

DIODES INC /DEL/
Form 10-Q
November 06, 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 September 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 November 4, 2015 was 48,590,862.

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PART I—FINANCIAL INFORMATION

Item 1—Financial Statements

DIODES INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

ASSETS

| | September 30, 2015 (Unaudited) | December 31, 2014 |
|--|---|-------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 188,755 | \$ 243,000 |
| Short-term investments | 24,586 | 11,726 |
| Accounts receivable, net of allowances of \$2,386 and \$1,682 at September 30, 2015 and December 31, 2014, respectively | 202,467 | 188,248 |
| Inventories | 197,698 | 182,026 |
| Deferred income taxes, current | 11,193 | 11,295 |
| Prepaid expenses and other | 38,389 | 50,510 |
| Total current assets | 663,088 | 686,805 |
| Property, plant and equipment, at cost | 835,721 | 747,723 |
| Accumulated depreciation | (464,685) | (437,792) |
| Property, plant and equipment, net | 371,036 | 309,931 |
| Deferred income tax, non-current | 32,259 | 32,550 |
| Goodwill | 79,389 | 81,229 |
| Intangible assets, net | 42,841 | 45,028 |
| Other | 24,580 | 23,614 |
| Total assets | \$ 1,213,193 | \$ 1,179,157 |

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

DIODES INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (continued)

LIABILITIES AND EQUITY

(In thousands, except share data)

| | September 30, 2015 (Unaudited) | December 31, 2014 |
|---|---|-------------------------|
| Liabilities | | |
| Current liabilities: | | |
| Lines of credit and short-term debt | \$261 | \$1,064 |
| Accounts payable | 86,388 | 79,390 |
| Accrued liabilities | 91,868 | 60,436 |
| Income tax payable | 9,106 | 8,381 |
| Total current liabilities | 187,623 | 149,271 |
| Long-term debt, net of current portion | 93,510 | 140,787 |
| Other long-term liabilities | 74,591 | 78,932 |
| Total liabilities | 355,724 | 368,990 |
| Commitments and contingencies (See Note H) | | |
| 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; 48,588,184 and 47,591,092 issued and outstanding at September 30, 2015 and December 31, 2014, respectively | 32,394 | 31,729 |
| Additional paid-in capital | 335,835 | 314,942 |
| Retained earnings | 519,053 | 490,006 |
| Accumulated other comprehensive loss | (77,564) | (68,402) |
| Total stockholders' equity | 809,718 | 768,275 |
| Noncontrolling interest | 47,751 | 41,892 |
| Total equity | 857,469 | 810,167 |
| Total liabilities and stockholders' equity | \$1,213,193 | \$1,179,157 |

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

DIODES INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share data)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|-----------|------------------------------------|-----------|
| | 2015 | 2014 | 2015 | 2014 |
| Net sales | \$208,888 | \$233,777 | \$634,522 | \$666,980 |
| Cost of goods sold | 147,252 | 159,045 | 439,536 | 460,363 |
| Gross profit | 61,636 | 74,732 | 194,986 | 206,617 |
| Operating expenses | | | | |
| Selling, general and administrative | 34,669 | 33,897 | 98,282 | 99,518 |
| Research and development | 13,745 | 13,864 | 40,644 | 39,565 |
| Amortization of acquisition related intangible assets | 1,828 | 1,987 | 5,630 | 5,960 |
| Loss (gain) on fixed assets | 1,421 | (20) | 1,556 | (916) |
| Total operating expenses | 51,663 | 49,728 | 146,112 | 144,127 |
| Income from operations | 9,973 | 25,004 | 48,874 | 62,490 |
| Other income (expense) | 255 | 1,300 | (1,426) | 309 |
| Income before income taxes and noncontrolling interest | 10,228 | 26,304 | 47,448 | 62,799 |
| Income tax provision | 6,593 | 6,172 | 16,179 | 14,370 |
| Net income | 3,635 | 20,132 | 31,269 | 48,429 |
| Less net income attributable to noncontrolling interest | 798 | 705 | 2,222 | 1,415 |
| Net income attributable to common stockholders | \$2,837 | \$19,427 | \$29,047 | \$47,014 |
| Earnings per share attributable to common stockholders: | | | | |
| Basic | \$0.06 | \$0.41 | \$0.60 | \$1.00 |
| Diluted | \$0.06 | \$0.40 | \$0.59 | \$0.97 |
| Number of shares used in earnings per share computation: | | | | |
| Basic | 48,586 | 47,548 | 48,114 | 47,047 |
| Diluted | 49,564 | 48,736 | 49,351 | 48,385 |

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

DIODES INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(Unaudited)

(In thousands)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|--|----------|---------------------------------------|----------|
| | 2015 | 2014 | 2015 | 2014 |
| Net income | \$3,635 | \$20,132 | \$31,269 | \$48,429 |
| Foreign currency translation adjustment | (11,954) | (8,009) | (13,205) | (8,604) |
| Unrealized gain (loss) on defined benefit plan, net of tax | 1,852 | (4,991) | 4,487 | (5,541) |
| Unrealized foreign currency loss, net of tax | (343) | (779) | (444) | (329) |
| Comprehensive (loss) income | (6,810) | 6,353 | 22,107 | 33,955 |
| Less: Comprehensive income attributable to noncontrolling interest | 798 | 705 | 2,222 | 1,415 |
| Total comprehensive (loss) income attributable to common stockholders | \$(7,608) | \$5,648 | \$19,885 | \$32,540 |

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

DIODES INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

| | Nine Months Ended September 30, | |
|--|------------------------------------|------------|
| | 2015 | 2014 |
| Cash flows from operating activities | \$98,453 | \$107,325 |
| Cash flows from investing activities | | |
| Purchase TF Semiconductor Solutions, net of cash acquired | (1,033) | - |
| Decrease in restricted cash | 527 | 1,278 |
| Purchases of property, plant and equipment | (94,994) | (37,081) |
| Proceeds from sales of property, plant, and equipment | 129 | 1,428 |
| Purchases of equity securities | (4,553) | (1,842) |
| Purchases of short-term investments | (36,784) | - |
| Proceeds from maturity of short-term investments | 23,156 | 8,516 |
| Proceeds from sale of equity securities | 3,968 | 562 |
| Other | 304 | 518 |
| Net cash used in investing activities | (109,280) | (26,621) |
| Cash flows from financing activities | | |
| Advances on lines of credit and short-term debt | 1,713 | 6,120 |
| Repayments on lines of credit and short-term debt | (2,512) | (9,849) |
| Debt issuance costs | (1,158) | - |
| Repayments of long-term debt | (47,216) | (35,831) |
| Net proceeds from issuance of common stock | 9,906 | 5,729 |
| Repayment of capital lease obligation and other | (178) | (159) |
| Net cash used in financing activities | (39,445) | (33,990) |
| Effect of exchange rate changes on cash and cash equivalents | (3,973) | (6,500) |
| Increase (decrease) in cash and cash equivalents | (54,245) | 40,214 |
| Cash and cash equivalents, beginning of period | 243,000 | 196,635 |
| Cash and cash equivalents, end of period | \$188,755 | \$236,849 |
| Supplemental disclosure | | |
| Non-cash financing activities: | | |
| Property, plant and equipment purchased on accounts payable | \$(24,607) | \$(5,298) |
| Acquisition of TF Semiconductor Solutions: | | |
| Total assets acquired | \$8,697 | \$- |
| Total liabilities assumed | \$86 | \$- |

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

DIODES INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED 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 condensed consolidated 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 (“Form 10-K”). The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with United States Generally Accepted Accounting Principles (“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 GAAP for complete financial statements. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes contained in our Form 10-K. 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 nine months ended September 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 preparation of financial statements in conformity with 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 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. Dollar amounts and share amounts are presented in thousands, except per share amounts, unless otherwise noted.

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

Business Combinations

During the normal course of business the Company makes acquisitions. In the event that an individual acquisition (or an aggregate of acquisitions) is material, appropriate disclosure of such acquisition activity is provided

Recently Issued Accounting Pronouncements

The Financial Accounting Standards Board (“FASB”) issued the following Accounting Standards Updates (“ASU”) which could have potential impact to the Company’s financial statements:

ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). This standard 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. This standard 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. This standard is effective date in 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. We have not yet selected a transition method and are currently evaluating the effect that the updated standard will have on our consolidated financial statements and related disclosures.

