Fabrinet
Form 10-Q
May 08, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 30, 2018

OR

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
Commission File Number: 001-34775

FABRINET

(Exact name of registrant as specified in its charter)

Cayman Islands **(State or other jurisdiction of incorporation or organization)**	**Not Applicable** **(I.R.S. Employer Identification No.)**

c/o Intertrust Corporate Services (Cayman) Limited

190 Elgin Avenue

George Town

Grand Cayman

Cayman Islands **(Address of principal executive offices)**	**KY1-9005** **(Zip Code)**

+66 2-524-9600

(Registrant s telephone number, including area code)

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

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

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

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

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

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

As of April 27, 2018, the registrant had 36,904,455 ordinary shares, $0.01 par value, outstanding.

FABRINET

FORM 10-Q

QUARTER ENDED MARCH 30, 2018

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PART I: FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FABRINET

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands of U.S. dollars, except share data)	**March 30, 2018**	**June 30, 2017**
Assets		
Current assets		
Cash and cash equivalents	$ 142,407	$ 133,825
Marketable securities	169,444	151,450
Trade accounts receivable, net	243,997	264,349
Inventory, net	239,617	238,665
Prepaid expenses	9,466	6,306
Other current assets	11,049	4,159
Total current assets	815,980	798,754
Non-current assets		
Restricted cash in connection with business acquisition	3,569	3,312
Property, plant and equipment, net	222,047	216,881
Intangibles, net	5,927	5,840
Goodwill	4,101	3,806
Deferred tax assets	3,046	2,905
Deferred debt issuance costs on revolving loan and other non-current assets	135	1,577
Total non-current assets	238,825	234,321
Total Assets	$ 1,054,805	**$** 1,033,075
Liabilities and Shareholders Equity		
Current liabilities		
Bank borrowings, net of unamortized debt issuance costs	$ 52,464	$ 48,402
Trade accounts payable	193,374	215,262
Fixed assets payable	4,684	8,141
Capital lease liability, current portion	491	344
Income tax payable	298	1,976
Accrued payroll, bonus and related expenses	13,322	13,852
Accrued expenses	11,750	9,227
Other payables	10,776	14,068
Total current liabilities	287,159	311,272

Non-current liabilities		
Long-term loan from bank, non-current portion, net of unamortized debt issuance costs	12,595	22,701
Deferred tax liability	2,172	1,981
Capital lease liability, non-current portion	671	1,024
Deferred liability in connection with business acquisition	3,569	3,312
Severance liabilities	10,103	8,488
Other non-current liabilities	2,993	2,723
Total non-current liabilities	32,103	40,229
Total Liabilities	319,262	351,501
Commitments and contingencies (Note 16)		
Shareholders equity		
Preferred shares (5,000,000 shares authorized, $0.01 par value; no shares issued and outstanding as of March 30, 2018 and June 30, 2017)		
Ordinary shares (500,000,000 shares authorized, $0.01 par value; 37,640,215 shares and 37,340,496 shares issued, and 36,901,790 shares and 37,340,496 shares outstanding as of March 30, 2018 and June 30, 2017, respectively)	376	373
Additional paid-in capital	147,958	133,293
Treasury stock, at cost (738,425 shares and zero shares as of March 30, 2018 and June 30, 2017, respectively)	(22,407)	
Accumulated other comprehensive loss	(39)	(348)
Retained earnings	609,655	548,256
Total Shareholders Equity	735,543	681,574
Total Liabilities and Shareholders Equity	$ 1,054,805	$ 1,033,075

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

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UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(in thousands of U.S. dollars, except per share amounts)	**Three Months Ended** March 30, 2018	**Three Months Ended** March 31, 2017	**Nine Months Ended** March 30, 2018	**Nine Months Ended** March 31, 2017
Revenues	$ 332,213	$ 366,837	$ 1,026,598	$ 1,050,036
Cost of revenues	(295,280)	(322,791)	(912,167)	(923,336)
Gross profit	36,933	44,046	114,431	126,700
Selling, general and administrative expenses	(12,418)	(17,086)	(41,253)	(50,569)
Expenses related to reduction in workforce			(1,776)	
Operating income	24,515	26,960	71,402	76,131
Interest income	1,149	713	2,554	1,470
Interest expense	(820)	(641)	(2,499)	(2,517)
Foreign exchange loss, net	(2,428)	(3,702)	(5,710)	(100)
Other income	91	108	438	397
Income before income taxes	22,507	23,438	66,185	75,381
Income tax expense	(1,454)	(1,782)	(4,786)	(5,667)
Net income	21,053	21,656	61,399	69,714
Other comprehensive income (loss) , net of tax:				
Change in net unrealized (loss) gain on marketable securities	(616)	49	(1,048)	(491)
Change in net unrealized loss on derivative instruments			(1)	(158)
Change in foreign currency translation adjustment	789	227	1,358	(935)
Total other comprehensive income (loss), net of tax	173	276	309	(1,584)
Net comprehensive income	$ 21,226	$ 21,932	$ 61,708	$ 68,130
Earnings per share				
Basic	$ 0.56	$ 0.58	$ 1.64	$ 1.89
Diluted	$ 0.55	$ 0.57	$ 1.61	$ 1.85
Weighted-average number of ordinary shares outstanding (thousands of shares)				
Basic	37,275	37,116	37,400	36,792
Diluted	38,055	37,872	38,125	37,750

