

DIODES INC /DEL/  
Form 10-Q  
May 07, 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 March 31, 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   
(Do not check if a smaller reporting company)

Smaller reporting company

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

The number of shares of the registrant's Common Stock outstanding as of May 3, 2010 was 43,859,032.



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

*(In thousands)*

**ASSETS**

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
	<i>(Unaudited)</i>	
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 247,795	\$ 241,953
Short-term investments	237,825	296,600
Accounts receivable, net	105,077	99,074
Inventories	93,977	89,652
Deferred income taxes, current	8,294	7,834
Prepaid expenses and other	11,400	11,591
<b>Total current assets</b>	<b>704,368</b>	<b>746,704</b>
<b>PROPERTY, PLANT AND EQUIPMENT, net</b>	<b>173,979</b>	<b>162,988</b>
<b>OTHER ASSETS</b>		
Goodwill	65,908	68,075
Intangible assets, net	32,163	34,892
Other	5,450	5,324
<b>Total assets</b>	<b>\$ 981,868</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 )  
**LIABILITIES AND EQUITY**  
*(In thousands, except share data)*

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
	<i>(Unaudited)</i>	
<b>CURRENT LIABILITIES</b>		
Lines of credit and short-term debt	\$ 239,930	\$ 299,414
Accounts payable	65,651	62,448
Accrued liabilities	35,294	27,236
Income tax payable	3,388	2,641
Current portion of long-term debt	375	373
Current portion of capital lease obligations	279	283
<b>Total current liabilities</b>	<b>344,917</b>	<b>392,395</b>
<b>LONG-TERM DEBT, net of current portion</b>		
Convertible senior notes	123,166	121,333
Long-term debt	3,396	3,464
<b>CAPITAL LEASE OBLIGATIONS, net of current portion</b>	<b>1,548</b>	<b>1,669</b>
<b>DEFERRED INCOME TAXES, non-current</b>	<b>7,418</b>	<b>7,743</b>
<b>OTHER LONG-TERM LIABILITIES</b>	<b>41,635</b>	<b>40,455</b>
<b>Total liabilities</b>	<b>522,080</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; 43,841,730 and 43,729,304 issued and outstanding at March 31, 2010 and December 31, 2009, respectively	29,228	29,153
Additional paid-in capital	215,573	211,618
Retained earnings	263,132	248,174
Accumulated other comprehensive loss	(59,084)	(48,311)
<b>Total Diodes Incorporated stockholders equity</b>	<b>448,849</b>	<b>440,634</b>
<b>Noncontrolling interest</b>	<b>10,939</b>	<b>10,290</b>
<b>Total equity</b>	<b>459,788</b>	<b>450,924</b>

<b>Total liabilities and equity</b>	\$ 981,868	\$ 1,017,983
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The accompanying notes are an integral part of these financial statements.

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**Table of Contents****DIODES INCORPORATED AND SUBSIDIARIES****CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS***(Unaudited)**(In thousands, except per share data)*

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>NET SALES</b>	\$ 136,847	\$ 78,050
<b>COST OF GOODS SOLD</b>	89,064	63,557
Gross profit	47,783	14,493
<b>OPERATING EXPENSES</b>		
Selling, general and administrative	21,419	16,056
Research and development	6,376	5,275
Amortization of acquisition related intangible assets	1,128	1,091
Restructuring		99
Total operating expenses	28,923	22,521
Income (loss) from operations	18,860	(8,028)
<b>OTHER INCOME (EXPENSES)</b>		
Interest income	1,312	1,757
Interest expense	(1,982)	(2,048)
Amortization of debt discount	(1,834)	(2,209)
Other	2,648	263
Total other income (expenses)	144	(2,237)
Income (loss) before income taxes and noncontrolling interest	19,004	(10,265)
<b>INCOME TAX PROVISION</b>	3,324	397
<b>NET INCOME (LOSS)</b>	15,680	(10,662)
Less: NET INCOME attributable to noncontrolling interest	(722)	(104)
<b>NET INCOME (LOSS) attributable to common stockholders</b>	\$ 14,958	\$ (10,766)
<b>EARNINGS (LOSS) PER SHARE attributable to common stockholders</b>		



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Basic	\$ 0.34	\$ (0.26)
Diluted	\$ 0.33	\$ (0.26)
Number of shares used in computation		
Basic	43,767	41,146
Diluted	45,323	41,146

