DIODES INC /DEL/
Form 10-Q
August 08, 2013
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2013

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	**95-2039518**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
4949 Hedgcoxe Road, Suite 200 Plano, Texas	**75024**
(Address of principal executive offices)	**(Zip code)**

(972) 987-3900

(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 x 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 x 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 x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

The number of shares of the registrant s Common Stock outstanding as of August 5, 2013 was 46,599,859.

Table of Contents

Table of Contents

Table of Contents

PART I FINANCIAL INFORMATION

Item 1 Financial Statements

DIODES INCORPORATED AND SUBSIDIARIES

CONSOLIDATED CONDENSED BALANCE SHEETS

(In thousands)

ASSETS

	June 30, 2013 *(Unaudited)*	December 31, 2012
CURRENT ASSETS		
Cash and cash equivalents	$ 213,546	$ 157,121
Accounts receivable, net	181,878	152,073
Inventories	186,786	153,293
Deferred income taxes, current	12,305	9,995
Prepaid expenses and other	48,371	18,928
Total current assets	642,886	491,410
PROPERTY, PLANT AND EQUIPMENT, net	331,287	243,296
DEFERRED INCOME TAXES, non-current	31,959	36,819
OTHER ASSETS		
Goodwill	86,233	87,359
Intangible assets, net	56,319	44,337
Other	22,890	16,842
Total assets	$ 1,171,574	$ 920,063

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

(In thousands, except share data)

	June 30, 2013 (Unaudited)	December 31, 2012
CURRENT LIABILITIES		
Lines of credit	$ 4,507	$ 7,629
Accounts payable	107,047	64,072
Accrued liabilities	63,070	41,139
Income tax payable	1,456	678
Total current liabilities	176,080	113,518
LONG-TERM DEBT, net of current portion	209,337	44,131
OTHER LONG-TERM LIABILITIES	58,246	41,974
Total liabilities	443,663	199,623
COMMITMENTS AND CONTINGENCIES		
EQUITY		
Diodes Incorporated stockholders equity		
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; 46,327,031 and 46,010,815 issued and outstanding at June 30, 2013 and December 31, 2012, respectively	30,885	30,674
Additional paid-in capital	288,284	280,571
Retained earnings	406,505	399,796
Accumulated other comprehensive loss	(41,070)	(33,856)
Total Diodes Incorporated stockholders equity	684,604	677,185
Noncontrolling interest	43,307	43,255
Total equity	727,911	720,440
Total liabilities and equity	$ 1,171,574	$ 920,063

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

DIODES INCORPORATED AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
NET SALES	$ 214,379	$ 159,239	$ 391,343	$ 303,902
COST OF GOODS SOLD	153,086	118,211	283,867	229,168
Gross profit	61,293	41,028	107,476	74,734
OPERATING EXPENSES				
Selling, general and administrative	35,080	24,760	65,456	46,906
Research and development	12,145	8,218	22,225	15,382
Other operating (income) expenses	3,830	(254)	5,781	(1,358)
Total operating expenses	51,055	32,724	93,462	60,930
Income from operations	10,238	8,304	14,014	13,804
OTHER INCOME (EXPENSES)	277	251	798	938
Income before income taxes and noncontrolling interest	10,515	8,555	14,812	14,742
INCOME TAX PROVISION	1,475	856	8,049	1,474
NET INCOME	9,040	7,699	6,763	13,268
Less: NET INCOME attributable to noncontrolling interest	(405)	(1,046)	(54)	(1,744)
NET INCOME attributable to common stockholders	$ 8,635	$ 6,653	$ 6,709	$ 11,524
EARNINGS PER SHARE attributable to common stockholders				
Basic	$ 0.19	$ 0.15	$ 0.15	$ 0.25
Diluted	$ 0.18	$ 0.14	$ 0.14	$ 0.25
Number of shares used in computation				
Basic	46,148	45,642	46,085	45,551
Diluted	47,507	46,859	47,383	46,916

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

Table of Contents

DIODES INCORPORATED AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net income	$ 9,040	$ 7,699	$ 6,763	$ 13,268
Translation adjustment	(859)	(3,594)	(8,395)	404
Unrealized gain (loss) on defined benefit plan, net of tax	2,659	(938)	1,181	(3,963)
Comprehensive income (loss)	10,840	3,167	(451)	9,709
Less: Comprehensive income attributable to noncontrolling interest	(405)	(1,046)	(54)	(1,744)
Total comprehensive income (loss) attributable to common stockholders	$ 10,435	$ 2,121	$ (505)	$ 7,965

