# 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, 2019**

**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**<br>**(State or other jurisdiction of incorporation or organization)** | **95-2039518**<br>**(I.R.S. Employer Identification Number)** |
| **4949 Hedgcoxe Road, Suite 200, Plano, Texas**<br>**(Address of principal executive offices)** | **75024**<br>**(Zip code)** |

**(972) 987-3900**
**(Registrant's telephone number, including area code)**

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---|---|---|
| **Common Stock, Par Value $0.66 2/3** | **DIOD** | **The NASDAQ Stock Market LLC** |

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 every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

| | | | |
|---|---|---|---|
| Large accelerated filer | ☒ | Accelerated filer | ☐ |
| Non-accelerated filer | ☐ | Smaller reporting company | ☐ |
| Emerging growth company | ☐ | | |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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 October 31, 2019 was 51,041,969.

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**PART I—FINANCIAL INFORMATION**
**Item 1. Financial Statements.**
**DIODES INCORPORATED AND SUBSIDIARIES**
**CONDENSED CONSOLIDATED BALANCE SHEETS**
*(In thousands, except share and per share data)*

| | September 30, 2019 | December 31, 2018 |
|---|---|---|
| | *[(Unaudited)* | |
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 218,349 | $ 241,053 |
| Short-term investments | 7,928 | 7,499 |
| Accounts receivable, net of allowances of $4,726 and $4,102 at September 30, 2019 and December 31, 2018, respectively | 257,421 | 228,405 |
| Inventories | 230,815 | 215,435 |
| Assets held for sale | 4,947 | - |
| Prepaid expenses and other | 43,575 | 42,446 |
| Total current assets | 763,035 | 734,838 |
| Property, plant and equipment, net | 468,122 | 446,835 |
| Deferred income tax | 28,975 | 31,652 |
| Goodwill | 138,020 | 132,437 |
| Intangible assets, net | 125,446 | 137,935 |
| Other | 86,215 | 42,674 |
| Total assets | $ 1,609,813 | $ 1,526,371 |
| | | |
| **Liabilities** | | |
| Current liabilities: | | |
| Line of credit | $ 17,086 | $ 10,254 |
| Accounts payable | 117,226 | 117,808 |
| Accrued liabilities and other | 106,456 | 82,605 |
| Income tax payable | 25,404 | 15,744 |
| Current portion of long-term debt | 31,532 | 27,613 |
| Total current liabilities | 297,704 | 254,024 |
| Long-term debt, net of current portion | 87,939 | 186,143 |
| Deferred tax liabilities | 18,661 | 17,993 |
| Other long-term liabilities | 128,411 | 90,779 |
| Total liabilities | 532,715 | 548,939 |
| | | |
| Commitments and contingencies (See Note 8) | | |
| | | |
| **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; 51,012,794 and 50,221,035, issued and outstanding at September 30, 2019 and December 31, 2018, respectively | 34,982 | 34,454 |
| Additional paid-in capital | 417,576 | 399,915 |
| Retained earnings | 742,768 | 636,708 |
| Treasury stock, at cost, 1,457,206 shares held at September 30, 2019 and December 31, 2018 | (37,768) | (37,768) |
| Accumulated other comprehensive loss | (127,705) | (101,846) |
| Total stockholders' equity | 1,029,853 | 931,463 |
| Noncontrolling interest | 47,245 | 45,969 |
| Total equity | 1,077,098 | 977,432 |
| Total liabilities and stockholders' equity | $ 1,609,813 | $ 1,526,371 |

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, | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| **Net sales** | $ 323,674 | $ 320,946 | $ 947,973 | $ 899,543 |
| **Cost of goods sold** | 201,628 | 205,732 | 591,528 | 578,466 |
| Gross profit | 122,046 | 115,214 | 356,445 | 321,077 |
| | | | | |
| **Operating expenses** | | | | |
| Selling, general and administrative | 46,123 | 42,475 | 137,143 | 131,778 |
| Research and development | 22,689 | 22,549 | 66,566 | 64,799 |
| Amortization of acquisition related intangible assets | 4,519 | 4,418 | 13,539 | 13,863 |
| Other operating (income) expense | - | (66) | (158) | 15 |
| Total operating expense | 73,331 | 69,376 | 217,090 | 210,455 |
| | | | | |
| **Income from operations** | 48,715 | 45,838 | 139,355 | 110,622 |
| | | | | |
| **Other income (expense)** | | | | |
| Interest income | 272 | 474 | 1,780 | 1,431 |
| Interest expense | (2,007) | (2,318) | (6,163) | (7,619) |
| Foreign currency (loss) gain, net | (822) | (655) | (1,382) | (3,384) |
| Other income | 2,577 | 1,061 | 5,056 | 6,073 |
| Total other income (expense) | 20 | (1,438) | (709) | (3,499) |
| | | | | |
| **Income before income taxes and noncontrolling interest** | 48,735 | 44,400 | 138,646 | 107,123 |
| Income tax provision | 10,613 | 13,190 | 32,085 | 31,726 |
| **Net income** | 38,122 | 31,210 | 106,561 | 75,397 |
| **Less net (income) attributable to noncontrolling interest** | (62) | (302) | (501) | (895) |
| **Net income attributable to common stockholders** | $ 38,060 | $ 30,908 | $ 106,060 | $ 74,502 |
| | | | | |
| **Earnings per share attributable to common stockholders:** | | | | |
| Basic | $ 0.75 | $ 0.62 | $ 2.09 | $ 1.50 |
| Diluted | $ 0.73 | $ 0.61 | $ 2.05 | $ 1.46 |
| **Number of shares used in earnings per share computation:** | | | | |
| Basic | 50,998 | 50,115 | 50,687 | 49,713 |
| Diluted | 51,869 | 51,077 | 51,699 | 50,883 |