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

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UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of U.S. dollars)	**Nine Months Ended March 30, 2018**	**Nine Months Ended March 31, 2017**
Cash flows from operating activities		
Net income for the period	$ 61,399	$ 69,714
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	21,288	16,956
(Gain) loss on disposal of property, plant and equipment	(153)	7
Loss from sales and maturities of available-for-sale securities	362	407
Amortization of investment (premium) discount	(31)	397
Amortization of deferred debt issuance costs	433	1,591
Allowance for doubtful accounts	44	3
Unrealized loss (gain) on exchange rate and fair value of derivative instruments	1,393	(718)
Share-based compensation	17,704	21,936
Deferred income tax	19	1,008
Other non-cash expenses	1,941	1,775
Reversal of inventory obsolescence	(291)	(72)
Changes in operating assets and liabilities		
Trade accounts receivable	21,411	(50,839)
Inventory	(973)	(39,766)
Other current assets and non-current assets	(9,853)	3,921
Trade accounts payable	(22,518)	32,653
Income tax payable	(1,678)	166
Other current liabilities and non-current liabilities	(703)	1,249
Net cash provided by operating activities	89,794	60,388
Cash flows from investing activities		
Purchase of marketable securities	(84,519)	(100,751)
Proceeds from sales of marketable securities	22,169	33,812
Proceeds from maturities of marketable securities	42,977	54,745
Payments in connection with business acquisition, net of cash acquired		(9,917)
Purchase of property, plant and equipment	(28,268)	(57,224)
Purchase of intangibles	(1,487)	(1,910)
Proceeds from disposal of property, plant and equipment	202	190
Net cash used in investing activities	(48,926)	(81,055)
Cash flows from financing activities		
Proceeds of short-term loans from banks	5,000	27,665
Repayment of short-term loans from bank	(1,003)	
Repayment of long-term loans from bank	(10,200)	(14,700)

Repayment of capital lease liability	(293)	(182)
Repurchase of ordinary shares	(22,407)	
Proceeds from issuance of ordinary shares under employee share option plans	993	5,890
Withholding tax related to net share settlement of restricted share units	(4,030)	(1,272)
Net cash provided by (used in) financing activities	(31,940)	17,401
Net increase (decrease) in cash, cash equivalents and restricted cash	8,928	(3,266)
Movement in cash, cash equivalents and restricted cash		
Cash, cash equivalents and restricted cash at beginning of period	137,137	142,804
Increase (decrease) in cash, cash equivalents and restricted cash	8,928	(3,266)
Effect of exchange rate on cash, cash equivalents and restricted cash	(89)	271
Cash, cash equivalents and restricted cash at end of period	$ 145,976	$ 139,809
Non-cash investing and financing activities		
Construction, software-related and equipment-related payables	$ 4,684	$ 12,409

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UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

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

(amount in thousands)	**As of March 30, 2018**	**As of March 31, 2017**
Cash and cash equivalents	$ 142,407	$ 136,634
Restricted cash in connection with business acquisition (non-current assets)	3,569	3,175
Cash, cash equivalents and restricted cash	$ 145,976	$ 139,809

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

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

1. Business and organization

General

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

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

2. Accounting policies

Basis of presentation

The accompanying unaudited condensed consolidated financial statements for Fabrinet as of March 30, 2018 and for the three and nine months ended March 30, 2018 and March 31, 2017 include normal recurring adjustments, necessary for a fair statement of the financial statements set forth herein, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial information and the rules and regulations of the Securities and Exchange Commission (SEC). Accordingly, such information does not include all of the information and footnotes required by U.S. GAAP for annual financial statements. For further information, please refer to the consolidated financial statements and footnotes thereto included in Fabrinet s Annual Report on Form 10-K for the year ended June 30, 2017.

The balance sheet as of June 30, 2017 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements. The results for the three and nine months ended March 30, 2018 may not be indicative of results for the year ending June 29, 2018 or any future periods.

On September 14, 2016, the Company acquired 100% shareholding in Global CEM Solutions, Ltd. and all of its subsidiaries (including Fabrinet UK), a privately-held group located in Wiltshire, United Kingdom. The unaudited condensed consolidated financial statements of the Company include the financial position, results of operations and the cash flows of Fabrinet UK commencing as of the acquisition date. See Note 8 Business acquisition for further

details on the accounting for this transaction.

Use of Estimates

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

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Fiscal years

The Company utilizes a 52-53 week fiscal year ending on the Friday in June closest to June 30. The three months ended March 30, 2018 and March 31, 2017 each consisted of 13 weeks. The nine months ended March 30, 2018 and March 31, 2017 consisted of 39 weeks and 40 weeks, respectively. Fiscal year 2018 will be comprised of 52 weeks and will end on June 29, 2018.

