

DIODES INC /DEL/
Form 10-Q
May 10, 2012
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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 March 31, 2012

Or

.. **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from _____ to _____.

Commission file number: 002-25577

DIODES INCORPORATED

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)

95-2039518
(I.R.S. Employer
Identification Number)

4949 Hedgcoxe Road, Suite 200

Plano, Texas
(Address of principal executive offices)

75024
(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 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 (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

The number of shares of the registrant's Common Stock outstanding as of May 3, 2012 was 45,510,619.

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

| | March 31, 2012 | December 31, 2011 |
|---|---------------------------|------------------------------|
| | <i>(Unaudited)</i> | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 176,728 | \$ 129,510 |
| Accounts receivable, net | 139,695 | 132,408 |
| Inventories | 134,470 | 140,337 |
| Deferred income taxes, current | 5,358 | 5,450 |
| Prepaid expenses and other | 21,685 | 19,093 |
| Total current assets | 477,936 | 426,798 |
| PROPERTY, PLANT AND EQUIPMENT, net | 227,328 | 225,393 |
| DEFERRED INCOME TAXES, non-current | 26,863 | 26,863 |
| OTHER ASSETS | | |
| Goodwill | 69,424 | 67,818 |
| Intangible assets, net | 23,619 | 24,197 |
| Other | 22,638 | 21,995 |
| Total assets | \$ 847,808 | \$ 793,064 |

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)*

| | March 31, 2012 | December 31, 2011 |
|---|---------------------------|------------------------------|
| | <i>(Unaudited)</i> | |
| CURRENT LIABILITIES | | |
| Lines of credit | \$ 10,517 | \$ 8,000 |
| Accounts payable | 66,915 | 66,063 |
| Accrued liabilities | 30,175 | 30,793 |
| Income tax payable | 2,397 | 4,855 |
| Total current liabilities | 110,004 | 109,711 |
| LONG-TERM DEBT, net of current portion | 42,826 | 2,857 |
| CAPITAL LEASE OBLIGATIONS, net of current portion | 1,002 | 1,082 |
| OTHER LONG-TERM LIABILITIES | 34,703 | 30,699 |
| Total liabilities | 188,535 | 144,349 |
| 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; 45,503,469 and 45,432,252 issued and outstanding at March 31, 2012 and December 31, 2011, respectively | 30,471 | 30,423 |
| Additional paid-in capital | 267,422 | 263,455 |
| Retained earnings | 380,515 | 375,644 |
| Accumulated other comprehensive loss | (34,789) | (35,762) |
| Total Diodes Incorporated stockholders' equity | 643,619 | 633,760 |
| Noncontrolling interest | 15,654 | 14,955 |
| Total equity | 659,273 | 648,715 |
| Total liabilities and equity | \$ 847,808 | \$ 793,064 |

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

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DIODES INCORPORATED AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share data)

| | Three Months Ended | |
|---|---------------------------|-------------|
| | March 31, | |
| | 2012 | 2011 |
| NET SALES | \$ 144,663 | \$ 161,555 |
| COST OF GOODS SOLD | 110,957 | 104,162 |
| Gross profit | 33,706 | 57,393 |
| OPERATING EXPENSES | | |
| Selling, general and administrative | 22,146 | 21,410 |
| Research and development | 7,164 | 6,518 |
| Other operating (income) expenses | (1,104) | 1,188 |
| Total operating expenses | 28,206 | 29,116 |
| Income from operations | 5,500 | 28,277 |
| OTHER INCOME (EXPENSES) | 687 | (3,178) |
| Income before income taxes and noncontrolling interest | 6,187 | 25,099 |
| INCOME TAX PROVISION | 618 | 4,835 |
| NET INCOME | 5,569 | 20,264 |
| Less: NET INCOME attributable to noncontrolling interest | (698) | (580) |
| NET INCOME attributable to common stockholders | \$ 4,871 | \$ 19,684 |
| EARNINGS PER SHARE attributable to common stockholders | | |
| Basic | \$ 0.11 | \$ 0.44 |
| Diluted | \$ 0.10 | \$ 0.42 |
| Number of shares used in computation | | |
| Basic | 45,460 | 44,820 |
| Diluted | 46,935 | 46,680 |

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

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DIODES INCORPORATED AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

*(Unaudited)**(In thousands)*

| | Three Months Ended March 31, | |
|--|---|-------------|
| | 2012 | 2011 |
| Net income | \$ 5,569 | \$ 20,264 |
| Translation adjustment | 3,998 | 4,724 |
| Unrealized gain/(loss) on defined benefit plan, net of tax | (3,025) | 7,313 |
| Comprehensive income | 6,542 | 32,301 |
| Less: Comprehensive income attributable to noncontrolling interest | (698) | (580) |
| Total comprehensive income attributable to common stockholders | \$ 5,844 | \$ 31,721 |