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

Table of Contents

DIODES INCORPORATED AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
CASH FLOWS FROM OPERATING ACTIVITIES	$ 61,173	$ 30,271
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition, net of cash acquired	(124,916)	
Purchases of property, plant and equipment	(23,751)	(24,237)
Proceeds from sale of equity securities	7,458	
Proceeds from sale of property, plant and equipment	51	1,966
Proceeds from sale of intangibles		2,122
Other	(3,799)	(5,556)
Net cash used by investing activities	(144,957)	(25,705)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances on line of credit	4,963	997
Repayments on lines of credit	(25,711)	(8,000)
Borrowings of long-term debt	181,002	70,000
Repayments of long-term debt	(15,536)	(30,162)
Net proceeds from issuance of common stock	1,366	1,236
Other	(2,844)	(160)
Net cash provided by financing activities	143,240	33,911
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(3,031)	306
INCREASE IN CASH AND CASH EQUIVALENTS	56,425	38,783
CASH AND CASH EQUIVALENTS, beginning of period	157,121	129,510
CASH AND CASH EQUIVALENTS, end of period	$ 213,546	$ 168,293
SUPPLEMENTAL CASH FLOW INFORMATION:		
Non-cash financing activities:		
Property, plant and equipment purchased on accounts payable	$ (330)	$ (6,759)
Acquisition:		
Fair value of assets acquired	$ 247,012	$
Liabilities assumed	(92,277)	
Cash acquired	(29,819)	
Net assets acquired	$ 124,916	$

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

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, together with its subsidiaries (collectively, the Company), is a leading global manufacturer and supplier of high-quality, application specific standard products within the broad discrete, logic and analog semiconductor markets, serving the consumer electronics, computing, communications, industrial and automotive markets throughout Asia, North America 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, 2012. 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 six months ended June 30, 2013 are not necessarily indicative of the results that may be expected for other interim periods or the year ending December 31, 2013. The consolidated condensed financial data at December 31, 2012 is derived from audited financial statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2012.

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, including income taxes, are based on full year forecasts. Such amounts are expensed in full in the year incurred. For interim financial reporting purposes, income taxes are recorded based upon estimated annual effective income tax rates.

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

Recently Issued Accounting Pronouncements

In March 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2013-05, *Foreign Currency Matters (Topic 830): Parent s Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity*. ASU No. 2013-05 provides additional guidance with respect to the reclassification into income of the cumulative translation adjustment (CTA) recorded in accumulated other comprehensive income associated with a foreign entity of a parent company. This ASU differentiates between transactions occurring within a foreign entity and transactions affecting an investment in a foreign entity. For transactions within a foreign entity, the full CTA associated with the foreign entity would be reclassified into income only when the sale of a subsidiary or group of net assets within the foreign entity represents the substantially complete liquidation of that foreign entity. For transactions affecting an investment in a foreign entity (for example, control or ownership of shares in a foreign entity), the full CTA associated with the foreign entity would be reclassified into income only if the parent no longer has a controlling interest in that foreign entity as a result of the transaction. In addition, acquisitions of a foreign entity completed in stages (also known as step acquisitions) could trigger the release of CTA associated with an equity method investment in that entity at the point a controlling interest in the foreign entity is obtained. This ASU is effective prospectively beginning January 1, 2014, with early adoption permitted. This ASU could impact the Company s consolidated financial results in the event of a transaction as described above.

Table of Contents

NOTE B Earnings Per Share

Basic earnings per share is calculated by dividing net earnings by the weighted-average number of shares of Common Stock outstanding during the period. Diluted 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 computation of basic and diluted earnings per common share is as follows *(in thousands, except per share data)*:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
BASIC				
Weighted average number of common shares outstanding used in computing basic earnings per share	46,148	45,642	46,085	45,551
Net income attributable to common stockholders	$ 8,635	$ 6,653	$ 6,709	$ 11,524
Earnings per share attributable to common stockholders	$ 0.19	$ 0.15	$ 0.15	$ 0.25
DILUTED				
Weighted average number of common shares outstanding used in computing basic earnings per share	46,148	45,642	46,085	45,551
Add: Assumed exercise of stock options and stock awards	1,359	1,217	1,298	1,365
	47,507	46,859	47,383	46,916
Net income attributable to common stockholders	$ 8,635	$ 6,653	$ 6,709	$ 11,524
Earnings per share attributable to common stockholders	$ 0.18	$ 0.14	$ 0.14	$ 0.25