Concentration of credit risk

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

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

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

New Accounting Pronouncements not yet adopted by the Company

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

In September 2017, the FASB issued ASU 2017-13, Revenue Recognition (Topic 605), Revenue from Contracts with Customers (Topic 606), Leases (Topic 840), and Leases (Topic 842): Amendments to SEC Paragraphs Pursuant to the Staff Announcement at the July 20, 2017 EITF Meeting and Rescission of Prior SEC Staff Announcements and Observer Comments. The amendment delays the mandatory adoption of Topic 606 and Topic 842 for certain entities, revises the guidance related to performance-based incentive fees in Topic 605 and revises the guidance related to leases in Topic 840 and Topic 842. The revisions to the lease guidance eliminate language specific to certain sale-leaseback arrangements, guarantees of lease residual assets and loans made by lessees to owner-lessors. Also included is an amendment to Topic 842 to retain the guidance in Topic 840 covering the impact of changes in tax rates on investments in leveraged leases. This guidance, which is effective immediately, generally relates to the adoption of Topic 606 and Topic 842. The Company does not expect the amendments will impact its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, Intangibles Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. This amendment modified the concept of impairment assessment from the condition that exists when the carrying amount of goodwill exceeds its implied fair value to the condition that exists when the carrying amount of a reporting unit exceeds its fair value. Public companies that are SEC filers should adopt the amendment for its annual and any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is currently evaluating the impact of the adoption of this update on its consolidated financial statements.

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

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

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

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

In January 2016, the FASB issued ASU 2016-01, Financial Instruments Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. This new guidance requires certain equity investments to be measured at fair value, use of the exit price notion and separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements. The ASU on recognition and measurement will take effect for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. In addition, in February 2018, the FASB issued ASU 2018-03, Technical Corrections and Improvements to Financial Instruments Overall (Subtopic 825-10), Recognition and Measurement of Financial Assets and Financial Liabilities. This guidance clarifies certain aspects of the guidance issued in ASU 2016-01 on (1) equity securities without a readily determinable fair value discontinuation, (2) equity securities without a readily determinable fair value adjustments, (3) forward contracts and purchased options, (4) presentation requirements for certain fair value option liabilities, and (5) fair value option liabilities denominated in a foreign currency. The Company is currently evaluating the impact of the adoption of this update on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), issued as a new Topic, Accounting Standards Codification. The core principle of this amendment is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This update is effective for public companies, as amended by ASU 2015-14, for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Earlier application of this guidance is permitted, but not before the original date of December 15, 2016, which can be adopted either retrospectively to each prior reporting period presented or as a cumulative-effect adjustment as of the date of adoption. Subsequently, in March 2016 and April 2016, the FASB issued ASU 2016-08 and ASU 2016-10, respectively, to clarify the implementation guidance on principle versus agent considerations and address the potential diversity in practice at initial application and cost; and the complexity of applying Topic 606, both at transition and on an ongoing basis related to identification of

performance obligations and licensing arrangements; and ASU 2016-12 and ASU 2016-20 in May 2016 and December 2016, respectively, to improve certain aspects of Topic 606, with the same effective date as ASU 2015-14. The Company will adopt this standard during its fiscal year ending June 28, 2019. In the current period, the Company is assessing the contracts with its customers to identify the impact to its consolidated financial statements. The Company expects to conclude the impact to its consolidated financial statements in the coming quarter.

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New Accounting Pronouncements adopted by the Company

In February 2018, the FASB issued ASU 2018-02 Income Statement Reporting Comprehensive Income (Topic 220), Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. This ASU which allows companies to reclassify stranded tax effects in accumulated other comprehensive income (loss) that have been caused by the Tax Cuts and Jobs Act of 2017 (the Act) to retained earnings for each period in which the effect of the change in the U.S. federal corporate income tax rate is recorded. The FASB has made the reclassification optional. In addition, in March 2018, the FASB issued ASU 2018-05, Income Taxes (Topic 740), Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118, which updates the income tax accounting in U.S. GAAP to reflect SEC guidance released on December 22, 2017, when the Act was signed into law. The Company adopted these updates with no impact to the unaudited condensed consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The amendments better align an entity s risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. To meet that objective, the amendments expand and refine hedge accounting for both nonfinancial and financial risk components and align the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. The amendments also make certain targeted improvements to simplify the application of hedge accounting guidance and ease the administrative burden of hedge documentation requirements and assessing hedge effectiveness. This ASU is the final version of Proposed Accounting Standards Update 2016-310 Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities, which has been deleted. During the first nine months of fiscal year 2018, the Company adopted this update with no impact to the unaudited condensed consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, which requires the statement of cash flows to explain the change during the period in the total of cash, cash equivalents and restricted cash or restricted cash equivalents. The Company has early adopted this update in the second quarter of fiscal year 2017 on a retrospective basis. As of March 30, 2018, restricted cash in connection with business acquisition of $3.6 million was presented in the statement of cash flows as cash, cash equivalents and restricted cash.