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

**DIODES INCORPORATED AND SUBSIDIARIES**
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
*(Unaudited)*
*(In thousands)*

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Net income | $ 38,122 | $ 31,210 | $ 106,561 | $ 75,397 |
| Unrealized (loss) gain on defined benefit plan, net of tax | (6,553) | (493) | (11,562) | 7,207 |
| Unrealized gain (loss) on swaps and collars, net of tax | 259 | 378 | (3,146) | 3,653 |
| Unrealized foreign currency loss, net of tax | (9,186) | (9,849) | (11,151) | (18,978) |
| Comprehensive income | 22,642 | 21,246 | 80,702 | 67,279 |
| Less: Comprehensive income attributable to noncontrolling interest | (62) | (302) | (501) | (895) |
| Total comprehensive income attributable to common stockholders | $ 22,580 | $ 20,944 | $ 80,201 | $ 66,384 |

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

**DIODES INCORPORATED AND SUBSIDIARIES**
**CONDENSED CONSOLIDATED STATEMENTS OF EQUITY**
*(Unaudited)*
*(In thousands)*

| | Common stock | | Treasury stock | | Additional paid-in capital | Retained earnings | Accumulated other comprehensive loss | Total Diodes Incorporated Stockholders' equity | Noncontrolling interest | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | | | | | | |
| Balance, June 30, 2018 | 51,303 | $ 34,204 | (1,457) | $ (37,768) | $ 391,332 | $ 576,280 | $ (81,633) | $ 882,415 | $ 40,400 | $ 922,815 |
| Total comprehensive income | - | - | - | - | - | 30,909 | (9,965) | 20,944 | 302 | 21,246 |
| Noncontrolling interests | - | - | - | - | - | - | - | - | 4,209 | 4,209 |
| Dividends to noncontrolling interest | - | - | - | - | - | - | - | - | (128) | (128) |
| Common stock issued for share-based plans | 345 | 229 | - | - | 1,623 | - | - | 1,852 | - | 1,852 |
| Share-based compensation | - | - | - | - | 4,896 | - | - | 4,896 | - | 4,896 |
| Tax related to net share settlement | - | - | - | - | (2,439) | - | - | (2,439) | - | (2,439) |
| Balance, September 30, 2018 | 51,648 | $ 34,433 | (1,457) | $ (37,768) | $ 395,412 | $ 607,189 | $ (91,598) | $ 907,668 | $ 44,783 | $ 952,451 |
| | | | | | | | | | | |
| Balance, December 31, 2017 | 50,587 | $ 33,727 | (1,457) | $ (37,768) | $ 386,338 | $ 532,687 | $ (83,480) | $ 831,504 | $ 42,414 | $ 873,918 |
| Total comprehensive income | - | - | - | - | - | 74,502 | (8,118) | 66,384 | 895 | 67,279 |
| Noncontrolling interests | - | - | - | - | - | - | - | - | 4,209 | 4,209 |
| Dividends to noncontrolling interest | - | - | - | - | - | - | - | - | (2,735) | (2,735) |
| Common stock issued for share-based plans | 1,061 | 706 | - | - | 4,155 | - | - | 4,861 | - | 4,861 |
| Share-based compensation | - | - | - | - | 15,975 | - | - | 15,975 | - | 15,975 |
| Tax related to net share settlement | - | - | - | - | (11,056) | - | - | (11,056) | - | (11,056) |
| Balance, September 30, 2018 | 51,648 | $ 34,433 | (1,457) | $ (37,768) | $ 395,412 | $ 607,189 | $ (91,598) | $ 907,668 | $ 44,783 | $ 952,451 |
| | | | | | | | | | | |
| Balance, June 30, 2019 | 52,202 | $ 34,803 | (1,457) | $ (37,768) | $ 414,451 | $ 704,708 | $ (112,225) | $ 1,003,969 | $ 47,183 | $ 1,051,152 |
| Total comprehensive income | - | - | - | - | - | 38,060 | (15,480) | 22,580 | 62 | 22,642 |
| Common stock issued for share-based plans | 268 | 179 | - | - | 324 | - | - | 503 | - | 503 |
| Share-based compensation | - | - | - | - | 5,589 | - | - | 5,589 | - | 5,589 |
| Tax related to net share settlement | - | - | - | - | (2,788) | - | - | (2,788) | - | (2,788) |
| Balance, September 30, 2019 | 52,470 | $ 34,982 | (1,457) | $ (37,768) | $ 417,576 | $ 742,768 | $ (127,705) | $ 1,029,853 | $ 47,245 | $ 1,077,098 |
| | | | | | | | | | | |
| Balance, December 31, 2018 | 51,678 | $ 34,454 | (1,457) | $ (37,768) | $ 399,915 | $ 636,708 | $ (101,846) | $ 931,463 | $ 45,969 | $ 977,432 |
| Total comprehensive income | - | - | - | - | - | 106,060 | (25,859) | 80,201 | 501 | 80,702 |
| Noncontrolling interests | - | - | - | - | - | - | - | - | 3,343 | 3,343 |
| Dividends to noncontrolling interest | - | - | - | - | - | - | - | - | (2,568) | (2,568) |
| Common stock issued for share-based plans | 792 | 528 | - | - | 6,680 | - | - | 7,208 | - | 7,208 |
| Share-based compensation | - | - | - | - | 15,364 | - | - | 15,364 | - | 15,364 |
| Tax related to net share settlement | - | - | - | - | (4,383) | - | - | (4,383) | - | (4,383) |
| Balance, September 30, 2019 | 52,470 | $ 34,982 | (1,457) | $ (37,768) | $ 417,576 | $ 742,768 | $ (127,705) | $ 1,029,853 | $ 47,245 | $ 1,077,098 |

