DIODES INC /DEL/
Form 10-Q
May 12, 2008

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

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

For the quarterly period ended March 31, 2008

Or

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

For the transition period from __________ to __________ .

Commission file number: 002-25577

DIODES INCORPORATED

(Exact name of registrant as specified in its charter)

Delaware	**95-2039518**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
15660 North Dallas Parkway Suite 850 Dallas, Texas	**75248**
(Address of principal executive offices)	(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 þ No o

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

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

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

The number of shares of the registrant s Common Stock outstanding as of May 8, 2008 was 40,581,783

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

	December 31, 2007	**March 31, 2008 (unaudited)**
CURRENT ASSETS		
Cash and cash equivalents	$ 56,179	**$ 61,243**
Short-term investments	323,472	**-**
Total cash and short-term investments	379,651	**61,243**
Accounts receivable		
Trade customers	84,638	**83,478**
Related parties	5,405	**4,528**
	90,043	**88,006**
Allowance for doubtful accounts	(465)	**(549)**
Accounts receivable, net of allowances	89,578	**87,457**
Inventories	53,031	**62,162**
Deferred income taxes, current	5,173	**5,968**
Prepaid expenses and other	10,576	**12,740**
Total current assets	538,009	**229,570**
LONG-TERM INVESTMENT, available-for-sale securities		**302,627**
PROPERTY, PLANT AND EQUIPMENT, net	123,407	**129,834**
DEFERRED INCOME TAXES, non-current	3,241	**9,819**
OTHER ASSETS		
Intangible assets, net	9,643	**9,569**
Goodwill	25,135	**26,474**
Other	6,930	**7,550**
Total assets	$ 706,365	**$ 715,443**

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

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

	December 31, 2007	**March 31, 2008 (unaudited)**
CURRENT LIABILITIES		
Line of credit	$	**$ 2,434**
Accounts payable		
Trade	42,010	**39,032**
Related parties	13,135	**12,701**
Accrued liabilities	27,841	**26,017**
Income tax payable	1,732	**3,346**
Current portion of long-term debt	1,345	**1,363**
Current portion of capital lease obligations	145	**146**
Total current liabilities	86,208	**85,039**
LONG-TERM DEBT, net of current portion		
2.25% convertible senior notes due 2026	230,000	**230,000**
Other	5,815	**5,753**
CAPITAL LEASE OBLIGATIONS, net of current portion	1,331	**1,278**
OTHER LONG-TERM LIABILITIES	6,249	**7,156**
Total liabilities	329,603	**329,226**
MINORITY INTEREST IN JOINT VENTURES	7,164	**7,772**
CONTINGENCIES AND COMMITMENTS		
STOCKHOLDERS EQUITY		
Preferred stock par value $1.00 per share; 1,000,000 shares authorized; no shares issued or outstanding		
Common stock par value $0.66 2/3 per share; 70,000,000 shares authorized; 40,172,491 and 40,322,547 issued and outstanding at December 31, 2007 and March 31, 2008, respectively	26,782	**26,882**
Additional paid-in capital	121,412	**124,391**
Retained earnings	220,504	**234,706**
Accumulated other comprehensive gain (loss)	900	**(7,534)**
Total stockholders equity	369,598	**378,445**
Total liabilities and stockholders equity	$ 706,365	**$ 715,443**

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

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

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2008
NET SALES	$ 92,020	**$ 95,580**
COST OF GOODS SOLD	62,496	**63,664**
Gross profit	29,524	**31,916**
OPERATING EXPENSES		
Selling, general and administrative	12,679	**14,659**
Research and development	2,944	**3,736**
Gain on disposal of fixed assets		**(45)**
Total operating expenses	15,623	**18,350**
Income from operations	13,901	**13,566**
OTHER INCOME (EXPENSES)		
Interest income	4,035	**5,448**
Interest expense	(1,725)	**(1,698)**
Other	(129)	**(294)**
Total other income	2,181	**3,456**
Income before income taxes and minority interest	16,082	**17,022**
INCOME TAX PROVISION	(2,658)	**(2,215)**
Income before minority interest	13,424	**14,807**
Minority interest in earnings of joint ventures	(415)	**(604)**
NET INCOME	$ 13,009	**$ 14,203**
EARNINGS PER SHARE		
Basic	$ 0.33	**$ 0.35**

Diluted	$ 0.31	**$ 0.33**
Number of shares used in computation		
Basic	39,041	**40,245**
Diluted	41,776	**42,534**

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)

