

Fabrinet  
Form 10-K  
August 28, 2012  
Table of Contents

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

Washington, D.C. 20549

**FORM 10-K**

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended June 29, 2012

Or

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

Commission file number: 001-34775

**FABRINET**

(Exact name of registrant as specified in its charter)

Edgar Filing: Fabrinet - Form 10-K

<b>Cayman Islands</b> (State or other jurisdiction of incorporation or organization)	<b>Not Applicable</b> (I.R.S. Employer Identification No.)
<b>Walker House</b>	
<b>87 Mary Street</b>	
<b>George Town</b>	
<b>Grand Cayman</b>	
<b>Cayman Islands</b> (Address of principal executive offices)	<b>KY1-9005</b> (Zip Code)
<b>+66 2-524-9600</b>	
<b>(Registrant's telephone number, including area code)</b>	

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

<b>(Title of each class)</b> Ordinary Shares, \$0.01 par value	<b>(Name of exchange on which registered)</b> 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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

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

## Edgar Filing: Fabrinet - Form 10-K

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if smaller reporting company) Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

As of December 30, 2011, 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 \$303,028,000, 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 3, 2012, the registrant had 34,480,379 ordinary shares, \$0.01 par value, outstanding.

### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive proxy statement relating to its 2012 Annual Meeting of Shareholders are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated. Such proxy statement will be filed with the U.S. Securities and Exchange Commission within 120 days after the end of the fiscal year to which this report relates.

**Table of Contents**

**FABRINET**

**ANNUAL REPORT ON FORM 10-K**

**For the Fiscal Year Ended June 29, 2012**

**Table of Contents**

	<b>Page</b>
<b>PART I</b>	
Item 1. <u>Business</u>	2
Item 1A. <u>Risk Factors</u>	14
Item 1B. <u>Unresolved Staff Comments</u>	32
Item 2. <u>Properties</u>	32
Item 3. <u>Legal Proceedings</u>	32
Item 4. <u>Mine Safety Disclosures</u>	32
<b>PART II</b>	
Item 5. <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	33
Item 6. <u>Selected Financial Data</u>	34
Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	36
Item 7A. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	53
Item 8. <u>Financial Statements and Supplementary Data</u>	55
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	89
Item 9A. <u>Controls and Procedures</u>	89
Item 9B. <u>Other Information</u>	89
<b>PART III</b>	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	90
Item 11. <u>Executive Compensation</u>	90
Item 12. <u>Security Ownership or Certain Beneficial Owners and Management and Related Stockholder Matters</u>	90
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	90
Item 14. <u>Principal Accounting Fees and Services</u>	90
<b>PART IV</b>	
Item 15. <u>Exhibits, Financial Statement Schedules</u>	91

---

**Table of Contents**

**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 and sensors. We offer a broad range of advanced optical and electro-mechanical capabilities across the entire manufacturing process, including process design and engineering, supply chain management, manufacturing, advanced packaging, final assembly and test. Although, we focus primarily on low-volume production of a wide variety of high complexity products, which we refer to as low-volume, high-mix, we also have the capability to accommodate high-volume production. Based on our experience with, and feedback from, customers, we believe we are a global leader in providing these services to the optical communications, industrial lasers and sensors markets.

Our customer base includes companies in complex industries that require advanced precision manufacturing capabilities, such as optical communications, industrial lasers and sensors. Our customers in these industries support a growing number of end-markets, including semiconductor processing, biotechnology, metrology, material processing, automotive, and medical devices. Our revenues from lasers, sensors and other markets as a percentage of total revenues have increased from 20.9% for the year ended June 24, 2011 (fiscal 2011) to 29.3% for the year ended June 29, 2012 (fiscal 2012), while our revenues from optical communications products as a percentage of total revenues have decreased from 79.1% for fiscal 2011 to 70.7% for fiscal 2012.

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 modules (ROADMs), optical amplifiers, modulators and other optical components and modules that collectively enable network managers to route signals through fiber traffic at various wavelengths and over various distances;

tunable transponders and transceivers that eliminate, at a significant cost savings, the need to stock individual fixed wavelength transponders and transceivers 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 (DNA sequencing, flow cytometry, hematology, antibody detection), metrology (instrumentation, calibration, inspection), and material processing (photo processing, textile cutting, annealing, marking, engraving); 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, 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.

**Table of Contents**

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 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 protect our customers' intellectual property by 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. 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 29, 2012, our facilities comprised approximately 1,201,000 total square feet, including approximately 132,000 square feet of office space and approximately 1,069,000 square feet devoted to manufacturing and related activities, of which approximately 470,000 square feet were clean room facilities. Of the aggregate square footage of our facilities, approximately 924,000 square feet are located in Thailand and the balance is located in the People's Republic of China (PRC or China) and the United States.

**Thailand Flooding**

We suspended production at all of our manufacturing facilities in Thailand from October 17, 2011 through November 14, 2011 because of severe flooding in Thailand. We never resumed and have ceased production permanently at our Chokchai facilities. Company personnel, insurance adjusters, professional asset valuation advisors, equipment restoration contractors and forensic accounting experts have assessed, and continue to assess, the damage to property, inventory and equipment, including consigned assets held by us on behalf of our customers, as well as the impact of business interruption to us. The following is a summary of all known costs incurred as a result of this event recognized in our consolidated statements of operations for the year ended June 29, 2012:

(in thousands)	<b>Year Ended June 29, 2012</b>
Loss from written-off owned inventories	\$ 16,612
Loss from written-off leased building improvement	1,431
Loss from written-off owned machinery and equipment	1,098
Loss from written-off investments in lease and prepayment	3,532
Loss from consigned inventories	11,748
Loss from consigned machinery and equipment	48,450
Estimated restoration cost of leased building	1,000
Payroll and other expenses	7,712
Flood protection, salvage and increased expenses	5,703
 Total	 \$ 97,286

We have submitted claims to our insurers for business interruption losses attributable to the effects of flooding during the second and third quarters of fiscal 2012, as well as claims for owned and consigned inventory

---

## **Table of Contents**

losses, owned and consigned equipment losses, and damage to our buildings at Pinehurst, which we own, and Chokchai, which we leased. In the first quarter of fiscal 2013, we plan to submit a claim for business interruption losses incurred during the three months ended June 29, 2012. We expect to incur additional business interruption losses during the first quarter of fiscal 2013, and therefore expect to submit an additional claim for such losses in the second quarter of fiscal 2013.

A number of exclusions and limitations in our policies (such as coinsurance, facilities location sub-limits and policy covenants) may reduce the aggregate amount that we will ultimately recover for our losses from our insurers. In addition, our insurers could reject the valuation methodologies we have used to estimate our losses and apply different valuation methodologies, which could also reduce our aggregate recovery amount. However, based on the information that we have at this time, we believe that we will ultimately recover a majority of our losses. We further believe that, although the difference between our aggregate claims and our insurance recoveries may ultimately be material, this will not have a material and adverse effect on our financial condition or results of operation. We continue to have discussions with our customers regarding their assessments of the damage to, and valuation of, the consigned inventory and assets that were under our care, custody and control at our Chokchai facility. In some cases, there may be material differences between our assessments and our customers' assessments. There may also be differences of opinions regarding who bears responsibility for certain losses as a result of the flooding. We continue to review these differences with our customers and, depending on the outcome of these discussions, we may incur additional costs and expenses in connection with our customers' recovery efforts. We will recognize insurance recoveries if and when they become realizable and probable.

## **Industry Background**

### ***Optical Communications***

Since 2001, most optical communications OEMs have reduced 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. Carrier demand for optical communications network equipment has increased as a direct result of higher network utilization and increased demand for bandwidth capacity. The increase in network traffic volumes have been driven by increasing demand for voice, data and video services delivered over wired and wireless Internet protocol, or IP, networks.

### ***Industrial Lasers and Sensors***

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 industrial lasers and sensors. These markets are substantially larger than the optical communications components and modules market. Growth in the industrial lasers 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 material 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.

## **Table of Contents**

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 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;

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.

## Edgar Filing: Fabrinet - Form 10-K

***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 enhances intellectual property protection and provides greater opportunities to reduce cost and improve time to market of 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,

---

## **Table of Contents**

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 resources 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 suppliers, which enables us to obtain inventory on an as-needed basis and provide on-site stocking programs. We believe our expertise 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 in the optical communications market. The optical communications market is growing rapidly, driven by the growth in demand for network bandwidth. We believe this trend will continue to increase the demand for the products that we manufacture. We continue to invest resources in advanced process and 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, 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.

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

### **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 customer's 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



## **Table of Contents**

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 set up 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 devise the plans to ramp volume production of the same products. We maintain an up to date 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 delivery time.

### *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.

### *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 resources 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 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 printed-circuit board assembly (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).

## **Table of Contents**

### ***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, 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

## Edgar Filing: Fabrinet - Form 10-K

screening. The reliability laboratory is critical to verification of root cause failure analysis.

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

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

---

## **Table of Contents**

*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 techniques to avoid stressing or otherwise damaging fiber during stripping, cleaving and connectorization. Such techniques are also designed to achieve optimal alignment of fiber 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 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, such as optical line transmitters, 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 that the majority of our total revenues will continue to come from a limited number of customers. During fiscal 2012 and fiscal 2011, we had three customers and four customers, respectively, that each contributed 10% or more of our total revenues, and such customers together accounted for 47% and 58%, respectively, of our total revenues during the periods.

The production of optics 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

## **Table of Contents**

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

## **Backlog**

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

## **Suppliers of Raw Materials**

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

## **Quality**

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

Our quality management systems help to ensure that the products we provide to our customers meet or exceed industry standards. We maintain the following certifications: ISO9001 for Manufacturing Quality Management Systems; ISO14001 for Environmental Management Systems; TL9000 for Telecommunications Industry Quality Certification; ISO/TS16949 for Automotive Industry Quality Certification; ISO13485 for Medical Devices Industry Quality Certification; AS9100 for Aerospace Industry Quality Certification; and OHSAS18001 for Occupational Health and Safety Management Systems. We also maintain compliance with various additional standards imposed by the U.S. Food and Drug Administration, or FDA, with respect to the manufacture of medical devices.

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

## **Table of Contents**

### **Competition**

Although the manufacturing services market is highly competitive, there are significant barriers to entry in our existing and target markets, including the lengthy sales cycle, 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;

cost; and

our responsiveness and flexibility.

Competitors in the market for optical manufacturing services include Sanmina-SCI Corporation, Hon Hai Precision Industry Co. Ltd. (Foxconn Technology Group), Celestica Inc., Venture Corporation Limited and Oplink Communications, Inc., as well as the internal manufacturing capabilities of our customers. Our customized optics and glass operations face competition from companies such as Alps Electric Co., Ltd., Browave Corporation, Fujian Castech Crystals, Inc., Research Electro-Optic, Inc. and Photop Technologies, Inc.

### **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 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. 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

## Edgar Filing: Fabrinet - Form 10-K

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 2013 and 2029. 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.

## **Table of Contents**

### **Environmental Regulation**

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

### **Social Responsibility**

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

### **Corporate Structure**

We were organized under the laws of the Cayman Islands in August 1999 and commenced our business operations in January 2000. We have seven subsidiaries. All of these subsidiaries, other than our Thai subsidiary, Fabrinet Co., Ltd., are wholly- owned. We own over 99.99% of Fabrinet Co., Ltd., and Mr. Tom Mitchell, our chief executive officer and chairman of the board of directors, and certain of his family members own the remainder. We incorporated Fabrinet Co., Ltd. and Fabrinet USA, Inc. in 1999. We incorporated FBN New Jersey Manufacturing, Inc. (or Vitrocom) and acquired Fabrinet China Holdings and CASIX, Inc. in 2005. We incorporated Fabrinet Pte. Ltd. in 2007 and Fabrinet AB in 2010.

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 Casix and Vitrocom each enter into contracts or purchase orders directly with their customers. We have inter-company agreements with Fabrinet Co., Ltd., our Thai subsidiary, and Vitrocom, our New Jersey subsidiary (which is incorporated in Delaware), whereby each provides manufacturing services to us. We also have inter-company agreements with our California, Singapore and Swedish subsidiaries to provide us with certain administrative and business development services.

### **Employees**

As of June 29, 2012, we had approximately 5,220 full-time employees located in Thailand, the PRC, North America and Europe. As of June 29, 2012, we had approximately 4,260 full-time employees located in Thailand, approximately 4,110 of whom were engaged in manufacturing operations and 150 of whom were engaged in general and administrative functions. As of June 29, 2012, we had approximately 920 full-time employees located in the PRC, approximately 860 of whom were engaged in manufacturing operations and 60 of whom were engaged in general and administrative functions. As of June 29, 2012, we had approximately 40 full-time employees located in the United States, approximately 30 of whom were engaged in manufacturing operations and 10 of whom were engaged in general and administrative functions. As of June 29, 2012, we had 2 full-time employees located in Europe, both of whom were engaged in business development activities. 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 good.

**Table of Contents**

**Available Information**

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

---

**Table of Contents**

**ITEM 1A. RISK FACTORS**

*Investing in our ordinary shares involves a high degree of risk. You should carefully consider the following risks and all 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 we face. Additional risks and uncertainties that we are unaware of, or that we currently believe are not material, also may become important factors that affect us. If any of the following risks materialize, our business, financial condition and results of operations could be materially harmed. In that case, the trading price of our ordinary shares could decline, and you may lose some or all of your investment.*

**Risks Related to Our Business**

*Severe flooding in Thailand in October and November 2011 resulted in the suspension of production at our Thailand facilities, which has had and will continue to have a material and adverse effect on our business, financial condition and results of operations in the near-term and potentially beyond.*

The consequences of the October and November flooding in Thailand and cessation of production in our Chokchai manufacturing facilities have adversely affected and will continue to adversely affect our business, results of operations and financial condition in the near-term and potentially beyond. Material risks and uncertainties include, but are not limited to, the following:

*Insurance.* Prior to January 1, 2012, we maintained insurance coverage that provided for reimbursement of losses resulting from flood damage. Under the terms of our policies that were in effect during the flooding, our property and casualty insurance covered loss or damage to our property and third-party property over which we have custody and control (the latter of which we refer to as consigned property), as well as losses associated with business interruption and building damage, subject to a number of exclusions and limitations (such as coinsurance, facilities location sub-limits and policy covenants). We have completed our initial assessment of losses with respect to business interruption through the third quarter of fiscal 2012, customer-owned inventory, consigned equipment from our customers, and our own inventory, equipment and facilities. We have recorded known losses in our consolidated statements of operations. We have submitted claims to our insurers for business interruption losses attributable to the effects of flooding during the second and third quarters of fiscal 2012, as well as claims for inventory losses, owned and consigned equipment losses, and damage to our buildings at Pinehurst, which we own, and Chokchai, which we leased. In the first quarter of fiscal 2013, we plan to submit a claim for business interruption losses for the three months ended June 29, 2012. We also expect to experience additional business interruption losses during the first quarter of fiscal 2013, and therefore expect to submit an additional claim for such losses in the second quarter of fiscal 2013. A number of exclusions and limitations in our policies (such as coinsurance, facilities location sub-limits and policy covenants) may reduce the aggregate amount that we will ultimately collect for our losses. In addition, our insurers could reject the valuation methodologies we have used to estimate our losses and apply different valuation methodologies, which could also reduce our aggregate recovery amount. Even if we do ultimately recover material amounts from our insurers, there may be a substantial delay between when we pay for flood-related expenses and when we receive proceeds from our insurers as reimbursement for these expenses, which could adversely affect our cash flows and liquidity. The insurance claims process has required a significant amount of time from management, and we expect this to continue until the claims process has been resolved. Further, as a result of the flooding in Thailand, our property and casualty insurance premiums have risen dramatically in connection with our 2012 annual renewals.

*Customers.* We continue to have discussions with our customers regarding the valuation of the consigned property that was damaged as a result of the flooding and who bears the responsibility for such losses of consigned property. In some cases, there may be material differences between our assessments and our customers' assessments on the matters of valuation and responsibility. Some customers may choose not to reengage with us simply because of the fear of future flooding in Thailand. Other customers may be so reliant on us for their manufacturing capabilities that the suspension of our operations may have materially and adversely

---

**Table of Contents**

affected their own businesses, which could potentially lead to customer bankruptcies or liquidations. Customer bankruptcies or liquidations would mean less revenue for us and could also require us to write off any accounts receivable and inventory associated with those customers. Other customers may simply walk away from their obligations to pay us for equipment, inventory and finished goods for which we feel that they have a contractual obligation to us or may delay payment of amounts that they owe us for prior services rendered. The recent flooding may also make it more difficult for us to win business from new customers. These consequences would materially and adversely affect our business, financial condition and results of operations.

*Suppliers.* Our suppliers may not be able to supply us with materials in sufficient volumes and in a timely manner for us to satisfy our customers demands. A number of our suppliers are located in Thailand. These Thai-based suppliers may have been materially and adversely affected by the flooding and may not be able to supply us with necessary materials in the future. Some of these suppliers could be required to file for bankruptcy or otherwise liquidate as a result of the effects of the flooding on their businesses.

*Recovery and Related Charges and Expenses.* We expect to continue to incur certain charges and expenses related to the recovery from the flooding of our Thailand facilities and its impact on our operations, including items such as fixed asset impairments, inventory write-downs, charges related to cancellation of purchase orders for excess materials and charges for restoration and recovery work. We have incurred a significant amount of these various flood-related charges and expenses during the fiscal year ended June 29, 2012, as further described in Note 22 to the Notes to Consolidated Financial Statements. However, we expect that we will also incur expenses and charges in future periods, and the ultimate timing of the incurrence of these future charges and expenses is uncertain.

***Our sales depend on and may continue to depend on a few customers that have substantial purchasing power and leverage in negotiating contracts with us. 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 expect to continue to depend, upon a relatively small number of customers for a significant percentage of our total revenues. During fiscal 2012 and fiscal 2011, we had three customers and four customers, respectively, that each contributed 10% or more of our total revenues. These customers together accounted for 47% and 58% of our total revenues, respectively, during the periods. Dependence on a limited number of customers means that a reduction in orders from, a loss of, or other adverse actions by any one of these customers could have an adverse effect on our business, operating results and share price.

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

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

---

**Table of Contents**

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

Natural disasters, such as the October and November 2011 flooding in Thailand, where most of our manufacturing operations are located, the May 2008 earthquake in Sichuan, China, and the March 2011 tsunami in Japan, could severely disrupt our manufacturing operations and increase our supply chain costs. These events, over which we have little or no control, could cause a decrease in demand for our services, make it difficult or impossible for us to manufacture and deliver products and for our suppliers to deliver components allowing us to manufacture those products, require large expenditures to repair or replace our facilities, or create delays and inefficiencies in our supply chain. For example, the October and November 2011 flooding in Thailand forced us to temporarily shut down all of our manufacturing facilities in Thailand. This disruption adversely affected our ability to meet our customers' demands during fiscal 2012 and will continue to adversely affect our business for the three months ending September 30, 2012 and possibly beyond. 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 results of operations.***

The occurrence of one or more natural disasters, such as tropical storms and floods, in Thailand, where most of our manufacturing operations are located, could adversely affect our operations and financial performance. Any losses that we would incur could have a material adverse effect on our business for an indeterminate period of time.

Our current property and casualty insurance, effective January 1, 2012, 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. This includes flood insurance for equipment and inventory with an aggregate limit of \$120 million. Even with insurance coverage, natural disasters or other catastrophic events, including acts of war, could cause us to suffer substantial losses in our operational capacity and could also lead to a loss of opportunity and to a potential adverse impact on our relationships with our existing customers resulting from our inability to produce products for them, for which we would not be compensated by existing insurance. This in turn could have a material adverse effect on our financial condition and results of operations.

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

Our future success as a provider of precision optical, electro-mechanical and electronic manufacturing services for the optical communications market depends on the continued growth of the optics industry and, in particular, the continued expansion of global information networks, particularly those directly or indirectly dependent upon a fiber optics infrastructure. As part of that growth, we anticipate that demand for voice, video,

---

**Table of Contents**

text and other data services delivered over high-speed connections (both wired and wireless) will continue to increase. Without network and bandwidth growth, the need for enhanced communications products would be jeopardized. Currently, demand for network services and for broadband access, in particular, is increasing but growth may be limited by several factors, including, among others: (i) relative strength or weakness of the global economy or certain countries or regions, (ii) an uncertain regulatory environment, and (iii) uncertainty regarding long-term sustainable business models as multiple industries, such as the cable, traditional telecommunications, wireless and satellite industries, offer competing content delivery solutions. The optical communications market also has experienced periods of overcapacity, some of which have occurred even during periods of relatively high network usage and bandwidth demands. If the factors described above were to slow, stop or reverse the expansion in the optical communications market, our business, financial condition and operating results would be negatively affected.

***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, our business may not grow as fast as we expect.***

We intend to continue diversifying across other markets within the optics industry, such as the semiconductor processing, biotechnology, metrology and material processing markets, to reduce our dependence on the optical communications market and to grow our business. Currently, the optical communications market contributes the majority of our revenues. There can be no assurance that our efforts to further expand and diversify into other markets within the optics industry will prove successful. In the event that the opportunities presented by these markets prove to be less than anticipated, if we are less successful than expected in diversifying into these markets, or if our margins in these markets prove to be less than expected, our growth may slow or stall, and we may incur costs that are not offset by revenues in these markets, all of which could harm our business, financial condition and operating results.

