DIODES INC /DEL/
Form 10-Q
August 09, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended June 30, 2011

Or

o **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 þ No o

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 þ No o

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

The number of shares of the registrant s Common Stock outstanding as of August 4, 2011 was 45,601,664.

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

	June 30, 2011 (Unaudited)	December 31, 2010
CURRENT ASSETS		
Cash and cash equivalents	$ 290,366	$ 270,901
Accounts receivable, net	144,205	129,207
Inventories	128,730	120,689
Deferred income taxes, current	8,200	8,276
Prepaid expenses and other	17,328	11,679
Total current assets	588,829	540,752
PROPERTY, PLANT AND EQUIPMENT, net	229,793	200,745
DEFERRED INCOME TAXES, non-current	1,534	1,574
OTHER ASSETS		
Goodwill	70,207	68,949
Intangible assets, net	27,077	28,770
Other	5,624	5,760
Total assets	$ 923,064	$ 846,550

The accompanying notes are an integral part of these financial statements.
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DIODES INCORPORATED AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS *(cont)*
LIABILITIES AND EQUITY
(In thousands, except share data)

	June 30, 2011 (Unaudited)	December 31, 2010
CURRENT LIABILITIES		
Lines of credit	$ 10,000	$
Accounts payable	82,074	70,057
Accrued liabilities	42,197	36,937
Income tax payable	6,014	15,412
Convertible senior notes	132,272	128,261
Other current liabilities	718	698
Total current liabilities	273,275	251,365
LONG-TERM DEBT, net of current portion	3,227	3,393
CAPITAL LEASE OBLIGATIONS, net of current portion	1,234	1,380
OTHER LONG-TERM LIABILITIES	31,899	37,520
Total liabilities	309,635	293,658
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; 45,474,579 and 44,662,796 issued and outstanding at June 30, 2011 and December 31, 2010, respectively	30,316	29,775
Additional paid-in capital	240,988	231,842
Retained earnings	362,572	324,907
Accumulated other comprehensive loss	(33,718)	(45,080)
Total Diodes Incorporated stockholders equity	600,158	541,444
Noncontrolling interest	13,271	11,448
Total equity	613,429	552,892
Total liabilities and equity	$ 923,064	$ 846,550

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 June 30,		Six Months Ended June 30,	
	2011	**2010**	**2011**	**2010**
NET SALES	$ 169,806	$ 149,153	$ 331,361	$ 286,000
COST OF GOODS SOLD	114,191	95,686	218,353	184,750
Gross profit	55,615	53,467	113,008	101,250
OPERATING EXPENSES				
Selling, general and administrative	22,575	21,422	43,985	42,841
Research and development	6,533	6,815	13,051	13,191
Other operating expenses	1,153	1,222	2,288	2,350
Total operating expenses	30,261	29,459	59,324	58,382
Income from operations	25,354	24,008	53,684	42,868
OTHER INCOME (EXPENSES)	(1,913)	(3,423)	(5,144)	(3,279)
Income before income taxes and noncontrolling interest	23,441	20,585	48,540	39,589
INCOME TAX PROVISION	4,718	3,035	9,553	6,359
NET INCOME	18,723	17,550	38,987	33,230
Less: NET INCOME attributable to noncontrolling interest	(742)	(903)	(1,322)	(1,625)
NET INCOME attributable to common stockholders	$ 17,981	$ 16,647	$ 37,665	$ 31,605
EARNINGS PER SHARE attributable to common stockholders				
Basic	$ 0.40	$ 0.38	$ 0.84	$ 0.72

Diluted	$ 0.38	$ 0.37	$ 0.80	$ 0.70
Number of shares used in computation				
Basic	45,325	43,975	45,074	43,871
Diluted	47,148	45,510	46,837	45,358

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

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DIODES INCORPORATED AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Six Months Ended June 30, 2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES	$ 48,082	$ 46,928
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of short-term investments		296,600
Purchases of property, plant and equipment	(44,984)	(41,053)
Proceeds from sale of property, plant and equipment	10	2,141
Other	77	(152)
Net cash provided by (used in) investing activities	(44,897)	257,536
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances on line of credit	10,000	3,762
Repayments on lines of credit		(301,625)
Net proceeds from issuance of common stock	3,709	2,634
Repayments of long-term debt	(272)	(969)
Repayments of capital lease obligations	(88)	(139)
Net cash provided by (used in) financing activities	13,349	(296,337)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	2,931	(4,440)
INCREASE IN CASH AND CASH EQUIVALENTS	19,465	3,687
CASH AND CASH EQUIVALENTS, beginning of period	270,901	241,953
CASH AND CASH EQUIVALENTS, end of period	$ 290,366	$ 245,640
SUPPLEMENTAL CASH FLOW INFORMATION:		
Non-cash financing activities:		
Property, plant and equipment purchased on accounts payable	$ 9,409	$ 6,292