In March 2016, the FASB issued ASU 2016-09, Compensation Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. This ASU simplifies several aspects of the accounting for share-based payment award transactions, including, the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. The amendments in this update are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods, for public companies. Early adoption is permitted for any entity in any interim or annual period. During the first nine months of fiscal year 2018, the Company adopted this update with no impact to the unaudited condensed consolidated financial statements.

In March 2016, the FASB issued ASU 2016-05, Derivatives and Hedging (Topic 815), to clarify that a change in the counterparty to a derivative instrument that has been designated as a hedging instrument under Topic 815, does not, in and of itself, require designation of the hedging relationship, provided that all other hedge accounting criteria continue to be met. This guidance is effective for public entities for financial statements issued for fiscal years beginning after December 15, 2016 and interim periods within those fiscal years. During the first nine months of fiscal year 2018, the Company adopted this update with no impact to the unaudited condensed consolidated financial statements.

3. Earnings per ordinary share

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

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(amount in thousands except per share amounts)	Three Months Ended March 30, 2018	Three Months Ended March 31, 2017	Nine Months Ended March 30, 2018	Nine Months Ended March 31, 2017
Net income attributable to shareholders	$ 21,053	$ 21,656	$ 61,399	$ 69,714
Weighted-average number of ordinary shares outstanding (thousands of shares)	37,275	37,116	37,400	36,792
Incremental shares arising from the assumed exercise of share options and vesting of restricted share units (thousands of shares)	780	756	725	958
Weighted-average number of ordinary shares for diluted earnings per ordinary share (thousands of shares)	38,055	37,872	38,125	37,750
Basic earnings per ordinary share	$ 0.56	$ 0.58	$ 1.64	$ 1.89
Diluted earnings per ordinary share	$ 0.55	$ 0.57	$ 1.61	$ 1.85

As of March 30, 2018 and March 31, 2017, there were no anti-dilutive share options.

4. Cash, cash equivalents and marketable securities

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

			Fair Value	
(amount in thousands)	Carrying Cost	Unrealized Loss	Cash and Cash Equivalents	Marketable Securities
As of March 30, 2018				
Cash	$ 127,279	$	$ 127,279	$
Cash equivalents	15,128		15,128	
Corporate bonds and commercial papers	125,356	(814)		124,542
U.S. agency and U.S. treasury securities	40,910	(281)		40,629
Sovereign and municipal securities	4,300	(27)		4,273
Total	$ 312,973	$ (1,122)	$ 142,407	$ 169,444

			Fair Value	
(amount in thousands)	Carrying Cost	Unrealized Gain/(Loss)	Cash and Cash Equivalents	Marketable Securities
As of June 30, 2017				
Cash	$ 131,240	$	$ 131,240	$

Cash equivalents	2,585		2,585	
Corporate bonds and commercial papers	98,247	27		98,274
U.S. agency and U.S. treasury securities	50,768	(102)		50,666
Sovereign and municipal securities	2,507	3		2,510
Total	$ 285,347	$ (72)	$ 133,825	$ 151,450

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

The following table summarizes the cost and estimated fair value of marketable securities classified as available-for-sale securities based on stated effective maturities as of March 30, 2018:

(amount in thousands)	**Carrying Cost**	**Fair Value**
Due within one year	$ 13,181	$ 13,174
Due between one to three years	157,385	156,270
Total	$ 170,566	$ 169,444

During the nine months ended March 30, 2018, the Company recognized a realized loss of $0.4 million from sales and maturities of available-for-sale securities.

As of March 30, 2018, the Company considered the declines in market value of its marketable securities investment portfolio to be temporary in nature and did not consider any of its securities other-than-temporarily impaired. The Company typically invests in highly-rated securities, and its investment policy generally limits the amount of credit exposure to any one issuer. The policy requires investments generally to be investment grade, with the primary objective of minimizing the potential risk of principal loss. Fair values were determined for each individual security in the investment portfolio. When evaluating an investment for other-than-temporary impairment, the Company reviews factors such as the length of time and extent to which fair value has been below its cost basis, the financial condition of the issuer and any changes thereto, changes in market interest rates, and the Company s intent to sell, or whether it is more likely than not it will be required to sell, the investment before recovery of the investment s cost basis. No impairment losses were recorded for the nine months ended March 30, 2018.

As of March 30, 2018, cash, cash equivalents, and marketable securities included bank deposits of $40.0 million held in various financial institutions located in the United States in order to support the availability of the Facility Agreement (as defined in Note 11) and comply with covenants. As discussed in Note 11, under the terms and conditions of the Facility Agreement, the Company must maintain cash, cash equivalents and marketable securities in an aggregate amount not less than $40.0 million in unencumbered deposits, and/or securities in accounts located in the United States at all times during the term of the Facility Agreement. The Company must comply with this covenant from and after the effective date of the Facility Agreement.

