>\$103,857</u>
Tax expense calculated at a statutory corporate income tax rate of 20%	25,247	17,606	20,771
Effect of income taxes from locations with tax rates different from Thailand	977	2,657	(48)
Income not subject to tax ⁽²⁾	(21,161)	(12,824)	(17,212)
Income tax on unremitted earnings	1,260	1,007	798
Effect of different tax rate in relation to deferred tax utilization	—	423	—
Effect of foreign exchange rate adjustment	603	(134)	667
Tax rebate from research and development application	(649)	(454)	(226)
Provision for uncertain income tax position	(229)	277	260
Utilization of loss carryforward	—	(3,224)	—
(Reversal of) valuation allowance	—	(1,587)	1,517
Others	(770)	115	215
Corporate income tax expense	<u>\$ 5,278</u>	<u>\$ 3,862</u>	<u>\$ 6,742</u>

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

⁽²⁾ Income not subject to tax relates to income earned in the Cayman Islands and income subject to an investment promotion privilege for Pinehurst Building 6 and the Company's Chonburi campus. Income not subject to tax per ordinary share on a diluted basis was \$0.57, \$0.34, and \$0.45 for the years ended June 28, 2019, June 29, 2018, and June 30, 2017, respectively.

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

<i>(amount in thousands)</i>	As of	
	June 28, 2019	June 29, 2018
Deferred tax assets:		
Depreciation	\$ 1,957	\$ 2,151
Severance liability	2,012	1,518
Reserves and allowance	1,485	1,545
Net operating loss carryforwards	1,616	1,228
Others	13	277
Total	\$ 7,083	\$ 6,719

<i>(amount in thousands)</i>	As of	
	June 28, 2019	June 29, 2018
Deferred tax liabilities:		
Temporary differences from intangibles and changes in the fair value of assets acquired	\$ (590)	\$ (860)
Deferred tax from unremitted earnings	(4,123)	(2,863)
Others	(252)	—
Total	(4,965)	(3,723)
Net	\$ 2,118	\$ 2,996

During fiscal year 2018, one of the Company's subsidiary in the United States generated taxable income sufficient for the utilization of loss carryforwards due to better operating performance and effective control of operating expenses and management determined that it was more likely than not that future taxable income would be sufficient to allow the benefit of the loss to be realized. As of June 29, 2018, the Company reversed certain deferred tax assets valuation allowance as management expected it was more likely than not that the Company would realize profits in subsequent fiscal years so that the loss carryforwards could be partially utilized. Consequently, as of June 28, 2019, the Company has assessed and established a partial valuation allowance for the deferred tax assets at the same level as in fiscal year 2018.

The changes in the valuation allowances of deferred tax assets were as follows:

<i>(amount in thousands)</i>	Valuation allowances of deferred tax assets
Balance as of June 30, 2017	\$ 6,399
Reversal	(5,234)
Balance as of June 29, 2018	1,165
Additional	126
Balance as of June 28, 2019	<u>\$ 1,291</u>

During fiscal year 2019, the Company completed its assessment of the income tax effects resulting from the Tax Reform Act and concluded that no cumulative remeasurement adjustments were required.

During fiscal year 2018, the Company made certain provisional accounting estimates, as permitted under Staff Accounting Bulletin No. 118, to account for the impact of the Tax Reform Act.

As of June 29, 2018, the Company applied the new corporate tax rate to compute its current income tax and remeasured its deferred tax assets and liabilities for all U.S. subsidiaries to reflect the lower rate expected to

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apply when these provisional accounting estimates were utilized. The remeasurement resulted in (1) a reduction in current income tax expenses of \$0.1 million and (2) a reduction in deferred tax assets of \$0.4 million.

Income tax liabilities have not been established for withholding tax and other taxes that would be payable on the unremitted earnings of Fabrinet Thailand. Such amounts of Fabrinet Thailand are permanently reinvested; unremitted earnings for Fabrinet Thailand totaled \$109.7 million and \$102.5 million as of June 28, 2019 and June 29, 2018, respectively. Unrecognized deferred tax liabilities for such unremitted earnings were \$6.9 million and \$5.8 million as of June 28, 2019 and June 29, 2018, respectively.

Deferred tax liabilities of \$1.3 million and \$1.0 million have been established for withholding tax on the unremitted earnings of Casix for the years ended June 28, 2019 and June 29, 2018, respectively, which are included in non-current deferred tax liability in the consolidated balance sheets.

Uncertain income tax positions

Interest and penalties related to uncertain income tax positions are recognized in income tax expense. The Company had approximately \$0.8 million and \$0.9 million of accrued interest and penalties related to uncertain income tax positions on the consolidated balance sheets as of June 28, 2019 and June 29, 2018, respectively. The Company (reversed) recorded interest and penalties of \$(0.1) million, \$0.3 million and \$0.3 million for the years ended June 28, 2019, June 29, 2018 and June 30, 2017, respectively, in the consolidated statements of operations and comprehensive income. With regard to the Thailand jurisdiction, tax years 2014 through 2018 remain open to examination by the local authorities.

The following table indicates the changes to the Company's uncertain income tax positions for the years ended June 28, 2019, June 29, 2018 and June 30, 2017 included in other non-current liabilities.

<i>(amount in thousands)</i>	Years Ended		
	June 28, 2019	June 29, 2018	June 30, 2017
Beginning balance	\$1,445	\$1,420	\$1,420
Additions during the year	235	25	—
Release of tax positions of prior years	(357)	—	—
Ending balance	<u>\$1,323</u>	<u>\$1,445</u>	<u>\$1,420</u>

5. Earnings per ordinary share

Basic earnings per ordinary share is computed by dividing reported net income by the weighted average number of ordinary shares outstanding during each period. Diluted earnings per ordinary share is computed by calculating the effect of potential dilutive ordinary shares outstanding during the year using the treasury stock method. Dilutive ordinary equivalent shares consist of share options, restricted share units and performance share units. The earnings per ordinary share was calculated as follows:

<i>(amount in thousands except per share amounts)</i>	Years Ended		
	June 28, 2019	June 29, 2018	June 30, 2017
Net income attributable to shareholders	\$ 120,955	\$ 84,167	\$ 97,115
Weighted-average number of ordinary shares outstanding (thousands of shares)	36,798	37,257	36,927
Incremental shares arising from the assumed exercise of share options and vesting of restricted share units and performance share units (thousands of shares)	617	778	925
Weighted-average number of ordinary shares for diluted earnings per ordinary share (thousands of shares)	37,415	38,035	37,852
Basic earnings per ordinary share	\$ 3.29	\$ 2.26	\$ 2.63
Diluted earnings per ordinary share	\$ 3.23	\$ 2.21	\$ 2.57
Outstanding performance share units excluded from the computation of diluted earnings per ordinary share (thousands of shares) ⁽¹⁾	401	284	—

⁽¹⁾ Outstanding performance share units were not included in the computation of diluted earnings per ordinary share because they are not expected to vest based on the Company's current assessment of the related performance obligations.

As of June 28, 2019, June 29, 2018 and June 30, 2017, there were no anti-dilutive share options.

6. Cash, cash equivalents and short-term investments

The Company's cash, cash equivalents, and short-term investments can be analyzed as follows:

<i>(amount in thousands)</i>	Carrying Cost	Unrealized Gain/ (Loss)	Fair Value		
			Cash and Cash Equivalents	Marketable Securities	Other Investments
As of June 28, 2019					
Cash	\$ 178,019	\$ —	\$ 178,019	\$ —	\$ —
Cash equivalents	2,820	—	2,820	—	—
Liquidity funds	20,552	—	—	—	20,552
Certificates of deposit and time deposits	35,028	—	—	—	35,028
Corporate bonds and commercial papers	130,959	297	—	131,256	—
U.S. agency and U.S. treasury securities	69,552	105	—	69,657	—
Total	<u>\$436,930</u>	<u>\$ 402</u>	<u>\$ 180,839</u>	<u>\$ 200,913</u>	<u>\$ 55,580</u>

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<i>(amount in thousands)</i>	Carrying Cost	Unrealized Gain/ (Loss)	Fair Value		
			Cash and Cash Equivalents	Marketable Securities	Other Investments
As of June 29, 2018					
Cash	\$ 146,778	\$ —	\$ 146,778	\$ —	\$ —
Cash equivalents	11,324	—	11,324	—	—
Liquidity funds	—	—	—	—	—
Certificates of deposit and time deposits	—	—	—	—	—
Corporate bonds and commercial papers	128,441	(736)	—	127,705	—
U.S. agency and U.S. treasury securities	43,734	(324)	—	43,410	—
Sovereign and municipal securities	3,185	(31)	—	3,154	—
Total	<u>\$ 333,462</u>	<u>\$ (1,091)</u>	<u>\$ 158,102</u>	<u>\$ 174,269</u>	<u>\$ —</u>

The cash equivalents include short-term bank deposits, investments in money market funds, and marketable securities with maturities of three months or less at the date of purchase. The effective interest rate on short term bank deposits was 1.9% and 0.8% per annum for the years ended June 28, 2019 and June 29, 2018, respectively.