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

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

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 15,680	\$ (10,662)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	10,940	10,186
Amortization of intangibles	1,129	1,169
Amortization of convertible bond issuance costs	138	179
Amortization of debt discount	1,834	2,209
Share-based compensation	3,281	2,429
Gain on disposal of property, plant and equipment	(1,693)	
Gain on extinguishment of debt		(1,490)
Investment (gain) loss recognized under equity method	(43)	96
Deferred income taxes	737	(1,036)
Changes in operating assets:		
Accounts receivable	(6,414)	5,833
Inventories	(5,683)	15,798
Prepaid expenses and other current assets	(854)	2,070
Changes in operating liabilities:		
Accounts payable	3,447	(16,621)
Accrued liabilities	343	(4,862)
Other liabilities	291	217
Income tax payable	733	1,235
Net cash provided by operating activities	\$ 23,866	\$ 6,750
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of short-term investments	58,775	
Purchases of property, plant and equipment	(16,526)	(4,322)
Proceeds from sale of property, plant and equipment	2,135	15
Decrease of other assets	(313)	(672)
Net cash provided by (used in) investing activities	\$ 44,071	\$ (4,979)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayments on lines of credit	(59,500)	(1,673)
Net proceeds from issuance of common stock	749	34
Dividend distribution to noncontrolling interest		(1,500)
Repayments of long-term debt	(92)	(8,457)

Repayments of capital lease obligations	(79)	(103)
Net cash used in financing activities	\$ (58,922)	\$ (11,699)
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	(3,173)	(360)
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	5,842	(10,288)
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	241,953	103,496
<b>CASH AND CASH EQUIVALENTS, end of period</b>	\$ 247,795	\$ 93,208
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Non-cash financing activities:		
Property, plant and equipment purchased on accounts payable	\$ 8,240	\$ 156

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 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, amplifiers and comparators, Hall-effect sensors and temperature sensors, power management devices including LED drivers, DC-DC switching regulators, linear voltage regulators and voltage references along with special function devices including USB power switches, load switches, voltage supervisor 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 months ended March 31, 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 February 2010, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) 2010-09, *Subsequent Events: Amendments to Certain Recognition and Disclosure Requirements* (amendments to ASC Topic 855, *Subsequent Events*). ASU 2010-09 clarifies that subsequent events should be evaluated through the date the financial statements are issued. In addition, ASU 2010-09 no longer requires a filer to disclose the date through which subsequent events have been evaluated and is effective for financial statements issued subsequent to February 24, 2010. The provisions of ASU 2010-09 were adopted during the first quarter of 2010 and did not have a material impact on the Company's consolidated financial statements.

In December 2009, the FASB issued ASU 2009-16, *Transfers and Servicing (Topic 860) - Accounting for Transfers of Financial Assets*, which codifies FASB Statement No. 166, *Accounting for Transfers of Financial Asset, an amendment to SFAS No. 140* into the ASC. ASU 2009-16 will require more information about transfers of financial assets, including securitization transactions, and where entities have continuing exposure to the risks related to transferred financial assets. Among other things, ASU 2009-16 (1) eliminates the concept of a qualifying special-purpose entity, (2) changes the requirements for derecognizing financial assets, and (3) enhances information reported to users of financial statements by providing greater transparency about transfers of financial assets and an

entity's continuing involvement in transferred financial assets. ASU 2009-16 is effective for fiscal years beginning after November 15, 2009. Early adoption is not permitted. The provisions of ASU 2009-16 were adopted during the first quarter of 2010 and did not have a material impact on the Company's 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 most of the Company's international operations is the U.S. dollar, while some subsidiaries 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 \$0.8 million and \$1.5 million for the three months ended March 31, 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 March 31, 2010, the components of other comprehensive income or loss include foreign currency translation adjustments and unrealized gain or loss on defined benefit plan. Accumulated other comprehensive loss was \$59.1 million at March 31, 2010.

