

DIODES INC /DEL/  
Form 10-Q  
August 07, 2015

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 June 30, 2015

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 95-2039518  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification Number)

4949 Hedgcoxe Road, Suite 200

Plano, Texas 75024  
(Address of principal executive offices) (Zip code)

(972) 987-3900

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  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 August 4, 2015 was 48,601,019.

Table of Contents

	Page
<u>Part I – Financial Information</u>	-1-
<u>Item 1 – Financial Statements</u>	-1-
<u>Consolidated Condensed Balance Sheets as of June 30, 2015 and December 31, 2014</u>	-1-
<u>Consolidated Condensed Statements of Operations for the Three and Six Months Ended June 30, 2015 and 2014</u>	-3-
<u>Consolidated Condensed Statements of Comprehensive Income for the Three and Six Months Ended June 30, 2015 and 2014</u>	-4-
<u>Consolidated Condensed Statements of Cash Flows for the Six Months Ended June 30, 2015 and 2014</u>	-5-
<u>Notes to Consolidated Condensed Financial Statements</u>	-6-
<u>Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	-15-
<u>Item 3 – Quantitative and Qualitative Disclosures About Market Risk</u>	-24-
<u>Item 4 – Controls and Procedures</u>	-25-
<u>Part II – Other Information</u>	-26-
<u>Item 1 – Legal Proceedings</u>	-26-
<u>Item 1A – Risk Factors</u>	-26-
<u>Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds</u>	-26-

Item 3 – Defaults Upon Senior Securities

Item 4 – Mine Safety Disclosures

-26-

Item 5 – Other Information

-26-

Item 6 – Exhibits

-27-

Signature

-28-



## PART I—FINANCIAL INFORMATION

## Item 1—Financial Statements

## DIODES INCORPORATED AND SUBSIDIARIES

## CONSOLIDATED CONDENSED BALANCE SHEETS

(In thousands)

## ASSETS

	June 30, 2015 (Unaudited)	December 31, 2014
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 194,592	\$ 243,000
Short-term investments	25,844	11,726
Accounts receivable, net	206,637	188,248
Inventories	195,274	182,026
Deferred income taxes, current	11,317	11,295
Prepaid expenses and other	47,882	50,510
Total current assets	681,546	686,805
PROPERTY, PLANT AND EQUIPMENT, net	341,538	309,931
DEFERRED INCOME TAXES, non-current	32,474	32,550
<b>OTHER ASSETS</b>		
Goodwill	82,067	81,229
Intangible assets, net	41,278	45,028
Other	26,281	23,614
Total assets	\$ 1,205,184	\$ 1,179,157

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

## DIODES INCORPORATED AND SUBSIDIARIES

## CONSOLIDATED CONDENSED BALANCE SHEETS (continued)

## LIABILITIES AND EQUITY

(In thousands, except share data)

	June 30, 2015 (Unaudited)	December 31, 2014
<b>CURRENT LIABILITIES</b>		
Lines of credit and short-term debt	\$979	\$1,064
Accounts payable	88,321	79,390
Accrued liabilities	76,957	60,436
Income tax payable	7,187	8,381
Total current liabilities	173,444	149,271
LONG-TERM DEBT, net of current portion	99,684	140,787
OTHER LONG-TERM LIABILITIES	77,115	78,932
Total liabilities	350,243	368,990
<b>COMMITMENTS AND CONTINGENCIES (See Note H)</b>		
<b>EQUITY</b>		
Diodes Incorporated stockholders' equity		
Preferred stock - par value \$1.00 per share; 1,000,000 shares authorized; no shares issued or outstanding	-	-
Common stock - par value \$0.66 2/3 per share; 70,000,000 shares authorized; 48,241,281 and 47,591,092 issued and outstanding at June 30, 2015 and December 31, 2014, respectively	32,162	31,729
Additional paid-in capital	330,339	314,942
Retained earnings	516,216	490,006
Accumulated other comprehensive loss	(67,118 )	(68,402 )
Total Diodes Incorporated stockholders' equity	811,599	768,275
Noncontrolling interest	43,342	41,892
Total equity	854,941	810,167
Total liabilities and equity	\$1,205,184	\$1,179,157