As of June 28, 2019 and June 29, 2018, 58% and 49%, respectively, of our cash and cash equivalents were held by the Parent Company.

The following table summarizes the cost and estimated fair value of marketable securities classified as available-for-sale securities based on stated effective maturities as of June 28, 2019:

<i>(amount in thousands)</i>	Carrying Cost	Fair Value
Due within one year	\$ 69,746	\$ 69,830
Due between one to five years	130,765	131,083
Total	<u>\$ 200,511</u>	<u>\$ 200,913</u>

During the year ended June 28, 2019, the Company recognized a realized gain of \$0.2 million from sales and maturities of available-for-sale securities.

As of June 28, 2019 and June 29, 2018, the Company considered the declines in market value of its short-term investment portfolio to be temporary in nature and did not consider any of its securities other-than-temporarily impaired. The Company typically invests in highly-rated securities, and its investment policy generally limits the amount of credit exposure to any one issuer. The policy requires investments generally to be investment grade, with the primary objective of minimizing the potential risk of principal loss. Fair values were determined for each individual security in the investment portfolio. When evaluating an investment for other-than-temporary impairment, the Company reviews factors such as the length of time and extent to which fair value has been below its cost basis, the financial condition of the issuer and any changes thereto, changes in market interest rates, and the Company's intent to sell, or whether it is more likely than not it will be required to sell, the investment before recovery of the investment's cost basis. No impairment losses were recorded for the years ended June 28, 2019 and June 29, 2018.

As of June 28, 2019 and June 29, 2018, cash, cash equivalents, and short-term investments included a bank deposit of \$40.0 million held in various financial institutions located in the United States in order to support the availability of the Facility Agreement and comply with covenants. Under the terms and conditions of the Facility Agreement, the Company shall maintain cash, cash equivalents and/or marketable securities in an

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aggregate amount not less than \$40.0 million in unencumbered deposits, and/or securities in accounts located in the United States at all times during the term of the Facility Agreement. As discussed in Note 15, the Company must comply with this covenant from and after the effective date of the Facility Agreement.

7. Fair Value

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

<i>(amount in thousands)</i>	Fair Value Measurements at Reporting Date			
	Using			Total
As of June 28, 2019	Level 1	Level 2	Level 3	
Assets				
Cash equivalents	\$ —	\$ 2,820	\$ —	\$ 2,820
Liquidity funds	—	20,552	—	20,552
Certificates of deposit and time deposits	—	35,028	—	35,028
Corporate bonds and commercial papers	—	131,256	—	131,256
U.S. agency and U.S. treasury securities	—	69,657	—	69,657
Derivative assets	—	2,201 ⁽¹⁾	—	2,201
Total	\$ —	\$261,514	\$ —	\$261,514
Liabilities				
Derivative liabilities	\$ —	\$ 2,591 ⁽²⁾	\$ —	\$ 2,591
Total	\$ —	\$ 2,591	\$ —	\$ 2,591

<i>(amount in thousands)</i>	Fair Value Measurements at Reporting Date			
	Using			Total
As of June 29, 2018	Level 1	Level 2	Level 3	
Assets				
Cash equivalents	\$ —	\$ 11,324	\$ —	\$ 11,324
Liquidity funds	—	—	—	—
Certificates of deposit and time deposits	—	—	—	—
Corporate bonds and commercial papers	—	127,705	—	127,705
U.S. agency and U.S. treasury securities	—	43,410	—	43,410
Sovereign and municipal securities	—	3,154	—	3,154
Derivative assets	—	—	—	—
Total	\$ —	\$185,593	\$ —	\$185,593
Liabilities				
Derivative liabilities	\$ —	\$ 1,745 ⁽³⁾	\$ —	\$ 1,745
Total	\$ —	\$ 1,745	\$ —	\$ 1,745

⁽¹⁾ Foreign currency forward contracts with notional amount of \$72.0 million and Canadian dollars 0.6 million.

⁽²⁾ Interest rate swap agreement with an outstanding amount of \$60.9 million.

⁽³⁾ Foreign currency forward contracts with notional amount of \$7.0 million and Canadian dollars 0.4 million. Foreign currency option contracts with notional amount of \$30.0 million.

Derivative Financial Instruments

As a result of foreign currency rate fluctuations, the U.S. dollar equivalent values of the Company's foreign currency denominated assets and liabilities change. The Company uses foreign currency contracts to manage the foreign exchange risk associated with certain foreign currency denominated assets and liabilities and other foreign currency transactions. The Company minimizes the credit risk in derivative instruments by limiting its exposure to any single counterparty and by entering into derivative instruments only with counterparties that meet the Company's minimum credit quality standard. As of June 28, 2019, the Company recognized the fair value of foreign currency forward contracts of \$2.2 million as derivative assets in the consolidated balance sheets under other current assets and the Company recognized the fair value of interest rate swap agreement of \$2.6 million as derivative liabilities in the consolidated balance sheets under other current liabilities. As of June 29, 2018, the Company recognized the fair value of foreign currency forward contracts of \$1.7 million as derivative liabilities in the consolidated balance sheets under other current liabilities.

As of June 28, 2019 and June 29, 2018, the Company had no foreign currency forward contracts designated as cash flow hedges. During the year ended June 30, 2017, the Company discontinued cash flow hedges and recognized a gain from unwinding foreign currency forward contracts of \$0.3 million as foreign exchange gain, net in the consolidated statements of operations and comprehensive income.

As of June 28, 2019, the Company had forty-five outstanding foreign currency forward contracts with an aggregate notional amount of \$72.0 million and one foreign currency forward contract with notional amount of Canadian dollars 0.6 million with maturity dates from July through September 2019. These foreign currency forward contracts were not designated for hedge accounting and were used to hedge fluctuations in the U.S. dollar value of forecasted transactions denominated in Thai baht and Canadian dollars. During the year ended June 28, 2019, the Company included unrealized gain of \$4.8 million from changes in fair value of foreign currency contracts in earnings as foreign exchange gain (loss), net in the consolidated statements of operations and comprehensive income.

As of June 29, 2018, the Company had five outstanding foreign currency forward contracts with notional amount of \$7.0 million, four outstanding foreign currency option contracts with notional amount of \$30.0 million and one foreign currency forward contract with notional amount of Canadian dollars 0.4 million with maturity dates from July through October 2018. These foreign currency forward and option contracts were not designated for hedge accounting and were used to hedge fluctuations in the U.S. dollar value of forecasted transactions denominated in Thai baht and Canadian dollars. During the year ended June 29, 2018, the Company included unrealized loss of \$1.7 million from changes in fair value of foreign currency contracts in earnings as foreign exchange loss, net in the consolidated statements of operations and comprehensive income.

8. Trade accounts receivable, net

<i>(amount in thousands)</i>	As of June 28, 2019	As of June 29, 2018
Trade accounts receivable	\$260,698	\$246,972
Less: Allowance for doubtful account	(96)	(60)
Trade accounts receivable, net	<u>\$260,602</u>	<u>\$246,912</u>

9. Inventory

<i>(amount in thousands)</i>	<u>As of June 28, 2019</u>	<u>As of June 29, 2018</u>
Raw materials	\$ 115,008	\$ 100,241
Work in progress	142,039	121,797
Finished goods	24,916	20,690
Goods in transit	13,645	17,516
	<u>295,608</u>	<u>260,244</u>
Less: Inventory obsolescence	(1,996)	(2,557)
Inventory, net	<u>\$293,612</u>	<u>\$257,687</u>

10. Restricted cash

As of June 28, 2019, the Company had an outstanding standby letter of credit of 6.0 million Euros related to the Company's support of a customer with the transfer of certain manufacturing operations from Berlin, Germany to the Company's facilities in Thailand. As of June 28, 2019, the standby letter of credit was backed by cash collateral of \$7.4 million. As of June 29, 2018, the Company had a restricted cash balance of \$3.3 million in connection with business acquisitions.

11. Business acquisition

On September 14, 2016, the Company acquired 100% shareholding in Fabrinet UK for cash consideration of approximately \$13.0 million, net of \$0.5 million cash acquired. Fabrinet UK provides contract electronics manufacturing services to the global electronics industry with innovative solutions, adding value to the design, manufacture and testing of printed circuit board assemblies. Pursuant to the acquisition agreement, the Company placed \$3.4 million of cash, net of foreign currency translation adjustment, for deferred consideration in an escrow account which is under the Company's control. However, the Company contractually agreed to remit this deferred consideration to the sellers of Fabrinet UK, subject to the resolution of claims that the Company may make against the funds with respect to indemnification and other claims, within 24 months from the closing date of the transaction.