NOTE C Business Combination

BCD Semiconductor Manufacturing Limited (BCD)

On March 5, 2013, the Company completed the acquisition of all the outstanding ordinary shares, par value $0.001 per share, of BCD (the Shares), including Shares represented by American Depository Shares (ADSs), which were cancelled in exchange for the right to receive $1.33-1/3 in cash per Share, without interest. Each ADS represented six Shares and was converted into the right to receive $8.00 in cash, without interest. The aggregate consideration was approximately $155 million, excluding acquisition costs, fees and expenses. In addition, a $5 million retention plan for employees of BCD, payable at the 12, 18 and 24 month anniversaries of the acquisition, has been established. The employee retention plan is intended to benefit the Company and not the selling shareholders, and therefore has been excluded from the determination of the purchase price. The acquisition was funded by drawings on the Company s bank credit facility. See Note H for additional information regarding the Company s bank credit facility.

The Company s purchase price for BCD and related costs are estimated as follows *(in thousands)*:

Purchase price (cost of shares)	$ 154,735
Acquisition related costs (included in selling, general and administrative expenses)	2,075
Total purchase price	$ 156,810

The results of operations of BCD have been included in the consolidated financial statements from March 1, 2013. The consolidated revenue and earnings of BCD for the period ended June 30, 2013 were approximately $60 million and ($1) million, respectively, which include purchase price accounting adjustments. The Company s purpose in making this acquisition is to further its strategy of expanding its market and growth opportunities through select strategic acquisitions. This acquisition is expected to enhance the Company s analog product portfolio by expanding its standard linear and power management offerings, including AC/DC and DC/DC solutions for power adapters and chargers, as well as other electronic products. BCD s established presence in Asia, with a particularly strong local market position in China, offers the Company even greater penetration of the consumer, computing and communications markets. Likewise, the Company believes it can achieve increased market penetration for BCD s products by leveraging the Company s own global customer base and sales channels. In addition, BCD has in-house manufacturing capabilities in China, as well as a cost-effective development team that can be deployed across multiple product families. The Company also believes it will be able to apply its packaging capabilities and expertise to BCD s products in order to improve cost efficiencies, utilization and product mix.

Table of Contents

A final determination of the allocation of the purchase price to the assets acquired and liabilities assumed has not been completed and the following table is considered preliminary. The final determination is subject to the completion of the valuation of the assets acquired and liabilities assumed, which is expected during the third quarter of 2013.

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

	March 1, 2013 purchase price allocation	Changes in purchase price allocation recorded during second quarter of 2013	Revised March 1, 2013 purchase price allocation
Assets acquired:			
Cash and cash equivalents	$ 29,819	$	$ 29,819
Accounts receivable, net	20,862		20,862
Inventory	42,909		42,909
Prepaid expenses and other current assets	27,205		27,205
Property, plant and equipment, net	99,716		99,716
Deferred tax assets	1,612		1,612
Other long-term assets	5,497		5,497
Other intangible assets	17,200		17,200
Goodwill	2,192		2,192
Total assets acquired	$ 247,012	$	$ 247,012
Liabilities assumed:			
Lines of credit	$ 17,336	$	$ 17,336
Accounts payable	34,758		34,758
Accrued liabilities and other	16,703		16,703
Deferred tax liability	5,055		5,055
Other liabilities	18,425		18,425
Total liabilities assumed	92,277		92,277
Total net assets acquired, net of cash acquired	$ 154,735	$	$ 154,735

The fair value of the significant identified intangible assets was estimated by using the market approach, income approach and cost approach valuation methodologies. Inputs used in the methodologies primarily included projected future cash flows, discounted at a rate commensurate with the risk involved. The total amount of intangible assets acquired subject to amortization expense is $17 million, which has a residual value of zero and weighted-average amortization period of 6 years, subject to final determination. Goodwill arising from the acquisition is attributable to future income from new customer contracts, synergy of combined operations, the acquired workforce and future technology that has yet to be designed or even conceived. In addition, it is not anticipated that goodwill will be deductible for income tax purposes.

