

DIODES INC /DEL/
Form 10-Q
May 10, 2011

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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, 2011

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)

4949 Hedgcoxe Road, Suite 200

Plano, Texas

(Address of principal executive offices)

75024

(Zip code)

(972) 987-3900

(Registrant's telephone number, including area code)

15660 Dallas Parkway, Suite 850

Dallas, Texas 75248

(Former name, former address and former fiscal year, if changed since last report)

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 May 4, 2011 was 45,276,355.

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

(In thousands)

ASSETS

	March 31, 2011	December 31, 2010
	<i>(Unaudited)</i>	
CURRENT ASSETS		
Cash and cash equivalents	\$ 278,740	\$ 270,901
Accounts receivable, net	145,091	129,207
Inventories	123,086	120,689
Deferred income taxes, current	8,102	8,276
Prepaid expenses and other	13,994	11,679
Total current assets	569,013	540,752
PROPERTY, PLANT AND EQUIPMENT, net	207,336	200,745
DEFERRED INCOME TAXES, non-current	1,380	1,574
OTHER ASSETS		
Goodwill	69,636	68,949
Intangible assets, net	28,156	28,770
Other	6,277	5,760
Total assets	\$ 881,798	\$ 846,550

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

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

	March 31, 2011	December 31, 2010
	<i>(Unaudited)</i>	
CURRENT LIABILITIES		
Accounts payable	\$ 74,069	\$ 70,057
Accrued liabilities	36,154	36,937
Income tax payable	13,917	15,412
Convertible senior notes	130,245	128,261
Other current liabilities	704	698
Total current liabilities	255,089	251,365
LONG-TERM DEBT, net of current portion	3,258	3,393
CAPITAL LEASE OBLIGATIONS, net of current portion	1,302	1,380
OTHER LONG-TERM LIABILITIES	31,093	37,520
Total liabilities	290,742	293,658
COMMITMENTS AND CONTINGENCIES		
EQUITY		
Diodes Incorporated stockholders equity		
Preferred stock par value \$1.00 per share; 1,000,000 shares authorized; no shares issued or outstanding		
Common stock par value \$0.66 2/3 per share; 70,000,000 shares authorized; 45,065,250 and 44,662,796 issued and outstanding at March 31, 2011 and December 31, 2010, respectively	30,044	29,775
Additional paid-in capital	237,435	231,842
Retained earnings	344,591	324,907
Accumulated other comprehensive loss	(33,042)	(45,080)
Total Diodes Incorporated stockholders equity	579,028	541,444
Noncontrolling interest	12,028	11,448
Total equity	591,056	552,892
Total liabilities and equity	\$ 881,798	\$ 846,550

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

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DIODES INCORPORATED AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share data)

	Three Months Ended	
	March 31,	
	2011	2010
NET SALES	\$ 161,555	\$ 136,847
COST OF GOODS SOLD	104,162	89,064
Gross profit	57,393	47,783
OPERATING EXPENSES		
Selling, general and administrative	21,410	21,419
Research and development	6,518	6,376
Other operating expenses	1,135	1,128
Total operating expenses	29,063	28,923
Income from operations	28,330	18,860
OTHER INCOME (EXPENSES)	(3,231)	144
Income before income taxes and noncontrolling interest	25,099	19,004
INCOME TAX PROVISION	4,835	3,324
NET INCOME	20,264	15,680
Less: NET INCOME attributable to noncontrolling interest	(580)	(722)
NET INCOME attributable to common stockholders	\$ 19,684	\$ 14,958
EARNINGS PER SHARE attributable to common stockholders		
Basic	\$ 0.44	\$ 0.34
Diluted	\$ 0.42	\$ 0.33
Number of shares used in computation		
Basic	44,820	43,767