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, | |
|---|---|---|
| | 2019 | 2018 |
| **Operating Activities** | | |
| Net income | $ 106,561 | $ 75,397 |
| Adjustments to reconcile net income to net cash provided by operating activities, net of effects of acquisitions | | |
| Depreciation and amortization | 81,302 | 76,868 |
| Share-based compensation expense | 15,364 | 15,975 |
| Other | (206) | (615) |
| Changes in operating assets: | | |
| Change in accounts receivable | (29,868) | (28,596) |
| Change in inventory | (9,062) | (5,378) |
| Change in other operating assets | (3,475) | (11,177) |
| Changes in operating liabilities: | | |
| Change in accrued liabilities | 10,206 | 9,070 |
| Change in income tax payable (refundable) | 9,853 | (2,388) |
| Change in other operating liabilities | (2,970) | (5,228) |
| **Net cash flows provided by operating activities** | 177,705 | 123,928 |
| | | |
| **Cash flows from investing activities** | | |
| Acquisitions, net of cash received | (33,029) | (41) |
| Purchases of property, plant and equipment | (76,128) | (72,159) |
| Purchases of short-term investments | (15,921) | (13,959) |
| Proceeds from maturity of short-term investments | 15,332 | 10,831 |
| Other | (430) | 1,235 |
| Net cash and cash equivalents used in investing activities | (110,176) | (74,093) |
| | | |
| **Cash flows from financing activities** | | |
| Advances on lines of credit and short-term debt | 9,954 | 9,151 |
| Repayments of line of credit and short-term debt | (3,067) | - |
| Taxes paid related to net share settlement | (4,383) | (11,056) |
| Proceeds from long-term debt | 278,237 | 304,656 |
| Repayments of long-term debt | (372,976) | (408,863) |
| Net proceeds from issuance of common stock | 7,208 | 4,861 |
| Repayment of and proceeds from finance lease obligation | (912) | 1,489 |
| Dividend distribution to noncontrolling interests | (2,577) | (2,694) |
| Capital contribution from noncontrolling interest | - | 5,263 |
| Other | 1,524 | (764) |
| Net cash and cash equivalents used in financing activities | (86,992) | (97,957) |
| | | |
| Effect of exchange rate changes on cash and cash equivalents | (2,614) | (6,039) |
| Change in cash and cash equivalents, including restricted cash | (22,077) | (54,161) |
| Cash and cash equivalents, beginning of period, including restricted cash | 241,833 | 205,262 |
| Cash and cash equivalents, end of period, including restricted cash | 219,756 | $ 151,101 |

**Supplemental Cash Flow Information**

| | | | | |
|---|---|---|---|---|
| Interest paid during the period | | 5,781 | $ | 7,661 |
| Taxes paid during the period | | 24,422 | $ | 29,435 |
| | | | | |
| Non-cash investing and financing activities: | | | | |
| (Increase) decrease in accounts payable related to the purchase of property, plant and equipment | $ | (1,263) | $ | 8,093 |

The following table provides a reconciliation of cash and cash equivalents and restricted cash reported within the consolidated balance sheets to the total of the same such amounts shown above:

| | Nine Months Ended September 30, | |
|---|---|---|
| | **2019** | **2018** |
| Current assets: | | |
| Cash and cash equivalents | $218,349 | $150,274 |
| Restricted cash (included in other current assets) | 1,407 | 827 |
| Total cash, cash equivalents and restricted cash | $219,756 | $151,101 |

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 1 – Nature of Operations, Basis of Presentation, Recently Issued Accounting Pronouncements and Updates to Accounting Policies and Estimates**

**Nature of Operations**

Diodes Incorporated, together with its subsidiaries (collectively, the “Company,” “we” or “our”) (Nasdaq: DIOD), is a leading global manufacturer and supplier of high-quality, application-specific standard products within the broad discrete, logic, analog and mixed-signal semiconductor markets. We serve the consumer electronics, computing, communications, industrial, and automotive markets. Our products include diodes, rectifiers, transistors, MOSFETs, protection devices, function-specific arrays, single gate logic, amplifiers and comparators, Hall-effect and temperature sensors, power management devices, including LED drivers, AC-DC converters and controllers, DC-DC switching and linear voltage regulators, and voltage references along with special function devices, such as USB power switches, load switches, voltage supervisors, and motor controllers. We also have timing, connectivity, switching, and signal integrity solutions for high-speed signals. Our corporate headquarters and Americas’ sales offices are located in Plano, Texas and Milpitas, California. Design, marketing, and engineering centers are located in Plano; Milpitas; Taipei, Taoyuan City and Zhubei City, Taiwan; Oldham, England; and Neuhaus, Germany. Our wafer fabrication facilities are located in Oldham and Shanghai, China and Greenock, Scotland. We have assembly and test facilities located in Shanghai, Jinan and Chengdu, China, as well as in Hong Kong, Neuhaus and Taipei. Additional engineering, research and development, sales, warehouse, and logistics offices are located in Taipei; Hong Kong; Oldham; Shanghai; Shenzhen and Yangzhou, China; Seongnam-si, South Korea; Munich, Germany; and Tokyo, Japan, with support offices throughout the world.

