

DIODES INC /DEL/  
Form 10-Q  
November 06, 2009

**Table of Contents**

**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 September 30, 2009**

**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: 002-25577**

**DIODES INCORPORATED**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**95-2039518**

(I.R.S. Employer Identification Number)

**15660 North Dallas Parkway, Suite 850**

**Dallas, Texas**

(Address of principal executive offices)

**75248**

(Zip code)

**(972) 385-2810**

(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 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, 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:

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

The number of shares of the registrant's Common Stock outstanding as of November 2, 2009 was 43,627,061.

**Table of Contents**

	Page
<b><u>Part I Financial Information</u></b>	1
<u>Item 1 Financial Statements</u>	1
<u>Consolidated Condensed Balance Sheets as of December 31, 2008 and September 30, 2009</u>	1
<u>Consolidated Condensed Statements of Operations for the Three and Nine Months Ended September 30, 2008 and 2009</u>	3
<u>Consolidated Condensed Statements of Cash Flows for the Nine Months Ended September 30, 2008 and 2009</u>	4
<u>Notes to Consolidated Condensed Financial Statements</u>	5
<u>Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	22
<u>Item 3 Quantitative and Qualitative Disclosures About Market Risk</u>	36
<u>Item 4 Controls and Procedures</u>	36
<b><u>Part II Other Information</u></b>	37
<u>Item 1 Legal Proceedings</u>	37
<u>Item 1A Risk Factors</u>	37
<u>Item 2 Unregistered Sales of Equity Securities and Use of Proceeds</u>	37
<u>Item 3 Defaults Upon Senior Securities</u>	37
<u>Item 4 Submission of Matters to a Vote of Security Holders</u>	37
<u>Item 5 Other Information</u>	37
<u>Item 6 Exhibits</u>	38
<b><u>Signature</u></b>	39
<u>EX-10.1</u>	
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	
<u>EX-32.2</u>	

Table of Contents

**PART I FINANCIAL INFORMATION**  
**Item 1 Financial Statements**  
**DIODES INCORPORATED AND SUBSIDIARIES**  
**CONSOLIDATED CONDENSED BALANCE SHEETS**  
*(Unaudited)*  
*(In thousands)*  
**ASSETS**

	December 31, 2008 <i>(As Adjusted)</i>	September 30, 2009
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 103,496	\$ 126,072
Short-term investment securities		311,900
Accounts receivable, net	74,574	101,695
Inventories	99,118	82,880
Deferred income taxes, current	3,994	8,542
Prepaid expenses and other	15,578	11,783
<b>Total current assets</b>	<b>296,760</b>	<b>642,872</b>
<b>LONG-TERM INVESTMENT SECURITIES</b>	<b>320,625</b>	
<b>PROPERTY, PLANT AND EQUIPMENT, net</b>	<b>174,667</b>	<b>163,521</b>
<b>OTHER ASSETS</b>		
Goodwill	56,791	67,616
Intangible assets, net	35,928	35,751
Other	5,907	4,854
<b>Total assets</b>	<b>\$ 890,678</b>	<b>\$ 914,614</b>

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

**Table of Contents**

**DIODES INCORPORATED AND SUBSIDIARIES**  
**CONSOLIDATED CONDENSED BALANCE SHEETS** (cont )  
**LIABILITIES AND EQUITY**  
*(Unaudited)*  
*(In thousands, except share data)*

	December 31, 2008 <i>(As Adjusted)</i>	September 30, 2009
<b>CURRENT LIABILITIES</b>		
Lines of credit and short-term debt	\$ 6,098	\$ 207,149
Accounts payable	47,561	57,339
Accrued liabilities	31,195	32,241
Income tax payable	358	3,484
Current portion of long-term debt	1,339	372
Current portion of capital lease obligations	377	313
<b>Total current liabilities</b>	<b>86,928</b>	<b>300,898</b>
<b>LONG-TERM DEBT, net of current portion</b>		
Convertible senior notes	155,451	123,098
Long-term borrowings	217,146	3,540
<b>CAPITAL LEASE OBLIGATIONS, net of current portion</b>	<b>1,854</b>	<b>1,726</b>
<b>DEFERRED INCOME TAXES, non-current</b>	<b>7,986</b>	<b>18,189</b>
<b>OTHER LONG-TERM LIABILITIES</b>	<b>22,935</b>	<b>36,820</b>
<b>Total liabilities</b>	<b>492,300</b>	<b>484,271</b>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>EQUITY</b>		
<b>Diodes Incorporated stockholders equity</b>		
Preferred stock par value \$1.00 per share; 1,000,000 shares authorized; no shares issued or outstanding		
Common stock par value \$0.66 2/3 per share; 70,000,000 shares authorized; 41,378,816 and 43,508,314 issued and outstanding at December 31, 2008 and September 30, 2009, respectively	27,586	29,006
Additional paid-in capital	167,964	205,549
Retained earnings	241,814	235,114
Accumulated other comprehensive loss	(48,439)	(48,788)
<b>Total Diodes Incorporated stockholders equity</b>	<b>388,925</b>	<b>420,881</b>
<b>Noncontrolling interest</b>	<b>9,453</b>	<b>9,462</b>
<b>Total equity</b>	<b>398,378</b>	<b>430,343</b>

<b>Total liabilities and equity</b>	\$ 890,678	\$ <b>914,614</b>
-------------------------------------	------------	-------------------

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

- 2 -

---

Table of Contents

**DIODES INCORPORATED AND SUBSIDIARIES**  
**CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS** *(Unaudited)*  
*(In thousands, except per share data)*

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	2008	2009	2008	2009
	<i>(As</i>		<i>(As</i>	
	<i>Adjusted)</i>		<i>Adjusted)</i>	
<b>NET SALES</b>	\$ 134,047	<b>\$ 122,122</b>	\$ 345,645	<b>\$ 304,070</b>
<b>COST OF GOODS SOLD</b>	95,929	<b>84,547</b>	235,993	<b>224,632</b>
Gross profit	38,118	<b>37,575</b>	109,652	<b>79,438</b>
<b>OPERATING EXPENSES</b>				
Selling, general and administrative	20,841	<b>19,079</b>	52,435	<b>50,375</b>
Research and development	7,212	<b>6,284</b>	15,618	<b>16,944</b>
Amortization of acquisition related intangible assets	1,804	<b>1,271</b>	2,275	<b>3,480</b>
Purchased in-process research and development	7,865		7,865	
Restructuring		<b>(291)</b>		<b>(440)</b>
Total operating expenses	37,722	<b>26,343</b>	78,193	<b>70,359</b>
Income from operations	396	<b>11,232</b>	31,459	<b>9,079</b>
<b>OTHER INCOME (EXPENSES)</b>				
Interest income	1,824	<b>805</b>	9,826	<b>3,907</b>
Interest expense	(3,213)	<b>(1,784)</b>	(7,041)	<b>(5,709)</b>
Amortization of debt discount	(2,748)	<b>(1,981)</b>	(8,073)	<b>(6,471)</b>
Other	(897)	<b>(1,062)</b>	(2,393)	<b>(1,074)</b>
Total other expenses	(5,034)	<b>(4,022)</b>	(7,681)	<b>(9,347)</b>
Income (loss) before income taxes and noncontrolling interest	(4,638)	<b>7,210</b>	23,778	<b>(268)</b>
<b>INCOME TAX PROVISION (BENEFIT)</b>	(722)	<b>(629)</b>	2,258	<b>4,924</b>
<b>NET INCOME (LOSS)</b>	(3,916)	<b>7,839</b>	21,520	<b>(5,192)</b>
Less: NET INCOME attributable to noncontrolling interest	(659)	<b>(819)</b>	(1,938)	<b>(1,507)</b>
<b>NET INCOME (LOSS) attributable to common stockholders</b>	\$ (4,575)	<b>\$ 7,020</b>	\$ 19,582	<b>\$ (6,699)</b>

**EARNINGS (LOSS) PER SHARE attributable to  
common stockholders**

Basic	\$ (0.11)	\$ <b>0.17</b>	\$ 0.48	\$ <b>(0.16)</b>
Diluted	\$ (0.11)	\$ <b>0.16</b>	\$ 0.46	\$ <b>(0.16)</b>
Number of shares used in computation				
Basic	40,889	<b>42,533</b>	40,585	<b>41,761</b>
Diluted	40,889	<b>44,013</b>	42,746	<b>41,761</b>

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

- 3 -

---



**Table of Contents**

**DIODES INCORPORATED AND SUBSIDIARIES**  
**CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS** *(Unaudited)*  
*(In thousands)*

	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
	2008	2009
	<i>(As</i>	
	<i>Adjusted)</i>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 21,520	\$ (5,192)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	27,298	31,599
Amortization of intangibles	2,370	3,480
Amortization of convertible bond issuance costs	700	505
Purchased in-process research and development	7,865	
Amortization of discount on convertible bond	8,073	6,471
Share-based compensation	7,697	7,551
Loss (gain) on disposal of property, plant and equipment	(41)	67
Gain on extinguishment of debt		(1,193)
Investment gain recognized under equity method		22
Changes in operating assets:		
Accounts receivable	(8,301)	(25,655)
Inventories	(12,184)	19,455
Prepaid expenses and other current assets	(383)	3,082
Deferred income taxes	(2,000)	(1,338)
Changes in operating liabilities:		
Accounts payable	(9,294)	7,724
Accrued liabilities	(4,189)	(2,913)
Other liabilities	(1,147)	(3,524)
Deferred tax liabilities	(3,149)	1,439
Income taxes payable	1,799	2,416
Net cash provided by operating activities	\$ 36,634	\$ 43,996
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisitions, net of cash acquired	\$ (153,158)	\$ (30)
Purchases of securities	(4,435)	
Proceeds from sale of securities	7,282	8,725
Purchases of property, plant and equipment	(41,196)	(12,948)
Proceeds from sale of property, plant and equipment	56	120
Decrease of other assets		476
Net cash used in investing activities	\$ (191,451)	\$ (3,657)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		

Advances on line of credit	\$ 44,596	\$ 15,680
Repayments on line of credit	(26,262)	(27,305)
Net proceeds from issuance of common stock	2,802	793
Proceeds from long-term debt	165,000	
Dividend distribution to noncontrolling interest		(1,500)
Repayments of long-term debt	(1,135)	(8,503)
Repayments of capital lease obligations	(265)	(287)
Net cash provided by (used in) financing activities	\$ 184,736	\$ (21,122)

**EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS**

(3,419) 3,359

**INCREASE IN CASH AND CASH EQUIVALENTS**

26,500 22,576

**CASH AND CASH EQUIVALENTS, beginning of period**

56,179 103,496

**CASH AND CASH EQUIVALENTS, end of period**

\$ 82,679 \$ 126,072

**SUPPLEMENTAL CASH FLOW INFORMATION:**

Non-cash financing activities:

Property, plant and equipment purchased on accounts payable	\$ 2,459	\$ (2,875)
Fair value of common stock issued for repayment of long-term debt	\$	\$ (31,437)

- 4 -

**Table of Contents**

**DIODES INCORPORATED AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**  
*(Unaudited)*

**NOTE A Nature of Operations, Basis of Presentation and Recently Issued Accounting Pronouncements**

**Nature of Operations**

Diodes Incorporated and its subsidiaries (collectively, the Company) is a leading global designer, manufacturer and supplier of high-quality, application specific standard products within the broad discrete and analog semiconductor markets, serving the consumer electronics, computing, communications, industrial and automotive markets. These products include diodes, rectifiers, transistors, MOSFETs, protection devices, functional specific arrays, amplifiers and comparators, Hall effect sensors and temperature sensors, power management devices (including LED drivers), DC-DC switching and linear voltage regulators, voltage references, special function devices (including USB power switch, load switch, voltage supervisor and motor controllers) and silicon wafers used to manufacture these products. These products are sold primarily throughout North America, Asia and Europe.

**Basis of Presentation**

The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States ( U.S. ) ( GAAP ) for interim financial information and with the instructions to Form 10-Q. They do not include all information and footnotes necessary for a fair presentation of financial position, results of operations and cash flows in conformity with U.S. GAAP for complete financial statements. These consolidated condensed financial statements should be read in conjunction with the consolidated financial statements and related notes contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2008. All significant intercompany balances and transactions have been eliminated in consolidation. In the opinion of management, all adjustments (consisting of normal recurring adjustments and accruals) considered necessary for a fair presentation of the results of operations for the period presented have been included in the interim period. Operating results for the three and nine months ended September 30, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. The consolidated condensed financial data at December 31, 2008 is derived from audited financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008 and subsequently adjusted for a change in accounting principle on January 1, 2009. See Note B for additional information regarding the change in accounting principle. Subsequent events were evaluated through November 6, 2009, the date these consolidated condensed financial statements were issued.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. As permitted under U.S. GAAP, interim accounting for certain expenses are based on full year forecasts. Such amounts are expensed in full in the year incurred.

Certain prior year's balances have been reclassified to conform to the current financial statement presentation.

**Recently Issued Accounting Pronouncements**

In December 2008, the Financial Accounting Standards Board ( FASB ) issued FASB Staff Position ( FSP ) FAS 132R-1 (FASB Accounting Standards Codification ( ASC ) 715-20-65), *Employers' Disclosures about Postretirement Benefit Plan Assets*. This pronouncement provides additional guidance regarding disclosures about plan assets of defined benefit pensions or other postretirement plans. FSP FAS 132R-1 is effective for financial statements issued for fiscal years beginning after December 15, 2009. The Company is currently evaluating the future impacts and required disclosures of this pronouncement.