Diluted

46,680

45,323

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,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES	\$ 15,730	\$ 23,866
 CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of short-term investments		58,775
Purchases of property, plant and equipment	(12,433)	(16,526)
Proceeds from sale of property, plant and equipment	10	2,135
Other	(637)	(313)
Net cash provided by (used in) investing activities	(13,060)	44,071
 CASH FLOWS FROM FINANCING ACTIVITIES		
Advances on line of credit		
Repayments on lines of credit		(59,500)
Net proceeds from issuance of common stock	2,668	749
Repayments of long-term debt	(103)	(92)
Repayments of capital lease obligations	(85)	(79)
Net cash provided by (used in) financing activities	2,480	(58,922)
 EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	2,689	(3,173)
 INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	7,839	5,842
 CASH AND CASH EQUIVALENTS, beginning of period	270,901	241,953
 CASH AND CASH EQUIVALENTS, end of period	\$ 278,740	\$ 247,795
 SUPPLEMENTAL CASH FLOW INFORMATION:		
Non-cash financing activities:		
Property, plant and equipment purchased on accounts payable	\$ (6,166)	\$ 8,240

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 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, 2010. All significant intercompany balances and transactions have been eliminated in consolidation. In the opinion of management, all adjustments (consisting of normal recurring adjustments and accruals) considered necessary for a fair presentation of the results of operations for the period presented have been included in the interim period. Operating results for the three months ended March 31, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. The consolidated condensed financial data at December 31, 2010 is derived from audited financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. As permitted under U.S. GAAP, interim accounting for certain expenses, including income taxes, are based on full year forecasts. Such amounts are expensed in full in the year incurred. For interim financial reporting purposes, income taxes are recorded based upon estimated annual effective income tax rates.

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

Recently Issued Accounting Pronouncements

There have been no new accounting pronouncements during the three months ended March 31, 2011, as compared to the recently issued accounting pronouncements described in the Company's Annual Report on Form 10-K for the year ended December 31, 2010, that are of significance, or potential significance, to the Company.

NOTE B Functional Currencies, Foreign Currency Translation and Comprehensive Income

Functional Currencies and Foreign Currency Translation The functional currency for the Company's China subsidiaries is the U.S. dollar, while other subsidiaries, including subsidiaries in Taiwan and the United Kingdom (U.K.), use their local currency as their functional currency. Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are recorded as other income (expense) in the consolidated condensed statements of operations. The Company had foreign exchange transaction losses of less than \$1 million and approximately \$1 million for the three months ended March 31, 2011 and 2010, respectively.

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

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Total comprehensive income for the three months ended March 31, 2011 and 2010 is as follows (*in thousands*):
Total Comprehensive Income

	Three Months Ended March 31,	
	2011	2010
Net income	\$ 20,264	\$ 15,680
Translation adjustment	4,724	(8,080)
Unrealized gain/(loss) on defined benefit plan, net of tax	7,313	(2,693)
Comprehensive income	32,301	4,907
Less: Comprehensive income attributable to noncontrolling interest	(580)	(722)
Total comprehensive income attributable to common stockholders	\$ 31,721	\$ 4,185

NOTE C Earnings Per Share

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

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

	Three Months Ended March 31,	
	2011	2010
BASIC		
Weighted average number of common shares outstanding used in computing basic earnings per share	44,820	43,767
Net income attributable to common stockholders	\$ 19,684	\$ 14,958
Earnings per share attributable to common stockholders	\$ 0.44	\$ 0.34
DILUTED		
Weighted average number of common shares outstanding used in computing basic earnings per share	44,820	43,767
Add: Assumed exercise of stock options and stock awards	1,860	1,556
	46,680	45,323
Net income attributable to common stockholders	\$ 19,684	\$ 14,958

Earnings per share attributable to common stockholders	\$ 0.42	\$ 0.33
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There are no shares included in the earnings per share calculation related to the Company's 2.25% convertible senior notes (Notes) outstanding as our average stock price did not exceed the conversion price and, therefore, there is no conversion spread.

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Table of Contents**NOTE D Inventories**

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

	March 31, 2011	December 31, 2010
Raw materials	\$ 67,185	\$ 60,402
Work-in-progress	25,680	22,288
Finished goods	30,221	37,999
Total	\$ 123,086	\$ 120,689

NOTE E Goodwill and Intangible Assets

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

Balance at December 31, 2010	\$ 68,949
Currency exchange and other	687
Balance at March 31, 2011	\$ 69,636

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

Balance at March 31, 2011:	
Intangible assets subject to amortization:	
Gross carrying amount	\$ 48,664
Accumulated amortization	(15,818)
Currency exchange and other	(7,264)
Net value	25,582
Intangible assets with indefinite lives:	
Gross carrying amount	3,162
Currency exchange and other	(588)
Total	2,574
Total intangible assets, net	\$ 28,156

Amortization expense related to intangible assets subject to amortization was approximately \$1 million for the three months ended March 31, 2011 and 2010.