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

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

| | Three Months Ended March 31, | |
|---|---|-------------|
| | 2012 | 2011 |
| CASH FLOWS FROM OPERATING ACTIVITIES | \$ 13,447 | \$ 15,730 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of property, plant and equipment | (11,943) | (12,433) |
| Proceeds from sale of property, plant and equipment | 302 | 10 |
| Proceeds from sale of intangibles | 2,122 | |
| Other | (139) | (637) |
| Net cash used in investing activities | (9,658) | (13,060) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Advances on line of credit | 2,482 | |
| Advances on long-term debt | 40,000 | |
| Net proceeds from issuance of common stock | 473 | 2,668 |
| Repayments of long-term debt | (103) | (103) |
| Other | (87) | (85) |
| Net cash provided by financing activities | 42,765 | 2,480 |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | 664 | 2,689 |
| INCREASE IN CASH AND CASH EQUIVALENTS | 47,218 | 7,839 |
| CASH AND CASH EQUIVALENTS, beginning of period | 129,510 | 270,901 |
| CASH AND CASH EQUIVALENTS, end of period | \$ 176,728 | \$ 278,740 |
| SUPPLEMENTAL CASH FLOW INFORMATION: | | |
| Non-cash financing activities: | | |
| Property, plant and equipment purchased on accounts payable | \$ (3,807) | \$ (6,166) |

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

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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 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, 2011. 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 months ended March 31, 2012 are not necessarily indicative of the results that may be expected for other interim periods or the year ending December 31, 2012. The consolidated condensed financial data at December 31, 2011 is derived from audited financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

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

There have been no new accounting pronouncements during the three months ended March 31, 2012, as compared to recently issued accounting pronouncements described in the Company's Annual Report on Form 10-K for the year ended December 31, 2011, that are of significance, or potential significance, to the Company.

During the first quarter of 2012, the Company adopted Accounting Standards Update (ASU) No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*. ASU No. 2011-05 requires an other comprehensive income statement to be included with the income statement, which together will make a statement of total comprehensive income, or separate from the income statement, but the two statements will have to appear consecutively within a financial report. The Company elected to present other comprehensive income as a separate statement from the income statement.

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*):

| | \$XXXXXXXXXX | \$XXXXXXXXXX |
|---|---------------------------|--------------|
| | Three Months Ended | |
| | March 31, | |
| | 2012 | 2011 |
| BASIC | | |
| Weighted average number of common shares outstanding used in computing basic earnings per share | 45,460 | 44,820 |
| Net income attributable to common stockholders | \$ 4,871 | \$ 19,684 |
| Earnings per share attributable to common stockholders | \$ 0.11 | \$ 0.44 |
| DILUTED | | |
| Weighted average number of common shares outstanding used in computing basic earnings per share | 45,460 | 44,820 |
| Add: Assumed exercise of stock options and stock awards | 1,475 | 1,860 |
| | 46,935 | 46,680 |
| Net income attributable to common stockholders | \$ 4,871 | \$ 19,684 |
| Earnings per share attributable to common stockholders | \$ 0.10 | \$ 0.42 |

NOTE C Inventories

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

| | \$XXX | \$XXX |
|------------------|------------------|---------------------|
| | March 31, | December 31, |
| | 2012 | 2011 |
| Raw materials | \$ 69,504 | \$ 65,373 |
| Work-in-progress | 23,889 | 22,937 |
| Finished goods | 41,077 | 52,027 |
| Total | \$ 134,470 | \$ 140,337 |

Table of Contents**NOTE D Goodwill and Intangible Assets**

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

| | |
|----------------------------------|------------------|
| Balance at December 31, 2011 | \$ 67,818 |
| Currency exchange | 1,606 |
| Balance at March 31, 2012 | \$ 69,424 |

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

| | |
|--|------------------|
| Balance at March 31, 2012: | |
| Intangible assets subject to amortization: | |
| Gross carrying amount | \$ 48,460 |
| Accumulated amortization | (20,130) |
| Currency exchange | (7,267) |
| Net value | 21,063 |
| Intangible assets with indefinite lives: | |
| Gross carrying amount | 3,162 |
| Currency exchange | (606) |
| Total | 2,556 |
| Total intangible assets, net | \$ 23,619 |

Amortization expense related to intangible assets subject to amortization was approximately \$1 million for the three months ended March 31, 2012 and 2011.

NOTE E Fair Value Measurements

As of March 31, 2012, the Company held approximately 13 million shares, approximately 30 percent ownership, of the common stock of Eris Technology Corporation (Eris), a publicly traded company listed as an Emerging Stock on the Taiwan OTC Exchange (TWO) that provides design, manufacturing and after-market services for diode products. See Note K for additional information regarding related party transactions with Eris.

The Company has elected the fair value option for the shares of Eris common stock, which the unrealized gains and losses are reported in other income (expense). Fair value is the price that would be received on the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The shares of Eris common stock are valued under the fair value hierarchy as a Level 1 Input, which is the quoted price (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Financial assets carried at fair value as of March 31, 2012 are classified in the following table (*in thousands*):

| Fair Value Measurements | Changes in Fair Values for Items Measured at Fair Value Pursuant |
|-------------------------|--|
|-------------------------|--|

| Description | Fair Value Estimate | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | to Election of the Fair Value Option | |
|------------------------------------|---------------------|--|---|---|--------------------------------------|--|
| | | | | | Other Gains and (Losses) | Total Changes in Fair Values Included in Current-Period Earnings |
| Securities carried at fair value * | \$ 13,740 | \$ 13,740 | \$ | \$ | \$ (650) | \$ 389 |

* Represents investments that would otherwise be accounted for under the equity method of accounting and is included in other assets.