In April 2009, the FASB issued FSP FAS 141(R)-1 (FASB ASC 805-20-25, 30, 35, 50), *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination that Arise from Contingencies*. This pronouncement amends SFAS No. 141 (revised 2007), *Business Combinations*, to require that assets acquired and liabilities assumed in a business combination that arise from contingencies be recognized at fair value, in accordance with SFAS No. 157 (FASB ASC 820-10-35), *Fair Value Measurements*, if the fair value can be determined during the measurement period. FSP FAS 141(R)-1 is effective for business combinations occurring after December 31, 2008. The Company is currently evaluating the future impacts and required disclosures of this pronouncement.

In June 2009, the FASB issued SFAS No. 166 (not yet reflected in FASB ASC), *Accounting for Transfers of Financial Assets, an amendment to SFAS No. 140*. This pronouncement eliminates the concept of a qualifying special-purpose entity, changes the requirements for derecognizing financial assets, and requires additional disclosures in order to enhance information reported to users of financial statements by providing greater transparency about transfers of financial assets, including securitization transactions, and an entity's continuing involvement in and exposure to the risks related to transferred financial assets. SFAS No. 166 is effective

- 5 -

---

**Table of Contents**

for fiscal years beginning after November 15, 2009. The Company is currently evaluating the future impacts and required disclosures of this pronouncement.

On September 30, 2009, the Company adopted changes issued by the FASB to the authoritative hierarchy of GAAP. These changes establish the FASB ASC as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The FASB will no longer issue new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts; instead the FASB will issue Accounting Standards Updates. Accounting Standards Updates will not be authoritative in their own right as they will only serve to update the Codification. These changes and the Codification itself do not change GAAP. Other than the manner in which new accounting guidance is referenced, the adoption of these changes had no impact on the consolidated financial statements.

**NOTE B Change in Accounting Principle**

On January 1, 2009 the Company changed how it accounted for its 2.25% Convertible Senior Notes due 2026 ( Notes ) in accordance with FASB ASC 470-20 (prior authoritative literature FSP APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)*). As a result, the Company adjusted its December 31, 2008 consolidated condensed balance sheet, consolidated condensed statement of operations for the three and nine months ended September 30, 2008 and consolidated condensed statement of cash flows for the nine months ended September 30, 2008 to reflect the retrospective application required by the change in accounting principle. FASB ASC 470-20 specifies that issuers of instruments, such as convertible debt instruments, should separately account for liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate. All adjustments were made retrospectively as of the date of issuance of the Company's Notes and therefore, the financial statements are presented as if the Notes have always been accounted for in this manner. The material retrospective adjustments to the Company's December 31, 2008 consolidated condensed balance sheet were to adjust: long-term debt from \$183.5 million to \$155.5 million; additional paid-in capital of approximately \$34.3 million to reflect the initial recognition of the equity component, deferred taxes and debt issuance costs; deferred taxes associated with the convertible debt instrument; and retained earnings to reflect the additional non-cash, pre-tax interest expense retrospectively recorded for 2006, 2007 and 2008 by approximately \$1.7 million, \$10.0 million and \$10.7 million, respectively, and to reflect the \$15.7 million pre-tax reduction to the gain on extinguishment of debt for the repurchase of \$46.5 million par value Notes in December 2008. The material retrospective adjustments to the Company's consolidated condensed statement of operations for the three and nine months ended September 30, 2008 were to recognize the additional non-cash interest expense of approximately \$2.7 million and \$8.1 million, respectively, and the related tax effects to the tax provision. The retrospective adjustments to the Company's consolidated condensed statement of cash flows for the nine months ended September 30, 2008 were to adjust separate line items within cash flows from operating activities, which did not affect the original net reported amounts for operating activities, investing activities or financing activities. See Note N for additional information.

In addition, on January 1, 2009, the Company changed how it classifies its noncontrolling interests ( NCIs ) on its consolidated financial statements in accordance with FASB ASC 810-10-65 (prior authoritative literature SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51*). As a result, the Company adjusted its December 31, 2008 consolidated condensed balance sheet to reflect the retrospective application required with the change in accounting principle. FASB ASC 810-10-65 indicates, among other things, that: NCIs (previously referred to as minority interests) be treated as a separate component of equity, not as a liability; increases and decreases in the parent's ownership interest, that leaves control intact, be treated as equity transactions, rather than as step acquisitions or dilution gains or losses; and losses of a partially owned consolidated subsidiary be allocated to the NCIs even when such allocation might result in a deficit balance. FASB ASC 810-10-65 also requires changes to certain presentation and disclosure requirements. The provisions are to be applied to all NCIs prospectively, except for the presentation and disclosure requirements, which are to be applied retrospectively to all periods presented. Therefore, NCIs of \$9.5 million as of December 31, 2008 were reclassified to equity, a change

from its previous classification between liabilities and stockholders' equity.

- 6 -

---

**Table of Contents**

The adjustments made to the December 31, 2008 consolidated condensed balance sheet are as follows (*in thousands*):

	<b>December 31, 2008</b>				
	<b>As Reported</b>	<b>ASC 470-20 Adjustments</b>	<b>ASC 810-10-65 Adjustment</b>	<b>Reclass Adjustment</b>	<b>Adjusted</b>
<b>ASSETS</b>					
Deferred income taxes, non-current	\$ 2,745	\$ 281	\$	\$ (3,026)	\$
Other assets	6,627	(720)			<b>5,907</b>
<b>LIABILITIES AND EQUITY</b>					
2.25% Convertible Senior Notes due 2026	183,500	(28,049)			<b>155,451</b>
Deferred income taxes, non-current		13,779		(5,793)	<b>7,986</b>
Noncontrolling interest (previously referred to as minority interests)	9,453		(9,453)		
Additional paid-in capital	133,701	34,263			<b>167,964</b>
Retained earnings	259,479	(17,665)			<b>241,814</b>
Noncontrolling interest			9,453		<b>9,453</b>

The adjustments made to the three and nine months ended September 30, 2008 consolidated condensed statement of operations are as follows (*in thousands, except per share data*):

	<b>Three Months Ended September 30, 2008</b>			<b>Nine Months Ended September 30, 2008</b>		
	<b>As Reported</b>	<b>ASC 470-20 Adjustments</b>	<b>Adjusted</b>	<b>As Reported</b>	<b>ASC 470-20 Adjustments</b>	<b>Adjusted</b>
Interest expense	\$ (3,291)	\$ 78	\$ (3,213)	\$ (7,274)	\$ 233	\$ (7,041)
Amortization of debt discount		(2,748)	(2,748)		(8,073)	(8,073)
Income tax provision (benefit)	(319)	(403)	(722)	(5,315)	7,573	<b>2,258</b>
Net income (loss) attributable to common stockholders	(2,946)	(1,629)	(4,575)	24,364	(4,782)	<b>19,582</b>
Earnings (loss) per share attributable to common stockholders						
Basic	\$ (0.07)	\$ (0.04)	\$ (0.11)	\$ 0.60	\$ (0.12)	\$ <b>0.48</b>
Diluted	\$ (0.07)	\$ (0.04)	\$ (0.11)	\$ 0.57	\$ (0.11)	\$ <b>0.46</b>
Number of shares used in computation						
Basic	40,889		<b>40,889</b>	40,585		<b>40,585</b>

Diluted	40,889	<b>40,889</b>	42,746	<b>42,746</b>
---------	--------	---------------	--------	---------------

**NOTE C Functional Currencies, Foreign Currency Translation and Comprehensive Income (Loss)**

**Functional Currencies and Foreign Currency Translation** The functional currency for most of our international operations is the U.S. dollar, while some subsidiaries use their local currency as their functional currency. Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are recorded as other income (expense) in the consolidated condensed statements of operations. The Company had foreign exchange transaction losses of approximately \$1.0 million and \$1.4 million for the three months ended September 30, 2008 and 2009, respectively, and approximately \$2.7 million and \$4.8 million for the nine months ended September 30, 2008 and 2009, respectively.

**Comprehensive Income (Loss)** U.S. GAAP generally requires that recognized revenues, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities are reported as separate components of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income or loss. As of September 30, 2009, the components of other comprehensive income or loss include foreign currency translation adjustments, unrealized gain or loss on defined benefit plan and foreign currency gain (loss) on forward contracts. Accumulated other comprehensive loss was \$48.8 million at September 30, 2009.

- 7 -



**Table of Contents**

Total comprehensive income (loss) for the three and nine months ended September 30, 2008 and 2009 is as follows  
(in thousands):

**Total Comprehensive Income (Loss)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2009	2008	2009
Net income (loss)	\$ (3,916)	\$ 7,839	\$ 21,520	\$ (5,192)
Translation adjustment	(18,110)	(1,391)	(13,429)	12,109
Unrealized loss on securities	(6,213)		(22,737)	
Unrealized income (loss) on defined benefit plan, net of tax	10,970	10,246	2,430	(16,041)
Foreign currency adjustments on forward contracts, net of tax	(2,042)	441	(1,617)	3,672
Comprehensive income (loss)	(19,311)	17,135	(13,833)	(5,452)
Comprehensive income attributable to noncontrolling interest	659	819	1,938	1,507
Total comprehensive income (loss) attributable to common stockholders	\$ (19,970)	\$ 16,316	\$ (15,771)	\$ (6,959)

**NOTE D Hedging**

As of September 30, 2009, the Company had forward contracts, primarily relating to its United Kingdom ( U.K. ) operations, of approximately \$1.7 million that mature monthly over the next three months. For the nine months ended September 30, 2009, the Company had deferred net unrealized gains on outstanding forward exchange contracts recorded within other comprehensive loss ( OCI ) of \$0.8 million (net of tax). For the nine months ended September 30, 2009, the Company had no material ineffective hedges because forward foreign currency contract amounts were less than the specifically identified anticipated transactions.

The following details the location and amount of derivative instrument fair values in the consolidated condensed balance sheets as of September 30, 2009 (in thousands):

	Asset Derivatives		Liability Derivatives	
	Balance sheet	Fair value	Balance sheet	Fair value
	location		location	
Derivatives designated as hedging instruments under FASB ASC 815-10:				
Foreign exchange contracts	Other assets	\$	Other liabilities	\$ 285



**Table of Contents**

The following details the location and amount of gains and losses on derivative instruments in the consolidated condensed statement of operations for the nine months ended September 30, 2009 (*in thousands*):

	Amount of Gain (Loss) Recognized	Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Location of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Derivatives in FASB					
ASC 815-10 Cash					
Flow Hedging					
Relationships					
Foreign exchange contracts	\$ 582	Other income (expense)	\$ (3,523)	Other income (expense)	\$

**NOTE E Earnings (Loss) Per Share**

Basic net earnings (loss) per share is calculated by dividing net earnings by the weighted-average number of shares of common stock outstanding during the period. Diluted net earnings per share is calculated similarly but includes potential dilution from the exercise of stock options and stock awards, except when the effect would be anti-dilutive.

The shares used in the computation of basic and diluted earnings (loss) per common share are as follows (*in thousands, except per share data*):

	Three Months Ended September 30, 2008		September 30, 2009		Nine Months Ended September 30, 2008		September 30, 2009	
<b>BASIC</b>								
Weighted average number of common shares outstanding used in computing basic earnings (loss) per share		40,889		42,533		40,585		41,761
Net income (loss) attributable to common stockholders		\$ (4,575)		\$ 7,020		\$ 19,582		\$ (6,699)
Earnings (loss) per share attributable to common stockholders		\$ (0.11)		\$ 0.17		\$ 0.48		\$ (0.16)
<b>DILUTED</b>								
Weighted average number of common shares outstanding used in computing basic earnings (loss) per share		40,889		42,533		40,585		41,761

Edgar Filing: DIODES INC /DEL/ - Form 10-Q

Add: Assumed exercise of stock options and stock awards		<b>1,480</b>	2,161	
	40,889	<b>44,013</b>	42,746	<b>41,761</b>
Net income (loss) attributable to common stockholders	\$ (4,575)	<b>\$ 7,020</b>	\$ 19,582	<b>\$ (6,699)</b>
Earnings (loss) per share attributable to common stockholders	\$ (0.11)	<b>\$ 0.16</b>	\$ 0.46	<b>\$ (0.16)</b>

There are no shares in the earnings per share calculation related to the Notes outstanding as our average stock price did not exceed the conversion price of \$39.00 and, therefore, there is no conversion spread. For the three months ended September 30, 2008 and the nine months ended September 30, 2009, the Company has excluded the assumed exercise of stock options and stock awards from the calculation of diluted loss per share as these securities are anti-dilutive.

- 9 -

---

**Table of Contents****NOTE F Fair Value Measurements**

Financial assets and liabilities carried at fair value as of September 30, 2009 are classified in the following table (*in thousands*):

<b>Description</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Short-term - trading securities	\$	\$	\$ 286,511	\$ 286,511
Short-term - put option			25,389	25,389
<b>Total</b>	\$	\$	\$ 311,900	\$ 311,900

There has been no change in the balances for assets and liabilities measured at fair value on a recurring basis, using significant unobservable inputs (Level 3) during the nine months ended September 30, 2009.

Certain financial assets and financial liabilities are measured at fair value on a non-recurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Financial assets and financial liabilities measured at fair value on a non-recurring basis were not significant at September 30, 2009.