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

Income tax expense of approximately \$5 million was recorded for the three months ended March 31, 2011. This resulted in an effective tax rate of 19% for the three months ended March 31, 2011, as compared to 18% in the same period of last year and compared to 18% for the full year of 2010. Our effective tax rates for the three months ended March 31, 2011 and 2010, respectively, were lower than the U.S. statutory tax rate of 35%, principally from the impact of higher income in lower-taxed jurisdictions.

For the three months ended March 31, 2011, the Company reported domestic and foreign pre-tax income (loss) of approximately \$(6) million and \$31 million, respectively. For the three months ended March 31, 2010, the Company reported domestic and foreign pre-tax income (loss) of approximately \$(7) million and \$26 million, respectively. Funds repatriated from foreign subsidiaries to the U.S. may be subject to federal and state income taxes. The Company intends to permanently reinvest overseas all of its earnings from its foreign subsidiaries; accordingly, U.S. taxes are not being recorded on undistributed foreign earnings.

The impact of tax holidays decreased the Company's tax expense by approximately \$2 million for the three months ended March 31, 2011 and 2010. The benefit of the tax holidays on both basic and diluted earnings per share for the three months ended March 31, 2011 was approximately \$0.05. The benefit of the tax holidays on both basic and diluted earnings per share for the three months ended March 31, 2010 was approximately \$0.04.

The Company files income tax returns in the U.S. federal jurisdiction and in various state and foreign jurisdictions. The Company is no longer subject to U.S. federal income tax examinations by tax authorities for tax years before 2007. With respect to state and local jurisdictions and countries outside of the U.S., with limited exceptions, the Company is no longer subject to income tax audits for years before 2006. Although the outcome of tax audits is always uncertain, the Company believes that adequate amounts of tax, interest and penalties, if any, have been provided for in the Company's reserve for any adjustments that may result from future tax audits. The Company recognizes accrued interest and penalties, if any, related to unrecognized tax benefits in income tax expense. As of March 31, 2011, the gross amount of unrecognized tax benefits was approximately \$9 million.

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

NOTE G Share-Based Compensation

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

	Three Months Ended March 31,	
	2011	2010
Cost of sales	\$ 86	\$ 93
Selling and administrative expense	2,868	2,864
Research and development expense	230	324
Total share-based compensation expense	\$ 3,184	\$ 3,281

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 three months ended March 31, 2011 was approximately \$3 million. Stock option expense for both the three months ended March 31, 2011 and 2010 was approximately \$1 million.

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A summary of the stock option plans is as follows:

Stock Options	Shares (000)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (yrs)	Aggregate Intrinsic Value (\$000)
Outstanding at January 1, 2011	3,707	\$ 14.14	5	\$ 47,891
Granted				
Exercised	(397)	6.84		9,157
Forfeited or expired				
Outstanding at March 31, 2011	3,310	\$ 15.01	5	\$ 63,047
Exercisable at March 31, 2011	2,389	\$ 13.47	4	\$ 49,173

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 March 31, 2011, total unrecognized stock-based compensation expense related to unvested stock options, net of forfeitures, was approximately \$7 million, before income taxes, and is expected to be recognized over a weighted average period of approximately 2 years.

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

The total fair value of restricted stock awards vested during the three months ended March 31, 2011 was less than \$1 million. Share grant expense for both the three months ended March 31, 2011 and 2010 was approximately \$2 million.

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

Share Grants	Shares (000)	Weighted- Average Grant-Date Fair Value	Aggregate Intrinsic Value (\$000)
Nonvested at January 1, 2011	774	\$ 16.16	\$ 12,479
Granted	12	27.84	
Vested	(5)	19.34	105
Forfeited	(5)	18.29	
Nonvested at March 31, 2011	776	\$ 16.26	\$ 12,587

As of March 31, 2011, total unrecognized share-based compensation expense related to non-vested stock awards, net of forfeitures, was approximately \$20 million, before income taxes, and is expected to be recognized over a weighted average period of approximately 3 years.

