

DIODES INC /DEL/  
Form 10-Q  
November 09, 2010

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

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

**For the quarterly period ended September 30, 2010**

Or

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_.**

**Commission file number: 002-25577**

**DIODES INCORPORATED**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**95-2039518**

(I.R.S. Employer  
Identification Number)

**15660 Dallas Parkway, Suite 850**

**Dallas, Texas**

(Address of principal executive offices)

**75248**

(Zip code)

**(972) 385-2810**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act:

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

(Do not check if a smaller reporting company)

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

The number of shares of the registrant's Common Stock outstanding as of November 3, 2010 was 44,374,675.

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**PART I FINANCIAL INFORMATION**  
**Item 1 Financial Statements**  
**DIODES INCORPORATED AND SUBSIDIARIES**  
**CONSOLIDATED CONDENSED BALANCE SHEETS**

*(In thousands)*

**ASSETS**

	<b>September 30, 2010</b>	<b>December 31, 2009</b>
	<i>(Unaudited)</i>	
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 263,807	\$ 241,953
Short-term investments		296,600
Accounts receivable, net	123,493	99,074
Inventories	113,069	89,652
Deferred income taxes, current	9,257	7,834
Prepaid expenses and other	10,207	11,591
<b>Total current assets</b>	<b>519,833</b>	<b>746,704</b>
<b>PROPERTY, PLANT AND EQUIPMENT, net</b>	<b>199,098</b>	<b>162,988</b>
<b>OTHER ASSETS</b>		
Goodwill	67,668	68,075
Intangible assets, net	29,949	34,892
Other	5,836	5,324
<b>Total assets</b>	<b>\$ 822,384</b>	<b>\$ 1,017,983</b>

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

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

	<b>September 30, 2010</b>	<b>December 31, 2009</b>
	<i>(Unaudited)</i>	
<b>CURRENT LIABILITIES</b>		
Lines of credit and short-term debt	\$	\$ 299,414
Accounts payable	74,766	62,448
Accrued liabilities	46,337	27,236
Income tax payable	3,919	2,641
Current portion of long-term debt	384	373
Current portion of capital lease obligations	288	283
<b>Total current liabilities</b>	<b>125,694</b>	<b>392,395</b>
<b>LONG-TERM DEBT, net of current portion</b>		
Convertible senior notes	126,318	121,333
Long-term debt	3,263	3,464
<b>CAPITAL LEASE OBLIGATIONS, net of current portion</b>	1,441	1,669
<b>DEFERRED INCOME TAXES, non-current</b>	10,360	7,743
<b>OTHER LONG-TERM LIABILITIES</b>	44,929	40,455
<b>Total liabilities</b>	<b>312,005</b>	<b>567,059</b>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>EQUITY</b>		
<b>Diodes Incorporated stockholders equity</b>		
Preferred stock par value \$1.00 per share; 1,000,000 shares authorized; no shares issued or outstanding		
Common stock par value \$0.66 2/3 per share; 70,000,000 shares authorized; 44,360,466 and 43,729,304 issued and outstanding at September 30, 2010 and December 31, 2009, respectively	29,574	29,153
Additional paid-in capital	223,745	211,618
Retained earnings	300,941	248,174
Accumulated other comprehensive loss	(55,930)	(48,311)
<b>Total Diodes Incorporated stockholders equity</b>	<b>498,330</b>	<b>440,634</b>
<b>Noncontrolling interest</b>	12,049	10,290
<b>Total equity</b>	<b>510,379</b>	<b>450,924</b>

<b>Total liabilities and equity</b>	\$	822,384	\$	1,017,983
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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)*

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>NET SALES</b>	\$ 163,120	\$ 122,122	\$ 449,120	\$ 304,070
<b>COST OF GOODS SOLD</b>	102,143	84,547	286,893	224,632
Gross profit	60,977	37,575	162,227	79,438
<b>OPERATING EXPENSES</b>				
Selling, general and administrative	22,837	19,079	65,678	50,375
Research and development	7,212	6,284	20,403	16,944
Amortization of acquisition related intangible assets	1,098	1,271	3,304	3,480
Impairment of long-lived assets			144	
Restructuring		(291)		(440)
Total operating expenses	31,147	26,343	89,529	70,359
Income from operations	29,830	11,232	72,698	9,079
<b>OTHER INCOME (EXPENSES)</b>				
Interest income	279	805	2,587	3,907
Interest expense	(939)	(1,784)	(4,317)	(5,709)
Amortization of debt discount	(2,006)	(1,981)	(5,713)	(6,471)
Other	251	(1,062)	1,749	(1,074)
Total other expenses	(2,415)	(4,022)	(5,694)	(9,347)
Income (loss) before income taxes and noncontrolling interest	27,415	7,210	67,004	(268)
<b>INCOME TAX PROVISION (BENEFIT)</b>	5,346	(629)	11,705	4,924
<b>NET INCOME (LOSS)</b>	22,069	7,839	55,299	(5,192)
Less: NET INCOME attributable to noncontrolling interest	(907)	(819)	(2,532)	(1,507)
<b>NET INCOME (LOSS) attributable to common stockholders</b>	\$ 21,162	\$ 7,020	\$ 52,767	\$ (6,699)



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

Basic	\$ 0.48	\$ 0.17	\$ 1.20	\$ (0.16)
Diluted	\$ 0.46	\$ 0.16	\$ 1.16	\$ (0.16)
Number of shares used in computation				
Basic	44,346	42,533	44,031	41,761
Diluted	45,673	44,013	45,418	41,761

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)

	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 55,299	\$ (5,192)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	34,452	31,599
Amortization of intangibles	3,308	3,480
Amortization of convertible bond issuance costs	412	505
Amortization of debt discount	5,713	6,471
Share-based compensation	9,780	7,551
Loss (gain) on disposal of property, plant and equipment	(1,684)	67
Loss (gain) on extinguishment of debt	148	(1,193)
Investment loss (gain) recognized under equity method	(600)	22
Deferred income taxes	1,481	101
Changes in operating assets:		
Accounts receivable	(19,917)	(25,655)
Inventories	(23,578)	19,455
Prepaid expenses and other current assets	1,461	3,082
Changes in operating liabilities:		
Accounts payable	12,182	7,724
Accrued liabilities	9,549	(2,913)
Other liabilities	813	(3,524)
Income tax payable	1,227	2,416
Net cash provided by operating activities	\$ 90,046	\$ 43,996
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of short-term investments	\$ 296,600	\$ 8,725
Purchases of property, plant and equipment	(66,342)	(12,948)
Proceeds from sale of property, plant and equipment	2,141	120
Other assets	(384)	446
Net cash provided by (used in) investing activities	\$ 232,015	\$ (3,657)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Advances on line of credit and short-term debt	\$ 3,762	\$ 15,680
Repayments on lines of credit	(303,192)	(27,305)
Net proceeds from issuance of common stock	2,763	793
Dividend distribution to noncontrolling interest	(700)	(1,500)
Repayments of long-term debt	(1,062)	(8,503)
Repayments of capital lease obligations	(202)	(287)

Net cash used in financing activities	\$ (298,631)	\$ (21,122)
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	(1,576)	3,359
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	21,854	22,576
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	241,953	103,496
<b>CASH AND CASH EQUIVALENTS, end of period</b>	\$ 263,807	\$ 126,072

**SUPPLEMENTAL CASH FLOW INFORMATION:**

Non-cash financing activities:

Property, plant and equipment purchased on accounts payable	\$ (5,828)	\$ (2,875)
Fair value of common stock issued for repayment of long-term debt	\$	\$ (31,437)

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. These products include diodes, rectifiers, transistors, MOSFETs, protection devices, functional specific arrays, single gate logic, amplifiers and comparators, Hall-effect and temperature sensors, power management devices including LED drivers, DC-DC switching and linear voltage regulators and voltage references along with special function devices including USB power switches, load switches, voltage supervisors and motor controllers. These products are sold primarily 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 Quarterly Reports on 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, 2009. All significant intercompany balances and transactions have been eliminated in consolidation. In the opinion of management, all adjustments (consisting of normal recurring adjustments and accruals) considered necessary for a fair presentation of the results of operations for the period presented have been included in the interim period. Operating results for the three and nine months ended September 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010. The consolidated condensed financial data at December 31, 2009 is derived from audited financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

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 April 2010, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2010-13, *Compensation - Stock Compensation (Topic 718): Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in which the Underlying Equity Security Trades*. ASU No. 2010-13 clarifies that an employee share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity shares trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, an entity would not classify such an award as a liability if it otherwise qualifies as equity. The provisions of ASU No. 2010-13 are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. Early adoption is permitted. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

In April 2010, the FASB issued ASU No. 2010-17, *Revenue Recognition - Milestone Method (Topic 605): Milestone Method of Revenue Recognition (A consensus of the FASB Emerging Issues Task Force)*. ASU No. 2010-17 provides guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for research or development transactions. The amendments provide guidance on the criteria that should be met for determining whether the milestone method of revenue recognition is appropriate. An entity can

recognize consideration that is contingent upon achievement of a milestone in its entirety as revenue in the period in which the milestone was achieved only if the milestone meets all criteria to be considered substantive. The provisions of ASU No. 2010-17 are effective on a prospective basis for milestones achieved in fiscal years, and interim periods within those years, beginning on or after June 15, 2010. Early adoption is permitted. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

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**Table of Contents****NOTE B Functional Currencies, Foreign Currency Translation and Comprehensive Income (Loss)**

**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 losses of approximately \$0.2 million and \$1.4 million for the three months ended September 30, 2010 and 2009, respectively, and approximately \$0.7 million and \$4.8 million for the nine months ended September 30, 2010 and 2009, respectively.