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

The allocation of consideration to the individual net assets acquired was finalized in the fourth quarter of fiscal year 2017. As the functional currency of Fabrinet UK is pound sterling ("GBP"), for the year ended June 28, 2019, the Company recognized a \$0.6 million loss from foreign currency translation adjustment in its consolidated statements of operations and comprehensive income, under other comprehensive (loss) income, net of tax.

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

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

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

In connection with the Company's acquisition of Fabrinet UK, the Company assumed lease agreements for certain machine and equipment, which are accounted for as capital leases. As of June 28, 2019, the Company included approximately \$0.9 million of capital lease assets and \$0.5 million of capital lease liability in the consolidated balance sheets associated with these acquired lease agreements.

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

During the year ended June 28, 2019 and June 29, 2018 there were no transaction costs related to the acquisition.

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

Identifiable intangibles

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

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

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

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

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Goodwill

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

12. Property, plant and equipment, net

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

<i>(amount in thousands)</i>	<u>Land and Land Improvements</u>	<u>Building and Building Improvements</u>	<u>Manufacturing Equipment</u>	<u>Office Equipment</u>	<u>Motor Vehicles</u>	<u>Computers</u>	<u>Construction and Machinery Under Installation</u>	<u>Total</u>
As of June 28, 2019								
Cost	\$ 45,080	\$ 142,909	\$ 163,795	\$ 5,029	\$ 870	\$ 13,987	\$ 10,815	\$ 382,485
Less: Accumulated depreciation	(11)	(44,736)	(110,980)	(3,656)	(658)	(10,900)	—	(170,941)
Less: Impairment reserve	—	—	(856)	—	—	(2)	—	(858)
Net book value	<u>\$ 45,069</u>	<u>\$ 98,173</u>	<u>\$ 51,959</u>	<u>\$ 1,373</u>	<u>\$ 212</u>	<u>\$ 3,085</u>	<u>\$ 10,815</u>	<u>\$ 210,686</u>
As of June 29, 2018								
Cost	\$ 45,080	\$ 139,342	\$ 141,869	\$ 7,582	\$ 456	\$ 21,250	\$ 8,762	\$ 364,341
Less: Accumulated depreciation	(6)	(38,265)	(86,989)	(4,454)	(334)	(14,653)	—	(144,701)
Net book value	<u>\$ 45,074</u>	<u>\$ 101,077</u>	<u>\$ 54,880</u>	<u>\$ 3,128</u>	<u>\$ 122</u>	<u>\$ 6,597</u>	<u>\$ 8,762</u>	<u>\$ 219,640</u>

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

Leased assets included in manufacturing equipment comprise certain machine and equipment from capital lease agreements assumed from the acquisition of Fabrinet UK.

<i>(amount in thousands)</i>	<u>As of June 28, 2019</u>	<u>As of June 29, 2018</u>
Cost—Capital leases	\$ 2,034	2,481
Less: Accumulated depreciation	(1,090)	(1,043)
Net book value	<u>\$ 944</u>	<u>1,438</u>

Depreciation expense amounted to \$28.7 million, \$27.4 million and \$22.5 million for the years ended June 28, 2019, June 29, 2018 and June 30, 2017, respectively, and has been allocated between cost of revenues and selling, general and administrative expenses in the consolidated statements of operations and comprehensive income.

The cost of fully depreciated property, plant and equipment written-off during the years ended June 28, 2019, June 29, 2018 and June 30, 2017 amounted to \$2.0 million, \$3.5 million and \$5.4 million, respectively.

During the year ended June 28, 2019 the Company recognized impairment reserves for property, plant and equipment of \$0.9 million. During the year ended June 29, 2018, no impairment was recognized for property, plant and equipment.

During the year ended June 28, 2019 and June 29, 2018, the Company had no borrowing costs capitalized.

13. Intangibles

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

<i>(amount in thousands)</i>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Foreign Currency Translation Adjustment</u>	<u>Net</u>
As of June 28, 2019				
Software	\$ 6,582	\$ (4,868)	\$ —	\$1,714
Customer relationships	4,373	(2,096)	(104)	2,173
Backlog	119	(119)	—	—
Total intangibles	\$11,074	\$ (7,083)	\$ (104)	\$3,887

<i>(amount in thousands)</i>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Foreign Currency Translation Adjustment</u>	<u>Net</u>
As of June 29, 2018				
Software	\$ 6,269	\$ (4,324)	\$ —	\$1,945
Customer relationships	4,373	(1,413)	(42)	2,918
Backlog	119	(101)	(1)	17
Total intangibles	\$10,761	\$ (5,838)	\$ (43)	\$4,880

In connection with the acquisition of Fabrinet UK, the Company recorded \$4.4 million of customer relationships and \$0.1 million of backlog in the consolidated balance sheets. As of June 28, 2019, the weighted-average remaining life of customer relationships was 5.4 years. As of June 29, 2018, the weighted-average remaining life of customer relationships and backlog was 6.1 years and 0.9 years, respectively.

The Company recorded amortization expense relating to intangibles of \$1.2 million, \$1.7 million and \$1.2 million for the years ended June 28, 2019, June 29, 2018 and June 30, 2017, respectively.

As of June 28, 2019, the estimated future amortization of intangible assets during each fiscal year was as follows:

<i>(amount in thousand)</i>	
2020	\$1,359
2021	952
2022	707
2023	445
2024	231
Thereafter	193
Total	\$3,887

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14. Goodwill

In connection with the acquisition of Fabrinet UK, the Company recorded \$3.8 million of goodwill in the consolidated balance sheets.

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

<i>(amount in thousands)</i>	<u>Goodwill</u>
Balance as of June 29, 2018	\$ 3,828
Foreign currency translation adjustment	(123)
Balance as of June 28, 2019	<u>\$ 3,705</u>

Goodwill is not deductible for tax purposes. Goodwill is reviewed annually for impairment or more frequently whenever changes or circumstances indicate the carrying amount of goodwill may not be recoverable. As of June 28, 2019, the Company performed the annual impairment test for goodwill, which indicated there was no goodwill impairment.

15. Borrowings

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

(amount in thousands)

<u>Rate ⁽¹⁾</u>	<u>Conditions</u>	<u>Maturity</u>	<u>As of June 28, 2019</u>	<u>As of June 29, 2018</u>
Short-term borrowing:				
Current portion of long-term borrowing			\$ 3,250	\$ 3,250
Long-term borrowing:				
Term loan borrowing:				
LIBOR +1.50% per annum	Repayable in quarterly installments	June 2023	\$ 60,938	\$ 64,188
			60,938	64,188
Less: Current portion			(3,250)	(3,250)
Non-current portion of long-term borrowing			<u>\$ 57,688</u>	<u>\$ 60,938</u>

⁽¹⁾ LIBOR is London Interbank Offered Rate.

The movements of long-term borrowings were as follows for the years ended June 28, 2019 and June 29, 2018:

<i>(amount in thousands)</i>	<u>Years ended</u>	
	<u>June 28, 2019</u>	<u>June 29, 2018</u>
Opening net book amount	\$64,188	\$ 36,400
Additional loan during the period	—	39,000
Repayment during the period	(3,250)	(11,212)
Closing net book amount	<u>\$60,938</u>	<u>\$ 64,188</u>

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As of June 28, 2019, the future maturities of long-term borrowings during each fiscal year were as follows:

<i>(amount in thousand)</i>	
2020	\$ 3,250
2021	3,250
2022	3,250
2023	51,188
Total	<u>\$ 60,938</u>

Credit facilities:

The Company entered into a syndicated senior credit facility agreement (the "Facility Agreement") with a consortium of banks on May 22, 2014. The Facility Agreement, led by Bank of America, provided for a \$200.0 million credit line, comprised of a \$150.0 million revolving loan facility and a \$50.0 million delayed draw term loan facility. The revolving loan facility contained an accordion feature permitting Fabrinet to request an increase in the facility up to \$100.0 million subject to customary terms and conditions and provided that no default or event of default exists at the time of request.

On February 26, 2015, the Company entered into the Second Amendment to the Facility Agreement, which extended the availability period for draws on the term loan facility from May 21, 2015 to July 31, 2015 and allowed the Company, upon the satisfaction of certain conditions, to designate from time to time one or more of its subsidiaries as borrowers under the Facility Agreement. On July 31, 2015, the Company entered into the Third Amendment to the Facility Agreement, which extended the availability period for draws on the term loan facility from July 31, 2015 to July 31, 2016. On July 22, 2016, the Company entered into the Fourth Amendment to the Facility Agreement to change the timing of filing certain financial information with the bank.