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 13,009	**$ 14,203**
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	5,763	**7,444**
Amortization of acquired intangibles	209	**212**
Amortization of convertible bond issuance costs	319	**311**
Minority interest earnings	415	**608**
Share-based compensation	2,429	**2,550**
Gain on disposal of property, plant and equipment		**(37)**
Changes in operating assets:		
Accounts receivable	(4,716)	**3,573**
Inventories	(619)	**(8,031)**
Prepaid expenses and other current assets	(67)	**(3,012)**
Deferred income taxes	(598)	**(732)**
Changes in operating liabilities:		
Accounts payable	(5,543)	**(4,220)**
Accrued liabilities	(4,982)	**(5,377)**
Other liabilities	1,877	**907**
Income taxes payable	137	**1,497**
Net cash provided by operating activities	$ 7,633	**$ 9,896**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	$ (12,906)	**$ (10,001)**
Sales (purchases) of available-for-sale securities	(3,771)	**2,747**
Proceeds from sale of property, plant and equipment	529	**45**
Net cash used by investing activities	$ (16,148)	**$ (7,209)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances on line of credit, net	$	**$ 2,382**
Net proceeds from issuance of common stock	844	**528**
Repayments of long-term debt	(706)	**(341)**
Repayments of capital lease obligations	(50)	**(52)**
Net cash provided by financing activities	$ 88	**$ 2,517**
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	77	**(140)**

INCREASE (DECREASE) IN CASH	(8,350)	**5,064**
CASH AND CASH EQUIVALENTS, beginning of period	48,888	**56,179**
CASH AND CASH EQUIVALENTS, end of period	$ 40,538	**$ 61,243**

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 (Continued)
(Unaudited)
(In thousands)

	Three Months Ended March 31,	
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	2007	**2008**
Cash paid during the year for:		
Interest	$ 2,517	**$ 2,672**
Income taxes	$ 1,147	**$ 1,520**
Non-cash activities:		
Increase (decrease) in accounts payable for property, plant and equipment purchases	$ (531)	**$ 3,343**
Liabilities for unrecognized tax benefits recorded as cumulative effect adjustment to stockholders equity	$ 1,955	**$**

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 Basis of Presentation and New Accounting Standards

Unless the context otherwise requires, the words Diodes, the Company, we, us and our refer to I Incorporated and its subsidiaries. The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States (U.S.) for interim financial information and with the instructions to Form 10-Q. They do not include all information and footnotes necessary for a fair presentation of financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the U.S. for complete financial statements. These consolidated condensed financial statements should be read in conjunction with the consolidated financial statements and related notes contained in our Annual Report on Form 10-K for the year ended December 31, 2007. In the opinion of management, all adjustments (consisting of normal recurring adjustments and accruals) considered necessary for a fair presentation of the results of operations for the period presented have been included in the interim period. Operating results for the three months ended March 31, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. The condensed consolidated financial data at December 31, 2007 is derived from audited financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2007.

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. 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.

During 2007, we undertook an internal restructuring whereby our foreign subsidiaries were placed under our newly formed, wholly owned Netherlands holding company, Diodes-International. In addition, Diodes-China and Diodes-Shanghai were placed under Diodes Hong Kong Holding Company, Ltd., a newly formed, wholly owned subsidiary of Diodes-International. The primary purpose of this internal restructuring was for treasury management and tax planning functions.

The consolidated financial statements include the parent company, Diodes Incorporated, and the following:

Holding companies	
Diodes International B.V. (Diodes-International)	100% owned (2007)
Diodes Hong Kong Holding Company, Ltd.	100% owned (2007)
Subsidiaries	
Diodes Taiwan Corporation, Ltd. (Diodes-Taiwan)	100% owned
Diodes Hong Kong Ltd. (Diodes-Hong Kong)	100% owned
Anachip Corporation (Anachip or Diodes-Anachip)	99.81% owned
Shanghai KaiHong Electronic Co., Ltd. (Diodes-China)	95% owned
Shanghai KaiHong Technology Co., Ltd. (Diodes-Shanghai)	95% owned
FabTech Incorporated (FabTech or Diodes-FabTech)	100% owned
Diodes United Kingdom, Ltd.	100% owned (2007)
Diodes Korea Incorporated	100% owned (2007)
Diodes Germany GmbH	100% owned (2007)
Diodes France SARL	100% owned (2008)

All significant intercompany balances and transactions have been eliminated.

Reclassification

Certain prior year s balances have been reclassified to conform to the current financial statement presentation. These reclassifications had no impact on previously reported net income or stockholders equity.

Recently Issued Accounting Pronouncements

In March 2008, the Financial Accounting Standards Board (FASB) issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an Amendment of SFAS No. 133 (SFAS 161). SFAS 161 requires that objectives for using derivatives instruments be disclosed in terms of underlying risk and accounting designation. The fair value of derivative instruments and their gains and losses will need to be presented in tabular format in order to present a more complete picture of the effects of using derivative instruments. SFAS 161 is effective for financial statements issued for fiscal years beginning after November 15, 2008. The Company is currently evaluating the impact of adopting this pronouncement.