Table of Contents**NOTE F Income Tax Provision**

Income tax expense of approximately \$1 million and \$5 million was recorded for the three months ended March 31, 2012 and 2011, respectively. This resulted in an effective tax rate of 10% for the three months ended March 31, 2012, as compared to 19% in the same period last year and compared to 16% for the full year of 2011. Our effective tax rates for the three months ended March 31, 2012 and 2011, respectively, were lower than the U.S. statutory tax rate of 35%, principally from the impact of higher income in lower-taxed jurisdictions.

For the three months ended March 31, 2012, the Company reported domestic and foreign pre-tax income (loss) of approximately \$(7) million and \$13 million, respectively. For the three months ended March 31, 2011, the Company reported domestic and foreign pre-tax income (loss) of approximately \$(6) million and \$31 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 being recorded on undistributed foreign earnings.

The impact of tax holidays decreased the Company's tax expense by approximately \$2 million for the three months ended March 31, 2012 and 2011. The benefit of the tax holidays on both basic and diluted earnings per share for the three months ended March 31, 2012 was approximately \$0.04. The benefit of the tax holidays on both basic and diluted earnings per share for the three months ended March 31, 2011 was approximately \$0.05.

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. 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, if any, related to unrecognized tax benefits in income tax expense. As of March 31, 2012, the gross amount of unrecognized tax benefits was approximately \$10 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 G 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 March 31, | |
|---|---|-----------------|
| | 2012 | 2011 |
| Cost of sales | \$ 103 | \$ 86 |
| Selling and administrative expense | 3,126 | 2,868 |
| Research and development expense | 316 | 230 |
| Total share-based compensation expense | \$ 3,545 | \$ 3,184 |

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 net cash proceeds received from stock option exercises during the three months ended March 31, 2012 was approximately \$0 million. Stock option expense for both the three months ended March 31, 2012 and 2011 was approximately \$1 million.

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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, 2012 | 3,587 | \$ 16.69 | 5 | \$ 22,299 |
| Granted | 12 | 21.83 | | |
| Exercised | (62) | 7.51 | | 1,066 |
| Forfeited or expired | | | | |
| Outstanding at March 31, 2012 | 3,537 | \$ 16.86 | 5 | \$ 26,218 |
| | | | | |
| Exercisable at March 31, 2012 | 2,560 | \$ 14.69 | 4 | \$ 23,111 |

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 March 31, 2012, total unrecognized stock-based compensation expense related to unvested stock options, net of forfeitures, was approximately \$9 million, before income taxes, and is expected to be recognized over a weighted average period of approximately 2 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 three months ended March 31, 2012 was approximately \$1 million. Share grant expense for both the three months ended March 31, 2012 and 2011 was approximately \$2 million.

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, 2012 | 623 | \$ 22.91 | \$ 14,279 |
| Granted | 8 | 21.83 | |
| Vested | (9) | 23.83 | 210 |
| Forfeited | (6) | 23.00 | |
| | | | |
| Non-vested at March 31, 2012 | 616 | \$ 22.88 | \$ 14,104 |

As of March 31, 2012, 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 3 years.

Table of Contents**NOTE H 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*):

| As Of And For The Three Months Ended March 31, 2012 | North | | | Consolidated |
|---|------------|------------|------------|--------------|
| | Asia | America | Europe | |
| Total sales | \$ 127,371 | \$ 31,732 | \$ 38,945 | \$ 198,048 |
| Inter-company sales | (16,368) | (15,164) | (21,853) | (53,385) |
| Net sales | \$ 111,003 | \$ 16,568 | \$ 17,092 | \$ 144,663 |
| Property, plant and equipment | \$ 165,929 | \$ 32,113 | \$ 29,286 | \$ 227,328 |
| Total assets | \$ 507,538 | \$ 118,657 | \$ 221,613 | \$ 847,808 |

| As Of And For The Three Months Ended March 31, 2012 | North | | | Consolidated |
|---|------------|------------|------------|--------------|
| | Asia | America | Europe | |
| Total sales | \$ 131,555 | \$ 35,373 | \$ 48,763 | \$ 215,691 |
| Inter-company sales | (14,449) | (15,332) | (24,355) | (54,136) |
| Net sales | \$ 117,106 | \$ 20,041 | \$ 24,408 | \$ 161,555 |
| Property, plant and equipment | \$ 142,228 | \$ 34,572 | \$ 30,536 | \$ 207,336 |
| Total assets | \$ 471,105 | \$ 183,841 | \$ 226,852 | \$ 881,798 |