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For financial reporting purposes, the Company operates in a single segment, standard semiconductor products, through the Company's various manufacturing and distribution facilities. The Company aggregates its products because the products are similar and have similar economic characteristics, and the products are similar in production process and share the same customer type.

The Company's primary operations include the domestic operations in Asia, North America and Europe.

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

	Three Months Ended		North		Consolidated
	March 31, 2011		Asia	America	
Total sales		\$ 131,555	\$ 35,373	\$ 48,763	\$ 215,691
Inter-company sales		(14,449)	(15,332)	(24,355)	(54,136)
Net sales		\$ 117,106	\$ 20,041	\$ 24,408	\$ 161,555
Property, plant and equipment		\$ 142,228	\$ 34,572	\$ 30,536	\$ 207,336
Total assets		\$ 471,105	\$ 183,841	\$ 226,852	\$ 881,798

	Three Months Ended		North		Consolidated
	March 31, 2010		Asia	America	
Total sales		\$ 109,061	\$ 32,601	\$ 39,872	\$ 181,534
Inter-company sales		(9,535)	(11,097)	(24,055)	(44,687)
Net sales		\$ 99,526	\$ 21,504	\$ 15,817	\$ 136,847
Property, plant and equipment		\$ 111,248	\$ 29,706	\$ 33,025	\$ 173,979
Total assets		\$ 407,208	\$ 273,267	\$ 301,393	\$ 981,868

Geographic Information

Revenues were derived from (billed to) customers located in the following countries (*in thousands*):

	Net Sales		Percentage of	
	for the Three Months		Net Sales	
	Ended March 31,		Net Sales	
	2011	2010	2011	2010
China	\$ 47,436	\$ 42,059	29%	31%
Taiwan	37,680	33,003	23%	24%
United States	26,529	29,205	17%	21%
Korea	9,767	8,330	6%	6%
Germany	9,457	7,031	6%	5%
England	8,718	4,858	6%	4%
Singapore	5,562	5,351	3%	4%
All Others (1)	16,406	7,010	10%	5%
Total	\$ 161,555	\$ 136,847	100%	100%

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

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

On October 1, 2011, and every five years thereafter, holders may require the Company to purchase all or a portion of their Notes at a purchase price in cash equal to 100% of the principal amount of the Notes to be purchased, plus any accrued and unpaid interest to, but excluding, the purchase date. Therefore, the Company has classified its Notes as a current liability. Should the holders choose to require the Company to purchase their Notes on October 1, 2011, the Company will be required to use available funds and/or seek alternative means to service the debt.

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

In determining the liability and equity components, the Company determined the expected life of the Notes to be five years as that is the earliest date in which the Notes can be put back to the Company at par value. As of March 31, 2011, six months remain over which the discount of the liability will be amortized. As of March 31, 2011, the liability and equity components are as follows (*in thousands*):

Liability Component Principal Amount	Liability Component Net Carrying Amount	Liability Component Unamortized Discount	Equity Component Carrying Amount
\$134,293	\$130,245	\$4,048	\$35,515

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

	Three Months Ended March 31,	
	2011	2010
Notes contractual interest expense	\$ 756	\$ 760
Amortization of debt discount	1,984	1,834
Amortization of debt issuance costs	137	138
Total	\$ 2,877	\$ 2,732

NOTE J Commitments

Purchase commitments As of March 31, 2011, the Company had approximately \$28 million in non-cancelable purchase contracts related to capital expenditures, primarily for manufacturing equipment in China.

Other commitments During 2010, the Company entered into an investment agreement with the Management Committee of the Chengdu Hi-Tech Industrial Development Zone (the "CDHT"). Under this agreement, the Company agreed to form a joint venture with a Chinese partner, Chengdu Ya Guang Electronic Company Limited, to establish a semiconductor manufacturing facility for the purpose of providing surface mounted component production, assembly and testing, and integrated circuit assembly and testing in Chengdu, People's Republic of China. This is a long-term, multi-year project that will provide additional capacity once the Company has reached the maximum capacity at its Shanghai facilities in the next few years. The Company is expected to invest approximately \$48 million in

installments during the first three years. As of March 31, 2011, the Company has invested approximately \$1 million.