ASU No. 2015-03, Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Cost. This standard requires that costs associated with the issuance of debt previously recorded as deferred assets on the balance sheet now be reported as a direct reduction of the related debt balance. This standard is effective for interim and annual periods beginning January 1, 2016, but early adoption is permitted. We plan to adopt this standard in the first quarter of 2016. Upon adoption, this standard will be applied retrospectively to all prior periods presented. This standard will have no impact on the consolidated statements of operations and will have an immaterial impact from the reclassifications on our consolidated balance sheets.

ASU No. 2015-11, Simplifying the Measurement of Inventory (“ASU 2015-11”). This standard requires in scope inventory to be measured at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Subsequent measurement is unchanged for inventory measured using last-in, first-out (“LIFO”) or the retail inventory method. The amendments do not apply to inventory that is measured using LIFO or the retail inventory method. The amendments apply to all other inventory, which includes inventory that is measured using first-in, first-out (“FIFO”) or average cost. The standard is effective for public business entities for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years and requires prospective application, with earlier application permitted as of the beginning of an interim or annual reporting period. We are evaluating the effect that ASU 2015-11 will have on our consolidated financial statements and related disclosures.

NOTE B – Earnings per Share

Earnings per share (“EPS”) are calculated by dividing net income attributable to common stockholders by the weighted-average number of shares of Common Stock outstanding during the period. Diluted EPS are calculated similarly but includes potential dilution from the exercise of stock options and stock awards, except when the effect would be anti-dilutive. A total of 2.0 million and 1.0 million options and stock awards outstanding during the three and nine months ended September 30, 2015 and 2014, respectively were excluded from the calculation because the effect was anti-dilutive.

The table below sets forth the reconciliation between net income and the weighted average shares outstanding used for calculating basic and diluted EPS for the three and nine months ended September 30, 2015 and 2014:

| | Three Months Ended September 30, 2015 | | Nine Months Ended September 30, 2014 | |
|---|--|----------|---|----------|
| Earnings (numerator) | | | | |
| Net income attributable to common stockholders | \$2,837 | \$19,427 | \$29,047 | \$47,014 |
| Shares (denominator) | | | | |
| Weighted average common shares outstanding (basic) | 48,586 | 47,548 | 48,114 | 47,047 |
| Dilutive effect of stock options and stock awards outstanding | 978 | 1,188 | 1,237 | 1,338 |
| Adjusted weighted average common shares outstanding (diluted) | 49,564 | 48,736 | 49,351 | 48,385 |
| Earnings per share attributable to common stockholders | | | | |
| Basic | \$0.06 | \$0.41 | \$0.60 | \$1.00 |
| Diluted | \$0.06 | \$0.40 | \$0.59 | \$0.97 |

NOTE C – Inventories

The table below sets forth inventories which are stated at the lower of cost or market value:

| | September 30, | December 31, |
|------------------|------------------|-----------------|
| | 2015 | 2014 |
| Raw materials | \$ 81,859 | \$ 73,564 |
| Work-in-progress | 45,593 | 42,417 |
| Finished goods | 70,246 | 66,045 |
| Total | \$ 197,698 | \$ 182,026 |

NOTE D – Goodwill and Intangible Assets

The table below sets forth the changes in goodwill:

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| | |
|---|----------|
| Balance at December 31, 2014 | \$81,229 |
| Foreign currency translation adjustment | (1,840) |
| Balance at September 30, 2015 | \$79,389 |

The table below sets forth the value of intangible assets, other than goodwill:

| | September 30, 2015 | December 31, 2014 |
|--|--------------------------|-------------------------|
| Intangible assets subject to amortization: | | |
| Gross carrying amount | \$ 90,645 | \$ 86,928 |
| Accumulated amortization | (45,797) | (40,164) |
| Foreign currency translation adjustment | (7,671) | (7,471) |
| Total | 37,177 | 39,293 |
| Intangible assets with indefinite lives: | | |
| Gross carrying amount | 6,403 | 6,403 |
| Foreign currency translation adjustment | (739) | (668) |
| Total | 5,664 | 5,735 |
| Total intangible assets, net | \$ 42,841 | \$ 45,028 |

Amortization expense related to intangible assets subject to amortization was approximately \$2 million for both the three months ended September 30, 2015 and 2014, and approximately \$6 million for both the nine months ended September 30, 2015 and 2014.

NOTE E – Income Tax Provision

Income tax expense of approximately \$7 million and \$6 million was recorded for the three months ended September 30, 2015 and 2014, respectively, and income tax expense of approximately \$16 million and \$14 million was recorded for the nine months ended September 30, 2015 and 2014, respectively. During the third quarter of 2015, we decreased our full-year income forecast based on the weaker market, specifically in Asia. This resulted in an effective tax rate of 34.1% for the nine months ended September 30, 2015, as compared to 22.9% in the same period last year and compared to 23.7% for the full year of 2014. The effective tax rate for the nine months ended September 30, 2015 includes an immaterial charge for various discrete items. The estimated annual tax rate for 2015 is expected to be approximately 35%, excluding discrete items. The Company's effective tax rate has increased this quarter due to a significant change in the proportion of income generated in North America, Europe and Asia, respectively.

For the three months ended September 30, 2015, the Company reported domestic and foreign pre-tax income/(loss) of approximately \$(3) million and \$13 million, respectively. For the nine months ended September 30, 2015, the Company reported domestic and foreign pre-tax income/(loss) of approximately \$(5) million and \$53 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, 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 \$3 million for the nine months ended September 30, 2015 and 2014, respectively. The benefit of the tax holidays on both basic and diluted earnings per share for the nine months ended September 30, 2015 and 2014 was approximately \$0.03 and \$0.06, respectively.

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, or for the 2010 tax year. The Company is 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, 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 tax audits. The Company recognizes accrued interest and penalties related to unrecognized tax benefits in interest expense. As of September 30, 2015, the gross amount of unrecognized tax benefits was approximately \$20 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. At this time, an estimate of the range of the reasonably possible outcomes cannot be made.

NOTE F – Share-Based Compensation

The table below sets forth the line items where share-based compensation expense was recorded for the three and nine months ended September 30, 2015 and 2014:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|--|---------|---------------------------------------|----------|
| | 2015 | 2014 | 2015 | 2014 |
| Cost of goods sold | \$99 | \$114 | \$345 | \$317 |
| Selling, general and administrative | 3,713 | 3,311 | 10,307 | 9,119 |
| Research and development | 287 | 313 | 1,003 | 891 |
| Total share-based compensation expense | \$4,099 | \$3,738 | \$11,655 | \$10,327 |

Stock Options. Stock options generally vest in equal annual installments over a four-year period and expire eight years after the grant date. Stock option 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 nine months ended September 30, 2015 was approximately \$10 million. Stock option expense was approximately \$1 million for both the three months ended September 30, 2015 and 2014, and \$2 million and \$3 million for the nine months ended September 30, 2015 and 2014, respectively.

The table below sets forth a summary of stock option activity for the nine months ended September 30, 2015:

| | Shares | Weighted Average Exercise Price | Weighted Remaining Contractual Term (years) | Aggregate Intrinsic Value |
|-----------------------------------|--------|--|---|---------------------------------|
| Stock Options | | | | |
| Outstanding at January 1, 2015 | 2,736 | \$ 21.26 | 4.0 | \$ 17,840 |
| Granted | - | - | - | - |
| Exercised | (639) | 15.50 | - | 7,785 |
| Forfeited or expired | (20) | - | - | - |
| Outstanding at September 30, 2015 | 2,077 | 23.02 | 4.2 | 2,739 |
| Exercisable at September 30, 2015 | 1,790 | 22.81 | 3.8 | 2,586 |

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 our closing stock price.

As of September 30, 2015, total unrecognized share-based compensation expense related to unvested stock options, net of forfeitures, was approximately \$3 million, before income taxes, and is expected to be recognized over a weighted average period of approximately two years.

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

Share grant expense for the three months ended September 30, 2015 and 2014 was approximately \$4 million and \$3 million, respectively, and share grant expense for the nine months ended September 30, 2015 and 2014 was approximately \$10 million and \$8 million, respectively.

The table below sets forth a summary of restricted stock awards and restricted stock units for the nine months ended September 30, 2015:

| Share Grants | Shares | Weighted Average Grant-Date Fair Value | Aggregate Intrinsic Value |
|----------------------------------|--------|---|---------------------------------|
| Non-vested at January 1, 2015 | 1,535 | \$ 23.32 | \$ 42,324 |
| Granted | 821 | 24.02 | - |
| Vested | (371) | 25.17 | 9,158 |
| Forfeited | (34) | 26.11 | - |
| Non-vested at September 30, 2015 | 1,951 | 22.92 | 41,606 |

As of September 30, 2015, total unrecognized share-based compensation expense related to non-vested stock awards, net of forfeitures, was approximately \$40 million, before income taxes, and is expected to be recognized over a weighted average period of approximately three years.