**NOTE G Short-Term Investments**

As of September 30, 2009, the Company had \$311.9 million invested in auction rate securities ( ARS ), classified as trading securities. In connection with the settlement with UBS AG, the Company was given the option to put the ARS portfolio back to UBS AG at any time between June 30, 2010 and July 2, 2012 at par value. Upon settlement, the Company elected the fair value option for the put option and recorded an asset and a gain for the fair value of the put option. The Company classified the put option as a short-term investment as it is a free standing instrument tied to the ARS portfolio, which are also classified as short-term investments.

Short-term investments are as follows (*in thousands*):

<b>As of September 30, 2009</b>	<b>Cost Basis</b>	<b>Cumulative Realized Gains</b>	<b>Cumulative Realized Losses</b>	<b>Fair Value</b>
<b>Short-term investments</b>				
Short-term - trading securities	\$ 311,900	\$	\$ (25,389)	\$ <b>286,511</b>
Short-term - put option		25,389		<b>25,389</b>
<b>Total short-term investments</b>	\$ 311,900	\$ 25,389	\$ (25,389)	\$ <b>311,900</b>

The Company's ARS are primarily backed by student loan association bonds. None of the Company's investments are collateralized mortgage obligations or are any other type of mortgage-backed or real estate-backed securities. The Company continues to earn interest on its ARS at a weighted average rate of 0.7% as of September 30, 2009, which it is currently collecting. The weighted average maximum contractual default rate is 17.3%.

As of September 30, 2009, approximately 94.2% or \$293.9 million of the \$311.9 million par value ARS are collateralized by higher education funded student loans that are supported by the federal government as part of the Federal Family Education Loan Program ( FFELP ) as shown in the table below. The following table shows a natural grouping of the FFELP guaranteed securities, as well as the percentage of the ARS portfolio guaranteed by FFELP (*in thousands*).

<b>% of FFELP guaranty</b>	<b>Par Value</b>	<b>% of Total</b>
Greater than 99.0%	\$ 192,950	61.9%

Between 81.2% and 82.1%	85,000	27.2%
50.50%	12,150	3.9%
10.00%	3,800	1.2%
Non-FFELP guaranteed	18,000	5.8%
<b>Total</b>	<b>\$ 311,900</b>	<b>100.0%</b>

As of September 30, 2009, the Company's portfolio of ARS was valued using a valuation model that relies exclusively on Level 3 inputs. The discount on the total ARS portfolio was 8.1% of par value, or a \$25.4 million loss.

- 10 -

---

**Table of Contents****NOTE H Inventories**

Inventories stated at the lower of cost or market value are as follows (*in thousands*):

	December 31, 2008	September 30, 2009
Raw materials	\$ 28,690	\$ 29,411
Work-in-progress	23,436	22,119
Finished goods	46,992	31,350
Total	\$ 99,118	\$ 82,880

**NOTE I Goodwill and Other Intangible Assets**

Changes in goodwill are as follows (*in thousands*):

Balance at December 31, 2008	\$ 56,791
Acquisitions and purchase price adjustments	9,587
Currency exchange and other	1,238
<b>Balance at September 30, 2009</b>	<b>\$ 67,616</b>

Intangible assets are as follows (*in thousands*):

Balance at September 30, 2009:	
Intangible assets subject to amortization:	
Gross carrying amount	\$ 48,616
Accumulated amortization	(8,796)
Currency exchange and other	(6,628)
Net value	33,192
Intangible assets with indefinite lives:	
Gross carrying amount	3,162
Currency exchange and other	(603)
Total	2,559
<b>Total intangible assets, net</b>	<b>\$ 35,751</b>

Amortization expense related to intangible assets subject to amortization was \$1.9 million and \$1.3 million for the three months ended September 30, 2008 and 2009, respectively, and \$2.7 million and \$3.5 million for the nine months ended September 30, 2008 and 2009, respectively.

**NOTE J Income Tax Provision**

Income tax expense (benefit) of \$(0.6) million and \$4.9 million was recorded for the three and nine months ended September 30, 2009, respectively. This resulted in an effective tax rate of (1837.7%) for the nine months ended September 30, 2009, as compared to 9.5% in the same period of last year and compared to (7.6)% for the full year of 2008. The Company's effective tax rate for the nine months ended September 30, 2009 was impacted by the non-cash income tax expense associated with repatriating earnings of foreign subsidiaries to the U.S. parent. In addition, amounts for the three and nine months ended September 30, 2008 and full year 2008 have been retrospectively

adjusted for the change in accounting principle as described in Note B.

Generally, income taxes are recorded based upon estimated annual effective income tax rates. Other methods may be used in situations where small changes in the company's estimated annual income could produce large changes in the estimated effective income tax rates used for interim financial reporting. Under these circumstances, the Company has elected to use its actual year-to-date effective income tax rate for the nine months ended September 30, 2009.

For the nine months ended September 30, 2009, the Company reported domestic and foreign pre-tax income (loss) of approximately \$(35.7) million and \$35.4 million, respectively. For the nine month ended September 30, 2008, the Company reported domestic and foreign pre-tax income (loss) of approximately \$(25.3) million and \$48.5 million, respectively.

- 11 -

---



**Table of Contents**

The impact of tax holidays decreased the Company's tax expense by approximately \$5.7 million and \$5.2 million for the nine months ended September 30, 2008 and 2009, respectively. The benefit of the tax holidays on basic and diluted earnings per share for the nine months ended September 30, 2008 was \$0.14 and \$0.13, respectively. The benefit of the tax holidays on both basic and diluted earnings per share for the nine months ended September 30, 2009 was \$0.12.

Funds repatriated from foreign subsidiaries to the U.S. may be subject to federal and state income taxes. In the first quarter of 2009, the Company repatriated approximately \$28.5 million of accumulated earnings from one of its Chinese subsidiaries, resulting in additional non-cash federal and state income tax expense of approximately \$10.6 million. The Company intends to permanently reinvest overseas all of its earnings from its foreign subsidiaries.

In addition, the Company determined that it was more likely than not that a portion of its federal foreign tax credit carryforwards would expire before they could be utilized. Accordingly, the Company has recorded valuation allowances of \$5.6 million and \$9.0 million as of December 31, 2008 and September 30, 2009.

The Company files income tax returns in the U.S. jurisdiction and various state and foreign jurisdictions. The Company is no longer subject to U.S. income tax examinations by tax authorities for tax years before 2006. Although the outcome of tax audits is always uncertain, the Company believes that adequate amounts of tax, interest and penalties, if any, have been provided for in the Company's FASB ASC 740-10 (prior authoritative literature FIN No. 48, *Accounting for Uncertainty in Income Taxes*) reserve for any adjustments that may result from future tax audits. The Company recognizes accrued interest and penalties, if any, related to unrecognized tax benefits in income tax expense. As of September 30, 2009, the gross amount of unrecognized tax benefits was approximately \$4.5 million.

It is reasonably possible that the amount of the unrecognized benefit with respect to certain of the Company's unrecognized tax positions will significantly increase or decrease within the next 12 months. These changes may be the result of settlement of ongoing audits or competent authority proceedings. At this time, an estimate of the range of the reasonably possible outcomes cannot be determined.

**NOTE K Share-Based Compensation**

The following table shows the total compensation cost charged against income for share-based compensation plans, including stock options and share grants, recognized in the statements of operations (*in thousands*):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2008	2009	2008	2009
Cost of sales	\$ 99	\$ 99	\$ 353	\$ 279
Selling and administrative expense	2,198	2,409	6,611	6,391
Research and development expense	267	359	733	881
<b>Total share-based compensation expense</b>	<b>\$ 2,564</b>	<b>\$ 2,867</b>	<b>\$ 7,697</b>	<b>\$ 7,551</b>

**Stock Options.** Stock options generally vest in equal annual installments over a four-year period and expire ten years after the grant date and expense was estimated on the date of grant using the Black-Scholes option pricing model.

The total intrinsic value (actual gain) of stock options exercised during the nine months ended September 30, 2009 was approximately \$1.2 million. The total net cash proceeds received from stock option exercises during the nine months ended September 30, 2009 was \$0.8 million. Stock option expense for the three months ended September 30, 2008 and 2009 was \$0.8 million and \$1.0 million, respectively. Stock option expense for the nine months ended September 30, 2008 and 2009 was \$3.3 million and \$2.6 million, respectively.

**Table of Contents**

A summary of the stock option plans is as follows:

Stock Options	Shares (000)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (yrs)	Aggregate Intrinsic Value (\$000)
Outstanding at January 1, 2009	3,895	\$ 11.61	5.3	\$ 2,327
Granted	489	15.14		
Exercised	(118)	7.16		1,167
Forfeited or expired	(80)	15.61		
Outstanding at September 30, 2009	<b>4,186</b>	<b>\$ 12.07</b>	<b>5.2</b>	<b>\$ 30,444</b>
Exercisable at September 30, 2009	<b>3,366</b>	<b>\$ 10.16</b>	<b>4.3</b>	<b>\$ 29,092</b>

The aggregate intrinsic value in the table above is before applicable income taxes and represents the amount optionees would have received if all options had been exercised on the last business day of the period indicated, based on the Company's closing stock price.

As of September 30, 2009, total unrecognized stock-based compensation expense related to unvested stock options, net of forfeitures, was approximately \$9.0 million, before income taxes, and is expected to be recognized over a weighted average period of approximately 2.9 years.

**Share Grants.** Restricted stock awards and restricted stock units generally vest in equal annual installments over a four-year period.

The total fair value of restricted stock awards vested during the nine months ended September 30, 2009 was approximately \$7.4 million. Share grant expense for the three months ended September 30, 2008 and 2009 was \$1.7 million and \$1.8 million, respectively. Share grant expense for the nine months ended September 30, 2008 and 2009 was \$4.4 million and \$5.0 million, respectively.

A summary of the status of the Company's non-vested share grants is as follows:

Share Grants	Shares (000)	Weighted- Average Grant-Date Fair Value	Aggregate Intrinsic Value (\$000)
Nonvested at January 1, 2009	846	\$ 21.41	\$ 5,125
Granted	352	15.80	
Vested	(430)	17.31	7,446
Forfeited	(56)	23.31	
Nonvested at September 30, 2009	<b>712</b>	<b>\$ 20.96</b>	<b>\$ 14,910</b>

As of September 30, 2009, total unrecognized share-based compensation expense related to non-vested stock awards, net of forfeitures, was approximately \$14.4 million, before income taxes and is expected to be recognized over a weighted average period of approximately 2.8 years.

On September 22, 2009, the Company entered into an employment agreement (the "Agreement") with Dr. Keh-Shew Lu, President and Chief Executive Officer of the Company (the "Employee"), pursuant to which he will continue to be employed by the Company in such positions for an additional six-year term. As part of the Agreement, the Company and the Employee entered into a Stock Award Agreement that provides that: (i) the Company will grant to the Employee 100,000 shares of Common Stock on each of April 14, 2010, 2011, 2012, 2013, 2014 and 2015; (ii) each such installment would vest only if the Company achieved a specified amount of net sales; (iii) upon the termination

of the Employee's employment, the Company's obligation to grant any subsequent  
- 13 -

---

**Table of Contents**

installment would terminate; and (iv) any granted shares would be automatically forfeited and returned to the Company if the Employee's employment with the Company is terminated before the Company achieves the specified amount of net sales, except in the case of death or Disability (as defined) in which case the granted shares would become fully vested on the date of death or Disability. The estimated fair value of this grant is approximately \$12 million and will be expensed on a straight line basis throughout April 14, 2015.

**NOTE L Segment Information and Enterprise-Wide Disclosure**

For financial reporting purposes, the Company operates in a single segment, standard semiconductor products, through the Company's various manufacturing and distribution facilities. The Company aggregated its products since the products are similar and have similar economic characteristics, and the products are similar in production process and share the same customer type.

The Company's primary operations include the domestic operations in Asia, North America and Europe.