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

Our current and prospective customers tend to evaluate our capabilities against the merits of their internal manufacturing as well as the capabilities of third-party manufacturers. We believe the internal manufacturing capabilities of current and prospective customers are our primary competition. This competition is particularly strong when our customers have excess manufacturing capacity, as was the case when the markets that we serve experienced a downturn from 2001 through 2004 and again in 2008 and 2009, that resulted in underutilized capacity. Many of our potential customers continue to have excess manufacturing capacity at their facilities. In addition, as a result of the October and November 2011 flooding in Thailand, some of our customers began manufacturing products internally or using other third-party manufacturers that were not affected by the flooding. If our customers choose to manufacture products internally rather than to outsource production to us, or choose to outsource to a third-party manufacturer, our business, financial condition and operating results could be harmed.

Competitors in the market for optical manufacturing services include Sanmina-SCI Corporation, Hon Hai Precision Industry Co. Ltd. (Foxconn Technology Group), Celestica Inc., Venture Corporation Limited and Oplink Communications, Inc. Our customized optics and glass operations face competition from companies such as Alps Electric Co., Ltd., Browave Corporation, Fujian Castech Crystals, Inc., Research Electro-Optic, Inc. and Photop Technologies, Inc. Other existing contract manufacturing companies, original design manufacturers or outsourced semiconductor assembly and test companies could also enter our target markets. In addition, we may face more competitors as we attempt to penetrate new markets.

Many of our customers and potential competitors have longer operating histories, greater name recognition, larger customer bases and significantly greater resources than we have. These advantages may allow them to devote greater resources than we can to the development and promotion of service offerings that are similar or superior to our service offerings. These competitors may also engage in more extensive research and development, undertake more far-reaching marketing campaigns, adopt more aggressive pricing policies or offer

## **Table of Contents**

services that achieve greater market acceptance than ours. These competitors may also compete with us by making more attractive offers to our existing and potential employees, suppliers and strategic partners. Further, consolidation in the optics industry could lead to larger and more geographically diverse competitors. New and increased competition could result in price reductions for our services, reduced gross profit margins or loss of market share. We may not be able to compete successfully against our current and future competitors, and the competitive pressures we face may harm our business, financial condition and operating results.

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

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

In addition, we make significant decisions, including production schedules, component 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 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. 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.

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

We provide manufacturing services to companies, and rely on suppliers, that have in the past and may in the future experience financial difficulty, particularly in light of recent conditions in the credit markets and the overall economy that affected access to capital and liquidity. As a result, we devote significant resources to monitor receivables and inventory balances with certain of our customers. If our customers experience financial difficulty, we could have difficulty recovering amounts owed to us from these customers, or demand for our services from these customers could decline. If our suppliers experience financial difficulty, we could have trouble sourcing materials necessary to fulfill production requirements and meet scheduled shipments. Any such financial difficulty could adversely affect our operating results and financial condition by resulting in a reduction in our revenues, a charge for inventory write-offs, a provision for doubtful accounts, and an increase in working capital requirements due to increases in days in inventory and in days in accounts receivable.

---

**Table of Contents**

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

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

Our customer contracts generally require that our customers pay us in U.S. dollars. However, the majority of our payroll and other operating expenses are paid in Thai baht. As a result of these arrangements, we have significant exposure to changes in the exchange rate between the Thai baht and the U.S. dollar, and our operating results are adversely impacted when the U.S. dollar depreciates relative to the Thai baht and other currencies. We have experienced such depreciation in the U.S. dollar as compared to the Thai baht, and our results have been adversely impacted by this fluctuation in exchange rates. For example, from June 25, 2010 to June 29, 2012, the U.S. dollar lost approximately 1.9% of its value against the Thai baht. We cannot guarantee that the depreciation of the U.S. dollar against the Thai baht will not continue. Further, while we attempt to hedge against certain exchange rate risks, we typically enter into hedging contracts with durations of one to three months, leaving us exposed to longer term changes in exchange rates.

Also, we have significant exposure to changes in the exchange rate between the RMB and the U.S. dollar. The expenses of our PRC subsidiary are denominated in RMB. Currently, RMB are convertible in connection with trade- and service-related foreign exchange transactions, foreign debt service and payment of dividends. The PRC government may at its discretion restrict access in the future to foreign currencies for current account transactions. If this occurs, our PRC subsidiary may not be able to pay us dividends in U.S. dollars without prior approval from the PRC State Administration of Foreign Exchange. In addition, conversion of RMB for most capital account items, including direct investments, is still subject to government approval in the PRC. This restriction may limit our ability to invest the earnings of our PRC subsidiary. As of June 29, 2012, the U.S. dollar had depreciated approximately 6.5% against the RMB since June 25, 2010. There remains significant international pressure on the PRC government to adopt a substantially more liberalized currency policy. Any further and more significant appreciation in the value of the RMB against the U.S. dollar could negatively impact our operating results.

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

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

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.

---

**Table of Contents**

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

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

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

The vast majority of our operations, including manufacturing and customer support, are located primarily in the Asia-Pacific region. The distances between Thailand, the PRC and our customers and suppliers globally, create a number of logistical and communications challenges for us, including managing operations across multiple time zones, directing the manufacture and delivery of products across significant distances, coordinating the procurement of raw materials and their delivery to multiple locations and coordinating the activities and decisions of our management team, the members of which are based in different countries.

Our customers are located throughout the world. Total revenues from the bill to location of customers outside of North America accounted for 51.7%, 56.4% and 50.0% of our total revenues for fiscal 2012, fiscal 2011 and fiscal 2010, respectively. Excluding the impact of the recent flooding in Thailand on our business, we expect that total revenues from the bill to location of customers outside of North America will continue to account for a significant portion of our total revenues. Our customers also depend on international sales, which further exposes us to the risks associated with international operations. In addition, our international operations and sales subject us to a variety of domestic and foreign trade regulatory requirements.

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

The majority of our assets and manufacturing operations are located in Thailand. Therefore, political, social, business and economic conditions in Thailand have a significant effect on our business. As of April 24, 2012, Thailand was assessed as a high political risk by AON Political Risk, a risk management, insurance and consulting firm. Any changes to tax regimes, laws, exchange controls or political action in Thailand may harm our business, financial condition and operating results.

In September 2006, Thailand experienced a military coup that overturned the existing government, and in 2008, political unrest and demonstrations in Bangkok sparked a series of violent incidents that resulted in several deaths and numerous injuries. In April 2009, anti-government demonstrations in Bangkok caused severe traffic congestion and numerous injuries, and in March 2010, protestors again held demonstrations calling for new elections. These demonstrations in recent years in Bangkok and other parts of Thailand, which escalated in violence through May 2010, resulted in the country's worst political violence in nearly two decades with numerous deaths and injuries, as well as destruction of property. Certain hotels and businesses in Bangkok were closed for weeks as the protestors occupied Bangkok's commercial center, and governments around the world issued travel advisories urging their citizens to avoid non-essential travel to Bangkok.

Any succession crisis in the Kingdom of Thailand could cause new or increased instability and unrest. In the event that a violent coup were to occur or the current political unrest were to worsen, such activity could prevent

---

**Table of Contents**

shipments from entering or leaving the country and disrupt our ability to manufacture products in Thailand, and we could be forced to transfer our manufacturing activities to more stable, and potentially more costly, regions. Further, the Thai government recently raised the minimum wage standards for labor and could repeal certain promotional certificates that we have received or tax holidays for certain export and value added taxes that we enjoy, either preventing us from engaging in our current or anticipated activities or subjecting us to higher tax rates. A new regime could nationalize our business or otherwise seize our assets. Future political instability such as the coup that occurred in September 2006 or the demonstrations that occurred during 2008, 2009 and 2010 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. As of April 24, 2012, the PRC was assessed as a medium political risk by AON Political Risk. A large part of the PRC's economy is still being operated under varying degrees of control by the PRC government. By imposing industrial policies and other economic measures, such as control of foreign exchange, taxation, import and export tariffs, environmental regulations, land use rights, intellectual property and restrictions on foreign participation in the domestic market of various industries, the PRC government exerts considerable direct and indirect influence on the development of the PRC economy. Many of the economic reforms carried out by the PRC government are unprecedented or experimental and are expected to change further. Any changes to the political, legal or economic climate in the PRC could harm our business, financial condition and operating results.

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

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

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

Despite our implementation of security measures, our systems are vulnerable to damages from computer viruses, natural disasters, unauthorized access and other similar disruptions. Any system failure, accident or security breach could result in disruptions to our operations. To the extent that any disruptions or security breach

---

**Table of Contents**

results in a loss or damage to our data, or inappropriate disclosure of confidential information, it could harm our business. In addition, we may be required to incur significant costs to protect against damage caused by these disruptions or security breaches in the future.

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

Consolidation in the markets we serve has resulted in a reduction in the number of potential customers for our services. For example, in April 2009, Bookham, Inc. and Avanex Corporation, both of which were our customers at the time, merged to form a new company called Oclaro, Inc. In July 2009, Newport Corporation, also our customer, acquired Oclaro's Focus photonics business, and Oclaro acquired Newport's high-power laser diode manufacturing operations. In May 2010, TE Connectivity acquired Zarlink Semiconductor's optical products business, and in January 2011, Molex Incorporated acquired the silicon photonics-based active optical cable assets of Luxtera, Inc. More recently, in July 2012, Oclaro and Opnext, Inc., both of which are our customers, merged. In some cases, consolidation among our customers has led to a reduction in demand for our services as customers acquired the capacity to manufacture products in-house.

Consolidation among our customers and their customers may continue and may adversely affect our business, financial condition and operating results in several ways. Consolidation among our customers and their customers may result in a smaller number of large customers whose size and purchasing power give them increased leverage that may result in, among other things, decreases in our average selling prices. In addition to pricing pressures, this consolidation may also reduce overall demand for our manufacturing services if customers obtain new capacity to manufacture products in-house or discontinue duplicate or competing product lines in order to streamline operations. If demand for our manufacturing services decreases, our business, financial condition and operating results could be harmed.

***General economic and financial market conditions may negatively affect our business, operating results and financial condition.***

The 2008 global economic crisis has caused disruptions and extreme volatility in global financial markets, increased rates of default and bankruptcy, and impacted levels of business and consumer spending. These macroeconomic developments have negatively affected and may continue to negatively affect our business, operating results and financial condition in a number of ways. For example, we experienced a 13.7% decline in our total revenues and a 25.2% decline in our net income from fiscal 2008 to fiscal 2009 as a result of these macroeconomic developments. We continue to face risks related to the slow economic recovery, including risks related to economic conditions in Europe. In addition, concerns about the potential default of various national bonds and debt backed by individual countries as well the politics impacting these, could negatively impact the U.S. and global economies and adversely affect our financial results.

Uncertainty about 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 results of operations. In addition, our ability to access capital markets may be restricted which could have an impact on our ability to react to changing economic and business conditions and could also adversely affect our results of operations and financial condition.

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

We may not be able to pursue many large customer orders or sustain our historical growth rates if we do not have sufficient manufacturing capacity to enable us to commit to provide customers with specified quantities of products. If our customers do not believe that we have sufficient manufacturing capacity, they may: (i) outsource

## **Table of Contents**

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

We most recently expanded our manufacturing capacity at our Thailand facilities in April 2012 with the completion of Pinehurst Building 6. However, we also recently determined that we would not resume manufacturing operations at our Chokchai campus, which we leased. We may continue to devote significant resources to the expansion of our manufacturing capacity, and any such expansion will be expensive, will require management's time and may disrupt our operations. In the event we are unsuccessful in our attempts to expand our manufacturing capacity, our business, financial condition and operating results could be harmed.

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

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

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

the quality of input, materials and equipment;

the quality and feasibility of our customer's design;

the repeatability and complexity of the manufacturing process;

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

the monitoring of the manufacturing environment.

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

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

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



---

**Table of Contents**

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

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

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

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

Additionally, we are required to register with the FDA and other regulatory bodies and are subject to continual review and periodic inspection for compliance with these requirements, which require manufacturers to adhere to certain regulations, including testing, quality control and documentation procedures. We hold the following additional certifications: SONY Green Partner for Environmental Management Systems and CSR-DIW for Corporate Social Responsibility in Thailand. In the European Union, we are required to maintain certain ISO certifications in order to sell our precision optical, electro-mechanical and electronic manufacturing services and we must undergo periodic inspections by regulatory bodies to obtain and maintain these certifications. If any

---

**Table of Contents**

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 human resources, supply chain management, business development and finance. We may not be able to hire and retain such personnel at compensation levels consistent with our existing compensation and salary structure. Our future also depends on the continued contributions of our executive management team, including Mr. Mitchell, and other key management and technical personnel, each of whom would be difficult to replace. We do not have key person life insurance or long-term employment contracts with any of our key personnel. The loss of any of our executive officers or key personnel or the inability to continue to attract qualified personnel could harm our business, financial condition and operating results.

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

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

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

The Sarbanes-Oxley Act of 2002, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, as well as other rules implemented by the U.S. Securities and Exchange Commission (SEC) and the New York Stock Exchange (NYSE), impose various requirements on public companies, including requiring changes in corporate governance practices. These and proposed corporate governance laws and regulations under consideration may further increase our compliance costs. If compliance with these various legal and regulatory requirements diverts our management's attention from other business concerns, it could have a material adverse effect on our business, financial condition and results of operations. The Sarbanes-Oxley Act requires, among other things, that we assess the effectiveness of our internal control over financial reporting annually and disclosure controls and procedures quarterly. We completed our evaluation of our internal controls over financial reporting for fiscal 2012 as required by Section 404 of the Sarbanes-Oxley Act of 2002. Although our assessment, testing and evaluation resulted in our conclusion that as of June 29, 2012, our internal controls over financial reporting were effective, we cannot predict the outcome of our testing in future periods. If we are unable to assert in any future reporting periods that our internal control over financial reporting is effective (or if our independent registered public accounting firm is unable to express an opinion on the effectiveness of our internal controls), we could lose investor confidence in the accuracy and completeness of our financial reports, which would have an adverse effect on our share price.

Given the nature and complexity of our business and the fact that some members of our management team are located in Thailand while others are located in the U.S., control deficiencies may periodically occur. While

---

**Table of Contents**

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

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

We base our tax position upon the anticipated nature and conduct of our business and upon our understanding of the tax laws of the various countries in which we have assets or conduct activities. However, our tax position is subject to review and possible challenge by tax authorities and to possible changes in law, which may have retroactive effect. We were formed in the Cayman Islands and we maintain manufacturing operations in Thailand, the PRC and the U.S. Any of these jurisdictions could assert tax claims against us. We cannot determine in advance the extent to which some jurisdictions may require us to pay taxes or make payments in lieu of taxes. Preferential tax treatment from the Thai government in the form of a corporate tax exemption is currently available to us from July 2010 through June 2015 on income generated from the manufacture of products at Pinehurst Building 5 and from July 2012 through June 2020 on income generated from the manufacture of products at Pinehurst Building 6. Such preferential tax treatment is contingent on, among other things, the export of our customers' products out of Thailand and our agreement not to move our manufacturing facilities out of our current province in Thailand for at least 15 years. We will lose this favorable tax treatment in Thailand unless we comply with these restrictions, and as a result we may delay or forego certain strategic business decisions due to these tax considerations. In addition, we benefit from recent reductions in corporate tax rates in Thailand for fiscal years 2013 to 2015. Effective October 21, 2011, our subsidiary in China was granted a tax privilege to reduce its corporate income tax rate from 25% to 15%. This privilege is retroactive to January 1, 2011 and valid until December 31, 2013, subject to renewal at the end of each three-year period.

There is also a risk that Thailand or another jurisdiction in which we operate may treat our 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 our 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 our Cayman Islands parent, and our 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. International tax authorities could challenge the validity of our related party transfer pricing policies. Such a challenge generally involves a complex area of taxation and a significant degree of judgment by management. If any taxation authorities are successful in challenging our financing or transfer pricing policies, our income tax expense may be adversely affected and we could become subject to interest and penalty charges, which may harm our business, financial condition and operating results.

## **Table of Contents**

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

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

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

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

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

we may incur indebtedness to pay for the transactions;

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

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

we may incur amortization expenses related to certain intangible assets;

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

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

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

we may become subject to litigation.

Acquisitions are inherently risky, and we can provide no assurance that our previous or future acquisitions will be successful or will not harm our business, financial condition and operating results.

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

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

## Edgar Filing: Fabrinet - Form 10-K

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

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

***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.

---

**Table of Contents**

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

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

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

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

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

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

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

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

We have loan agreements for our long-term debt obligations, which contain financial ratio covenants that may limit management's discretion with respect to certain business matters. These covenants require us to maintain a specified debt-to-equity ratio and debt service coverage ratio (earnings before interest and depreciation and amortization plus cash on hand minus short-term debt), 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

---

## **Table of Contents**

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.

### ***Energy price increases may negatively impact our results of operations.***

We, along with our suppliers and customers, rely on various energy sources in our manufacturing and transportation activities. Energy prices have been subject to increases and volatility caused by market fluctuations, supply and demand, currency fluctuation, production and transportation disruption, world events and government regulations. While significant uncertainty currently exists about the future levels of energy prices, a significant increase is possible. Increased energy prices 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. In addition, any increase in our prices may reduce our future customer orders which could harm our business, financial condition and operating results.

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

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

Our revenues, expenses and results of operations have fluctuated in the past and are likely to do so in the future from quarter to quarter and year to year due to the risk factors described in this section and elsewhere in this 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. For example, on March 8, 2011, the closing price of our ordinary shares on the NYSE was \$27.10 per share. Following the earnings announcement of one of our customers, the closing price of our ordinary shares fell to \$20.49 per share on March 9, 2011. In addition, from July 8, 2011, following the announcement by Oclaro, Inc. of their delivery of a notice of termination of our volume supply agreement, through July 14, 2011, our share price on the NYSE declined approximately 22%. During October 2011, when the some of the worst flooding in Thailand occurred, our share price fell from \$20.03 per share on October 10, 2011 to \$11.95 per share on October 26, 2011, a 40% decrease. 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.

---

**Table of Contents**

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

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

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

Based upon the value of our assets, which is determined 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 2012 or for the foreseeable future. However, despite our expectations, we cannot assure you that we will not be a PFIC for the taxable year 2012 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.

***We are controlled by a small group of existing shareholders, whose interests may differ from the interests of our other shareholders.***

As of August 3, 2012, our existing shareholders Asia Pacific Growth Fund III, L.P., an affiliate of H&Q Asia Pacific, and Mr. Mitchell, our chief executive officer and chairman of the board of directors, beneficially owned approximately 26.6% and 8.4%, respectively, of our outstanding ordinary shares. In addition, Mr. Mitchell serves on our board of directors and, until recently, a representative of H&Q Asia Pacific served on our board of directors. Accordingly, they have had, and will continue to have, significant influence in determining the outcome of any corporate transaction or other matter submitted to our shareholders for approval, including mergers, consolidations and the sale of all or substantially all of our assets, election of directors and other significant corporate actions. They will also have the power to prevent or cause a change in control. The interests of these shareholders may differ from the interests of our other shareholders.

***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.

---

**Table of Contents**

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

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

While Cayman Islands law allows a dissenting shareholder to express the shareholder's view that a court sanctioned reorganization of a Cayman Islands company would not provide fair value for the shareholder's shares, Cayman Islands statutory law does not specifically provide for shareholder appraisal rights on a merger or consolidation of a company. 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 such as our company have no general rights under Cayman Islands law to inspect corporate records and accounts or to obtain copies of lists of shareholders. Our directors have discretion under our amended and restated memorandum and articles of association to determine whether or not, and under what conditions, our corporate records may be inspected by our shareholders, but are not obliged to make them available to our shareholders. This may make it more difficult for you to obtain the information needed to establish any facts necessary for a shareholder motion or to solicit proxies from other shareholders in connection with a proxy contest.

Subject to limited exceptions, under Cayman Islands law, a minority shareholder may not bring a derivative action against the board of directors. Our Cayman Islands counsel has advised us that they are not aware of any reported class action or derivative action having been brought in a Cayman Islands court.

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

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

**Table of Contents****ITEM 1B. UNRESOLVED STAFF COMMENTS.**

Not applicable.

**ITEM 2. PROPERTIES.**

Our principal registered office is located at Walker House, 87 Mary Street, George Town, Grand Cayman, KYI-9005, Cayman Islands. We have facilities located in Bangkok, Thailand, Fuzhou, China and New Jersey, USA as set forth below:

Location	Year Operations	Owned/Leased	Approximate	Use
	Commenced		Square Footage	
Pinehurst Campus, Bangkok, Thailand (Buildings 3 and 4)	2004 (Building 3)	Owned	292,000 square feet	Manufacturing and general administration
	and			
CASIX, Fuzhou, PRC	2005 (Building 4)	Leased**	248,000 square feet	Manufacturing and general administration
	2005			
VitroCom, Mountain Lakes, New Jersey, USA	2005	Leased until June 30, 2013	28,000 square feet	Manufacturing
Pinehurst Campus, Bangkok, Thailand (Building 5)	2008	Owned*	317,000 square feet	Manufacturing and general administration
Pinehurst Campus, Bangkok, Thailand (Building 6)	2012	Owned	320,000 square feet	Manufacturing and general administration

\* Although we hold title to this building, the building and the underlying land is encumbered by a mortgage that secures our debt obligations to TMB Bank Public Company Limited.

\*\* The lease periods for the buildings located at this facility expire on September 30, 2013 and September 30, 2015.

**ITEM 3. LEGAL PROCEEDINGS.**

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

**ITEM 4. MINE SAFETY DISCLOSURES.**

Not applicable.

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

Our ordinary shares have traded on the New York Stock Exchange under the symbol FN since June 25, 2010. Our initial public offering was priced at \$10.00 per share on June 24, 2010. Prior to that time, there was no public market for our ordinary shares. The following table sets forth, for the time periods indicated, the high and low intraday sales prices of our ordinary shares as reported on the New York Stock Exchange.