**Basis of Presentation**

The condensed consolidated financial data at December 31, 2018 is derived from audited financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2018 filed with the Securities and Exchange Commission (“SEC”) on February 21, 2019 (“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, 2019 are not necessarily indicative of the results that may be expected for other interim periods or the year ending December 31, 2019.

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 may have been reclassified to conform to the current financial statement presentation.

**Recently Issued Accounting Pronouncements**

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

**Recently Adopted Standards**

*ASU No. 2016-02, Leases (Topic 842) ("ASU 2016-02")* – In February 2016, the FASB issued ASU 2016-02, which amends the accounting treatment for leases and requires, among other things, lessees to recognize a right-of-use ("ROU") asset and lease liability for most lease arrangements. The amendments were effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company adopted ASU 2016-02 on January 1, 2019, using the modified retrospective transition approach, under which financial results reported in periods prior to 2018 are unchanged. We elected the following allowed practical expedients as permitted under the transition guidance within the new standard:

- Not record leases with an initial term of 12 months on the balance sheet;
- Not separate non-lease components of leases from the lease components; and
- Not reassess (1) the definition of a lease, (2) lease classification, and (3) initial direct costs for existing leases during transition.

Upon adoption of ASU 2016-02, the Company recorded ROU assets of $68.3 million, including land-use rights of $17.1 million previously recorded in other assets and $2.5 million previously recorded in property, plant and equipment and ROU liabilities of $50.4 million. For additional information related to the Company's leases, see Note 10.

*ASU No. 2018-07, Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting ("ASU 2018-07")* - In June 2018, the FASB issued ASU 2018-07, which simplifies several aspects of the accounting for nonemployee share-based payment transactions resulting from expanding the scope of Topic 718, Compensation—Stock Compensation, to include share-based payment transactions for acquiring goods and services from nonemployees. ASU 2018-07 was effective for the Company on January 1, 2019. The adoption of this standard did not have a material effect on our condensed consolidated financial statements or disclosures.

*ASU No. 2017-12 - Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities ("ASU 2017-12")* -In August 2017, the FASB issued ASU No. 2017-12 to better align hedge accounting with risk management strategies, and as a result, more hedging strategies will be eligible for hedge accounting. Public business entities will have until the end of the first quarter in which a hedge is designated to perform an initial assessment of a hedge's effectiveness. After initial qualification, the new guidance permits a qualitative effectiveness assessment for certain hedges instead of a quantitative test if the company can reasonably support an expectation of high effectiveness throughout the term of the hedge. An initial quantitative test to establish that the hedge relationship is highly effective is still required. The amendments are effective for fiscal years beginning after December 15, 2018, and the Company adopted the new standard January 1, 2019. The new standard had no impact on the Company's financial statements.

On January 1, 2019, the Company adopted ASU No. 2018-16, "Derivatives and Hedging (Topic 815): Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes". The amendments in this ASU permit the use of the OIS rate based on SOFR as a U.S. benchmark interest rate for hedge accounting purposes under ASC 815, in addition to the currently permissible benchmark interest rates. This ASU provides the Company the ability to utilize the OIS rate based on SOFR as the benchmark interest rate on certain hedges of interest rate risk. The new standard had no impact on the Company's financial statements.

**Standards Effective in Future Years**

The FASB has issued the following relevant standards, effective in future years, which are not expected to have a material impact on our consolidated condensed financial statements:

| Standard No. | Standard Name | Standard Effective Date |
|---|---|---|
| 2018-13 | Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement | January 1, 2020 |
| 2018-14 | Compensation - Retirement Benefits - Defined Benefit Plans - General (Subtopic 715-20): Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans | January 1, 2020 |

In April 2019, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2019-04, Codification Improvements to Topic 326, Financial Instruments-Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments, that clarifies and improves areas of guidance related to the recently issued standards on credit losses (ASU 2016-13), hedging (ASU 2017-12), and recognition and measurement of financial instruments (ASU 2016-01). The amendments generally have the same effective dates as their related standards. If already adopted, the amendments of ASU 2016-01 and ASU

2016-13 are effective for fiscal years beginning after December 15, 2019 and the amendments of ASU 2017-12 are effective as of the beginning of the Company's next annual reporting period; early adoption is permitted. The Company is currently evaluating the impact this change will have on its consolidated financial statements and disclosures.

All other issued and not yet effective accounting standards are not expected to be relevant to the Company.

**Updates to Accounting Policies and Estimates**

**Leases**

The Company determines if an arrangement is a lease at inception. ROU assets are included in Other assets in the Company's condensed consolidated balance sheets. Current ROU liabilities are included in Accrued liabilities and other and long-term ROU liabilities are included in Other long-term liabilities, in our condensed consolidated balance sheets.

ROU assets represent the Company's right to use an underlying asset for the lease term, and lease liabilities represent its obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term. To determine the present value of the lease payments, we estimate our incremental borrowing rate based on information available at the lease commencement date.

The Company's lease term includes options to extend the lease when it is reasonably certain that it will exercise that option. Leases with a term of 12 months or less are not recorded on the balance sheet. Our leases typically do not contain any residual value guarantees. For real estate, we account for the lease and non-lease components as a single lease component.