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

For the three months ended March 31, 2011, net period benefit costs associated with the defined benefit plan were less than \$1 million.

The following tables set forth the benefit obligation, the fair value of plan assets, and the funded status of the Company's plan (*in thousands*):

	Defined Benefit Plan
Change in benefit obligation:	
Balance at December 31, 2010	\$ 118,505
Service cost	79
Interest cost	1,521
Actuarial gain	(8,744)
Benefits paid	(692)
Currency changes	2,728
Benefit obligation at March 31, 2011	\$ 113,397
Change in plan assets:	
Fair value of plan assets at December 31, 2010	\$ 93,642
Actual return on plan assets	(58)
Benefits paid	(692)
Currency changes	2,227
Fair value of plan assets at March 31, 2011	\$ 95,119
Underfunded status at March 31, 2011	\$ (18,278)

Based on an actuarial study performed as of March 31, 2011, the plan is underfunded and a liability is reflected in the Company's consolidated financial statements as a long-term liability. The amount recognized in accumulated other comprehensive loss for the three months ended March 31, 2011 was a net gain of approximately \$7 million and the weighted-average discount rate assumption used to determine benefit obligations as of March 31, 2011 was 5.5%.

The following are weighted-average assumptions used to determine net periodic benefit costs for the three months ended March 31, 2011:

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

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. Contribution amounts, if any, for 2013 and thereafter have not yet been determined, but discussions are ongoing with the trustees of the defined benefit plan as to the required payments going forward.

The Company also has pension plans in Asia for which the benefit obligation, fair value of the plan assets and the funded status amounts are deemed immaterial and therefore, not included in the figures or assumptions above.

Table of Contents*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 March 31, 2011, these investments totaled approximately \$3 million. All gains and losses in these investments are equally offset by corresponding gains and losses in the *Deferred Compensation Plan* liabilities.

NOTE L Related Parties

The Company conducts business with one related party company, Lite-On Semiconductor Corporation and its subsidiaries and affiliates (collectively, *LSC*), that owned approximately 18.6% of the Company's outstanding Common Stock as of March 31, 2011. The Company also conducts business with one significant company, Keylink International (B.V.I.) Inc. and its subsidiaries and affiliates (collectively, *Keylink*). *Keylink* is the Company's 5% joint venture partner in the Company's Shanghai manufacturing facilities.

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

Lite-On Semiconductor Corporation During the three months ended March 31, 2011 and 2010, the Company sold products to *LSC* totaling less than 1% and approximately 2% of its net sales, respectively. Also, for the three months ended March 31, 2011 and 2010, approximately 6% and 7%, respectively, of the Company's net sales were from semiconductor products purchased from *LSC* for subsequent sale, making *LSC* the Company's largest supplier.

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

	Three Months Ended March 31,	
	2011	2010
Net sales	\$ 447	\$ 2,488
Purchases	\$ 9,392	\$ 9,265

Keylink International (B.V.I.) Inc. During the three months ended March 31, 2011 and 2010, the Company sold products to companies owned by *Keylink* totaling approximately 1% and 3% of its net sales, respectively. Also, for the three months ended March 31, 2011 and 2010, approximately 1% and 2%, 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 (including, but not limited to, metal plating and environmental services) to *Keylink*. The Company also pays a consulting fee to *Keylink*. For the three months ended March 31, 2011 and 2010, the Company paid *Keylink* an aggregate of approximately \$4 million with respect to these items.

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

	Three Months Ended March 31,	
	2011	2010
Net sales	\$ 1,186	\$ 3,613
Purchases	\$ 2,863	\$ 2,626

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

	March 31, 2011
Accounts receivable	
LSC	\$ 411
Keylink	8,689
	\$ 9,100
Accounts payable	
LSC	\$ 6,970
Keylink	5,579
	\$ 12,549
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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, 2010, previously filed with Securities and Exchange Commission.