Geographic Information

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

| | Net Sales for the Three Months Ended March 31, | | Percentage of Net Sales | |
|----------------|--|-----------|----------------------------|------|
| | 2012 | 2011 | 2012 | 2011 |
| China | \$ 49,152 | \$ 47,436 | 34% | 29% |
| Taiwan | 31,781 | 37,680 | 22% | 23% |
| United States | 28,270 | 26,529 | 20% | 17% |
| Korea | 10,221 | 9,767 | 7% | 6% |
| Germany | 6,782 | 9,457 | 5% | 6% |
| U.K. | 5,125 | 8,718 | 3% | 6% |
| Singapore | 4,645 | 5,562 | 3% | 3% |
| All Others (1) | 8,687 | 16,406 | 6% | 10% |

| | | | | |
|--------------|------------|------------|------|------|
| Total | \$ 144,663 | \$ 161,555 | 100% | 100% |
|--------------|------------|------------|------|------|

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

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Purchase commitments As of March 31, 2012, the Company had approximately \$31 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 the purpose of providing surface mounted component production, assembly and testing, and integrated circuit assembly and testing in Chengdu, People's Republic of 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 in invested capital by December 14, 2012. As of March 31, 2012, the Company has contributed approximately \$33 million, of which \$26 million has been invested in capital expenditures.

NOTE J 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 three months ended March 31, 2012, net period benefit costs associated with the defined benefit plan were approximately \$0 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 |
|--|-----------------------------|
| Change in benefit obligation: | |
| Balance at December 31, 2011 | \$ 109,877 |
| Service cost | 78 |
| Interest cost | 1,397 |
| Actuarial gain | 3,849 |
| Benefits paid | (977) |
| Currency changes | 3,207 |
| Benefit obligation at March 31, 2012 | \$ 117,431 |
| Change in plan assets: | |
| Fair value of plan assets at December 31, 2011 | \$ 96,384 |
| Actual return on plan assets | 2,254 |
| Employer contribution | 1,089 |
| Benefits paid | (977) |
| Currency changes | 2,774 |
| Fair value of plan assets at March 31, 2012 | \$ 101,524 |
| Underfunded status at March 31, 2012 | \$ (15,907) |

Based on an actuarial study performed as of March 31, 2012, the plan is underfunded and a liability is reflected in the Company's consolidated financial statements as a long-term liability. The weighted-average discount rate assumption used to determine benefit obligations as of March 31, 2012 was 5.1%.

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The following are weighted-average assumptions used to determine net periodic benefit costs for the three months ended March 31, 2012:

| | |
|--|------|
| Discount rate | 5.1% |
| Expected long-term return on plan assets | 5.6% |

The Company adopted a payment plan with the trustees of the defined benefit plan, in which the Company paid 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 2011. The Company and the trustees are in discussions regarding the payment scheme.

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, are not included in the figures 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 March 31, 2012, these investments totaled approximately \$3 million. All gains and losses in these investments are materially offset by corresponding gains and losses in the Deferred Compensation Plan liabilities.

NOTE K Related Parties

The Company conducts business with a related party company, Lite-On Semiconductor Corporation and its subsidiaries and affiliates (collectively, *LSC*), that owned approximately 18% of the Company's outstanding Common Stock as of March 31, 2012. The Company also conducts business with one significant company, Keylink International (B.V.I.) Inc. and its subsidiaries and affiliates (collectively, *Keylink*). Keylink is the Company's 5% joint venture partner in the Company's Shanghai manufacturing facilities. In addition, the Company conducts business with a related party company, Eris. The Company owned approximately 30% of Eris's outstanding Common Stock as of March 31, 2012.

The Audit Committee of the Company's Board reviews all related party arrangements 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.

Lite-On Semiconductor Corporation During both the three months ended March 31, 2012 and 2011, the Company sold products to LSC totaling approximately 0% and 1% of its net sales, respectively. Net sales have decreased in recent years due to fewer wafers being sold to LSC and more wafers being used for internal consumption. Also, for the three months ended March 31, 2012 and 2011, approximately 3% and 6%, respectively, of the Company's net sales were from semiconductor products purchased from LSC for subsequent sale, making LSC one of the Company's largest suppliers.

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

| | Three Months Ended March 31, | |
|-----------|---------------------------------|----------|
| | 2012 | 2011 |
| Net sales | \$ 47 | \$ 447 |
| Purchases | \$ 7,418 | \$ 9,392 |

Keylink International (B.V.I.) Inc. During the three months ended March 31, 2012 and 2011, the Company sold products to Keylink totaling approximately 3% and 1% of its net sales, respectively. Net sales increased in 2012 compared to 2011 due to the renewed business activity that had ceased during most of 2011. Also, for both the three months ended March 31, 2012 and 2011, approximately 1% of the Company's net sales were from semiconductor products purchased from Keylink for subsequent sale. In addition, the Company's subsidiaries in China lease their manufacturing facilities from, and subcontract a portion of their manufacturing process (including, but not limited to, metal plating and environmental services) to Keylink. The Company also pays a consulting fee to Keylink. The aggregate amounts for these services for both the three months ended March 31, 2012 and 2011 were approximately \$4 million.

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

| | Three Months Ended March 31, | |
|-----------|-------------------------------------|-------------|
| | 2012 | 2011 |
| Net sales | \$ 4,472 | \$ 1,186 |
| Purchases | \$ 1,804 | \$ 2,863 |

Eris Technology Corporation The Company subcontracts to Eris some of its wafers for assembly and test and also purchases finished goods not sourced from the Company's wafers. With respect to assembly and test fees and the finished goods purchases, the Company paid Eris approximately \$3 million and \$4 million for the three months ended March 31, 2012 and 2011, respectively.