On June 4, 2018, the Company entered into the Fifth Amendment to the Facility Agreement to (i) reduce the revolving commitments thereunder from \$150.0 million to \$25.0 million, (ii) extend the termination date of the revolving commitments from May 22, 2019 to June 4, 2023, (iii) refinance the then-existing term loan and revolving loans under the Facility Agreement into a \$65.0 million term loan, and (iv) reduce the applicable interest rate margins and commitment fees. Term loans must be repaid in quarterly installments, beginning on June 30, 2018, with the remaining outstanding principal and accrued and unpaid interest being due and payable on June 4, 2023. After giving effect to the amendment, \$65.0 million aggregate principal amount of term loans and no revolving loans were outstanding under the Facility Agreement. In addition, the Fifth Amendment contains an accordion feature permitting the Company to request an increase in the revolving loan facility to provide up to an aggregate of \$200.0 million in additional commitments, subject to customary terms and conditions, and provided that no default or event of default exists at the time of such request. As of June 28, 2019 and June 29, 2018, \$60.9 million and \$64.2 million aggregate principal amount of term loans, respectively, and no revolving loans were outstanding under the Facility Agreement.

As a result of the Fifth Amendment, loans under the Facility Agreement bear interest, at Fabrinet's option, at a rate per annum equal to a LIBOR rate plus a spread of 1.50% to 2.25%, or a base rate plus a spread of 0.50% to 1.25%, determined in accordance with the Facility Agreement in each case with such spread determined based on Fabrinet's consolidated total leverage ratio for the preceding four fiscal quarter period.

Interest is due and payable monthly in arrears for loans bearing interest at the base rate and at the end of an interest period (or at each three-month interval in the case of loans with interest periods greater than three months) in the case of loans bearing interest at the LIBOR rate.

Fabrinet's obligations under the Facility Agreement are guaranteed by certain existing and future material subsidiaries. In addition, the Facility Agreement is secured by Fabrinet's present and future accounts receivable, deposit accounts and cash, and a pledge of the capital stock of certain of Fabrinet's direct subsidiaries. Fabrinet is required to maintain at least \$40.0 million of cash, cash equivalents, and marketable

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securities at financial institutions located in the United States. Further, Fabrinet is required to maintain any of its deposits accounts or securities accounts with balances in excess of \$20.0 million in a jurisdiction where a control agreement, or the equivalent under the local law, can be effected.

The Facility Agreement contains customary affirmative and negative covenants. Negative covenants include, among other things, limitations on liens, indebtedness, investments, mergers, sales of assets, changes in the nature of the business, dividends and distributions, affiliate transactions and capital expenditures. The Facility Agreement contains financial covenants requiring Fabrinet to maintain: (1) a minimum tangible net worth of not less than \$338.0 million plus 50% of quarterly net income after June 30, 2018, exclusive of quarterly losses; (2) a minimum debt service coverage ratio of not less than 1.50:1.00; (3) a maximum total leverage ratio of not more than 2.50:1.00; and (4) a minimum quick ratio of not less than 1.10:1.00. Each of these financial covenants is calculated on a consolidated basis for the consecutive four fiscal quarter period then ended. As of June 28, 2019, the Company was in compliance with all covenants under the Facility Agreement.

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

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

On July 25, 2018, the Company entered into the Swap Agreement, which is used to mitigate interest rate risk and improve the interest rate profile of the Company's debt obligations by converting the floating interest rate of term loans under the Facility Agreement to a fixed interest rate of 2.86% per annum through maturity in June 2023. The Company has not designated the Swap Agreement as a hedging instrument. Swap transactions are due and settled monthly. During the year ended June 28, 2019, the Company included a net loss of \$0.3 million from the Swap Agreement in interest expense in the consolidated statements of operations and comprehensive income.

Short-term borrowings from bank

In connection with the acquisition of Fabrinet UK in the first quarter of fiscal year 2017, the Company assumed a secured borrowing agreement. In the first quarter of fiscal year 2018, the Company fully repaid these short-term loans and sent a notification letter to the bank to terminate this secured borrowing agreement. As a result, the bank released secured trade accounts receivable and the way chattels mortgage over the plant and machine of Fabrinet UK.

Undrawn available credit facilities classified by available period of future borrowing as of June 28, 2019 and June 29, 2018 were as follows:

<i>(amount in thousands)</i>	June 28, 2019	June 29, 2018
Expiring within one year	\$ —	\$ —
Expiring beyond one year	\$ 25,000	\$ 25,000

16. Severance liabilities

The following table provides information regarding severance liabilities:

<i>(amount in thousands)</i>	Years Ended	
	June 28, 2019	June 29, 2018
Changes in severance liabilities		
Balance, beginning of the fiscal year	\$ 10,390	\$ 8,753
Current service cost	\$ 2,345	\$ 1,751
Prior service cost	2,537	—
Interest cost	352	301
Benefit paid	(274)	(3,260)
Curtailment gain	—	707
Actuarial loss on obligation	130	2,137
Foreign currency translation	(7)	1
Balance, end of the fiscal year	<u>\$ 15,473</u>	<u>\$ 10,390</u>
Changes in plan assets		
Balance, beginning of the fiscal year	\$ 299	\$ 302
Actual return on plan assets	\$ (7)	\$ 4
Employer contributions	36	39
Benefit paid	—	(48)
Foreign currency translation	(11)	2
Balance, end of the fiscal year	<u>\$ 317</u>	<u>\$ 299</u>
Underfunded status	<u>\$ (15,156)</u>	<u>\$ (10,091)</u>

⁽¹⁾ Prior service cost is the change in Projected Benefit Obligation resulting from changes to employee benefits from local law changes.

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

<i>(amount in thousands)</i>	As of June 28, 2019	As of June 29, 2018
Non-current assets	\$ 53	\$ 71
Non-current liabilities	\$ 15,209	\$ 10,162

The following table provides information regarding accumulated benefit obligations:

<i>(amount in thousands)</i>	As of June 28, 2019	As of June 29, 2018
Accumulated benefit obligations	\$ 10,208	\$ 6,943

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The following table sets forth the plan assets at fair value as of June 28, 2019.

(amount in thousands)

	Fair value measurement as of June 28, 2019		
	Total	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:			
Other ⁽¹⁾	\$ 317	\$ 183	\$ 134
Total Assets	\$ 317	\$ 183	\$ 134

⁽¹⁾ The "Other" category represents the bid value of the trustees' insurance policy held with Old Mutual Wealth and the value of assets held with Royal London.

The Trustees have chosen to invest in the following funds:

Fund	% of Total
Old Mutual Wealth Invesco Perpetual High Income	43%
Old Mutual Wealth Creation Balanced Portfolio	15%
Royal London Corporate Pension Services Limited	42%

The Old Mutual Wealth assets are administered on unit-linked principles and allow access to a range of funds; these have been treated as Level 2 fair value measurement.

The Royal London assets are administered on a deposit administration basis. This is similar to a with profits fund but with a lower exposure to the stock market. The policy is to majorly invest in UK Government bonds and Corporate bonds in which there is a constant rate of return reset annually. These assets are considered as unobservable inputs and have been treated as Level 3 fair value measurement.

The principal actuarial assumptions used were as follows:

Weighted average actuarial assumptions used to determine severance liabilities

	Years Ended		
	June 28, 2019	June 29, 2018	June 30, 2017
Discount rate	2.3% - 3.2%	2.5% - 3.7%	1.9% - 3.6%
Future salary increases	3.5% - 10.0%	3.5% - 10.0%	3.5% - 10.0%

Weighted average actuarial assumptions used to determine benefit costs

	Years Ended		
	June 28, 2019	June 29, 2018	June 30, 2017
Discount rate	2.5% - 3.7%	1.9% - 3.6%	2.0% - 3.2%
Expected long-term rate of return on assets	1.6%	1.9%	1.5%

17. Share-based compensation

Share-based compensation

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

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The effect of recording share-based compensation expense for the years ended June 28, 2019, June 29, 2018 and June 30, 2017 was as follows:

<i>(amount in thousands)</i>	Years Ended		
	June 28, 2019	June 29, 2018	June 30, 2017
Share-based compensation expense by type of award:			
Restricted share units	\$ 14,691	\$ 17,143	\$ 22,412
Performance share units	2,466	5,438	4,095
Total share-based compensation expense	17,157	22,581	26,507
Tax effect on share-based compensation expense	—	—	—
Net effect on share-based compensation expense	<u>\$ 17,157</u>	<u>\$ 22,581</u>	<u>\$ 26,507</u>

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

<i>(amount in thousands)</i>	Years Ended		
	June 28, 2019	June 29, 2018	June 30, 2017
Cost of revenue	\$ 5,656	\$ 6,784	\$ 5,318
Selling, general and administrative expense	11,501	15,797	21,189
Total share-based compensation expense	<u>\$ 17,157</u>	<u>\$ 22,581</u>	<u>\$ 26,507</u>

The Company did not capitalize any share-based compensation expense as part of any asset costs during the years ended June 28, 2019, June 29, 2018 and June 30, 2017.