**Comprehensive Income (Loss)** U.S. GAAP generally requires that recognized revenues, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities are reported as separate components of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income or loss. As of September 30, 2010, the components of other comprehensive income or loss include foreign currency translation adjustments and unrealized gain or loss on defined benefit plan.

Total comprehensive income (loss) for the three and nine months ended September 30, 2010 and 2009 is as follows (*in thousands*):

**Total Comprehensive Income (Loss)**

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Net income (loss)	\$ 22,069	\$ 7,839	\$ 55,299	\$ (5,192)
Foreign currency translation adjustment	7,361	(1,391)	(3,552)	12,109
Unrealized income (loss) on defined benefit plan, net of tax	1,802	10,246	(4,068)	(16,041)
Foreign currency adjustments on forward contracts, net of tax		441		3,672
Comprehensive income (loss)	31,232	17,135	47,679	(5,452)
Comprehensive income attributable to noncontrolling interest	907	819	2,532	1,507
Total comprehensive income (loss) attributable to common stockholders	\$ 30,325	\$ 16,316	\$ 45,147	\$ (6,959)

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**Table of Contents****NOTE C Earnings (Loss) Per Share**

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>BASIC</b>				
Weighted average number of common shares outstanding used in computing basic earnings (loss) per share	44,346	42,533	44,031	41,761
Net income (loss) attributable to common stockholders	\$ 21,162	\$ 7,020	\$ 52,767	\$ (6,699)
Earnings (loss) per share attributable to common stockholders	\$ 0.48	\$ 0.17	\$ 1.20	\$ (0.16)
<b>DILUTED</b>				
Weighted average number of common shares outstanding used in computing basic earnings (loss) per share	44,346	42,533	44,031	41,761
Add: Assumed exercise of stock options and stock awards	1,327	1,480	1,387	
	45,673	44,013	45,418	41,761
Net income (loss) attributable to common stockholders	\$ 21,162	\$ 7,020	\$ 52,767	\$ (6,699)
Earnings (loss) per share attributable to common stockholders	\$ 0.46	\$ 0.16	\$ 1.16	\$ (0.16)

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.

**NOTE D Short-Term Investments**

On June 30, 2010, the Company put back its auction rate securities ( ARS ) portfolio to UBS AG at par value pursuant to the previously disclosed settlement agreement with UBS AG. Upon exercise of the put option, the Company liquidated its ARS, for cash and used the proceeds to fully repay the related no net cost loan with UBS Bank.

**NOTE E Inventories**

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

	<b>September</b>	<b>December</b>
	<b>30,</b>	<b>31,</b>
	<b>2010</b>	<b>2009</b>
Raw materials	\$ 48,462	\$ 33,280
Work-in-progress	31,720	24,029

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Finished goods		32,887		32,343
Total		\$ 113,069	\$	89,652

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Balance at December 31, 2009	\$ 68,075
Foreign currency exchange	(407)

**Balance at September 30, 2010** **\$ 67,668**

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

Balance at September 30, 2010:	
Intangible assets subject to amortization:	
Gross carrying amount	\$ 48,658
Accumulated amortization	(13,558)
Foreign currency exchange	(7,672)
Net value	27,428
Intangible assets with indefinite lives:	
Gross carrying amount	3,162
Foreign currency exchange	(641)
Total	2,521
<b>Total intangible assets, net</b>	<b>\$ 29,949</b>

Amortization expense related to intangible assets subject to amortization was \$1.1 million and \$1.3 million for the three months ended September 30, 2010 and 2009, respectively, and \$3.3 million and \$3.5 million for the nine months ended September 30, 2010 and 2009, respectively.

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

Income tax expense of \$5.3 million and \$11.7 million was recorded for the three and nine months ended September 30, 2010, respectively. This resulted in an effective tax rate of 17.5% for the nine months ended September 30, 2010, as compared to (1,837.7)% for the same period of last year and compared to 11.7% for the full year of 2009. The Company's effective tax rate for the nine months ended September 30, 2010 was lower than the U.S. statutory tax rate of 35%, as it was impacted by higher income in lower-taxed jurisdictions and the non-cash tax benefit from reversing valuation allowances on deferred tax assets from U.S. and U.K. loss carryforwards. In addition, the Company's effective tax rate for the nine months ended September 30, 2009 was impacted by the non-cash income tax expense associated with repatriating earnings of foreign subsidiaries to the U.S. parent.

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

For the nine months ended September 30, 2010, the Company reported domestic and foreign pre-tax income (loss) of approximately \$(15.2) million and \$82.2 million, respectively. For the nine months ended September 30, 2009, the Company reported domestic and foreign pre-tax income (loss) of approximately \$(35.7) million and \$35.4 million, respectively.

The impact of tax holidays decreased the Company's tax expense by approximately \$5.6 million and \$5.2 million for the nine months ended September 30, 2010 and 2009, respectively. The benefit of the tax holidays on basic and diluted earnings per share for the nine months ended September 30, 2010 was approximately \$0.13 and \$0.12, respectively. The benefit of the tax holidays on both basic and diluted earnings per share for the nine months ended September 30, 2009 was approximately \$0.12.

Funds repatriated from foreign subsidiaries to the U.S. may be subject to federal and state income taxes. In the first quarter of 2009, the Company repatriated approximately \$28.5 million of accumulated earnings from one of its Chinese subsidiaries, resulting in additional non-cash federal and state income tax expense of approximately \$5.3 million. The Company intends to permanently reinvest overseas all of its earnings from its foreign subsidiaries.

In the third quarter of 2010, the Company reversed valuation allowances of \$1.5 million associated with federal net operating losses after determining they were fully utilizable. In addition, the Company determined that it was more likely than not that a portion of its federal foreign tax credit carryforwards would expire before they could be utilized. Accordingly, the Company has recorded valuation allowances of \$8.8 million and \$11.3 million as of September 30, 2010 and December 31, 2009, respectively.

The Company files income tax returns in the U.S. jurisdiction and various state and foreign jurisdictions. The Company is no longer subject to U.S. income tax examinations by tax authorities for tax years before 2007. 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 reserves for any adjustments that may result from future tax audits. The Company recognizes accrued interest and penalties, if any, related to unrecognized tax benefits in income tax expense. As of September 30, 2010, the gross amount of unrecognized tax benefits was approximately \$8.7 million.

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

**NOTE H 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*):

<b>Three Months Ended September 30,</b>	<b>Nine Months Ended September 30,</b>
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	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Cost of sales	\$ 87	\$ 99	\$ 262	\$ 279
Selling and administrative expense	2,824	2,409	8,510	6,391
Research and development expense	355	359	1,008	881
<b>Total share-based compensation expense</b>	<b>\$ 3,266</b>	<b>\$ 2,867</b>	<b>\$ 9,780</b>	<b>\$ 7,551</b>

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**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 nine months ended September 30, 2010 was \$2.8 million. Stock option expense was \$1.0 million for both three months ended September 30, 2010 and 2009, and \$3.1 million and \$2.6 million for the nine months ended September 30, 2010 and 2009, respectively.