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



## DIODES INCORPORATED AND SUBSIDIARIES

## CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
NET SALES	\$219,453	\$223,217	\$425,634	\$433,203
COST OF GOODS SOLD	150,016	152,913	292,284	301,318
Gross profit	69,437	70,304	133,350	131,885
<b>OPERATING EXPENSES</b>				
Selling, general and administrative	31,882	33,291	63,613	65,621
Research and development	13,590	12,781	26,899	25,701
Other operating expenses	1,967	1,089	3,937	3,077
Total operating expenses	47,439	47,161	94,449	94,399
Income from operations	21,998	23,143	38,901	37,486
OTHER INCOME (EXPENSES)	(741 )	359	(1,681 )	(991 )
Income before income taxes and noncontrolling interest	21,257	23,502	37,220	36,495
INCOME TAX PROVISION	5,399	5,651	9,586	8,198
NET INCOME	15,858	17,851	27,634	28,297
Less: NET INCOME attributable to noncontrolling interest	(780 )	(466 )	(1,424 )	(710 )
NET INCOME attributable to common stockholders	\$15,078	\$17,385	\$26,210	\$27,587
<b>EARNINGS PER SHARE attributable to common stockholders</b>				
Basic	\$0.31	\$0.37	\$0.55	\$0.59
Diluted	\$0.31	\$0.36	\$0.53	\$0.57
Number of shares used in computation				
Basic	48,076	46,889	47,872	46,794
Diluted	49,250	48,423	49,091	48,223

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



## DIODES INCORPORATED AND SUBSIDIARIES

## CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(In thousands)

	Three Months		Six Months Ended	
	Ended		June 30,	
	June 30,	2014	2015	2014
Net income	\$15,858	\$17,851	\$27,634	\$28,297
Foreign currency translation adjustment	4,909	3,340	(1,251 )	(595 )
Unrealized gain (loss) on defined benefit plan, net of tax	4,448	(1,816 )	2,635	(550 )
Unrealized foreign currency gain (loss), net of tax	397	372	(101 )	450
Comprehensive income	25,612	19,747	28,917	27,602
Less: Comprehensive income attributable to noncontrolling interest	(780 )	(466 )	(1,424 )	(710 )
Total comprehensive income attributable to common stockholders	\$24,832	\$19,281	\$27,493	\$26,892

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

## DIODES INCORPORATED AND SUBSIDIARIES

## CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Six Months Ended June 30,	
	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	\$52,951	\$80,066
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Decrease (increase) in restricted cash	(2,611 )	972
Purchases of property, plant and equipment	(46,877 )	(23,668 )
Proceeds from sales of property, plant, and equipment	19	1,428
Purchases of equity securities	(3,241 )	(1,842 )
Purchases of short-term investments	(35,095 )	-
Proceeds from sale of equity securities and short-term investments	21,135	5,380
Other	(94 )	308
Net cash used in investing activities	(66,764 )	(17,422 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Advances on lines of credit and short-term debt	1,449	4,335
Repayments on lines of credit and short-term debt	(1,550 )	(7,622 )
Repayments of long-term debt	(41,145 )	(20,710 )
Net proceeds from issuance of common stock	8,274	2,913
Other	(139 )	(147 )
Net cash used in financing activities	(33,111 )	(21,231 )
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	(1,484 )	(2,583 )
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(48,408 )	38,830
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	243,000	196,635
<b>CASH AND CASH EQUIVALENTS, end of period</b>	\$194,592	\$235,465
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Non-cash financing activities:		
Property, plant and equipment purchased on accounts payable	\$ (18,963 )	\$ (1,968 )

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

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, together with its subsidiaries (collectively, the “Company,” “we” or “our”), is a leading global manufacturer and supplier of high-quality, application specific standard products within the broad discrete, logic and analog semiconductor markets, serving the consumer electronics, computing, communications, industrial and automotive markets throughout Asia, North America and Europe.