NOTE G – Segment Information and Enterprise-Wide Disclosure

For financial reporting purposes, we operate in a single segment, standard semiconductor products, through our various manufacturing and distribution facilities. We aggregate our products because the products are similar and have similar economic characteristics, use similar production processes and share the same customer type.

Our primary operations include operations in Asia, North America and Europe.

The tables below set forth net sales attributed to geographic areas based on the location of subsidiaries producing the net sales:

Three Months Ended

| September 30, 2015 | Asia | North America | Europe | Consolidated |
|--------------------------|------------|------------------|-----------|--------------|
| Total sales | \$ 194,642 | \$ 33,880 | \$ 40,380 | \$ 268,902 |
| Intercompany elimination | (27,874) | (15,015) | (17,125) | (60,014) |
| Net sales | \$ 166,768 | \$ 18,865 | \$ 23,255 | \$ 208,888 |

Three Months Ended

| September 30, 2014 | Asia | North America | Europe | Consolidated |
|--------------------------|------------|------------------|-----------|--------------|
| Total sales | \$ 217,304 | \$ 40,371 | \$ 46,421 | \$ 304,096 |
| Intercompany elimination | (31,437) | (17,021) | (21,861) | (70,319) |
| Net sales | \$ 185,867 | \$ 23,350 | \$ 24,560 | \$ 233,777 |

As of and for the Nine Months Ended

| | | North | | | |
|------------------------------------|-----------|-----------|-----------|--------------|---|
| September 30, 2015 | Asia | America | Europe | Consolidated | |
| Total sales | \$588,662 | \$113,042 | \$128,616 | \$830,320 | |
| Intercompany elimination | (89,432) | (49,057) | (57,309) | (195,798) |) |
| Net sales | \$499,230 | \$63,985 | \$71,307 | \$634,522 | |
| Property, plant and equipment, net | \$325,942 | \$25,039 | \$20,055 | \$371,036 | |
| Total assets | \$903,317 | \$133,019 | \$176,857 | \$1,213,193 | |

As of and for the Nine Months Ended

| | | North | | | |
|------------------------------------|-----------|-----------|-----------|--------------|---|
| September 30, 2014 | Asia | America | Europe | Consolidated | |
| Total sales | \$607,991 | \$115,096 | \$135,350 | \$858,437 | |
| Intercompany elimination | (80,240) | (47,408) | (63,809) | (191,457) |) |
| Net sales | \$527,751 | \$67,688 | \$71,541 | \$666,980 | |
| Property, plant and equipment, net | \$263,769 | \$27,444 | \$20,963 | \$312,176 | |
| Total assets | \$872,475 | \$128,430 | \$187,335 | \$1,188,240 | |

Geographic Information

The tables below set forth the amount of net sales that were derived from (shipped to) customers located in the following countries:

| | Net Sales for the | | Percentage | |
|---------------------------|-----------------------|-----------------------|-------------------|-------------------|
| | Three Months Ended | | of | |
| | September 30, 2015 | September 30, 2014 | Net Sales 2015 | Net Sales 2014 |
| China | \$126,268 | \$145,834 | 60 % | 62 % |
| United States | 17,905 | 21,214 | 9 % | 9 % |
| Korea | 16,210 | 16,617 | 8 % | 7 % |
| Germany | 13,467 | 14,417 | 6 % | 6 % |
| Singapore | 11,009 | 12,397 | 5 % | 5 % |
| Taiwan | 7,013 | 8,962 | 3 % | 4 % |
| All others ⁽¹⁾ | 17,016 | 14,336 | 9 % | 7 % |
| Total | \$208,888 | \$233,777 | 100 % | 100 % |

| | Net Sales for the | | Percentage | |
|--|-----------------------|-----------------------|-------------------|-------------------|
| | Nine Months Ended | | of | |
| | September 30, 2015 | September 30, 2014 | Net Sales 2015 | Net Sales 2014 |

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| | 2015 | 2014 | 2015 | 2014 |
|---------------------------|------------------|------------------|--------------|--------------|
| China | \$378,251 | \$412,994 | 60 % | 62 % |
| United States | 59,531 | 62,620 | 9 % | 9 % |
| Korea | 51,457 | 50,852 | 8 % | 8 % |
| Germany | 45,003 | 45,616 | 7 % | 7 % |
| Singapore | 38,699 | 34,513 | 6 % | 5 % |
| Taiwan | 18,424 | 22,543 | 3 % | 3 % |
| All others ⁽¹⁾ | 43,157 | 37,842 | 7 % | 6 % |
| Total | \$634,522 | \$666,980 | 100 % | 100 % |

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

NOTE H – Commitments and Contingencies

Purchase commitments – As of September 30, 2015, we had approximately \$30 million in non-cancelable purchase contracts related to capital expenditures, primarily for manufacturing equipment in China.

Contingencies – From time to time, we are involved in various legal proceedings that arise in the normal course of business. While we intend to defend any lawsuit vigorously, we presently believe that the ultimate outcome of any current pending legal proceeding will not have any material adverse effect on our financial position, cash flows or operating results. However, litigation is subject to inherent uncertainties, and unfavorable rulings could occur. An unfavorable ruling could include monetary damages, which could impact on our business and operating results for the period in which the ruling occurs or future periods. Based on information available, we evaluate the likelihood of potential outcomes. We record the appropriate liability when the amount is deemed probable and reasonably estimable. In addition, we do not accrue for estimated legal fees and other directly related costs as they are expensed as incurred. Legal proceedings that we believe are material are disclosed below.

On September 15, 2014, the United States District Court for the Eastern District of Texas issued an order regarding the putative securities class action entitled Local 731 I.B. of T. Excavators and Pavers Pension Trust Fund v. Diodes, Inc., Civil Action No. 6:13- cv-00247 (E.D. Tex. filed Mar. 15, 2013) (the “Class Action”), granting defendants’ motion to dismiss the Class Action with prejudice. On October 13, 2014, plaintiffs filed a notice of appeal to the order dismissing the Class Action to the United States Court of Appeals for the Fifth Circuit, Case No. 14-41141. The appeal is fully briefed and was argued on September 3, 2015. The Court of Appeals has not yet issued a decision.

On February 20, 2014, a purported stockholder derivative action was filed in the United States District Court for the Eastern District of Texas, entitled Persson v. Keh-Shew Lu, Case No. 4:14-cv-00108-RC-ALM (E.D. Tex. filed Feb. 20, 2014), on behalf of the Company against its directors, in which plaintiff alleges that the Board breached their fiduciary duties by allowing the Company to make allegedly misleading public statements in 2011 regarding the labor market in China and its impact on the Company’s business and prospects, by failing to maintain internal controls and by selling shares of Diodes stock while allegedly in possession of material nonpublic information regarding the labor market in China and its impact on the Company’s business and prospects. The complaint does not seek any damages or other relief from the Company. On April 17, 2014, the Court granted the parties’ unopposed motion to stay this action until such time that the Court rules on defendants’ motion to dismiss in the Class Action. On October 2, 2014, the Court granted the parties’ unopposed motion to extend the stay of this action until 30 days after either the expiration of the appeal period or a final decision by the highest court of appeals regarding the defendants’ motion to dismiss in the Class Action. The defendants intend to defend the action vigorously.

NOTE I – Employee Benefit Plans

Defined Benefit Plan

We have a contributory defined benefit plan that covers certain employees in the United Kingdom (“U.K.”). 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.

Net periodic benefit costs associated with the defined benefit plan were less than \$1 million for both the three months ended September 30, 2015 and 2014, and \$1 million for both the nine months ended September 30, 2015 and 2014.

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The tables below set forth the benefit obligation, the fair value of plan assets, and the funded status of our plan:

| | Defined Benefit Plan |
|---|----------------------------|
| Change in benefit obligation: | |
| Balance at December 31, 2014 | \$ 159,715 |
| Service cost | 230 |
| Interest cost | 4,290 |
| Actuarial gain | (7,832) |
| Benefits paid | (3,274) |
| Currency changes | (4,498) |
| Benefit obligation at September 30, 2015 | \$ 148,631 |
| Change in plan assets: | |
| Fair value of plan assets at December 31, 2014 | \$ 122,780 |
| Actual return on plan assets | 72 |
| Employer contribution | 307 |
| Benefits paid | (3,274) |
| Currency changes | (3,482) |
| Fair value of plan assets at September 30, 2015 | \$ 116,403 |
| Underfunded status at September 30, 2015 | \$ 32,228 |

Based on an actuarial study performed as of September 30, 2015, the plan is underfunded and a liability is reflected in our consolidated financial statements as a long-term liability. The weighted-average discount rate assumption used to determine benefit obligations as of September 30, 2015 was 3.95%.