A summary of the stock option plans is as follows:

<b>Stock Options</b>	<b>Shares (000)</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Term (yrs)</b>	<b>Aggregate Intrinsic Value (\$000)</b>
Outstanding at January 1, 2010	3,980	\$ 12.50	5.2	\$ 34,989
Granted	401	19.00		
Exercised	(381)	7.55		4,478
Forfeited or expired	(6)	27.41		
Outstanding at September 30, 2010	<b>3,994</b>	<b>\$ 13.60</b>	<b>5.3</b>	<b>\$ 20,631</b>
Exercisable at September 30, 2010	<b>3,073</b>	<b>\$ 11.98</b>	<b>4.2</b>	<b>\$ 19,926</b>

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 September 30, 2010, total unrecognized stock-based compensation expense related to unvested stock options, net of forfeitures, was approximately \$9.4 million, before income taxes, and is expected to be recognized over a weighted average period of approximately 2.9 years.

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

The total fair value of share grants vested during the nine months ended September 30, 2010 was approximately \$7.5 million. Share grant expense was \$2.2 million and \$1.8 million for the three months ended September 30, 2010 and 2009, respectively, and \$6.7 million and \$5.0 million for the nine months ended September 30, 2010 and 2009, respectively.

A summary of the status of the Company's non-vested restricted stock units is as follows:

<b>Grants</b>	<b>Shares (000)</b>	<b>Weighted- Average Grant-Date Fair Value</b>	<b>Aggregate Intrinsic Value (\$000)</b>
Nonvested at January 1, 2010	714	\$ 20.64	\$ 14,579
Granted	363	17.47	
Vested	(250)	21.33	7,474
Forfeited	(33)	20.41	
Nonvested at September 30, 2010	<b>794</b>	<b>\$ 16.29</b>	<b>\$ 13,540</b>

The above table does not include the restricted stock award agreement the Company entered into with its President and Chief Executive Officer on September 22, 2009, which could grant up to 600,000 shares based on terms of the agreement.

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As of September 30, 2010, total unrecognized share-based compensation expense related to unvested share grants, net of forfeitures, was approximately \$23.5 million, before income taxes and is expected to be recognized over a weighted average period of approximately 3.6 years.

**NOTE I 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 operations in Asia, North America and Europe.

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

	<b>Three Months Ended September 30, 2010</b>	<b>Asia</b>	<b>North America</b>	<b>Europe</b>	<b>Consolidated</b>
Total sales		\$ 133,116	\$ 42,769	\$ 45,129	\$ 221,014
Inter-company sales		(15,961)	(14,898)	(27,035)	(57,894)
Net sales		\$ 117,155	\$ 27,871	\$ 18,094	\$ 163,120

	<b>Three Months Ended September 30, 2009</b>	<b>Asia</b>	<b>North America</b>	<b>Europe</b>	<b>Consolidated</b>
Total sales		\$ 103,394	\$ 21,267	\$ 31,925	\$ 156,586
Inter-company sales		(8,293)	(6,662)	(19,509)	(34,464)
Net sales		\$ 95,101	\$ 14,605	\$ 12,416	\$ 122,122

	<b>Nine Months Ended September 30, 2010</b>	<b>Asia</b>	<b>North America</b>	<b>Europe</b>	<b>Consolidated</b>
Total sales		\$ 364,347	\$ 112,380	\$ 127,772	\$ 604,499
Inter-company sales		(38,054)	(40,094)	(77,231)	(155,379)
Net sales		\$ 326,293	\$ 72,286	\$ 50,541	\$ 449,120
Property, plant and equipment		\$ 137,604	\$ 30,116	\$ 31,378	\$ 199,098
Total assets		\$ 439,303	\$ 169,801	\$ 213,280	\$ 822,384

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

Total assets	\$ 350,442	\$ 269,070	\$ 295,102	\$ 914,614
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**Table of Contents****Geographic Information**

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

	Net Sales for the Three Months Ended September 30,		Percentage of Net Sales	
	2010	2009	2010	2009
China	\$ 49,944	\$ 37,562	30.7%	30.8%
United States	41,641	19,025	25.5%	15.6%
Taiwan	36,035	34,518	22.1%	28.3%
Korea	9,681	7,518	5.9%	6.2%
Germany	7,260	4,606	4.5%	3.8%
Singapore	7,079	4,605	4.3%	3.8%
United Kingdom	6,757	5,335	4.1%	4.4%
All Others	4,723	8,953	2.9%	7.3%
<b>Total</b>	<b>\$ 163,120</b>	<b>\$ 122,122</b>	<b>100%</b>	<b>100%</b>

	Net Sales for the Nine Months Ended September 30,		Percentage of Net Sales	
	2010	2009	2010	2009
China	\$ 138,901	\$ 91,105	31.0%	30.0%
Taiwan	103,841	87,247	23.1%	28.7%
United States	103,430	50,354	23.0%	16.6%
Korea	26,569	19,303	5.9%	6.3%
Germany	24,412	12,693	5.4%	4.2%
Singapore	18,448	9,553	4.1%	3.1%
United Kingdom	13,432	12,436	3.0%	4.1%
All Others	20,087	21,379	4.5%	7.0%
<b>Total</b>	<b>\$ 449,120</b>	<b>\$ 304,070</b>	<b>100%</b>	<b>100%</b>

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**Table of Contents****NOTE J 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, beginning on April 1, 2007. On each of October 1, 2011, October 1, 2016 and October 1, 2021, 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.

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 (stock split adjusted) per \$1,000 principal amount of Notes, which represents an initial conversion price of \$39.00 per share (stock split adjusted), in certain circumstances. In addition, following a make-whole fundamental change that occurs prior to October 1, 2011, the Company will, at its option, increase the conversion rate for a holder who elects to convert its Notes in connection with such make-whole fundamental change, in certain circumstances.

In determining the liability and equity components, the Company determined the expected life of the Notes to be five years as that is the earliest date in which the Notes can be put back to the Company at par value. As of September 30, 2010, 12 months remain over which the discount of the liability will be amortized. As of September 30, 2010, the liability and equity components are as follows (*in thousands*):

<b>Liability Component Principal Amount</b>	<b>Liability Component Net Carrying Amount</b>	<b>Liability Component Unamortized Discount</b>	<b>Equity Component Carrying Amount</b>
\$134,293	\$126,318	\$ 7,975	\$35,515

The effective interest rate of the liability component is 8.5%, which is a comparable yield for non-convertible 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*):

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Notes contractual interest expense	\$ 769	\$ 857	\$ 2,321	\$ 2,801
Amortization of debt discount	2,006	1,981	5,713	6,471
Amortization of debt issuance costs	138	162	412	505
<b>Total</b>	<b>\$ 2,913</b>	<b>\$ 3,000</b>	<b>\$ 8,446</b>	<b>\$ 9,777</b>

**NOTE K Commitments**

**Purchase Commitments** As of September 30, 2010, the Company had approximately \$12.9 million in non-cancelable purchase contracts related to capital expenditures, primarily for manufacturing equipment in China.

**NOTE L Employee Benefit Plans***Defined Benefit Plan*

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

For the nine months ended September 30, 2010, net period benefit costs associated with the defined benefit plan were approximately \$1.1 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*):

	<b>Defined Benefit Plan</b>
<b>Change in benefit obligation:</b>	
Balance at December 31, 2009	\$ 117,539
Service cost	230
Interest cost	4,724
Actuarial loss	7,679
Benefits paid	(2,541)
Foreign currency changes	(2,579)
<b>Benefit obligation at September 30, 2010</b>	<b>\$ 125,052</b>
<b>Change in plan assets:</b>	
Fair value of plan assets at December 31, 2009	\$ 88,235
Actual return on plan assets	6,240
Employer contribution	1,458
Benefits paid	(2,541)
Foreign currency changes	(2,116)
<b>Fair value of plan assets at September 30, 2010</b>	<b>\$ 91,276</b>
<b>Underfunded status at September 30, 2010</b>	<b>\$ (33,776)</b>

Based on an actuarial study performed as of September 30, 2010, the plan is underfunded and a liability of approximately \$33.8 million is reflected in the Company's consolidated financial statements as a long-term liability. The amount recognized in accumulated other comprehensive loss for the nine months ended September 30, 2010 was a net loss of \$4.1 million and the weighted-average discount rate assumption used to determine benefit obligations as of September 30, 2010 was 5.0%.

The following are weighted-average assumptions used to determine net periodic benefit costs for the nine months ended September 30, 2010:

Discount rate	5.7%
Expected long-term return on plan assets	6.8%

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

The Company also has pension plans in Asia for which the benefit obligation, fair value of the plan assets and the funded status amounts are deemed immaterial and therefore, not included in the 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 September 30, 2010, these investments totaled approximately \$3.2 million. All gains and losses in these investments are equally offset by corresponding gains and losses in the Deferred Compensation Plan liabilities.