Basis of Presentation

The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“U.S.”) (“GAAP”) for interim financial information and with the instructions to Form 10-Q. They do not include all information and footnotes necessary for a fair presentation of financial position, operating results 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 our Annual Report on Form 10-K for the year ended December 31, 2014. 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 operating results for the period presented have been included in the interim period. Operating results for the three and six months ended June 30, 2015 are not necessarily indicative of the results that may be expected for other interim periods or the year ending December 31, 2015. The consolidated condensed financial data at December 31, 2014 is derived from audited financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2014, filed on March 2, 2015.

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. For interim financial reporting purposes, income taxes are recorded based upon estimated annual effective income tax rates taking into consideration discrete items occurring in a quarter.

Certain prior year’s balances have been reclassified to conform to the current financial statement presentation.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to

obtain or fulfill a contract. ASU 2014-09 was originally effective for us in the first quarter of 2017, but in July 2015 the FASB approved a proposal to defer the effective date to the first quarter of 2018. Under this proposal, early adoption is permitted as of the original effective time period of first quarter of 2017 and requires either a retrospective or a modified retrospective approach to adoption. The Company has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on its consolidated financial statements and related disclosures.

## NOTE B – Earnings Per Share

Basic earnings per share is calculated by dividing net income attributable to common stockholders by the weighted-average number of shares of Common Stock outstanding during the period. Diluted earnings per share is calculated similarly but includes potential dilution from the exercise of stock options and stock awards, except when the effect would be anti-dilutive.

The computation of basic and diluted earnings per common share is as follows (in thousands, except per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
<b>BASIC</b>				
Weighted average number of common shares outstanding				
used in computing basic earnings per share	48,076	46,889	47,872	46,794
Net income attributable to common stockholders	\$15,078	\$17,385	\$26,210	\$27,587
Earnings per share attributable to common stockholders	\$0.31	\$0.37	\$0.55	\$0.59
<b>DILUTED</b>				
Weighted average number of common shares outstanding				
used in computing basic earnings per share	48,076	46,889	47,872	46,794
Add: Dilutive effect of stock options and stock awards outstanding	1,174	1,534	1,219	1,429
	49,250	48,423	49,091	48,223
Net income attributable to common stockholders	\$15,078	\$17,385	\$26,210	\$27,587
Earnings per share attributable to common stockholders	\$0.31	\$0.36	\$0.53	\$0.57

## NOTE C – Inventories

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

	June 30,	December 31,
	2015	2014
Raw materials	\$85,715	\$73,564
Work-in-progress	45,645	42,417

Finished goods	63,914	66,045
Total	\$195,274	\$182,026

NOTE D – Goodwill and Intangible Assets

Changes in goodwill are as follows (in thousands):

Balance at December 31, 2014	\$81,229
Foreign currency translation adjustment	838
Balance at June 30, 2015	\$82,067

-7-

---

Intangible assets are as follows (in thousands):

	June 30, 2015	December 31, 2014
<b>Intangible assets subject to amortization:</b>		
Gross carrying amount	\$86,928	\$86,928
Accumulated amortization	(43,968)	(40,164)
Foreign currency translation adjustment	(7,439)	(7,471)
<b>Total</b>	<b>35,521</b>	<b>39,293</b>
<b>Intangible assets with indefinite lives:</b>		
Gross carrying amount	6,403	6,403
Foreign currency translation adjustment	(646)	(668)
<b>Total</b>	<b>5,757</b>	<b>5,735</b>
<b>Total intangible assets, net</b>	<b>\$41,278</b>	<b>\$45,028</b>

Amortization expense related to intangible assets subject to amortization was approximately \$2 million for both the three months ended June 30, 2015 and 2014, and approximately \$4 million for both the six months ended June 30, 2015 and 2014.