Revenues are attributed to geographic areas based on the location of subsidiaries producing the revenues (*in thousands*):

Three Months Ended September 30, 2008	Asia	North America	Europe	Consolidated Segments
Total sales	\$ 102,129	\$ 31,868	\$ 13,629	\$ 147,626
Inter-company sales	(6,280)	(6,260)	(1,039)	(13,579)
Net sales	\$ 95,849	\$ 25,608	\$ 12,590	\$ 134,047
Property, plant and equipment Assets	\$ 109,587 \$ 337,186	\$ 27,955 \$ 387,294	\$ 45,661 \$ 183,983	\$ 183,203 \$ 908,463

Three Months Ended September 30, 2009	Asia	North America	Europe	Consolidated Segments
Total sales	\$ 103,394	\$ 21,267	\$ 31,925	\$ <b>156,586</b>
Inter-company sales	(8,293)	(6,662)	(19,509)	<b>(34,464)</b>
Net sales	\$ 95,101	\$ 14,605	\$ 12,416	\$ <b>122,122</b>
Property, plant and equipment Assets	\$ 95,672 \$ 350,442	\$ 30,591 \$ 269,070	\$ 37,258 \$ 295,102	\$ <b>163,521</b> \$ <b>914,614</b>

Nine Months Ended September 30, 2008	Asia	North America	Europe	Consolidated Segments
Total sales	\$ 277,684	\$ 92,252	\$ 18,907	\$ 388,843
Inter-company sales	(20,050)	(22,109)	(1,039)	(43,198)
Net sales	\$ 257,634	\$ 70,143	\$ 17,868	\$ 345,645
Property, plant and equipment Assets	\$ 109,587 \$ 337,186	\$ 27,955 \$ 387,294	\$ 45,661 \$ 183,983	\$ 183,203 \$ 908,463

Nine Months Ended				Consolidated
-------------------	--	--	--	--------------

<b>September 30, 2009</b>	Asia	North America	Europe	Segments
Total sales	\$ 247,127	\$ 58,049	\$ 80,456	\$ <b>385,632</b>
Inter-company sales	(17,983)	(16,782)	(46,797)	<b>(81,562)</b>
Net sales	\$ 229,144	\$ 41,267	\$ 33,659	\$ <b>304,070</b>
Property, plant and equipment	\$ 95,672	\$ 30,591	\$ 37,258	\$ <b>163,521</b>
Assets	\$ 350,442	\$ 269,070	\$ 295,102	\$ <b>914,614</b>

- 14 -

---

**Table of Contents****Geographic Information**

Revenues were derived from (billed to) customers located in the following countries. All Others represents countries with less than 10% of the total revenues each (*in thousands*):

	Net Sales for the Three Months Ended September 30,		Percentage of Net Sales	
	2008	2009	2008	2009
China	\$ 41,565	\$ <b>37,562</b>	31.0%	<b>30.8%</b>
Taiwan	34,013	<b>34,518</b>	25.4%	<b>28.3%</b>
United States	26,000	<b>19,025</b>	19.4%	<b>15.6%</b>
Korea	6,143	<b>7,518</b>	4.6%	<b>6.2%</b>
Germany	7,141	<b>4,606</b>	5.3%	<b>3.8%</b>
England	5,924	<b>5,335</b>	4.4%	<b>4.4%</b>
Singapore	4,723	<b>4,605</b>	3.5%	<b>3.8%</b>
All Others	8,538	<b>8,953</b>	6.4%	<b>7.3%</b>
<b>Total</b>	\$ 134,047	\$ <b>122,122</b>	100.0%	<b>100.0%</b>

	Net Sales for the Nine Months Ended September 30,		Percentage of Net Sales	
	2008	2009	2008	2009
China	\$ 102,650	\$ <b>91,105</b>	29.7%	<b>30.0%</b>
Taiwan	100,061	<b>87,247</b>	28.9%	<b>28.7%</b>
United States	67,240	<b>50,354</b>	19.5%	<b>16.6%</b>
Korea	17,233	<b>19,303</b>	5.0%	<b>6.3%</b>
Germany	12,754	<b>12,693</b>	3.7%	<b>4.2%</b>
England	11,924	<b>12,436</b>	3.4%	<b>4.1%</b>
Singapore	11,590	<b>9,553</b>	3.4%	<b>3.1%</b>
All Others	22,193	<b>21,379</b>	6.4%	<b>7.0%</b>
<b>Total</b>	\$ 345,645	\$ <b>304,070</b>	100.0%	<b>100.0%</b>

**NOTE M Business Acquisitions**

**Zetex Acquisition** On June 9, 2008, the Company completed the acquisition of all the outstanding ordinary capital stock of Zetex plc ( Zetex ), a company incorporated under the laws of England and Wales. The Zetex shareholders received 85.45 pence in cash per ordinary share, valuing the fully diluted share capital of Zetex at approximately \$176.1 million (based on a USD:GBP exchange rate of 1.9778), excluding acquisition costs, fees and expenses.

**Table of Contents**

As consideration for Zetex, the Company paid the following (*in thousands*):

Purchase price (cost of shares)	\$ 176,138
Acquisition related costs	4,054
Total purchase price	\$ 180,192

In addition, in order to finance the acquisition, the Company entered into a margin loan agreement with UBS Financial Services Inc. for \$165 million, collateralized by the Company's ARS portfolio. On November 4, 2008, the Company entered into a no net cost credit line (no net cost) loan with UBS BANK USA, which replaced the margin loan.

The results of operations of the Zetex acquisition have been included in the consolidated financial statements from June 1, 2008. The purpose of this acquisition was to create revenue, operating and cost synergies and to enhance the Company's leadership in discrete and analog solutions. In addition, the Company believes the acquisition will strengthen and broaden the Company's product offerings, including entry into the light-emitting diode (LED) lighting and automotive markets and expand the Company's geographical footprint in the European markets.

The following summarizes the allocation of the purchase price to the fair value of the assets acquired and liabilities assumed at the date of acquisition (*in thousands*):

	Revised purchase price allocation on acquisition date
Assets acquired:	
Accounts receivable, net	\$ 13,445
Inventory	35,991
Prepaid expenses and other current assets	4,363
Property, plant and equipment, net	52,045
Other long-term assets	136
Intangible assets	48,274
Goodwill	51,345
Total assets acquired	\$ 205,599
Liabilities assumed:	
Accounts payable	\$ 6,057
Accrued expenses and other liabilities	17,978
Pension liability	10,873
Deferred tax liabilities	13,649
Other liabilities	3,846
Total liabilities assumed	52,403
Total net assets acquired	\$ 153,196

**Table of Contents**

The fair values and lives for amortization purposes assigned to acquired intangible assets are as follows (*in thousands*):

Intangible asset	Fair value assigned	Estimated useful life (in years)
IPR&D:		
Power management	\$ 1,383	N/A
Lighting	3,952	N/A
Other	2,569	N/A
<b>Total IPR&amp;D</b>	<b>7,904</b>	
Developed technology:		
Discretes	16,007	10
Power management	4,941	5
Lighting	3,360	5
ASIC	3,162	7
Other	2,174	2-7
<b>Total developed technology</b>	<b>29,644</b>	
Customer relationships	6,917	12
Trade name	3,162	Indefinite
Other intangibles	647	Various
<b>Total intangibles acquired</b>	<b>\$ 48,274</b>	

Subsequent to the acquisition, the Company evaluated and adjusted its inventory for a reasonable profit allowance in accordance with SFAS No. 141, *Business Combinations*, which is intended to permit the Company to report only the profits normally associated with its activities following the acquisition as it relates to the work-in-progress and finished goods inventory. As such, the Company increased its acquired inventory from Zetex by approximately \$5.4 million, and subsequently recorded that increase, adjusted for foreign exchange rates, into cost of goods sold in the amount of approximately \$5.2 million during 2008.

Acquired intangible in process research and development ( IPR&D ), which had not yet reached technological feasibility and had no alternative future use as of the date of acquisition, in the amount of \$7.9 million was expensed immediately in 2008, in accordance with SFAS No. 141, to research and development expense. IPR&D consists of: (i) power management, which includes power management chips that meet the requirements of a broad range of portable electronic equipment that demands a balance of efficiency, functionality, and size; (ii) lighting, which includes LED drivers that are developed for a range of applications including white LEDs for display backlighting, safety and security lighting, camera flash, architectural lighting, and automotive lighting, which maintains illumination while limiting battery power consumption; and (iii) other, which includes items such as audio, which includes class D amplifiers that efficiently deliver high quality audio. The risk adjusted discount rate used to determine the fair value of power management, lighting and other was 26%, 28% and 28%, respectively.

For the nine months ended September 30, 2009, approximately \$2.9 million has been recorded as amortization expense associated with the identified intangible assets. Amortization expense associated with these identified intangible assets will approximate between \$1.8 million and \$3.8 million per year over the next 5 to 10 years. In addition, the Company expects goodwill to be deductible for tax purposes.



The following unaudited pro forma consolidated results of operations have been prepared as if the acquisition of Zetex had occurred at January 1, 2008 (*in thousands, except per share data*):

	<b>Nine Months Ended September 30, 2008</b>
Net sales	\$ 443,284
Net income	\$ 4,949
Net income per common share - Basic	\$ 0.12
Net income per common share - Diluted	\$ 0.12

- 17 -

---

**Table of Contents**

The unaudited pro forma consolidated results of operations do not purport to be indicative of the results that would have been obtained if the above acquisition had actually occurred as of the dates indicated or of those results that may be obtained in the future. These unaudited pro forma consolidated results of operations were derived, in part, from the historical consolidated financial statements of Zetex and other available information and assumptions believed to be reasonable under the circumstances.

**NOTE N Convertible Senior Notes**

On October 12, 2006, the Company issued and sold Notes with an aggregate principal amount of \$230 million due 2026, which pay 2.25% interest per annum on the principal amount of the Notes, payable semi-annually in arrears on April 1 and October 1 of each year, beginning on April 1, 2007.

The Notes will be convertible into cash or, at the Company's option, cash and/or shares of the Company's Common Stock based on an initial conversion rate, subject to adjustment, of 25.6419 shares (split adjusted) per \$1,000 principal amount of Notes, which represents an initial conversion price of \$39.00 per share (split adjusted), in certain circumstances. In addition, following a make-whole fundamental change that occurs prior to October 1, 2011, the Company will, at its option, increase the conversion rate for a holder who elects to convert its Notes in connection with such make-whole fundamental change, in certain circumstances.

During the first quarter of 2009, the Company repurchased \$9.6 million principal amount of the Notes for approximately \$6.6 million in cash; during the second quarter of 2009, the Company repurchased \$15.0 million principal amount of the Notes in exchange for approximately \$13.2 million in Common Stock; and during the third quarter of 2009, the Company repurchased \$19.8 million principal amount of the Notes in exchange for approximately \$18.2 million in Common Stock.

On January 1, 2009, the Company changed how it accounted for its Notes in accordance with FASB ASC 470-20 (prior authoritative literature FSP APB 14-1). FASB ASC 470-20 specifies that issuers of instruments, such as convertible debt instruments, should separately account for liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate. All adjustments were made retrospectively as of the date of issuance of the Company's Notes and therefore, the financial statements are presented as if the Notes have always been accounted for in this manner. See Note B for this retrospective treatment and the impacts on previously issued financial statements.

In determining the liability and equity components, the Company determined the expected life of the Notes to be five years as that is the earliest date in which the Notes can be put back to the Company at par value. As of September 30, 2009, 24 months remain over which the discount of the liability will be amortized. As of September 30, 2009, the liability and equity components are as follows (*in thousands*):

		Liability Component	
Liability Component	Liability Component	Unamortized	Equity Component
Principal Amount	Net Carrying Amount	Discount	Carrying Amount
\$139,078	\$123,098	\$15,980	\$33,487

The effective interest rate of the liability component is 8.5%, which is a comparable yield for nonconvertible notes with terms and conditions otherwise comparable to the Company's Notes as of the date of issuance. The amount of interest expense, including amortization of debt discount for the liability component and debt issuance costs, for the nine months ended September 30, 2008 and 2009 is as follows (*in thousands*):

	2008	2009
Notes contractual interest expense	\$ 3,881	\$ 2,801
Amortization of debt discount	8,073	6,471
Amortization of debt issuance costs	700	505
Total	\$ 12,654	\$ 9,777

**NOTE O Lines of Credit and Short-Term Debt**

During the first quarter of 2009, the Company paid in full the outstanding balance of approximately \$2.5 million on its revolving credit commitment with Union Bank of California, N.A. ( Union Bank ) and terminated the Amended and Restated Credit Agreement. Also in the first quarter of 2009, the Company paid in full the outstanding balance of approximately \$1.5 million on its Union Bank term loan facility and terminated the Covenant Agreement.

- 18 -

---

**Table of Contents**

As part of the settlement with UBS AG, the Company has a no net cost loan with one of UBS AG's affiliates, which allows the Company to draw up to 75% of the market value of its ARS portfolio, as determined by UBS BANK USA, and is subject to collateral requirements. The interest rate paid on the no net cost loan will not exceed the interest rate earned on the pledged ARS portfolio. As of September 30, 2009, the balance of the no net cost loan was approximately \$204 million and classified as short-term debt. Since the Company has drawn up to the 75% limit and the market value of the ARS has decreased, it cannot draw additional funds from the no net cost loan until 75% of the market value of the ARS exceeds \$204 million, at which time the Company can draw additional funds.

**NOTE P Commitments**

**Purchase Commitments** As of September 30, 2009, the Company had approximately \$4.9 million in non-cancelable purchase contracts related to capital expenditures, primarily for manufacturing equipment in China.

**NOTE Q Employee Benefit Plans***Defined Benefit Plan*

The Company has a contributory defined benefit plan that covers certain employees in the United Kingdom ( U.K. ) and Germany. The net pension and supplemental retirement benefit obligations and the related periodic costs are based on, among other things, assumptions regarding the discount rate, estimated return on plan assets and mortality rates. These obligations and related periodic costs are measured using actuarial techniques and assumptions. The projected unit credit method is the actuarial cost method used to compute the pension liabilities and related expenses.

For the nine months ended September 30, 2009, net period benefit costs associated with the defined benefit plan were approximately \$0.8 million.

The following tables set forth the benefit obligation, the fair value of plan assets, and the funded status of the Company's plan (*in thousands*):

	Defined Benefit Plan
<b>Change in benefit obligation:</b>	
Balance at December 31, 2008	\$ 83,268
Service cost	230
Interest cost	4,224
Actuarial loss	20,578
Benefits paid	(2,170)
Currency changes	10,310
<b>Benefit obligation at September 30, 2009</b>	<b>\$ 116,440</b>
<b>Change in plan assets:</b>	
Fair value of plan assets at December 31, 2008	\$ 71,284
Actual return on plan assets	1,459
Benefits paid	(2,170)
Currency changes	16,862
<b>Fair value of plan assets at September 30, 2009</b>	<b>\$ 87,435</b>
<b>Underfunded status at September 30, 2009</b>	<b>\$ (29,005)</b>

Based on an actuarial study performed as of September 30, 2009, the plan is underfunded and a liability of approximately \$29.0 million is reflected in the Company's consolidated financial statements as a noncurrent liability. The amount recognized in accumulated other comprehensive loss for the nine months ended September 30, 2009 was a net loss of \$16.0 million and the weighted-average discount rate assumption used to determine benefit obligations as of September 30, 2009 was 5.5%.