**Table of Contents****NOTE M Related Parties**

The Company conducts business with one related party company, Lite-On Semiconductor Corporation and its subsidiaries and affiliates (collectively, LSC), our largest stockholder, owned approximately 18.9% of the Company's outstanding Common Stock as of September 30, 2010. The Company also conducts business with 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 subsidiaries.

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 that the Audit Committee may adopt from time to time.

**Lite-On Semiconductor Corporation** During the nine months ended September 30, 2010 and 2009, the Company sold products to LSC totaling 1.3% and 2.2% of its net sales, respectively. Also, for the nine months ended September 30, 2010 and 2009, 7.1% and 6.4%, respectively, of the Company's net sales were from semiconductor products purchased from LSC for subsequent sale, making LSC the Company's largest external supplier.

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Net sales	\$ 1,457	\$2,503	\$ 5,983	\$ 6,583
Purchases	\$11,073	\$9,283	\$31,961	\$22,410

**Keylink International (B.V.I.) Inc.** During the nine months ended September 30, 2010 and 2009, the Company sold products to companies owned by Keylink totaling 2.7% and 2.9% of its net sales, respectively. Also for the nine months ended September 30, 2010 and 2009, 2.0% and 1.1%, respectively, of the Company's net sales were from semiconductor products purchased from companies owned by Keylink. In addition, the Company's subsidiaries in China lease their manufacturing facilities from, and subcontract a portion of their manufacturing process (metal plating and environmental services) to Keylink. The Company also pays a consulting fee to Keylink. For the nine months ended September 30, 2010 and 2009, the Company paid Keylink an aggregate of \$10.7 million and \$7.5 million, respectively, with respect to these items.

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Net sales	\$4,235	\$3,156	\$11,977	\$8,712
Purchases	\$3,059	\$1,575	\$ 8,232	\$3,950

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

	<b>September 30, 2010</b>
<b>Accounts receivable</b>	
LSC	\$ 1,108
Keylink	8,659
	\$ 9,767
<b>Accounts payable</b>	
LSC	\$ 8,900

Keylink

6,175

\$ 15,075

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**Table of Contents****Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations**

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

*This management's discussion should be read in conjunction with the management's discussion included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2009, previously filed with Securities and Exchange Commission.*

**Highlights**

Net sales for the three months ended September 30, 2010 was \$163.1 million, an increase of \$41.0 million, or 33.6%, over the same period last year, and a sequential increase of 9.4% over the \$149.2 million in the second quarter of 2010;

Net sales for the nine months ended September 30, 2010 was \$449.1 million, an increase of \$145.0 million, or 47.7%, over the same period last year;

Gross profit for the three months ended September 30, 2010 was \$61.0 million, an increase of \$23.4 million, or 62.2%, over the same period last year, and a sequential increase of 14.0% over the \$53.5 million in the second quarter of 2010;

Gross profit for the nine months ended September 30, 2010 was \$162.2 million, an increase of \$82.8 million, or 104.3%, over the same period last year;

Gross profit margin for the three months ended September 30, 2010 was 37.4%, compared to 30.8% for the same period last year, and 35.8% for the second quarter of 2010;

Gross profit margin for the nine months ended September 30, 2010 was 36.1%, compared to 26.1% for the same period last year;

Net income attributable to common stockholders for the three months ended September 30, 2010 was \$21.2 million, or \$0.46 per diluted share, compared to the same period last year of \$7.0 million, or \$0.16 per diluted share, and second quarter 2010 of \$16.6 million, or \$0.37 per diluted share;

Net income attributable to common stockholders for the nine months ended September 30, 2010 was \$52.8 million, or \$1.16 per diluted share, compared to the same period last year, which had a net loss of \$(6.7) million, or \$(0.16) per share; and

On June 30, 2010, we put our auction rate securities (ARS) back to UBS AG at par value pursuant to the previously disclosed settlement agreement, which liquidated our ARS for cash, and the proceeds were used to fully repay the related no net cost loan with UBS Bank.

**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. These products include diodes, rectifiers, transistors, MOSFETs, protection devices, functional specific arrays, single gate logic, amplifiers and comparators, Hall-effect and temperature sensors, power management devices including LED drivers, DC-DC switching and linear voltage regulators and voltage references along with special function devices including USB power switches, load switches, voltage supervisors and motor controllers. 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 that provide a wider range of semiconductor products.

During the first quarter of 2010, we saw an increase in our net sales due to strong demand in all geographic regions led by North America and Europe. During the second and third quarters of 2010, we saw a further increase in net sales due to a strong demand for our products across all markets with particular strength in North America and Europe. In addition, during the first, second and third quarters, gross profit margin increased due to improved product mix in North America and Europe, which includes a favorable mix of higher margin new products, as well as increased capacity at our wafer fabrication facilities and generally stable



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average selling prices ( ASP ). For the fourth quarter of 2010, as we see the market supply shortage easing and demand for our products to level off, we expect net sales and gross profit to be relatively the same as compared to the third quarter of 2010.

As described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, the principal elements of our strategy include the following:

Continue to rapidly introduce innovative discrete, logic and analog semiconductor products;

Expand our available market opportunities;

Maintain intense customer focus;

Enhance cost competitiveness; and

Pursue selective strategic acquisitions.

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

For 2010, we have seen increased demand for our products as compared to 2009. We have experienced pressure from our customers and competitors to reduce the selling price for our standard products, and we expect future improvements in net income to result primarily from increases in sales volume and improvements in product mix as well as manufacturing cost reductions in order to offset any reduced ASP of our products.

For the nine months ended September 30, 2010, 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.

Net sales for the nine months ended September 30, 2010 was \$449.1 million compared to \$304.1 million in the same period last year. This increase in net sales primarily reflects the increase in demand for our products in all geographic regions.

Our gross profit margin was 36.1% for the nine months ended September 30, 2010, compared to 26.1% in the same period last year. Our gross margin percentage increased over the same period last year due to improved product mix and higher capacity utilization at our manufacturing and wafer fabrication facilities. Future gross profit margins will depend primarily on our product mix, manufacturing cost savings, and the demand for our products.

For the nine months ended September 30, 2010, our capital expenditures were approximately 16.1% of our net sales, which is an increase from our historical 10% to 12% of net sales model. We expect capital expenditures for fiscal 2010 to be higher than our historical model as we increase capacity due to increased demand.

For the nine months ended September 30, 2010, the percentage of our net sales derived from our Asia subsidiaries was 72.7%, compared to 75.4% in the same period last year. The decrease was due primarily to improvements in North America and Europe. We expect our net sales to the Asia market to increase as a percentage of our total net sales as a result of our customers continuing to shift their manufacturing of electronic products to Asia. In addition, Europe accounted for approximately 11.3% of our net sales for the nine months ended September 30, 2010, compared to 10.4% in the same period last year.

As of September 30, 2010, we had invested approximately \$278.0 million in our Asia manufacturing facilities. For the nine months ended September 30, 2010, we invested approximately \$64.0 million in these manufacturing facilities, and we expect to continue to invest in our manufacturing facilities, although the

amount to be invested will depend on product demand and new product developments.

We have increased our investment in research and development from \$16.9 million, or 5.6% of net sales, for the nine months ended September 30, 2009 to \$20.4 million, or 4.5% of net sales, for the nine months ended September 30, 2010. For the remainder of 2010, we expect research and development to decrease slightly as a percentage of net sales compared to the third quarter of 2010.

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**Table of Contents****Results of Operations for the Three Months Ended September 30, 2010 and 2009**

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
	Three months ended		(Decrease)
	2010	2009	'09 to '10
Net sales	100.0%	100.0%	33.6
Cost of goods sold	(62.6)	(69.2)	20.8
Gross profit	37.4	30.8	62.3
Operating expenses	(19.1)	(21.6)	18.2
Income from operations	18.3	9.2	165.6
Interest income	0.2	0.7	(65.3)
Interest expense and amortization of debt discount	(1.8)	(3.1)	(21.8)
Other income (expenses)	0.2	(0.9)	(123.6)
Income before income taxes and noncontrolling interest	16.9	5.9	280.2
Income tax provision (benefit)	3.3	(0.5)	(949.9)
Net income	13.6	6.4	181.5
Less: net income attributable to noncontrolling interest	(0.6)	(0.7)	10.7
Net income attributable to common stockholders	13.0	5.7	201.5

The following discussion explains in greater detail our consolidated operating results and financial condition for the three months ended September 30, 2010, compared to the three months ended September 30, 2009. This discussion should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this quarterly report (*in thousands*).