The following weighted-average assumptions were used to determine net periodic benefit costs for the three months ended September 30, 2015:

| | |
|--|------|
| Discount rate | 3.7% |
| Expected long-term return on plan assets | 5.2% |

During the second quarter of 2012, we adopted a payment plan with the trustees of the defined benefit plan, under which we would pay approximately British Pound (“GBP”) 2 million (approximately \$3 million based on a USD:GBP exchange rate of 1.6:1) every year from 2012 through 2019. In the first quarter of 2015, based on the pension deficit, we adopted (as required every three years) an amended payment plan in which we will pay approximately GBP 2 million (approximately \$3 million based on a USD:GBP exchange rate of 1.6:1) annually through 2030. This revised payment plan resulted in an increase of total required contributions from GBP 8 million to GBP 33 million (approximately \$50 million at September 30, 2015).

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

Deferred Compensation

We maintain a Non-Qualified Deferred Compensation Plan (the “Deferred Compensation Plan”) for executive officers, key employees and members of the Board of Directors. The Deferred Compensation Plan allows eligible participants to defer the receipt of eligible compensation, including equity awards, until designated future dates. We offset our obligations under the Deferred Compensation Plan by investing in the actual underlying investments. These investments are classified as trading securities and are carried at fair value. At September 30, 2015, these investments totaled approximately \$5 million. All gains and losses in these investments are materially offset by corresponding gains and losses in the Deferred Compensation Plan liabilities.

NOTE J – Related Parties

We conduct business with two related party companies, Lite-On Semiconductor Corporation and its subsidiaries and affiliates (collectively, “LSC”), and Nuvoton Technology Corporation and its subsidiaries and affiliates (collectively, “Nuvoton”).

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LSC is our largest stockholder, owning approximately 17% of our outstanding Common Stock as of September 30, 2015, and is a member of the Lite-On Group of companies. Raymond Soong, the Chairman of the Board of Directors, is the Chairman of LSC, and is the Chairman of Lite-On Technology Corporation (“LTC”), a significant shareholder of LSC. C.H. Chen, our former President and Chief Executive Officer and currently the Vice Chairman of the Board of Directors, is also Vice Chairman of LSC and a board member of LTC. Dr. Keh-Shew Lu, our President and Chief Executive Officer and a member of our Board of Directors, is a board member of LTC, and a board member of Nuvoton. L.P. Hsu, a member of our Board of Directors serves as a consultant to LTC, and is a supervisor of the board of Nuvoton. We consider our relationships with LSC and Nuvoton to be mutually beneficial, and we plan to continue our strategic alliance with LSC and Nuvoton.

We also conduct business with two significant companies, Keylink International (B.V.I.) Inc. and its subsidiaries and affiliates (collectively, “Keylink”), and Chengdu Ya Guang Electronic Company Limited (“Ya Guang”). Keylink is our 5% joint venture partner in our Shanghai assembly and test facilities. In addition, Ya Guang is our 5% joint venture partner in our two Chengdu assembly and test facilities; however, we have no material transactions with Ya Guang. The Audit Committee of the Board reviews all related party transactions for potential conflict of interest situations on an ongoing basis, all in accordance with such procedures as the Audit Committee may adopt from time to time.

Lite-On Semiconductor Corporation – We sell semiconductor products to LSC and purchase semiconductor products from LSC for subsequent sale, making LSC one of our largest suppliers.

The table below sets forth net sales to, and purchases from, LSC:

| | Three Months Ended September 30, 2015 | | Nine Months Ended September 30, 2015 | |
|-----------|--|---------|---|----------|
| | 2015 | 2014 | 2015 | 2014 |
| Net sales | \$36 | \$294 | \$423 | \$573 |
| Purchases | \$5,274 | \$8,735 | \$18,941 | \$24,447 |

Keylink International (B.V.I.) Inc. – We sell semiconductor products to Keylink and purchase semiconductor products from Keylink for subsequent sale. In addition, our subsidiaries in China lease their manufacturing facilities in Shanghai from, and subcontract a portion of our manufacturing process (metal plating and environmental services), to Keylink. We also pay a fee to Keylink for consulting services. The aggregate amounts for these services for both the three months ended September 30, 2015 and 2014 were approximately \$5 million. The aggregate amounts for these services for both the nine months ended September 30, 2015 and 2014 were approximately \$14 million.

The table below sets forth net sales to, and purchases from, Keylink:

| | Three Months Ended September 30, 2015 | | Nine Months Ended September 30, 2015 | |
|-----------|--|---------|---|---------|
| | 2015 | 2014 | 2015 | 2014 |
| Net sales | \$2,931 | \$2,830 | \$7,608 | \$7,210 |
| Purchases | \$1,382 | \$2,483 | \$5,063 | \$6,199 |

Nuvoton Technology Corporation – We purchase wafers from Nuvoton that we use in the production of finished goods.

The table below sets forth net purchases from Nuvoton:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|-----------|--|---------|---------------------------------------|----------|
| | 2015 | 2014 | 2015 | 2014 |
| Purchases | \$3,208 | \$3,652 | \$9,953 | \$10,225 |

The table below sets forth accounts receivable from, and accounts payable to, LSC, Keylink and Nuvoton:

| | September 30, 2015 | December 31, 2014 |
|----------------------------|--------------------------|-------------------------|
| Accounts receivable | | |
| LSC | \$ 108 | \$ 215 |
| Keylink | 4,457 | 4,142 |
| | \$ 4,565 | \$ 4,357 |
| Accounts payable | | |
| LSC | \$ 3,718 | \$ 4,458 |
| Keylink | 5,757 | 6,472 |
| Nuvoton | 1,604 | 1,167 |
| | \$ 11,079 | \$ 12,097 |

NOTE K - Pericom Semiconductor Corporation Acquisition and Long-term Debt

On September 2, 2015, we entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Pericom Semiconductor Corporation (“Pericom”) pursuant to which our wholly-owned subsidiary will be merged with and into Pericom, with Pericom continuing as the surviving corporation and our wholly-owned subsidiary. Under the Merger Agreement each outstanding share of common stock, without par value, of Pericom (the “Shares”), adjusted appropriately, other than shares owned by Pericom or certain of its affiliates or shares held by Pericom shareholders who have perfected their appraisal rights in accordance with applicable California law, will be automatically converted into the right to receive \$17.00 in cash per Share, without interest. The aggregate consideration will be approximately \$400 million. The acquisition is expected to be funded by the Company’s drawings on its credit facility (as described below) and cash on the Company’s balance sheet. Consummation of the merger is subject to various conditions..

On September 2, 2015, the Company and Diodes International B.V. (the “Foreign Borrower” and, collectively with the Company, the “Borrowers”), and certain subsidiaries of the Company as guarantors, entered into an Amendment No. 3 to Credit Agreement, Incremental Term Assumption Agreement, Limited Waiver and Consent (the “Amendment”) with Bank of America, N.A., as Administrative Agent, and the lenders party to the Amendment (collectively, the “Lenders”), which amends the Credit Agreement dated January 8, 2013 (as previously amended by Amendment No. 1 to Credit Agreement and Limited Waiver dated as of November 1, 2013 and Amendment No. 2 to Credit Agreement and Amendment No. 1 to Collateral Agreement dated as of June 19, 2015) (as previously amended and as amended by the Amendment, the “Credit Agreement”).

The Amendment increases the Company's existing senior credit facilities to a \$400 million revolving senior credit facility (the "Revolver"), which includes a \$10 million swing line sublimit, a \$10 million letter of credit sublimit, and a \$20 million alternative currency sublimit, and a \$100 million term loan facility (the "Term Loan Facility"). The availability of the Term Loan Facility is subject to the condition that the acquisition of Pericom shall be consummated, and various related conditions. The availability of the Term Loan Facility terminates December 31, 2015 if the Term Loan Facility has not been drawn upon by that date. We may from time to time request additional increases in the aggregate commitments under the Credit Agreement of up to \$200 million, subject to the Lenders electing to increase their commitments or by means of the addition of new Lenders, and subject to at least half of each increase in aggregate commitments being in the form of term loans, with the remaining amount of each increase being an increase in the amount of the Revolver.

The Revolver and the Term Loan Facility mature on January 8, 2018 (the "Maturity Date"). The Company plans to use a portion of the proceeds available under the Revolver and the Term Loan Facility to finance a portion of the purchase price for the Pericom acquisition described above, with the remaining proceeds available for working capital, for capital expenditures, and for general corporate purposes, including financing other permitted acquisitions.