**Table of Contents**

The following are weighted-average assumptions used to determine net periodic benefit costs for the nine months ended September 30, 2009:

Discount rate	6.4%
Expected long-term return on plan assets	6.5%

The Company adopted a payment plan with the trustees of the defined benefit plan, in which the Company will pay approximately £1.0 million GBP (approximately \$1.6 million based on a USD:GBP exchange rate of 1.6:1) every year from 2009 through 2012.

The Company also has pension plans in Asia for which the benefit obligation, fair value of the plan assets and the funded status amounts are deemed immaterial and therefore, not included in the numbers or assumptions above.

**Deferred Compensation**

The Company maintains a Non-Qualified Deferred Compensation Plan (the *Deferred Compensation Plan*) for executive officers, key employees and members of the Board of Directors (the *Board*). The *Deferred Compensation Plan* allows eligible participants to defer the receipt of eligible compensation, including equity awards, until designated future dates. The Company offsets its obligations under the *Deferred Compensation Plan* by investing in the actual underlying investments. These investments are classified as trading securities and are carried at fair value. At September 30, 2009, these investments totaled approximately \$2.6 million. All gains and losses in these investments are equally offset by corresponding gains and losses in the *Deferred Compensation Plan* liabilities.

**NOTE R Related Parties**

The Company conducts business with one related party company, Lite-On Semiconductor Corporation and its subsidiaries and affiliates ( *LSC* ), that owned approximately 19.2% of the Company's outstanding Common Stock as of September 30, 2009. The Company also conducts business with one significant company, Keylink International (B.V.I.) Inc. and its subsidiaries and affiliates ( *Keylink* ). *Keylink* is the Company's 5% joint venture partner in Shanghai Kai Hong Electronic Co., Ltd. and Shanghai Kai Hong Technology Co., Ltd.

The Audit Committee of the Board reviews all related party transactions for potential conflict of interest situations on an ongoing basis, in accordance with such procedures as the Audit Committee may adopt from time to time. The Company believes that all related party transactions are on terms no less favorable than would be obtained from unaffiliated third parties.

**Lite-On Semiconductor Corporation** During the nine months ended September 30, 2008 and 2009, the Company sold products to *LSC* totaling 3.8% and 2.2% of its net sales, respectively, making *LSC* one of its largest customers. Also, for the nine months ended September 30, 2008 and 2009, 9.6% and 6.4%, respectively, of the Company's net sales were from semiconductor products purchased from *LSC* for subsequent sale, making *LSC* the Company's largest supplier. The Company also rents warehouse space in Hong Kong from a member of the Lite-On Group, which also provides the Company with warehousing services at that location. For the nine months ended September 30, 2008 and 2009, the Company paid this entity in aggregate amounts of \$0.5 million and \$0.6 million, respectively, for their services. The Company believes such transactions are on terms no less favorable than could be obtained from unaffiliated third parties.

Net sales to, and purchases from, *LSC* are as follows (*in thousands*):

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	2008	2009	2008	2009
Net sales	\$ 5,209	<b>\$2,503</b>	\$13,239	<b>\$ 6,583</b>
Purchases	\$13,458	<b>\$9,283</b>	\$40,624	<b>\$22,410</b>

**Keylink International (B.V.I.) Inc.** During the nine months ended September 30, 2008 and 2009, the Company sold products to companies owned by *Keylink* totaling 0.4% and 2.9% of its net sales, respectively. Also for the nine months ended September 30, 2008 and 2009, 1.2% and 1.1%, respectively, of the Company's net sales were from semiconductor products purchased from companies owned by *Keylink*. In addition, the Company's subsidiaries in China lease their manufacturing facilities from, and subcontract a portion of their manufacturing process (metal

plating and environmental services) to Keylink. The Company also paid a consulting fee to Keylink. For the nine months ended September 30, 2008 and 2009, the Company paid Keylink an aggregate of \$8.1

- 20 -

---

**Table of Contents**

million and \$7.5 million, respectively, with respect to these items. The Company believes such transactions are on terms no less favorable than could be obtained from unaffiliated third parties.

Net sales to, and purchases from, companies owned by Keylink are as follows (*in thousands*):

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	2008	2009	2008	2009
Net sales	\$ 227	\$3,156	\$1,221	\$8,712
Purchases	\$1,683	\$1,575	\$5,093	\$3,950

Accounts receivable from, and accounts payable to, LSC and Keylink are as follows (*in thousands*):

	<b>September 30, 2009</b>
<b>Accounts receivable</b>	
LSC	\$ 2,000
Keylink	5,936
	\$ 7,936
<b>Accounts payable</b>	
LSC	\$ 6,986
Keylink	3,691
	\$ 10,677



## **Table of Contents**

### **Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations**

*Except for the historical information contained herein, the matters addressed in this Item 2 constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such forward-looking statements are subject to a variety of risks and uncertainties, including those discussed below under the heading Risk Factors and elsewhere in this Quarterly Report on Form 10-Q, that could cause actual results to differ materially from those anticipated by the Company's management. The Private Securities Litigation Reform Act of 1995 (the Act) provides certain safe harbor provisions for forward-looking statements. All forward-looking statements made in this Quarterly Report on Form 10-Q are made pursuant to the Act. The Company undertakes no obligation to publicly release the results of any revisions to its forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unexpected events. Unless the context otherwise requires, the words Diodes, the Company, we, us and our refer to Diodes Incorporated and its subsidiaries.*

*This management's discussion should be read in conjunction with the management's discussion included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008, previously filed with Securities and Exchange Commission.*

#### **Highlights**

Revenue for the three months ended September 30, 2009 was \$122.1 million, an increase of \$18.2 million, or 17.5%, over second quarter 2009;

Gross profit was \$37.6 million, an increase of \$27.4 million, or 37.2%, over second quarter 2009;

Gross profit margin for the three months ended September 30, 2009 was 30.8%, a 450 basis point increase over the second quarter of 2009;

Net income was \$7.0 million, or \$0.16 per diluted share, compared to the second quarter of 2009 net loss of \$3.0 million, or \$(0.7) per share;

During the first quarter of 2009, we repurchased \$9.6 million aggregated principal amount of 2.25% Convertible Senior Notes due 2026 (Notes) for approximately \$6.6 million; during the second quarter of 2009, we repurchased \$15.0 million aggregated principal amount of Notes in exchange for Common Stock; and during the third quarter of 2009, we repurchased \$19.8 million aggregated principal amount of Notes in exchange for Common Stock, bringing the total repurchases to \$90.9 million;

Third quarter 2009 revenue improved over second quarter 2009 revenue due to improved demand for our products that are utilized in LED and LCD televisions and LCD panels, set-top boxes, mobile handsets and notebooks; and

During the third quarter of 2009, we saw continued improvements in capacity utilization primarily at our packaging facilities.

#### **Overview**

We are a leading global designer, manufacturer and supplier of high-quality, application specific standard products within the broad discrete and analog semiconductor markets, serving the consumer electronics, computing, communications, industrial and automotive markets. These products include diodes, rectifiers, transistors, MOSFETs, protection devices, functional specific arrays, amplifiers and comparators, Hall effect sensors and temperature sensors, power management devices (including LED drivers), DC-DC switching and linear voltage regulators, voltage references, special function devices (including USB power switch, load switch, voltage supervisor and motor controllers) and silicon wafers used to manufacture these products. The products are sold primarily throughout North America, Asia and Europe.

We design, manufacture and market these semiconductors for diverse end-use applications. Semiconductors, which provide electronic signal amplification and switching functions, are basic building-block electronic components that are incorporated into almost every electronic device. We believe that our focus on standard semiconductor products provides us with a meaningful competitive advantage relative to other semiconductor companies that provide a wider range of semiconductor products.

During the first quarter of 2009, we strengthened our inventory position, completed the cost reduction initiatives described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008 and continued to focus on cash flows from operations. During the second and third quarters of 2009, as we continued to focus on cash flows, we saw continued improvements in demand and order rates, increased production ramps of previous design wins at new customers, the introduction of new product applications for existing customers and improved capacity utilization primarily at our packaging facilities, where they were near full utilization by the end of the third quarter. For the fourth quarter of 2009, we expect our business to continue to benefit from the increasing demand in China, as we consider the China market a major growth driver for our business, the addition of our new design wins and improved capacity utilization at our wafer fabrication facilities, and to focus on our historical profitable growth model. While cash preservation was a focus during most of 2009, for the fourth quarter of 2009, we intend to resume certain expenditures, such as capital expenditures, to their normal range of 10% to 12% of net sales. Our strategy is to continue to enhance our position as a leading global manufacturer and supplier of high-quality semiconductor products, and to continue to add other product lines, such as power management products, using our packaging technology capability.

- 22 -

---

**Table of Contents**

As described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008, the principal elements of our strategy include the following:

Continue to rapidly introduce innovative discrete and analog semiconductor products;

Expand our available market opportunities;

Maintain intense customer focus;

Enhance cost competitiveness; and

Pursue selective strategic acquisitions.

In implementing these strategies, the following factors have affected, and, we believe, will continue to affect, our results of operations:

Although we have seen increased demand for our products in the third quarter over the first and second quarters of 2009, the economic downturn has decreased the demand for our products as compared to 2008. For the remainder of 2009, we anticipate continued improvement in demand and order rates and improvements in capacity utilization at our wafer fabrication facilities.

For the nine months ended September 30, 2009, our original equipment manufacturers ( OEM ) and electronic manufacturing services ( EMS ) customers together accounted for 55% of our net sales, while our global network of distributors accounted for 45% of our net sales.

We have experienced substantial pressure from our customers and competitors to reduce the selling price for our products. Although we do not expect to sustain our historical growth rates for 2009, we expect future improvements in net income to result primarily from increases in sales volume and improvements in product mix in order to offset any reduced average selling prices ( ASP ) of our products.

The decrease in revenue for the nine months ended September 30, 2009 compared to the same period last year mainly reflects the impact of the economic downturn and the corresponding decrease in demand for our products, particularly on key targeted end-equipment in the consumer and computing markets, as well as our wafer fabrication facilities and subcontracting business, which showed greater weakness than our core revenue drivers.

Our gross profit margin was 26.1% for the nine months ended September 30, 2009, compared to 31.7% in the same period last year. Our gross margin percentage was lower than the same period last year due to lower capacity utilization of our manufacturing operations mainly due to the recent economic downturn and the decrease in demand for our products. Future gross profit margins will depend primarily on our product mix, cost savings, and the demand for our products. During the third quarter of 2009, we were at almost full capacity utilization at our packaging facilities, which decreased to approximately 50% during the first quarter of 2009 and we have started to see improvement in our capacity utilization at our wafer fabrication facilities in the third quarter of 2009. We expect further improvements in utilization at our wafer fabrication facilities for the remainder of 2009.

For the nine months ended September 30, 2009, our capital expenditures were approximately 5.2% of our net sales, which is a reduction from our historical 10% to 12% model and in line with our previously announced cost reduction initiatives. While cash preservation was our focus during most of 2009, for the fourth quarter, we intend to resume capital expenditures to their normal range of 10% to 12% of net sales.

Sales of new products (products that have been sold for three years or less) for the nine months ended September 30, 2008 and 2009 amounted to 27.8% and 16.0% of total sales, respectively, including the contribution of the Zetex acquisition. The sales of new products for 2009 were lower than those for 2008 due primarily to a portion of our analog product revenue from Anachip Corp. developed in 2006 or earlier was no longer included in the overall calculation of new products for 2009 as these products were developed more than three years ago. Although sales of new products were lower in 2009 compared to 2008, we have seen improvements in the third quarter of 2009, primarily in the LED drivers, Hall sensors, SBR<sup>®</sup> devices and bi-polar products. New products generally have gross profit margins that are higher than the margins of our standard products. We believe the sales from new products is an important measure given the short life cycles of some of our products. Our net sales of new products as a percentage of our net sales will depend on the demand for our standard products, as well as our product mix.

For the nine months ended September 30, 2009, the percentage of our net sales derived from our Asian subsidiaries was 75.4%, compared to 74.5% in the same period last year. We expect our net sales to the Asian market to increase as a percentage of our total net sales as a result of our customers continuing to shift their manufacturing of electronic products to Asia.

- 23 -

---

**Table of Contents**

As a result of the Zetex acquisition, we have added significant revenue in Europe. As such, Europe accounted for approximately 10.4% of our revenues for the nine months ended September 30, 2009.

As of September 30, 2009, we had invested approximately \$205.8 million in our Asian manufacturing facilities. For the nine months ended September 30, 2009, we invested approximately \$10.2 million in these manufacturing facilities, and we expect to continue to invest in our manufacturing facilities, although the amount to be invested will depend on product demand and new product developments.

We have increased our investment in research and development from \$15.6 million, or 4.5% of net sales, for the nine months ended September 30, 2008 to \$16.9 million, or 5.6% of net sales, for the nine months ended September 30, 2009 primarily as a result of the Zetex acquisition and the reduction in net sales due to the current economic downturn. For the remainder of 2009, we continue to realign our product development organization and consolidate our design teams.

**Results of Operations for the Three Months Ended September 30, 2008 and 2009**

The following table sets forth, for the periods indicated, the percentage that certain items in the statements of operations bear to net sales and the percentage dollar increase (decrease) of such items from period to period. Certain amounts have been adjusted to reflect the change in accounting principle as described in Note B of the Notes to Consolidated Condensed Financial Statements.