	2010	2009
<b>Net Sales</b>	\$163,120	\$122,122

Net sales increased approximately \$41.0 million for the three months ended September 30, 2010, compared to the same period last year. The 33.6% increase in net sales represented an approximately 22.9% increase in units sold and an 8.7% increase in ASP. The revenue increase for the three months ended September 30, 2010 was attributable to increase in demand for our products in all markets with particular strength in North America and Europe. For the remainder of 2010, we expect net sales to be relatively the same as compared to the third quarter of 2010.

	2010	2009
<b>Cost of goods sold</b>	\$102,143	\$84,547
<b>Gross profit</b>	\$60,977	\$37,575
<b>Gross profit margin</b>	37.4%	30.8%

Cost of goods sold increased approximately \$17.6 million, or 20.1%, for the three months ended September 30, 2010 compared to the same period last year. As a percent of sales, cost of goods sold decreased to 62.6% for the three months ended September 30, 2010 compared to 69.2% in the same period last year, and our average unit cost ( AUP )

decreased approximately 1.7% due primarily to product mix. The decrease in cost of goods sold as a percentage of sales was due to higher net sales, which offset a portion of fixed costs.

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For the three months ended September 30, 2010, gross profit increased by approximately \$23.4 million, or 62.3%, compared to the same period last year. Gross margin increased to 37.4% for the three months ended September 30, 2010, compared to 30.8% for the same period last year, primarily due to higher capacity utilization of our manufacturing and wafer fabrication facilities and improved product mix. For the remainder of 2010, we expect gross margin to be relatively the same as compared to the third quarter of 2010.

	<b>2010</b>	<b>2009</b>
<b>Selling, general and administrative expenses ( SG&amp;A )</b>	\$22,837	\$19,079

SG&A for the three months ended September 30, 2010 increased approximately \$3.8 million, or 19.7%, compared to the same period last year, primarily due to higher sales commissions related to increased sales, as well as to higher employee related costs including incentives and higher general operating costs. SG&A as a percentage of sales, decreased to 14.0% for the three months ended September 30, 2010, compared to 15.6% in the same period last year due to higher net sales. For the remainder of 2010, we expect SG&A to be comparable to the third quarter of 2010 on a percentage of net sales basis.

	<b>2010</b>	<b>2009</b>
<b>Research and development expenses ( R&amp;D )</b>	\$7,212	\$6,284

R&D for the three months ended September 30, 2010 was \$7.2 million, an increase of approximately \$0.9 million from the same period last year, primarily due to increased personnel costs, engineering supplies and material purchases. R&D, as a percentage of sales, decreased to 4.4% for the three months ended September 30, 2010, compared to 5.1% in the same period last year due to higher net sales. For the remainder of 2010, we expect R&D to be comparable to the third quarter of 2010 on a percentage of net sales basis.

	<b>2010</b>	<b>2009</b>
<b>Amortization of acquisition-related intangible assets</b>	\$1,098	\$1,271

Amortization of acquisition-related intangible assets was approximately \$1.1 million for the three months ended September 30, 2010 and approximately \$1.3 million in the same period last year.

	<b>2010</b>	<b>2009</b>
<b>Interest income</b>	\$279	\$805

Interest income decreased for the three months ended September 30, 2010 to \$0.3 million, compared to \$0.8 million in the same period last year, due primarily to the absence of interest income being earned on our ARS, which were put back to UBS at par value on June 30, 2010 in accordance with the previously disclosed settlement agreement. For the remainder of 2010, we expect interest income to be lower than 2009 since we are no longer earning interest on the ARS.

	<b>2010</b>	<b>2009</b>
<b>Interest expense</b>	\$939	\$1,784

Interest expense for the three months ended September 30, 2010 was approximately \$1.0 million, compared to \$1.8 million in the same period last year. The \$0.8 million decrease in interest expense was due primarily to the repurchase and retirement of \$95.7 million par value of Notes since the fourth quarter of 2008 and due to the fact our no net cost loan was paid off on June 30, 2010 in connection with the previously disclosed settlement agreement with UBS. For the remainder of 2010, we expect interest expense to be lower than 2009 since we are no longer being charged interest for the no net cost loan.

	<b>2010</b>	<b>2009</b>
<b>Amortization of debt discount</b>	\$2,006	\$1,981

Amortization of debt discount was approximately \$2.0 million for both the three months ended September 30, 2010 and the same period last year.



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	<b>2010</b>	<b>2009</b>
<b>Other income (expense)</b>	\$251	\$(1,062)

Other income for the three months ended September 30, 2010 was \$0.3 million, compared to other expense of \$1.1 million in the same period last year. Included in other expense for the three months ended September 30, 2009 was a \$1.4 million foreign currency transaction losses due primarily to the strengthening of the U.S. dollar versus the British Pound, negatively affecting foreign currency hedges acquired in connection with our acquisition of Zetex.

	<b>2010</b>	<b>2009</b>
<b>Income tax provision (benefit)</b>	\$5,346	\$(629)

We recognized income tax expense of \$5.3 million for the three months ended September 30, 2010, compared to a \$(0.6) million income tax benefit in the same period last year. Income taxes for the interim periods ended September 30, 2010 and 2009 have been included in the accompanying financial statements on the basis of an estimated annual effective rate and actual year-to-date effective income tax rate, respectively. The estimated effective tax rate is 19.5% for the three months ended September 30, 2010, as compared to (8.7)% in the same period last year. Our effective tax rate for the three months ended September 30, 2010 was lower than the U.S. statutory tax rate of 35%, as it was impacted by higher income in lower-taxed jurisdictions and the non-cash tax benefit from reversing valuation allowances on deferred tax assets from U.S. loss carryforwards. In addition, the Company's effective tax rate for the three months ended September 30, 2009 was impacted by income in lower-taxed jurisdictions.

	<b>2010</b>	<b>2009</b>
<b>Net income attributable to noncontrolling interest</b>	\$907	\$819

Noncontrolling interest represented the minority investors' share of the earnings of our China and Taiwan subsidiaries for the three months ended September 30, 2010 and 2009. The noncontrolling interest in the subsidiaries and their equity balances are reported separately in the consolidation of our financial statements, and the activities of these subsidiaries are included therein. Our interests in these subsidiaries have not materially changed since December 31, 2009.

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**Table of Contents****Results of Operations for the Nine Months Ended September 30, 2010 and 2009**

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.

	<b>Percent of Net Sales Nine months ended September 30,</b>		<b>Percentage Dollar Increase  (Decrease) '09 to '10</b>
	<b>2010</b>	<b>2009</b>	
Net sales	100.0%	100.0%	<b>47.7</b>
Cost of goods sold	(63.9)	(73.9)	<b>27.7</b>
Gross profit	36.1	26.1	<b>104.2</b>
Operating expenses	(19.9)	(23.1)	<b>27.2</b>
Income from operations	16.2	3.0	<b>700.7</b>
Interest income	0.6	1.3	<b>(33.8)</b>
Interest expense and amortization of debt discount	(2.3)	(4.0)	<b>(17.7)</b>
Other income (expenses)	0.4	(0.4)	<b>(262.8)</b>
Income (loss) before income taxes and noncontrolling interest	14.9	(0.1)	<b>(25,101.5)</b>
Income tax provision	2.6	1.6	<b>137.7</b>
Net income (loss)	12.3	(1.7)	<b>(1,165.1)</b>
Less: net income attributable to noncontrolling interest	(0.6)	(0.5)	<b>68.0</b>
Net income (loss) attributable to common stockholders	11.7	(2.2)	<b>(887.7)</b>

The following discussion explains in greater detail our consolidated operating results and financial condition for the nine months ended September 30, 2010, compared to the nine months ended September 30, 2009. This discussion should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this quarterly report (*in thousands*).

	<b>2010</b>	<b>2009</b>
<b>Net Sales</b>	\$449,120	\$304,070

Net sales increased approximately \$145.1 million for the nine months ended September 30, 2010, compared to the same period last year. The 47.7% increase in net sales represented an approximately 38.5% increase in units sold and a 6.6% increase in ASP. The revenue increase for the nine months ended September 30, 2010 was attributable to increase in demand for our products in all geographic regions.

