



Delegation Order

**Training Proposal for:
NeoPhotonics Corporation
Agreement Number: ET16-0427**

Approval Date: April 13, 2016

ETP Regional Office: San Francisco Bay Area **Analyst:** R. Jackson

PROJECT PROFILE

Contract Attributes:	Retrainee Priority Rate	Industry Sector(s):	Manufacturing Technology/Other Communication Priority Industry: <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Counties Served:	Alameda, Santa Clara	Repeat Contractor:	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Union(s):	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		
Number of Employees in:	CA: 245	U.S.: 245	Worldwide: 2,560
<u>Turnover Rate:</u>	9%		
<u>Managers/Supervisors:</u> (% of total trainees)	18%		

FUNDING DETAIL

Program Costs	-	(Substantial Contribution)	=	(High Earner Reduction)	=	Total ETP Funding
\$51,660		\$0		\$0		\$51,660

In-Kind Contribution:	100% of Total ETP Funding Required	\$55,000
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TRAINING PLAN TAB

Job No.	Job Description	Type of Training	Estimated No. of Trainees	Range of Hours		Average Cost per Trainee	Post-Retention Wage
				Class / Lab	CBT		
1	Retrainee Priority Rate	Business Skills, Computer Skills, Cont. Imp., Mfg. Skills, OSHA 10/30	82	8-200	0	\$630	\$17.02
				Weighted Avg: 35			

Minimum Wage by County: \$17.02 per hour for Santa Clara and Alameda counties.

Health Benefits: Yes No This is employer share of cost for healthcare premiums – medical, dental, vision.

Used to meet the Post-Retention Wage?: Yes No Maybe

Up to \$4.02 per hour of health benefits may be used to meet the Post-Retention Wage.

Wage Range by Occupation		
Occupation Titles	Wage Range	Estimated # of Trainees
Administrative Support Staff		22
Technical Staff		15
Production Staff	*	30
Supervisor		10
Manager		5

*It will be made a condition of contract that the trainees in this Job Number will never be paid less than the State or local minimum wage rate as in effect at the end of retention (Final Payment) regardless of the wage expressed in this table. The highest minimum wage rate will prevail.

INTRODUCTION

Founded in 1996 and headquartered in San Jose, NeoPhotonics Corporation (NeoPhotonics) (www.neophotonics.com) designs and manufactures photonic integrated circuit-based optoelectronic modules and subsystems for bandwidth-intensive high-speed communication networks (chips that process light or photons to connect fiber-optic networks). The facility in Santa Clara performs accounting, finance, IT, HR, PLC wafer fabrication development, and chip testing. The Company's facility in Fremont specifically performs manufacturing, engineering, new product introduction, and research and development. NeoPhotonics customers include companies like Cisco, Ciena, that provide Cloud Storage to businesses and the public and private sector. Both facilities will participate in training.

This will be NeoPhotonics second ETP Agreement, which ended September 2015. The previous project focused on supporting skill upgrades and organizational leadership related to the product line development (i.e.: SFP, XFP, CFP circuits) to function with advanced Cloud technologies and next-generation products. This ETP proposal will focus on upgrading manufacturing equipment and software to support new products related to rapid changes in

technology markets (i.e. demand for significantly larger data accessibility in smaller devices and at faster speeds).

According to NeoPhotonics, a 32% growth in internet traffic (2010-2015) is fueling competition within data/technology markets. The trend in consumer technology is moving away from supporting 40G (increasingly obsolete slower technology) to innovating and building for 100G-400G new (faster) product lines including; high-speed indium phosphide based waveguide photodetectors, ultra-narrow linewidth lasers, small form factor coherent components and customized chips.

NeoPhotonics requests ETP funding to help cross-train staff to maintain a competitive position. The training plan developed reinforces strategies to expand new product offerings, increase production output and attain cost-saving efficiency and improved workplace safety goals.