5. Fair value of financial instruments

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. A fair value hierarchy is established which requires an entity to maximize the

use of observable inputs and minimize the use of unobservable inputs for the valuation of an asset or liability as of measurement date. The three levels of inputs that may be used to measure fair value are defined as follows:

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

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

Level 3 inputs are unobservable inputs for assets or liabilities, which require the reporting entity to develop its own valuation techniques and assumptions.

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

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

	Fair Value Measurements at Reporting Date Using			
(amount in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
As of March 30, 2018				
Assets				
Cash equivalents	$	$ 15,128	$	$ 15,128
Corporate bonds and commercial papers		124,542		124,542
U.S. agency and U.S. treasury securities		40,629		40,629
Sovereign and municipal securities		4,273		4,273
Derivative assets				
Total	$	$ 184,572	$	$ 184,572
Liabilities				
Derivative liabilities		$ 29[(1)]		$ 29
Total	$	$ 29	$	$ 29

	Fair Value Measurements at Reporting Date Using			
(amount in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
As of June 30, 2017				
Assets				
Cash equivalents	$	$ 2,585	$	$ 2,585
Corporate bonds and commercial papers		98,274		98,274
U.S. agency and U.S. treasury securities		50,666		50,666
Sovereign and municipal securities		2,510		2,510
Derivative assets		15[(2)]		15
Total	$	$ 154,050	$	$ 154,050

(1) Foreign currency forward contracts with notional amount of $14.0 million and Canadian Dollars 0.1 million.
(2) Foreign currency forward contracts with notional amount of $1.0 million and Canadian Dollars 0.6 million.

Derivative Financial Instruments

As a result of foreign currency rate fluctuations, the U.S. dollar equivalent values of the Company s foreign currency denominated assets and liabilities change. The Company uses foreign currency contracts to manage the foreign exchange risk associated with certain foreign currency denominated assets and liabilities and other foreign currency transactions. The Company minimizes the credit risk in derivative instruments by limiting its exposure to any single counterparty and by entering into derivative instruments only with counterparties that meet the Company s minimum credit quality standard. As of March 30, 2018, the Company recognized the fair value of foreign currency forward contracts of $0.03 million as derivative liabilities in the unaudited condensed consolidated balance sheet under other current liabilities. As of June 30, 2017, the Company recognized the fair value of foreign currency forward contracts

of $0.02 million as derivative assets in the consolidated balance sheet under other current assets.

As of March 30, 2018, the Company had 6 outstanding foreign currency forward contracts with an aggregate notional amount of $14.0 million and Canadian dollars 0.1 million, maturing during April to June 2018. These foreign currency forward contracts were not designated for hedge accounting and were used to hedge fluctuations in the U.S. dollar value of forecasted transactions denominated in Thai baht and Canadian dollar. During the nine months ended March 30, 2018, the Company included an unrealized loss of $30 thousand from changes in the fair value of foreign currency contracts in earnings as foreign exchange loss, net in the unaudited condensed consolidated statements of operations and comprehensive income.

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As of March 31, 2017, the Company had no foreign currency forward contracts designated as cash flow hedges. During the nine months ended March 31, 2017, the Company discontinued cash flow hedges and recognized a gain from unwinding foreign currency forward contracts of $0.3 million as foreign exchange gain, net in the unaudited condensed consolidated statements of operations and comprehensive income.

As of March 31, 2017, the Company had one outstanding foreign currency forward contract with an aggregate notional amount of Canadian dollars 0.5 million, maturing in June 2017. This foreign currency forward contract was not designated for hedge accounting and was used to hedge fluctuations in the U.S. dollar value of forecasted transactions denominated in Canadian dollar. During the nine months ended March 31, 2017, the Company included unrealized loss of $8.0 thousand from changes in the fair value of foreign currency contracts in earnings as foreign exchange loss, net in the unaudited condensed consolidated statements of operations and comprehensive income.

6. Trade accounts receivable, net

(amount in thousands)	**As of March 30, 2018**	**As of June 30, 2017**
Trade accounts receivable	$ 244,081	$ 264,389
Less: allowance for doubtful account	(84)	(40)
Trade accounts receivable, net	$ 243,997	$ 264,349

As of June 30, 2017, trade accounts receivable of $3.0 million were secured to short-term loans from bank. During the three months ended September 29, 2017, these loans were fully repaid and the secured trade accounts receivable were released.

7. Inventory

(amount in thousands)	**As of March 30, 2018**	**As of June 30, 2017**
Raw materials	$ 90,024	$ 88,640
Work in progress	114,348	105,732
Finished goods	24,010	33,998
Goods in transit	13,674	13,025
	242,056	241,395
Less: Inventory obsolescence	(2,439)	(2,730)
Inventory, net	$ 239,617	$ 238,665

8. Business acquisition

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

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

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The allocation of consideration to the individual net assets acquired was finalized in the fourth quarter of fiscal year 2017. As the functional currency of Fabrinet UK is pound sterling (GBP), for the nine months ended March 30, 2018 and March 31, 2017, the Company recognized a $1.4 million gain and a $0.9 million loss, respectively, from foreign currency translation adjustment in its unaudited condensed consolidated statements of operations and comprehensive income under other comprehensive income, net of tax.