The Credit Agreement as amended contains certain financial and non-financial covenants, including, but not limited to, a maximum Consolidated Leverage Ratio, a minimum Consolidated Fixed Charge Coverage Ratio, and restrictions on liens, indebtedness, investments, fundamental changes, dispositions, and restricted payments (including dividends) (as such terms are defined in the Amendment or the Credit Agreement).

The foregoing descriptions of the Merger Agreement, the Amendment and the Credit Agreement, and the transactions contemplated thereby, do not purport to be complete and are qualified in their entirety by reference to the copy of the Merger Agreement filed as an exhibit to the Current Report on Form 8-K filed with the SEC on September 3, 2015 and the copies of the

Credit Agreement and the Amendment filed as exhibits to the Current Reports on Form 8-K filed with the SEC on January 11, 2013 and June 24, 2015.

Note L – Subsequent Event

On November 3, 2015, our Board of Directors (“Board”) approved a stock repurchase program. The Board authorized the repurchase of up to an aggregate of \$100 million of our outstanding common stock, \$0.66 2/3 par value per share. The share repurchase program is expected to continue through the end of 2019 unless extended or shortened by the Board of Directors.

The share repurchase program does not have an expiration date, does not require the Company to purchase a specific number of, or any, shares and may be modified, suspended or terminated at any time without notice at the Company’s discretion. Shares may be repurchased from time to time in the open market at prevailing market prices, in privately negotiated transactions, or by other means in accordance with applicable laws, at times and prices considered appropriate by the Company. The timing, value and number of shares repurchased will be determined by the Company in its discretion and will be based on various factors, including an evaluation of current and future capital needs, current and forecasted cash flows, the Company’s capital structure, cost of capital and share price, general market and economic conditions, applicable legal requirements, and compliance with any contractual restrictions, among other factors. The timing and number of shares repurchased are subject to legal constraints and financial covenants under the Company’s credit facility that limit share repurchases based on a defined ratio.

The Company’s objectives with regard to share repurchases include offsetting the dilution to shares outstanding that results from equity compensation grants and supplementing earnings per share growth. Repurchases will be funded from available working capital, including cash balances, advances under available credit facilities, cash flow from operations, and proceeds from exercises of equity compensation awards.

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 and as identified under the heading “Cautionary Statement for Purposes of the “Safe Harbor” Provision of the Private Securities Litigation Reform Act of 1995” herein. 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 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 in this Quarterly Report on Form 10-Q are made pursuant to the Act. We undertake 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 our Annual Report on Form 10-K for the fiscal year ended December 31, 2014 ("Form 10-K"), previously filed with Securities and Exchange Commission. (Amounts are rounded to the nearest million).

Highlights

Net sales for the three months ended September 30, 2015 were approximately \$209 million, a decrease of \$25 million, or 10.6%, over the same period last year, and a sequential decrease of 4.8% compared to the \$219 million in the second quarter of 2015. The sequential decline reflected a 56% decrease in revenue associated with assembly test manufacturing services combined with decline in distributor POP sales due to inventory reductions. When excluding manufacturing services, revenue was down 1.5% sequentially;

Net sales for the nine months ended September 30, 2015 were approximately \$635 million, a decrease of \$32 million, or 4.9%, compared to the same period last year;

Gross profit for the three months ended September 30, 2015 was approximately \$62 million, a decrease of \$13 million, or 17.5%, over the same period last year, and a sequential decrease of 11.2% compared to the \$69 million in the second quarter of 2015;

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Gross profit for the nine months ended September 30, 2015 was approximately \$195 million, a decrease of \$11.6 million, or 5.6%, over the same period last year;

Gross profit margin for the three months September 30, 2015 was 29.5%, compared to 32.0% in the same period last year, and 31.6% in the second quarter of 2015;

Gross profit margin for the nine months ended September 30, 2015 was 30.7%, compared to 31.0% in the same period last year;

Net income attributable to common stockholders for the three months ended September 30, 2015 was approximately \$3 million, or \$0.06 per diluted share, compared to net income attributable to common stockholders of \$19 million, or \$0.40 per diluted share, in the same period last year, and net income attributable to common stockholders of \$15 million, or \$0.31 per diluted share, in the second quarter of 2015;

Net income attributable to common stockholders for the nine months ended September 30, 2015 was approximately \$29 million, or \$0.59 per diluted share, compared to net income attributable to common stockholders of \$47 million, or \$0.97 per diluted share, in the same period last year; and

Cash flows from operating activities were approximately \$98 million for the nine months ended September 30, 2015, compared to \$107 million in the same period last year.

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. Our products are sold primarily throughout Asia, North America and Europe.

We design, manufacture and market 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 application-specific standard products utilizing innovative, highly efficient packaging and cost-effective process technologies, coupled with our collaborative, customer-focused product development, provides us with a meaningful competitive advantage relative to other semiconductor companies.

First Three Quarters of 2015

For the first quarter of 2015, revenue declined sequentially due to greater than expected softness in the computing market in Asia as well as the currency impact from a stronger U.S. dollar versus the Euro. In spite of the lower revenue base, we further enhanced product mix to enable gross profit improvement year-over-year and to sustain gross margin at 31.0% in the quarter. Additionally, our ongoing cost reduction efforts helped to support profit margins and achieve earnings of \$0.23 per share. Notable in the quarter, revenue in Europe grew almost 14% sequentially despite the headwinds from the weaker Euro as we continued to gain traction on products sold in the region, specifically in the industrial and automotive markets. The North America market also performed well in the quarter.

For the second quarter of 2015, revenue was up 6.4% sequentially due to continued strength in the industrial and automotive markets, especially in Europe where revenue increased 8% after growing 14% in the prior quarter despite the weak Euro. Our growth in the second quarter is particularly noteworthy considering the continued weakness in the computing market. Also significant, we improved gross margin 60 basis points sequentially despite pricing pressure in the computing market as we continued to benefit from our product mix improvements and cost reduction efforts.

For the third quarter of 2015, revenue declined 4.8% sequentially. The sequential decline reflected a 56% decrease in revenue associated with assembly test manufacturing services combined with inventory reduction at global distributors. When manufacturing services are excluded, revenue was down 1.5% sequentially. As a strategic response to the challenging environment, we took the opportunity to capture market share in smartphones by securing additional content at key customer accounts. Increased sales of lower margin products combined with lower capacity utilization at our packaging plants pressured margins during the quarter.

Results of Operations for the Three Months Ended September 30, 2015 and 2014

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 September 30, 2015 | | 2014 | | Percentage Dollar Increase (Decrease) '14 to '15 |
|--|---|-------|------|--|--|
| Net sales | 100% | 100% | | | (11) |
| Cost of goods sold | (70) | (68) | | | (7) |
| Gross profit | 30 | 32 | | | (18) |
| Total operating expenses | (25) | (21) | | | 4 |
| Income from operations | 5 | 11 | | | (60) |
| Other income (expense) | - | - | | | (80) |
| Income before income taxes and noncontrolling interest | 5 | 11 | | | (61) |
| Income tax provision | (3) | (3) | | | 7 |
| Net income | 2 | 9 | | | (82) |
| Net income attributable to noncontrolling interest | - | - | | | 13 |
| Net income attributable to common stockholders | 2 | 9 | | | (85) |

The following discussion explains in greater detail our consolidated operating results and financial condition for the three months ended September 30, 2015, compared to the three months ended September 30, 2014. This discussion should be read in conjunction with the condensed consolidated financial statements and notes thereto appearing elsewhere in this quarterly report (in thousands).

| | 2015 | 2014 |
|-----------|-----------|-----------|
| Net sales | \$208,888 | \$233,777 |

Net sales decreased approximately \$25 million for the three months ended September 30, 2015, compared to the same period last year. The 10.6% decrease in net sales represented a 16.1% decrease in units sold, partially offset by a 6.5% increase in average selling price (“ASP”). The revenue decrease in the third quarter was due to the reduction in revenue associated with assembly test manufacturing services combined with inventory reductions at global distributors.

| | 2015 | 2014 |
|---------------------|-----------|-----------|
| Cost of goods sold | \$147,252 | \$159,045 |
| Gross profit | \$61,636 | \$74,732 |
| Gross profit margin | 29.5 % | 32.0 % |

Cost of goods sold decreased approximately \$12 million for the three months ended September 30, 2015, compared to the same period last year. As a percent of sales, cost of goods sold increased to 70.5% for the three months ended September 30, 2015, compared to 68.0% in the same period last year. Average unit cost increased 10.4% for the three months ended September 30, 2015 compared to the same period last year. For the three months ended September 30, 2015, gross profit decreased by approximately \$13 million, or 17.5%, compared to the same period last year. Gross margin decreased to 29.5% for the three months ended September 30, 2015, compared to 32.0% for the same period last year. The decline in gross profit margin was due to lower capacity utilization and a change in product mix.