Total comprehensive income (loss) for the three months ended March 31, 2010 and 2009 is as follows (*in thousands*):

**Total Comprehensive Income (Loss)**

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
Net income (loss)	\$ 15,680	\$ (10,662)
Translation adjustment	(8,080)	(2,421)
Unrealized loss on defined benefit plan, net of tax	(2,693)	(7,241)
Foreign currency adjustments on forward contracts, net of tax		1,564
Comprehensive income (loss)	4,907	(18,760)
Comprehensive income attributable to noncontrolling interest	722	104
Total comprehensive income (loss) attributable to common stockholders	\$ 4,185	\$ (18,864)

**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 March 31,</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	43,767	41,146
Net income (loss) attributable to common stockholders	\$ 14,958	\$ (10,766)
Earnings (loss) per share attributable to common stockholders	\$ 0.34	\$ (0.26)
<b>DILUTED</b>		
Weighted average number of common shares outstanding used in computing basic earnings (loss) per share	43,767	41,146
Add: Assumed exercise of stock options and stock awards	1,556	
	45,323	41,146
Net income (loss) attributable to common stockholders	\$ 14,958	\$ (10,766)
Earnings (loss) per share attributable to common stockholders	\$ 0.33	\$ (0.26)

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 Fair Value Measurements**

Financial assets and liabilities carried at fair value as of March 31, 2010 are classified in the following table (*in thousands*):

Description	Level 1	Level 2	Level 3	Total
Short-term trading securities	\$	\$	\$ 217,753	\$ 217,753
Short-term put option			20,072	20,072
Total	\$	\$	\$ 237,825	\$ 237,825

There has been no change in the balances for assets and liabilities measured at fair value on a recurring basis, using significant unobservable inputs (Level 3) during the three months ended March 31, 2010 other than the underlying institutions repurchasing approximately \$58.8 million of the Company's auction rate securities (ARS) at par value. The

proceeds of these repurchases have been applied against the no net cost loan..

Certain financial assets and financial liabilities are measured at fair value on a non-recurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Financial assets and financial liabilities measured at fair value on a non-recurring basis were not significant at March 31, 2010.

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**Table of Contents****NOTE E Short-Term Investments**

As of March 31, 2010, the Company had \$237.8 million invested in ARS, classified as trading securities. In connection with the settlement with UBS AG, the Company was given the option to put the ARS portfolio back to UBS AG at any time between June 30, 2010 and July 2, 2012 at par value. Upon settlement, the Company elected the fair value option for the put option and recorded an asset and a gain for the fair value of the put option. The Company classified the put option as a short-term investment as it is a free standing instrument tied to the ARS portfolio, which are also classified as short-term investments.

Short-term investments are as follows (*in thousands*):

	<b>Cost Basis</b>	<b>Cumulative Unrealized Gains</b>	<b>Cumulative Unrealized Losses</b>	<b>Fair Value</b>
<b>As of March 31, 2010</b>				
Short-term trading securities	\$ 237,825	\$	\$ (20,072)	\$ 217,753
Short-term put option		20,072		20,072
<b>Total short-term investments</b>	<b>\$ 237,825</b>	<b>\$ 20,072</b>	<b>\$ (20,072)</b>	<b>\$ 237,825</b>

The Company's ARS are primarily backed by student loan association bonds. None of the Company's investments are collateralized mortgage obligations or are any other type of mortgage-backed or real estate-backed securities. The Company continues to earn interest on its ARS at a weighted average rate of 1.3% as of March 31, 2010, which it is currently collecting. The weighted average maximum contractual default rate is 17.3%.

As of March 31, 2010, approximately 99.7% or \$237.1 million of the \$237.8 million par value ARS are collateralized by higher education funded student loans that are supported by the federal government as part of the Federal Family Education Loan Program (FFELP) as shown in the table below. The following table shows a natural grouping of the FFELP guaranteed securities, as well as the percentage of the ARS portfolio guaranteed by FFELP (*in thousands*).

<b>% of FFELP guaranty</b>	<b>Par Value</b>	<b>% of Total</b>
100%	\$ 155,000	65.2%
Between 98% and 99%	30,525	12.8%
80%	22,250	9.4%
Between 51% and 60%	29,350	12.3%
Non-FFELP guaranteed	700	0.3%
<b>Total</b>	<b>\$ 237,825</b>	<b>100.0%</b>

As of March 31, 2010, the Company's portfolio of ARS was valued using a valuation model that relies exclusively on Level 3 inputs. The discount on the total ARS portfolio was 8.4% of par value, or a \$20.1 million loss.

**NOTE F Inventories**

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

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
Raw materials	\$ 37,203	\$ 33,280
Work-in-progress	23,870	24,029
Finished goods	32,904	32,343

Total		\$ 93,977	\$ 89,652
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**NOTE G Goodwill and Intangible Assets**

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

Balance at December 31, 2009	\$ 68,075
Currency exchange and other	(2,167)