Highlights

Net sales for the three months ended March 31, 2011 was \$162 million, an increase of \$25 million, or 18%, over the same period last year, and a sequential decrease of 1% compared to the \$164 million in the fourth quarter of 2010;

Gross profit for the three months ended March 31, 2011 was \$57 million, an increase of \$10 million, or 20%, over the same period last year, and a sequential decrease of 8% compared to the \$63 million in the fourth quarter of 2010;

Gross profit margin for the three months ended March 31, 2011 was 36%, an increase of 1% over the same period last year, and a sequential decrease of 2% compared to the fourth quarter of 2010; and

Net income attributable to common stockholders for the three months ended March 31, 2011 was \$20 million, or \$0.42 per diluted share, compared to the same period last year, which was \$15 million, or \$0.33 per diluted share, and fourth quarter 2010 net income of \$24 million, or \$0.52 per diluted share.

Business Outlook

For 2011, we expect to see continued improvements in demand and order rates, increased production ramps of previous design wins at new customers and the introduction of new product applications for existing customers. For the second quarter of 2011, we expect to achieve growth over the first quarter and further expand our market share as a result of our continued focus on design wins, new products and customer expansion. We expect revenue for the second quarter of 2011 to range between \$170 million and \$178 million, an increase of 5% to 10% sequentially. We expect gross margin to be comparable to the first quarter. Operating expenses are expected to be down slightly from the first quarter levels on a percent of revenue basis. We expect our income tax rate to range between 17% and 23%. Shares used to calculate earnings per share for the second quarter of 2011 are expected to be approximately 47.5 million.

Overview

We are a leading global manufacturer and supplier of high-quality, application specific standard products within the broad discrete, logic and analog semiconductor markets, serving the consumer electronics, computing, communications, industrial and automotive markets. 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, such as 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.

During the first quarter of 2011, net sales were stronger than typical first quarter seasonal patterns, assisted by increased demand in tablets, notebooks, smartphones and LED TV s. We saw strong demand in Europe and Asia, while North America revenue declined sequentially from fourth quarter of 2010. In addition, the first quarter of 2011 was impacted by reduced unit output from our packaging facilities resulting from lower equipment utilization as a result of China labor shortages, which should be resolved during the second quarter as we continue to hire and train the additional personnel at our packaging facilities. Gross margin for the quarter

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reflects reduced fixed cost coverage caused by the lower unit output. Although we experienced lower unit output, we were able to ship from finished goods inventory and reduced our contract assembly commitments, which allowed us to achieve sequential revenue growth in our core business.

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

Net sales for the three months ended March 31, 2011 was \$162 million compared to \$137 million in the same period last year. This increase in net sales mainly reflects the increase in demand for our products in all geographic regions.

Our gross profit margin was 36% for the three months ended March 31, 2011, compared to 35% in the same period last year. Our gross margin percentage increased over the same period last year due to higher capacity utilization of 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 three months ended March 31, 2011, our capital expenditures, excluding capital expenditures related to our investment agreement with the Management Committee of the Chengdu Hi-Tech Industrial Development Zone (the CDHT), were approximately 11% of our net sales, which is in line with our historical 10% to 12% of net sales model. For 2011, we expect capital expenditures, excluding capital expenditures related to our investment agreement, to be within our historical model.

For the three months ended March 31, 2011 and 2010, the percentage of our net sales derived from our Asian subsidiaries was 73%. In the near future, we expect our percentage of net sales to the Asian market to remain approximately the same. In addition, Europe accounted for approximately 15% of our revenues for the three months ended March 31, 2011, compared to 11% in the same period last year.

As of March 31, 2011, we had invested approximately \$297 million in our Asian manufacturing facilities. For the three months ended March 31, 2011, we invested approximately \$14 million in these manufacturing facilities, and we expect to continue to invest in our manufacturing facilities, although the amount to be invested will depend on product demand and new product developments.

For the three months ended March 31, 2011, 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.

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Table of Contents**Results of Operations for the Three Months Ended March 31, 2011 and 2010**

The following table sets forth, the percentage that certain items in the statements of operations bear to net sales and the percentage dollar increase (decrease) of such items from period to period.