#### NOTE E – Income Tax Provision

Income tax expense of approximately \$5 million and \$6 million was recorded for the three months ended June 30, 2015 and 2014, respectively, and income tax expense of approximately \$10 million and \$8 million was recorded for the six months ended June 30, 2015 and 2014, respectively. This resulted in an effective tax rate of 25.8% for the six months ended June 30, 2015, as compared to 22.5% in the same period last year and compared to 23.7% for the full year of 2014. The effective tax rate for the six months ended June 30, 2015 includes an immaterial charge for various discrete items. The estimated annual tax rate for 2015 is expected to be approximately 25%, excluding discrete items. Our effective tax rates for the six months ended June 30, 2015 and 2014, excluding discrete items, were lower than the U.S. statutory tax rate of 35%, principally from the impact of income in lower-taxed jurisdictions.

For the three months ended June 30, 2015, we reported domestic and foreign pre-tax income of approximately \$3 million and \$18 million, respectively. For the six months ended June 30, 2015, we reported domestic and foreign pre-tax income/(loss) of approximately \$(3) million and \$40 million, respectively. Funds repatriated from foreign subsidiaries to the U.S. may be subject to federal and state income taxes. We intend to permanently reinvest overseas all of our earnings from our foreign subsidiaries, except to the extent such undistributed earnings have previously been subject to US tax; accordingly, deferred U.S. taxes are not recorded on undistributed foreign earnings.

The impact of tax holidays decreased our tax expense by approximately \$2 million and \$1 million for the six months ended June 30, 2015 and 2014, respectively. The benefit of the tax holidays on both basic and diluted earnings per share for the six months ended June 30, 2015 and 2014 was approximately \$0.04 and \$0.03, respectively.

We file income tax returns in the U.S. federal jurisdiction and in various state and foreign jurisdictions. We are no longer subject to U.S. federal income tax examinations by tax authorities for tax years before 2007, or for the 2010 tax

year. We are no longer subject to China income tax examinations by tax authorities for tax years before 2005. With respect to state and local jurisdictions and countries outside of the U.S. (other than China), with limited exceptions, we are no longer subject to income tax audits for years before 2006. Although the outcome of tax audits is always uncertain, we believe that adequate amounts of tax, interest and penalties, if any, have been provided for in our reserve for any adjustments that may result from tax audits. We recognize accrued interest and penalties related to unrecognized tax benefits in interest expense. As of June 30, 2015, the gross amount of unrecognized tax benefits was approximately \$19 million.

It is reasonably possible that the amount of the unrecognized benefit with respect to certain of our unrecognized tax positions will significantly increase or decrease within the next 12 months. At this time, an estimate of the range of the reasonably possible outcomes cannot be made.



## NOTE F – Share-Based Compensation

The following table shows the total compensation expensed for share-based compensation plans, including stock options and share grants, recognized in the statements of operations (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Cost of goods sold	\$122	\$107	\$245	\$203
Selling, general and administrative	3,389	2,979	6,594	5,829
Research and development	364	305	716	578
<b>Total share-based compensation expense</b>	<b>\$3,875</b>	<b>\$3,391</b>	<b>\$7,555</b>	<b>\$6,610</b>

**Stock Options.** Stock options generally vest in equal annual installments over a four-year period and expire eight years after the grant date, and expense was estimated on the date of grant using the Black-Scholes-Merton option pricing model.

The total net cash proceeds received from stock option exercises during the six months ended June 30, 2015 was approximately \$8 million. Stock option expense was approximately \$1 million for both the three months ended June 30, 2015 and 2014, and \$3 million and \$2 million for the six months ended June 30, 2015 and 2014, respectively.

A summary of the stock option grants is as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (yrs)	Aggregate Intrinsic Value (\$000)
Stock Options	(000)			
Outstanding at January 1, 2015	2,736	\$ 21.26	4	\$ 17,840
Granted	-	-		
Exercised	(534 )	15.49		6,976
Forfeited or expired	(16 )	-		
Outstanding at June 30, 2015	2,186	\$ 22.65		