The Company evaluated and adjusted the acquired inventory for a reasonable profit allowance, 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 the inventory acquired from BCD by approximately $5 million, and recorded that increase into cost of goods sold, of which approximately $2 million was recorded in the first quarter of 2013 and $3 million was recorded in the second quarter of 2013 as the acquired work-in-process and finished goods inventory was sold.

Table of Contents

The following unaudited pro forma consolidated results of operations for the quarters ended June 30, 2013 and 2012 have been prepared as if the acquisition of BCD had occurred at January 1, 2012, for each year (*unaudited; in thousands, except per share data*):

	Three Months Ended June 30,	Six Months Ended June 30,	
	2012	2013	2012
Net revenues	$ 196,076	$ 412,514	$ 371,767
Net income attributable to common stockholders	$ 2,752	$ 7,646	$ 4,946
Earnings per share Basic	$ 0.06	$ 0.17	$ 0.11
Earnings per share Diluted	$ 0.06	$ 0.16	$ 0.11

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. The unaudited pro forma consolidated results of operations do not include the final adjustments to net income to give the final effects to depreciation of property, plant and equipment acquired and amortization of intangible assets acquired as the Company currently is working to complete its valuation of the assets and liabilities acquired and is unable to determine those final effects. Upon completion of the valuation, the Company intends to make adjustments for these items in future pro forma disclosures for BCD. These unaudited pro forma consolidated results of operations were derived, in part, from the historical consolidated financial statements of BCD and other available information and assumptions believed to be reasonable under the circumstances.

NOTE D Restricted Cash

Restricted cash is pledged as collateral when the Company enters into agreements with banks for certain banking facilities. As of June 30, 2013, restricted cash of $9 million, included in prepaid expenses and other, was pledged as collateral for issuance of bank acceptance notes, letters of credit and forward contracts. See Note E for additional information regarding foreign currency forward contracts.

NOTE E Foreign Currency Forward Contracts

As a multinational company, the Company denominates sales transactions in a variety of currencies. In connection with the acquisition of BCD, the Company adopted forward exchange contracts, designated as foreign currency cash flow hedges, to reduce the potentially adverse effects of foreign currency exchange rate fluctuations. The Company uses these forward exchange contracts to hedge, thereby attempting to reduce the Company s overall exposure to the effects of currency fluctuations on cash flows. The Company does not permit speculation in financial instruments for profit on the exchange rate price fluctuation, trading in currencies for which there are no underlying exposures, or entering into trades for any currency to intentionally increase the underlying exposure.

Forward exchange contracts are recognized on the balance sheet at their fair value. Unrealized gain positions are recorded as assets and unrealized loss positions are recorded as liabilities. Changes in the fair values of the outstanding forward exchange contracts that are highly effective are recorded in other comprehensive income until the forward exchange contracts are settled. Changes in the fair values of the forward exchange contracts assessed as not effective as hedging instruments are recognized in earnings in the current period. Results of ineffective hedges are recorded as expense in the consolidated condensed statements of operations in the period in which they are determined to be ineffective.

Prior to the acquisition, BCD entered into foreign currency forward contracts with various banks located in China. The contracted notional amount for forward contracts is $61 million, of which $39 million was outstanding as of June 30, 2013.

In accordance with certain forward contracts, the Company is required to have on deposit 3% to 5% of the notional amount outstanding and in certain situations the required deposit could be 100% of the notional amount of the outstanding contracts. See Note D for additional information regarding these deposits treated as restricted cash.

All the forward contracts outstanding as of June 30, 2013 will be settled by December 2013. The fair value of the outstanding derivative instruments contracts, classified within Level 2 of the fair value hierarchy, was $2 million and was recognized under other current assets in the condensed consolidated balance sheets. There was minimal valuation gain recognized under other income for the six months ended June 30, 2013.