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

| | March 31, |
|----------------------------|------------------|
| | 2012 |
| Accounts receivable | |
| LSC | \$ 49 |
| Keylink | 12,244 |
| | \$ 12,293 |
| Accounts payable | |
| LSC | \$ 6,482 |
| Keylink | 5,191 |
| Eris | 5,277 |
| | \$ 16,950 |

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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, 2011, previously filed with Securities and Exchange Commission.

Highlights

Net sales for the three months ended March 31, 2012 was \$145 million, a sequential increase of 1% compared to the \$143 million in the fourth quarter of 2011, and a decrease of \$17 million, or 10%, over the same period last year;

Gross profit for the three months ended March 31, 2012 was \$34 million, a sequential decrease of 5% compared to the \$35 million in the fourth quarter of 2011, and a decrease of \$24 million, or 41%, over the same period last year;

Gross profit margin for the three months ended March 31, 2012 was 23%, a sequential decrease of 150 basis points compared to the fourth quarter of 2011, and a decrease of 1220 basis points over the same period last year;

Net income attributable to common stockholders for the three months ended March 31, 2012 was \$5 million, or \$0.10 per diluted share, compared to the fourth quarter of 2011 net income of \$3 million, or \$0.07 per diluted share, and same period last year of \$20 million, or \$0.42 per diluted share; and

Cash flow from operations for the three months ended March 31, 2012 was \$14 million, and the net increase in cash and cash equivalents was \$47 million.

Overview

We are 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. The products are sold primarily throughout Asia, North America 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.

First Quarter 2012

Late in the first quarter of 2012, we began to see signs of a recovery in our end markets. We took advantage of this renewed strength by significantly reducing our lower margin finished goods inventory, which helped to support revenue and secure incremental market share gains. Overall, we reduced our finished goods inventory by 20% while channel inventory declined 3%. As a result, we achieved moderate sequential

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revenue growth, which is significantly better than the typical seasonal slowness. However, our decision to reduce inventory combined with the increased pricing pressure and lower utilization continued to impact margins during the quarter. We believe the first quarter represents the low point in the cycle and that overall demand is beginning to improve across all of our geographies. As such, we have shifted our strategy back to our growth model to aggressively capture additional market share. We have begun adding capacity for new, more advanced packaging at our Shanghai facilities to support our continued growth. As the demand and pricing environment improves further, we will transition available capacity to higher margin products to enhance our product mix and margins going forward.

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Business Outlook

We expect continued growth in the second quarter, which is further evidence of the improvement in our business and the general economic conditions. The flexibility of our business model has allowed us to consistently deliver profitability, gain market share and even grow revenue during down economic cycles. We believe we are well positioned for growth and that our strategy will continue to produce growth rates that exceed our addressable markets. With further evidence of improvement in overall demand as well as our increased new project design win activity, we are returning to our growth model and expect revenue in the second quarter to range between \$155 million and \$164 million, or up 7% to 13% sequentially. We expect gross margin to be 26%, plus or minus 2.0%. Operating expenses, without consideration of any gain on sale of assets, are expected to be down slightly from first quarter on a percent of revenue basis. We expect our income tax rate to range between 7% and 13%, and shares used to calculate GAAP EPS for the second quarter are anticipated to be approximately 47.2 million.

Factors Relevant to Our Business

The following has affected, and, we believe, will continue to affect, our results of operations:

Net sales for the three months ended March 31, 2012 was \$145 million, compared to \$162 million in the same period last year. This decrease in net sales mainly reflects the decrease in demand for our products in all geographic regions during the first three months of 2012 compared to the first three months of 2011.

Our gross profit margin was 23% for the three months ended March 31, 2012, compared to 36% in the same period last year. Our gross margin percentage decreased over the same period last year due to a weaker pricing environment and lower utilization. Future gross profit margins will depend primarily on market prices, our product mix, manufacturing cost savings, and the demand for our products.

For the three months ended March 31, 2012, our capital expenditures, excluding capital expenditures related to our investment agreement with the Management Committee of the Chengdu Hi-Tech Industrial Development Zone (the CDHT), were approximately 5% of our net sales, which is lower than our historical 10% to 12% of net sales model. For 2012, we expect capital expenditures, excluding capital expenditures related to our investment agreement, to be at the low end of our historical model.

For the three months ended March 31, 2012 and 2011, the percentage of our net sales derived from our Asian subsidiaries was 77% and 73%, respectively. In the near future, we expect our percentage of net sales to the Asian market to remain approximately the same. Europe accounted for approximately 12% of our revenues for the three months ended March 31, 2012, compared to 15% in the same period last year. In addition, North America accounted for approximately 11% of our revenues for the three months ended March 31, 2012, compared to 12% in the same period last year.

As of March 31, 2012, we had invested approximately \$362 million in our manufacturing facilities in Asia. For the three months ended March 31, 2012, we invested approximately \$15 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, among other factors, product demand and new product developments.