**NOTE 2 – Earnings per Share**

Earnings per share ("EPS") is calculated by dividing net income attributable to common stockholders by the weighted-average number of shares of Common Stock outstanding during the period. Diluted EPS is calculated similarly but includes potential dilution from the exercise of stock options and stock awards, except when the effect would be anti-dilutive. During the three and nine months ended September 30, 2019 and 2018 we paid no dividends on our Common Stock.

The table below sets forth the reconciliation between net income and the weighted average shares outstanding used for calculating basic and diluted EPS:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| **Earnings (numerator)** | | | | |
| Net income attributable to common stockholders | $ 38,060 | $ 30,908 | $ 106,060 | $ 74,502 |
| **Shares (denominator)** | | | | |
| Weighted average common shares outstanding (basic) | 50,998 | 50,115 | 50,687 | 49,713 |
| Dilutive effect of stock options and stock awards outstanding | 871 | 962 | 1,012 | 1,170 |
| Adjusted weighted average common shares outstanding (diluted) | 51,869 | 51,077 | 51,699 | 50,883 |
| **Earnings per share attributable to common stockholders** | | | | |
| Basic | $ 0.75 | $ 0.62 | $ 2.09 | $ 1.50 |
| Diluted | $ 0.73 | $ 0.61 | $ 2.05 | $ 1.46 |
| **Stock options and stock awards excluded from EPS calculation because the effect would be anti-dilutive** | 3 | - | 107 | 94 |

**NOTE 3 – Inventories**

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

| | September 30, 2019 | December 31, 2018 |
|---|---|---|
| Finished goods | $ 59,721 | $ 59,244 |
| Work-in-progress | 67,446 | 59,166 |
| Raw materials | 103,648 | 97,025 |
| Total | $ 230,815 | $ 215,435 |

**NOTE 4 – Goodwill and Intangible Assets**

The table below sets forth the changes in goodwill:

| | |
|---|---|
| Balance at December 31, 2018 | $ 132,437 |
| Acquisitions: | |
| Wafer fabrication facility in Greenock, Scotland (a) | 931 |
| Canyon investment (b) | 1,671 |
| ERIS investment in Yea-Shin (c) | 4,320 |
| Foreign currency translation adjustment | (1,339) |
| Balance at September 30, 2019 | $ 138,020 |

The increase in goodwill is related to:

(a) The Company's acquisition accounting for the purchase of a wafer fabrication facility in Greenock, Scotland, ("GFAB"). (See Note 13 for additional information).
(b) The Company's acquisition accounting for the Company's investment of $3.4 million in Canyon Semiconductor. This investment brings our ownership of Canyon to 51%. During the nine months ended September 30 2019, as a measurement period adjustment, we finalized our acquisition accounting with finalization of the value of non-controlling interest and deferred taxes.
(c) The Company's acquisition accounting related to Eris' investment of approximately $6.4 million in Yea-Shin Technology Corporation. During the second quarter of 2019, as a measurement period adjustment, we increased goodwill approximately $4.3 million, related to finalization of deferred taxes. The Company owns approximately 51% of Eris and Eris owns approximately 60% of Yea-Shin.

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

| | September 30, 2019 | December 31, 2018 |
|---|---|---|
| Intangible assets subject to amortization: | | |
| Gross carrying amount | $ 244,554 | $ 238,867 |
| Accumulated amortization | (119,949) | (106,410) |
| Foreign currency translation adjustment | (8,271) | (8,281) |
| Total | 116,334 | 124,176 |
| Intangible assets with indefinite lives: | | |
| Gross carrying amount | 10,303 | 14,883 |
| Foreign currency translation adjustment | (1,191) | (1,124) |
| Total | 9,112 | 13,759 |
| Total intangible assets, net | $ 125,446 | $ 137,935 |

The table below sets forth amortization expense related to intangible assets subject to amortization:

| **Amortization expense** | **2019** | **2018** |
|---|---|---|
| Three months ended September 30 | $ 4,519 | $ 4,418 |
| Nine months ended September 30 | $ 13,539 | $ 13,863 |

**NOTE 5 – Income Tax Provision**

The table below sets forth information related to our income tax expense:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Domestic pre-tax income (loss) | $ 13,547 | $ (7,267) | $ 34,097 | $ (11,289) |
| Foreign pre-tax income | $ 35,188 | $ 51,667 | $ 104,549 | $ 118,412 |
| Income tax provision | $ 10,613 | $ 13,190 | $ 32,085 | $ 31,726 |
| Effective tax rate | 21.8% | 29.7% | 23.1% | 29.6% |
| Impact of tax holidays on tax expense | $ 330 | $ 638 | $ 1,179 | $ (104) |
| Earnings per share impact of tax holidays: | | | | |
| Basic | $ (0.01) | $ (0.01) | $ (0.02) | $ - |
| Diluted | $ (0.01) | $ (0.01) | $ (0.02) | $ - |

The decrease in the effective tax rate for the three and nine months ended September 30, 2019 when compared to the three and nine months ended September 30, 2018, is primarily attributable to an increase in estimated full year global pretax book income and a net decrease in unfavorable U.S. permanent differences.

Our undistributed foreign earnings continue to be indefinitely reinvested in foreign operations, with limited exceptions related to earnings of European and Asian subsidiaries. Any future distributions of foreign earnings will not be subject to additional U.S. income tax, but may be subject to non-U.S. withholding taxes.