Table of Contents

NOTE F Inventories

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

	June 30, 2013	December 31, 2012
Raw materials	$ 69,768	$ 63,410
Work-in-progress	44,730	30,564
Finished goods	72,288	59,319
Total	$ 186,786	$ 153,293

NOTE G Goodwill and Intangible Assets

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

Balance at December 31, 2012	$ 87,359
Acquisitions	2,192
Currency exchange	(3,318)
Balance at June 30, 2013	**$ 86,233**

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

	June 30, 2013	December 31, 2012
Intangible assets subject to amortization:		
Gross carrying amount	$ 86,909	$ 69,707
Accumulated amortization	(28,369)	(24,161)
Currency exchange	(7,889)	(7,051)
Net value	50,651	38,495
Intangible assets with indefinite lives:		
Gross carrying amount	6,403	6,403
Currency exchange	(735)	(561)
Total	5,668	5,842
Total intangible assets, net	**$ 56,319**	**$ 44,337**

Amortization expense related to intangible assets subject to amortization was approximately $2 million and $1 million for the three months ended June 30, 3013 and 2012, respectively, and approximately $4 million and $2 million for the six months ended June 30, 2013 and 2012, respectively.

NOTE H Bank Credit Agreement

On January 8, 2013, the Company and Diodes International B.V. (the Foreign Borrower and collectively with the Company, the Borrowers) and certain subsidiaries of the Company as guarantors, entered into a Credit Agreement (the Credit Agreement) with Bank of America and other participating lenders (collectively, the Lenders).

The Credit Agreement provides for a five-year, $300 million revolving senior credit facility (the Revolver), which includes a $10 million swing line sublimit, a $10 million letter of credit sublimit, and a $20 million alternative currency sublimit. The Revolver matures on January 8, 2018, and borrowings under the Revolver may be used for refinancing certain existing debt, for working capital and capital expenditures, and for general corporate purposes, including financing permitted acquisitions.

On March 1, 2013, in connection with the acquisition of BCD, the Company drew down on the Revolver to fund the acquisition and pay for costs associated with the acquisition. As of June 30, 2013, the amount of the outstanding borrowings under the Credit Agreement was approximately $205 million. See Note C for additional information regarding the acquisition of BCD.

Table of Contents

NOTE I Income Tax Provision

Income tax expense of approximately $1 million was recorded for both the three months ended June 30, 2013 and 2012, respectively and income tax expense of approximately $8 million and $2 million was recorded for the six months ended June 30, 2013 and 2012, respectively. This resulted in an effective tax rate of 54% for the six months ended June 30, 2013, as compared to 10% in the same period last year and compared to 16% for the full year of 2012. The estimated annual tax rate for 2013 is expected to be approximately 20%, excluding discrete items. The effective tax rate for the six months ended June 30, 2013 includes a $5 million charge for discrete items, principally related to a tax audit in China. The Company s effective tax rates for the six months ended June 30, 2013 and 2012, excluding discrete items, were lower than the U.S. statutory tax rate of 35%, principally from the impact of income in lower-taxed jurisdictions.

For the six months ended June 30, 2013, the Company reported domestic and foreign pre-tax income (loss) of approximately $(13) million and $28 million, respectively. For the six months ended June 30, 2012, the Company reported domestic and foreign pre-tax income (loss) of approximately $(14) million and $29 million, respectively. Funds repatriated from foreign subsidiaries to the U.S. may be subject to federal and state income taxes. The Company intends to permanently reinvest overseas all of its earnings from its foreign subsidiaries; accordingly, U.S. taxes are not recorded on undistributed foreign earnings.

The impact of tax holidays decreased the Company s tax expense by approximately $2 million and $4 million for the six months ended June 30, 2013 and 2012, respectively. The benefit of the tax holidays on both basic and diluted earnings per share for the six months ended June 30, 2013 was approximately $0.04. The benefit of the tax holidays on both basic and diluted earnings per share for the six months ended June 30, 2012 was approximately $0.08. During 2012, the China government began an audit of the Company s High and New Technology Enterprise (HNTE) status for its largest Chinese subsidiary for 2009-2011 as part of an overall evaluation of the reduced tax rates provided to many high tech companies. This subsidiary has a reduced tax rate of 15%. In April 2013, the Company was notified by the China government that they had completed their tax audit and had concluded that the Company owed additional tax related to tax year 2011 in the amount of $5 million. This subsidiary has been approved for its HNTE status for the tax years 2012-2014.