	Percent of Net Sales Three months ended March 31,		Percentage Dollar Increase (Decrease)
	2011	2010	10 to 11
Net sales	100%	100%	18
Cost of goods sold	(64)	(65)	17
Gross profit	36	35	20
Operating expenses	(18)	(21)	-
Income from operations	18	14	50
Other income (expense)	(2)		(2,344)
Income before income taxes and noncontrolling interest	16	14	32
Income tax provision	3	2	45
Net income	13	12	29
Net income attributable to noncontrolling interest		(1)	(20)
Net income attributable to common stockholders	13	11	32

The following discussion explains in greater detail our consolidated operating results and financial condition for the three months ended March 31, 2011, compared to the three months ended March 31, 2010. This discussion should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this quarterly report (*in thousands*).

	2011	2010
Net Sales	\$161,555	\$136,847

Net sales increased approximately \$25 million for the three months ended March 31, 2011, compared to the same period last year. The 18% increase in net sales represented an approximately 1% increase in ASP and a 17% increase in units sold. The revenue increase for the three months ended March 31, 2011 was attributable to increase in demand for our products primarily in Europe and Asia.

	2011	2010
Cost of goods sold	\$104,162	\$89,064
Gross profit	\$ 57,393	\$47,783
Gross profit margin	35.5%	34.9%

Cost of goods sold increased approximately \$15 million, or 17%, for the three months ended March 31, 2011 compared to the same period last year. As a percent of sales, cost of goods sold decreased to 64% for the three months ended March 31, 2011 compared to 65% in the same period last year, and our average unit cost (AUP) decreased less than 1% due to product mix.

For the three months ended March 31, 2011, gross profit increased by approximately \$10 million, or 20%, compared to the same period last year. Gross margin increased to 36% for the three months ended March 31, 2011, compared to 35% for the same period last year.

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	2011	2010
Operating expenses	\$29,063	\$28,923

Operating expenses for the three months ended March 31, 2011 remained relatively flat compared to the same period last year. In addition, the components within operating expenses, selling, general and administrative expenses (SG&A) and research and development expenses (R&D) also remained relatively flat as well. SG&A, as a percentage of sales, decreased to 13% for the three months ended March 31, 2011, compared to 16% in the same period last year and R&D, as a percentage of sales, decreased to 4% for the three months ended March 31, 2011, compared to 5% in the same period last year due to higher net sales.

	2011	2010
Other income (expenses)	\$(3,231)	\$144

Other expenses increased for the three months ended March 31, 2011 to approximately \$3 million, compared to less than \$1 million of other income in the same period last year, due primarily to an approximately \$2 million gain on sale of non-core intellectual property for which no intangible assets were ever recorded and favorable foreign currency gains of approximately \$1 million for the three months ended March 31, 2010. Interest income and expense both decreased approximately \$1 million due to the absence of interest income being earned on our auction rate securities and decrease in interest expense due primarily to the repayment of our no net cost loan on June 30, 2010 in connection with the previously disclosed settlement agreement with UBS.

	2011	2010
Income tax provision	\$4,835	\$3,324

We recognized income tax expense of approximately \$5 million for the three months ended March 31, 2011, compared to \$3 million income tax expense in the same period last year. The estimated effective tax rate is 19% for the three months ended March 31, 2011, compared to 18% in the same period last year. Our effective tax rates for the three months ended March 31, 2011 and 2010, respectively, were lower than the U.S. statutory tax rate of 35%, principally from the impact of higher income in lower-taxed jurisdictions.

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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, if necessary, 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 \$30 million with no outstanding borrowings and \$3 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, 2010 and March 31, 2011, our working capital was \$289 million and \$314 million, respectively. Our working capital increased in the first three months of 2011 primarily due to the increase in cash and accounts receivables. 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.

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, we have classified our Notes as a current liability. Should the holders choose to require us to purchase their Notes on October 1, 2011, we will be required to use available funds and/or seek alternative means to service the debt.

Capital expenditures for the three months ended March 31, 2011 and 2010 were \$19 million and \$25 million, respectively, which include \$1 million of capital expenditures related to the investment agreement with the Management Committee of the CDHT for the three months ended March 31, 2011. Capital expenditures, excluding capital expenditures related to the investment agreement, in the first three months of 2011 were approximately 11% of our net sales, which is in line with our historical 10% to 12% of net sales model. Our capital expenditures were primarily related to manufacturing expansion in our facilities in China.