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, 2010. 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, 2011 are not necessarily indicative of the results that may be expected for other interim periods or the year ending December 31, 2011. The consolidated condensed financial data at December 31, 2010 is derived from audited financial statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2010.

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 June 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income.* ASU No. 2011-05 provides two options for presenting other comprehensive income (OCI), which previously has typically been placed near the statement of equity. The amendments require an OCI 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 provisions of ASU No. 2011-05 are effective for fiscal quarters and years beginning on or after December 15, 2011. The Company will select one of the two presentation options in its Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2012.

NOTE B Functional Currencies, Foreign Currency Translation and Comprehensive Income

Functional Currencies and Foreign Currency Translation The functional currency for the Company s China subsidiaries is the U.S. dollar, while other subsidiaries, including subsidiaries in Taiwan and the United Kingdom (U.K.), use their local currency as their functional currency. Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are recorded as other income (expense) in the consolidated condensed statements of operations. The Company had foreign exchange transaction gain of approximately $1 million and loss of approximately $1 million for the three months ended June 30, 2011 and 2010, respectively, and gain of approximately $0 million and loss of approximately $1 million for the six months ended June 30, 2011 and 2010, respectively.

Comprehensive Income U.S. GAAP generally requires that recognized revenues, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities are reported as separate components of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income or loss.

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Total comprehensive income for the three and six months ended June 30, 2011 and 2010 is as follows *(in thousands)*:

Total Comprehensive Income

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	**2010**	**2011**	**2010**
Net income	$ 18,723	$ 17,550	$ 38,987	$ 33,230
Translation adjustment	1,507	(2,833)	6,231	(10,913)
Unrealized gain/(loss) on defined benefit plan, net of tax	(2,183)	(3,177)	5,129	(5,870)
Comprehensive income	18,047	11,540	50,347	16,447
Less: Comprehensive income attributable to noncontrolling interest	(742)	(903)	(1,322)	(1,625)
Total comprehensive income attributable to common stockholders	$ 17,305	$ 10,637	$ 49,025	$ 14,822

NOTE C 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,	
	2011	**2010**	**2011**	**2010**
BASIC				
Weighted average number of common shares outstanding used in computing basic earnings per share	45,325	43,975	45,074	43,871
Net income attributable to common stockholders	$ 17,981	$ 16,647	$ 37,665	$ 31,605
Earnings per share attributable to common stockholders	$ 0.40	$ 0.38	$ 0.84	$ 0.72
DILUTED				
Weighted average number of common shares outstanding used in computing basic earnings per share	45,325	43,975	45,074	43,871
Add: Assumed exercise of stock options and stock awards	1,823	1,535	1,763	1,487

	47,148	45,510	46,837	45,358
Net income attributable to common stockholders	$ 17,981	$ 16,647	$ 37,665	$ 31,605
Earnings per share attributable to common stockholders	$ 0.38	$ 0.37	$ 0.80	$ 0.70

There are no shares included in the earnings per share calculation related to the Company s 2.25% convertible senior notes (Notes) outstanding as our average stock price did not exceed the conversion price and, therefore, there is no conversion spread.

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NOTE D Inventories

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

	June 30, 2011	December 31, 2010
Raw materials	$ 67,127	$ 60,402
Work-in-progress	26,731	22,288
Finished goods	34,872	37,999
Total	$ 128,730	$ 120,689

NOTE E Goodwill and Intangible Assets

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

Balance at December 31, 2010	$ 68,949
Currency exchange and other	1,258
Balance at June 30, 2011	**$ 70,207**

Changes in intangible assets are as follows *(in thousands):*

Balance at June 30, 2011:	
Intangible assets subject to amortization:	
Gross carrying amount	$ 48,664
Accumulated amortization	(16,972)
Currency exchange and other	(7,185)
Net value	24,507
Intangible assets with indefinite lives:	
Gross carrying amount	3,162
Currency exchange and other	(592)
Total	2,570
Total intangible assets, net	**$ 27,077**

Amortization expense related to intangible assets subject to amortization was approximately $1 million for the three months ended June 30, 2011 and 2010, and approximately $2 million for the six months ended June 30, 2011 and 2010.