We file income tax returns in the U.S. federal jurisdiction and in various state and foreign jurisdictions. We are no longer subject to U.S. federal income tax examinations by tax authorities for tax years before 2012, or for the 2015 tax year. We are no longer subject to China income tax examinations by tax authorities for tax years before 2009. 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 2013. 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 currently pending tax audits. The Company recognizes accrued interest and penalties related to unrecognized tax benefits in interest expense. As of September 30, 2019, the gross amount of unrecognized tax benefits was approximately $33.8 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 6 – Share-Based Compensation**

The table below sets forth the line items where share-based compensation expense was recorded:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Cost of goods sold | $ 281 | $ 96 | $ 665 | $ 267 |
| Selling, general and administrative | 4,566 | 3,993 | 12,513 | 13,477 |
| Research and development | 742 | 807 | 2,186 | 2,233 |
| Total share-based compensation expense | $ 5,589 | $ 4,896 | $ 15,364 | $ 15,977 |

The table below sets forth share-based compensation expense by type:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Stock options | $ - | $ - | $ - | $ 275 |
| Share grants | 5,589 | 4,896 | 15,364 | 15,702 |
| Total share-based compensation expense | $ 5,589 | $ 4,896 | $ 15,364 | $ 15,977 |

**Stock Options.** Approximately $7.2 million in cash proceeds was received from stock option exercises during the nine months ended September 30, 2019.

As of September 30, 2019, we had no unrecognized share-based compensation expense related to unvested stock options.

**Share Grants.** Restricted stock awards and restricted stock units generally vest in equal annual installments over a four-year period. We also have share grants that are performance-based and time-based that vest upon achievement of certain performance criteria over time.

As of September 30, 2019, total unrecognized share-based compensation expense related to share grants was approximately $44.4 million, before income taxes, and is expected to be recognized over a weighted average period of approximately 2.3 years.

**NOTE 7 – Segment Information and Net Sales**

**Segment Reporting.** 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. During the three months ended September 30, 2018, one customer, a broad-based global distributor that sells to thousands of different end users, accounted for 10.2%, or $32.7 million, respectively, of our net sales. No customer accounted for 10% or more of our revenue for any other period presented. This customer did not account for 10% or greater of our outstanding accounts receivable at September 30, 2019 or 2018.

The tables below set forth net sales based on the location of the subsidiary producing the net sale.

| Three Months Ended September 30, 2019 | Asia | North America | Europe | Consolidated |
|---|---|---|---|---|
| Total sales | $ 323,876 | $ 175,900 | $ 63,583 | $ 563,359 |
| Intercompany elimination | (115,879) | (96,150) | (27,656) | (239,685) |
| Net sales | $ 207,997 | $ 79,750 | $ 35,927 | $ 323,674 |

| Three Months Ended September 30, 2018 | Asia | North America | Europe | Consolidated |
|---|---|---|---|---|
| Total sales | $ 283,635 | $ 51,640 | $ 49,209 | $ 384,484 |
| Intercompany elimination | (40,690) | (8,773) | (14,075) | (63,538) |
| Net sales | $ 242,945 | $ 42,867 | $ 35,134 | $ 320,946 |

| As of and for the Nine Months Ended September 30, 2019 | Asia | North America | Europe | Consolidated |
|---|---|---|---|---|
| Total sales | $ 917,516 | $ 450,874 | $ 180,759 | $ 1,549,149 |
| Intercompany elimination | (305,581) | (228,344) | (67,251) | (601,176) |
| Net sales | $ 611,935 | $ 222,530 | $ 113,508 | $ 947,973 |
| | | | | |
| Property, plant and equipment, net | $ 385,862 | $ 23,186 | $ 59,074 | $ 468,122 |
| Total assets | 1,173,683 | 237,467 | 198,663 | $ 1,609,813 |

| As of and for the Nine Months Ended September 30, 2018 | Asia | North America | Europe | Consolidated |
|---|---|---|---|---|
| Total sales | $ 797,455 | $ 116,868 | $ 150,382 | $ 1,064,705 |
| Intercompany elimination | (106,330) | (16,276) | (42,556) | (165,162) |
| Net sales | $ 691,125 | $ 100,592 | $ 107,826 | $ 899,543 |
| | | | | |
| Property, plant and equipment, net | $ 399,632 | $ 30,133 | $ 24,321 | $ 454,086 |
| Total assets | $ 1,075,840 | $ 202,024 | $ 189,920 | $ 1,467,784 |

**Disaggregation of Net sales.** We disaggregate net sales from contracts with customers into direct sales and distribution sales (“Distributors”) and by geographic area. Direct sales customers consist of those customers using our product in their manufacturing process, and Distributors are those customers who resell our products to third parties. We sell our products to customers in multiple areas of the world including Asia, Europe, and North America. Across these regions, we sell products to end users in a variety of markets such as consumer electronics, computing, communications, industrial and automotive. Further, most of our contracts are fixed-price arrangements, and are short term in nature, ranging from days to several months.