For the three months ended March 31, 2012, our original equipment manufacturers (OEM) and electronic manufacturing services (EMS) customers together accounted for approximately 47% of our net sales, while our global network of distributors accounted for approximately 53% of our net sales.

Table of Contents**Results of Operations for the Three Months Ended March 31, 2012 and 2011**

The following table sets forth, 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.

| | Percent of Net Sales | | Percentage Dollar Increase (Decrease) 11 to 12 |
|--|-----------------------------------|-----------------------------------|--|
| | Three Months Ended March 31, 2012 | Three Months Ended March 31, 2011 | |
| Net sales | 100% | 100% | (10) |
| Cost of goods sold | (77) | (64) | 7 |
| Gross profit | 23 | 36 | (41) |
| Operating expenses | (19) | (18) | (3) |
| Income from operations | 4 | 18 | (81) |
| Other income (expense) | | (2) | (122) |
| Income before income taxes and noncontrolling interest | 4 | 16 | (75) |
| Income tax provision | | 3 | (87) |
| Net income | 4 | 13 | (73) |
| Net income attributable to noncontrolling interest | | | |
| Net income attributable to common stockholders | 4 | 13 | 75 |

The following discussion explains in greater detail our consolidated operating results and financial condition for the three months ended March 31, 2012, compared to the three months ended March 31, 2011. This discussion should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this quarterly report (*in thousands*).

| | 2012 | 2011 |
|------------------|------------|------------|
| Net Sales | \$ 144,663 | \$ 161,555 |

Net sales decreased approximately \$17 million for the three months ended March 31, 2012, compared to the same period last year. The 10% decrease in net sales was due to an approximately 21% decrease in average selling price (ASP) and a 13% increase in units sold. The revenue decrease for the three months ended March 31, 2012 was attributable to general market slowdown on a global basis, specifically in the consumer and computing markets, causing larger than normal pricing decline, coupled with a reduction in our subcontractor assembly test activity.

| | 2012 | 2011 |
|----------------------------|------------|------------|
| Cost of goods sold | \$ 110,957 | \$ 104,162 |
| Gross profit | \$ 33,706 | \$ 57,393 |
| Gross profit margin | 23% | 36% |

Cost of goods sold increased approximately \$7 million, or 7%, for the three months ended March 31, 2012, compared to the same period last year. As a percent of sales, cost of goods sold increased to 77% for the three months ended March 31, 2012, compared to 64% in the same period last year, and our average unit cost (AUP) decreased 6% due to improved manufacturing costs.

For the three months ended March 31, 2012, gross profit decreased by approximately \$24 million, or 41%, compared to the same period last year. Gross margin decreased to 23% for the three months ended March 31, 2012, compared to 36% for the same period last year. This decrease is mainly due to a weaker pricing environment and an effort to maintain full capacity utilization.

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| | 2012 | 2011 |
|----------------------------------|-----------|-----------|
| <u>Operating expenses</u> | \$ 28,206 | \$ 29,116 |

Operating expenses for the three months ended March 31, 2012 decreased approximately \$1 million compared to the same period last year. Of the components within operating expenses, selling, general and administrative expenses (SG&A) increased less than \$1 million, and research and development expenses (R&D) also increased less than \$1 million. In addition, included in operating expenses for 2012 is a gain of approximately \$2 million on the sale of intangible assets. SG&A, as a percentage of sales, increased to 15% for the three months ended March 31, 2012, compared to 13% in the same period last year, and R&D, as a percentage of sales, increased to 5% for the three months ended March 31, 2012, compared to 4% in the same period last year, mainly due to the decrease in net sales.

| | 2012 | 2011 |
|---------------------------------------|--------|------------|
| <u>Other income (expenses)</u> | \$ 687 | \$ (3,178) |

Other income for the three months ended March 31, 2012 was approximately \$1 million, compared to other expenses of approximately \$3 million in the same period last year. For the three months ended March 31, 2011, other expense included approximately \$2 million for the amortization of debt discount related to our convertible senior notes, which were repurchased in 2011.

| | 2012 | 2011 |
|------------------------------------|--------|----------|
| <u>Income tax provision</u> | \$ 618 | \$ 4,835 |

We recognized income tax expense of approximately \$1 million for the three months ended March 31, 2012, compared to approximately \$5 million income tax expense in the same period last year. The estimated effective tax rate is 10% for the three months ended March 31, 2012, compared to 19% in the same period last year. Our effective tax rates for the three months ended March 31, 2012 and 2011, respectively, were lower than the U.S. statutory tax rate of 35%, principally from the impact of higher income in lower-taxed jurisdictions.

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

Our primary sources of liquidity are cash and cash equivalents, funds from operations and, if necessary, borrowings under our credit facilities. We currently have a U.S. credit agreement for a \$10 million revolving credit facility and a \$10 million uncommitted facility with \$10 million outstanding borrowings. Our U.S. credit agreement's maturity date is January 17, 2013. In addition, we have foreign credit facilities with borrowing capacities of approximately \$48 million with \$1 million outstanding borrowings and \$1 million used for import and export guarantees. Our primary liquidity requirements have been to meet our inventory and capital expenditure needs and to fund on-going operations. At December 31, 2011 and March 31, 2012, our working capital was \$317 million and \$368 million, respectively. Our working capital increased in the first three months of 2012 primarily due to the increase in cash and cash equivalents, mainly due to a draw down on our \$40 million term loan. We expect cash generated by our 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.