	<b>2010</b>	<b>2009</b>
<b>Cost of goods sold</b>	\$286,893	\$224,632
<b>Gross profit</b>	\$162,227	\$79,438
<b>Gross profit margin</b>	36.1%	26.1%

Cost of goods sold increased approximately \$62.3 million, or 27.7%, for the nine months ended September 30, 2010 compared to the same period last year. As a percent of sales, cost of goods sold decreased to 63.9% for the nine months ended September 30, 2010 compared to 73.9% in the same period last year, and our AUP decreased 7.8% due



to product mix. The decrease in cost of goods sold as a percentage of sales was due to higher net sales, which offset a portion of the fixed costs.

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For the nine months ended September 30, 2010, gross profit increased by approximately \$82.8 million, or 104.2%, compared to the same period last year. Gross margin increased to 36.1% for the nine months ended September 30, 2010, compared to 26.1% for the same period last year, primarily due to higher capacity utilization of our manufacturing and wafer fabrication facilities and improved product mix.

	<b>2010</b>	<b>2009</b>
<b>SG&amp;A</b>	\$65,678	\$50,375

SG&A for the nine months ended September 30, 2010 increased approximately \$15.3 million, or 30.4%, compared to the same period last year, primarily due to higher sales commissions related to increased sales, as well as to higher employee related costs including incentives and higher general operating costs. SG&A, as a percentage of sales, decreased to 14.7% for the nine months ended September 30, 2010, compared to 16.6% in the same period last year due to higher net sales.

	<b>2010</b>	<b>2009</b>
<b>R&amp;D</b>	\$20,403	\$16,944

R&D for the nine months ended September 30, 2010 was \$20.4 million, an increase of approximately \$3.5 million from the same period last year, primarily due to increased personnel costs, engineering supplies and material purchases. R&D, as a percentage of sales, decreased to 4.5% for the nine months ended September 30, 2010, compared to 5.6% in the same period last year due to higher net sales.

	<b>2010</b>	<b>2009</b>
<b>Amortization of acquisition-related intangible assets</b>	\$3,304	\$3,480

Amortization of acquisition-related intangible assets was approximately \$3.3 million for the nine months ended September 30, 2010 and approximately \$3.5 million in the same period last year.

	<b>2010</b>	<b>2009</b>
<b>Interest income</b>	\$2,587	\$3,907

Interest income decreased for the nine months ended September 30, 2010 to \$2.6 million, compared to \$3.9 million in the same period last year, due primarily to a decrease in interest income earned on our ARS, which were put back to UBS at par value on June 30, 2010 in accordance with the previously disclosed settlement agreement.

	<b>2010</b>	<b>2009</b>
<b>Interest expense</b>	\$4,317	\$5,709

Interest expense for the nine months ended September 30, 2010 was approximately \$4.3 million, compared to \$5.7 million in the same period last year. The \$1.4 million decrease in interest expense was due primarily to the repurchase and retirement of \$95.7 million par value of Notes since the fourth quarter of 2008 and due to the fact our no net cost loan was paid off on June 30, 2010 in connection with the previously disclosed settlement agreement with UBS.

	<b>2010</b>	<b>2009</b>
<b>Amortization of debt discount</b>	\$5,713	\$6,471

Amortization of debt discount for the nine months ended September 30, 2010 was \$5.7 million, compared to \$6.5 million in the same period last year. The \$0.8 million decrease in amortization of debt discount was due primarily to the repurchase and retirement of Notes during 2009.

	<b>2010</b>	<b>2009</b>
<b>Other income (expense)</b>	\$1,749	\$(1,074)

Other income for the nine months ended September 30, 2010 was \$1.7 million, compared to other expense of \$1.1 million in the same period last year. Included in other income for the nine months ended September 30, 2010 was a \$1.7 million gain on sale of non-core intellectual property for which no intangible assets were recorded. Included in other expense for the nine months ended September 30, 2009 was foreign currency losses of \$3.4 million, partially offset by a \$1.5 million gain on forgiveness of debt from government subsidies in China and a \$1.4 million gain on extinguishment of debt.

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	<b>2010</b>	<b>2009</b>
<b>Income tax provision</b>	\$11,705	\$4,924

We recognized income tax expense of \$11.7 million for the nine months ended September 30, 2010, compared to a \$4.9 million in the same period last year. Income taxes for the interim periods ended September 30, 2010 and 2009 have been included in the accompanying financial statements on the basis of an estimated annual effective rate and actual year-to-date effective income tax rate, respectively. The estimated effective tax rate is 17.5% for the nine months ended September 30, 2010, as compared to the effective tax rate for the same period last year of (1837.7)%. Our effective tax rate for the nine months ended September 30, 2010 was lower than the U.S. statutory tax rate of 35%, as it was impacted by higher income in lower-taxed jurisdictions and the non-cash tax benefit from reversing valuation allowances on deferred tax assets from U.S. and U.K. loss carryforwards. In addition, the Company's effective tax rate for the nine months ended September 30, 2009 was impacted by the non-cash income tax expense associated with repatriating earnings of foreign subsidiaries to the U.S. parent.

	<b>2010</b>	<b>2009</b>
<b>Net income attributable to noncontrolling interest</b>	\$2,532	\$1,507

Noncontrolling interest represented the minority investors' share of the earnings of our China and Taiwan subsidiaries for the nine months ended September 30, 2010 and 2009. The noncontrolling interest in the subsidiaries and their equity balances are reported separately in the consolidation of our financial statements, and the activities of these subsidiaries are included therein. Our interests in these subsidiaries have not materially changed since December 31, 2009.

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

Our primary sources of liquidity are cash and cash equivalents, funds from operations and borrowings under our credit facilities. We currently have a U.S. credit agreement for a \$10 million revolving credit facility and a \$10 million uncommitted facility with no outstanding borrowings and have foreign credit facilities with borrowing capacities of approximately \$25.0 million with no outstanding borrowings and \$3.6 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, 2009 and September 30, 2010, our working capital was \$354.3 million and \$394.1 million, respectively. Our working capital increased in the first nine months of 2010 primarily due to the increase in cash, accounts receivables and inventories, partially offset by an increase in accounts payable and accrued liabilities. We expect cash generated by our U.S. and international operations, together with existing cash, cash equivalents and available credit facilities, to be sufficient to cover cash needs for working capital and capital expenditures for at least the next 12 months. Cash and cash equivalents, the conversion of other working-capital items and borrowings are expected to be sufficient to fund on-going operations.

During the third quarter of 2010, we did not renew revolving foreign credit facilities totaling approximately \$20 million. While our operational cash flow is sufficient to fund current operations, we are in the process of renegotiating the terms for these revolving credit facilities.

On June 30, 2010, we put back our ARS portfolio to UBS AG at par value pursuant to the previously disclosed settlement agreement with UBS AG. Upon exercise of the put option, we liquidated our ARS, for cash and used the proceeds to fully repay the related no net cost loan with UBS Bank.

On October 1, 2011 the holders of our 2.25% Convertible Senior Notes due 2026 ( Notes ) can require us 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, during the fourth quarter of 2010, we will reclassify our Notes from long-term debt to current liabilities. Should the holders choose to require us to purchase their Notes, we will be required to use available funds and/or seek alternative means to service the debt.

Capital expenditures for the nine months ended September 30, 2010 and 2009 were \$72.2 million and \$15.8 million, respectively. Our capital expenditures for these periods were primarily related to manufacturing expansion in our facilities in China. Capital expenditures in the first nine months of 2010 were approximately 16.1% of our net sales, which is an increase from our historical 10% to 12% of net sales model. We expect capital expenditures for fiscal 2010 to be higher than our historical model.

**Discussion of Cash Flow**

Cash and cash equivalents increased from \$242.0 million at December 31, 2009, to \$263.8 million at September 30, 2010 primarily from cash provided by operating and investing activities, offset by cash used in financing activities.

***Operating Activities***

Net cash provided by operating activities for the nine months ended September 30, 2010 was \$90.0 million, resulting primarily from \$55.3 million of net income, \$37.8 million in depreciation and amortization and \$9.8 million in share-based compensation, offset by a greater increase in operating assets than operating liabilities. Net cash provided by operating activities was \$44.0 million for the same period last year. Net cash provided by operating activities increased \$46.0 million for the nine months ended September 30, 2010, compared to the same period last year. This increase resulted primarily from a \$60.5 million increase in net income, offset by changes in operating assets and liabilities.