<b>Fiscal 2012</b>	<b>High</b>	<b>Low</b>
Fourth Quarter (March 31, 2012 - June 29, 2012)	\$ 18.46	\$ 10.19
Third Quarter (December 31, 2011 - March 30, 2012)	\$ 21.04	\$ 14.01
Second Quarter (October 1, 2011 - December 30, 2011)	\$ 20.47	\$ 11.54
First Quarter (June 25, 2011 - September 30, 2011)	\$ 25.38	\$ 12.69
<b>Fiscal 2011</b>	<b>High</b>	<b>Low</b>
Fourth Quarter (March 26, 2011 - June 24, 2011)	\$ 25.90	\$ 18.30
Third Quarter (December 25, 2010 - March 25, 2011)	\$ 32.91	\$ 18.25
Second Quarter (September 25, 2010 - December 24, 2010)	\$ 22.74	\$ 13.07
First Quarter (June 26, 2010 - September 24, 2010)	\$ 18.23	\$ 9.61

Our annual report to shareholders will include a stock performance graph that shows a comparison from June 25, 2010 through June 29, 2012 of the cumulative total return to shareholders on our ordinary shares against other stock indices.

The equity compensation plan information required by this item, which includes a summary of the number of outstanding options granted to employees and directors, as well as the number of securities remaining available for future issuances, under our equity compensation plans as of June 29, 2012, is incorporated by reference to our Proxy Statement for our 2012 Annual Meeting of Shareholders to be filed with the SEC within 120 days after the end of the fiscal year ended June 29, 2012.

 **Holders of Record**

As of August 3, 2012, there were approximately 29 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**

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

 **Sales of Unregistered Securities**

None.

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

None.



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

The selected consolidated financial data presented below should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes included elsewhere in this Annual Report on Form 10-K. The selected consolidated statements of operation data, balance sheet data and statements of cash flow data as of and for each of the five years in the period ended June 29, 2012, have been derived from the audited consolidated financial statements. The results presented below are not necessarily indicative of financial results to be achieved in future periods.

	June 29, 2012 (fiscal 2012)	Year Ended			
		June 24, 2011 (fiscal 2011)	June 25, 2010 (fiscal 2010)	June 26, 2009 (fiscal 2009)	June 27, 2008 (fiscal 2008)
<b>(in thousands, except per share data)</b>					
<b>Selected Consolidated Statements of Operations</b>					
<b>Data:</b>					
Revenues					
Revenues	\$ 564,732	\$ 743,570	\$ 424,548	\$ 337,846	\$ 345,071
Revenues, related parties			81,164	101,895	163,312
Other				1,358	2,715
Total revenues	564,732	743,570	505,712	441,099	511,098
Cost of revenues	(502,818)	(648,823)	(441,370)	(383,058)	(442,784)
Gross profit	61,914	94,747	64,342	58,041	68,314
Selling, general and administrative expenses	(23,466)	(24,806)	(16,192)	(21,960)	(21,741)
Expenses related to flooding	(97,286)				
Expenses related to reduction in workforce	(1,978)			(2,389)	
Operating (loss) income	(60,816)	69,941	48,150	33,692	46,573
Interest income	844	494	327	756	1,364
Interest expense	(427)	(357)	(500)	(1,266)	(1,547)
Foreign exchange gain (loss), net	1,569	(1,430)	(40)	360	(599)
Other income	395	216	153		
(Loss) income before income taxes	(58,435)	68,864	48,090	33,542	45,791
Income tax benefit (expense)	1,968	(4,535)	(3,767)	(2,238)	(3,962)
Net (loss) income	\$ (56,467)	\$ 64,329	\$ 44,323	\$ 31,304	\$ 41,829
(Loss) earnings per share:					
Basic	\$ (1.64)	\$ 1.90	\$ 1.44	\$ 1.03	\$ 1.40
Diluted	\$ (1.64)	\$ 1.87	\$ 1.41	\$ 1.00	\$ 1.33
Weighted average number of ordinary shares outstanding					
Basic	34,382	33,922	30,854	30,360	29,889
Diluted	34,382	34,407	31,369	31,183	31,349
Cash dividends declared per share			\$ 1.00	\$ 0.33	
	June 29, 2012	June 24, 2011	As of June 25, 2010 (in thousands)	June 26, 2009	June 27, 2008
<b>Selected Consolidated Balance Sheet Data:</b>					
Cash and cash equivalents	\$ 115,507	\$ 127,282	\$ 84,942	\$ 114,845	\$ 55,682
Receivable from initial public offering			26,319		
Working capital(1)	145,476	131,609	96,683	58,311	99,260

## Edgar Filing: Fabrinet - Form 10-K

Total assets	461,362	437,775	377,425	288,085	292,713
Current and long-term debt	38,579	16,377	20,385	27,318	29,575
Total liabilities	210,653	136,248	145,262	94,580	122,148
Total shareholders' equity	250,709	301,527	232,163	193,505	170,565

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

**Table of Contents**

	June 29, 2012	June 24, 2011	Year Ended June 25, 2010 (in thousands)	June 26, 2009	June 27, 2008
<b>Selected Consolidated Statements of Cash Flow Data:</b>					
Net cash provided by operating activities	\$ 2,251	\$ 41,282	\$ 17,846	\$ 80,357	\$ 51,891
Net cash used in investing activities	(37,378)	(23,590)	(10,718)	(7,187)	(29,815)
Net cash provided by (used in) financing activities	23,202	23,886	(37,298)	(13,836)	(8,223)
Net (decrease) increase in cash and cash equivalents	(11,925)	41,578	(30,170)	59,334	13,853

**Table of Contents**

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

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

our goals and strategies;

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

our future capital expenditures;

expansion of our manufacturing capacity, including into new geographies;

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

our and our customers' and our suppliers' ability to respond successfully to technological or industry developments;

our suppliers' estimates regarding future costs;

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

our plans to diversify our sources of revenues;

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

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

the impact that the October and November 2011 flooding in Thailand will continue to have on the industry and our business, results of operations and liquidity, including the availability of components from our suppliers, the expected costs and expenses that we will incur in connection with our recovery efforts, and our ability to recover amounts from our insurance carriers; and

competition in our existing and new markets.

## Edgar Filing: Fabrinet - Form 10-K

*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 and, in particular, the risks discussed under the heading Risk Factors in Item 1A of this Annual Report on Form 10-K and those discussed in other documents we file with the Securities and Exchange Commission. We undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.*

### **Overview**

We provide advanced optical packaging and precision optical, electro-mechanical and electronic manufacturing services to original equipment manufacturers (OEMs) of complex products such as optical communication components, modules and sub-systems, industrial lasers and sensors. We offer a broad range of advanced optical and electro-mechanical capabilities across the entire manufacturing process, including process

**Table of Contents**

design and engineering, supply chain management, manufacturing, advanced packaging, final assembly and test. Although, we focus primarily on low-volume production of a wide variety of high complexity products, which we refer to as low-volume, high-mix, we also have the capability to accommodate high-volume production. Based on our experience with, and feedback from, customers, we believe we are a global leader in providing these services to the optical communications, industrial lasers and sensors markets.

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

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

**Thailand Flooding**

We suspended production at all of our manufacturing facilities in Thailand from October 17, 2011 through November 14, 2011 because of severe flooding in Thailand. We never resumed and have ceased production permanently at our Chokchai facilities. Company personnel, insurance adjusters, professional asset valuation advisors, equipment restoration contractors and forensic accounting experts have assessed, and continue to assess, the damage to property, inventory and equipment, including consigned assets held by us on behalf of our customers, as well as the impact of business interruption to us. The following is a summary of all known costs incurred as a result of this event recognized in our consolidated statements of operations for the year ended June 29, 2012:

	<b>Year Ended June 29, 2012</b> (in thousands)
Loss from written-off owned inventories	\$ 16,612
Loss from written-off leased building improvement	1,431
Loss from written-off owned machinery and equipment	1,098
Loss from written-off investments in lease and prepayment	3,532
Loss from consigned inventories	11,748
Loss from consigned machinery and equipment	48,450
Estimated restoration cost of leased building	1,000
Payroll and other expenses	7,712
Flood protection, salvage and increased expenses	5,703
 Total	 \$ 97,286

We have submitted claims to our insurers for business interruption losses attributable to the effects of flooding during the second and third quarters of fiscal 2012, as well as claims for owned and consigned inventory losses, owned and consigned equipment losses, and damage to our buildings at Pinehurst, which we own, and Chokchai, which we leased. In the first quarter of fiscal 2013, we plan to submit a claim for business interruption losses for the three months ended June 29, 2012. We expect to experience additional business interruption losses during the first quarter of fiscal 2013, and therefore expect to submit an additional claim for such losses in the second quarter of fiscal 2013.

A number of exclusions and limitations in our policies (such as coinsurance, facilities location sub-limits and policy covenants) may reduce the aggregate amount that we will ultimately recover for our losses from our

## Table of Contents

insurers. In addition, our insurers could reject the valuation methodologies we have used to estimate our losses and apply different valuation methodologies, which could also reduce our aggregate recovery amount. However, based on the information that we have at this time, we believe that we will ultimately recover a majority of our losses. We further believe that, although the difference between our aggregate claims and our insurance recoveries may ultimately be material, this will not have a material and adverse effect on our financial condition or results of operation. We continue to have discussions with our customers regarding their assessments of the damage to, and valuation of, the consigned inventory and assets that were under our care, custody and control at our Chokchai facility. In some cases, there may be material differences between our assessments and our customers' assessments. There may also be differences of opinions regarding who bears responsibility for certain losses as a result of the flooding. We continue to review these differences with our customers and, depending on the outcome of these discussions, we may incur additional costs and expenses in connection with our customers' recovery efforts. We will recognize insurance recoveries if and when they become realizable and probable.

## Revenues

Our total revenues decreased by \$178.8 million, or 24.1%, to \$564.7 million for fiscal 2012, as compared to \$743.6 million for fiscal 2011. This decrease was primarily due to (1) the effects of severe flooding in Thailand during October and November 2011, including cessation of production at our Chokchai facilities and the temporary suspension of production at our Pinehurst facilities, and (2) reduced customer demand for our optical communications manufacturing services during fiscal 2012, partially offset by a \$9.6 million increase in our revenues from non-optical communications products, primarily reflecting the growth of our programs for industrial lasers and sensors customers. We generated substantially all of our total revenues during fiscal 2012 from the optical communications, industrial lasers and sensors markets. Our revenues from products for markets other than the optical communications market have continued to increase. Our revenues from lasers, sensors and other markets as a percentage of total revenues have increased from 18.3% for fiscal 2010, to 20.9% for fiscal 2011 to 29.3% for fiscal 2012. We expect that industrial lasers and sensors will continue to represent an increasing portion of our revenues in the future.

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. We expect the prices we charge for the products we manufacture for our customers to decrease over time due in part to competitive market forces. However, we believe we will be able to maintain favorable pricing for our services due to our ability to reduce cycle time, adjust our product mix by focusing on more complicated products, improve product quality and yields, and reduce material costs for the products we manufacture. We believe these capabilities have enabled us to help our OEM customers reduce their manufacturing costs while maintaining or improving the design, quality, reliability and delivery times for their products.

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

	Year Ended		
	June 29, 2012	June 24, 2011	June 25, 2010
JDS Uniphase Corporation	25%	21%	16%
Oclaro, Inc.	12	17	17
Finisar Corporation	10	10	12
Opnext, Inc.	*	10	14
EMCORE Corporation	*	*	10

\* Less than 10% of total revenues in the period.

**Table of Contents**

During fiscal 2012 and fiscal 2011, we had three customers and four customers, respectively, that each contributed 10% or more of our total revenues, and such customers together accounted for 47% and 58%, respectively, of our total revenues during the periods. During fiscal 2010, we had five customers that each contributed 10% or more of our total revenues.

**Revenues, Related Parties**

Revenues, related parties, represents revenues from our manufacturing of optical communications products for JDS Uniphase Corporation (or JDSU), a classification required by Rule 4-08(k) of Regulation S-X under the Exchange Act. JDSU is classified as a related party for fiscal 2009 because it held 6.4% of our share capital on a fully diluted basis as of June 26, 2009. In fiscal 2010, JDSU participated in our initial public offering as a selling shareholder and sold 1,606,850 ordinary shares, which reduced its share ownership to 1.1% (fully diluted) as of June 25, 2010. Therefore, JDSU was no longer classified as a related party as of June 25, 2010. On July 6, 2010, JDSU sold all of its remaining 393,150 ordinary shares pursuant to the underwriters' option to purchase additional shares. Our balance sheet as of June 25, 2010 does not reflect JDSU as a related party. However, as JDSU was considered a related party for most of fiscal 2010, our statement of operations for fiscal 2010 includes JDSU in revenues, related parties.

**Revenues by Geography**

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

The percentage of our revenues generated from the bill-to location outside of North America has decreased from 56.4% in fiscal 2011 to 51.7% in fiscal 2012, due in part to the closing of our Chokchai facility as a result of the October and November 2011 flooding in Thailand. Excluding the impact of the flooding in Thailand on our business, we expect that an increasing portion of our revenues will come from the bill-to location outside of North America in the future.

The following table presents total revenues, by percentage, by geographic regions:

	<b>Year Ended</b>		
	<b>June 29, 2012</b>	<b>June 24, 2011</b>	<b>June 25, 2010</b>
North America	48.3%	43.6%	50.0%
Asia-Pacific	33.5	37.3	39.0
Europe	18.2	19.1	11.0
	100.0%	100.0%	100.0%

**Our Contracts**

We enter into supply agreements with our customers that 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 do 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

---

## **Table of Contents**

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

### **Cost of Revenues**

The key components of our cost of revenues are material costs, employee costs, and infrastructure-related costs. Material costs generally represent the majority of our cost of revenues. Several of the materials we require to manufacture products for our customers are customized for their products and, in many instances, 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, our rate of scrap diminishes during a product's life cycle due to process, fixturing and test improvement and optimization.

A second significant element of 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. Salary levels in Thailand and the PRC, the fluctuation of the Thai baht and RMB against our functional currency, the U.S. dollar, and our ability to retain our employees significantly impact our cost of revenues. We expect our employee costs to increase as wages continue to increase in Thailand and the PRC. For example, effective April 1, 2012, the Thai government increased minimum daily wages from 215 Thai baht to 300 Thai baht. 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, and facilities management and overhead costs. Most of our facility leases are long-term agreements. Our depreciation costs are comprised of buildings and fixed assets, primarily at our Pinehurst Campus in Thailand, and capital equipment located at each of our manufacturing locations.

During fiscal 2011 and fiscal 2012, discretionary merit-based bonus awards were available to our non-executive employees. Charges included in cost of revenues for bonus distributions to employees were \$1.3 million, \$1.7 million and \$0 for fiscal 2012, fiscal 2011 and fiscal 2010, respectively.

Share-based compensation expense included in cost of revenues was \$1.5 million, \$1.1 million and \$0.3 million for fiscal 2012, fiscal 2011 and fiscal 2010, respectively.

We expect to incur significant incremental costs of revenue as a result of our continued diversification into the industrial lasers and sensors markets and other end-markets outside of the optical communications market or our further development of customized optics and glass manufacturing capabilities. We also expect to incur incremental costs of revenue as a result of our planned expansion into new geographic markets, though we are not able to determine the extent of these incremental expenses.

---

## **Table of Contents**

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

Our selling, general and administrative expenses, or 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 2013, we expect our SG&A expenses to increase on an absolute dollar basis and decrease as a percentage of revenue compared to fiscal 2012.

Charges included in SG&A expenses for merit-based bonus compensation and executive incentive bonuses distributed to employees were \$0.4 million, \$2.7 million and \$0 for fiscal 2012, fiscal 2011 and fiscal 2010, respectively.

Share-based compensation expense included in SG&A expenses was \$3.1 million, \$2.3 million and \$0.4 million for fiscal 2012, fiscal 2011 and fiscal 2010, respectively.

Other than incremental costs associated with growing our business generally and increased costs associated with being a public company, we do not expect to incur material incremental SG&A expenses as a result of our planned expansion into new geographic markets, our continued diversification into the industrial lasers and sensors markets and other end-markets outside of the optical communications market or our further development of customized optics and glass manufacturing capabilities.

### **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 as well as certain other operating expenses are incurred and paid in Thai baht. The exchange rates between the Thai baht and the U.S. dollar have fluctuated substantially in recent years and may continue to fluctuate substantially in the future. We report our financial results in U.S. dollars and our results of operations have been and may continue to be negatively impacted due to Thai baht appreciation against the U.S. dollar. Smaller portions of our expenses are incurred in a variety of other currencies, including RMB, Canadian dollars, Euros and Japanese yen, the appreciation of which may also negatively impact our financial results.

In addition, we are exposed to foreign exchange risk in connection with the credit facility and cross currency swap arrangements we entered into with TMB Bank Public Company Limited (the Bank) in May 2011 for the construction of Pinehurst Building 6. The terms of the contract with the Bank provide the following facilities: (1) a term loan facility for up to Thai baht 960 million (equal to \$30.0 million) with a fixed interest rate of 5.28% per annum, (2) a hedging facility for currency interest rate swaps with a notional amount of \$30.0 million, and (3) a settlement limit of Thai baht 65 million, subject to certain terms and conditions as set forth therein. As of March 30, 2012, we had drawn down the entire \$30.0 million available under the credit facility. Borrowings and interest under the term loan are scheduled to be repaid on a quarterly basis between September 2011 and March 2017. Under the terms of the cross currency swap arrangement, amounts drawn in Thai baht have been converted to U.S. dollars for repayment by us on a quarterly basis at the floating rate of 3-month U.S. LIBOR plus 2.8% per annum.

In order to manage the risks arising from fluctuations in foreign currency exchange rates, we use derivative financial instruments. We may enter into short-term forward foreign currency contracts to help manage currency exposures associated with certain assets and liabilities, primarily short-term obligations. The forward exchange contracts have generally ranged from one to six months in original maturity, and no forward exchange contract has had an original maturity greater than one year. All foreign currency exchange contracts are recognized on the

**Table of Contents**

balance sheet at fair value. As we do not apply hedge accounting to these instruments, the derivatives are recorded at fair value through earnings. The gains and losses on our forward contracts generally offset losses and gains on the assets, liabilities and transactions economically hedged and, accordingly, generally do not subject us to the risk of significant accounting losses.

As of June 29, 2012 and June 24, 2011, we had outstanding foreign currency assets and liabilities in Thai baht and RMB as follows:

	June 29, 2012			June 24, 2011		
	Currency	\$	%	Currency	\$	%
<b>(in thousands, except percentages)</b>						
<b>Assets</b>						
Thai baht	526,487	16,541	50.4	425,872	13,904	50.9
RMB	103,014	16,287	49.6	85,478	13,411	49.1
		32,828	100.0		27,315	100.0
<b>Liabilities</b>						
Thai baht	732,502	23,013	87.0	669,367	21,853	79.6
RMB	21,752	3,439	13.0	36,303	5,607	20.4
		26,452	100.0		27,460	100.0

The Thai baht assets represent cash and cash equivalents, accounts receivable, deposits and other current assets. The Thai baht liabilities represent trade accounts payable, accrued expenses and other payables. We manage our exposure to fluctuations in foreign exchange rates by the use of foreign currency contracts and offsetting assets and liabilities denominated in the same currency in accordance with management's policy. As of June 29, 2012, there was \$30.0 million in selling forward contracts outstanding on the Thai baht payables. As of June 24, 2011, there was \$30.0 million in selling forward contracts outstanding on the Thai baht payables and an undrawn committed loan in Thai baht equivalent to \$28.0 million.

The RMB assets represent cash and cash equivalents, accounts receivable and other current assets. The RMB liabilities represent trade accounts payable, accrued expenses and other payables. As of June 29, 2012 and June 24, 2011, there was none and \$4.0 million, respectively, in selling RMB to U.S. dollar forward contracts.

As of June 29, 2012 and June 24, 2011, unrealized losses from fair market value of derivatives amounted to \$0.2 million and \$1.0 million, respectively.

**Currency Regulation and Dividend Distribution**

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

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

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

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

Under the Exchange Rules, RMB is freely convertible into foreign currencies for current account items, including the distribution of dividends, interest payments, trade and service-related foreign exchange transactions. However, conversion of RMB for capital account items, such as direct investments, loans, security investments and repatriation of investments, is still subject to the approval of SAFE.



---

## **Table of Contents**

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

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

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

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

In addition, 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 us and our subsidiaries could restrict our ability to act in response to changing market conditions.

### ***Income Tax***

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

Throughout the period of our operations in Thailand, we have generally received income tax and other incentives from the Thailand Board of Investment. While we did not receive any income tax incentive for our operations in Thailand during fiscal 2010, preferential tax treatment from the Thai government in the form of a corporate tax exemption is currently available to us from July 2010 through June 2015 on income generated from the manufacture of products at Pinehurst Building 5 and from July 2012 through June 2020 on income generated from the manufacture of products at Pinehurst Building 6. Such preferential tax treatment is contingent on, among other things, the export of our customers' products out of Thailand and our agreement not to move our manufacturing facilities out of our current province in Thailand for at least 15 years. In addition, on December 21, 2011, the Thailand Revenue Department announced a reduction in corporate income tax rates for tax periods beginning on or after January 1, 2012. As a result of the announcement, corporate income tax rates for our Thai subsidiary will be reduced from 30% in fiscal 2012 to 23%, 20% and 20% in fiscal 2013, fiscal 2014 and fiscal 2015, respectively.