The Company files income tax returns in the U.S. federal jurisdiction and in various state and foreign jurisdictions. The Company is no longer subject to U.S. federal income tax examinations by tax authorities for tax years before 2007. During the second quarter of 2013, the Internal Revenue Service (IRS) commenced an examination of the Company s U.S. federal income tax return for the 2010 tax year. The examination is ongoing, and the IRS has not proposed adjustments to any tax positions. With respect to state and local jurisdictions and countries outside of the U.S., with limited exceptions, the Company is no longer subject to income tax audits for 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 reserve for any adjustments that may result from future tax audits. The Company recognizes accrued interest and penalties related to unrecognized tax benefits in interest expense. As of June 30, 2013, the gross amount of unrecognized tax benefits was approximately $28 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 settlements of ongoing audits or competent authority proceedings. At this time, an estimate of the range of the reasonably possible outcomes cannot be made.

NOTE J Share-Based Compensation

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Cost of sales	$ 126	$ 102	$ 249	$ 205
Selling and administrative expense	2,877	3,121	5,720	6,247
Research and development expense	301	316	591	632
Total share-based compensation expense	$ 3,304	$ 3,539	$ 6,560	$ 7,084

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-Merton option pricing model.

Table of Contents

In May 2013, the Company s stockholders approved the Company s 2013 Equity Incentive Plan (2013 Plan). Since the approval of the 2013 Plan, all stock options have been granted under the 2013 Plan, and the Company will not grant any further stock options under its 2001 Omnibus Equity Incentive Plan (2001 Plan). Stock options under the 2013 Plan expire eight years after the grant date. For additional information on the 2013 Plan, see the Company s definitive Proxy Statement filed with the SEC on April 19, 2013.

The total net cash proceeds received from stock option exercises during the six months ended June 30, 2013 was approximately $1 million. Stock option expense was approximately $1 million for both the three months ended June 30, 2013 and 2012, and approximately $2 million for both the six months ended June 30, 2013 and 2012.

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, 2013	3,713	$ 17.85	5	$ 9,744
Granted	186	23.35		
Exercised	(192)	7.34		3,072
Forfeited or expired [(1)]	(417)	20.34		
Outstanding at June 30, 2013	**3,290**	**$ 18.45**	**5**	**$ 26,149**
Exercisable at June 30, 2013	**2,640**	**$ 17.45**	**4**	**$ 23,467**

(1) The Compensation Committee of the Board of Directors reviewed the grants of stock options to the Company s Chief Executive Officer in 2009, 2010, 2011 and 2012 (each such annual grant, an Option Grant), and approved a Confirmation Agreement in which the Company and the Company s Chief Executive Officer agreed and confirmed that the Company s Chief Executive Officer will assert no claim that any Option Grant in 2009, 2010, 2011 or 2012 provided for the purchase of more than 100,000 shares of the Company s Common Stock, and that each Option Grant document be deemed amended to reflect the foregoing 100,000 share limitation.

The aggregate intrinsic value in the table above is before applicable income taxes and represents the amount option holders 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 June 30, 2013, total unrecognized share-based compensation expense related to unvested stock options, net of forfeitures, was approximately $12 million, before income taxes, and is expected to be recognized over a weighted average period of approximately 3 years.

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

Since the approval of the 2013 Plan, all share grants have been granted under the 2013 Plan, and the Company will not grant any further share grants under its 2001 Plan.

The total fair value of restricted stock awards vested during the six months ended June 30, 2013 was approximately $3 million. Share grant expense for both the three months ended June 30, 2013 and 2012 was approximately $2 million, and share grant expense for both the six months ended June 30, 2013 and 2012 was approximately $5 million.

Table of Contents

A summary 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)
Non-vested at January 1, 2013	1164	$ 20.42	$
Granted	224	23.10	
Vested	(129)	20.46	2,636
Forfeited	(26)	20.68	
Non-vested at June 30, 2013	**1233**	**$ 20.94**	**$ 25,809**

As of June 30, 2013, total unrecognized share-based compensation expense related to non-vested stock awards, net of forfeitures, was approximately $20 million, before income taxes, and is expected to be recognized over a weighted average period of approximately 2 years.