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| | 2015 | 2014 |
|--------------------------|----------|----------|
| Total operating expenses | \$51,663 | \$49,728 |

Operating expenses for the three months ended September 30, 2015 increased approximately \$2 million, or 3.9%, compared to the same period last year. Selling, general and administrative expenses (“SG&A”) increased approximately \$1 million due primarily to professional fees related to the potential Pericom acquisition. Research and development expenses (“R&D”), and amortization of acquisition related intangible assets remained relatively flat. The loss on fixed assets was primarily related to an impairment charge on assets that will no longer be used in our production process as we transition from six inch to eight inch production capability in our China wafer plant. SG&A, as a percentage of sales, was 16.6% and 14.5% for the three months ended September 30, 2015 and 2014, respectively. R&D, as a percentage of sales, was 6.6% and 5.9% for the three months ended September 30, 2015 and 2014, respectively.

| | 2015 | 2014 |
|------------------------|-------|---------|
| Other income (expense) | \$255 | \$1,300 |

Other income (expense) for the three months ended September 30, 2015 was primarily due to foreign currency gains, partially offset by interest expense. Other income (expense) for the three months ended September 30, 2014 was primarily due to foreign currency gains, interest income and gain on securities carried at fair value, partially offset by interest expense.

| | 2015 | 2014 |
|----------------------|---------|---------|
| Income tax provision | \$6,593 | \$6,172 |

We recognized income tax expense of approximately \$7 million for the three months ended September 30, 2015 and \$6 million for the three months ended September 30, 2014. During the third quarter of 2015, we decreased our full-year income forecast based on the weaker market, specifically in Asia. Effective tax rates in Asia are generally lower than rates in Europe and North America. As a result of the decreased full-year income forecast, certain items affecting the tax rate have a more pronounced impact to the annual effective tax rate, increasing the annual rate from approximately 26% in the second quarter of 2015 to approximately 35% in the third quarter of 2015. To reflect this change, income tax expense for the third quarter of 2015 was accrued to reflect an actual year-to-date effective tax rate of 35%. This resulted in tax expense of approximately \$3 million for the third quarter of 2015 plus an adjustment for the first half of 2015 of \$4 million, for a total tax expense of \$7 million on our third quarter taxable income of \$10 million, reflecting an actual third quarter effective tax rate of 64%.

Results of Operations for the Nine Months Ended September 30, 2015 and 2014

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

| Percent of Net Sales | Percentage Dollar |
|-------------------------|----------------------|
|-------------------------|----------------------|

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| | Nine Months Ended September 30, | | Increase (Decrease) |
|---|--|-------|------------------------|
| | 2015 | 2014 | '14 to '15 |
| Net sales | 100% | 100% | (5) |
| Cost of goods sold | 69 | (69) | (5) |
| Gross profit | 31 | 31 | (6) |
| Total operating expenses | (23) | (22) | 1 |
| Income from operations | 8 | 9 | (22) |
| Other income (expense) | - | - | (561) |
| Income before income taxes and noncontrolling interest | 8 | 9 | (24) |
| Income tax provision | (3) | (2) | 13 |
| Net income | 5 | 7 | (35) |
| Less net income attributable to noncontrolling interest | - | - | 57 |
| Net income attributable to common stockholders | 5 | 7 | (38) |

The following discussion explains in greater detail our consolidated operating results and financial condition for the nine months ended September 30, 2015, compared to the nine months ended September 30, 2014. This discussion should be read in conjunction with the condensed consolidated financial statements and notes thereto appearing elsewhere in this quarterly report.

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| | 2015 | 2014 |
|-----------|-----------|-----------|
| Net sales | \$634,522 | \$666,980 |

Net sales decreased approximately \$32 million for the nine months ended September 30, 2015, compared to the same period last year. The 4.9% decrease in net sales represented a 7.0% decrease in units sold, slightly offset by a 2.3% increase in ASP. The revenue decrease for the nine months ended September 30, 2014 was mainly attributable to softness in the computing market and distributor inventory corrections.

| | 2015 | 2014 |
|---------------------|-----------|-----------|
| Cost of goods sold | \$439,536 | \$460,363 |
| Gross profit | \$194,986 | \$206,617 |
| Gross profit margin | 30.7 % | 31.0 % |

Cost of goods sold decreased approximately \$21 million, or 5%, for the nine months ended September 30, 2015, compared to the same period last year. As a percent of sales, cost of goods sold increased to 69.3% for the nine months ended September 30, 2015, compared to 69.0% in the same period last year, and average unit cost increased by 2.7%.

| | 2015 | 2014 |
|--------------------------|-----------|-----------|
| Total operating expenses | \$146,112 | \$144,127 |

Operating expenses for the nine months ended September 30, 2015 increased approximately \$2 million, or 1% for the nine months ended September 30, 2015, compared to the same period last year. Of the components within operating expenses, SG&A decreased by \$1 million, which was offset by a \$1 million increase in R&D and a \$2 million increase the loss on fixed assets. The loss on fixed assets was primarily related to an impairment charge on assets that will no longer be used in our production process as we transition from six inch to eight inch production capability in our China wafer plant. SG&A, as a percentage of sales, increased slightly to 15.5% for the nine months ended September 30, 2015, compared to 14.9% in the same period last year, and R&D, as a percentage of sales, increased slightly to 6.4% for the nine months ended September 30, 2015, compared to 5.9% in the same period last year.

| | 2015 | 2014 |
|------------------------|-----------|-------|
| Other income (expense) | \$(1,426) | \$309 |

Other income (expense) for the nine months ended September 30, 2015 and 2014 was (\$1) million and less than \$1 million, respectively. Other income (expense) for the nine months ended September 30, 2015 was primarily related to interest expense and loss on securities carried at fair value, partially offset by interest income and foreign currency gains. Other income (expense) for the nine months ended September 30, 2014 was primarily due to interest expense that was offset by interest income and gains on securities carried at fair value.

| | 2015 | 2014 |
|----------------------|----------|----------|
| Income tax provision | \$16,179 | \$14,370 |

We recognized income tax expense of approximately \$16 million for the nine months ended September 30, 2015 and \$14 million for the nine months ended September 30, 2014. The effective tax rate is approximately 34.1% for the nine months ended September 30, 2015, compared to 23% in the same period last year. The increase in income taxes for 2015 compared to 2014 is a result of a significant change in the proportion of income generated in North America,

Europe and Asia, respectively.

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 consisting of a \$400 million revolving senior credit facility (the “Revolver”) which includes a \$10 million swing line sublimit, a \$10 million letter of credit sublimit, a \$20 million alternative currency sublimit, and a \$100 million term loan facility (the “Term Loan Facility”). The availability of the Term Loan Facility is subject to the condition that the acquisition of Pericom shall be consummated, and various related conditions. The availability of the Term Loan Facility terminates December 31, 2015 if the Term Loan Facility has not been drawn upon by that date. We may from time to time request additional increases in the aggregate commitments under the Credit Agreement of up to \$200 million, subject to the Lenders

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electing to increase their commitments or by means of the addition of new Lenders, and subject to at least half of each increase in aggregate commitments being in the form of term loans, with the remaining amount of each increase being an increase in the amount of the Revolver. See Note K of the Notes to Condensed Consolidated Financial Statements for additional information. The Revolver matures on January 8, 2018, and as of September 30, 2015, \$92 million was outstanding. In addition, we have short-term foreign credit facilities with borrowing capacities of approximately \$73 million and with \$2 million used for import and export guarantees. We also have foreign long-term debt of approximately \$2 million. Our primary liquidity requirements have been to meet our inventory and capital expenditure needs and to fund on-going operations. At December 31, 2014 and September 30, 2015 our working capital was \$538 million and \$475 million, respectively. We expect cash generated by our operations together with existing cash, cash equivalents, short-term investments and available credit facilities to be sufficient to cover cash needs for working capital and capital expenditures for at least the next 12 months.

Capital expenditures for the nine months ended September 30, 2015 and 2014 were \$120 million and \$42 million, respectively. For the first nine months of 2015 capital expenditures were approximately 18.9% of our net sales, which is higher than our capital spending target range of 5% to 9% of net sales primarily due to the Chengdu site expansion.

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 U.S. tax; accordingly, deferred U.S. taxes are not recorded on undistributed foreign earnings. As of September 30, 2015, our foreign subsidiaries held approximately \$200 million of cash, cash equivalents and investments of which approximately \$154 million would be subject to a potential tax if repatriated to the U.S. as dividends.