---

## **Table of Contents**

Effective October 21, 2011, our subsidiary in China was granted a tax privilege to reduce its corporate income tax rate from 25% to 15%. This privilege is retroactive to January 1, 2011 and valid until December 31, 2013, subject to renewal at the end of each three-year period.

### **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, disclosure of contingent liabilities on the date of the consolidated financial statements and the reported amounts of revenues and expenses during the financial reporting period. We continually evaluate these estimates and assumptions based on the most recently available information, our own historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which 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.

#### ***Expenses related to flooding***

Expenses related to flooding represents our estimate of losses due to the effects of flooding that suspended production at all of our manufacturing facilities in Thailand from October 17, 2011 through November 14, 2011. It consists mainly of losses to our own buildings, equipment and inventory, losses to consigned equipment and inventory, and other flood related expenses. We estimated losses related to flooding of \$97.3 million, of which approximately \$61.2 million represented liabilities to third parties.

We estimated flood-related losses to consigned equipment and inventory based on discussions with our customers regarding their assessments of the damage to, and valuation of, the consigned assets that were under our care, custody and control at our Chokchai facility. For assets owned by us, flood-related losses were estimated based on the net book value of the assets written off as a result of the flood.

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

We review property, plant and equipment for impairment when events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. An impairment loss is recognized when the carrying amount of a long-lived asset 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. During the second quarter of fiscal 2012, we set up a provision for impairment of approximately \$2.5 million for certain property, plant and equipment that was damaged due to severe flooding in Thailand during October and November 2011.

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

We perform ongoing credit evaluations of our customers' financial condition and make provisions for doubtful accounts based on the outcome 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.

---

**Table of Contents*****Inventory Valuation***

Our inventories are stated at the lower of cost, on a first-in, first-out basis, or market value. Our industry is characterized by rapid technological change, short-term customer commitments and rapid changes in demand. We make provisions for estimated excess and obsolete inventory based on regular reviews of inventory quantities on hand and the latest forecasts of product demand and production requirements from our customers. If actual market conditions or our customers' product demands are less favorable than those projected, additional provisions may be required. In addition, unanticipated changes in liquidity or the financial position of our customers or changes in economic conditions may require additional provisions for inventories due to our customers' inability to fulfill their contractual obligations. During fiscal 2012 and fiscal 2011, 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 in each period by approximately \$0.3 million and \$0.2 million, respectively.

***Deferred Income Taxes***

Our deferred income tax assets represent temporary differences between the carrying amount and the tax basis of existing assets and liabilities that will result in deductible 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 due to future market conditions, changes in U.S. or international tax laws and other factors. If these estimates and related assumptions change in the future, we may be required to increase or decrease our valuation allowance against the deferred tax assets resulting in additional or lesser income tax expense. As of June 29, 2012 and June 24, 2011, we assessed all of our deferred tax assets as more likely than not to be realizable and, accordingly, did not have a valuation allowance against our deferred tax assets.

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 FASB ASC 740-10, and recognize a tax provision in the financial statements for an uncertain tax position that would not be sustained.

***Share-Based Compensation***

Effective July 1, 2006, we adopted the fair value recognition provisions of FASB ASC Topic 718, Compensation - Stock Compensation ( FASB ASC 718 ). Under the fair value recognition provisions of FASB ASC 718, we applied the prospective transition method and measured share-based compensation expense at fair value on the later of the awards' grant date or board of directors' approval date, based on the estimated number of awards that are expected to vest. Awards granted (or modified, repurchased, or cancelled) after the adoption of FASB ASC 718 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 financial statements. In determining the fair value of awards, we are required to make estimates of the fair value of our ordinary shares, 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, expected terms of the awards, and the vesting period of the respective awards.

The determination of our share-based compensation expense under FASB ASC 718 for both current and future periods requires the input of highly subjective 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.

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: (i) the exercise price of the options, (ii) the estimated fair value of the underlying ordinary shares, (iii) the expected life of the options, (iv) the

**Table of Contents**

expected volatility of the underlying ordinary shares, (v) the risk-free interest rate during the expected life of the options, and (vi) the expected dividend yield of the underlying ordinary shares. However, these fair values are inherently uncertain and highly subjective.

The exercise price of the options is stated in the option agreements. The expected life of the options involves estimates of the anticipated timing of the exercise of the vested options. The expected volatility is based on the historical volatility of the capital stock of comparable publicly-traded companies. We have applied the U.S. Treasury Bill interest rate with a maturity 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.

Prior to June 25, 2010, the date our ordinary shares began trading on the New York Stock Exchange, the fair value of our ordinary shares had been determined by our board of directors at each grant date based on a variety of factors, including market multiple methodologies and appropriate valuation techniques. We determined the fair values of our ordinary shares each quarter to be equal to the mean of our (i) price earnings multiple enterprise value and (ii) revenue multiple enterprise value, divided by the total number of ordinary shares outstanding on a fully diluted basis, rounded down to the nearest one-fourth. In determining the price earnings multiples and the revenue multiples used, we obtained from third parties the price earnings multiples and revenue multiples of a group of comparable companies each quarter. We then calculated our price earnings multiple enterprise value and revenue multiple enterprise value by taking the average price earnings multiple and average revenue multiple of the group and multiplying such averages by our trailing 12-month earnings and revenues, respectively, each quarter. In order to ensure that the calculated fair value per ordinary share amount was reasonable, each period we compared the fair value amount to third-party information available to us and assessed whether the fair value is consistent with our assessment of business performance and value.

Since our initial public offering, we determine the fair value of our ordinary shares based on the closing price of our ordinary shares on the stock option grant date.

**Results of Operations**

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

	June 29, 2012	Year Ended June 24, 2011 (in thousands)	June 25, 2010
<b>Revenues</b>			
Revenues	\$ 564,732	\$ 743,570	\$ 424,548
Revenues, related parties			81,164
<b>Total revenues</b>	564,732	743,570	505,712
Cost of revenues	(502,818)	(648,823)	(441,370)
<b>Gross profit</b>	61,914	94,747	64,342
Selling, general and administrative expenses	(23,466)	(24,806)	(16,192)
Expenses related to flooding	(97,286)		
Expenses related to reduction in workforce	(1,978)		
<b>Operating (loss) income</b>	(60,816)	69,941	48,150
Interest income	844	494	327
Interest expense	(427)	(357)	(500)
Foreign exchange gain (loss), net	1,569	(1,430)	(40)
Other income	395	216	153
<b>(Loss) income before income taxes</b>	(58,435)	68,864	48,090
Income tax benefit (expense)	1,968	(4,535)	(3,767)
<b>Net (loss) income</b>	\$ (56,467)	\$ 64,329	\$ 44,323



**Table of Contents**

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

	June 29, 2012	Year Ended June 24, 2011	June 25, 2010
Revenues			
Revenues	100.0%	100.0%	84.0%
Revenues, related parties			16.0
Total revenues	100.0	100.0	100.0
Cost of revenues	(89.0)	(87.3)	(87.3)
Gross profit	11.0	12.7	12.7
Selling, general and administrative expenses	(4.2)	(3.3)	(3.2)
Expenses related to flooding	(17.2)		
Expenses related to reduction in workforce	(0.4)		
Operating (loss) income	(10.8)	9.4	9.5
Interest income	0.1	0.1	0.1
Interest expense	(0.1)	(0.1)	(0.1)
Foreign exchange gain (loss), net	0.3	(0.2)	(0.1)
Other income	0.1	0.1	0.1
(Loss) income before income taxes	(10.3)	9.3	9.5
Income tax benefit (expense)	0.3	(0.6)	(0.7)
Net (loss) income	(10.0)%	8.7%	8.8%

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

	June 29, 2012	Year Ended June 24, 2011 (in thousands)	June 25, 2010
Optical communications	\$ 399,343	\$ 587,818	\$ 413,385
Lasers, sensors, and other	165,389	155,752	92,327
Total	\$ 564,732	\$ 743,570	\$ 505,712

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

**Comparison of Year Ended June 29, 2012 to Year Ended June 24, 2011**

**Total revenues.** Our total revenues decreased by \$178.8 million, or 24.1%, to \$564.7 million for fiscal 2012, as compared to \$743.6 million for fiscal 2011. This decrease was primarily due to (1) the effects of severe flooding in Thailand during October and November 2011, including cessation of production at our Chokchai facilities and the temporary suspension of production at our Pinehurst facilities, and (2) reduced customer demand for our optical communications manufacturing services during fiscal 2012, partially offset by a \$9.6 million increase in our revenues from non-optical communications products, primarily reflecting the growth of our programs for industrial lasers and sensors customers. Revenues from optical communications products represented 70.7% of our total revenues fiscal 2012, as compared to 79.1% for fiscal 2011.

**Cost of revenues.** Our cost of revenues decreased by \$146.0 million, or 22.5%, to \$502.8 million, or 89.0% of total revenues, for fiscal 2012, as compared to \$648.8 million, or 87.3% of total revenues, for fiscal 2011. The decrease in absolute dollars was primarily in connection with a

## Edgar Filing: Fabrinet - Form 10-K

decrease in revenues due to (1) the effects of severe flooding in Thailand during October and November 2011 and (2) reduced customer demand for our

---

**Table of Contents**

optical communications manufacturing services. Cost of revenues also included share-based compensation expense of \$1.5 million for fiscal 2012, as compared to \$1.1 million for fiscal 2011.

*Gross profit.* Our gross profit decreased by \$32.8 million, or 34.7%, to \$61.9 million, or 11.0% of total revenues, for fiscal 2012, as compared to \$94.7 million, or 12.7% of total revenues, for fiscal 2011.

*SG&A expenses.* Our SG&A expenses decreased by \$1.3 million, or 5.4%, to \$23.5 million, or 4.2% of total revenues, for fiscal 2012, as compared to \$24.8 million, or 3.3% of total revenues, for fiscal 2011. Our SG&A expenses decreased in absolute dollars during fiscal 2012, as compared to fiscal 2011, due primarily to (1) no recognition of accrued executive bonuses during fiscal 2012 as compared to \$2.6 million of accrued executive bonuses recorded in fiscal 2011, (2) the allocation of a portion of payroll expense that we typically record in SG&A expenses to Expenses related to flooding because of changes in roles and responsibilities of certain employees who were temporarily assigned to work on flood abatement and recovery efforts, and (3) a \$0.7 million decrease in severance liability expense in fiscal 2012 as compared to fiscal 2011 due to a reduction in workforce as a result of our ongoing effort to achieve greater efficiencies in all areas of our business, partially offset by an increase in business development and research and development spending during the first quarter of fiscal 2012 and legal expenses of \$0.1 million relating to the filing of a registration statement on Form S-3 during the second quarter of fiscal 2012. We also recorded share-based compensation charges of \$3.1 million for fiscal 2012, as compared to \$2.3 million for fiscal 2011.

*Expenses related to flooding.* In fiscal 2012, we recognized \$97.3 million of expenses related to the October and November 2011 flooding in Thailand. It mainly consisted of losses of \$48.5 million related to damage to customer-owned equipment and machinery, \$28.4 million related to damage to our inventory and customer-owned inventory, \$4.6 million related to damage to our machinery and equipment, \$2.4 million related to damage to our Chokchai facility, and \$13.4 million of other flood-related expenses.

*Expenses related to reduction in workforce.* During the fourth quarter of fiscal 2012, we implemented a reduction in workforce and incurred expenses of approximately \$2.0 million, which represented severance and benefits costs associated with the termination of approximately 170 employees in accordance with contractual obligations and local regulations.

*Operating (loss) income.* Our operating income decreased by \$130.8 million to an operating loss of \$(60.8) million, or (10.8)% of total revenues, for fiscal 2012, as compared to operating income of \$70.0 million, or 9.4% of total revenues, for fiscal 2011.

*Interest income.* Our interest income increased by \$0.3 million to \$0.8 million, for fiscal 2012, as compared to \$0.5 million for fiscal 2011, due to increases in cash and cash equivalent balances and increases in interest rates.

*Interest expense.* Our interest expense increased by \$70,000 to \$427,000 for fiscal 2012, as compared to \$357,000 for fiscal 2011, due to an increase in our long-term loan balances.

*(Loss) income before income taxes.* We recorded loss before income taxes of \$(58.4) million for fiscal 2012, as compared to income before income taxes of \$68.9 million for fiscal 2011.

*Income tax benefit (expense).* Our provision for income tax reflects an effective tax rate of (3.4)% (tax benefit) for fiscal 2012, as compared to an effective tax rate of 6.6% for fiscal 2011. The decrease in effective tax rate in fiscal 2012 as compared to fiscal 2011 was due to the effects of the reassessment of our projected full year effective tax rate to take into account the impact on our operations of the flooding in Thailand that occurred in October and November 2011, resulting in the recording of additional deferred tax assets of \$3.4 million for fiscal 2012 and the impact of an income tax rate change for our subsidiary in China, resulting in a reduction in income tax expense of \$0.3 million for fiscal 2012.

---

**Table of Contents**

*Net (loss) income.* We recorded a net loss of \$(56.5) million, or (10.0)% of total revenues for fiscal 2012, as compared to \$64.3 million, or 8.7% of total revenues, for fiscal 2011, a decrease of \$120.8 million, or 187.8%.

**Comparison of Year Ended June 24, 2011 to Year Ended June 25, 2010**

*Total revenues.* Our total revenues increased by \$237.9 million, or 47.0%, to \$743.6 million for fiscal 2011, as compared to \$505.7 million for fiscal 2010. This increase was the result of \$174.4 million increase in our revenues from optical communications products, primarily reflecting the growth in optical switching, higher speed transmission devices and tunable devices, and \$63.5 million increase in our revenues from non-optical communications products, primarily reflecting the growth of our programs for industrial laser and sensor customers, primarily related to medical equipment and automotive devices. Revenues from optical communications products represented 79.1% of our total revenues for fiscal 2011, as compared to 81.7% for fiscal 2010. As of June 25, 2010, JDS Uniphase Corporation was no longer classified as a related party. For fiscal 2011, revenues from the sales of products to JDS Uniphase Corporation was no longer recorded as revenues, related parties due to a reduction of share ownership through JDSU's participation in our initial public offering as a selling shareholder.

*Cost of revenues.* Our cost of revenues increased by \$207.5 million, or 47.0%, to \$648.8 million, or 87.3% of total revenues, for fiscal 2011, as compared to \$441.4 million, or 87.3% of total revenues, for fiscal 2010. The increase in absolute dollars was primarily due to higher volumes of materials used in our production in fiscal 2011. Additionally, cost of revenues for fiscal 2010 was reduced by \$5.0 million primarily as a result of the recovery of the costs of obsolete inventory from a customer and the reversal of certain long outstanding payables with expiring statute of limitations. Cost of revenues also included share-based compensation expense of \$1.1 million for fiscal 2011, as compared to \$0.3 million for fiscal 2010.

*Gross profit.* Our gross profit increased by \$30.4 million, or 47.3%, to \$94.7 million, or 12.7% of total revenues, for fiscal 2011, as compared to \$64.3 million, or 12.7% of total revenues, for fiscal 2010.

*SG&A expenses.* Our SG&A expenses increased by \$8.6 million, or 53.2%, to \$24.8 million, or 3.3% of total revenues, for fiscal 2011, as compared to \$16.2 million, or 3.2% of total revenues, for fiscal 2010. Our SG&A expenses increased in absolute dollars during fiscal 2011 as compared to fiscal 2010 due primarily to the recognition of accrued bonuses of \$2.6 million in connection with our fiscal 2011 executive incentive plan, which was adopted in October 2010, the recognition of \$1.1 million in costs associated with operating and reporting as a public company, the recognition of \$0.6 million in expenses in connection with our secondary public offering in March 2011, and the recognition of \$0.4 million of severance and other expenses in connection with an executive's separation from Fabrinet in February 2011. We also recorded share-based compensation charges of \$2.3 million for fiscal 2011, as compared to \$0.4 million for fiscal 2010.

*Operating income.* Our operating income increased by \$21.8 million to \$70.0 million, or 9.4% of total revenues, for fiscal 2011, as compared to \$48.2 million, or 9.5% of total revenues, for fiscal 2010.

*Interest income.* Our interest income increased by \$0.2 million to \$0.5 million, for fiscal 2011, as compared to \$0.3 million for fiscal 2010, primarily due to an increase in cash balances.

*Interest expense.* Our interest expense decreased by \$0.1 million to \$0.4 million for fiscal 2011, as compared to \$0.5 million for fiscal 2010. The decrease was primarily due to decreases in our long-term loan interest rates and the repayment of \$6.0 million of our long-term loans.

*Income before income taxes.* We recorded income before income tax expenses of \$68.9 million for fiscal 2011, as compared to \$48.1 million for fiscal 2010.

*Provision for income tax.* Our provision for income tax reflects an effective tax rate of 6.6% for fiscal 2011, as compared to an effective tax rate of 7.8% for fiscal 2010. The decrease in effective tax rate in fiscal 2011 as compared to fiscal 2010 was due to an income tax exemption from the Thailand Board of Investment relating to income from Pinehurst Building 5 of \$1.2 million.

---

**Table of Contents**

*Net income.* Our net income increased to \$64.3 million, or 8.7% of total revenues, for fiscal 2011, as compared to \$44.3 million, or 8.8% of total revenues, for fiscal 2010, an increase of \$20.0 million, or 45.1%.

**Liquidity and Capital Resources**

To date, we have primarily financed our operations through cash flow from operations, drawdowns under our commercial loans, and the sale of ordinary shares in our initial public offering in June 2010. As of June 29, 2012, we had approximately \$115.5 million in cash and cash equivalents and approximately \$38.6 million of outstanding debt. As of June 24, 2011, we had approximately \$127.3 million in cash and cash equivalents and approximately \$16.4 million of outstanding debt.

Our cash and cash equivalents primarily consist of cash on hand, demand deposits and liquid investments with original maturities of three months or less which are placed with banks and other financial institutions. For fiscal 2012 and fiscal 2011, the weighted average interest rate on our cash and cash equivalents was 0.8% and 0.6%, respectively.

We expect that our cash position will continue to be materially impacted by expenditures related to recovery from the flooding of our facilities in Thailand and lost revenue. We have incurred, and expect to continue to incur, certain charges and expenses related to the flooding; some of which will be cash charges and expenses, such as those described in Note 22 to the Notes to Consolidated Financial Statements. We also have to pay significantly more for our current property and casualty insurance for our operations in Thailand (See Note 22 to the Notes to Consolidated Financial Statements). We have submitted claims to our insurers for business interruption losses attributable to the effects of flooding during the second and third quarters of fiscal 2012, as well as claims for owned and consigned inventory losses, owned and consigned equipment losses, and damage to our buildings at Pinehurst, which we own, and Chokchai, which we leased. In the first quarter of fiscal 2013, we plan to submit a claim for business interruption losses for the three months ended June 29, 2012. We expect to experience additional business interruption losses during the first quarter of fiscal 2013, and therefore expect to submit an additional claim for such losses in the second quarter of fiscal 2013.

A number of exclusions and limitations in our policies (such as coinsurance, facilities location sub-limits and policy covenants) may reduce the aggregate amount that we will ultimately recover for our losses from our insurers. In addition, our insurers could reject the valuation methodologies we have used to estimate our losses and apply different valuation methodologies, which could also reduce our aggregate recovery amount. However, based on the information that we have at this time, we believe that we will ultimately recover a majority of our losses. We further believe that, although the difference between our aggregate claims and our insurance recoveries may ultimately be material, this will not have a material and adverse effect on our financial condition or results of operation. We continue to have discussions with our customers regarding their assessments of the damage to, and valuation of, consigned inventory and assets that were under our care, custody and control at our Chokchai facility. In some cases, there may be material differences between our assessments and our customers' assessments. There may also be differences of opinion regarding who bears responsibility for certain losses as a result of the flooding. We continue to review these differences with our customers and, depending on the outcome of these discussions, we may incur additional costs and expenses in connection with our customers' recovery efforts. We will recognize insurance recoveries if and when they become realizable and probable.

In addition, the flooding may continue to impact some of our customers' ability to pay us amounts that they owe us, which could materially impact the timing of the realization of our receivables. Therefore, because of the uncertainty of the timing of these recoveries, the potential impact to our receivables and the fact that we could be required to use significant amounts of our cash to pay for flood-related expenses and losses before we receive any proceeds from our insurers, our liquidity and capital resources could be materially and adversely affected by such cash outlays unless and until we are able to collect on these recoveries from our insurers. Notwithstanding the foregoing, we believe that our current cash and cash equivalents, and cash flow from operations will be

**Table of Contents**

sufficient to meet our working capital and capital expenditure needs for the next 12 months. Our ability to sustain our working capital position is subject to a number of risks that we discuss in Item 1A of this Annual Report on Form 10-K.

In June 2010, we entered into an agreement to purchase land in Thailand for the construction of Pinehurst Building 6. The land purchase was completed in August 2010 and construction of Building 6 was completed in April 2012. We believe that our current manufacturing capacity is sufficient to meet anticipated production requirements for the next few years. We maintain a long-term credit facility associated with construction of production facilities at our Pinehurst campus in Thailand that will come due within the next 57 months. We anticipate that our internally generated working capital, along with our cash and cash equivalents will be adequate to repay this obligation.