NOTE K 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 aggregates its products because 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 June 30, 2013	Asia	North America	Europe	Consolidated
Total sales	$ 195,735	$ 37,253	$ 39,993	$ 272,981
Inter-company sales	(18,873)	(18,657)	(21,072)	(58,602)
Net sales	$ 176,862	$ 18,596	$ 18,921	$ 214,379

Three Months Ended June 30, 2012	Asia	North America	Europe	Consolidated
Total sales	$ 145,699	$ 34,071	$ 45,505	$ 225,275
Inter-company sales	(23,684)	(15,881)	(26,471)	(66,036)
Net sales	$ 122,015	$ 18,190	$ 19,034	$ 159,239

As Of And For The Six Months Ended June 30, 2013	Asia	North America	Europe	Consolidated
Total sales	$ 352,535	$ 72,061	$ 77,630	$ 502,226
Inter-company sales	(34,896)	(35,424)	(40,563)	(110,883)
Net sales	$ 317,639	$ 36,637	$ 37,067	$ 391,343

Property, plant and equipment	$ 277,608	$ 30,579	$ 23,100	$ 331,287
Total assets	$ 837,332	$ 150,733	$ 183,509	$ 1,171,574

Table of Contents

As Of And For The Six Months Ended June 30, 2012	Asia	North America	Europe	Consolidated
Total sales	$ 273,071	$ 65,802	$ 84,450	$ 423,323
Inter-company sales	(40,052)	(31,045)	(48,324)	(119,421)
Net sales	$ 233,019	$ 34,757	$ 36,126	$ 303,902
Property, plant and equipment	$ 168,596	$ 31,127	$ 27,220	$ 226,943
Total assets	$ 517,232	$ 119,600	$ 222,961	$ 859,793

Geographic Information

Revenues were derived from (billed to) customers located in the following countries (*in thousands*):

	Net Sales for the Three Months Ended June 30,		Percentage of Net Sales	
	2013	2012	2013	2012
China	$ 80,049	$ 51,658	37%	32%
Taiwan	39,137	31,667	18%	20%
Korea	17,434	11,632	8%	7%
Switzerland	16,763	14,549	8%	10%
Singapore	13,634	6,831	6%	4%
United States	11,819	13,377	6%	8%
U.K.	10,137	7,853	5%	5%
Germany	8,379	6,157	4%	4%
All Others (1)	17,027	15,515	8%	10%
Total	$ 214,379	$ 159,239	100%	100%

	Net Sales for the Six Months Ended June 30,		Percentage of Net Sales	
	2013	2012	2013	2012
China	$ 138,432	$ 100,810	35%	33%
Taiwan	71,411	63,448	18%	21%
Switzerland	31,750	28,062	8%	9%
United States	24,769	28,134	6%	9%
Korea	33,196	21,853	9%	7%
U.K.	18,709	12,978	5%	4%
Singapore	23,100	11,476	6%	5%
Germany	16,712	12,939	4%	4%
All Others (1)	33,264	24,202	9%	8%
Total	$ 391,343	$ 303,902	100%	100%

(1) Represents countries with less than 3% of the total revenues each.

- 16 -

Table of Contents

NOTE L Commitments and Contingencies

Purchase commitments As of June 30, 2013, the Company had approximately $12 million in non-cancelable purchase contracts related to capital expenditures, primarily for manufacturing equipment in China.

Other commitments During 2010, the Company entered into an investment agreement with the Management Committee of the Chengdu Hi-Tech Industrial Development Zone (the CDHT). Under this agreement, the Company agreed to form a joint venture with a Chinese partner, Chengdu Ya Guang Electronic Company Limited, to establish a semiconductor manufacturing facility for surface-mounted component production, assembly and test in Chengdu, China. This is a long-term, multi-year project that will provide additional capacity for the Company as needed. In order to qualify for certain financial incentives, the Company is obligated to contribute approximately $48 million to the joint venture by December 31, 2013. As of June 30, 2013, the Company has contributed approximately $25 million of which $21 million was for capital expenditures.

Contingencies From time to time, the Company may be involved in a variety of legal matters that arise in the normal course of business. Based on information available, the Company evaluates the likelihood of potential outcomes. The Company records the appropriate liability when the amount is deemed probable and reasonably estimable. In addition, the Company does not accrue for estimated legal fees and other directly related costs as they are expensed as incurred.