NOTE F Income Tax Provision

Income tax expense of approximately $5 million and $10 million was recorded for the three and six months ended June 30, 2011, respectively. This resulted in an effective tax rate of 20% for the six months ended June 30, 2011, as compared to 16% in the same period of last year and compared to 18% for the full year of 2010. Our effective tax rates for the six months ended June 30, 2011 and 2010, respectively, were lower than the U.S. statutory tax rate of 35%, principally from the impact of higher income in lower-taxed jurisdictions. In addition, the Company s effective tax rate for the six months ended June 30, 2010 was impacted by the noncash income tax benefit of reversing valuation allowances on deferred tax assets from U.K. loss carryforwards.

For the six months ended June 30, 2011, the Company reported domestic and foreign pre-tax income (loss) of approximately $(12) million and $61 million, respectively. For the six months ended June 30, 2010, the Company reported domestic and foreign pre-tax income (loss) of approximately $(12) million and $52 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 six months ended June 30, 2011 and 2010. The benefit of the tax holidays on both basic and diluted earnings per share for the six months ended June 30, 2011 was approximately $0.10. The benefit of the tax holidays on basic and diluted earnings per share for the six months ended June 30, 2010 was approximately $0.08 and $0.07, respectively.

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 June 30, 2011, 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 June 30,		**Six Months Ended June 30,**	
	2011	**2010**	**2011**	**2010**
Cost of sales	$ 89	$ 82	$ 175	$ 175
Selling and administrative expense	2,961	2,822	5,829	5,686
Research and development expense	233	329	463	653
Total share-based compensation expense	$ 3,283	$ 3,233	$ 6,467	$ 6,514

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 six months ended June 30, 2011 was approximately $3 million. Stock option expense for both the three months ended June 30, 2011 and 2010 was approximately $1 million. Stock option expense for both the six months ended June 30, 2011 and 2010 was approximately $2 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, 2011	3,707	$ 14.14	5	$ 47,891
Granted	363	29.21		
Exercised	(476)	6.97		10,957
Forfeited or expired				
Outstanding at June 30, 2011	**3,594**	**$ 16.61**	**6**	**$ 35,726**
Exercisable at June 30, 2011	**2,623**	**$ 14.48**	**4**	**$ 30,860**

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, 2011, total unrecognized stock-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.

The total fair value of restricted stock awards vested during the six months ended June 30, 2011 was $5 million. Share grant expense for both the three months ended June 30, 2011 and 2010 was approximately $2 million. Share grant expense for both the six months ended June 30, 2011 and 2010 was approximately $4 million

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

Share Grants	Shares (000)	Weighted-Average Grant-Date Fair Value	Aggregate Intrinsic Value ($000)
Nonvested at January 1, 2011	774	$ 16.16	$ 12,479
Granted	121	29.44	
Vested	(236)	20.74	4,884
Forfeited	(16)	17.44	
Nonvested at June 30, 2011	**643**	**$ 16.95**	**$ 10,868**

As of June 30, 2011, 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.

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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)*:

Three Months Ended June 30, 2011	**Asia**	**North America**	**Europe**	**Consolidated**
Total sales	$ 150,015	$ 37,224	$ 61,710	$ 248,949
Inter-company sales	(24,128)	(15,878)	(39,137)	(79,143)
Net sales	$ 125,887	$ 21,346	$ 22,573	$ 169,806

Three Months Ended June 30, 2011	**Asia**	**North America**	**Europe**	**Consolidated**
Total sales	$ 122,170	$ 37,010	$ 42,771	$ 201,951
Inter-company sales	(12,558)	(14,099)	(26,141)	(52,798)
Net sales	$ 109,612	$ 22,911	$ 16,630	$ 149,153

Six Months Ended June 30, 2011	**Asia**	**North America**	**Europe**	**Consolidated**
Total sales	$ 281,570	$ 72,597	$ 110,473	$ 464,640
Inter-company sales	(38,577)	(31,210)	(63,492)	(133,279)
Net sales	$ 242,993	$ 41,387	$ 46,981	$ 331,361
Property, plant and equipment	$ 162,654	$ 34,459	$ 32,680	$ 229,793
Total assets	$ 512,542	$ 183,362	$ 227,160	$ 923,064