***Investing Activities***

Net cash provided by (used in) investing activities was \$232.0 million for the nine months ended September 30, 2010 compared to (\$3.7) million for the same period last year. The \$235.7 million increase in net cash provided by investing activities was due primarily to \$296.6 million in proceeds from the sale of short-term investments, offset partially by the \$53.4 million increase in purchases of property, plant and equipment.

***Financing Activities***

Net cash used in financing activities totaled \$298.6 million for the nine months ended September 30, 2010 compared to \$21.1 million in the same period last year. This increase in usage is primarily the result of an approximately \$303.2 million repayment on lines of credit with the proceeds from the sale of short-term investments.

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### **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, 2009, filed on March 1, 2010, except for the changes described below.

On June 30, 2010, we put back our ARS portfolio to UBS AG at par value pursuant to the previously disclosed settlement agreement with UBS AG. Upon exercise of the put option, we liquidated our ARS, for cash and used the proceeds to fully repay the related no net cost loan with UBS Bank.

### **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 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, 2009, filed on March 1, 2010.

### **Critical Accounting Policies and Estimates**

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America ( U.S. GAAP ) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, we evaluate our estimates, which are based upon historical experiences, market trends and financial forecasts and projections, and upon various other assumptions that management believes to be reasonable under the circumstances and at that certain point in time. Actual results may differ, significantly at times, from these estimates under different assumptions or conditions.

Our critical accounting policies, as described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, relate to revenue recognition, inventories, accounting for income taxes, allowance for doubtful accounts, goodwill and long-lived assets, share-based compensation, fair value measurements, defined benefit plan, contingencies and convertible senior notes. There have been no material changes to our critical accounting policies since December 31, 2009, except that we no longer use methods of fair value to value our ARS portfolio.

### **Recently Issued Accounting Pronouncements**

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

### **Available Information**

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

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

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

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

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

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

- Ø *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.*
- Ø *During times of difficult market conditions, our fixed costs combined with lower revenues may have a negative impact on our results of operations and financial condition.*
- Ø *Downturns in the highly cyclical semiconductor industry or changes in end-market demand could adversely affect our results of operations and financial condition.*
- Ø *The semiconductor business is highly competitive, and increased competition may harm our business, results of operations and financial condition.*
- Ø *We receive a significant portion of our net sales from a single customer. In addition, this customer is also our largest external supplier and is a related party. The loss of this customer or supplier could harm our business, results of operations and financial condition.*
- Ø *Delays in initiation of production at facilities, implementing new production techniques or resolving problems associated with technical equipment malfunctions could adversely affect our manufacturing efficiencies, results of operations and financial condition.*
- Ø *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.*



- Ø *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.*
- Ø *Our customer orders are subject to cancellation or modification usually with no penalty. High volumes of order cancellation or reductions in quantities ordered could adversely affect our results of operations and financial condition.*
- Ø *Production at our manufacturing facilities could be disrupted for a variety of reasons, which could prevent us from producing enough of our products to maintain our sales and satisfy our customers demands and could adversely affect our results of operations and financial condition.*

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- Ø *New technologies could result in the development of new products by our competitors and a decrease in demand for our products, and we may not be able to develop new products to satisfy changes in demand, which could adversely affect our net sales, market share, results of operations and financial condition.*
- Ø *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.*
- Ø *We may be subject to claims of infringement of third-party intellectual property rights or demands that we license third-party technology, which could result in significant expense and reduction in our intellectual property rights.*
- Ø *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.*
- Ø *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, profit margins, results of operations and financial condition.*
- Ø *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.*
- Ø *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.*
- Ø *Our products may be found to be defective and, as a result, product liability claims may be asserted against us, which may harm our business, reputation with our customers, results of operations and financial condition.*
- Ø *We may fail to attract or retain the qualified technical, sales, marketing and management personnel required to operate our business successfully, which could adversely affect our business, results of operations and financial condition.*
- Ø *We may not be able to maintain our growth or achieve future growth and such growth may place a strain on our management and on our systems and resources, which could adversely affect our business, results of operations and financial condition.*
- Ø *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.*
- Ø *If OEMs do not design our products into their applications, a portion of our net sales may be adversely affected.*
- Ø *We are subject to interest rate risk that could have an adverse effect on our cost of working capital and interest expenses.*
- Ø

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

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

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

**Risks Related To Our International Operations**

- Ø *Our international operations subject us to risks that could adversely affect our operations.*
- Ø *We have significant operations and assets in China, Taiwan, Hong Kong and England and, as a result, will be subject to risks inherent in doing business in those jurisdictions, which may adversely affect our financial performance.*
- Ø *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.*
- Ø *Economic regulation in China could materially and adversely affect our business, results of operations and prospects.*
- Ø *We could be adversely affected by violations of the United States Foreign Corrupt Practices Act and similar worldwide anti-bribery laws.*
- Ø *We are subject to foreign currency risk as a result of our international operations.*
- Ø *We may not continue to receive preferential tax treatment in Asia, thereby increasing our income tax expense and reducing our net income.*
- Ø *The distribution of any earnings of our foreign subsidiaries to the United States may be subject to U.S. income taxes, thus reducing our net income.*
- Ø *The People's Republic of China is experiencing a 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.*

**Risks Related To Our Common Stock**

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

- Ø *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.*
- Ø *Conversion of our convertible senior notes will dilute the ownership interest of existing stockholders, including stockholders who had previously converted their notes.*
- Ø *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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- Ø *The repurchase rights and the increased conversion rate triggered by a make-whole fundamental change could discourage a potential acquirer.*
- Ø *Anti-takeover effects of certain provisions of Delaware law and our Certificate of Incorporation and Bylaws, may hinder a take-over attempt.*
- Ø *Section 203 of Delaware General Corporation Law may deter a take-over attempt.*
- Ø *Certificate of Incorporation and Bylaw provisions may deter a take-over attempt.*

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**Table of Contents****Item 3. Quantitative and Qualitative Disclosures About Market Risk**

As a multinational corporation, we are subject to certain market risks relating to foreign currency, interest rates, political, 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, 2009, filed on March 1, 2010, except for the changes to foreign currency risks as described below.

**Foreign Currency Risk**

We face exposure to adverse movements in foreign currency exchange rates, primarily in Asia and Europe. Our foreign currency risk may change over time as the level of activity in foreign markets grows and could have a material adverse impact upon our financial results. Certain of our assets, including certain bank accounts and accounts receivable, and liabilities exist in non-U.S. dollar denominated currencies, which are sensitive to foreign currency exchange fluctuations. These currencies are principally the Chinese Yuan, the Taiwanese dollar and the British Pound Sterling and, to a lesser extent, the Japanese Yen, the Euro and the Hong Kong dollar. In the future, we may enter into hedging arrangements designed to mitigate foreign currency fluctuations. See Risk Factors *We are subject to foreign currency risk as a result of our international operations.* in Part II, Item 1A of this Quarterly Report for additional information.

***Effect on Reporting Income***

Certain of our subsidiaries have a functional currency that differs from the currencies in which some of their expenses are denominated. Our income and expenses are based on a mix of currencies and a decline in one currency relative to the other currencies could adversely affect our results of operations. Furthermore, our results of operations are reported in U.S. dollars, which is our reporting currency. In the event the U.S. dollar weakens against a foreign currency, we will experience a currency transaction loss, which could adversely affect our results of operations. If a foreign currency were to weaken or (strengthen) by 1.0% against the U.S. dollar, we would experience currency transaction gain or (loss) of approximately \$0.2 million per quarter.

***Foreign Currency Transaction Risk***

We also are subject to foreign currency risk arising from intercompany transactions that are expected to be settled in cash in the near term where the cash balances are held in denominations other than our subsidiaries functional currency. If exchange rates weaken against the functional currency, we would incur a remeasurement gain in the value of the cash balances, and if the exchange rates strengthen against the functional currency, we would incur a remeasurement loss in the value of the cash balances, assuming the net monetary asset balances remained constant. Our ultimate realized gain or loss with respect to currency fluctuations will generally depend on the size and type of transaction, the size and currencies of the net monetary assets and the changes in the exchange rates associated with these currencies. If the Chinese Yuan, the Taiwanese dollar, the Euro and the British Pound Sterling were to weaken or (strengthen) by 1.0% against the U.S. dollar, we would experience currency transaction gain or (loss) of approximately \$0.3 million. Net foreign exchange transaction gains or (losses) are included in other income and expense.