As of September 30, 2015, we had short-term investments totaling \$25 million. These investments are highly liquid with maturity dates greater than three months at the date of purchase. We generally can access these investments in a relatively short amount of time but in doing so we generally forfeit all earned and future interest income.

Share Repurchase Program

On November 3, 2015, our Board of Directors (“Board”) approved a stock repurchase program. The Board authorized the repurchase of up to an aggregate of \$100 million of our outstanding common stock, \$0.66 2/3 par value per share. The share repurchase program is expected to continue through the end of 2019 unless extended or shortened by the Board of Directors.

The share repurchase program does not have an expiration date, does not require the Company to purchase a specific number of, or any, shares and may be modified, suspended or terminated at any time without notice at the Company’s discretion. Shares may be repurchased from time to time in the open market at prevailing market prices, in privately negotiated transactions, or by other means in accordance with applicable laws, at times and prices considered appropriate by the Company. The timing, value and number of shares repurchased will be determined by the Company in its discretion and will be based on various factors, including an evaluation of current and future capital needs, current and forecasted cash flows, the Company’s capital structure, cost of capital and share price, general market and economic conditions, applicable legal requirements, and compliance with any contractual restrictions, among other factors. The timing and number of shares repurchased are subject to legal constraints and financial covenants under the Company’s credit facility that limit share repurchases based on a defined ratio.

The Company's objectives with regard to share repurchases include offsetting the dilution to shares outstanding that results from equity compensation grants and supplementing earnings per share growth. Repurchases will be funded from available working capital, including cash balances, advances under available credit facilities, cash flow from operations, and proceeds from exercises of equity compensation awards.

Discussion of Cash Flow

Our primary source of liquidity is cash flow from operations. Additional sources of liquidity are cash and cash equivalents, short-term investments and our credit facility. Our primary cash and cash equivalents decreased from \$243 million at December 31, 2014 to \$189 million at September 30, 2015 primarily from cash used by investing and financing activities, partially offset by cash provided by operating activities.

The table below sets forth a summary of the condensed consolidated statements of cash flows:

| | Nine Months Ended September 30, | | |
|---|---------------------------------|-----------|------------|
| | 2015 | 2014 | Change |
| Net cash provided by operating activities | \$98,453 | \$107,325 | \$(8,872) |
| Net cash used by investing activities | (109,280) | (26,621) | (82,659) |
| Net cash used by financing activities | (39,445) | (33,990) | (5,455) |
| Effect of exchange rates on cash and cash equivalents | (3,973) | (6,500) | 2,527 |
| Net increase (decrease) in cash and cash equivalents | \$(54,245) | \$40,214 | \$(94,459) |

Operating Activities

Net cash provided by operating activities for the nine months ended September 30, 2015 was \$98 million, resulting primarily from \$31 million of net income, \$52 million in depreciation and amortization, \$12 million of non-cash share-based compensation expense, and an increase in accounts payable, partially offset by an increase in inventories and accounts receivable. Net cash provided by operating activities was \$107 million for the same period last year, resulting primarily from \$48 million in net income, \$57 million in depreciation and amortization, \$10 million of non-cash share-based compensation expense, and increases in accounts payable and accrued liabilities, partially offset by an increase in inventories and prepaid expenses and other assets.

Investing Activities

Net cash used by investing activities was \$109 million for the nine months ended September 30, 2015, compared to net cash used by investing activities of \$27 million for the same period last year. This increase in net cash used was primarily due to purchases of property, plant, and equipment of approximately \$95 million, primarily for the Chengdu site expansion, and short-term investments of \$37 million.

Financing Activities

Net cash used by financing activities was \$39 million for the nine months ended September 30, 2015, compared to net cash used by financing activities of \$34 million in the same period last year. Net cash used in 2015 consisted primarily of repayments on lines of credit and long-term debt, partially offset by proceeds from issuance of common stock. Net cash used in 2014 consisted primarily of repayments on lines of credit and long-term debt, partially offset by advances on lines of credit and proceeds from issuance of common stock.

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, 2014, filed on March 2, 2015, except as described below:

As part of the required pension review, which occurs every three years under the U.K. pension regulations, we had discussions with the trustees and adopted a revised payment plan in the first quarter of 2015, in which we have agreed to extend the payment of approximately GBP 2 million annually through 2030. This revised payment plan resulted in an increase of total required contributions from GBP 8 million to GBP 33 million (approximately \$50 million at September 30, 2015). See Note I of the Notes to Condensed Consolidated Financial Statements for additional information.

On September 2, 2015, we entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Pericom Semiconductor Corporation (“Pericom”) pursuant to which our wholly-owned subsidiary will be merged with and into Pericom, with Pericom continuing as the surviving corporation and our wholly-owned subsidiary. Under the Merger Agreement each outstanding share of common stock, without par value, of Pericom (the “Shares”), adjusted appropriately, other than shares owned by Pericom or certain of its affiliates or shares held by Pericom shareholders who have perfected their appraisal rights in accordance with applicable California law, will be automatically converted into the right to receive \$17.00 in cash per Share, without interest. The aggregate consideration will be approximately \$400 million. The acquisition is expected to be funded by the Company’s drawings on its credit facility (as described below) and cash on the Company’s balance sheet. Consummation of the merger is subject to various conditions.

On September 2, 2015, the Company and Diodes International B.V. (the “Foreign Borrower” and, collectively with the Company, the “Borrowers”), and certain subsidiaries of the Company as guarantors, entered into an Amendment No. 3 to Credit Agreement, Incremental Term Assumption Agreement, Limited Waiver and Consent (the “Amendment”) with Bank of America, N.A., as Administrative Agent, and the lenders party to the Amendment (collectively, the “Lenders”), which amends the Credit Agreement dated January 8, 2013 (as previously amended by Amendment No. 1 to Credit Agreement and Limited Waiver dated as of November 1, 2013 and Amendment No. 2 to Credit Agreement and Amendment No. 1 to Collateral Agreement dated as of June 19, 2015) (as previously amended and as amended by the Amendment, the “Credit Agreement”).

The Amendment increases the Company’s existing senior credit facilities to a \$400 million revolving senior credit facility (the “Revolver”), which includes a \$10 million swing line sublimit, a \$10 million letter of credit sublimit, and a \$20 million alternative currency sublimit, and a \$100 million term loan facility (the “Term Loan Facility”). The availability of the Term Loan Facility is subject to the condition that the acquisition of Pericom shall be consummated, and various related conditions. The availability of the Term Loan Facility terminates December 31, 2015 if the Term Loan Facility has not been drawn upon by that date. We may from time to time request additional increases in the aggregate commitments under the Credit Agreement of up to \$200 million, subject to the Lenders electing to increase their commitments or by means of the addition of new Lenders, and subject to at least half of each increase in aggregate commitments being in the form of term loans, with the remaining amount of each increase being an increase in the amount of the Revolver.

The Revolver and the Term Loan Facility mature on January 8, 2018 (the “Maturity Date”). The Company plans to use a portion of the proceeds available under the Revolver and the Term Loan Facility to finance a portion of the purchase price for the Pericom acquisition described above, with the remaining proceeds available for working capital, for capital expenditures, and for general corporate purposes, including financing other permitted acquisitions.

The Credit Agreement as amended contains certain financial and non-financial covenants, including, but not limited to, a maximum Consolidated Leverage Ratio, a minimum Consolidated Fixed Charge Coverage Ratio, and restrictions on liens, indebtedness, investments, fundamental changes, dispositions, and restricted payments (including dividends) (as such terms are defined in the Amendment or the Credit Agreement).

The foregoing descriptions of the Merger Agreement, the Amendment and the Credit Agreement, and the transactions contemplated thereby, do not purport to be complete and are qualified in their entirety by reference to the copy of the Merger Agreements filed as an exhibit to the Current Report on Form 8-K filed with the SEC on September 3, 2015 and the copies of the Credit Agreement and the Amendment filed as exhibits to the Current Reports on Form 8-K filed with the SEC on January 11, 2013 and June 24, 2015, respectively

Critical Accounting Policies

No material changes were made to the Company’s critical accounting policies as set forth in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations,” included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, filed with the SEC on March 2, 2015.

Recently Issued Accounting Pronouncements

See Note A of the Notes to Condensed Consolidated 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”). 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,” “expect,” “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 “Risk 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 in 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 our 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 we undertake no obligation to update the forward-looking statements to reflect subsequent events or circumstances.

Risk Factors

RISKS RELATED TO OUR BUSINESS

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 net sales, operating results and financial condition.