The following table shows our net cash provided by operating activities, net cash used in investing activities and net cash provided by (used in) financing activities for the periods indicated:

	June 29, 2012	Year Ended June 24, 2011 (in thousands)	June 25, 2010
Net cash provided by operating activities	\$ 2,251	\$ 41,282	\$ 17,846
Net cash used in investing activities	(37,378)	(23,590)	(10,718)
Net cash provided by (used in) financing activities	23,202	23,886	(37,298)
Net (decrease) increase in cash and cash equivalents	(11,925)	41,578	(30,170)
Cash and cash equivalents, beginning of period	127,282	84,942	114,845
Cash and cash equivalents, end of period	115,507	127,282	84,942

**Operating Activities**

Net cash provided by operating activities decreased by \$39.0 million, or 94.5%, to \$2.3 million for fiscal 2012, as compared to net cash provided by operating activities of \$41.3 million for fiscal 2011. The decrease in net cash from operations for fiscal 2012, as compared to fiscal 2011, was primarily due to a decrease in net income and an increase in working capital due to the impact of the flooding.

Net cash provided by operating activities increased by \$23.5 million, or 131.3%, to \$41.3 million for fiscal 2011, as compared to net cash provided by operating activities of \$17.8 million for fiscal 2010. The increase in net cash from operations for fiscal 2011 was primarily due to an increase in net income for the year.

**Investing Activities**

Net cash used in investing activities increased by \$13.8 million to \$37.4 million for fiscal 2012, as compared to \$23.6 million for fiscal 2011. The increase in net cash used in investing activities was primarily due to additional progress payments for construction of Pinehurst Building 6 and new equipment purchases to replace flood-damaged equipment.

Net cash used in investing activities increased by \$12.9 million to \$23.6 million for fiscal 2011, as compared to \$10.7 million for fiscal 2010. The increase in net cash used in investing activities was primarily related to additional payments for the purchase of land and construction in progress for Pinehurst Building 6, and the purchase of new equipment.

**Financing Activities**

Net cash provided by financing activities decreased by \$0.7 million, or 2.9%, to \$23.2 million for fiscal 2012, as compared to net cash provided by financing activities of \$23.9 million for fiscal 2011. This decrease in net cash provided by financing activities was primarily due to \$26.3 million in proceeds from our initial public

**Table of Contents**

offering and \$2.0 million in proceeds from draw downs under our loan facility for construction of Pinehurst Building 6 in fiscal 2011, as compared to \$28.0 million in proceeds from draw downs under our loan facility for construction of Pinehurst Building 6 in fiscal 2012.

Net cash provided by financing activities increased by \$61.2 million to \$23.9 million for fiscal 2011, as compared to net cash used in financing activities of \$37.3 million for fiscal 2010. This increase in net cash provided by financing activities was primarily due to net proceeds from our initial public offering of \$26.3 million in fiscal 2011, as compared to a dividend payment of \$30.8 million to shareholders in fiscal 2010.

**Contractual Obligations**

The following table sets forth certain of our contractual obligations as of June 29, 2012:

	Total	Payments Due by Period			More than 5 years
		Less than 1 year	1-3 years (in thousands)	3-5 years	
Long-term debt obligations	\$ 38,579	\$ 9,668	\$ 18,411	\$ 10,500	
Interest expense obligation(1)	2,663	1,043	1,271	349	
Operating lease obligations	1,032	778	239	15	
Severance liabilities	4,420	237	163	282	3,738
Provision for uncertain income tax position	1,905	574	1,331		
Construction commitments	899	899			
<b>Total</b>	<b>\$ 49,498</b>	<b>\$ 13,199</b>	<b>\$ 21,415</b>	<b>\$ 11,146</b>	<b>\$ 3,738</b>

- (1) Interest expense obligation reflects the variable interest rates on long-term debt obligations using interest rates as of June 29, 2012. The interest rates ranged between 2.0% and 3.3%. For further discussion of long-term debt obligations, see Note 12 of our audited consolidated financial statements.

In June 2010, we entered into an agreement to purchase land in Thailand for the purpose of constructing Pinehurst Building 6, and we paid approximately \$2.2 million as a deposit. In August 2010, we paid the balance of approximately \$5.2 million and title was transferred to us. The total cost to construct the facility was \$31.6 million. We completed construction of Pinehurst Building 6 in April 2012.

As of June 29, 2012, our long-term debt obligations consisted of two loan agreements and our aggregate outstanding borrowings under these agreements were approximately \$38.6 million. One loan is secured by certain property, plant and equipment and the other loan has no collateral, but both loans prescribe maximum ratios of debt to equity, and minimum levels of debt service coverage ratios (i.e., earnings before interest expenses and depreciation and amortization plus cash on hand minus short-term debts divided by current portion of long-term debts plus interest expenses). These financial ratio covenants could restrict our ability to incur additional indebtedness and limit our ability to use our cash. Our long-term debt obligations also include customary events of default.

As of June 29, 2012, 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 have entered into short-term lending arrangements that are unused but available as needed. As of June 29, 2012, unused borrowing capacity available under short-term banking facilities totaled \$8.2 million.

**Table of Contents**

As of June 29, 2012, we also had certain operating lease arrangements where the lease payments are calculated based on specified formulas. Our rental expenses under these leases were \$1.8 million, \$1.9 million and \$1.8 million for fiscal 2012, fiscal 2011 and fiscal 2010, respectively.

**Capital Expenditures**

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

	June 29, 2012	Year Ended June 24, 2011 (in thousands)	June 25, 2010
Capital expenditures	\$ 37,386	\$ 27,023	\$ 11,889

Our capital expenditures for fiscal 2012 principally consisted of investment in the construction of Pinehurst Building 6, investment in facilities improvements to defend against future flooding, and the repair, restoration and replacement of flood-damaged equipment. Our capital expenditures for fiscal 2011 principally consisted of payment of the remaining balance for the purchase of land for Pinehurst Building 6, investment in the construction of Building 6 and investment in equipment for our manufacturing facilities. Our capital expenditures for fiscal 2010 principally consisted of investments in capital equipment, software, hardware and facilities, which included a \$2.2 million deposit toward the purchase of land for Pinehurst Building 6. During fiscal 2013, we expect to purchase additional equipment for our manufacturing facilities.

**Off-Balance Sheet Commitments and Arrangements**

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

**Recent Accounting Pronouncements**

See Note 2.2 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 and cash equivalents totaling \$115.5 million, \$127.3 million and \$84.9 million as of June 29, 2012, June 24, 2011 and June 25, 2010, respectively. Our exposure to interest rate risk primarily relates to the interest income generated by excess cash invested in highly liquid investments with maturities of three months or less from the original dates of purchase. The cash and cash equivalents 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 2012, fiscal 2011 and fiscal 2010, our interest income would have decreased by approximately \$106,000, \$88,000 and \$70,000, respectively, assuming consistent investment levels.

Interest rate risk also refers to our exposure to movements in interest rates associated with our interest bearing liabilities. The interest bearing liabilities are denominated in U.S. dollars and the interest expense is based on the Singapore Inter-Bank Offered Rate, or SIBOR, and the London Inter-Bank Offered Rate, or LIBOR,

---

**Table of Contents**

plus an additional margin, depending on the lending institution. If the SIBOR and the LIBOR had increased by 100 basis points during fiscal 2012, fiscal 2011 and fiscal 2010, our interest expense would have increased by approximately \$0.4 million, \$0.2 million and \$0.2 million, respectively, assuming consistent borrowing levels.

***Foreign Currency Risk***

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

As a consequence, our gross profit margins, operating results, profitability and cash flows are adversely impacted when the dollar depreciates relative to the Thai baht or the RMB. We have a particularly significant currency rate exposure to changes in the exchange rate between the Thai baht and the U.S. dollar. We must translate foreign currency-denominated results of operations, assets and liabilities for our foreign subsidiaries to U.S. dollars in our consolidated financial statements. Consequently, increases and decreases in the value of the U.S. dollar compared to such foreign currencies will affect our reported results of operations and the value of our assets and liabilities on our 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.

In addition, we are exposed to foreign exchange risk in connection with the credit facility and cross currency swap arrangements we entered into with TMB Bank Public Company Limited (the Bank) in May 2011 for the construction of Pinehurst Building 6. The terms of the contract with the Bank provide the following facilities: (1) a term loan facility for up to Thai baht 960 million (equal to \$30.0 million) with a fixed interest rate of 5.28% per annum, (2) a hedging facility for currency swaps with a notional amount of \$30.0 million, and (3) a settlement limit of Thai baht 65 million, subject to certain terms and conditions as set forth therein. As of March 30, 2012, we had drawn down the entire \$30.0 million available under the credit facility. Borrowings and interest under the term loan are scheduled to be repaid on a quarterly basis between September 2011 and March 2017. Under the terms of the cross currency interest rate swap arrangement, all amounts drawn in Thai baht have been converted to U.S. dollars for repayment by us on a quarterly basis at the floating rate of 3-month U.S. LIBOR plus 2.8% per annum.

We attempt to hedge against these exchange rate risks by entering into hedging contracts that are typically one to six months in duration, leaving us exposed to longer term changes in exchange rates. We realized foreign currency gains of \$1.6 million during fiscal 2012 and foreign currency losses of \$1.4 million during fiscal 2011. As foreign currency exchange rates fluctuate relative to the U.S. dollar, we expect to incur foreign currency translation adjustments and may incur foreign currency exchange losses. For example, a 10% weakening in the U.S. dollar against the Thai baht and the RMB as of June 29, 2012 and June 24, 2011 would have resulted in an increase in our net dollar position of approximately \$0.7 million and a decrease in our net dollar position of approximately \$0.02 million, 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 29, 2012 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. We generally monitor the financial performance of our suppliers and customers, as well as other factors that may affect their access to capital and liquidity. Presently, we believe that we will not incur material losses due to our exposures to such credit risk.

---

**Table of Contents**

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

**Consolidated Financial Statements of Fabrinet**

	<b>Page</b>
<u>Report of Management on Internal Control Over Financial Reporting</u>	56
<u>Report of Independent Registered Public Accounting Firm</u>	57
<u>Consolidated Balance Sheets as of June 29, 2012 and June 24, 2011</u>	58
<u>Consolidated Statements of Operations for the Years Ended June 29, 2012, June 24, 2011 and June 25, 2010</u>	59
<u>Consolidated Statements of Shareholders' Equity for the Years Ended June 29, 2012, June 24, 2011 and June 25, 2010</u>	60
<u>Consolidated Statements of Cash Flows for the Years Ended June 29, 2012, June 24, 2011 and June 25, 2010</u>	61
<u>Notes to Consolidated Financial Statements for the Years Ended June 29, 2012, June 24, 2011 and June 25, 2010</u>	62

**Supplementary Financial Data**

<u>Unaudited Quarterly Financial Information for the Years Ended June 29, 2012 and June 24, 2011</u>	88
--	----

**Table of Contents**

**REPORT OF MANAGEMENT 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 Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. 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.

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

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

Management conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, management concluded that the Company's internal control over financial reporting was effective as of June 29, 2012.

PricewaterhouseCoopers ABAS Ltd., an independent registered public accounting firm, audited the effectiveness of the Company's internal control over financial reporting as of June 29, 2012, as stated in their report on page 57 of this Annual Report on Form 10-K.

/s/ David T. Mitchell  
David T. Mitchell  
Chief Executive Officer and Chairman of the Board  
August 28, 2012

/s/ Toh-Seng Ng  
Toh-Seng Ng  
Executive Vice President and Chief Financial Officer  
August 28, 2012

---

**Table of Contents**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of shareholders' equity and of cash flows present fairly, in all material respects, the financial position of Fabrinet and its subsidiaries (the Group) as of June 29, 2012 and June 24, 2011, and the results of their operations and their cash flows for each of the years ended June 29, 2012, June 24, 2011 and June 25, 2010, 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 29, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report of Management on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these financial statements and on the Company's internal control over financial reporting based on our audits, which were integrated audits in 2012 and 2011. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinion.

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

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

/s/ PricewaterhouseCoopers ABAS Ltd.

PricewaterhouseCoopers ABAS Ltd.

Bangkok, Thailand

August 28, 2012

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

<i>(in thousands of U.S. dollars, except share data)</i>	<b>June 29, 2012</b>	<b>June 24, 2011</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 115,507	\$ 127,282
Trade accounts receivable, net	128,253	117,705
Inventories, net	103,223	106,467
Investment in leases		448
Deferred tax assets	4,088	1,308
Prepaid expenses	3,571	2,028
Other current assets	6,029	2,438
<b>Total current assets</b>	<b>360,671</b>	<b>357,676</b>
Non-current assets		
Property, plant and equipment, net	97,923	75,410
Intangibles, net	380	892
Investment in leases		1,163
Deferred tax assets	1,764	1,953
Deposits and other non-current assets	624	681
<b>Total non-current assets</b>	<b>100,691</b>	<b>80,099</b>
<b>Total assets</b>	<b>\$ 461,362</b>	<b>\$ 437,775</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Long-term loans from banks, current portion	\$ 9,668	\$ 4,398
Trade accounts payable	86,000	92,563
Construction-related payable	2,222	2,475
Income tax payable	353	1,858
Deferred tax liability	1,405	1,056
Accrued payroll, bonus and related expenses	5,181	7,677
Accrued expenses	2,630	3,986
Other payables	6,601	3,796
Liabilities to third parties due to flood losses	61,198	
<b>Total current liabilities</b>	<b>175,258</b>	<b>117,809</b>
Non-current liabilities		
Long-term loans from banks, non-current portion	28,911	11,979
Severance liabilities	4,420	4,478
Other non-current liabilities	2,064	1,982
<b>Total non-current liabilities</b>	<b>35,395</b>	<b>18,439</b>
<b>Total liabilities</b>	<b>210,653</b>	<b>136,248</b>
Commitments and contingencies (Note 19)		

## Edgar Filing: Fabrinet - Form 10-K

### Shareholders' equity

Preferred shares (5,000,000 shares authorized, \$0.01 par value; no shares issued and outstanding as of June 29, 2012 and June 24, 2011)		
Ordinary shares (500,000,000 shares authorized, \$0.01 par value; 34,470,829 shares and 34,207,579 shares issued and outstanding as of June 29, 2012 and June 24, 2011, respectively)	345	342
Additional paid-in capital	65,462	59,816
Retained earnings	184,902	241,369
<b>Total shareholders' equity</b>	<b>250,709</b>	<b>301,527</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 461,362</b>	<b>\$ 437,775</b>

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

**Table of Contents****FABRINET****CONSOLIDATED STATEMENTS OF OPERATIONS**

<i>(in thousands of U.S. dollars)</i>	<b>June 29, 2012</b>	<b>Year Ended June 24, 2011</b>	<b>June 25, 2010</b>
<b>Revenues</b>			
Revenues	\$ 564,732	\$ 743,570	\$ 424,548
Revenues, related parties			81,164
<b>Total revenues</b>	<b>564,732</b>	<b>743,570</b>	<b>505,712</b>
<b>Cost of revenues</b>	<b>(502,818)</b>	<b>(648,823)</b>	<b>(441,370)</b>
<b>Gross profit</b>	<b>61,914</b>	<b>94,747</b>	<b>64,342</b>
Selling, general and administrative expenses	(23,466)	(24,806)	(16,192)
Expenses related to flooding	(97,286)		
Expenses related to reduction in workforce	(1,978)		
<b>Operating (loss) income</b>	<b>(60,816)</b>	<b>69,941</b>	<b>48,150</b>
Interest income	844	494	327
Interest expense	(427)	(357)	(500)
Foreign exchange gain (loss), net	1,569	(1,430)	(40)
Other income	395	216	153
<b>(Loss) income before income taxes</b>	<b>(58,435)</b>	<b>68,864</b>	<b>48,090</b>
Income tax benefit (expense)	1,968	(4,535)	(3,767)
<b>Net (loss) income</b>	<b>\$ (56,467)</b>	<b>\$ 64,329</b>	<b>\$ 44,323</b>
<b>(Loss) earnings per share</b>			
Basic	\$ (1.64)	\$ 1.90	\$ 1.44
Diluted	\$ (1.64)	\$ 1.87	\$ 1.41
<b>Weighted average number of ordinary shares outstanding</b>			
(thousands of shares)			
Basic	34,382	33,922	30,854
Diluted	34,382	34,407	31,369

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

**Table of Contents****FABRINET****CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY***(in thousands of U.S. dollars, except share data)*

	Ordinary Share		Additional	Retained	Total
	Shares	Amount	Paid-in Capital	Earnings	
<b>Balances at June 26, 2009</b>	30,636,622	\$ 306	\$ 29,633	\$ 163,566	\$ 193,505
Net income				44,323	44,323
Shares issued pursuant to initial public offering, net of offering costs	2,830,000	28	24,017		24,045
Share-based compensation expense related to the Amended and Restated 1999 Share Option Plan			655		655
Shares issued under the Amended and Restated 1999 Share Option Plan	285,108	3	481		484
Dividends to shareholders				(30,849)	(30,849)
<b>Balances at June 25, 2010</b>	33,751,730	\$ 337	\$ 54,786	\$ 177,040	\$ 232,163
Net income				64,329	64,329
Share-based compensation expense related to the Amended and Restated 1999 Share Option Plan and the 2010 Performance Incentive Plan			3,460		3,460
Shares issued under the Amended and Restated 1999 Share Option Plan and the 2010 Performance Incentive Plan	455,849	5	1,570		1,575
<b>Balances at June 24, 2011</b>	34,207,579	\$ 342	\$ 59,816	\$ 241,369	\$ 301,527
Net loss				(56,467)	(56,467)
Share-based compensation expense related to the Amended and Restated 1999 Share Option Plan and the 2010 Performance Incentive Plan			4,649		4,649
Shares issued under the Amended and Restated 1999 Share Option Plan and the 2010 Performance Incentive Plan	263,250	3	997		1,000
<b>Balances at June 29, 2012</b>	34,470,829	\$ 345	\$ 65,462	\$ 184,902	\$ 250,709

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

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

<i>(in thousands of U. S. dollars)</i>	<b>June 29, 2012</b>	<b>Year Ended June 24, 2011</b>	<b>June 25, 2010</b>
<b>Cash flows from operating activities</b>			
Net (loss) income for the year	\$ (56,467)	\$ 64,329	\$ 44,323
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation	9,339	8,696	7,705
Amortization of intangibles	374	499	504
Write-off /(Gain) on disposal of property, plant and equipment	17	(10)	3
Allowance for doubtful accounts and warranties	73	90	71
Unrealized (gain) loss on exchange rate and fair value of derivative	(925)	215	(329)
Share-based compensation	4,649	3,460	655
Deferred income tax	(2,242)	(939)	(464)
Provision for uncertain tax position and severance liabilities, net of payments	144	464	646
Inventory obsolescence	499	15	(1,113)
Loss from written-off assets and liabilities to third parties due to flood losses	83,871		
Changes in operating assets and liabilities			
Trade accounts receivable	(10,672)	(16,229)	(49,756)
Trade accounts receivable, related parties			12,264
Inventories	(13,867)	(8,336)	(49,192)
Other current assets and non-current assets	(5,291)	(1,998)	(3,040)
Trade accounts payable	(6,563)	(10,414)	51,957
Trade accounts payable, related parties			(2,557)
Income tax payable	(1,505)	393	1,657
Other current liabilities and non-current liabilities	817	1,047	4,512
<b>Net cash provided by operating activities</b>	<b>2,251</b>	<b>41,282</b>	<b>17,846</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	(35,535)	(22,309)	(8,224)
Deposit for land purchase			(2,162)
Purchase of intangibles	(147)	(110)	(380)
Purchase of assets for lease under direct financing leases	(2,940)	(1,624)	(3)
Proceeds from direct financing leases	1,217	324	33
Proceeds from disposal of property, plant and equipment	27	129	18
<b>Net cash used in investing activities</b>	<b>(37,378)</b>	<b>(23,590)</b>	<b>(10,718)</b>
<b>Cash flows from financing activities</b>			
Receipt of long-term loans from banks	28,000	2,000	1,000
Repayment of long-term loans from banks	(5,798)	(6,008)	(7,933)
Proceeds from initial public offering, net		26,319	
Proceeds from issuance of ordinary shares under employee share option plans	1,000	1,575	484
Payment of dividends to shareholders			(30,849)
<b>Net cash provided by (used in) financing activities</b>	<b>23,202</b>	<b>23,886</b>	<b>(37,298)</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>\$ (11,925)</b>	<b>\$ 41,578</b>	<b>\$ (30,170)</b>
<b>Movement in cash and cash equivalents</b>			
Cash and cash equivalents at beginning of period	\$ 127,282	\$ 84,942	\$ 114,845
(Decrease) increase cash and cash equivalents	(11,925)	41,578	(30,170)
Effect of exchange rate on cash and cash equivalents	150	762	267
<b>Cash and cash equivalents at end of period</b>	<b>\$ 115,507</b>	<b>\$ 127,282</b>	<b>\$ 84,942</b>

## Edgar Filing: Fabrinet - Form 10-K

### Supplemental disclosures

Cash paid for			
Interest	\$ 711	\$ 353	\$ 535
Taxes	1,807	5,254	2,584
Cash received for interest	782	477	345

### Non-cash investing and financing activities

Receivable from initial public offering			26,319
Construction-related payable	2,222	2,475	

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

---

**Table of Contents**

**FABRINET**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Business and organization**

***General***

Fabrinet ( Fabrinet or the Company ) was incorporated on August 12, 1999, and commenced operations on January 1, 2000. The Company is an exempted company incorporated with limited liability and is domiciled in the Cayman Islands, British West Indies. Fabrinet and its direct and indirect subsidiaries are referred to as the Group .

The Group provides precision optical, electro-mechanical and electronic manufacturing services to original equipment manufacturers (OEMs) of complex products, such as optical communication components, modules and sub-systems, industrial lasers and sensors. The Group offers a broad range of advanced optical capabilities across the entire manufacturing process, including process design and engineering, supply chain management, manufacturing, integration and full product assembly and test. The Group focuses primarily on the production of low-volume, high-mix products.