Share-based award activity

Fabrinet maintains the following equity incentive plans: the Amended and Restated 2010 Performance Incentive Plan (the “2010 Plan”) and the 2017 Inducement Equity Incentive Plan (the “2017 Inducement Plan”). The 2010 Plan and 2017 Inducement Plan are collectively referred to as the “Equity Incentive Plans”.

On December 14, 2017, Fabrinet’s shareholders adopted an amendment to the 2010 Plan to increase the number of ordinary shares authorized for issuance under the 2010 Plan by 2,100,000 shares. As of June 28, 2019, there were an aggregate of 764,261 restricted share units outstanding and 451,194 performance share units outstanding under the 2010 Plan. As of June 28, 2019, there were 1,832,949 ordinary shares available for future grant under the 2010 Plan.

On November 2, 2017, Fabrinet adopted 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. As of June 28, 2019, there were an aggregate of 36,490 restricted share units outstanding and 97,306 performance share units outstanding under the 2017 Inducement Plan. As of June 28, 2019, there were 14,041 ordinary shares available for future grant under the 2017 Inducement Plan.

Share options

Share options have been granted to directors and employees. Fabrinet’s board of directors has the authority to determine the type of option and the number of shares subject to an option. Options generally vest and become exercisable over four years and expire, if not exercised, within seven years of the grant date. In the case of a grantee’s first grant, 25 percent of the underlying shares vest 12 months after the vesting

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

The following table summarizes share option activity under the 2010 Plan:

	Number of Shares	Number of Exercisable Options	Weighted- Average Exercise Price	Weighted- Average Grant Date Fair Value
Balance as of June 24, 2016	464,334	464,334	\$ 15.95	
Granted	—		—	—
Exercised	(367,641)		\$ 16.02	
Forfeited	—		—	
Expired	(5)		\$ 5.75	
Balance as of June 30, 2017	96,688	96,688	\$ 15.70	
Granted	—		—	—
Exercised	(92,288)		\$ 16.02	
Forfeited	—		—	
Expired	(1,500)		\$ 5.75	
Balance as of June 29, 2018	2,900	2,900	\$ 15.16	
Granted	—		—	—
Exercised	—		—	
Forfeited	—		—	
Expired	(2,900)		\$ 15.16	
Balance as of June 28, 2019	—	—	—	

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

The total fair value of share options vested during the years ended June 28, 2019, June 29, 2018 and June 30, 2017 was nil. The total intrinsic value of options exercised during the years ended June 28, 2019, June 29, 2018 and June 30, 2017 was nil, \$2.0 million and \$8.9 million, respectively. In conjunction with these option exercises, there was no tax benefit realized by the Company due to the fact that it is exempted from income tax.

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

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

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

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

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

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Vesting Period—Fabrinet’s share options generally vest and become exercisable over a four-year period, and expire seven years from the date of grant. For an initial grant, 25 percent of the underlying shares subject to an option vest 12 months after the vesting commencement date and 1/48 of the underlying shares vest monthly over each of the subsequent 36 months. In the case of any additional grants to an optionholder, 1/48 of the underlying shares subject to an option vest monthly over four years, commencing one month after the vesting commencement date.

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

Restricted share units and performance share units

Restricted share units and performance share units have been granted under the 2010 Plan and the 2017 Inducement Plan.

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

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

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 24, 2016	1,181,402	\$ 18.34
Granted	861,356	\$ 38.95
Issued	(853,535)	\$ 21.16
Forfeited	(130,618)	\$ 29.31
Balance as of June 30, 2017	1,058,605	\$ 31.59
Granted	552,637	\$ 35.95
Issued	(436,867)	\$ 27.81
Forfeited	(100,795)	\$ 33.62
Balance as of June 29, 2018	1,073,580	\$ 35.19
Granted	391,328	\$ 50.02
Issued	(515,482)	\$ 34.18
Forfeited	(148,675)	\$ 38.42
Balance as of June 28, 2019	800,751	\$ 42.48
Expected to vest as of June 28, 2019	718,687	\$ 42.36

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 24, 2016	—	—
Granted	234,678	\$ 40.48
Issued	—	—
Forfeited	(7,410)	—
Balance as of June 30, 2017	227,268	\$ 40.48
Granted	378,624	\$ 37.16
Issued	—	—
Forfeited	—	—
Balance as of June 29, 2018	605,892	\$ 38.41
Granted	201,994	\$ 48.02
Issued	(227,268)	\$ 40.48
Forfeited	(32,118)	\$ 40.47
Balance as of June 28, 2019	548,500	\$ 40.97
Expected to vest as of June 28, 2019	<u>488,306</u>	\$ 40.93

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

The total fair value of restricted share units and performance share units vested during the year ended June 28, 2019, June 29, 2018 and June 30, 2017 was \$26.8 million, \$12.2 million and \$18.1 million, respectively. The aggregate intrinsic value of restricted share units and performance share units outstanding as of June 28, 2019 was \$67.0 million.

As of June 28, 2019, there was \$12.7 million and \$1.8 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 2.6 years and 1.2 years, respectively.

For the years ended June 28, 2019 and June 29, 2018, the Company withheld an aggregate of 235,730 shares and 145,918 shares, respectively, upon the vesting of restricted share units, based upon the closing share price on the vesting date to settle the employees' minimum statutory obligation for the applicable income and other employment taxes. For the years ended June 28, 2019 and June 29, 2018, the Company then remitted cash of \$10.6 million and \$5.5 million, respectively, to the appropriate taxing authorities, and presented it as a financing activity within the consolidated statements of cash flows. The payment had the effect on shares issued by the Company as it reduced the number of shares that would have been issued on the vesting date and was recorded as a reduction of additional paid-in capital.

18. Employee benefit plans

Employee contribution plan

The Company operates a defined contribution plan, known as a provident fund, in its subsidiaries in Thailand and the United Kingdom. The assets of these plans are in separate trustee-administered funds. The provident fund is funded by matching payments from employees and by the subsidiaries on a monthly basis. Current contributions to the provident fund are accrued and paid to the fund manager on a monthly basis. The Company's contributions to the provident fund amounted to \$4.8 million, \$4.2 million and \$3.6 million during the years ended June 28, 2019, June 29, 2018 and June 30, 2017, respectively.

The Company sponsors the Fabrinet U.S. 401(k) Retirement Plan (“401(k) Plan”), a Defined Contribution Plan under ERISA, at its subsidiaries in the United States which provides retirement benefits for eligible employees through tax deferred salary deductions. The 401(k) Plan allows employees to contribute up to 80% of their annual compensation, subject to annual contributions limits established by the Internal Revenue Service. The Company provides for a 100% match of employees’ contributions to the 401(k) Plan up to the first 6% of annual compensation. All matching contributions are made in cash and vest immediately. The Company’s matching contributions to the 401(k) Plan were \$0.8 million, \$0.7 million and \$0.6 million during the years ended June 28, 2019, June 29, 2018 and June 30, 2017, respectively.

Executive incentive plan and employee performance bonuses

For the years ended June 28, 2019 and June 29, 2018, the Company maintained an executive incentive plan with quantitative objectives, based on achieving certain revenue and non-GAAP gross margin targets. During the years ended June 28, 2019, June 29, 2018 and June 30, 2017, discretionary merit-based bonus awards were also available to Fabrinet’s non-executive employees.

Bonus distributions to employees were \$7.6 million, \$4.0 million and \$7.6 million for the years ended June 28, 2019, June 29, 2018 and June 30, 2017, respectively.

19. Shareholders’ equity

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

For the year ended June 28, 2019, Fabrinet issued 507,020 ordinary shares upon the vesting of restricted share units and performance share units, net of shares withheld.

For the year ended June 29, 2018, Fabrinet issued 92,288 ordinary shares upon the exercise of options, for cash consideration at a weighted average exercise price of \$15.56 per share, and 290,949 ordinary shares upon the vesting of restricted share units, net of shares withheld.

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

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 and May 2019, the Company’s board of directors approved the increase of \$30.0 million and \$50 million, respectively, to the original share repurchase authorization, bringing the aggregate authorization to \$110.0 million.

During the year ended June 28, 2019, 100,000 shares were repurchased under the program, at an average price per share of \$53.78, totaling \$5.4 million. As of June 28, 2019, the Company had a remaining authorization to purchase up to an additional \$62.2 million worth of its ordinary shares under the share repurchase program. Shares repurchased under the share repurchase program are held as treasury shares.