Six Months Ended June 30, 2011	**Asia**	**North America**	**Europe**	**Consolidated**
Total sales	$ 231,231	$ 69,611	$ 82,643	$ 383,485
Inter-company sales	(22,093)	(25,196)	(50,196)	(97,485)
Net sales	$ 209,138	$ 44,415	$ 32,447	$ 286,000
Property, plant and equipment	$ 123,614	$ 29,783	$ 30,846	$ 184,243
Total assets	$ 427,116	$ 161,560	$ 184,015	$ 772,691

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	
	2011	2010	2011	2010
China	$ 53,129	$ 46,898	31%	31%
Taiwan	36,581	34,803	22%	23%
United States	29,928	32,584	18%	22%
Korea	10,422	8,558	6%	6%
England	8,510	1,817	5%	1%
Germany	7,999	10,121	5%	7%
Singapore	6,027	6,018	3%	4%
All Others (1)	17,210	8,354	10%	6%
Total	$ 169,806	$ 149,153	100%	100%

	Net Sales for the Six Months Ended June 30,		Percentage of Net Sales	
	2011	2010	2011	2010
China	$ 100,565	$ 88,957	30%	31%
Taiwan	74,261	67,806	23%	24%
United States	56,457	61,789	17%	22%
Korea	20,189	16,888	6%	6%
Germany	17,456	17,152	5%	6%
England	17,228	6,675	5%	2%
Singapore	11,589	11,369	4%	4%
All Others (1)	33,616	15,364	10%	5%
Total	$ 331,361	$ 286,000	100%	100%

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

NOTE I Convertible Senior Notes

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

On October 1, 2011, and every five years thereafter, holders may require the Company to purchase all or a portion of their Notes at a purchase price in cash equal to 100% of the principal amount of the Notes to be purchased, plus any accrued and unpaid interest to, but excluding, the purchase date. Therefore, the Company has classified its Notes as a current liability. Should the holders choose not to require the Company to purchase their Notes on October 1, 2011, the Company has the option to call the Notes, which it intends to do. Should the holders choose to require the Company to purchase its Notes or if the Company exercises its option, either will require the Company to use available funds and/or seek alternative means to service the debt.

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

In determining the liability and equity components, the Company determined the expected life of the Notes to be five years as that is the earliest date in which the Notes can be put back to the Company at par value. As of June 30, 2011, three months remain over which the discount of the liability will be amortized. As of June 30, 2011, the liability and equity components are as follows *(in thousands)*:

Liability Component Principal Amount	Liability Component Net Carrying Amount	Liability Component Unamortized Discount	Equity Component Carrying Amount
$ 134,293	$ 132,272	$ 2,021	$ 35,515

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Notes contractual interest expense	$ 754	$ 792	$ 1,510	$ 1,552
Amortization of debt discount	2,027	1,873	4,011	3,707
Amortization of debt issuance costs	138	136	275	274
Total	$ 2,919	$ 2,801	$ 5,796	$ 5,533

NOTE J Commitments

Purchase commitments As of June 30, 2011, the Company had approximately $22 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 once the Company has reached the maximum capacity at its Shanghai facilities in the next few years. The Company is expected to invest approximately $48 million in installments during the first three years. As of June 30, 2011, the Company has invested approximately $5 million.

NOTE K 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 six months ended June 30, 2011, net period benefit costs associated with the defined benefit plan were approximately $0 million.

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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, 2010	$	118,505
Service cost		162
Interest cost		3,090
Actuarial gain		(6,545)
Benefits paid		(1,970)
Currency changes		3,040
Benefit obligation at June 30, 2011	**$**	**116,282**
Change in plan assets:		
Fair value of plan assets at December 31, 2010	$	93,642
Actual return on plan assets		1,807
Employer contribution		1,535
Benefits paid		(1,970)
Currency changes		2,366
Fair value of plan assets at June 30, 2011	**$**	**97,380**
Underfunded status at June 30, 2011	**$**	**(18,902)**

Based on an actuarial study performed as of June 30, 2011, 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 June 30, 2011 was 5.5%.

The following are weighted-average assumptions used to determine net periodic benefit costs for the six months ended June 30, 2011:

Discount rate	5.4%
Expected long-term return on plan assets	6.6%

The Company previously adopted a payment plan with the trustees of the defined benefit plan, in which the Company will pay approximately 1.0 million GBP (approximately $1.6 million based on a USD:GBP exchange rate of 1.6:1) every year from 2009 through 2012. Contribution amounts, if any, for 2013 and thereafter have not yet been determined, but discussions are ongoing with the trustees of the defined benefit plan as to the required payments going forward.