The Company has the following direct and indirect subsidiaries:

Fabrinet Co., Ltd., ( Fabrinet Thailand ) incorporated in Thailand on September 27, 1999;

Fabrinet USA, Inc., incorporated in the U.S. in the State of California on October 12, 1999;

FBN New Jersey Manufacturing, Inc., incorporated in the U.S. in the State of Delaware on May 11, 2005;

Fabrinet China Holdings, incorporated in Mauritius, and CASIX Inc., incorporated in the People s Republic of China, were both acquired on May 29, 2005;

Fabrinet Pte., Ltd., incorporated in Singapore on November 14, 2007; and

Fabrinet AB, incorporated in Sweden on September 29, 2010.

Asia Pacific Growth Fund III, L.P. held 26.2%, 26.5% and 46.1% of the Company s share capital (fully diluted) as of June 29, 2012, June 24, 2011 and June 25, 2010, respectively.

**2. Accounting policies**

***2.1 Summary of significant accounting policies***

***Principles of consolidation***

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ( U.S. GAAP ) and include the Company and its direct and indirect subsidiaries listed in Note 1. All inter-company accounts and transactions have been

eliminated.

***Fiscal years***

The Company uses a 52-53 week fiscal year ending on the Friday closest to June 30. Fiscal 2012 consisted of 53 weeks and ended on June 29, 2012. Fiscal 2011 and fiscal 2010 each consisted of 52 weeks and ended on June 24, 2011 and June 25, 2010, respectively.

***Use of estimates***

The preparation of the Group'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

## **Table of Contents**

liabilities and disclosure of contingent liabilities at the date of the financial statements, and the reported amount of total revenues and expense during the year. The Group bases estimates on historical experience and various assumptions about the future that are believed to be reasonable based on available information. The Group'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 business combinations, share-based compensation, allowance for doubtful accounts, income taxes and inventory obsolescence, among others. Due to the inherent uncertainty involved in making estimates, actual results reported in future periods may be different from these estimates. In the event that estimates or assumptions prove to differ from actual results, adjustments are made in subsequent periods to reflect more current information.

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

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

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

All highly liquid investments with maturities of three months or less from original dates of purchase are carried at fair market value and considered to be cash equivalents. Cash and cash equivalents consist of cash deposited in checking accounts, time deposits with maturities of less than 3 months and money market accounts.

### ***Accounts receivable***

Accounts receivable are carried at anticipated realizable value. The Group 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 Group's customers may require revision to the allowances for doubtful accounts.

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

Financial instruments that potentially subject the Group to concentrations of credit risk consist of cash and cash equivalents and accounts receivable.

As of June 29, 2012, the Group's 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. The Group had four customers and five customers that each contributed to 10% or more of its total accounts receivable as of June 29, 2012 and June 24, 2011, respectively.

Accounts receivable include amounts due from companies which are monitored by the Group for credit worthiness. Management has implemented a program to closely monitor near term cash collection and credit exposures and believes no material loss will be incurred.

**Table of Contents**

Accounts receivable from individual customers that were equal to or greater than 10% of accounts receivable as of June 29, 2012 and June 24, 2011 were as follows:

	June 29, 2012	June 24, 2011
JDS Uniphase Corporation	17%	23%
Oclaro, Inc.	15	14
Opnext, Inc.	15	10
EMCORE Corporation	12	11
Finisar Corporation	*	10

\* Less than 10% of total accounts receivable as at the end of period.

**Inventories**

Inventories are stated at the lower of cost or market value. Cost is determined by the standard costing method, which approximates actual costs computed on a first-in, first-out basis 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 Group 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.

**Operating leases**

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

**Investment in leases**

The Company uses the direct finance method of accounting to record its direct financing leases and related interest income. At the inception of a lease, the Company records as an asset the aggregate future minimum lease payments receivable, plus the estimated residual value of the leased equipment, less unearned lease income.

Residual values generally reflect the estimated amounts to be received at lease termination from lease extensions, sales or other dispositions of leased equipment. Estimates are based on management's experience.

Unearned lease income is the amount by which the total lease receivable plus the estimated residual value exceeds the cost of the equipment. Unearned lease income is recognized as revenue over the lease term using the effective interest method.

**Property, plant and equipment**

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

Building and building improvements	10 - 30 years
Leasehold improvements	Lower of useful life or lease period
Manufacturing equipment	3 - 5 years
Office equipment	5 years
Motor vehicles	5 years
Computer hardware	3 - 5 years

## **Table of Contents**

Machinery under installation is stated at historic cost; depreciation begins after it is fully installed and is used in the operations of the Group.

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

### ***Impairment or disposal of long-lived assets (plant and equipment and other intangible assets)***

The Group tests long-lived assets or asset groups for recoverability when events or changes in circumstances indicate that their carrying amount may not be recoverable. Circumstances that could trigger a review include, but are not limited to:

Significant decreases in the market price of the asset;

Significant adverse changes in the business climate or legal factors;

Accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of the asset;

Current period cash flow or operating losses combined with a history of losses or a forecast of continuing losses associated with the use of the asset; or

Current expectation that the asset will more likely than not be sold or disposed of significantly before the end of its estimated useful life.

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.

### ***Borrowing costs***

Borrowing costs are accounted for on an accrual basis and are charged to the consolidated statements of operations in the year incurred, except for interest costs on borrowings 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.

The capitalization rate used to determine the amount of interest to be capitalized is the weighted average interest rate applicable to the Group'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.

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

The consolidated financial statements are presented in United States Dollars ( \$ or USD ).

The functional currency of Fabrinet and its subsidiaries is the USD. Transactions in currencies other than the functional currency are translated into the functional currency 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 balance sheet date. Transaction gains and losses are included in other income and expense, net, in the accompanying consolidated statements of operations.

### ***Revenue recognition***

## Edgar Filing: Fabrinet - Form 10-K

The Group derives total revenues primarily from the assembly of products under supply agreements with its customers and the fabrication of customized optics and glass. Revenues represent the invoiced

## **Table of Contents**

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

### *Services*

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

### *Sales of goods*

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

### *Income taxes*

In accordance with FASB ASC Topic 740, *Income Taxes* ( FASB ASC 740 ), the Group 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.

The Company'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 Group recognizes liabilities based on its estimate of whether, and the extent to which, additional tax liabilities are probable. If the Group 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 Group makes certain estimates and judgments. Changes to these estimates or a change in judgment may have a material impact on the Group's tax provision in a future period.

---

## **Table of Contents**

FASB ASC 740 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.

Under FASB ASC 740, a company recognizes a tax benefit in the financial statements for an uncertain tax position only if management's assessment is that the position is more likely than not (i.e., a likelihood greater than 50 percent) to be allowed by the tax jurisdiction based solely on the technical merits of the position. The term "tax position" in FASB ASC 740 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.

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

The Group operates a defined contribution plan, known as a provident fund, in its Thai subsidiary. The assets of this plan are in a separate trustee-administered fund. The provident fund is funded by matching payments from employees and by the subsidiary on a monthly basis. Current contributions to the provident fund are accrued and paid to the fund manager on a monthly basis. The Group sponsors the Fabrinet U.S. 401(k) Retirement Plan (the "401(k) Plan"), a Defined Contribution Plan under ERISA, at its Fabrinet USA, Inc. and FBN New Jersey Manufacturing, Inc. subsidiaries, which provides retirement benefits for its eligible employees through tax deferred salary deductions.

### ***Severance liabilities***

Under labor protection laws applicable in Thailand and under the Fabrinet Thailand employment policy, all employees of Fabrinet Thailand 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 Group and is subject to a maximum benefit of 10 months of salary unless otherwise agreed upon in an employee's employment contract. The Group accounts for this severance liability 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 this liability.

### ***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.

### ***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 Group's liability is capped at the price of the product. The provisions will be adjusted when experience indicates an expected settlement will differ from initial estimates.

Warranty cost allowances of \$51, \$52 and \$46 were recognized in the consolidated statements of operations for the years ended June 29, 2012, June 24, 2011 and June 25, 2010, respectively.

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

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

**Table of Contents*****Share-based compensation***

Grants of share-based awards are accounted for under provision of FASB ASC Topic 718, *Compensation-Stock Compensation* ( FASB ASC 718 ). Share-based compensation is recognized in the financial statements based on grant-date fair value. The Company estimates the fair value of share-based awards utilizing the Black-Scholes-Merton ( BSM ) option-pricing model.

***Net (loss) income per ordinary share***

Net (loss) income per share is calculated in accordance with FASB ASC Subtopic 260-10, *Earnings Per Share* ( FASB ASC 260-10 ), and SEC Staff Accounting Bulletin No. 98, or SAB 98. Under the provisions of FASB ASC 260-10 and SAB 98, basic net (loss) income per share is computed by dividing the net (loss) income available to ordinary shareholders for the period by the weighted average number of ordinary shares outstanding during the period. Diluted net (loss) income per ordinary share is computed by dividing the net (loss) income for the period by the weighted average number of ordinary and potential ordinary shares outstanding during the period if their effect is dilutive.

***2.2 New Accounting Pronouncements***

In December 2011, the Financial Accounting Standards Board ( FASB or the Board ) issued the Accounting Standards Update No. 2011-12 *Comprehensive Income (Topic 220) Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income* in Accounting Standards Update No. 2011-05. Under the amendments in Update 2011-05, entities are required to present reclassification adjustments and the effect of those reclassification adjustments on the face of the financial statements where net income is presented, by component of net income, and, on the face of the financial statements, where other comprehensive income is presented, by component of other comprehensive income for both annual and interim financial periods. The amendments in this Update supersede changes to those paragraphs in Update 2011-05 that pertain to how, when, and where reclassification adjustments are presented. All other requirements in Update 2011-05 are not affected by this amendment, including the requirement to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early adoption is permitted. This new guidance will not impact the Company's presentation, financial position, and results of operations.

In December 2011, the FASB issued the Accounting Standards Update No. 2011-11 *Balance Sheet (Topic 210) Disclosures about Offsetting Assets and Liabilities*. The amendments in this Update will enhance disclosures required by U.S. GAAP by requiring improved information about financial instruments and derivative instruments that are either (1) offset in accordance with either Section 210-20-45 or Section 815-10-45 or (2) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in accordance with either Section 210-20-45 or Section 815-10-45. Information about offsetting and related arrangements will enable users of an entity's financial statements to understand the effect of those arrangements on an entity's financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments in the scope of this Update. This guidance is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The Company does not expect that the adoption of this guidance will have an effect on its consolidated financial statements.

In May 2011, the FASB issued the Accounting Standards Update No. 2011-04 *Fair Value Measurement (Topic 820) Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. The amendments in this Update result in common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs. Consequently, the amendments change the wording used to describe many of the requirements in U.S. GAAP for

**Table of Contents**

measuring fair value and for disclosing information about fair value measurements. For many of the requirements, the Board does not intend for the amendments in this Update to result in a change in the application of the requirements in Topic 820. Some of the amendments clarify the Board's intent about the application of existing fair value measurement requirements. Other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. This guidance is effective during interim or annual periods beginning after December 15, 2011. Early application is not permitted. The Company adopted this guidance in the third quarter of fiscal year 2012, and has provided additional disclosures as required under ASU 2011-04.

**3. Income taxes*****Cayman Islands***

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

Income of the Company exempted from corporate income tax in the Cayman Islands amounted to \$0, \$51,554 and \$40,738 in the years ended June 29, 2012, June 24, 2011 and June 25, 2010, respectively.

***Thailand***

Fabrinet Co., Ltd., the Company's wholly-owned direct subsidiary, is where the majority of operations and production takes place. The Company is not subject to tax from July 2010 through June 2015 on income generated from the manufacture of products at Pinehurst Building 5 and from July 2012 through June 2020 on income generated from the manufacture of products at Pinehurst Building 6. In addition, on December 21, 2011, the Thailand Revenue Department announced a reduction in corporate income tax rates for tax periods beginning on or after January 1, 2012. As a result of the announcement, enacted corporate income tax rates for the Company's subsidiary in Thailand will be reduced from 30% in fiscal 2012 to 23%, 20% and 20% in fiscal 2013, fiscal 2014 and fiscal 2015, respectively. As a result of this change, the Company's deferred tax balance and income tax expense decreased by a net amount of \$121 during fiscal 2012.

***People's Republic of China***

Effective October 21, 2011, CASIX, the Company's wholly owned indirect subsidiary in China, was granted a tax privilege to reduce its corporate income tax rate from 25% to 15%. This privilege is retroactive to January 1, 2011 and valid until December 31, 2013, subject to renewal at the end of each three-year period. As a result of this change, deferred tax assets have decreased by \$500, deferred tax liabilities decreased by \$106, income tax payable decreased by \$697, and income tax expense decreased by \$303 (\$0.01 per share) during fiscal 2012.

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

	June 29, 2012	Year Ended June 24, 2011	June 25, 2010
Current	\$ 282	\$ 5,168	\$ 4,304
Deferred	(2,250)	(633)	(537)
<b>Total income tax (benefit) expense</b>	<b>\$ (1,968)</b>	<b>\$ 4,535</b>	<b>\$ 3,767</b>

**Table of Contents**

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

	June 29, 2012	Year Ended June 24, 2011	June 25, 2010
(Loss) income before income taxes	\$ (58,435)	\$ 68,864	\$ 48,090
Tax calculated at a corporate income tax rate of 30%	(17,531)	20,659	14,427
Effect of income taxes from locations with tax rates different from Thailand	(551)	(334)	(189)
Loss (income) not subject to tax *	15,240	(15,986)	(10,674)
Income tax on unremitted earnings	552	472	107
Effect of tax rate change	1,263		
Effect of foreign exchange rate adjustment	(993)	95	
Others	52	(371)	96
<b>Corporate income tax (benefit) expense</b>	<b>\$ (1,968)</b>	<b>\$ 4,535</b>	<b>\$ 3,767</b>

\* Income not subject to taxes relates to income earned in the Cayman Islands and income subject to investment promotion privilege for Building 5, from July 2010 through June 2015. Income not subject to tax per ordinary share on a diluted basis (in dollars) was \$(0.44), \$0.46 and \$0.34 for the years ended June 29, 2012, June 24, 2011 and June 25, 2010, respectively.

As of June 29, 2012, there were tax losses of \$2,456 carried forward due to severe flooding in Thailand during October and November 2011. These tax loss carryforwards expire in fiscal 2017.

The Group's deferred tax assets and deferred tax liabilities at each balance sheet date are as follows:

	June 29, 2012	Year Ended June 24, 2011
<i>Deferred tax assets:</i>		
Depreciation	\$ 1,353	\$ 1,408
Severance liability	668	566
Reserve and allowance	616	1,126
Allowance for tax loss carried forward	2,456	
Non-deductible flood loss expenses	793	
Others	36	253
<b>Total deferred tax assets</b>	<b>\$ 5,922</b>	<b>\$ 3,353</b>
<i>Deferred tax liabilities:</i>		
Deferred cost of service and expense	(54)	(68)
Others	(16)	(24)
<b>Total deferred tax liabilities</b>	<b>\$ (70)</b>	<b>\$ (92)</b>
<b>Net deferred tax assets</b>	<b>\$ 5,852</b>	<b>\$ 3,261</b>



**Table of Contents**

Current deferred income tax assets and liabilities and non-current deferred income tax assets and liabilities are offset when the income taxes relate to the same tax jurisdiction. The following amounts are shown in the consolidated balance sheets:

	Year Ended	
	June 29, 2012	June 24, 2011
Deferred income tax assets current	\$ 4,146	\$ 1,382
Deferred income tax liabilities current	(58)	(74)
<b>Current deferred income tax net</b>	<b>4,088</b>	<b>1,308</b>
Deferred income tax assets non current	1,777	1,971
Deferred income tax liabilities non current	(13)	(18)
<b>Non current deferred income tax net</b>	<b>1,764</b>	<b>1,953</b>
<b>Net deferred income tax assets</b>	<b>\$ 5,852</b>	<b>\$ 3,261</b>

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 \$11,443 and \$21,046 as of June 29, 2012 and June 24, 2011, respectively. Unrecognized deferred tax liabilities for such unremitted earnings were \$980 and \$2,265 as of June 29, 2012 and June 24, 2011, respectively.

Deferred tax liabilities of \$1,405 and \$1,056 have been established for withholding tax on the unremitted earnings of CASIX as of June 29, 2012 and June 24, 2011, respectively.

***Uncertain income tax positions***

Interest and penalties related to uncertain tax positions are recognized in income tax expense. The Company had approximately \$781 and \$579 of accrued interest and penalties related to uncertain tax positions on the consolidated balance sheets as of June 29, 2012 and June 24, 2011, respectively. The Company recorded (reversed) interest and penalties of \$202, \$(141) and \$(73) for the years ended June 29, 2012, June 24, 2011 and June 25, 2010, respectively, through the consolidated statements of operations. With regard to the Thailand jurisdiction, tax years 2007 through 2011 remain open to examination by the local authorities.

The following table indicates the changes to the Company's unrecognized tax benefits for the years ended June 29, 2012, June 24, 2011 and June 25, 2010 included in other non-current liabilities.

	June 29, 2012	June 24, 2011	June 25, 2010
Beginning balance	\$ 1,124	\$ 1,540	\$ 1,551
Additions during the year			
Additions for tax positions of prior years			450
Reductions for tax positions of prior years		(416)	(461)
<b>Ending balance</b>	<b>\$ 1,124</b>	<b>\$ 1,124</b>	<b>\$ 1,540</b>

**4. (Loss) earnings per ordinary share**

Basic (loss) earnings per ordinary share are computed by dividing reported net (loss) income by the weighted average number of ordinary shares outstanding during each period.

Edgar Filing: Fabrinet - Form 10-K

	<b>June 29, 2012</b>	<b>Year Ended June 24, 2011</b>	<b>June 25, 2010</b>
Net (loss) income attributable to shareholders	\$ (56,467)	\$ 64,329	\$ 44,323
Weighted average number of ordinary shares outstanding (thousands of shares)	34,382	33,922	30,854
Basic (loss) earnings per ordinary share	\$ (1.64)	\$ 1.90	\$ 1.44

**Table of Contents**

Diluted (loss) earnings per ordinary share are computed by dividing reported net (loss) income by the weighted average number of ordinary shares and dilutive ordinary equivalent shares outstanding during each period. Dilutive ordinary equivalent shares consist of share options and restricted shares. Diluted (loss) earnings per ordinary share is calculated as follows:

	Year Ended		
	June 29, 2012	June 24, 2011	June 25, 2010
Net (loss) income used to determine diluted (loss) earnings per ordinary share	\$ (56,467)	\$ 64,329	\$ 44,323
Weighted average number of ordinary shares outstanding (thousands of shares)	34,382	33,922	30,854
Adjustment for incremental shares arising from assumed exercise of share options (thousands of shares)	*	485	515
Weighted average number of ordinary shares for diluted (loss) earnings per ordinary share (thousands of shares)	34,382	34,407	31,369
Diluted (loss) earnings per ordinary share	\$ (1.64)	\$ 1.87	\$ 1.41

\* Loss per ordinary share for fiscal 2012 was computed using the weighted average number of ordinary shares outstanding during the period in accordance with the antidilutive provisions of ASC 260-10-45. Therefore, 200,055 ordinary shares have been excluded.

**5. Fair Value**

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 when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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

The following table sets forth the Company's applicable liabilities measured at fair value on a recurring basis as of June 29, 2012:

	Fair Value Measurements at Reporting Date Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Balance
<b>Liabilities</b>				

Edgar Filing: Fabrinet - Form 10-K

Derivative liabilities		162		162		
Total liabilities measured at fair value	\$	\$	162	\$	\$	162

The above derivative liabilities are classified in accrued expenses on the consolidated balance sheet.

**Table of Contents**

The following table sets forth the Company's applicable liabilities measured at fair value on a recurring basis as of June 24, 2011:

	Fair Value Measurements at Reporting Date Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Balance
<b>Liabilities</b>				
Derivative liabilities		966		966
<b>Total liabilities measured at fair value</b>	\$	\$ 966	\$	\$ 966

The above derivative liabilities are classified in accrued expenses on the consolidated balance sheet.

**6. Cash and cash equivalents**

	June 29, 2012	June 24, 2011
Cash at banks and on hand	\$ 23,039	\$ 32,686
Short-term bank deposits	92,468	94,596
<b>Total cash and cash equivalents</b>	<b>\$ 115,507</b>	<b>\$ 127,282</b>

The weighted average effective interest rate on short term bank deposits was 0.76% and 0.59% per annum for the years ended June 29, 2012 and June 24, 2011, respectively.

**7. Allowance for doubtful accounts**

The activities and balances for allowance for doubtful accounts for the years ended June 29, 2012, June 24, 2011 and June 25, 2010 were as follows:

	Balance at beginning of period	Charged to expense	Balance at end of period
Year ended June 29, 2012	\$ 79	\$ 124	\$ 203
Year ended June 24, 2011	\$ 41	\$ 38	\$ 79
Year ended June 25, 2010	\$ 16	\$ 25	\$ 41

**8. Inventories**

Edgar Filing: Fabrinet - Form 10-K

	<b>June 29, 2012</b>	<b>June 24, 2011</b>
Raw materials	\$ 45,309	\$ 47,172
Work in progress	43,879	46,190
Finished goods	8,760	9,651
Goods in transit	7,976	5,656
	105,924	108,669
Less: Inventory obsolescence	(2,701)	(2,202)
<b>Inventories, net</b>	<b>\$ 103,223</b>	<b>\$ 106,467</b>

**Table of Contents****9. Investment in leases**

Investment in direct financing leases primarily consists of manufacturing equipment. The following lists the components of the Company's investment in direct financing leases as of June 29, 2012 and June 24, 2011:

	June 29, 2012	June 24, 2011
Total minimum lease payments receivable	\$ 3,522	\$ 2,026
Estimated residual values of leased equipment		
Investment in direct financing leases	3,522	2,026
Less: unearned income	(186)	(415)
	\$ 3,336	\$ 1,611
Less: written-off of investment in direct financing leases	(3,336)	
Net investment in direct financing leases	\$	\$ 1,611

In the second quarter of fiscal 2012, investment in leases of \$3,336 was written-off because the underlying assets were damaged in the severe flooding that occurred in Thailand during October and November 2011. This amount has been included in Expenses related to flooding in the consolidated statements of operations.