Capital expenditures for the three months ended March 31, 2012 and 2011 were \$16 million and \$19 million, respectively, which includes \$8 million and \$1 million, respectively, of capital expenditures related to the investment agreement with the Management Committee of the CDHT. Capital expenditures, excluding capital expenditures related to the investment agreement, in the first three months of 2012 were approximately 5% of our net sales and were primarily related to manufacturing expansion in our facilities in China.

Discussion of Cash Flow

Cash and cash equivalents increased from \$130 million at December 31, 2011 to \$177 million at March 31, 2012 primarily from cash provided by operating and financing activities, offset in part by cash used by investing activities.

A summary of the consolidated condensed statements of cash flows is as follows (*in thousands*):

| | Three Months Ended March 31, | | |
|---|-------------------------------------|-----------------|------------------|
| | 2012 | 2011 | Change |
| Net cash provided by operating activities | \$ 13,447 | \$ 15,730 | \$ (2,283) |
| Net cash used by investing activities | (9,667) | (13,060) | 3,393 |
| Net cash provided by financing activities | 42,760 | 2,480 | 40,280 |
| Effect of exchange rates on cash and cash equivalents | 678 | 2,689 | (2,011) |
| Net increase in cash and cash equivalents | \$ 47,218 | \$ 7,839 | \$ 39,379 |

Operating Activities

Net cash provided by operating activities for the three months ended March 31, 2012 was \$13 million, resulting primarily from \$6 million of net income, \$16 million in depreciation and amortization and a decrease in inventories, offset partially by an increase in accounts receivable. Net cash provided by operating activities was \$16 million for the same period last year, resulting primarily from \$20 million of net income and \$14 million in depreciation and amortization, offset partially by a \$16 million increase in accounts receivable.

Investing Activities

Net cash used by investing activities was \$10 million for the three months ended March 31, 2012 compared to net cash used by investing activities of \$13 million for the same period last year. While cash used for purchases of property, plant and equipment was approximately \$12 million for both the three months ended March 31, 2012 and 2011, included in the three months ended March 31, 2012 was approximately \$2 million in proceeds from the sale of intangibles.

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Financing Activities

Net cash provided by financing activities was \$43 million for the three months ended March 31, 2012 compared to net cash provided by financing activities of \$3 million in the same period last year. This increase in net cash provided by financing activities was due primarily to a \$40 million draw down on our term loan.

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, 2011, filed on February 28, 2012.

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 as disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011, filed on February 28, 2012, except for an additional term loan in the amount of \$40 million that we drew down in full on February 1, 2012 and matures on January 17, 2015.

Critical Accounting Policies

Our critical accounting policies, as described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011, relate to revenue recognition, inventories, accounting for income taxes, goodwill and long-lived assets, share-based compensation, fair value measurements, defined benefit plan and contingencies. There have been no material changes to our critical accounting policies as disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011, filed on February 28, 2012.

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). 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, might, intend, expect, 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 Factors 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 in this Quarterly Report on Form 10-Q are made pursuant to the Act.

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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

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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

The success of our business depends on the strength of the global economy and the stability of the financial markets, and any weaknesses in these areas may have a material adverse effect on our revenues, results of operations and financial condition.

During times of difficult market conditions, our fixed costs combined with lower revenues and lower profit margins may have a negative impact on our business, results of operations and financial condition.

Downturns in the highly cyclical semiconductor industry and/or changes in end-market demand could adversely affect our results of operations and financial condition.

The semiconductor business is highly competitive, and increased competition may harm our business, results of operations and financial condition.

We receive a portion of our net sales from three customers, which all are related parties. In addition, two of these customers are large external suppliers. The loss of these customers or suppliers could harm our business, results of operations and financial condition.

Delays in initiation of production at facilities due to implementing new production techniques or resolving problems associated with technical equipment malfunctions could adversely affect our manufacturing efficiencies, results of operations and financial condition.

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, which could adversely affect our revenues, results of operations and financial condition.

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

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Production at our manufacturing facilities could be disrupted for a variety of reasons, including natural disasters and other extraordinary events, which could prevent us from producing enough of our products to maintain our sales and satisfy our customers' demands and could adversely affect our results of operations and financial condition.

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 would adversely affect our net sales, market share, results of operations and financial condition.

We may be adversely affected by any disruption in our information technology systems, which could adversely affect our cash flows, results of operations and financial condition.

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, reduction in our intellectual property rights and a negative impact on our business, results of operations and financial condition.

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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 reputation with customers, results of operations and financial condition 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, which could adversely affect our ability to compete, results of operations and financial condition.

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, which could adversely affect our business, results of operations and financial condition.

We are subject to many environmental laws and regulations that could result in significant expenses and could adversely affect our business, results of operations and financial condition.

Our products may be found to be defective and, as a result, warranty claims and product liability claims may be asserted against us, which may harm our business, reputation with our customers, results of operations and financial condition.