The Company is currently a party to a purported stockholder derivative action in the United States District Court for the District of Delaware, entitled *Scherer v. Keh-Shew Lu*, Civil Action No. 1:13-cv-00358-UNA (D. Del. filed Mar. 5, 2013), on behalf of the Company against its directors, in which plaintiff alleges that (a) the Board approved awards of stock options to Dr. Keh-Shew Lu, our President and Chief Executive Officer, in 2009, 2010, 2011 and 2012 that exceeded the limitation on the number of shares of the Company s Common Stock that may be purchased upon the exercise of options granted to any person in any given year under the Company s 2001 Omnibus Equity Incentive Plan as amended by the stockholders on May 28, 2009; (b) the Company s disclosures in its 2010, 2011 and 2012 proxy statements regarding the limitation on the number of shares of the Company s Common Stock that may be purchased upon the exercise of options granted to any person in any given year under the Company s 2001 Omnibus Equity Incentive Plan as amended by the stockholders on May 28, 2009 were inaccurate; and (c) the Company s disclosures in its 2010, 2011 and 2012 proxy statements that the grants of stock options to Dr. Lu in 2009, 2010, 2011 and 2012 complied with the terms of the Company s 2001 Omnibus Equity Incentive Plan as amended by the stockholders on May 28, 2009 were incorrect. The Compensation Committee reviewed the grants of stock options to Dr. Lu in 2009, 2010, 2011 and 2012 (each such annual grant, an Option Grant), and approved a Confirmation Agreement, dated April 1, 2013, in which the Company and Dr. Lu agree and confirm that Dr. Lu will assert no claim that any Option Grant in 2009, 2010, 2011 or 2012 provided for the purchase of more than 100,000 shares of the Company s Common Stock, and that each Option Grant document be deemed amended to reflect the foregoing 100,000 share limitation. On April 3, 2013, defendants and the Company filed answers to the complaint. On May 8, 2013, defendants filed a motion for judgment on the pleadings dismissing the action on the ground that the claims are moot. On June 24, 2013, the Court approved the parties stipulation providing for the withdrawal of the motion for judgment on the pleadings and the dismissal of the action as moot upon the filing and adjudication of plaintiff s motion for an award of attorney s fees and costs. On July 29, 2013, plaintiff filed a motion for an award of attorneys fees and costs. The Company intends to oppose plaintiff s motion vigorously. No hearing date has been set for this motion.

The Company is also currently a party to a putative securities class action in the United States District Court for the Eastern District of Texas, entitled *Local 731 I.B. of T. Excavators and Pavers Pension Trust Fund v. Diodes, Inc.*, Civil Action No. 6:13-cv-247 (E.D. Tex. filed Mar. 15, 2013), against the Company, Dr. Lu and Richard D. White, in which plaintiff, purportedly on behalf of a class of investors who purchased the Company s Common Stock between February 9, 2011 and June 9, 2011, alleges that defendants violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Securities and Exchange Commission Rule 10b-5 promulgated thereunder in connection with allegedly public statements made during the class period regarding the labor market in China and its impact on the Company s business and prospects. Pursuant to the Private Securities Litigation Reform Act of 1995 (Reform Act), motions for appointment of lead plaintiff are due to be filed by May 14, 2013. Pursuant to the Court s order dated April 26, 2013, (1) in the event the putative class member ultimately appointed as lead plaintiff wishes to file an amended complaint, lead plaintiff shall do so no later than forty-five (45) days after entry of an order appointing the lead plaintiff; (2) no later than fifteen (15) days after entry of an order appointing the lead plaintiff, lead plaintiff must file a notice with the Court indicating whether it will file an amended complaint; (3) defendants shall file an answer or motion directed to the operative complaint in this action no later than forty-five (45) days after service of an amended complaint or notice of lead plaintiff s decision not to file an amended complaint, as applicable; and (4) in the event defendants file a motion or motions directed to the operative complaint in this action, (i) lead plaintiff shall file his, her or its opposition, if any, within forty-five (45) days after service of such motion(s) and (ii) defendants shall file their reply, if any, within thirty (30) days after service of lead plaintiff s opposition. On June 14, 2013, the Court entered an order appointing Local 731 I.B. of T. Excavators and Pavers Pension Trust Fund as lead plaintiff and approved lead plaintiff s selection of Robbins Geller Rudman & Dowd as lead plaintiff s counsel and the Ward & Smith Law Firm as lead plaintiff s liaison counsel. On August 1, 2013, lead plaintiff filed an amended complaint reiterating the same claims for relief against the same defendants as asserted in the original complaint. The deadline for defendants to move against or otherwise respond to the amended complaint is September 16, 2013. Pursuant to the Reform Act, all discovery and other proceedings are stayed pending a ruling on any motion to dismiss. The defendants intend to defend this action vigorously.

Table of Contents

NOTE M Employee Benefit