**10. Property, plant and equipment, net**

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

	Land	Building and Building Improvement	Manufacturing Equipment	Office Equipment	Motor Vehicles	Computers	Construction and Machinery Under Installation	Total
As of June 24, 2011								
Cost	\$ 14,353	\$ 40,743	\$ 53,002	\$ 5,341	\$ 784	\$ 10,528	\$ 6,489	\$ 131,240
Less: Accumulated depreciation		(9,330)	(35,307)	(2,632)	(695)	(7,866)		(55,830)
Net book value	\$ 14,353	\$ 31,413	\$ 17,695	\$ 2,709	\$ 89	\$ 2,662	\$ 6,489	\$ 75,410
As of June 29, 2012								
Cost	\$ 14,353	\$ 72,508	\$ 55,729	\$ 5,566	\$ 638	\$ 11,389	\$ 1,280	\$ 161,463
Less: Accumulated depreciation		(11,677)	(37,017)	(3,009)	(601)	(8,711)		(61,015)
Less: Impairment reserve		(1,076)	(1,091)	(51)		(303)	(4)	(2,525)
Net book value	\$ 14,353	\$ 59,755	\$ 17,621	\$ 2,506	\$ 37	\$ 2,375	\$ 1,276	\$ 97,923

Depreciation expense amounted to \$9,339, \$8,696 and \$7,705 for the years ended June 29, 2012, June 24, 2011 and June 25, 2010, respectively.

Depreciation expense is allocated between cost of revenues and selling, general and administrative expenses in the consolidated statements of operations.

## Edgar Filing: Fabrinet - Form 10-K

In the second quarter of fiscal 2012, an impairment reserve of \$2,525 was set up to write-off certain property, plant and equipment because such assets were damaged in the severe flooding that occurred in Thailand during October and November 2011. This amount has been included in Expenses related to flooding in the consolidated statements of operations.

The cost of fully depreciated property, plant and equipment written-off during the years ended June 29, 2012, June 24, 2011 and June 25, 2010 amounted to \$4,178, \$1,514 and \$855, respectively.

Interest expense relating to a long-term loan from a bank for the development of Pinehurst Building 6, of \$504 and \$2 was capitalized in construction in progress during the years ended June 29, 2012 and June 24, 2011, respectively.

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

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

	Gross Carrying Amount	June 29, 2012 Accumulated Amortization	Net
Software	\$ 3,457	\$ (3,077)	\$ 380
Total intangibles	\$ 3,457	\$ (3,077)	\$ 380

	Gross Carrying Amount	June 24, 2011 Accumulated Amortization	Net
Software	\$ 3,594	\$ (2,702)	\$ 892
Total intangibles	\$ 3,594	\$ (2,702)	\$ 892

The Group recorded amortization expense relating to intangibles of \$374, \$499 and \$504 for the years ended June 29, 2012, June 24, 2011 and June 25, 2010, respectively.

Based on the carrying amount of intangibles as of June 29, 2012, and assuming no future impairment of the underlying assets, the estimated future amortization at the end of each fiscal year in June is as follows:

2013	\$ 217
2014	93
2015	64
2016	5
2017	1
Total amortization	\$ 380

**12. Borrowings**

Bank borrowings and long-term debt was comprised of the following:

	June 29, 2012	June 24, 2011
Short-term bank borrowings	\$	\$
Long-term loans from banks	38,579	16,377
Total borrowings	\$ 38,579	\$ 16,377
<i>Long-term loan from banks consisted of:</i>		
Current portion	\$ 9,668	\$ 4,398
Non-current portion	28,911	11,979

## Edgar Filing: Fabrinet - Form 10-K

As of June 29, 2012 and June 24, 2011, the Group had outstanding borrowings under long-term loan agreements with banks totaling \$38,579 and \$16,377, respectively, which consisted of:

Contract No.	Amount		Interest rate per annum (%)	Conditions	Repayment term	
	June 29, 2012	June 24, 2011				
1	\$ 28,500	\$ 2,000	LIBOR + 2.8% per annum	Repayable in quarterly installments within 6 years	June 2012	March 2017
2	10,079	13,747	SIBOR + 1.5% per annum	Repayable in quarterly installments within 8 years	May 2009	February 2015
3		630	SIBOR + 1.5% per annum	Repayable in semi-annual installments within 7 years	June 2005	November 2011
Total	\$ 38,579	\$ 16,377				

**Table of Contents**

Certain of the long-term loans are secured by certain property, plant and equipment. The carrying amount of assets secured and pledged as collateral was \$22,766 and \$34,946 as of June 29, 2012 and June 24, 2011, respectively. The carrying amounts of borrowings approximate their fair value.

The long-term loans prescribe maximum ratios of debt to equity and minimum levels of debt service coverage ratios. As of June 29, 2012 and June 24, 2011, the Group was in compliance with its long-term loan agreements. In addition to financial ratios, certain of the Group's packing credits and long-term loans include customary events of default. There is no requirement for the Group to maintain a lock-box arrangement under these agreements. As such, the non-current portions of the long-term loans are classified as non-current liabilities in the consolidated balance sheet.

The movements of long-term loans for the years ended June 29, 2012 and June 24, 2011 were as follows:

	June 29, 2012	June 24, 2011
Opening net book amount	\$ 16,377	\$ 20,385
Additional loans during the year	28,000	2,000
Repayment during the year	(5,798)	(6,008)
Closing net book amount	\$ 38,579	\$ 16,377

As of June 29, 2012, future maturities of long-term debt were as follows at the end of each fiscal year below:

2013	\$ 9,668
2014	9,668
2015	8,743
2016	6,000
2017	4,500
Total	\$ 38,579

**Credit facilities:**

Undrawn available credit facilities as of June 29, 2012 and June 24, 2011 totaled:

	June 29, 2012	June 24, 2011
Bank borrowings:		
Short-term loans	\$ 8,241	\$ 50,450
Long-term loans		28,000

**13. Severance liabilities**

	June 29, 2012	June 24, 2011
At the beginning of the fiscal year	\$ 4,478	\$ 3,456
Charged to statement of operations	(58)	1,022
At the end of the fiscal year (June)	\$ 4,420	\$ 4,478

## Edgar Filing: Fabrinet - Form 10-K

The amount recognized in the balance sheet under non-current liabilities at fiscal year-end was determined as follows:

	<b>June 29, 2012</b>	<b>June 24, 2011</b>
Present value of defined benefit obligation	\$ 4,420	\$ 4,478
Liability in balance sheet	\$ 4,420	\$ 4,478

**Table of Contents**

The amount recognized in the statements of operations was as follows:

	June 29, 2012	Year Ended June 24, 2011	June 25, 2010
Current service cost	\$ 474	\$ 736	\$ 557
Interest cost	198	162	126
Benefit paid	(81)		
Actuarial loss/(gain) on obligation	(649)	124	76
<b>Total included in staff costs</b>	<b>\$ (58)</b>	<b>\$ 1,022</b>	<b>\$ 759</b>

The principal actuarial assumptions used were as follows:

	June 29, 2012	Year Ended June 24, 2011	June 25, 2010
Discount rate (percent)	4.8	4.7	4.5
Future salary increases (percent)	4.4	4.3	4.4

**14. Share-based compensation***Share-based compensation*

FASB ASC Topic 718, *Compensation-Stock Compensation* ( FASB ASC 718 ) requires companies to recognize the cost of employee service received in exchange for awards of equity instruments, based on the grant date fair value of those awards, in the financial statements. In determining the grant date fair value of those awards, the Group is required to make estimates of the fair value of the Group's ordinary shares, expected dividends to be issued, expected volatility of the Group's shares, expected forfeitures of the awards, risk free interest rates for the expected term of the awards, expected terms of the awards, and the vesting period of the respective awards. FASB ASC 718 requires forfeitures to be estimated at the time of grant and revised if necessary in subsequent periods if actual forfeitures differ from those estimates.

The effect of recording share-based compensation expense for the years ended June 29, 2012, June 24, 2011 and June 25, 2010 was as follows:

	June 29, 2012	Year Ended June 24, 2011	June 25, 2010
Share-based compensation expense by type of award:			
Share options	\$ 3,443	\$ 2,943	\$ 655
Restricted shares	1,206	517	
<b>Total share-based compensation expense</b>	<b>4,649</b>	<b>3,460</b>	<b>655</b>
<b>Tax effect on share-based compensation expense</b>			
<b>Net effect on share-based compensation expense</b>	<b>\$ 4,649</b>	<b>\$ 3,460</b>	<b>\$ 655</b>

Share-based compensation expense was recorded in the consolidated statements of operations as follows: cost of revenues of \$1,546, \$1,147 and \$301 for the years ended June 29, 2012, June 24, 2011 and June 25, 2010, respectively; and SG&A expenses of \$3,103, \$2,313 and \$354 for the years ended June 29, 2012, June 24, 2011 and June 25, 2010, respectively. The Group did not capitalize any share-based compensation expense as part of any asset costs during the years ended June 29, 2012, June 24, 2011 and June 25, 2010.

*Share-based award activity*

## Edgar Filing: Fabrinet - Form 10-K

Share options have been granted to directors and employees. As of June 29, 2012, there were 189,540 share options outstanding under the Amended and Restated 1999 Share Option Plan (the 1999 Plan ). Additional option grants may not be made under the 1999 Plan.

## Table of Contents

On March 12, 2010, the Company's shareholders adopted the 2010 Performance Incentive Plan (the "2010 Plan"), and on December 20, 2010, the Company's shareholders adopted an amendment to the 2010 Plan to increase the number of ordinary shares authorized for issuance under the 2010 Plan. A total of 2,000,000 ordinary shares are authorized for issuance under the 2010 Plan, plus any shares subject to share options under the 1999 Plan outstanding as of June 24, 2010, that expire, are canceled or terminate after such date. As of June 29, 2012, there were an aggregate of 1,280,750 share options outstanding, 168,275 restricted share units outstanding and 500,341 ordinary shares available for future grant under the 2010 Plan.

### *Share options*

The Company'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 7 years of the grant date. In the case of a grantee's first grant, 25 percent of the underlying shares subject to an option vest 12 months after the vesting commencement date and 1/48 of the underlying shares vest monthly over each of the subsequent 36 months. In the case of any additional grants to a grantee, 1/48 of the underlying shares subject to an option vest monthly over four years, commencing one month after the vesting commencement date.

During the years ended June 29, 2012, June 24, 2011 and June 25, 2010, the Group granted options to purchase an aggregate of 590,537, 1,012,367, and 168,500 ordinary shares, respectively, with an estimated total grant date fair value of \$4,267, \$6,377 and \$773, respectively, and a weighted average grant date fair value of \$7.23, \$6.30 and \$4.58 per share, respectively.

The weighted average exercise price of options granted during the year ended June 29, 2012 was \$14.82 per share. The total fair value of shares vested during the years ended June 29, 2012, June 24, 2011 and June 25, 2010 was \$2,440, \$1,738 and \$1,264, respectively. The total intrinsic value of options exercised during the years ended June 29, 2012, June 24, 2011 and June 25, 2010 was \$3,278, \$9,803 and \$3,151, respectively. In conjunction with these exercises, there was no tax benefit realized by the Company due to the fact that it is exempted from income tax. The amount of cash received from the exercise of share options was \$1,000 during the year ended June 29, 2012.

### *Determining Fair Value*

**Valuation Method** The Group estimated the fair value of its ordinary shares to be used in the Black-Scholes-Merton ("BSM") option-pricing formula by taking into consideration a number of assumptions.

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

**Expected Volatility** As the Group did not have a sufficient trading history to use the volatility of its ordinary shares, management based its expected volatility on a comparable industry index as a reasonable measure of expected volatility in accordance with the guidance of FASB ASC 718.

**Risk-Free Interest Rate** The Group 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 option-pricing formula represent the periods that the Group's share options are expected to be outstanding and are determined based on the Group's historical experience of similar awards, giving consideration to the contractual terms of the share options, vesting schedules and expectations of future employee behavior.

**Vesting Period** The Group's share options generally vest and become exercisable over a four-year period, and expire 7 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 optionee, 1/48 of the underlying shares subject to an option vest monthly over four years, commencing one month after the vesting commencement date.

**Table of Contents**

Fair Value The fair value of the Group's share options granted to employees for the years ended June 29, 2012, June 24, 2011 and June 25, 2010 was estimated using the following weighted-average assumptions:

	June 29, 2012	June 24, 2011	June 25, 2010
Dividend yield			
Expected volatility	61.3%	42.3%	43.4%
Risk-free rate of return	0.90%	1.21%	2.26%
Expected term (in years)	4.36	4.54	4.55

The following summarizes share option activity under the 1999 Plan:

	Number of Shares Underlying Options Year Ended			Weighted-Average Exercise Price Per Share Year Ended		
	June 29, 2012	June 24, 2011	June 25, 2010	June 29, 2012	June 24, 2011	June 25, 2010
Shares underlying options outstanding at beginning of the period	423,205	858,005	1,023,592	\$ 4.34	\$ 3.66	\$ 2.77
Granted			168,500			5.77
Exercised	(225,731)	(418,048)	(285,108)	3.58	2.95	1.70
Forfeited	(6,805)	(10,852)	(19,219)	5.92	5.48	5.32
Expired	(1,129)	(5,900)	(29,760)	5.75	2.78	2.67
Shares underlying options outstanding at end of the period	189,540	423,205	858,005	\$ 5.18	\$ 4.34	\$ 3.66
Shares underlying options exercisable at end of the period	133,578	292,514	593,409	\$ 4.94	\$ 3.75	\$ 2.93

The following summarizes information for share options outstanding as of June 29, 2012 under the 1999 Plan:

	Number of Shares Underlying Options	Exercise Price Per Share	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value
	1,000	\$ 2.00	0.25	
	4,925	2.25	0.62	
	3,100	2.75	1.17	
	1,600	3.00	1.19	
	20,021	3.50	1.51	
	3,605	4.25	2.17	
	6,415	4.75	2.42	
	11,156	5.00	2.63	
	5,480	5.25	2.85	
	26,250	5.50	3.16	
	101,788	5.75	4.30	
	4,200	6.25	4.85	
Options outstanding	189,540		3.42	\$ 1,396
Options exercisable	133,578		3.03	\$ 1,016

## Edgar Filing: Fabrinet - Form 10-K

As of June 29, 2012, \$52 of estimated share-based compensation expense related to share options under the 1999 Plan remains to be recorded. That cost is expected to be recorded over an estimated amortization period of 1.39 years.

**Table of Contents**

The following summarizes share option activity under the 2010 Plan:

	Number of Shares Underlying Options			Weighted-Average Exercise Price Per Share		
	Year Ended			Year Ended		
	June 29, 2012	June 24, 2011	June 25, 2010	June 29, 2012	June 24, 2011	June 25, 2010
Shares underlying options outstanding at beginning of the period	925,921			\$	\$	\$
Granted	590,537	1,012,367		14.82	17.37	
Exercised	(11,619)	(20,281)		16.60	16.83	
Forfeited	(211,491)	(66,165)		16.51	17.51	
Expired	(12,598)			19.51		
Shares underlying options outstanding at end of the period	1,280,750	925,921		\$ 16.32	\$ 17.37	\$
Shares underlying options exercisable at end of the period	399,068	112,343		\$ 16.66	\$ 17.05	\$

The following summarizes information for share options outstanding as of June 29, 2012 under the 2010 Plan:

	Number of Shares Underlying Options	Exercise Price Per Share	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value
	40,000	\$ 13.77	5.15	
	658,955	16.83	5.29	
	30,000	15.05	5.35	
	33,944	25.50	5.55	
	9,800	26.16	5.60	
	12,800	23.62	5.85	
	199,502	15.16	6.14	
	255,739	14.12	6.37	
	31,160	19.36	6.62	
	5,550	18.60	6.67	
	3,300	12.83	6.86	
Options outstanding	1,280,750		5.69	\$ 0
Options exercisable	399,068		5.47	\$ 0

As of June 29, 2012, \$2,570 of estimated share-based compensation expense related to share options under the 2010 Plan remains to be recorded. That cost is expected to be recorded over an estimated amortization period of 2.88 years.

*Restricted share units*

Restricted share units may be granted under the 2010 Plan. Restricted share units granted to non-employee directors generally cliff vest 100% on the first of January, approximately 1 year from the grant date. Restricted share units granted to executives generally vest as to 1/4th of the shares over 4 years on each anniversary of the vesting commencement date.



**Table of Contents**

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

	Number of Shares Underlying Restricted Share Units			Weighted-Average Grant Date Fair Value Per Share		
	Year Ended			Year Ended		
	June 29, 2012	June 24, 2011	June 25, 2010	June 29, 2012	June 24, 2011	June 25, 2010
Unvested balance at beginning of the period	25,900			\$ 21.62	\$	\$
Granted	211,266	43,420		14.37	18.47	
Issued	(25,900)	(17,520)		21.62	13.82	
Forfeited	(42,991)			14.07		
Vested						
Unvested balance at end of the period	168,275	25,900		\$ 14.44	\$ 21.62	\$

As of June 29, 2012, \$1,501 of estimated share-based compensation expense related to restricted share units under the 2010 Plan remains to be recorded. That cost is expected to be recorded over an estimated amortization period of 2.96 years.

**15. Employee contribution plan**

The Group operates a defined contribution plan, known as a provident fund, in its Thailand subsidiary. The assets of this plan are in a separate trustee-administered fund. The provident fund is funded by matching payments from employees and by the subsidiary on a monthly basis. Current contributions to the provident fund are accrued and paid to the fund manager on a monthly basis. The Group's contributions to the provident fund amounted to \$2,299, \$2,066 and \$1,448 in the years ended June 29, 2012, June 24, 2011 and June 25, 2010, respectively.

The Group sponsors the Fabrinet US 401(k) Retirement Plan (the 401(k) Plan), a Defined Contribution Plan under ERISA, at its Fabrinet USA, Inc. and FBN New Jersey Manufacturing, Inc. subsidiaries, which provides retirement benefits for its 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 Plan provided for a 100% match of employees' contributions 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 \$196, \$189 and \$145 in the years ended June 29, 2012, June 24, 2011 and June 25, 2010, respectively.

**16. Shareholders' equity****Share capital**

The Company'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.

In the year ended June 29, 2012, the Company issued 237,350 ordinary shares upon the exercise of options, for cash consideration at a weighted average exercise price of \$4.21 per share, and 25,900 ordinary shares upon the vesting of restricted share units.

In the year ended June 24, 2011, the Company issued 438,329 ordinary shares upon the exercise of options, for cash consideration at a weighted average exercise price of \$3.59 per share, and 17,520 ordinary shares upon the vesting of restricted share units.

In the year ended June 25, 2010, the Company issued 285,108 ordinary shares upon the exercise of options, for cash consideration at a weighted average exercise price of \$1.70 per share.

All such issued shares are fully paid.



**Table of Contents****17. Related party transactions and balances**

JDS Uniphase Corporation, a customer of Fabrinet, held 0%, 0% and 1.1% of the Company's share capital (fully diluted) as of June 29, 2012, June 24, 2011 and June 25, 2010, respectively. A representative from JDS Uniphase Corporation served as a director of Fabrinet until August 2007. JDS Uniphase Corporation participated in the Company's initial public offering as a selling shareholder and sold 1,606,850 ordinary shares as of June 25, 2010, which reduced its share ownership to 1.1% (fully diluted) as of such date. Therefore, JDS Uniphase Corporation was no longer considered a related party as of such date. On July 6, 2010, JDS Uniphase Corporation sold all of its remaining 393,150 ordinary shares pursuant to the underwriters' option to purchase additional shares.

Asia Pacific Growth Fund III, L.P. held 26.2%, 26.5% and 46.1% of the Company's share capital (fully diluted) as of June 29, 2012, June 24, 2011 and June 25, 2010, respectively. Currently, the Group has no commercial transactions with Asia Pacific Growth Fund III, L.P.

The following transactions were carried out with related parties:

	Year Ended		
	June 29, 2012	June 24, 2011	June 25, 2010
<b>Revenues</b>			
Sales of goods:			
JDS Uniphase Corporation	\$	\$	\$ 81,164
<b>Cost of revenues</b>			
Purchases of goods:			
JDS Uniphase Corporation	\$	\$	\$ 19,289

**18. Employee performance bonuses and executive incentive plan**

The Group did not maintain an executive incentive plan during the years ended June 29, 2012 and June 25, 2010. For the year ended June 24, 2011, the Group maintained an executive incentive plan with quantitative objectives, based on achieving certain revenue and earnings per share milestones for the fiscal year, and qualitative objectives. Bonuses under the fiscal 2011 executive incentive plan were payable in fiscal 2012. During the years ended June 24, 2011 and June 29, 2012, discretionary merit-based bonus awards were also available to Fabrinet's non-executive employees. Charges to the income statement for bonus distributions to employees were \$1,698, \$4,453 and \$0 for the years ended June 29, 2012, June 24, 2011 and June 25, 2010, respectively.