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 June 30, 2011, 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.

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NOTE L Related Parties

The Company conducts business with one related party company, Lite-On Semiconductor Corporation and its subsidiaries and affiliates (collectively, LSC), that owned approximately 18.4% of the Company s outstanding Common Stock as of June 30, 2011. 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.

The Audit Committee of the Company s Board reviews all related party transactions for potential conflict of interest situations on an ongoing basis, in accordance with such procedures as the Audit Committee may adopt from time to time.

Lite-On Semiconductor Corporation During the six months ended June 30, 2011 and 2010, the Company sold products to LSC totaling approximately 0% and 2% of its net sales, respectively. Net sales decreased in 2011 compared to 2010 due to less wafers being sold to LSC and more wafers being used for internal consumption. Also, for the six months ended June 30, 2011 and 2010, approximately 6% and 11%, respectively, of the Company s net sales were from semiconductor products purchased from LSC for subsequent sale, making LSC the Company s largest supplier.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	**2010**	**2011**	**2010**
Net sales	$ 505	$ 2,038	$ 952	$ 4,526
Purchases	$ 9,541	$ 11,623	$ 18,494	$ 20,888

Keylink International (B.V.I.) Inc. During the six months ended June 30, 2011 and 2010, the Company sold products to subsidiaries and affiliates of Keylink totaling approximately 0% and 3% of its net sales, respectively. Net sales decreased in 2011 compared to 2010 due to a contract expiring, which is currently being renegotiated. Also, for the six months ended June 30, 2011 and 2010, approximately 1% and 3%, respectively, of the Company s net sales were from semiconductor products purchased from Keylink. 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. For both the six months ended June 30, 2011 and 2010, the Company paid Keylink an aggregate of approximately $8 million with respect to these items.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	**2010**	**2011**	**2010**
Net sales	$ 18	$ 4,129	$ 1,204	$ 7,742
Purchases	$ 3,017	$ 2,547	$ 5,880	$ 5,173

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

	June 30, 2011
Accounts receivable	
LSC	$ 446
Keylink	700
	$ 1,146
Accounts payable	

LSC	$ 8,031
Keylink	7,059
	$ 15,090

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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, 2010, previously filed with Securities and Exchange Commission.

Highlights

Net sales for the three months ended June 30, 2011 was $170 million, an increase of $21 million, or 14%, over the same period last year, and a sequential increase of 5% compared to the $162 million in the first quarter of 2011;

Net sales for the six months ended June 30, 2011 was $331 million, an increase of $45 million, or 16%, over the same period last year;

Gross profit for the three months ended June 30, 2011 was $56 million, an increase of $2 million, or 4%, over the same period last year, and a sequential decrease of 3% compared to the $57 million in the first quarter of 2011;

Gross profit for the six months ended June 30, 2011 was $113 million, an increase of $12 million, or 12%, over the same period last year;

Gross profit margin for the three months ended June 30, 2011 was 33%, a decrease of 3% over the same period last year, and a sequential decrease of 3% compared to the first quarter of 2011;

Gross profit margin for the six months ended June 30, 2011 was 34%, a decrease of 1% over the same period last year;

Net income attributable to common stockholders for the three months ended June 30, 2011 was $18 million, or $0.38 per diluted share, compared to the same period last year, which was $17 million, or $0.37 per diluted share, and first quarter of 2011 net income of $20 million, or $0.42 per diluted share; and

Net income attributable to common stockholders for the six months ended June 30, 2011 was $38 million, or $0.80 per diluted share, compared to the same period last year, which was $32 million, or $0.70 per diluted share.

Business Outlook

During the second quarter, distributor inventory days were down slightly from the first quarter, while channel inventory was at the high end of the preferred range as we exited the quarter. We saw weakening demand at the end of the second quarter, especially in the consumer and LED TV market, which has continued into July and the market outlook for the rest of the third quarter is uncertain. Despite market challenges, we believe we are well positioned with our customers and have a broadened product portfolio, design win momentum and the capacity to expand our revenues and margins as demand improves. As such, we expect revenue for the third quarter of 2011 to range between $160 million and $170 million, or flat to down 6% sequentially. We expect gross margin to be 32%, plus or minus 1.5%. Operating expenses are expected to be comparable to the second quarter on a dollar basis. We expect our income tax rate to range between 17% and 23%, and shares used to calculate earnings per share for the third quarter of 2011 are expected to be approximately 48 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.