The tables below set forth the amount of net sales by type (*direct sales or Distributor*) and the location of the customer based on the location where the products were shipped for the three and nine months ended September 30, 2019 and 2018:

| | Net Sales for the Three Months Ended September 30, | | | |
|---|---|---|---|---|
| | Direct Sales | | Distributor | |
| | 2019 | 2018 | 2019 | 2018 |
| China | $ 57,952 | $ 60,037 | $ 105,305 | $ 113,191 |
| U.S. | 2,388 | 4,409 | 20,723 | 30,550 |
| Korea | 6,546 | 4,597 | 10,594 | 13,250 |
| Germany | 3,079 | 3,076 | 16,705 | 20,912 |
| Singapore | 124 | 637 | 16,166 | 16,979 |
| Taiwan | 819 | 621 | 21,850 | 17,675 |
| All others (1) | 39,405 | 20,574 | 22,018 | 14,438 |
| Total | $ 110,313 | $ 93,951 | $ 213,361 | $ 226,995 |

| | Percent of Net Sales by Type for the Three Months Ended September 30, | | | |
|---|---|---|---|---|
| | Direct Sales | | Distributor | |
| | 2019 | 2018 | 2019 | 2018 |
| China | 53% | 64% | 49% | 50% |
| U.S. | 2% | 5% | 10% | 13% |
| Korea | 6% | 5% | 5% | 6% |
| Germany | 3% | 3% | 8% | 9% |
| Singapore | — | 1% | 8% | 7% |
| Taiwan | 1% | 1% | 10% | 8% |
| All others (1) | 35% | 21% | 10% | 7% |
| Total | 100% | 100% | 100% | 100% |

| | Total Net Sales for the Three Months Ended September 30, | | | |
|---|---|---|---|---|
| | Dollars | | Percent of Net Sales | |
| | 2019 | 2018 | 2019 | 2018 |
| China | $ 163,257 | $ 173,228 | 50% | 54% |
| U.S. | 23,111 | 34,959 | 7% | 11% |
| Korea | 17,140 | 17,847 | 5% | 6% |
| Germany | 19,784 | 23,988 | 6% | 7% |
| Singapore | 16,290 | 17,616 | 5% | 5% |
| Taiwan | 22,669 | 18,296 | 7% | 6% |
| All others (1) | 61,423 | 35,012 | 20% | 11% |
| Total | $ 323,674 | $ 320,946 | 100% | 101% |

| | Net Sales for the Nine Months Ended September 30, | | | |
|---|---|---|---|---|
| | Direct Sales | | Distributor | |
| | 2019 | 2018 | 2019 | 2018 |
| China | $ 169,861 | $ 164,109 | $ 305,197 | $ 323,875 |
| U.S. | 8,509 | 12,866 | 78,693 | 78,081 |
| Korea | 17,309 | 12,148 | 27,588 | 32,163 |
| Germany | 9,536 | 9,001 | 53,355 | 63,343 |
| Singapore | 490 | 1,549 | 47,022 | 52,380 |
| Taiwan | 1,977 | 2,399 | 65,421 | 52,696 |
| All others (1) | 97,920 | 52,558 | 65,095 | 42,375 |
| Total | $ 305,602 | $ 254,630 | $ 642,371 | $ 644,913 |

| | Percent of Net Sales by Type for the Nine Months Ended September 30, | | | |
|---|---|---|---|---|
| | Direct Sales | | Distributor | |
| | 2019 | 2018 | 2019 | 2018 |
| China | 56% | 64% | 48% | 50% |
| U.S. | 3% | 5% | 12% | 12% |
| Korea | 6% | 5% | 4% | 5% |
| Germany | 3% | 4% | 8% | 10% |
| Singapore | — | 1% | 7% | 8% |
| Taiwan | 1% | 1% | 10% | 8% |
| All others (1) | 31% | 20% | 11% | 7% |
| Total | 100% | 100% | 100% | 100% |

| | Total Net Sales for the Nine Months Ended September 30, | | | |
|---|---|---|---|---|
| | Dollar | | Percent of Net Sales | |
| | 2019 | 2018 | 2019 | 2018 |
| China | $ 475,058 | $ 487,984 | 50% | 54% |
| U.S. | 87,202 | 90,947 | 9% | 10% |
| Korea | 44,897 | 44,311 | 5% | 5% |
| Germany | 62,891 | 72,344 | 7% | 8% |
| Singapore | 47,512 | 53,929 | 5% | 6% |
| Taiwan | 67,398 | 55,095 | 7% | 6% |
| All others (1) | 163,015 | 94,933 | 17% | 11% |
| Total | $ 947,973 | $ 899,543 | 100% | 100% |

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

**NOTE 8 – Commitments and Contingencies**

**Purchase commitments** – As of September 30, 2019, we had approximately $26.1 million in non-cancelable purchase contracts related to capital expenditures, primarily related to our manufacturing facilities in Asia. As of September 30, 2019, we also had a commitment to purchase approximately $72.7 million of wafers to be used in our manufacturing process. These wafer purchases will occur during 2019 and 2020.

**Defined Benefit Plan -** We have a contributory defined benefit plan that covers certain employees in the United Kingdom. As of September 30, 2019, the unfunded liability for this defined benefit plan was approximately $33.0 million. We are obligated to make annual contributions, each year through December 2029, of approximately GBP 2 million (approximately $2.6 million based on a GBP: USD exchange rate of 1.3:1). It is necessary for the Trustees to review the contributions required to fund the benefits promised to the employees at least every three years. A review as of April 2019 is underway and the outcome of the review could result in a change in the amount of the payment or the period over which payment is required.

**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 pending legal proceeding will not have any material adverse effect on our consolidated 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. Based on information available, we evaluate the likelihood of potential outcomes of all pending disputes. We record an appropriate liability when the amount of any liability associated with a pending dispute 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. The Company is not currently a party to any pending litigation that the Company considers material.

**Note 9 – Derivative Financial Instruments**

We use derivative instruments to manage risks related to foreign currencies, interest rates and the net investment risk in our foreign subsidiaries. Our objectives for holding derivatives include reducing, eliminating, and efficiently managing the economic impact of these exposures as effectively as possible. Our derivative programs include strategies that both qualify and do not qualify for hedge accounting treatment.