20. Accumulated other comprehensive income (loss) (“AOCI”)

The changes in AOCI by component for the years ended June 28, 2019 and June 29, 2018 were as follows:

<i>(amount 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, 2017	\$ (72)	\$ 34	\$ —	\$ (310)	\$ (348)
Other comprehensive income before reclassification	(655)	—	—	111	(544)
Amounts reclassified from AOCI	(364)	(1)	—	—	(365)
Tax effects	—	—	—	—	—
Other comprehensive income	(1,019)	(1)	—	111	(909)
Balance as of June 29, 2018	(1,091)	33	—	(199)	(1,257)
Other comprehensive income before reclassification	1,845	—	(2,537)	(634)	(1,326)
Amounts reclassified from AOCI	198	(1)	—	—	197
Tax effects	—	—	—	—	—
Other comprehensive income	2,043	(1)	(2,537)	(634)	(1,129)
Balance as of June 28, 2019	\$ 952	\$ 32	\$ (2,537)	\$ (833)	\$ (2,386)

The following table presents the pre-tax amounts reclassified from AOCI into the consolidated statements of operations and comprehensive income for the years ended June 28, 2019 and June 29, 2018, respectively.

<i>(amount in thousands)</i>	Financial statements line item	Years ended	
		June 28, 2019	June 29, 2018
AOCI components			
Unrealized gains (losses) on available-for-sale securities	Interest income	\$ 198	\$ (364)
Unrealized gains on derivative instruments	Selling, general and administrative expenses	(1)	(1)
Total amounts reclassified from AOCI		\$ 197	\$ (365)

21. Commitments and contingencies

Letter of credit and Bank guarantees

As of June 28, 2019, the Company had an outstanding standby letter of credit of 6.0 million Euros related to the Company’s support of a customer with the transfer of certain manufacturing operations from Berlin, Germany to the Company’s facilities in Thailand. As of June 28, 2019, the standby letter of credit was backed by cash collateral of \$7.4 million.

As of June 28, 2019 and June 29, 2018, there were outstanding bank guarantees given by a bank on behalf of our subsidiary in Thailand for electricity usage and other normal business amounting to \$1.6 million and \$1.5 million, respectively.

Operating lease commitments

The Company leases a portion of its capital equipment, vehicle, and certain land and buildings for its facilities in Thailand, Cayman Islands, China, the United States and the United Kingdom under operating lease arrangements that expire in various years through 2023. Rental expense under these operating leases amounted to \$1.9 million, \$1.8 million and \$1.7 million for the years ended June 28, 2019, June 29, 2018 and June 30, 2017, respectively.

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As of June 28, 2019, the future minimum lease payments due under non-cancelable operating leases during each fiscal year were as follows:

<i>(amount in thousands)</i>	
2020	\$1,746
2021	1,342
2022	1,219
2023	1,172
Thereafter	230
Total future minimum operating lease payments	<u>\$5,709</u>

Capital lease commitments

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

As of June 28, 2019, the future minimum lease payments under non-cancelable capital leases during each fiscal year were as follows:

<i>(amount in thousands)</i>	
2020	\$410
2021	103
Total minimum capital lease payments	513
Less: Future finance charge on capital leases	(13)
Present value of capital lease	<u>\$500</u>

Representing capital lease liabilities

Current	\$398
Non-current	102
Total capital lease liabilities	<u>\$500</u>

As of June 28, 2019, the present value of capital lease during each fiscal year were as follows:

<i>(amount in thousands)</i>	
2020	\$398
2021	102
Total future minimum capital lease payments	<u>\$500</u>

Purchase obligations

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

As of June 28, 2019, the Company had an outstanding commitment to third parties of \$8.0 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.

22. Business segments and geographic information

Operating segments are defined as components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company's chief operating decision maker is Fabrinet's chief executive officer. As of June 28, 2019, June 29, 2018 and June 30, 2017, the Company operated and internally managed a single operating segment. Accordingly, the Company does not accumulate discrete information with respect to separate product lines and does not have separate reportable segments.

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

<i>(amount in thousands)</i>	Years Ended		
	June 28, 2019	June 29, 2018	June 30, 2017
North America	\$ 756,278	\$ 643,236	\$ 661,267
Asia-Pacific	608,386	519,203	539,317
Europe	219,671	209,486	219,906
Total	<u>\$ 1,584,335</u>	<u>\$ 1,371,925</u>	<u>\$ 1,420,490</u>

As of June 28, 2019 and June 29, 2018, the Company had approximately \$31.4 million and \$33.2 million, respectively, of long-lived assets based in North America, with the substantial remainder of assets based in Asia-Pacific.

The following table presents revenues by end market:

<i>(amount in thousands)</i>	Years Ended		
	June 28, 2019	June 29, 2018	June 30, 2017
Optical communications	\$ 1,184,936	\$ 1,000,256	\$ 1,108,637
Lasers, sensors, and other	399,399	371,669	311,853
Total	<u>\$ 1,584,335</u>	<u>\$ 1,371,925</u>	<u>\$ 1,420,490</u>

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Significant customers

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

	Years Ended		
	June 28, 2019	June 29, 2018	June 30, 2017
Lumentum Operations LLC	20%	16%	17%

Accounts receivable from individual customers representing 10% or more of accounts receivable as of June 28, 2019 and June 29, 2018, respectively, were as follows:

	As of June 28, 2019	As of June 29, 2018
	Lumentum Operations LLC	23%
NeoPhotonics Corporation	*	11%
Acacia Communications Inc.	12%	*

* Represents less than 10% of total accounts receivable.

23. Financial instruments

Objectives and significant terms and conditions

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

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

Foreign currency risk

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

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As of June 28, 2019 and June 29, 2018, the Company had outstanding foreign currency assets and liabilities as follows:

(amount in thousands)	As of June 28, 2019		As of June 29, 2018	
	Currency	\$	Currency	\$
Assets				
Thai baht	664,860	\$ 21,628	980,778	\$ 29,568
RMB	53,393	7,767	18,455	2,789
GBP	5,270	6,682	12,514	16,392
Total		<u>\$ 36,077</u>		<u>\$ 48,749</u>
Liabilities				
Thai baht	1,961,972	\$ 63,825	1,401,473	\$ 42,251
RMB	26,373	3,836	19,893	3,007
GBP	2,598	3,294	3,615	4,735
Total		<u>\$ 70,955</u>		<u>\$ 49,993</u>

The Thai baht assets represent cash and cash equivalents, trade accounts receivable, deposits and other current assets. The Thai baht liabilities represent trade accounts payable, accrued expenses, income tax payable and other payables. The Company manages its exposure to fluctuations in foreign exchange rates by the use of foreign currency contracts and offsetting assets and liabilities denominated in the same currency in accordance with management's policy. As of June 28, 2019 there were \$72.0 million of foreign currency forward contracts outstanding on the Thai baht payables. As of June 29, 2018, there were \$7.0 million of foreign currency forward contracts and \$30.0 million of foreign currency option 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 and other payables. As of June 28, 2019 and June 29, 2018, there were no derivative contracts denominated in RMB.

The GBP assets primarily represent cash, trade accounts receivable, inventory and property, plant and equipment. The GBP liabilities primarily represent trade accounts payable. As of June 28, 2019, there were no derivative contracts denominated in GBP.

For fiscal year 2019, fiscal year 2018, and fiscal year 2017, the Company recorded unrealized gain of \$4.8 million, unrealized loss of \$1.7 million, and unrealized gain of \$0.02 million, respectively, related to derivatives that are not designated as hedging instruments in its consolidated statements of operations and comprehensive income.

Interest Rate Risk

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

On July 25, 2018, the Company entered into the Swap Agreement, which the Company did not designate as a hedging instrument. The Swap Agreement was used to mitigate interest rate risk and improve the interest rate profile of the Company's debt obligations by converting the floating interest rate of the term loans under the Facility Agreement to the fixed interest rate of 2.86% per annum through maturity of the term loan in June 2023. The swap transactions are due and settled monthly.

24. Subsequent event

On July 8, 2019, the Company entered into a 16.2 million Euros standby letter of credit related to the Company's support of a customer with the transfer of certain manufacturing operations from Berlin, Germany to the Company's facilities in Thailand. The standby letter of credit was backed by cash collateral of \$22.1 million.

UNAUDITED QUARTERLY FINANCIAL INFORMATION

The following table sets forth a summary of the Company's quarterly financial information for each of the four quarters in the fiscal years ended June 28, 2019 and June 29, 2018:

<i>(in thousands, except per share data)</i>	Three Months Ended							
	Jun 28, 2019	Mar 29, 2019	Dec 28, 2018	Sep 28, 2018	Jun 29, 2018	Mar 30, 2018	Dec 29, 2017	Sep 29, 2017
Total revenues	\$ 405,127	\$ 398,951	\$ 403,080	\$ 377,177	\$ 345,327	\$ 332,213	\$ 337,072	\$ 357,313
Gross profit	\$ 46,626	\$ 46,758	\$ 45,564	\$ 40,276	\$ 38,981	\$ 36,933	\$ 37,166	\$ 40,332
Net income	\$ 32,957	\$ 28,635	\$ 31,513	\$ 27,850	\$ 22,768	\$ 21,053	\$ 19,313	\$ 21,033
Basic net income per share:								
Net income	\$ 0.89	\$ 0.78	\$ 0.86	\$ 0.76	\$ 0.62	\$ 0.56	\$ 0.52	\$ 0.56
Weighted-average shares used in basic net income per share calculations	36,836	36,891	36,841	36,625	36,828	37,275	37,477	37,447
Diluted net income per share:								
Net income	\$ 0.88	\$ 0.76	\$ 0.84	\$ 0.75	\$ 0.60	\$ 0.55	\$ 0.51	\$ 0.55
Weighted-average shares used in diluted net income per share calculations	37,511	37,539	37,471	37,140	37,766	38,055	38,156	38,163

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

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the three months ended June 28, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management’s Annual Report on Internal Control over Financial Reporting

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

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Management has assessed the effectiveness of our internal control over financial reporting as of June 28, 2019. In making this assessment, management used the criteria described in *Internal Control -Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”).