***Foreign Currency Translation Risk***

When our foreign subsidiaries books are maintained in their functional currency, fluctuations in foreign currencies impact the amount of total assets and liabilities that we report for our foreign subsidiaries upon the translation of these amounts into U.S. dollars for reporting purposes. All elements of the subsidiaries financial statements, except for stockholders equity accounts, are translated using a currency exchange rate. Assets and liabilities denominated in foreign currencies are translated at the exchange rate on the balance sheet date. Income and expense accounts denominated in foreign currencies are translated at the weighted-average exchange rate during the period presented. Resulting translation adjustments are recorded as a separate component of accumulated other comprehensive income or loss within stockholders equity in the consolidated balance sheets, which are accumulated in this account until sale or liquidation of the foreign entity investment, at which time they are reported as adjustments to the gain or loss on sale of investment.

***Foreign Currency Denominated Defined Benefit Plans***

We have a contributory defined benefit plan that covers certain employees in the U.K. and Germany. The defined benefit plan is closed to new entrants and frozen with respect to future benefit accruals. The retirement benefit

is based on the final average compensation and service of each eligible employee. December 31 is our annual measurement date and on measurement date, defined benefit plan assets are determined based on fair value. Defined benefit plan assets consist primarily of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability. The net pension and supplemental retirement benefit obligations and the related periodic costs are based on, among other things, assumptions of the discount rate, estimated return on plan assets and mortality rates. These obligations and

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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.

As of September 30, 2010, the plan is underfunded and a liability of \$33.8 million is reflected in our consolidated financial statements as a noncurrent liability. The amount recognized in accumulated other comprehensive income was a net loss of \$26.9 million. If the British Pound Sterling were to (weaken) or strengthen by 1.0% against the U.S. dollar, we would experience currency translation liability (decrease) or increase of approximately \$0.3 million. The weighted-average discount rate assumption used to determine benefit obligations as of September 30, 2010 was 5.7%. A 0.2% increase/(decrease) in the discount rate used to calculate the net period benefit cost for the year would reduce annual benefit cost by \$0.1 million. A 0.1% increase/(decrease) in the discount rate used to calculate the year-end projected benefit obligation would increase/(decrease) the year-end projected benefit obligation by approximately \$2.3 million. The expected return on plan assets is determined based on historical and expected future returns of the various assets classes and as such, each 1.0% increase/(decrease) in the expected rate of return assumption would increase/(decrease) the net period benefit cost by approximately \$0.8 million. The asset value of the defined benefit plan has been volatile in recent months due primarily to wide fluctuations in the U.K. equity markets and bond markets. See *Risk Factors 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 Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2009, filed on March 1, 2010 for additional information.

**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 for required disclosure.

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

**Changes in Controls over Financial Reporting**

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

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**Table of Contents****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 pending litigation.

**Item 1A. Risk Factors**

There have been 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, 2009, filed on March 1, 2010, and such changes are reflected immediately below. The following risk factors as well as the risks described in our Annual Report on Form 10-K, are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

**RISKS RELATED TO OUR BUSINESS**

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

Certain of our customers and suppliers require us to agree to comply with their codes of conduct, which may include detailed provisions on labor, human rights, health and safety, environment, corporate ethics and management systems. Certain of these provisions are not requirements under the laws of the countries in which we operate but may be burdensome to comply with on a regular basis. Moreover, new provisions may be added or material changes may be made to any these codes of conduct, and we will have to promptly agree and implement such new provisions or changes, which may substantially further increase the cost of our business, be burdensome to implement and adversely affect our operating efficiencies and results of operations. If we violate any such code of conduct, we may lose business with the customer or supplier and, in addition, we may be subject to fines from the customer or supplier. While we believe that we are currently in compliance with our customers and suppliers codes of conduct, there can be no assurance that, from time to time, if any one of our customers and suppliers audits our compliance with its code of conduct that we would be found to be in full compliance. A loss of business from these customers or suppliers could have a material adverse effect on our business, results of operations and financial conditions.

**RISKS RELATED TO OUR INTERNATIONAL OPERATIONS**

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

We face exposure to adverse movements in foreign currency exchange rates, principally the Chinese Yuan, the Taiwanese dollar and the British Pound Sterling and, to a lesser extent, the Japanese Yen, the Euro, the Hong Kong dollar. Our income and expenses are based on a mix of currencies and a decline in one currency relative to the other currencies could adversely affect our results of operations. Furthermore, our results of operations are reported in U.S. dollars, which is our reporting currency. In the event the U.S. dollar weakens against a foreign currency, we will experience a currency transaction loss, which could adversely affect our results of operations. Also, fluctuations in foreign currency exchange rates may have an adverse impact and be increasingly influential to our overall sales, profits and results of operations as amounts that are measured in foreign currency are translated back to U. S. dollars for reporting purposes. Our foreign currency risk may change over time as the level of activity in foreign markets grows and could have an adverse impact upon our financial results, especially as the portion of our sales attributable to Europe increases. We do not usually employ hedging techniques designed to mitigate foreign currency exposures and, therefore, we could experience currency losses as these currencies fluctuate against the U.S. dollar.

*The People's Republic of China is experiencing a 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.*

Historically, labor in China has been readily available at a lower cost compared to other countries, and any increase in labor cost in China has been consistent with the projected annual increase in the inflation index and the amount of past labor cost increases. However, because China is experiencing rapid social, political and economic change, there can be no assurance that labor will continue to be available in China at costs consistent with historical

levels. Any future increase in labor cost in China is likely to be higher than historical and projected amounts and may occur multiple times in any given year. As a result of experiencing such rapid

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social, political and economic change, China is also likely to enact new, and/or revise its existing, labor laws and regulations on employee compensation and benefits. These changes in Chinese labor laws and regulations will likely have an adverse effect on product manufacturing costs in China. Furthermore, if China laborers go on strike to demand higher wages, our operations could be disrupted. Many of our suppliers are currently dealing with labor shortages in China, which may result in future supply delays and disruptions and may drive a substantial increase in their labor costs that is likely to be shared by us in the form of price increases to us. New or revised government labor laws or regulations, strikes or labor shortages could cause our product costs to rise and/or could cause manufacturing partners on whom we rely to exit the business. These events could have an adverse impact on our product availability and quality, which would affect our business, results of operations and financial conditions.

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

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

There have been no repurchases of our Notes or common stock during the third quarter of 2010.

**Item 3. Defaults Upon Senior Securities**

There are no matters to be reported under this heading.

**Item 4. (Removed and Reserved)**

**Item 5. Other Information**

There are no matters to be reported under this heading.

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

<b>Number</b>	<b>Description</b>	<b>Form</b>	<b>Date of First Filing</b>	<b>Exhibit Number</b>	<b>Attached Herewith</b>
3.1	Certificate of Incorporation, as amended	S-3	September 8, 2005	3.1	
3.2	Amended By-laws of the Company dated July 19, 2007	8-K	July 23, 2007	3.1	
4.1	Form of Certificate for Common Stock, par value \$0.66 2/3 per share	S-3	August 25, 2005	4.1	
4.2	Form of 2.25% Convertible Senior Notes due 2026	S-3	October 4, 2006	4.1	
4.3	Form of Indenture for the 2.25% Convertible Senior Notes due 2026	S-3	October 4, 2006	4.3	
10.1	Second Floor of the Accommodation Building Lease Agreement, dated September 1, 2010, between Shanghai Kaihong Technology Company Limited and Shanghai Ding Hong Electronic Company Limited.	10-Q		10.1	X
10.2	Security Guards Transfer Memorandum of Understanding, dated September 1, 2010, between Diodes Shanghai Company Limited and Shanghai Yuan Hao Electronic Company Limited.	10-Q		10.2	X
10.3	Investment Cooperation Agreement effective as of September 10, 2010, between Diodes Hong Kong Holding Company Limited and the Management Committee of the Chengdu Hi-Tech Industrial Development Zone.	8-K	September 16, 2010		
10.4	Supplementary Agreement to the Investment Cooperation Agreement effective as of September 10, 2010, between Diodes Hong Kong Holding Company Limited and the Management Committee of the Chengdu Hi-Tech Industrial Development Zone.	8-K	September 16, 2010		
31.1	Certification Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, adopted pursuant to Section 302 of the				X

Sarbanes-Oxley Act of 2002.

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	
101.SCH**	XBRL Taxonomy Extension Schema	
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase	
101.LAB**	XBRL Taxonomy Extension Labels Linkbase	
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase	

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\* *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 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

November 9, 2010

RICHARD D. WHITE  
Chief Financial Officer, Treasurer and  
Secretary  
(Duly Authorized Officer and Principal  
Financial and  
Chief Accounting Officer)

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