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

As of June 29, 2012 and June 24, 2011, there were outstanding bank guarantees given by banks on behalf of Fabrinet Thailand for electricity usage and other normal business amounting to \$660 and \$686, respectively.

***Operating lease commitments***

The Group leases a portion of its capital equipment and certain land and buildings for its facilities in Thailand, China and New Jersey under operating lease arrangements that expire in various years through 2015. Rental expense under these operating leases amounted to \$1,777, \$1,938 and \$1,791 for the years ended June 29, 2012, June 24, 2011 and June 25, 2010, respectively. On March 23, 2012, the Group notified its landlord of its intent to terminate the lease agreement for land and buildings at its Chokchai Campus in Thailand effective on April 30, 2012.

**Table of Contents**

As of June 29, 2012, the future minimum lease payments due under non-cancelable leases are as follows at the end of each fiscal year below:

2013	\$ 778
2014	180
2015	59
2016	15
<b>Total minimum operating lease payments</b>	<b>\$ 1,032</b>

**Purchase obligations**

Purchase obligations represent legally-binding commitments to purchase inventory and other commitments made in the normal course of business to meet operational requirements. Although open purchase orders are considered enforceable and legally binding, the terms generally give the Group 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 29, 2012, there was an outstanding commitment to third parties of \$899 relating to the development of Pinehurst Building 6.

**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. The Company'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 the Company's form of indemnification agreement for its directors and officers, the Company 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. The Company has a director and officer liability insurance policy that may enable it to recover a portion of any future amounts paid under the indemnification agreements.

**20. Business segments and geographic information**

The Group evaluates its reportable segments in accordance with FASB ASC Topic 280, *Segment Reporting*. 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, or decision making group, in deciding how to allocate resources and in assessing performance. The Group's chief operating decision maker is Fabrinet's board of directors. As of June 29, 2012, the Group operated and internally managed a single operating segment. Accordingly, the Group does not accumulate discrete information with respect to separate product lines and does not have separate reportable segments.

**Table of Contents**

The Group operates primarily in three geographic regions: North America, Asia-Pacific and Europe. The following table presents total revenues by geographic regions:

	June 29, 2012	Year Ended June 24, 2011	June 25, 2010
North America	\$ 272,659	\$ 324,108	\$ 252,662
Asia-Pacific	189,455	277,014	197,097
Europe	102,618	142,448	55,953
	\$ 564,732	\$ 743,570	\$ 505,712

**Significant customers**

Total revenues are attributed to a particular geographic area based on the bill-to location of the customer. As of June 29, 2012, the Group had approximately \$210 of long-lived assets based in North America, with the substantial remainder of assets based in Asia-Pacific.

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

	June 29, 2012	Year Ended June 24, 2011	June 25, 2010
JDS Uniphase Corporation	25%	21%	16%
Oclaro, Inc.	12	17	17
Finisar Corporation	10	10	12
Opnext, Inc.	*	10	14
Emcore Corporation	*	*	10

\* Less than 10% of total revenues in the period.

The loss of any single significant customer could have a material adverse effect on the Group's results of operations.

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

The principal financial risks faced by the Group are foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group 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 Group uses derivative financial instruments. Trading for speculative purposes is prohibited under Company policies.

The Group enters into short-term forward foreign currency contracts to help manage currency exposures associated with certain assets and liabilities. The forward exchange contracts have generally ranged from one to six months in original maturity, and no forward exchange contract has an original maturity greater than one year. All foreign currency exchange contracts are recognized on the balance sheet at fair value. As the Group does not apply hedge accounting to these instruments, the derivatives are recorded at fair value through earnings.

The gains and losses on the Group's forward contracts generally offset losses and gains on the assets, liabilities and transactions economically hedged, and accordingly, generally do not subject the Group to risk of significant accounting losses.



**Table of Contents****Foreign currency risk**

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

As of June 29, 2012 and June 24, 2011, the Group had outstanding foreign currency assets and liabilities as follows:

	June 29, 2012		June 24, 2011	
	Currency	\$	Currency	\$
<i>Assets</i>				
Thai baht	526,487	16,541	425,872	13,904
RMB	103,014	16,287	85,478	13,411
		32,828		27,315
<i>Liabilities</i>				
Thai baht	732,502	23,013	669,367	21,853
RMB	21,752	3,439	36,303	5,607
		26,452		27,460

The Thai baht assets represent cash and cash equivalents, accounts receivable, deposits and other current assets. The Thai baht liabilities represent trade accounts payable, accrued expenses and other payables. The Group 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 29, 2012, there was \$30,000 in selling forward contracts outstanding on the Thai baht payables and. As of June 24, 2011, there was \$30,000 in selling forward contracts outstanding on the Thai baht payables and an undrawn committed loan in Thai baht equivalent to \$28,000.

The RMB assets represent cash and cash equivalents, accounts receivable and other current assets. The RMB liabilities represent trade accounts payable, accrued expenses and other payables. As of June 29, 2012 and June 24, 2011, there was none and \$4,000, respectively, in selling RMB to U.S. dollar forward contracts.

Unrealized losses from fair market value of derivatives as of June 29, 2012 amounted to \$162.

**Interest Rate Risk**

The Group's principal interest bearing assets are time deposits held with high quality financial institutions. The Group's principal interest bearing liabilities are bank loans which bear interest at floating rates.

**Table of Contents****22. Expenses related to flooding**

The Company suspended production at all of its manufacturing facilities in Thailand from October 17, 2011 through November 14, 2011 because of severe flooding in Thailand. The Company never resumed and has ceased production permanently at its Chokchai facilities. Company personnel, insurance adjusters, professional asset valuation advisors, equipment restoration contractors and forensic accounting experts have assessed, and continue to assess, the damage to property, inventory and equipment, including consigned assets held by the Company on behalf of its customers, as well as the impact of business interruption to the Company. The following is a summary of all known costs incurred as a result of this event recognized in the Company's consolidated statements of operations for the year ended June 29, 2012:

	<b>Year Ended June 29, 2012</b>
	(in thousands)
Loss from written-off owned inventories	\$ 16,612
Loss from written-off leased building improvement	1,431
Loss from written-off owned machinery and equipment	1,098
Loss from written-off investments in lease and prepayment	3,532
Loss from consigned inventories	11,748
Loss from consigned machinery and equipment	48,450
Estimated restoration cost of leased building	1,000
Payroll and other expenses	7,712
Flood protection, salvage and increased expenses	5,703
 Total	 \$ 97,286

The Company has submitted claims to its insurers for business interruption losses attributable to the effects of flooding during the second and third quarters of fiscal 2012, as well as claims for owned and consigned inventory losses, owned and consigned equipment losses, and damage to its buildings at Pinehurst, which it owns, and Chokchai, which it leased. In the first quarter of fiscal 2013, the Company plans to submit a claim for business interruption losses for the three months ended June 29, 2012. The Company expects to experience additional business interruption losses during the first quarter of fiscal 2013, and therefore expects to submit an additional claim for such losses in the second quarter of fiscal 2013.

A number of exclusions and limitations in the Company's policies (such as coinsurance, facilities location sub-limits and policy covenants) may reduce the aggregate amount that the Company will ultimately recover for its losses from its insurers. In addition, the Company's insurers could reject the valuation methodologies the Company has used to estimate its losses and apply different valuation methodologies, which could also reduce the Company's aggregate recovery amount. However, based on the information that the Company has at this time, the Company believes that it will ultimately recover a majority of its losses. The Company further believes that, although the difference between its aggregate claims and its insurance recoveries may ultimately be material, this will not have a material and adverse effect on the Company's financial condition or results of operation. The Company continues to have discussions with its customers regarding their assessments of the damage to, and valuation of, the consigned inventory and assets that were under the Company's care, custody and control at its Chokchai facility. In some cases, there may be material differences between the Company's assessments and its customers' assessments. There may also be differences of opinions regarding who bears responsibility for certain losses as a result of the flooding. The Company continues to review these differences with its customers and, depending on the outcome of these discussions, the Company may incur additional costs and expenses in connection with its customers' recovery efforts. The Company will recognize insurance recoveries if and when they become realizable and probable.

**Table of Contents****23. Expenses related to reduction in workforce**

As part of the Group's ongoing efforts to achieve greater efficiencies in all areas of its business, during the fourth quarter of fiscal 2012, the Group implemented a reduction in workforce and incurred expenses of approximately \$2.0 million, which represented severance and benefits costs incurred for the termination of approximately 170 employees in accordance with contractual obligations and local regulations.

**24. Principal subsidiaries**

The subsidiaries of the Group are:

<b>Name</b>	<b>Business</b>	<b>Country of Incorporation</b>	<b>Percent interest</b>
Fabrinet Co., Ltd.	Manufacturing and assembly	Thailand	99.99
Fabrinet USA, Inc.	Marketing and administrative support services	United States of America (California)	100
FBN New Jersey Manufacturing, Inc.	Manufacturing and assembly	United States of America (Delaware)	100
Fabrinet China Holdings	Holding company	Mauritius Island	100
CASIX Inc.	Manufacturing and assembly	People's Republic of China	100
(a wholly-owned subsidiary of Fabrinet China Holdings)			
Fabrinet Pte., Ltd.	Sales and administrative support services and supply chain sourcing center	Singapore	100
Fabrinet AB	Business development in Scandinavia and Europe	Sweden	100

All subsidiaries are unlisted.

**25. Subsequent events**

The Company believes that there are no subsequent events that require disclosure.

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

The following tables set forth a summary of the Company's quarterly financial information for each of the four quarters in the fiscal years ended June 29, 2012 and June 24, 2011:

	<b>Jun 29, 2012</b>	<b>Mar 30, 2012</b>	<b>Dec 30, 2011</b>	<b>Three Months Ended</b>			<b>Dec 24, 2010</b>	<b>Sep 24, 2010</b>
				<b>Sep 30, 2011</b>	<b>Jun 24, 2011</b>	<b>Mar 25, 2011</b>		
	<b>(in thousands, except per share data)</b>							
Total revenues	\$ 142,757	\$ 139,019	\$ 96,609	\$ 186,347	\$ 190,348	\$ 194,851	\$ 184,631	\$ 173,740
Gross profit	15,220	14,881	8,929	22,884	23,985	25,323	23,663	21,776
Net income (loss)	\$ 7,457	\$ (46,325)	\$ (33,254)	\$ 15,655	\$ 16,655	\$ 16,663	\$ 15,806	\$ 15,205
<b>Basic net income (loss) per share:</b>								
Net income (loss)	\$ 0.22	\$ (1.35)	\$ (0.97)	\$ 0.46	\$ 0.49	\$ 0.49	\$ 0.47	\$ 0.45
Weighted-average shares used in basic net income (loss) per share calculations	34,469	34,440	34,396	34,223	34,189	33,969	33,768	33,761
<b>Diluted net income (loss) per share:</b>								
Net income (loss)	\$ 0.22	\$ (1.35)	\$ (0.96)	\$ 0.45	\$ 0.48	\$ 0.49	\$ 0.46	\$ 0.44
Weighted-average shares used in diluted net income (loss) per share calculations	34,624	34,440	34,544	34,502	34,595	34,232	34,450	34,351

**Table of Contents**

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

None.

**ITEM 9A. CONTROLS AND PROCEDURES.**

**Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15(c) under the Securities Exchange Act of 1934 as of the end of the period covered by this Annual Report on Form 10-K. Based on that evaluation, our chief executive officer and chief financial officer have concluded that our disclosure controls and procedures are effective in ensuring that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 (i) is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and (ii) is accumulated and communicated to Fabrinet's management, including our chief executive officer and our chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

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

The information required to be furnished pursuant to this item is set forth under the captions "Report of Management on Internal Control Over Financial Reporting" and "Report of Independent Registered Accounting Firm" in Item 8 of this Annual Report on Form 10-K, which is incorporated in this Item 9A by reference.

**Changes in Internal Control Over Financial Reporting**

There were no changes in our internal control over financial reporting during our fourth fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 9B. OTHER INFORMATION.**

Not applicable.

**Table of Contents**

**PART III**

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

Information responsive to this item is incorporated herein by reference to our definitive proxy statement with respect to our 2012 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.

**ITEM 11. EXECUTIVE COMPENSATION.**

Information responsive to this item is incorporated herein by reference to our definitive proxy statement with respect to our 2012 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.

**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 definitive proxy statement with respect to our 2012 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.

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

Information responsive to this item is incorporated herein by reference to our definitive proxy statement with respect to our 2012 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.

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

Information responsive to this item is incorporated herein by reference to our definitive proxy statement with respect to our 2012 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.

**Table of Contents**

**PART IV**

**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.**

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

1. *Financial Statements*: See Index to Consolidated Financial Statements under Item 8 of this Annual Report on Form 10-K.

2. *Financial Statement Schedules*: All schedules are omitted because they are not required, are not applicable or the information is included in the consolidated financial statements or notes thereto.

3. *Exhibits*: We have filed, or incorporated by reference into this Annual Report on Form 10-K, the exhibits listed on the accompanying Exhibit Index immediately following the signature page of this Annual Report on Form 10-K.

(b) Exhibits: See Item 15(a)(3), above.

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

**Table of Contents****SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on August 28, 2012.

**FABRINET**

By: /s/ TOH-SENG NG  
 Name: **Toh-Seng Ng**  
 Title: **Executive Vice President and Chief**

**Financial Officer****POWER OF ATTORNEY**

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints David T. Mitchell and Toh-Seng Ng and each of them, as his true and lawful attorney-in-fact and agent with full power of substitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K and to file the same, with all exhibits thereto and all documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming that said attorney-in-fact and agent, or his substitute, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<b>Signature</b>	<b>Title</b>	<b>Date</b>
/s/ DAVID T. MITCHELL  <b>David T. Mitchell</b>	Chief Executive Officer and Chairman of the Board of Directors (Principal Executive Officer)	August 28, 2012
/s/ TOH-SENG NG  <b>Toh-Seng Ng</b>	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	August 28, 2012
/s/ HOMA BAHRAMI  <b>Homa Bahrami</b>	Director	August 28, 2012
/s/ MARK A. CHRISTENSEN  <b>Mark A. Christensen</b>	Director	August 28, 2012
/s/ THOMAS F. KELLY  <b>Thomas F. Kelly</b>	Director	August 28, 2012
/s/ FRANK H. LEVINSON  <b>Frank H. Levinson</b>	Director	August 28, 2012

Edgar Filing: Fabrinet - Form 10-K

/s/ ROLLANCE E. OLSON

Director

August 28, 2012

**Rollance E. Olson**

92

**Table of Contents**

<b>Signature</b>	<b>Title</b>	<b>Date</b>
/s/ VIRAPAN PULGES  <b>Virapan Pulges</b>	Director	August 28, 2012
/s/ WILLIAM J. PERRY  <b>William J. Perry</b>	Director	August 28, 2012

**Table of Contents****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
10.1.1+	Fabrinet Amended and Restated 1999 Share Option Plan	10-K	10.1.1	September 8, 2010	001-34775
10.1.2+	Form of Share Option Agreement under the Fabrinet Amended and Restated 1999 Share Option Plan	S-1	10.1.2	November 7, 2007	333-147191
10.2.1+	Fabrinet 2010 Performance Incentive Plan	8-K	10.1	December 23, 2010	001-34775
10.2.2+	Form of Share Option Award Agreement under the Fabrinet 2010 Performance Incentive Plan	S-1/A	10.2.2	May 3, 2010	333-163258
10.2.3+	Form of Notice of Grant of Restricted Shares under the Fabrinet 2010 Performance Incentive Plan	S-1/A	10.2.3	May 3, 2010	333-163258
10.3.1+	Employment Agreement, effective as of January 1, 2000, by and between David T. Mitchell and Fabrinet USA, Inc. (subsequently assumed by the registrant)	S-1/A	10.3.1	December 28, 2009	333-163258
10.3.2+	Amendment to Employment Agreement, dated December 29, 2008, by and between David T. Mitchell and the registrant	S-1	10.3.2	November 20, 2009	333-163258
10.4.1+	Offer Letter, dated April 29, 2005, by and between Dr. Harpal Gill and Fabrinet USA, Inc.	S-1	10.3.1	November 7, 2007	333-147191
10.4.2+	Amendment to Offer Letter, dated February 14, 2007, by and between Dr. Harpal Gill and Fabrinet USA, Inc.	S-1	10.3.2	November 7, 2007	333-147191
10.4.3+	Amendment to Offer Letter, dated December 29, 2008, by and between Dr. Harpal Gill and Fabrinet USA, Inc.	S-1	10.4.3	November 20, 2009	333-163258
10.5+	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
10.6+	Description of discretionary bonus payment to Dr. Harpal Gill	8-K,	N/A	February 16,	001-34755

## Edgar Filing: Fabrinet - Form 10-K

		Item 5.02		2012	
10.7+	Employment Offer Letter, dated August 20, 2012, between Paul Kalivas and Fabrinet USA, Inc.				
10.8+	Employment Offer Letter, dated December 30, 2011, between the registrant and John Marchetti	8-K	10.1	May 9,	001-34755
				2012	
10.9+	Employment Offer Letter, dated February 3, 2012, between the registrant and Toh-Seng Ng	8-K	10.2	May 9,	001-34755
				2012	
10.10+	Form of Indemnification Agreement	S-1/A	10.10	January 28, 2010	333-163258
10.11+	Description of Fiscal 2013 Executive Incentive Plan	8-K, Item 5.02	N/A	August 20, 2012	001-34775

**Table of Contents**

Exhibit Number	Description	Form	Incorporated by reference herein		
			Exhibit No.	Filing Date	File No.
10.12	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
10.13	Manufacturing Agreement, dated January 2, 2000, by and between the registrant and Fabrinet Co., Ltd.	S-1	10.11	November 7, 2007	333-147191
10.14	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
10.15	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
10.16.1	Loan Agreement, dated April 4, 2007, by and among Fabrinet Co., Ltd., the registrant and TMB Bank Public Company Limited (in Thai with English translation)	S-1	10.19	November 7, 2007	333-147191
10.16.2	Supplemental Memorandum of Agreement, dated December 14, 2007, by and among Fabrinet Co., Ltd., the registrant and TMB Bank Public Company Limited (in Thai with English translation)	S-1	10.20.2	November 20, 2009	333-163258
10.16.3	Memorandum of Agreement, dated August 8, 2008, by and among Fabrinet Co., Ltd., the registrant and TMB Bank Public Company Limited (in Thai with English translation)	S-1	10.20.3	November 20, 2009	333-163258
10.17	Lease Agreement, dated July 1, 2010, by and between Donly Corporation and FBN New Jersey Manufacturing, Inc. DBA VitroCom	10-K	10.21	September 8, 2010	001-34775
10.18	Land Mortgage Agreement, dated April 5, 2007, by and between TMB Bank Public Company Limited and Fabrinet Co., Ltd. (in Thai with English translation)	S-1	10.25	November 7, 2007	333-147191
10.19	Registration Rights Agreement, dated June 22, 2010, by and among the registrant, Asia Pacific Growth Fund III, L.P., H&Q Asia Pacific, Ltd., the David T. Mitchell Separate Property Trust, the Gabriel T. Mitchell Trust, the Alexander T. Mitchell Trust, the Sean T. Mitchell Trust, JDS Uniphase Corporation and Shea Ventures, LLC	S-1/A	10.26	June 14, 2010	333-163258
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
10.21	Facility Agreement, dated May 12, 2011, between TMB Bank Public Company Limited, Fabrinet and Fabrinet Co., Ltd.	8-K	10.1	August 16, 2011	001-34755
10.22	General Terms and Conditions of Facility, dated May 12, 2011, between TMB Bank Public Company Limited, Fabrinet and Fabrinet Co., Ltd.	8-K	10.2	August 16, 2011	001-34755
10.23	Confirmation for Cross Currency Swap Transaction, dated May 12, 2011, between TMB Bank Public Company Limited, Fabrinet and Fabrinet Co., Ltd.	8-K	10.3	August 16, 2011	001-34755

**Table of Contents**

Exhibit Number	Description	Incorporated by reference herein			
		Form	Exhibit No.	Filing Date	File No.
10.24	Business Development Service Agreement, dated January 2, 2011, by and between the registrant and Fabrinet AB	10-K	10.26	August 31, 2011	001-34755
10.25.1+	Offer Letter, dated April 15, 2000, by and between Mark J. Schwartz and Fabrinet USA, Inc.	S-1	10.4	November 7, 2007	333-147191
10.25.2+	Amendment to Offer Letter, dated June 16, 2008, by and between Mark J. Schwartz and Fabrinet USA, Inc.	S-1	10.6.2	November 20, 2009	333-163258
10.25.3+	Amendment to Offer Letter, dated December 29, 2008, by and between Mark J. Schwartz and Fabrinet USA, Inc.	S-1	10.6.3	November 20, 2009	333-163258
21.1	List of Subsidiaries	S-1	21.1	February 18, 2011	333-172355
23.1	Consent of PricewaterhouseCoopers ABAS Ltd.				
24.1	Power of Attorney (incorporated by reference to the signature page of this Annual Report on Form 10-K)				
31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				
31.2	Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				
32.1	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				
101.INS*	XBRL Instance				
101.SCH*	XBRL Taxonomy Extension Schema				
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase				
101.DEF*	XBRL Taxonomy Extension Definition Linkbase				
101.LAB*	XBRL Taxonomy Extension Label Linkbase				
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase				

+ Indicates management contract or compensatory plan.

Confidential treatment has been requested for portions of this exhibit.

\* XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and is otherwise not subject to liability under these sections.