In December 2007, the FASB issued SFAS No. 141R, Business Combinations, (SFAS 141R) which changes how business acquisitions are accounted. SFAS No. 141R requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction and establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed in a business combination. Among the more significant changes in the accounting for acquisitions are the following: i) Transaction costs will generally be expensed. Certain such costs are presently treated as costs of the acquisition; ii) In-process research and development (IPR&D) will be accounted for as an asset, with the cost recognized as the research and development is realized or abandoned. IPR&D is presently expensed at the time of the acquisition; iii) Contingencies, including contingent consideration, will generally be recorded at fair value with subsequent adjustments recognized in operations. Contingent consideration is presently accounted for as an adjustment of purchase price; and iv) Decreases in valuation allowances on acquired deferred tax assets will be recognized in operations. Such changes previously were considered to be subsequent changes in consideration and were recorded as adjustments to goodwill. SFAS 141R is effective for business combinations and adjustments to an acquired entity s deferred tax asset and liability balances occurring after December 31, 2008. The Company is currently evaluating the future impacts and required disclosures of this standard.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51, (SFAS 160) which establishes new standards governing the accounting for and reporting of noncontrolling interests (NCIs) in partially owned consolidated subsidiaries and the loss of control of subsidiaries. Certain provisions of this standard indicate, among other things, that NCIs (previously referred to as minority interests) be treated as a separate component of equity, not as a liability; that increases and decrease in the parent s ownership interest, that leave control intact, be treated as equity transactions, rather than as step acquisitions or dilution gains or losses; and that losses of a partially owned consolidated subsidiary be allocated to the NCI even when such allocation might result in a deficit balance. This standard also requires changes to certain presentation and disclosure requirements. SFAS 160 is effective beginning January 1, 2009. The provisions of the standard are to be applied to all NCIs prospectively, except for the presentation and disclosure requirements, which are to be applied retrospectively to all periods presented. After adoption, noncontrolling interests ($4.8 million and $7.2 million at December 31, 2006 and 2007, respectively) will be classified as stockholders equity, a change from its current classification between liabilities and stockholders equity. The Company is currently evaluating the future impacts and required disclosures of this standard.

In December 2007, the FASB ratified the EITF consensus on EITF Issue No. 07-1, Accounting for Collaborative Arrangements that discusses how parties to a collaborative arrangement (which does not establish a legal entity within such arrangement) should account for various activities. The consensus indicates that costs incurred and revenues generated from transactions with third parties (i.e., parties outside of the collaborative arrangement) should be reported by the collaborators on the respective line items in their income statements pursuant to EITF Issue No. 99-19, Reporting Revenue Gross as a Principal Versus Net as an Agent. Additionally, the consensus provides that income statement characterization of payments between the participants in a collaborative arrangement should be based upon existing authoritative pronouncements; analogy to such pronouncements if not within their scope; or a reasonable, rational, and consistently applied accounting policy election. EITF Issue No. 07-1 is effective for the Company beginning January 1, 2009 and is to be applied retrospectively to all periods presented for collaborative arrangements existing as of the date of adoption. The Company is currently evaluating the impacts and disclosures of this standard.

In June 2007, the FASB s EITF reached a consensus on EITF Issue No. 07-3, Accounting for Nonrefundable Advance Payments for Goods or Services to Be Used in Future Research and Development Activities that would require nonrefundable advance payments made by the Company for future R&D activities to be capitalized and recognized as an expense as the goods or services are received by the Company. EITF Issue No. 07-3 is effective for the Company with respect to new arrangements entered into beginning January 1, 2008. The Company is currently evaluating the impacts and disclosures of this standard.

In February 2007, FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115 (SFAS 159). This Statement permits entities to choose to measure many financial instruments and certain other items at fair value and report unrealized gains and losses on these instruments in earnings. SFAS 159 is effective as of January 1, 2008. At the effective date, an entity may elect the fair value option for eligible items that exist at that date. The entity shall report the effect of the first re-measurement to fair value as a cumulative-effect adjustment to the opening balance of retained earnings. The Company has not elected the fair value option for eligible items that existed as of January 1, 2008.

In September 2006, FASB issued SFAS 157, Fair Value Measurements (SFAS 157). SFAS 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. Under the standard, fair value measurements would be separately disclosed by level within the fair value hierarchy. SFAS 157 became effective beginning January 1, 2008 and did not have a material effect on the Company s financial position, results of operations or cash flows. In February 2008, FASB Staff Position (FSP) No. 157-2, Effective Date of FASB Statement No. 157, was issued that delayed the application of SFAS 157 for non-financial assets and non-financial liabilities, until January 1, 2009 (see Note D).