We may fail to attract or retain the qualified technical, sales, marketing, finance and management personnel required to operate our business successfully, which could adversely affect on our business, results of operations and financial condition.

We may not be able to maintain our growth or achieve future growth, and any such growth may place a strain on our management and on our systems and resources, which could adversely affect our business, results of operations and financial condition.

Obsolete inventories as a result of changes in demand for our products and change in life cycles of our products could adversely affect our business, results of operations and financial condition.

If OEMs do not design our products into their applications, 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, which could adversely affect our business, results of operations and financial condition.

We may have a significant amount of debt with various financial institutions worldwide. Any indebtedness could adversely affect our business, results of operations, financial condition and our ability to meet our payment obligations under such debt.

Restrictions in our credit facilities may limit our business and financial activities, including our ability to obtain additional capital in the future.

The value of our benefit plan assets and liabilities is based on estimates and assumptions, which may prove inaccurate and the actual amount of expenses recorded in the consolidated financial statements could differ materially from the assumptions used.

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Due to the recent 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 financial condition.

In 2010, we established a joint venture to build a semiconductor facility in Chengdu, China. We are required to contribute at least \$48 million to the joint venture during the first three years with additional contributions thereafter, as well as a substantial amount of time and resources to establish and operate the joint venture. Any failure to meet any such requirements, delays or unforeseen circumstances may cause us to incur penalties or require us to contribute additional expenses or resources and, as a result, could have an adverse effect on our operating efficiencies, results of operations and financial conditions.

Certain of our customers and suppliers require us to comply with their codes of conducts, which may include certain restrictions that may substantially increase the cost of our business as well as have an adverse effect on our operating efficiencies, results of operations and financial condition.

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There are risks associated with previous and future acquisitions. We may ultimately not be successful in overcoming these risks or any other problems encountered in connection with acquisitions.

If we fail to maintain an effective system of internal controls or discover material weaknesses in our internal control 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.

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 results of operations and financial condition.

RISKS RELATED TO OUR INTERNATIONAL OPERATIONS

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

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

A slowdown in the Chinese economy could limit the growth in demand for electronic devices containing our products, which would have a material adverse effect on our business, results of operations and prospects.

Economic regulation in China could materially and adversely affect our business, results of operations and prospects.

We could be adversely affected by violations of the United States Foreign Corrupt Practices Act, the United Kingdom's Bribery Act 2010 and similar worldwide anti-bribery laws.

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

China is experiencing rapid social, political and economic change, which has increased labor costs and other related costs that could make doing business in China less advantageous than in prior years. Increased labor costs in China could adversely affect our business, results of operations and financial condition.

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 United States income taxes, thus reducing our net income.

RISKS RELATED TO OUR COMMON STOCK

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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 adversely affect the price of our Common Stock.

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.

Non-cash tender offers, debt equity swaps or equity exchanges to consummate our business activities are likely to have the effect of diluting the ownership interest of existing stockholders, including qualified stockholders who receive shares of our Common Stock in such business activities.

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Anti-takeover effects of certain provisions of Delaware law and our Certificate of Incorporation and Bylaws, may hinder a take-over attempt.

Section 203 of Delaware General Corporation Law may deter a take-over attempt.

Certificate of Incorporation and Bylaw provisions may deter a take-over attempt.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

As a multinational corporation, we are subject to certain market risks including foreign currency, interest rate, political instability, inflation and credit. 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, 2011, filed on February 28, 2012.

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 Quarterly Report on Form 10-Q, 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 our Chief Executive Officer or our Chief Financial Officer, that occurred during the fiscal quarter covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, the Company is involved in various routine legal proceedings incidental to the conduct of its business. The Company is not currently a party to any material litigation.

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, 2011, filed on February 28, 2012.

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

We may from time to time seek to repurchase our Common Stock 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.

There have been no repurchases of our Common Stock during the first quarter of 2012.

Item 3. Defaults Upon Senior Securities

There are no matters to be reported under this heading.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

There are no matters to be reported under this heading.

Table of Contents**Item 6. Exhibits**

| Number | Description | Form | Date of First Filing | Exhibit Number | Filed Herewith |
|-----------|---|------|----------------------|----------------|----------------|
| 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 | |
| 10.1 | Fifth Amendment to Credit Agreement, dated February 1, 2012, by and among Diodes Incorporated, Diodes Zetex Limited, Diodes International B.V., and Bank of America, N.A. | 8-K | February 7, 2012 | 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 |
| 101.INS** | XBRL Instance Document | | | | X |
| 101.SCH** | XBRL Taxonomy Extension Schema | | | | X |
| 101.CAL** | XBRL Taxonomy Extension Calculation Linkbase | | | | X |
| 101.DEF** | XBRL Taxonomy Extension Definition Linkbase Document | | | | X |
| 101.LAB** | XBRL Taxonomy Extension Labels Linkbase | | | | X |
| 101.PRE** | XBRL Taxonomy Extension Presentation Linkbase | | | | X |

* A certification furnished pursuant to Item 601 of the Regulation S-K will not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the Exchange Act), or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.

** Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability.

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

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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.

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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)

May 10, 2012