PROJECT DETAILS

NeoPhotonics recently acquired Emcore, January 2015, a pioneering laser technology company. Because of the merger, NeoPhotonics now offers ultra-narrow linewidth lasers useful to transmit more data down existing fibers. New team members (27) transitioning need substantial supplemental cross training to become familiar with the Company's broader product lines.

NeoPhotonics is introducing several new products related to the production of 100-400G technology. The new technology is faster and has larger bandwidth capabilities and includes; Micro Integrated Coherent Receiver, Dual Micro Integrable Tunable Laser Assembly, CFP2-Lr4, 4x16 Multi-cast switch, 4x4 MCS, and DFB Lasers. Since NeoPhotonics anticipates being among the first with new technology, the Company forecasts a large market share and is preparing staff accordingly.

Training topics will reinforce the Company's market position and growth strategies which includes:

- Increase product portfolio by 4%
- Increase sales by 5% as a result of new products
- Increase manufacturing capacity by 25% based on projections on new manufacturing equipment/software and new human resources
- Meet 7% efficiency improvements over the next 6-36 months for increased cost-savings and improved workplace safety
- Reduce subcontracting and improve delivery time by upgrading manufacturing skills to broaden in-house capabilities
- Software upgrade training will produce a 5% reduction of waste in prototype development phase
- Cross-train to upgrade skills to meet an estimated 20% customers base increase

Although the Company has hired an estimated 27 people since the last ETP Agreement, NeoPhotonics reports 54 trainees will receive ETP-funded training for the first time. While some types of training trainees are repeated from the previous ETP Agreement, only new training content is being provided.

Training Plan

Training will begin late March 2016. Class/lab and E-learning will be delivered at the Santa Clara and Alameda facilities and will include in-house trainers and California based vendors in the following:

Business Skills (25%): Training will be provided to Administrative Support Staff, Supervisors and Managers. Training will include customer management to improve cross-functional working teams.

Computer Skills (23%): Training will be delivered to all occupation. Administrative Support Staff and select Supervisors and Managers will receive software training in LMS (Totara) and Oracle. Technical Staff and Production Staff and some Supervisors/Managers will be trained in Microsoft SharePoint to improve how workers share documents and communicate ideas. Workers will also receive training in Skype for Business to improve communication and increase efficiencies.

Continuous Improvement (30%): Training topic Processes for new Initiatives will be delivered to Production Staff, Managers and Supervisors. Training will ensure that processes put in place maximize resources and eliminate wasteful activity. This training is projected to reduce operating costs, improve reliability, increase quality and customer satisfaction, and reduce re-work by 5%.

Manufacturing Skills (20%): Training will be delivered to Managers, Supervisors, Technical and Production Staff. Training topics will focus on development and processes to launch 100G optical communications products and 400G products to better manage customer needs and attract new customers. Staff will also receive training in new equipment, including quality inspections and testing. Technical and Production Staff will receive training to develop, produce, and expand products with high bandwidth capacity for rapid communication and reliable connectivity. Topics include equipment operations, tunable laser production and production advancements.

OSHA 10/30 (2%): This training is a series of courses “bundled” by industry sector and occupation. It consists of 10 hours of classroom or CBT training for journey-level workers and 30 hours for frontline supervisors. The coursework is geared to manufacturing. Completion of the training results in a certificate that expands employment opportunities. The coursework must be approved by Cal-OSHA, and the instructors must be certified by Cal-OSHA.

Training will be delivered to Technical and Production Staff to ensure a safe and secure work environment for employees during this period of expansion and growth. It is critical to provide a work environment that secures the workplace. OSHA training will allow us to reduce the risk to and increase the integrity of our products, which are electronic components susceptible to impurities. This training will be delivered by certified OSHA trainers, and will expand in-house OSHA capabilities by reducing the risk of workplace industry incidents, and product defect, resulting in an increase in customer satisfaction and subsequent decrease in customer product returns. By bringing OSHA in-house, systems will be implemented from the initial design phase through delivery to the customer, with safety checkpoints established along the way. NeoPhotonics anticipates a reduction in product returns by 3-5% and lower injury incident rates.