During the first quarter of 2011, net sales were stronger than typical first quarter seasonal patterns, assisted by increased demand in tablets, notebooks, smartphones and LED TV s. We saw strong demand in Europe and Asia, while North America revenue declined sequentially from fourth quarter of 2010. In addition, the first quarter of 2011 was impacted by reduced unit output from our packaging facilities due to lower equipment utilization as a result of China labor shortages, and gross margin reflected reduced fixed cost coverage caused by the lower unit output. Although we experienced lower unit output during the first quarter, we were able to ship from finished goods inventory and reduced our contract assembly commitments, which allowed us to achieve sequential revenue growth in our core business. During the second quarter, we continued to focus on design wins, new products and customer expansion. During May, we started to see a slowdown in the global markets, in particular the consumer and computing space. This weakness accelerated in the last several weeks of the second quarter affecting several of our customers that build product for the U.S. and European markets. Gross margin in the second quarter was also impacted by the softening demand, which caused us to change our mix to lower margin commodity products to support revenue. In addition, there was a slower than expected ramp in productivity due to the training requirements for replacing operators as a result of the China labor shortages. We expect this productivity issue to be resolved by the end of the third quarter. We have taken several actions, including the delay of capital investments and the freezing of manufacturing manpower, until such time that the demand environment improves.

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

Net sales for the six months ended June 30, 2011 was $331 million compared to $286 million in the same period last year. This increase in net sales mainly reflects the increase in demand for our products in most geographic regions.

Our gross profit margin was 34% for the six months ended June 30, 2011, compared to 35% in the same period last year. Our gross margin percentage decreased over the same period last year due to a shift in product mix to lower margin products and lower equipment utilization due to the need to train replacement operators as a result of the previously disclosed China labor shortages. Future gross profit margins will depend primarily on market prices, our product mix, manufacturing cost savings, and the demand for our products.

For the six months ended June 30, 2011, 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 15% of our net sales, which is higher than our historical 10% to 12% of net sales model. For 2011, we expect capital expenditures, excluding capital expenditures related to our investment agreement, to be at the low end of our historical model.

For the six months ended June 30, 2011 and 2010, the percentage of our net sales derived from our Asian subsidiaries was 73%. In the near future, we expect our percentage of net sales to the Asian market to remain approximately the same. In addition, Europe accounted for approximately 14% of our revenues for the six months ended June 30, 2011, compared to 11% in the same period last year.

As of June 30, 2011, we had invested approximately $325 million in our Asian manufacturing facilities. For the six months ended June 30, 2011, we invested approximately$45 million in these manufacturing facilities, and we expect to continue to invest in our manufacturing facilities, although the amount to be invested will depend on product demand and new product developments.

For the six months ended June 30, 2011, our original equipment manufacturers (OEM) and electronic manufacturing services (EMS) customers together accounted for approximately 46% of our net sales, while our global network of distributors accounted for approximately 54% of our net sales.

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Results of Operations for the Three Months Ended June 30, 2011 and 2010

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 Three months ended June 30, 2011	Percent of Net Sales Three months ended June 30, 2010	Percentage Dollar Increase (Decrease) '10 to '11
Net sales	100%	100%	**14**
Cost of goods sold	(67)	(64)	**19**
Gross profit	33	36	**4**
Operating expenses	(18)	(20)	**3**
Income from operations	15	16	**6**
Other income (expense)	(1)	(2)	**(248)**
Income before income taxes and noncontrolling interest	14	14	**14**
Income tax provision	3	2	**55**
Net income	11	12	**7**
Net income attributable to noncontrolling interest		(1)	**(18)**
Net income attributable to common stockholders	11	11	**8**

The following discussion explains in greater detail our consolidated operating results and financial condition for the three months ended June 30, 2011, compared to the three months ended June 30, 2010. This discussion should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this quarterly report *(in thousands)*.

	2011	2010
Net Sales	$ 169,806	$ 149,153

Net sales increased approximately $21 million for the three months ended June 30, 2011, compared to the same period last year. The 14% increase in net sales represented an approximately 4% increase in ASP and a 10% increase in units sold. The revenue increase for the three months ended June 30, 2011 was attributable to increase in demand for our products primarily in Europe and Asia.

	2011	2010