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

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

In connection with the Company s acquisition of Fabrinet UK, the Company assumed lease agreements for certain machine and equipment, which are accounted for as capital leases. As of March 30, 2018 and June 30, 2017, the Company included approximately $1.6 million and $1.9 million, respectively, of capital lease assets and $1.2 million and $1.4 million, respectively, of capital lease liability in the unaudited condensed consolidated balance sheets associated with these acquired lease agreements.

During the nine months ended March 31, 2017, the Company incurred approximately $1.5 million in transaction costs related to the acquisition, which primarily consisted of legal, accounting and valuation-related expenses. These expenses were recorded in selling, general and administrative expense in the accompanying unaudited condensed consolidated statements of operations and comprehensive income.

During the nine months ended March 30, 2018, there were no transaction costs related to the acquisition.

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

Identifiable intangibles

The acquired intangible assets include customer relationships and backlog. The fair value of the identified intangible assets was determined based on the multi-period excess earnings method.

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

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

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Goodwill

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

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9. Intangibles

The following tables present details of the Company s intangibles:

(amount in thousands)	Gross Carrying Amount	Accumulated Amortization	Foreign Currency Translation Adjustment	Net
As of March 30, 2018				
Software	$ 7,532	$ (4,955)	$	$ 2,577
Customer relationships	4,373	(1,228)	177	3,322
Backlog	119	(92)	1	28
Total intangibles	$ 12,024	$ (6,275)	$ 178	$ 5,927

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

The Company recorded amortization expense relating to intangibles of $0.5 million and $0.9 million for the three months ended March 30, 2018 and March 31, 2017, respectively, and $1.4 million and $1.1 million for the nine months ended March 30, 2018 and March 31, 2017, respectively.

The weighted-average remaining life of customer relationships and backlog are:

(years)	As of March 30, 2018	As of June 30, 2017
Customer relationships	6.3	6.9
Backlog	1.1	1.6

Based on the carrying amount of intangibles as of March 30, 2018, and assuming no future impairment of the underlying assets, the estimated future amortization during each fiscal year was as follows:

(amount in thousands)	
2018 (remaining three months)	$ 505
2019	1,675

2020	1,146
2021	993
2022	724
Thereafter	884
Total	$ 5,927

10. Goodwill

The changes in the carrying amount of goodwill from the acquisition of Fabrinet UK were as follows:

(amount in thousands)	**Goodwill**
Balance as of June 30, 2017	$ 3,806
Foreign currency translation adjustment	295
Balance as of March 30, 2018	$ 4,101

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

Goodwill is not deductible for tax purposes. Goodwill will not be amortized but is reviewed annually for impairment or more frequently whenever changes or circumstances indicate the carrying amount of goodwill may not be recoverable.

11. Borrowings

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

(amount in thousands)

Rate	Conditions	Maturity	As of March 30, 2018	As of June 30, 2017
Short-term borrowings:				
Revolving borrowing:				
LIBOR[1] + 1.75% per annum	Repayable in 1 to 6 months	April 2018 [2]	$ 39,000	$ 34,000
Short-term loans from bank:				
Bank Base rate +1.85% per annum	Repayable based on credit terms of secured accounts receivable			1,003
Current portion of long-term borrowing			13,600	13,600
			52,600	48,603
Less: Unamortized debt issuance costs			(136)	(201)
			$ 52,464	$ 48,402
Long-term borrowings:				
Term loan borrowing:				
LIBOR +1.75% per annum	Repayable in quarterly installments	May 2019	$ 26,200	$ 36,400
Less: Current portion			(13,600)	(13,600)

Unamortized debt issuance costs	(5)	(99)
Non-current portion	$ 12,595	$ 22,701

(1) LIBOR is London Interbank Offered Rate.

(2) In March 2018, the maturity date was extended to April 2018.

The movements of long-term loans for the nine months ended March 30, 2018 and March 31, 2017 were as follows:

	Nine Months Ended	
(amount in thousands)	**March 30, 2018**	**March 31, 2017**
Opening balance	$ 36,400	$ 54,500
Repayments during the period	(10,200)	(14,700)
Closing balance	$ 26,200	$ 39,800

As of March 30, 2018, future maturities of long-term debt during each fiscal year were as follows:

(amount in thousands)	
2018 (remaining three months)	$ 3,400
2019	22,800
Total	$ 26,200

Credit facilities:

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

On February 26, 2015, the Company entered into the Second Amendment to the Facility Agreement. The amendment extended the availability period for draws on the term loan facility from May 21, 2015 to July 31, 2015. It also allowed the Company, upon the satisfaction of certain conditions, to designate from time to time one or more of its subsidiaries as borrowers under the Facility Agreement. On July 31, 2015, the Company entered into the Third Amendment to the Facility Agreement. The amendment extended the availability period for draws on the term loan facility from July 31, 2015 to July 31, 2016. On July 22, 2016, the Company entered into the Fourth Amendment to the Facility Agreement to change the timing of filing certain financial information with the bank. The Company fully drew down the term loan facility in fiscal year 2016. As of March 30, 2018, $39.0 million of the revolving borrowing and $26.2 million of the term loan borrowing was outstanding under the Facility Agreement, resulting in available credit facilities of $111.0 million. Borrowings under the revolving credit facility are classified as current liabilities in the unaudited condensed consolidated balance sheets as the Company has the periodic option to renew or pay, all or a portion of, the outstanding balance at the end of the maturity date, which is in the range of one to six months, without premium or penalty, upon notice to the administrative agent. During March 2018, the Company sent notices to the bank to renew the maturity date of its revolving borrowings. The bank approved the notices and extended the maturity to April 2018.

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

On July 24, 2017, the Company entered into an interest rate swap agreement (the Swap Agreement), which the Company did not designate as hedging instruments. The Swap Agreement was used to mitigate interest rate risk and improve the interest rate profile of the Company s debt obligations. The terms of the Swap Agreement effectively convert the floating interest rate of the term loans under the Facility Agreement to the fixed interest rate of 1.55% per

annum through maturity of the term loan in May 2019. The swap transactions are due and settled monthly. During the nine months ended March 30, 2018, the Company included a net loss of $0.04 million from the settlement of the Swap Agreement as interest expenses in the unaudited condensed consolidated statements of operations and comprehensive income.

Fabrinet s obligations under the Facility Agreement are guaranteed by certain of its existing and future direct material of its subsidiaries. In addition, the Facility Agreement is secured by Fabrinet s present and future accounts receivable, deposit accounts and cash, and a pledge of the capital stock of certain of Fabrinet s direct subsidiaries. Fabrinet is required to maintain at least $40.0 million of cash, cash equivalents, and marketable securities at financial institutions located in the United States. Further, Fabrinet is required to maintain any of its deposits accounts or securities accounts with balances in excess of $10.0 million in a jurisdiction where a control agreement, or the equivalent under the local law, can be effected.

The Facility Agreement contains customary affirmative and negative covenants. Negative covenants include, among other things, limitations on liens, indebtedness, investments, mergers, sales of assets, changes in the nature of the business, dividends and distributions, affiliate transactions and capital expenditures. The Facility Agreement contains financial covenants requiring Fabrinet to maintain: (1) a minimum tangible net worth of not less than $200.0 million plus 50% of quarterly net income, exclusive of quarterly losses; (2) a minimum debt service coverage ratio of not less than 1.50:1.00; (3) a maximum senior leverage ratio of not more than 2.50:1.00; and (4) a minimum quick ratio of not less than 1.10:1.00. Each of these financial covenants is calculated on a consolidated basis for the consecutive four fiscal quarter period then ended. As of March 30, 2018, the Company was in compliance with all covenants under the Facility Agreement.

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

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

Short-term loans from bank

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

Undrawn available credit facilities classified by availability period of future borrowing as of March 30, 2018 and June 30, 2017 were as follows:

(amount in thousands)	**March 30, 2018**	**June 30, 2017**
Short-term	$	$ 1,965
Long-term	$ 111,000	$ 116,000

12. Income taxes

As of March 30, 2018 and June 30, 2017, the liability for uncertain tax positions including accrued interest and penalties was $2.2 million and $2.0 million, respectively. The Company expects the estimated amount of liability associated with its uncertain tax positions to decrease within the next 12 months due to the lapse of the applicable statute of limitations in foreign tax jurisdictions.

The Company files income tax returns in the United States and foreign tax jurisdictions. The tax years from 2012 to 2016 remain open to examination by U.S. federal and state tax authorities, and foreign tax authorities. The Company s income tax is recognized based on the best estimate of the expected annual effective tax rate for the full financial year

of each entity in the Company, adjusted for discrete items arising in that quarter. If the Company s estimated annual effective tax rate changes, the Company makes a cumulative adjustment in that quarter.

The effective tax rates for the Company for the three months ended March 30, 2018 and March 31, 2017 were 6.2% and 6.5%, respectively, of net income. The decrease was primarily due to the fact that the Company had higher income not subject to tax during the three months ended March 30, 2018, compared with the three months ended March 31, 2017.

The effective tax rates for the Company for the nine months ended March 30, 2018 and March 31, 2017 were 6.3% and 6.7%, respectively, of net income. The decrease was primarily due to the fact that the Company had higher income not subject to tax during the nine months ended March 30, 2018, compared with the nine months ended March 31, 2017.