Based on their assessment, management concluded that we maintained effective internal control over financial reporting as of the end of fiscal year 2019, based on the criteria in *Internal Control — Integrated Framework* (2013) issued by COSO. The effectiveness of our internal control over financial reporting as of June 28, 2019 has been audited by PricewaterhouseCoopers ABAS Ltd., an independent registered public accounting firm, as stated in their report which appears herein.

ITEM 9B. OTHER INFORMATION.

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

Information responsive to this item is incorporated herein by reference to our definitive proxy statement with respect to our 2019 Annual Meeting of Shareholders to be filed with the SEC within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K (the “2019 Proxy Statement”).

ITEM 11. EXECUTIVE COMPENSATION.

Information responsive to this item is incorporated herein by reference to our 2019 Proxy Statement.

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

Information responsive to this item is incorporated herein by reference to our 2019 Proxy Statement.

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

Information responsive to this item is incorporated herein by reference to our 2019 Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

Information responsive to this item is incorporated herein by reference to our 2019 Proxy Statement.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

(a) The following documents are filed as part of, or incorporated by reference into, this Annual Report on Form 10-K:

1. *Financial Statements*: See Index to Consolidated Financial Statements under Item 8 of this Annual Report on Form 10-K.
2. *Financial Statement Schedules*: All schedules are omitted because they are not required, are not applicable or the information is included in the consolidated financial statements or notes thereto.
3. *Exhibits*: We have filed, or incorporated by reference into this Annual Report on Form 10-K, the exhibits listed in Item 15(b) of this Annual Report on Form 10-K.

(b) Exhibits:

EXHIBIT INDEX

Exhibit Number	Description	Form	Incorporated by reference herein		
			Exhibit No.	Filing Date	File No.
3.1	Amended and Restated Memorandum and Articles of Association	S-1/A	3.1	May 3, 2010	333-163258
4.1	Specimen Ordinary Share Certificate	S-1/A	4.1	June 14, 2010	333-163258
4.2	Description of Fabrinet's Securities				
10.1.1+	2010 Performance Incentive Plan, as amended and restated	8-K	10.1	December 15, 2017	001-34775
10.1.2+	2010 Performance Incentive Plan – Form of Share Option Agreement	10-Q	10.2	February 5, 2013	001-34775
10.1.3+	2010 Performance Incentive Plan – Form of Restricted Share Agreement	10-Q	10.3	February 5, 2013	001-34775
10.1.4+	2010 Performance Incentive Plan – Form of Restricted Share Unit Agreement	10-Q	10.4	February 5, 2013	001-34775
10.1.5+	2010 Performance Incentive Plan – Form of Performance Share Unit Agreement	10-Q	10.5	November 9, 2016	001-34775
10.2.1+	2017 Inducement Equity Incentive Plan	S-8	99.1.1	November 8, 2017	001-34755
10.2.2+	2017 Inducement Equity Incentive Plan – Form of Restricted Share Unit Agreement	S-8	99.1.2	November 8, 2017	001-34755
10.2.3+	2017 Inducement Equity Incentive Plan – Form of Performance-Based Restricted Share Unit Agreement	S-8	99.1.3	November 8, 2017	001-34755
10.3+	Letter agreement, dated May 1, 2019, regarding amendment of David T. Mitchell's PSUs	8-K	10.1	May 6, 2019	001-34755
10.3.1+	Letter agreement, dated August 14, 2019, regarding amendment of David T. Mitchell's RSUs	8-K	10.1	August 20, 2019	001-34755
10.4+	Offer letter, dated September 20, 2017, by and between Seamus Grady and Fabrinet	8-K	10.1	September 25, 2017	001-34755
10.5+	Change in Control and Severance Agreement, dated February 26, 2019, by and between Seamus Grady and Fabrinet	8-K	10.1	February 28, 2019	001-34755

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<u>Exhibit Number</u>	<u>Description</u>	<u>Form</u>	<u>Incorporated by reference herein</u>		
			<u>Exhibit No.</u>	<u>Filing Date</u>	<u>File No.</u>
10.6+	Amended and Restated Offer Letter, dated January 9, 2018, by and between Dr. Harpal Gill and Fabrinet USA, Inc.	8-K	10.1	May 8, 2018	001-34755
10.7+	Employment Agreement, dated July 1, 2007, by and between Dr. Harpal Gill and Fabrinet Co., Ltd.	S-1	10.5	November 7, 2007	333-147191
10.8+	Amended and Restated Offer Letter, dated January 9, 2018, between Toh-Seng Ng and Fabrinet USA, Inc.	8-K	10.2	May 8, 2018	001-34755
10.9+	Description of Fiscal 2019 Executive Incentive Plan	8-K, Item 5.02	N/A	August 20, 2018	001-34755
10.10+	Description of Fiscal 2020 Executive Incentive Plan	8-K, Item 5.02	N/A	August 20, 2019	001-34755
10.11+	Separation Agreement and Release, dated August 20, 2018, by and among Fabrinet, Fabrinet USA, Inc. and Dr. Hong Hou	8-K	10.1	August 20, 2018	001-34755
10.12+	Form of Indemnification Agreement	S-1/A	10.10	January 28, 2010	333-163258
10.13	Manufacturing Agreement, dated May 29, 2005, by and between the registrant and FBN New Jersey Holdings Corp.	S-1	10.10	November 7, 2007	333-147191
10.14	Manufacturing Agreement, dated January 2, 2000, by and between the registrant and Fabrinet Co., Ltd.	S-1	10.11	November 7, 2007	333-147191
10.15	Administrative Services Agreement, dated January 2, 2000, by and between the registrant and Fabrinet USA, Inc.	S-1	10.12	November 7, 2007	333-147191
10.16	Administrative Services Agreement, dated July 3, 2008, by and between the registrant and Fabrinet Pte. Ltd.	S-1	10.14	November 20, 2009	333-163258
10.17.1	Credit Agreement, dated as of May 22, 2014, by and among Fabrinet, the guarantors from time to time party thereto, the lenders from time to time party thereto and Bank of America, N.A. as administrative agent	8-K	10.1	May 23, 2014	001-34775

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<u>Exhibit Number</u>	<u>Description</u>	<u>Form</u>	<u>Incorporated by reference herein</u>		
			<u>Exhibit No.</u>	<u>Filing Date</u>	<u>File No.</u>
10.17.2	<u>First Amendment to Credit Agreement, effective as of September 25, 2014, by and among Fabrinet, the guarantors party thereto, the lenders party thereto and Bank of America, N.A. as administrative agent</u>	10-Q	10.1	November 5, 2014	001-34775
10.17.3	<u>Second Amendment to Credit Agreement, dated as of February 26, 2015, by and among Fabrinet, the guarantors party thereto, the lenders party thereto and Bank of America, N.A. as administrative agent</u>	8-K	10.1	March 2, 2015	001-34775
10.17.4	<u>Third Amendment to Credit Agreement, dated as of July 31, 2015, by and among Fabrinet, the designated borrowers party thereto, the guarantors party thereto, the lenders party thereto and Bank of America, N.A. as administrative agent</u>	8-K	10.1	August 5, 2015	001-34775
10.17.5	<u>Fourth Amendment to Credit Agreement, dated as of July 22, 2016, by and among Fabrinet, the designated borrowers party thereto, the guarantors party thereto, the lenders party thereto and Bank of America, N.A. as administrative agent</u>	10-Q	10.3	November 7, 2017	001-34775
10.17.6	<u>Fifth Amendment to Credit Agreement, dated as of June 4, 2018, by and among Fabrinet, the Designated Borrowers party thereto, the Guarantors party thereto, the lenders party thereto and Bank of America, N.A. as administrative agent.</u>	8-K	10.1	June 4, 2018	001-34775
10.18	<u>Security and Pledge Agreement, dated as of May 22, 2014, by and between Fabrinet and Bank of America, N.A. as administrative agent</u>	8-K	10.2	May 23, 2014	001-34775

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<u>Exhibit Number</u>	<u>Description</u>	<u>Form</u>	<u>Incorporated by reference herein</u>		
			<u>Exhibit No.</u>	<u>Filing Date</u>	<u>File No.</u>
10.19	Lease Agreement, dated July 1, 2013, by and between Donly Corporation and FBN New Jersey Manufacturing, Inc. DBA VitroCom	10-K	10.16	August 16, 2013	001-34775
10.20†	Primary Contract Manufacturing Agreement, dated January 1, 2008, by and between JDS Uniphase Corporation and the registrant	S-1/A	10.27	January 19, 2010	333-163258
21.1	List of Subsidiaries				
23.1	Consent of PricewaterhouseCoopers ABAS Ltd.				
24.1	Power of Attorney (incorporated by reference to the signature page of this Annual Report on Form 10-K)				
31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				
31.2	Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				
32.1	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				
101.INS	XBRL Instance				
101.SCH	XBRL Taxonomy Extension Schema				
101.CAL	XBRL Taxonomy Extension Calculation Linkbase				
101.DEF	XBRL Taxonomy Extension Definition Linkbase				
101.LAB	XBRL Taxonomy Extension Label Linkbase				
101.PRE	XBRL Taxonomy Extension Presentation Linkbase				

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- + Indicates management contract or compensatory plan.
 - † Confidential treatment has been requested for portions of this exhibit.