During times of difficult market conditions, our fixed costs combined with lower net sales and lower profit margins may have a negative impact on our business, operating results and financial condition.

Downturns in the highly cyclical semiconductor industry and/or changes in end-market demand could adversely affect our operating results and financial condition.

The semiconductor business is highly competitive, and increased competition may harm our business, operating results and financial condition.

One of our largest external suppliers is also a related party. The loss of this supplier could harm our business, operating results and financial condition.

Delays in initiation of production at facilities due to implementing new production techniques or resolving problems associated with technical equipment malfunctions could adversely affect our manufacturing efficiencies, operating results and financial condition.

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.

Our customers require our products to undergo a lengthy and expensive qualification process without any assurance of product sales and may demand to audit our operations from time to time. A failure to qualify a product or a negative audit finding could adversely affect our net sales, operating results and financial condition.

Our customer orders are subject to cancellation or modification usually with no penalty. High volumes of order cancellation or reduction in quantities ordered could adversely affect our net sales, operating results and financial condition.

Production at our manufacturing facilities could be disrupted for a variety of reasons, including natural disasters and other extraordinary events, which could prevent us from producing enough of our products to maintain our sales and satisfy our customers' demands and could adversely affect our operating results and financial condition.

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, operating results and financial condition.

We may be adversely affected by any disruption in our information technology systems, which could adversely affect our cash flows, operating results and financial condition.

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, reduction in our intellectual property rights and a negative impact on our business, operating results and financial condition.

We depend on third-party suppliers for timely deliveries of raw materials, manufacturing services, products and process development, parts and capital equipment, as well as finished products from other manufacturers, and our reputation with customers, operating results and financial condition could be adversely affected if we are unable to obtain adequate supplies in a timely manner.

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, our operating results and financial

condition.

Part of our growth strategy involves identifying and acquiring companies. 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, operating results and financial condition.

We are subject to litigation risks, including securities class action litigation, which may be costly to defend and the outcome of which is uncertain and could adversely affect our business and financial condition.

We are subject to many environmental laws and regulations that could result in significant expenses and could adversely affect our business, operating results and financial condition.

Our products may be found to be defective and, as a result, warranty claims and product liability claims may be asserted against us, which may harm our business, reputation with our customers, operating results and financial condition.

We may fail to attract or retain the qualified technical, sales, marketing, finance and management/executive personnel required to operate our business successfully, which could adversely affect our business, operating results and financial condition.

We may not be able to achieve future growth, and any such growth may place a strain on our management and on our systems and resources, which could adversely affect our business, operating results and financial condition.

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, operating results and financial condition.

If OEMs do not design our products into their applications, our net sales may be adversely affected.

We are subject to interest rate risk that could have an adverse effect on our cost of working capital and interest expenses, which could adversely affect our business, operating results and financial condition.

We may have a significant amount of debt with various financial institutions worldwide. Any indebtedness could adversely affect our business, operating results, financial condition and our ability to meet our payment obligations under such debt.

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

Our business benefits from certain Chinese government incentives. Expiration of, or changes to, these incentives could adversely affect our operating results and financial condition.

We operate a global business through numerous foreign subsidiaries, and there is a risk that tax authorities will challenge our transfer pricing methodologies and/or legal entity structures, which could adversely affect our operating results and financial condition.

The value of our benefit plan assets and liabilities is based on estimates and assumptions, which may prove inaccurate and the actual amount of expenses recorded in the consolidated financial statements could differ materially from the assumptions used.

Changes in actuarial assumptions for our defined benefit pension plan could increase the volatility of the plan's assets value, require us to increase cash contributions to the plan and have a negative impact on our cash flows, operating results and financial condition.

Certain of our customers and suppliers require us to comply with their codes of conduct, 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, operating results and financial condition.

Compliance with government regulations and customer demands regarding the use of "conflict minerals" may result in increased costs and may have a negative impact on our business, operating results and financial condition.

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.

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.

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 operating results and financial condition.

System security risks, data protection breaches, cyber-attacks and other related cybersecurity issues could disrupt our internal operations, and any such disruption could reduce our expected net sales, increase our expenses, damage our reputation and adversely affect our stock price.

RISKS RELATED TO OUR INTERNATIONAL OPERATIONS

Our international operations subject us to risks that could adversely affect our operations.

We have significant operations and assets in China, the U.K., Germany, Hong Kong and Taiwan and, as a result, will be subject to risks inherent in doing business in those jurisdictions, which may adversely affect our financial performance and operating results.

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, operating results and prospects.

Economic regulation in China could materially and adversely affect our business, operating results and prospects.

We could be adversely affected by violations of the United States' Foreign Corrupt Practices Act, the U.K.'s Bribery Act 2010 and similar worldwide anti-bribery laws.

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

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, operating results and financial condition.

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We may not continue to receive preferential tax treatment in Asia, thereby increasing our income tax expense and reducing our net income.

The distribution of any earnings of our foreign subsidiaries to the United States may be subject to United States income taxes, thus reducing our net income.

RISKS RELATED TO OUR COMMON STOCK

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

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.

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.

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.

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.

Anti-takeover effects of certain provisions of Delaware law and our Certificate of Incorporation and Bylaws, may hinder a take-over attempt.

Section 203 of Delaware General Corporation Law may deter a take-over attempt.

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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, 2014, filed on March 2, 2015.

Item 4. Controls and Procedures

Our Chief Executive Officer, Keh-Shew Lu, and Chief Financial Officer, Richard D. White, with the participation of our 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 on 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.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

See Note H of the Notes to Condensed Consolidated Financial Statements for detailed information regarding the status of our lawsuits.

From time to time, we are involved in various legal proceedings that arise in the normal course of business. While we intend to defend any lawsuit vigorously, we presently believe that the ultimate outcome of any current pending legal proceeding will not have any material adverse effect on our financial position, cash flows or operating results. However, litigation is subject to inherent uncertainties, and unfavorable rulings could occur. An unfavorable ruling could include monetary damages, which could impact our business and operating results for the period in which the ruling occurs or future periods.

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, 2014, filed on March 2, 2015.

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

There were no unregistered sales of the Company’s equity securities during the period covered by this report. There is currently available \$100 million available for repurchase of outstanding common stock under the program adopted by the Board of Directors on November 3, 2015 and more fully described in Note L to the financial statements in Part I of this Form 10-Q. For a description on the restrictions on share repurchases and dividends imposed by the Company’s credit agreement, see Note K of the Notes to Condensed Consolidated Financial Statements in Part I of this Form 10-Q.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

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Item 6. Exhibits

| Number | Description | Form | Date of First Filing | Exhibit Number | Filed Herewith |
|--------|---|------|----------------------|----------------|----------------|
| 2.1 | Agreement and Plan of Merger, dated as of September 2, 2015, by and among Pericom Semiconductor Corporation, PSI Merger Sub, Inc., and Diodes Incorporated | 8-K | September 3, 2015 | 2.1 | |
| | | 10-Q | May 10, 2013 | 3.1 | |
| 3.1 | Certificate of Incorporation, as amended | 8-K | September 10, 2014 | 3.1 | |
| 3.2 | Amended By-laws of the Company as of September 6, 2014 | S-3 | August 25, 2005 | 4.1 | |
| 4.1 | Form of Certificate for Common Stock, par value \$0.66 2/3 per share \ | | | | |
| 10.1 | Chemical Warehouse Lease Agreement between Diodes Shanghai Co., Ltd. and Shanghai Yuan Hao Electronic Co., Ltd. | | | | X |
| 10.2 | Fifth Supplemental Facility Lease Agreement between Diodes Shanghai Co., Ltd. and Shanghai Yuan Hao Electronic Co., Ltd. | 8-K | September 3, 2015 | 10.1 | X |
| 10.3 | Amendment No. 3 to Credit Agreement, Incremental Term Assumption Agreement, Limited Waiver and Consent Collateral Agreement, dated as of September 2, 2015, between Diodes Incorporated, Diodes International B.V., and Bank of America, N.A. and other participating lenders | | | | |
| 31.1 | Certification Pursuant to Rule 13a-14(a)/15d-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) /15d-14(a) of the Securities Exchange Act of 1934, adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | | | | X X |

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|---------|--|---|
| 32.1* | Certification Pursuant to 18 U.S.C. 1350 adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | |
| 32.2* | Certification Pursuant to 18 U.S.C. 1350 adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | X |
| 101.INS | XBRL Instance Document | X |
| 101.SCH | XBRL Taxonomy Extension Schema | X |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase | X |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document | X |
| 101.LAB | XBRL Taxonomy Extension Labels Linkbase | X |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase | X |

* 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.

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.