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On December 22, 2017, the Tax Cuts and Jobs Act (the TCJ Act) was enacted into law. The TCJ Act provides for significant changes to the U.S. Internal Revenue Code of 1986, as amended (the Code), that impact corporate taxation requirements, such as the reduction of the federal tax rate for corporations from 35% to 21% and changes or limitations to certain tax deductions. The impact of the TCJ Act for the Company was a reduction of the value of deferred tax assets (which represent future tax benefits) of its U.S. subsidiaries as a result of lowering the U.S. corporate income tax rate from 35% to 21%. This reduction of the value of deferred tax assets was fully offset by a reversal of the valuation allowance on the related deferred tax assets. Therefore, there is no impact to the unaudited condensed consolidated financial statements.

13. Share-based compensation

Share-based compensation

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

The effect of recording share-based compensation expense for the three and nine months ended March 30, 2018 and March 31, 2017 was as follows:

	Three Months Ended		**Nine Months Ended**	
(amount in thousands)	**March 30, 2018**	**March 31, 2017**	**March 30, 2018**	**March 31, 2017**
Share-based compensation expense by type of award:				
Restricted share units	$ 3,904	$ 6,540	$ 13,338	$ 18,993
Performance share units	1,422	1,188	4,366	2,943
Total share-based compensation expense	5,326	7,728	17,704	21,936
Tax effect on share-based compensation expense				
Net effect on share-based compensation expense	$ 5,326	$ 7,728	$ 17,704	$ 21,936

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

	Three Months ended		**Nine Months Ended**	
(amount in thousands)	**March 30, 2018**	**March 31, 2017**	**March 30, 2018**	**March 31, 2017**
Cost of revenue	$ 1,564	$ 1,657	$ 5,277	$ 4,185

Selling, general and administrative expense	3,762	6,071	12,427	17,751
Total share-based compensation expense	$ 5,326	$ 7,728	$ 17,704	$ 21,936

The Company did not capitalize any share-based compensation expense as part of any asset costs during the three and nine months ended March 30, 2018 and March 31, 2017.

Share-based award activity

Fabrinet maintains the following equity incentive plans: the Amended and Restated 2010 Performance Incentive Plan (the 2010 Plan) and the 2017 Inducement Equity Incentive Plan (the 2017 Inducement Plan).

On March 12, 2010, Fabrinet s shareholders adopted the 2010 Plan. On December 20, 2010, December 20, 2012 and December 14, 2017, Fabrinet s shareholders adopted amendments to the 2010 Plan to increase the number of ordinary shares authorized for issuance under the 2010 Plan by 500,000 shares, 3,700,000 shares and 2,100,000 shares, respectively. As of March 30, 2018, there were an aggregate of 32,326 share options outstanding, 1,050,811 restricted share units outstanding and 508,586 performance share units outstanding under the 2010 Plan. As of March 30, 2018, there were 2,504,131 ordinary shares available for future grant under the 2010 Plan.

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On November 2, 2017, Fabrinet adopted the 2017 Inducement Plan with a reserve of 160,000 ordinary shares authorized for future issuance solely for the granting of inducement share options and equity awards to new employees. The 2017 Inducement Plan was adopted without shareholder approval in reliance on the employment inducement exemption provided under the New York Stock Exchange Listed Company Manual. As of March 30, 2018, there were an aggregate of 48,653 restricted share units outstanding and 97,306 performance share units outstanding under the 2017 Inducement Plan. As of March 30, 2018, there were 14,041 ordinary shares available for future grant under the 2017 Inducement Plan.

Share options

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

The following summarizes share option activity:

	Number of Shares	Number of Exercisable Options	Weighted-Average Exercise Price Per Share	Weighted-Average Grant Date Fair Value Per Share
Balance as of June 30, 2017	96,688	96,688	$ 15.70	
Granted				
Exercised	(62,862)		$ 15.80	
Forfeited				
Expired	(1,500)			
			$ 25.05	
Balance as of March 30, 2018	32,326	32,326	$ 15.05	

	Number of Shares	Number of Exercisable Options	Weighted-Average Exercise Price Per Share	Weighted-Average Grant Date Fair Value Per Share
Balance as of June 24, 2016	464,334	464,334	$ 15.95	
Granted				
Exercised	(367,641)		$ 16.02	
Forfeited				
Expired	(5)			
			$ 5.75	
Balance as of March 31, 2017	96,688	96,688	$ 15.70	

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The following summarizes information for share options outstanding as of March 30, 2018 under the 2010 Plan:

	Range of Exercise Price	Number of Shares Underlying Options	Weighted-Average Remaining Contractual Life (years)	Aggregate Intrinsic Value *(amount in thousands)*
	$ 14.12	21,638	0.61	
	$ 15.16	5,138	0.38	
	$ 18.60	5,550	0.92	
Options outstanding		32,326	0.63	$ 528
Options exercisable		32,326	0.63	$ 528

As of March 30, 2018, there was no unrecognized compensation cost for share options issued under the 2010 Plan.

Restricted share units and performance share units

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

Restricted share units granted to employees generally vest in equal installments over three or four years on each anniversary of the vesting commencement date. Restricted share units granted to non-employee directors generally cliff vest 100% on the first of January, approximately one year from the grant date, provided the director continues to serve through such date.

Performance share units granted to executives will vest, if at all, at the end of a