Commitment to Training

NeoPhotonics current training budget is \$60K per facility in California. Training in basic computer skills, on the job, orientations, regulatory training, CPR and seminars are provided.

NeoPhotonics estimates its investment in new manufacturing equipment and related safety training to be \$2.5M during the course of this proposed Agreement and represents that ETP funds will not displace the existing financial commitment to training. Safety training is, and will continue to be, provided in accordance with all pertinent requirements under state and federal law.

➤ Training Infrastructure

NeoPhotonics has an ETP experienced internal administrator and an experienced subcontractor for development and administration assisting with the project.

RECOMMENDATION

Staff recommends approval of this proposal.

PRIOR PROJECTS

The following table summarizes performance by NeoPhotonics under an ETP Agreement that was completed within the last five years.

Agreement No.	Location (City)	Term	Approved Amount	Payment Earned	
				\$	%
ET14-0157	Santa Clara	9/30/13 - 9/29/15	\$99,840	\$51,673	(52%)

The Company enrolled 276 and 63 received the minimum hours of training. Poor performance is due in part by increased global competition in hardware manufacturing taking place abroad at a reported 20% lower price. Consequently, the focus shifted away from training and to restructuring the Company. The internal restructuring of key leadership positions stalled training. In 2014, 35 people were laid off. Based on the swing in technology markets NeoPhotonics has diversified products and reformulated business practices to be more competitive. Recovery began in Quarter 3, 2014. While the 2016 total U.S. full-time employee figure (245) is comparable to the 2013 figure and hiring has taken place, the Company has taken steps to address some of the downturn causal factors. New manufacturing equipment reportedly reduces subcontracting and diversifies product offerings. The Company states it now has stronger internal management dynamics and recently hired highly qualified employees to help the Company remain competitive. A \$10M recent investment was secured from NeoPhotonics board to support new products and equipment at the Company's California and other global locations. A better market position achieved by mergers and strong global market demands all contribute to improving the chances for a stronger performance result on this proposed Agreement.

DEVELOPMENT SERVICES

Sallyanne Monti in San Francisco assisted with development for a flat fee of \$2,000.

ADMINISTRATIVE SERVICES

Sallyanne Monti will also perform administrative services for a fee not to exceed 13% of payment earned.

TRAINING VENDORS

Kerr Hill of San Ramon will provide Business Skills training. Other trainers will be identified for ETP record-keeping purposes, as they are retained.

Exhibit B: Menu Curriculum**Class/Lab Hours**

8 – 200

Trainees may receive any of the following:

BUSINESS SKILLS

- + Customer Management

COMPUTER SKILLS

- + Microsoft Intermediate/Advanced
- + Software Upgrades
 - o LMS (Totara)
 - o Oracle (CRM, Finance, Supply Chain Management)
 - o SharePoint Project Management
 - o Skype for Business

CONTINUOUS IMPROVEMENT

- + Continuous Improvement Processes for New Initiatives

MANUFACTURING SKILLS

- + 100G Optical Communications Products
- + Data Center Product Advancements & 400G
- + Equipment Operations
- + Tunable Laser Production
- + Production Advancements

OSHA (Certified OSHA Instructor)

- + OSHA 10 (requires completion of 10 hours)
- + OSHA 30 (requires completion of 30 hours)

*Safety Training is capped at 10% of a trainee's total training hours

E-Learning Hours

8 – 200

BUSINESS SKILLS

- + Customer Management

COMPUTER SKILLS

- + Microsoft Intermediate/Advanced
- + Software Upgrades for Growth
 - o LMS (Totara)
 - o Oracle (CRM, Finance, Supply Chain Management)
 - o SharePoint Project Management
 - o Skype for Business

CONTINUOUS IMPROVEMENT

- + Continuous Improvement Processes for New Initiatives

Note: Reimbursement for retraining is capped at 200 total training hours per trainee, regardless of the method of delivery.