	<b>Percent of Net Sales</b>		<b>Percentage</b>
	<b>Three months</b>		<b>Dollar</b>
	<b>ended</b>		<b>Increase</b>
	<b>September 30</b>		<b>(Decrease)</b>
	<b>2008</b>	<b>2009</b>	<b>08 to 09</b>
Net sales	100.0%	<b>100.0%</b>	<b>(8.9)</b>
Cost of goods sold	(71.6)	<b>(69.2)</b>	<b>(11.9)</b>
Gross profit	28.4	<b>30.8</b>	<b>(1.4)</b>
Operating expenses	(28.1)	<b>(21.6)</b>	<b>(30.2)</b>
Income from operations	0.3	<b>9.2</b>	<b>2,736.4</b>
Interest income	1.4	<b>0.7</b>	<b>(55.9)</b>
Interest expense and amortization of debt discount	(4.5)	<b>(3.1)</b>	<b>(36.8)</b>
Other expenses	(0.7)	<b>(0.9)</b>	<b>18.4</b>
Income (loss) before income taxes and noncontrolling interest	(3.5)	<b>5.9</b>	<b>(255.5)</b>
Income tax provision	(0.5)	<b>(0.5)</b>	<b>(12.9)</b>

Net income (loss)	(3.0)	<b>6.4</b>	<b>(300.2)</b>
Net income attributable to noncontrolling interest	(0.5)	<b>(0.7)</b>	<b>24.3</b>
Net income (loss) attributable to common stockholders	(3.5)	<b>5.7</b>	<b>(253.4)</b>

The following discussion explains in greater detail our consolidated operating results and financial condition for the three months ended September 30, 2009, compared to the three months ended September 30, 2008. This discussion should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this quarterly report (*in thousands*).

	2008	<b>2009</b>
<b>Net Sales</b>	\$ 134,047	<b>\$ 122,122</b>

Net sales decreased approximately \$11.9 million for the three months ended September 30, 2009, compared to the same period last year. The 8.9% decrease in net sales represented an approximately 11.8% decrease in ASP partially offset by a 3.3% increase in units sold. The revenue decrease for the three months ended September 30, 2009 was attributable to sales decreases in all

**Table of Contents**

industry segments, primarily due to an overall weaker global economy, as well as our wafer fabrication facilities and subcontracting business, which are showing greater weakness than our core revenue drivers, partially offset by additional sales from the Zetex acquisition. Price pressure and an unfavorable product mix also affected sales for the three months ended September 30, 2009.

	2008	2009
<b>Cost of goods sold</b>	\$ 95,929	\$ 84,547
<b>Gross profit</b>	\$ 38,118	\$ 37,575
<b>Gross profit margin</b>	28.4%	30.8%

Cost of goods sold decreased approximately \$11.4 million, or 11.9%, for the three months ended September 30, 2009 compared to the same period last year. As a percent of sales, cost of goods sold decreased to 69.2% for the three months ended September 30, 2009 compared to 71.6% in the same period last year and our average unit cost ( AUP ) decreased 11.8%. The decrease in cost of goods sold as a percentage of sales was affected by the lower capacity utilization in our manufacturing operations mainly due to market conditions.

For the three months ended September 30, 2009, gross profit decreased by approximately \$0.5 million, or 1.4%, compared to the same period last year. Gross margin increased to 30.8% for the three months ended September 30, 2009, compared to 28.4% for the same period last year, primarily due to the one-time non-cash expense for the step-up (increase) of inventory for reasonable profit allowance in connection with the Zetex acquisition in 2008, partially offset by lower capacity utilization in 2009.

	2008	2009
<b>Selling, general and administrative expenses ( SG&amp;A )</b>	\$ 20,841	\$ 19,079

SG&A for the three months ended September 30, 2009 decreased approximately \$1.8 million, or 8.5%, compared to the same period last year, primarily due to the decreases in overall expenses in connection with our previously announced cost reduction initiatives. SG&A as a percentage of sales, increased to 15.6% for the three months ended September 30, 2009, compared to 15.5% in the same period last year due to lower net sales.

	2008	2009
<b>Research and development expenses ( R&amp;D )</b>	\$ 7,212	\$ 6,284

R&D for the three months ended September 30, 2009 was \$6.3 million, a decrease of approximately \$0.9 million from the same period last year due primarily to the decreases in overall expenses in connection with our previously announced cost reduction initiatives. R&D, as a percentage of sales, decreased to 5.1% for the three months ended September 30, 2009, compared 5.4% in the same period last year.

	2008	2009
<b>Amortization of acquisition-related intangibles</b>	\$ 1,804	\$ 1,271

Amortization of acquisition-related intangibles decreased for the three months ended September 30, 2009 to \$1.3 million, compared to \$1.8 million in the same period last year, due to the strengthening of the U.S. Dollar versus the British Pound.

	2008	2009
<b>Purchased in-process research and development ( IPR&amp;D )</b>	\$ 7,865	\$

During the third quarter of 2008, per SFAS 141, we recorded an approximately \$7.9 million one-time non-cash expense associated with the identification of acquired intangible IPR&D, which had not yet reached technological feasibility and had no alternative future use as of the Zetex acquisition date.

	2008	2009
<b>Interest income</b>	\$ 1,824	\$ 805

Interest income decreased for the three months ended September 30, 2009 to \$0.8 million, compared to \$1.8 million in the same period last year, due primarily to a decrease in interest income earned on our short-term investment securities. Interest income for the three months ended September 30, 2009 has been impacted by the continued interruption in the auction rate securities ( ARS )

- 25 -

---



**Table of Contents**

auction markets. In October 2008, we reached a settlement agreement with UBS AG, whereby we were given the option to put the ARS portfolio back to UBS AG at any time between September 30, 2010 and July 2, 2012 at par value. We continue to earn interest on our ARS portfolio and expect the weighted average interest to be earned during 2009 will be lower than earned in 2008.

	2008	2009
<b>Interest expense</b>	\$3,213	<b>\$1,784</b>

Interest expense for the three months ended September 30, 2009 was approximately \$1.8 million, compared to \$3.2 million in the same period last year. The \$1.4 million decrease in interest expense is due primarily to the reduced interest paid due to the repurchase and retirement of \$90.9 million par value of Notes during the fourth quarter of 2008 and the first, second and third quarters of 2009. The decrease in interest expense was partially offset by the interest expense charged in connection with our no net cost loan with the offsetting interest earned being recorded in interest income.

	2008	2009
<b>Amortization of debt discount</b>	\$2,748	<b>\$1,981</b>

Amortization of debt discount for the three months ended September 30, 2009 was \$2.0 million, compared to \$2.7 million in the same period last year. The \$0.8 million decreased in amortization of debt discount was due primarily to the repurchase and retirement of \$90.9 million par value of Notes during the fourth quarter of 2008 and the first, second and third quarters of 2009.

	2008	2009
<b>Other expense</b>	\$ 897	<b>\$ 1,062</b>

Other expense for the three months ended September 30, 2009 was \$1.1 million, compared to other expense of \$0.9 million in the same period last year. Included in other expense for the three months ended September 30, 2009 was a \$1.4 million foreign currency transaction losses due primarily to the strengthening of the U.S. Dollar versus the British Pound, negatively affecting foreign currency hedges entered into by Zetex prior to our acquisition.

	2008	2009
<b>Income tax provision</b>	\$ (722)	<b>\$ (629)</b>

We recognized income tax benefit of \$0.6 million for the three months ended September 30, 2009, compared to a \$0.7 million income tax benefit in the same period last year. Income taxes for the interim period ended September 30, 2009 have been included in the accompanying financial statements on the basis of actual year-to-date effective income tax rate. Income taxes for the interim period ended September 30, 2008 have been included in the accompanying financial statements on the basis of an estimated annual effective rate. The estimated effective tax rate (excluding discrete items) is (8.7)% for the three months ended September 30, 2009, as compared to the annual effective tax rate for the same period last year of 15.6%.

	2008	2009
<b>Noncontrolling interest</b>	\$ 659	<b>\$ 819</b>

Noncontrolling interest represented the minority investors' share of the earnings of our China and Taiwan subsidiaries for the three months ended September 30, 2009 and 2008. The noncontrolling interest in the subsidiaries and their equity balances are reported separately in the consolidation of our financial statements, and the activities of these subsidiaries are included therein. Our interests in these subsidiaries have not changed since December 31, 2008.

**Table of Contents****Results of Operations for the Nine Months Ended September 30, 2008 and 2009**

The following table sets forth, for the periods indicated, the percentage that certain items in the statements of operations bear to net sales and the percentage dollar increase (decrease) of such items from period to period. Certain amounts have been adjusted to reflect the change in accounting principle as described in Note B of the Notes to Consolidated Condensed Financial Statements.

	Percent of Net Sales		Percentage Dollar Increase
	Nine months ended September 30		(Decrease)
	2008	2009	08 to 09
Net sales	100.0%	100.0%	(12.0)
Cost of goods sold	(68.3)	(73.9)	(4.8)
Gross profit	31.7	26.1	(27.6)
Operating expenses	(22.6)	(23.1)	(10.0)
Income (loss) from operations	9.1	3.0	(71.1)
Interest income	2.8	1.3	(60.2)
Interest expense and amortization of debt discount	(4.3)	(4.0)	(19.4)
Other income (expenses)	(0.7)	(0.4)	(55.1)
Income (loss) before income taxes and noncontrolling interest	6.9	(0.1)	(101.1)
Income tax provision	0.7	1.6	118.1
Net income (loss)	6.2	(1.7)	(124.1)
Net income attributable to noncontrolling interest	(0.6)	(0.5)	(22.2)
Net income (loss) attributable to common stockholders	5.6	(2.2)	(134.2)

The following discussion explains in greater detail our consolidated operating results and financial condition for the nine months ended September 30, 2009, compared to the nine months ended September 30, 2008. This discussion should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this quarterly report (*in thousands*).

	2008	2009
<b>Net Sales</b>	\$345,645	<b>\$304,070</b>

Net sales decreased approximately \$41.6 million for the nine months ended September 30, 2009, compared to the same period last year. The 12% decrease in net sales represented an approximately 10.0% decrease in units sold and a 2.2% decrease in ASP. The revenue decrease for the nine months ended September 30, 2009 was attributable to sales decreases in all industry segments, primarily due to an overall weaker global economy, as well as our wafer fabrication facilities and subcontracting business, which are showing greater weakness than our core revenue drivers, partially offset by additional sales from the Zetex acquisition. Price pressure and an unfavorable product mix also affected sales for the nine months ended September 30, 2009.

	2008	2009
<b>Cost of goods sold</b>	\$ 235,993	<b>\$ 224,632</b>
<b>Gross profit</b>	\$ 109,652	<b>\$ 79,438</b>
<b>Gross profit margin</b>	31.7%	<b>26.1%</b>

Cost of goods sold decreased approximately \$11.4 million or 4.8%, for the nine months ended September 30, 2009 compared to the same period last year. As a percent of sales, cost of goods sold increased to 73.9% for the nine months ended September 30, 2009 compared to 68.3% in the same period last year and our average unit cost ( AUP ) increased 5.5%. The increase in cost of

**Table of Contents**

goods sold as a percentage of sales was affected by the lower capacity utilization in our manufacturing operations mainly due to market conditions.

For the nine months ended September 30, 2009, gross profit decreased by approximately \$30.2 million, or 27.6%, compared to the same period last year. Gross margin decreased to 26.1% for the nine months ended September 30, 2009, compared to 31.7% for the same period last year, primarily due to lower capacity utilization in our manufacturing operations caused by the economic downturn.

	2008	2009
<b>Selling, general and administrative expenses ( SG&amp;A )</b>	\$ 52,435	\$ <b>50,375</b>

SG&A for the nine months ended September 30, 2009 decreased approximately \$2.1 million, or 3.9%, compared to the same period last year, primarily due to the decrease in overall expenses in connection with our previously announced cost reduction initiatives and partially offset by additional SG&A expenses related to the Zetex acquisition. SG&A as a percentage of sales, increased to 16.6% for the nine months ended September 30, 2009, compared to 15.2% in the same period last year.

	2008	2009
<b>Research and development expenses ( R&amp;D )</b>	\$ 15,618	\$ <b>16,944</b>

R&D for the nine months ended September 30, 2009 was \$16.9 million, an increase of approximately \$1.3 million from the same period last year due primarily to additional R&D expense related to the Zetex operations. R&D as a percentage of sales, increased to 5.6% for the nine months ended September 30, 2009, compared 4.5% in the same period last year.

	2008	2009
<b>Amortization of acquisition-related intangibles</b>	\$ 2,275	\$ <b>3,480</b>

Amortization of acquisition-related intangibles increased for the nine months ended September 30, 2009 to \$3.5 million, compared to \$2.3 million in the same period last year, due to the acquisition of Zetex, which occurred in June of 2008.

	2008	2009
<b>Purchased in-process research and development ( IPR&amp;D )</b>	\$ 7,865	\$

During the third quarter of 2008, per SFAS 141, we recorded an approximately \$7.9 million one-time non-cash expense associated with the identification of acquired intangible IPR&D, which had not yet reached technological feasibility and had no alternative future use as of the Zetex acquisition date.

	2008	2009
<b>Interest income</b>	\$ 9,826	\$ <b>3,907</b>

Interest income decreased for the nine months ended September 30, 2009 to \$3.9 million, compared to \$9.8 million in the same period last year, due primarily to a decrease in interest income earned on our short-term investment securities. Interest income for the nine months ended September 30, 2009 has been impacted by the continued interruption in the ARS auction markets. In October 2008, we reached a settlement agreement with UBS AG, whereby we were given the option to put the ARS portfolio back to UBS AG at any time between September 30, 2010 and July 2, 2012 at par value. We continue to earn interest on our ARS portfolio and expect the weighted average interest to be earned during 2009 will be lower than earned in 2008.