Discussion of Cash Flow

Cash and cash equivalents increased from \$271 million at December 31, 2010, to \$279 million at March 31, 2011 primarily from cash provided by operating and financing activities, offset by cash used in investing activities.

A summary of the consolidated condensed statements of cash flows is as follows (*in thousands*):

	Three Months Ended March 31,		
	2011	2010	Change
Net cash provided by operating activities	\$ 15,730	\$ 23,866	\$ (8,136)
Net cash provided by (used by) investing activities	(13,060)	44,071	(57,131)
Net cash provided by (used by) financing activities	2,480	(58,922)	61,402
Effect of exchange rates on cash and cash equivalents	2,689	(3,173)	5,862
Net increase in cash and cash equivalents	\$ 7,839	\$ 5,842	\$ 1,997

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Table of Contents***Operating Activities***

Net cash provided by operating activities for the three months ended March 31, 2011 was \$16 million, resulting primarily from \$20 million of net income and \$14 million in depreciation and amortization, offset partially by \$16 million increase in accounts receivable. Net cash provided by operating activities was \$24 million for the same period last year, resulting primarily from \$16 million of net income and \$12 million in depreciation and amortization. Net cash provided by operating activities decreased \$8 million for the three months ended March 31, 2011, compared to the same period last year. This decrease resulted primarily from an increase in accounts receivable as of March 31, 2011.

Investing Activities

Net cash used by investing activities was \$13 million for the three months ended March 31, 2011 compared to net cash provided by of \$44 million for the same period last year. The \$57 million increase in net cash used by investing activities was due primarily the result of during the three months ended March 31, 2010, underlying institutions repurchased approximately \$60 million of our auction rate securities at par value.

Financing Activities

Net cash provided by financing activities totaled \$3 million for the three months ended March 31, 2011 compared to net cash used by of \$59 million in the same period last year. This increase in net cash provided by is primarily the result of during the three months ended March 31, 2010, underlying institutions repurchased approximately \$60 million of our auction rate securities at par value and the proceeds were applied against the no net cost loan.

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, 2010, filed on February 28, 2011.

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 leasing, 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, 2010, filed on February 28, 2011.

Critical Accounting Policies

Our critical accounting policies, as described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010, relate to revenue recognition, inventories, accounting for income taxes, 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, 2010.

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)

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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.

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 Factors 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 business, 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 two customers. In addition, one of these customers is our largest external supplier and both are related parties. The loss of these customers or suppliers 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.*

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- 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.*
- 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 would 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 defined 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.*

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- Ø *Due to fluctuations in the U.K. '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 *In 2010, we established a joint venture to build a semiconductor facility in Chengdu, People 's Republic of China. We are required to contribute at least \$47.5 million to the joint venture during the first three years with additional contributions thereafter, as well as a substantial amount of time and resources to establish and operate the joint venture. Any failure to meet any such requirements, delays or unforeseen circumstances may cause us to incur penalties or require us to contribute additional expenses or resources and, as a result, could have an adverse effect on our operating efficiencies, results of operations and financial conditions.*
- Ø *Certain of our customers and suppliers require us to comply with their codes of conducts, which may include certain restrictions that may substantially increase the cost of our business as well as have an adverse effect on our operating efficiencies, 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.*
- 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.*

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 U.K. 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 *The People 's Republic of China is experiencing 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.*
- 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.*

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.*

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- 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.*
- 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 *Our Certificate of Incorporation and Bylaw Provisions may deter a take-over attempt.*

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

As a multinational corporation, we are subject to certain market risks including foreign currency, interest rate, 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, 2010, filed on February 28, 2011.

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 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 our Chief Executive Officer or our 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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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 no 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, 2010, filed on February 28, 2011.

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

We may from time to time seek to repurchase our outstanding Notes or Common Stock 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 first quarter of 2011.

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.

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Table of Contents**Item 6. Exhibits**

Number	Description	Form	Date of First Filing	Exhibit Number	Filed Herewith
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	
31.1	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
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				

101.DEF** XBRL Taxonomy Extension Definition Linkbase

- * *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

May 10, 2011

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

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