NOTE B Functional Currencies, Comprehensive Gain/Loss and Foreign Currency Translation

Functional Currencies and Translation - Through our subsidiaries, we maintain foreign operations in Taiwan, Hong Kong and China. We believe the New Taiwan (NT) dollar as the functional currency at Diodes-Taiwan and Diodes-Anachip most appropriately reflects the current economic facts and circumstances of the operations. Assets and liabilities recorded in NT dollar are translated at the exchange rate on the balance sheet date. Income and expense accounts are translated at the average monthly exchange rate during the year. Resulting translation adjustments are recorded as a separate component of accumulated other comprehensive income or loss.

We use the U.S. dollar as the functional currency in all other foreign subsidiaries, as substantially all monetary transactions are made in that currency, and other significant economic facts and circumstances currently support that position. As these factors may change in the future, we will periodically assess our position with respect to the functional currency of our foreign subsidiaries. Included in net income are foreign currency exchange losses of approximately $0.3 million and $0.5 million for the quarter ended March 31, 2007 and 2008, respectively.

Comprehensive Gain/Loss Accounting principles generally require that recognized revenue, 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. The components of other comprehensive income or loss include foreign currency translation adjustments and unrealized holding losses for available-for-sale securities. Accumulated other comprehensive gain was $0.9 million at December 31, 2007 and accumulated other comprehensive loss was $7.5 million at March 31, 2008, respectively. The $8.4 million change in other comprehensive loss was primarily a result of an $11.5 million, net of tax, unrealized loss of available-for-sale securities (see Note E) during the first quarter of 2008, partially offset by a $3.1 million currency translation gain.

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Total comprehensive income for the three months ended March 31, 2007 and 2008 was as follows *(in thousands)*:

Total Comprehensive Income

	Three Months Ended March 31,	
	2007	**2008**
Net income	$ 13,009	**$ 14,203**
Translation adjustment	(446)	**3,059**
Unrealized loss for available-for-sale securities		**(11,493)**
Comprehensive income	$ 12,563	**$ 5,769**

NOTE C Earnings Per Share

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

	Three Months Ended March 31,	
	2007	**2008**
BASIC		
Weighted average number of common shares outstanding used in computing basic earnings per share	39,041	**40,245**
Net income	$ 13,009	**$ 14,203**
Earnings per share	$ 0.33	**$ 0.35**
DILUTED		
Weighted average number of common shares outstanding used in computing basic earnings per share	39,041	**40,245**
Add: Assumed exercise of stock options and stock awards	2,735	**2,289**
	41,776	**42,534**
Net income	$ 13,009	**$ 14,203**
Earnings per share	$ 0.31	**$ 0.33**

Earnings per share are based upon the weighted average number of shares of Common Stock and common stock equivalents outstanding, including those related to share-based compensation and convertible notes. Earnings per share are computed using the treasury stock method under FASB Statement No. 128. The convertible notes include a net share settlement feature which requires us to redeem the par amount of the bond in cash and any remaining value, assuming the bond is in the money, in incremental shares, cash or a combination thereof. The net share settled convertible as structured is defined in EITF 90-19, instrument C, which allows us to use the treasury stock method of calculating the diluted earnings per share. The incremental value of the shares is determined based on the average price of our Common Stock over the reporting period. There are no shares in the earnings per share calculation related to the convertible notes outstanding as our average stock price did not exceed the conversion price and, therefore, there is no conversion spread.

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NOTE D Fair Value Measurements

As stated in Note A Basis of Presentation and New Accounting Standards , on January 1, 2008, we adopted the methods of fair value as described in SFAS 157 to value the financial assets and liabilities. SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact and (iv) willing to transact.

SFAS 157 requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement costs). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity s own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, SFAS 157 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1 Inputs Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 Inputs Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (for example, interest rates, volatilities, prepayment speeds, loss severities, credit risks and default rates) or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 Inputs Significant unobservable inputs that reflect an entity s own assumptions that market participants would use in pricing the assets or liabilities.

Historically, the fair value of auction rate securities (ARS) has approximated par value due to the frequent resets through the auction process. While we continue to earn interest on investments at the maximum contractual rate, these investments are not currently trading and therefore do not currently have a readily determinable market value. Accordingly, the estimated fair value of the auction rate securities no longer approximates par value.

Due to a lack of observable market quotes on our $320.7 million ARS portfolio, we utilized a valuation model that relies exclusively on Level 3 inputs including those that are based on the expected cash flow streams, the underlying financial condition and credit quality of the issuer and bond insurer, the percent of the Federal Family Education Loan Program (FFELP) guaranty, and the maturity of the securities, as well as the market activity of similar securities. The valuation of our ARS investment portfolio is subject to uncertainties that are difficult to predict and the future actual market prices may differ materially (see Note E Short-term and Long-term Investments).

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