	2008	2009
<b>Interest expense</b>	\$ 7,041	\$ <b>5,709</b>

Interest expense for the nine months ended September 30, 2009 was approximately \$5.7 million, compared to \$7.0 million in the same period last year. The \$1.3 million decrease in interest expense is due primarily to the reduced interest paid due to the repurchase and retirement of \$90.9 million par value of Notes during the fourth quarter of 2008.

and the first, second and third quarters of 2009. The decrease in interest expense was partially offset by the interest expense charged in connection with our no net cost loan with the offsetting interest earned being recorded in interest income.

- 28 -

---

**Table of Contents**

	2008	2009
<b>Amortization of debt discount</b>	\$ 8,073	\$ 6,471

Amortization of debt discount for the nine months ended September 30, 2009 was \$6.5 million, compared to \$8.1 million in the same period last year. The \$1.6 million decreased in amortization of debt discount was due primarily to the repurchase and retirement of \$90.9 million par value of Notes during the fourth quarter of 2008 and the first, second and third quarters of 2009.

	2008	2009
<b>Other expense</b>	\$ 2,393	\$ 1,074

Other expense for the nine months ended September 30, 2009 was \$1.1 million, compared to other expense of \$2.4 million in the same period last year. Included in other expense for the nine months ended September 30, 2009 was (i) \$1.2 million gain from extinguishment of debt from the repurchase and retirement of Notes during the first, second and third quarters of 2009; (ii) \$4.8 million foreign currency transaction losses due primarily to the strengthening of the U.S. Dollar versus the British Pound, negatively affecting foreign currency hedges entered into by Zetex prior to our acquisition, and partially offset by foreign currency transaction gain due primarily to favorable Taiwan and China currency exchange rate changes during the period; and (iii) \$1.5 million gain on forgiveness of debt from government subsidies in China.

	2008	2009
<b>Income tax provision</b>	\$ 2,258	\$ 4,924

We recognized income tax expense of \$4.9 million for the nine months ended September 30, 2009, compared to \$2.3 million in the same period last year. Income taxes for the interim period ended September 30, 2009 have been included in the accompanying financial statements on the basis of actual year-to-date effective income tax rate. Income taxes for the interim period ended September 30, 2008 have been included in the accompanying financial statements on the basis of an estimated annual effective rate. The estimated effective tax rate (excluding discrete items) is (1837.7)% for the nine months ended September 30, 2009, as compared to the annual effective tax rate for the same period last year of 9.5%. The estimated effective tax rate for the nine months ended September 30, 2009 was impacted by the non-cash income tax expense of approximately \$10.6 million associated with repatriating earnings of foreign subsidiaries to the U.S. parent.

	2008	2009
<b>Noncontrolling interest</b>	\$ 1,938	\$ 1,507

Noncontrolling interest represented the minority investors' share of the earnings of our China and Taiwan subsidiaries for the nine months ended September 30, 2009 and 2008. The noncontrolling interest in the subsidiaries and their equity balances are reported separately in the consolidation of our financial statements, and the activities of these subsidiaries are included therein. Our interests in these subsidiaries have not changed since December 31, 2008.

**Table of Contents****Financial Condition****Liquidity and Capital Resources**

Our primary sources of liquidity are cash and cash equivalents, funds from operations and borrowings under our credit facilities. We currently have foreign credit facilities with borrowing capacities of approximately \$50 million and approximately \$3.1 million borrowed. Our primary liquidity requirements have been to meet our inventory and capital expenditure needs and to fund on-going operations. At December 31, 2008 and September 30, 2009, our working capital was \$209.8 million and \$342.0 million, respectively. Our working capital increased in the first nine months of 2009 mainly due to the reclassification of our investment securities and no net cost loan to current assets and current liabilities, respectively, as of September 30, 2009 in connection with our settlement with UBS AG and affiliates ( UBS AG ) as discussed below. We expect cash generated by our U.S. and international operations, together with existing cash, cash equivalents, and available credit facilities to be sufficient to cover cash needs for working capital and capital expenditures for at least the next 12 months. Cash and cash equivalents, the conversion of other working-capital items and borrowings are expected to be sufficient to fund on-going operations.

In February 2009, as part of our review to maximize efficiencies and reduce costs, we paid in full the outstanding balance on our U.S. revolving credit commitment and our term loan facility and terminated our Amended and Restated Credit Agreement and Covenant Agreement with Union Bank of California N.A. Should future business needs arise and the credit markets permit, we may seek to obtain additional credit facilities. Given that we terminated our U.S. revolving credit agreement, during the first quarter of 2009, we repatriated approximately \$28.5 million of accumulated earnings from one of our Chinese subsidiaries. The Company intends to permanently reinvest overseas all of its remaining earnings from its foreign subsidiaries.

During the first quarter of 2009, we repurchased \$9.6 million principal amount of our Notes for approximately \$6.6 million in cash; during the second quarter of 2009, we repurchased \$15.0 million principal amount of our Notes in exchange for approximately \$13.2 million in Common Stock; and during the third quarter of 2009, we repurchased \$19.8 million principal amount of our Notes in exchange for approximately \$18.2 million in Common Stock.

As of September 30, 2009, we had \$311.9 million invested in ARS, which are classified as short-term, trading securities. While we continue to earn and receive interest on these investments at the contractual rate, the estimated fair values of these ARS no longer approximate par value. On October 29, 2008, we reached a settlement with UBS AG, in regard to our ARS portfolio, which gives us the option to put the \$311.9 million ARS portfolio back to UBS AG at any time from June 30, 2010 through July 2, 2012 at par value in exchange for cash. See Notes F and G of the Notes to Consolidated Condensed Financial Statements for information regarding the fair values and the realized gains and losses of our ARS portfolio and put option as of September 30, 2009.

As part of our settlement with UBS AG, we have a no net cost loan with one of its affiliates, which allows us to draw up to 75% of the market value of our ARS portfolio, as determined by UBS BANK USA, and is subject to collateral requirements. The interest rate we pay on the no net cost loan will not exceed the interest rate earned on the pledged ARS portfolio. As of September 30, 2009, the balance of our no net cost loan was approximately \$204 million and classified as short-term debt. Since we have drawn up to the 75% limit and the market value of the ARS has decreased, we cannot draw additional funds from the no net cost loan until 75% of the market value of the ARS exceeds \$204 million, at which time we can draw additional funds.

Capital expenditures for the nine months ended September 30, 2008 and 2009 were \$38.8 million and \$15.8 million, respectively. Our capital expenditures for these periods were primarily related to manufacturing expansion in our facilities in China. Capital expenditures in the first nine months of 2009 were 5.2% of our revenue, which is a reduction from our historical 10% to 12% model and in line with our previously announced cost reduction initiatives. While cash preservation was a focus during most of 2009, for the fourth quarter, we intend to resume capital expenditures at their normal range of 10% to 12% of net sales.

**Discussion of Cash Flow**

Cash and cash equivalents increased from \$103.5 million at December 31, 2008, to \$126.1 million at September 30, 2009 primarily from cash provided by operating activities, offset by cash used in investing and financing activities.

***Operating Activities***

Net cash provided by operating activities for the nine months ended September 30, 2009 was \$44.0 million, resulting primarily from a \$19.5 million reduction in inventory as well as \$35.1 million in depreciation and amortization, and a \$3.3 million increase in accounts payable and accrued liabilities, offset partially by a \$25.7 million reduction in accounts receivable. Net cash provided by operating activities was \$36.6 million for the same period last year. Net cash provided by operating activities increased \$7.4 million for the nine months ended September 30, 2009, compared to the same period last year. This increase resulted primarily from an approximately \$37.7 million decrease in net operating assets and liabilities, offset partially by a \$5.5 million decrease in non-cash expense

- 30 -

---



**Table of Contents**

and approximately \$24.9 million decrease in net income. We continue to closely monitor our credit terms with our customers, while at times providing extended terms.

***Investing Activities***

Net cash used in investing activities was \$3.7 million for the nine months ended September 30, 2009 compared to \$191.5 million for the same period last year. The \$187.8 million decrease in net cash used by investing activities was due primarily to the \$152.9 million decrease in acquisitions, net of cash acquired, for the acquisition of Zetex in the second quarter of 2008 and reduction of purchases of property, plant and equipment.

***Financing Activities***

Net cash provided by (used in) financing activities totaled \$(21.1) million for the nine months ended September 30, 2009 compared to \$184.7 million in the same period last year. This increase in funds used is primarily the result of an approximately \$20.1 million repayment on lines of credit and long-term debt mainly due to the termination of our credit facility with Union Bank and repurchase of our Notes during the first quarter of 2009 for cash and \$165.0 million of borrowings in connection with the acquisition of Zetex in the second quarter of 2008.

**Debt Instruments**

There have been no material changes to our debt instruments as disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008, filed on February 26, 2009, except for the change in accounting principle in regard to our Notes. See Notes B and N of the Notes to Consolidated Condensed Financial Statements for further information.

**Off-Balance Sheet Arrangements**

We do not have any transactions, arrangements and other relationships with unconsolidated entities that will affect our liquidity or capital resources. We have no special purpose entities that provide off-balance sheet financing, liquidity or market or credit risk support, nor do we engage in leasing, swap agreements, or outsourcing of research and development services, that could expose us to liability that is not reflected on the face of our financial statements.

**Contractual Obligations**

There have been no material changes in any of our contractual obligations since December 31, 2008, except for the repurchase of \$9.6 million principal amount of our Notes for approximately \$6.6 million in cash during the first quarter of 2009; the repurchase of \$15.0 million principal amount of our Notes in exchange for approximately \$13.2 million in Common Stock during the second quarter of 2009; and the repurchase of \$19.8 million principal amount of our Notes in exchange for approximately \$18.2 million in Common Stock during the third quarter of 2009.

**Critical Accounting Policies and Estimates**

The preparation of financial statements in accordance with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, we evaluate our estimates, including those related to revenue recognition, allowance for doubtful accounts, inventory reserves and income taxes, among others. Our estimates are based upon historical experiences, market trends and financial forecasts and projections, and upon various other assumptions that management believes to be reasonable under the circumstances and at that certain point in time. Actual results may differ, significantly at times, from these estimates under different assumptions or conditions.

Our critical accounting policies, as described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008, relate to revenue recognition, inventories, accounting for income taxes, allowance for doubtful accounts, goodwill and long-lived assets, share-based compensation, fair value measurements, defined benefit plan, asset retirement obligations, investments in joint ventures and contingencies. There have been no material changes to our critical accounting policies since December 31, 2008, except for the changes described below.

***Convertible Senior Notes***

On January 1, 2009 the Company changed how it accounted for its Notes in accordance with FASB ASC 470-20 (prior authoritative literature FSP APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)*). FASB ASC 470-20 specifies that issuers of instruments, such as convertible debt instruments,



**Table of Contents**

should separately account for liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate. All adjustments were made retrospectively as of the date of issuance of the Company's Notes and therefore, the financial statements are presented as if the Notes have always been accounted for in this manner. See Notes B and N of the Notes to Consolidated Condensed Financial Statements for further information.

**Recently Issued Accounting Pronouncements**

See Note A of the Notes to Consolidated Condensed Financial Statements for detailed information regarding the status of recently issued accounting pronouncements.

**Available Information**

Our Internet address is <http://www.diodes.com>. We make available, free of charge through our Internet website, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy statements, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 ( Exchange Act ) as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission (the SEC ). To support our global customer-base, particularly in Asia and Europe, our website is language-selectable into English, Chinese, and Korean, giving us an effective marketing tool for worldwide markets. With its extensive online Product (Parametric) Catalog with advanced search capabilities, our website facilitates quick and easy product selection. Our website provides easy access to worldwide sales contacts and customer support, and incorporates a distributor-inventory check to provide component inventory availability and a small order desk for overnight sample fulfillment. Our website also provides access to investor financial information, including SEC filings and press releases, as well as stock quotes and information on corporate governance compliance.

**Cautionary Statement for Purposes of the Safe Harbor Provision of the Private Securities Litigation Reform Act of 1995**

Except for the historical information contained herein, the matters addressed in this Quarterly Report on Form 10-Q constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We generally identify forward-looking statements by the use of terminology such as may, will, could, should, potential, continue, intend, plan, estimate, anticipate, believe, or similar phrases or the negatives of such terms. Such forward-looking statements are subject to a variety of risks and uncertainties, including those discussed under Risks Related To Our Business and elsewhere in this Quarterly Report on Form 10-Q that could cause actual results to differ materially from those anticipated by our management. The Private Securities Litigation Reform Act of 1995 (the Act ) provides certain safe harbor provisions for forward-looking statements. All forward-looking statements made on this Quarterly Report on Form 10-Q are made pursuant to the Act.

All forward-looking statements contained in this Quarterly Report on Form 10-Q are subject to, in addition to the other matters described in this Quarterly Report on Form 10-Q, a variety of significant risks and uncertainties. The following discussion highlights some of these risks and uncertainties. Further, from time to time, information provided by us or statements made by our employees may contain forward-looking information. There can be no assurance that actual results or business conditions will not differ materially from those set forth or suggested in such forward-looking statements as a result of various factors, including those discussed below.

For more detailed discussion of these factors, see the Risk Factors discussion in Item 1A of the Company's most recent Annual Report on Form 10-K as filed with the SEC and in Part II, Item 1A of this report. The forward-looking statements included in this Quarterly Report on Form 10-Q are made only as of the date of this report, and the Company undertakes no obligation to update the forward-looking statements to reflect subsequent events or circumstances.