(c) Financial Statement Schedules: See Item 15(a)(2), above.

ITEM 16. FORM 10-K SUMMARY.

Not applicable.

DESCRIPTION OF REGISTRANT'S SECURITIES

The following description of Fabrinet's (the "Company," "we," "us" or "our") capital stock is a summary and is qualified in its entirety by our amended and restated memorandum and articles of association (the "MOA").

General

Our authorized share capital is \$5,050,000, consisting of 500,000,000 ordinary shares, par value \$0.01 per ordinary share, and 5,000,000 preferred shares, par value \$0.01 per preferred share.

Ordinary Shares

Voting Rights

Subject to any special rights or restrictions as to voting then attached to any shares, at any general meeting every shareholder who is present in person or by proxy (or, in the case of a shareholder being a corporation, by its duly authorized representative) shall have one vote per ordinary share registered in its name. There are no cumulative voting rights.

Dividend Rights

We intend to retain any earnings for use in our business and do not currently intend to pay cash dividends on our ordinary shares. Dividends, if any, on our outstanding ordinary shares will be declared by and subject to the discretion of our board of directors.

Liquidation Rights

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if we are wound up and the assets available for distribution among our shareholders are more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed pari passu among those shareholders in proportion to the amount paid up at the commencement of the winding up on the shares held by them, respectively, and (ii) if we are wound up and the assets available for distribution among our shareholders as such are insufficient to repay the whole of the paid-up capital, those assets shall be distributed so that, as nearly as may be, the losses shall be borne by our shareholders in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them, respectively. If we are wound up, the liquidator may, with the sanction of a Special Resolution (as defined in the MOA) and any other sanction required by the Companies Law, divide among our shareholders in specie or kind the whole or any part of our assets (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as the liquidator deems fair upon any property to be divided and may determine how such division shall be carried out as between the shareholders or different classes of shareholders. The liquidator may also, with like authority, vest any part of these assets in trustees upon such trusts for the benefit of our shareholders as the liquidator shall think fit, but so that no shareholder will be compelled to accept any assets, shares or other securities upon which there is a liability.

Other Matters

Our ordinary shares are not redeemable or convertible. Holders of our ordinary shares do not have any preemptive rights with respect to our securities. All outstanding ordinary shares are fully paid and non-assessable.

Preferred Shares

Our board may authorize by resolution or resolutions from time to time the issuance of one or more classes or series of preferred shares and the board is authorized to fix the designations, powers, preferences and relative, participating, optional and other rights, if any, and the qualifications, limitations and restrictions thereof, if any, including, without limitation, the number of shares constituting each such class or series, dividend rights, conversion rights, redemption privileges, voting powers, full or limited or no voting powers, and liquidation preferences, and to increase or decrease the size of any such class or series (but not below the number of shares of any class or series of preferred shares then outstanding) to the extent permitted by applicable law. The resolution or resolutions providing for the establishment of any class or series of preferred shares may, to the extent permitted by applicable law, provide that such class or series shall be superior to, rank equally with or be junior to the preferred shares of any other class or series. Subject to the directors' duty of acting in the best interest of our company, preferred shares can be issued quickly with terms calculated to delay or prevent a change in control of our company or make removal of management more difficult. Additionally, the issuance of preference shares may have the effect of decreasing the market price of the ordinary shares and may adversely affect the voting and other rights of the holders of ordinary shares.

Anti-Takeover Provisions

Some provisions of Cayman Islands law and our MOA may have the effect of delaying, deterring or discouraging another party from acquiring control of us. Our MOA authorizes our board of directors to issue additional ordinary and/or preferred shares, to the extent authorized but unissued, from time to time as our board of directors shall determine. The issuance of additional ordinary shares may be used as an anti-takeover device without further action on the part of our shareholders. Such issuance may dilute the voting power of existing holders of ordinary shares.

Differences in Corporate Law

We are a company incorporated under the laws of the Cayman Islands. Our corporate affairs are governed by our MOA, the Companies Law (as amended) and the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, the decisions of whose courts (where relevant) are of persuasive authority but are not binding on a court in the Cayman Islands. In addition, the Companies Law differs from laws applicable to U.S. corporations and their shareholders. Set forth below is a summary of the significant differences between the provisions of the Companies Law applicable to us and the laws applicable to companies incorporated in the U.S. and their shareholders.

Mergers and Similar Arrangements

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

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

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

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

Shareholders' Suits

A class action suit could be brought in a U.S. court pursuant to an alleged violation of U.S. securities laws and regulations. In principle, a derivative action may not be brought by a minority shareholder. However, exceptions to the foregoing principle apply in circumstances in which:

- a company is acting or proposing to act illegally or ultra vires the objects of the company;
- the act complained of amounts to an infringement of the rights of individual shareholders such as the right to vote or preemptive rights;

- the act complained of, although not beyond the scope of its authority, could only be effected duly if authorized by more than a simple majority vote which has not been obtained; and
- those who control the company are perpetrating a “fraud on the minority.”

Corporate Governance

Cayman Islands laws do not restrict transactions with directors, requiring only that directors exercise a duty of care and owe a fiduciary duty to the companies for which they serve. Under our MOA, subject to any separate requirement for audit committee approval under the applicable rules of the New York Stock Exchange or unless disqualified by the chairman of the relevant board meeting, so long as a director discloses the nature of his interest in any contract or arrangement which he is interested in, such a director may vote in respect of any contract or proposed contract or arrangement in which such director is interested and may be counted in the quorum at such meeting.

Constitutional Provisions

Our MOA contains provisions that could discourage, delay or prevent a change in control of our company or changes in our management that the shareholders of our company may deem advantageous. These provisions include, 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.

List of Subsidiaries

Name	Country of Incorporation
CASIX Inc.	People's Republic of China
Casix Pte. Ltd.	Singapore
Exception Group Ltd.	United Kingdom
FBN New Jersey Manufacturing, Inc.	Delaware, United States of America
Fabrlink SEZC	The Cayman Islands
Fabrinet China Holdings Ltd.	Mauritius Island
Fabrinet Co., Ltd.	Thailand
Fabrinet Germany GmbH	Germany
Fabrinet Pte., Ltd.	Singapore
Fabrinet UK Holdings Ltd.	United Kingdom
Fabrinet UK Ltd.	United Kingdom
Fabrinet USA, Inc.	California, United States of America
Fabrinet West, Inc.	California, United States of America
Fabritek, Inc.	California, United States of America
Fabritek Israel Ltd.	Israel
Global CEM Solutions Ltd.	United Kingdom

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-168950, 333-177853, 333-186501, 333-221423 and 333-222154) of Fabrinet of our report dated August 20, 2019 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers ABAS Ltd.

PricewaterhouseCoopers ABAS Ltd.
Bangkok, Thailand
August 20, 2019

CERTIFICATION

I, Seamus Grady, certify that:

1. I have reviewed this Annual Report on Form 10-K 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: August 20, 2019

/s/ SEAMUS GRADY

Seamus Grady

Chief Executive Officer (Principal Executive Officer)

CERTIFICATION

I, Toh-Seng Ng, certify that:

1. I have reviewed this Annual Report on Form 10-K 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: August 20, 2019

/s/ TOH-SENG NG

Toh-Seng Ng
Executive Vice President and 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 Annual Report on Form 10-K of Fabrinet for the fiscal year ended June 28, 2019 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 Annual Report on Form 10-K fairly presents in all material respects the financial condition and results of operations of Fabrinet.

Date: August 20, 2019

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

I, Toh-Seng Ng, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report on Form 10-K of Fabrinet for the fiscal year ended June 28, 2019 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 Annual Report on Form 10-K fairly presents in all material respects the financial condition and results of operations of Fabrinet.

Date: August 20, 2019

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