**Risk Factors****Risks Related To Our Business**

*Global economic weakness and the current financial market uncertainty has had, and is expected to continue to have, through at least 2009, a material adverse effect on our business.*

*In the current difficult market conditions, our fixed costs combined with lower revenues have negatively impacted our results.*

*Downturns in the highly cyclical semiconductor industry or changes in end-market demand could affect our operating results and financial condition.*

- 32 -

---

**Table of Contents**

*The semiconductor business is highly competitive, and increased competition may harm our business and our operating results.*

*We receive a significant portion of our net sales from a single customer. In addition, this customer is also our largest external supplier and is a related party. The loss of this customer or supplier could harm our business and results of operations.*

*Delays in initiation of production at new facilities, implementing new production techniques or resolving problems associated with technical equipment malfunctions could adversely affect our manufacturing efficiencies.*

*We are and will continue to be under continuous pressure from our customers and competitors to reduce the price of our products, which could adversely affect our growth and profit margins.*

*Our customers require our products to undergo a lengthy and expensive qualification process without any assurance of product sales.*

*Our customer orders are subject to cancellation or modification usually with no penalty. High volumes of order cancellation or reductions in quantities ordered could adversely affect our results of operations and financial condition.*

*Production at our manufacturing facilities could be disrupted for a variety of reasons, which could prevent us from producing enough of our products to maintain our sales and satisfy our customers' demands.*

*New technologies could result in the development of new products by our competitors and a decrease in demand for our products, and we may not be able to develop new products to satisfy changes in demand, which could result in a decrease in net sales and loss of market share.*

*We may be adversely affected by any disruption in our information technology systems.*

*We may be subject to claims of infringement of third-party intellectual property rights or demands that we license third-party technology, which could result in significant expense and reduction in our intellectual property rights.*

*We depend on third-party suppliers for timely deliveries of raw materials, parts and equipment, as well as finished products from other manufacturers, and our results of operations could be adversely affected if we are unable to obtain adequate supplies in a timely manner.*

*If we do not succeed in continuing to vertically integrate our business, we will not realize the cost and other efficiencies we anticipate and our ability to compete, profit margins and results of operations may suffer.*

*Part of our growth strategy involves identifying and acquiring companies with complementary product lines or customers. We may be unable to identify suitable acquisition candidates or consummate desired acquisitions and, if we do make any acquisitions, we may be unable to successfully integrate any acquired companies with our operations.*

*We are subject to many environmental laws and regulations that could affect our operations or result in significant expenses.*

*Our products may be found to be defective and, as a result, product liability claims may be asserted against us, which may harm our business and our reputation with our customers.*

*We may fail to attract or retain the qualified technical, sales, marketing and management personnel required to operate our business successfully.*

*We may not be able to maintain our growth or achieve future growth and such growth may place a strain on our management and on our systems and resources.*

*Our business may be adversely affected by obsolete inventories as a result of changes in demand for our products and change in life cycles of our products.*

*If OEMs do not design our products into their applications, a portion of our net sales may be adversely affected.*

*We are subject to interest rate risk that could have an adverse effect on our cost of working capital and interest expenses.*

**Table of Contents**

*We had a significant amount of debt following the offering of convertible notes. Our substantial indebtedness could adversely affect our business, financial condition and results of operations and our ability to meet our payment obligations under the notes and or other debt.*

*Our Auction Rate Securities ( ARS ) are currently illiquid and we cancelled our bank credit facility in the U.S.; therefore, we must rely solely upon existing cash reserves, available foreign credit facilities and funds from existing operations to finance future operations.*

*UBS AG may not honor its part of the settlement agreement with us to purchase our entire ARS portfolio at any time beginning from June 30, 2010 to July 2, 2012 at par value.*

*UBS BANK USA ( UBS Bank ) may demand full or partial repayment of our no net cost loan with the UBS Bank at any time at UBS Bank s sole option and without cause, and UBS Financial Services Inc. may be unable to provide us any alternative financing on substantially same terms and conditions as those of the no net cost loan.*

*The value of our benefit plan assets and liabilities is based on estimates and assumptions, which may prove inaccurate.*

*Due to the recent and ongoing fluctuations in the United Kingdom s equity markets and bond markets, changes in actuarial assumptions for our defined benefit plan could increase the volatility of the plan s asset value, require us to increase cash contributions to the plan and have a negative impact on our results of operations and profitability.*

*There are risks associated with our acquisition of Zetex.*

*If we fail to maintain an effective system of internal controls or discover material weaknesses in our internal controls over financial reporting, we may not be able to report our financial results accurately or detect fraud, which could harm our business and the trading price of our Common Stock.*

*Our management certification and auditor attestation regarding the effectiveness of our internal control over financial reporting as of December 31, 2008 excluded the operations of Zetex. If we are not able to integrate Zetex operations into our internal control over financial reporting, our internal control over financial reporting may not be effective.*

*Terrorist attacks, or threats or occurrences of other terrorist activities whether in the United States or internationally may affect the markets in which our Common Stock trades, the markets in which we operate and our profitability.*

**Risks Related To Our International Operations**

*Our international operations subject us to risks that could adversely affect our operations.*

*We may be adversely affected by any international health conditions, including outbreaks or health epidemics.*

*We have significant operations and assets in China, Taiwan, Hong Kong and England and, as a result, will be subject to risks inherent in doing business in those jurisdictions, which may adversely affect our financial performance.*

*We could be adversely affected by violations of the United States Foreign Corrupt Practices Act and similar worldwide anti-bribery laws.*

*We are subject to foreign currency risk as a result of our international operations.*

*We may not continue to receive preferential tax treatment in Asia, thereby increasing our income tax expense and reducing our net income.*

*The distribution of any earnings of our foreign subsidiaries to the United States may be subject to U.S. income taxes, thus reducing our net income.*

**Risks Related To Our Common Stock**

*Variations in our quarterly operating results may cause our stock price to be volatile.*

*We may enter into future acquisitions and take certain actions in connection with such acquisitions that could affect the price of our Common Stock.*



**Table of Contents**

*Our directors, executive officers and significant stockholders hold a substantial portion of our Common Stock, which may lead to conflicts with other stockholders over corporate transactions and other corporate matters.*

*We were formed in 1959, and our early corporate records are incomplete. As a result, we may have difficulty in assessing and defending against claims relating to rights to our Common Stock purporting to arise during periods for which our records are incomplete.*

*Conversion of our convertible senior notes will dilute the ownership interest of existing stockholders, including holders who had previously converted their notes.*

*The repurchase rights and the increased conversion rate triggered by a make-whole fundamental change could discourage a potential acquirer.*

*Anti-takeover effects of certain provisions of Delaware law and our Certificate of Incorporation and Bylaws.*

*Section 203 of Delaware General Corporation Law.*

*Certificate of Incorporation and Bylaw Provisions.*

- 35 -

---

**Table of Contents**

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

As a multinational corporation, we are subject to certain market risks including foreign currency fluctuations, interest rates, government actions, liquidity and inflation. We consider a variety of practices to manage these market risks. There have been no material changes to our market risks as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2008, filed on February 26, 2009.

**Item 4. Controls and Procedures**

**Disclosure Controls and Procedures**

Our Chief Executive Officer, Keh-Shew Lu, and Chief Financial Officer, Richard D. White, with the participation of the Company's management, carried out an evaluation of the effectiveness of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(e). Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer believe that, as of the end of the period covered by this report, our disclosure controls and procedures are effective at the reasonable assurance level to ensure that information required to be included in this report is:

recorded, processed, summarized and reported within the time period specified in the Commission's rules and forms; and

accumulated and communicated to our management, including the Chief Executive Officer and the Chief Financial Officer, to allow timely decisions required disclosure.

Disclosure controls and procedures, no matter how well designed and implemented, can provide only reasonable assurance of achieving an entity's disclosure objectives. The likelihood of achieving such objectives is affected by limitations inherent in disclosure controls and procedures. These include the fact that human judgment in decision-making can be faulty and that breakdowns in internal control can occur because of human failures such as simple errors, mistakes or intentional circumvention of the established processes.

**Changes in Controls over Financial Reporting**

There was no change in our internal control over financial reporting, known to the Chief Executive Officer or the Chief Financial Officer that occurred during the last fiscal quarter covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents****PART II OTHER INFORMATION****Item 1. Legal Proceedings**

There have been no material changes from the legal proceedings disclosed in the Legal Proceedings section of our Annual Report on Form 10-K for the fiscal year ended December 31, 2008, filed on February 26, 2009.

We are currently a party to *Integrated Discrete Devices, LLC. v. Diodes Incorporated, C.A. No. 08-888 (GMS) (D. Del.)*. While we intend to defend the lawsuit vigorously and presently believe that the ultimate outcome of the legal proceeding will not have a material adverse effect on our financial position, cash flows or overall results of operations, litigation is subject to inherent uncertainties, and unfavorable rulings could occur. An unfavorable ruling could include monetary damages or an injunction prohibiting us from selling one or more products. Were an unfavorable ruling to occur, there exists the possibility of a material adverse impact on our business or results of operations for the period in which the ruling occurs or future periods.

From time to time, the Company is involved in various routine legal proceedings incidental to the conduct of its business. The Company's management does not believe that any of these legal proceedings will have a material adverse impact on the business, financial condition or results of operations of the Company.

**Item 1A. Risk Factors**

There have been no material changes from the risk factors disclosed in the Risk Factors section of our Annual Report on Form 10-K for the fiscal year ended December 31, 2008, filed on February 26, 2009.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

We may from time to time seek to repurchase our outstanding Notes in the open market, in privately negotiated transactions or otherwise. Such repurchases, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

The following table provides information regarding the repurchases of our Notes during the third quarter of 2009:

**ISSUER PURCHASES OF EQUITY SECURITIES**

<b>Period</b>	<b>(a) Total Principal Amount of Notes Purchased</b>	<b>(b) Average Price Paid per \$1.00 Principal Amount</b>
September 1, 2009 to September 30, 2009	\$ 19,837,000	\$ 0.92
Total	\$ 19,837,000	\$ 0.92

On September 28, 2009, the Company issued 976,424 shares of Common Stock in exchange for the foregoing \$19.8 million principal amount of Notes. See Item 1.01. Entry into a Material Definitive Agreement; Item 3.02. Unregistered Sales of Equity Securities; and Item 9.01. Financial Statements and Exhibits, on Form 8-K filed October 2, 2009 for additional information regarding the foregoing repurchases of Notes.

**Item 3. Defaults Upon Senior Securities**

There are no matters to be reported under this heading.

**Item 4. Submission of Matters to a Vote of Security Holders**

There are no matters to be reported under this heading.

**Item 5. Other Information**

There are no matters to be reported under this heading.

**Table of Contents****Item 6. Exhibits**

<b>Number</b>	<b>Description</b>	<b>Form</b>	<b>Date of First Filing</b>	<b>Exhibit Number</b>	<b>Filed Herewith</b>
3.1	Certificate of Incorporation, as amended	S-3	September 8, 2005	3.1	
3.2	Amended By-laws of the Company dated July 19, 2007	8-K	July 23, 2007	3.1	
4.1	Form of Certificate for Common Stock, par value \$0.66 2/3 per share	S-3	August 25, 2005	4.1	
4.2	Form of 2.25% Convertible Senior Notes due 2026	S-3	October 4, 2006	4.1	
4.3	Form of Indenture for the 2.25% Convertible Senior Notes due 2026	S-3	October 4, 2006	4.3	
10.1	Second Supplemental Agreement to the Factory Building Lease Agreement dated August 19, 2009 between Shanghai Kai Hong Technology Co., Ltd. And Shanghai Yuan Hao Electronic Co., Ltd.	10-Q		10.1	X
10.2	Employment Agreement dated as of September 22, 2009, between the Company and Keh-Shew Lu	8-K	September 28, 2009	99.1	
10.3*	Stock Award Agreement dated as of September 22, 2009, between the Company and Keh-Shew Lu	8-K	September 28, 2009	99.3	
10.4*	Exchange Agreement dated September 28, 2009, between the Company and an institutional holder	8-K	October 2, 2009	10.1	
31.1	Certification Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				X

31.2	Certification Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X
32.1	Certification Pursuant to 18 U.S.C. adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	X
32.2	Certification Pursuant to 18 U.S.C. adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	X

\* Confidential treatment has been requested with respect to the omitted portions of these exhibits, which portions have been filed separately with the Securities and Exchange Commission.

PLEASE NOTE: It is inappropriate for investors to assume the accuracy of any covenants, representations or warranties that may be contained in agreements or other documents filed as exhibits to this Quarterly Report on Form 10-Q. In certain instances the disclosure schedules to such agreements or documents contain information that modifies, qualifies and creates exceptions to the representations, warranties and covenants. Moreover, some of the representations and warranties may not be complete or accurate as of a particular date because they are subject to a contractual standard of materiality that is different from those generally applicable to stockholders and/or were used for the purpose of allocating risk among the parties rather than establishing certain matters as facts. Accordingly, you should not rely on the representations and warranties as characterizations of the actual state of facts at the time they were made or otherwise.

**Table of Contents**

**SIGNATURE**

Pursuant to the requirements 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.

DIODES INCORPORATED (Registrant)

By: /s/ Richard D. White  
RICHARD D. WHITE  
Chief Financial Officer, Treasurer and  
Secretary  
(Duly Authorized Officer and Principal  
Financial and  
Chief Accounting Officer)

November 6, 2009