**Hedges of Foreign Currency Risk -** We are exposed to fluctuations in various foreign currencies against our different functional currencies. We use foreign currency forward agreements to manage this exposure. At September 30, 2019, we had outstanding foreign currency forward contracts that are intended to preserve the economic value of foreign currency denominated monetary assets and liabilities; these instruments are not designated for hedge accounting treatment in accordance with ASC 815. The fair value of these instruments approximates zero.

The table below sets forth outstanding foreign currency forward contracts at September 30, 2019 and December 31, 2018:

| Notional Amount | Effective Date | Maturity Date | Index* | Weighted Average Foreign Exchange Rate | Balance Sheet Hedge Designation |
|---|---|---|---|---|---|
| $ 2,242 | September 2019 | November 2019 | EUR/GBP | 0.88592 | Non-designated |
| 2,785 | September 2019 | November 2019 | EUR/USD | 1.0939 | Non-designated |
| 21,195 | September 2019 | November 2019 | GBP/USD | 1.2328 | Non-designated |
| 39,681 | September 2019 | November 2019 | USD/CNY | 7.0985 | Non-designated |
| 806 | September 2019 | November 2019 | USD/JPY | 108.08 | Non-designated |
| 33,733 | September 2019 | November 2019 | USD/TWD | 30.925 | Non-designated |
| 500 | January 2019 | October 2019 | USD/TWD | 30.635 | Non-designated |
| 500 | January 2019 | January 2020 | USD/TWD | 30.635 | Non-designated |
| 500 | January 2019 | November 2019 | USD/TWD | 30.705 | Non-designated |
| $ 101,942 | | | | | |

| Notional Amount | Effective Date | Maturity Date | Index* | Weighted Average Foreign Exchange Rate | Balance Sheet Hedge Designation |
|---|---|---|---|---|---|
| $ 1,221 | December 2018 | February 2019 | EUR/GBP | 0.8981 | Non-designated |
| 12,538 | December 2018 | February 2019 | EUR/USD | 1.1479 | Non-designated |
| 8,463 | December 2018 | February 2019 | GBP/USD | 1.2785 | Non-designated |
| 44,946 | December 2018 | February 2019 | USD/CNY | 6.8738 | Non-designated |
| 844 | December 2018 | February 2019 | USD/JPY | 110.14 | Non-designated |
| 54,041 | December 2018 | February 2019 | USD/TWD | 30.559 | Non-designated |
| 300 | December 2018 | January 2019 | USD/TWD | 30.669 | Non-designated |
| $ 122,353 | | | | | |

* EUR = Euro

GBP = British Pound Sterling

USD = United States Dollar

CNY = Chinese Yuan Renminbi

JPY = Japan Yen

TWD = Taiwan dollar

**Hedges of Interest Rate and Net Investment Risk -** The Company's objective in using interest rate swaps and collars is to minimize the risks associated with its floating rate debt. The Company makes use of cross currency swaps to decrease the foreign exchange risk inherent in the Company's investment in its foreign subsidiaries. **To accomplish these objectives, the Company uses the instruments detailed in the table below, measured in U.S. dollar equivalents:**

| | Number of Instruments | | Notional Amount | |
|---|---|---|---|---|
| | September 30, 2019 | December 31, 2018 | September 30, 2019 | December 31, 2018 |
| Interest rate swaps and collars | 10 | 12 | $ 200,000 | $ 210,000 |

The table below sets forth the fair value of the Company's derivative financial instruments, excluding adjustments for performance risk, if any, as well as their classification on our condensed consolidated balance sheets:

| | Other Current Assets | | Other Assets | | Other Current Liabilities | | Other Liabilities | |
|---|---|---|---|---|---|---|---|---|
| | September 30, 2019 | December 31, 2018 | September 30, 2019 | December 31, 2018 | September 30, 2019 | December 31, 2018 | September 30, 2019 | December 31, 2018 |
| Interest rate swaps and collars | $ 299 | $ 1,936 | $ 0 | $ 2,795 | $ 57 | $ - | $ 407 | $ - |

The tables below sets forth the effect of the Company's derivative financial instruments on the condensed consolidated statements of operations for the three and nine months ended September 30, 2019 and 2018:

| Derivative Instruments Designated as Hedging Instruments | Amount of Gain or (Loss) Recognized in OCI on Derivative September 30, 2019 | 2018 | Location of Gain or (Loss) Reclassified from Accumulated OCI into Income | Amount of Gain or (Loss) Reclassified from Accumulated OCI into Net Income September 30, 2019 | 2018 | Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion Excluded from Effectiveness Testing) | Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) September 30, 2019 | 2018 |
|---|---|---|---|---|---|---|---|---|
| **Three Months Ended** | | | | | | | | |
| Interest rate swaps and collars | $ (136) | $ 636 | Interest expense | $ 224 | $ 299 | N/A | - | - |
| Cross currency swaps | $ - | $ - | N/A | - | - | Interest income | - | - |
| **Nine Months Ended** | | | | | | | | |
| Interest rate swaps and collars | $ (3,145) | $ 4,143 | Interest expense | $ 1,149 | $ 526 | N/A | - | - |
| Cross currency swaps | $ (298) | $ - | N/A | - | - | Interest income | $ 688 | $ - |

We estimate that $0.2 million of net derivative gains included in accumulated other comprehensive income ("AOCI") as of September 30, 2019 will be reclassified into earnings within the following 12 months. No gains or losses were reclassified from AOCI into earnings as a result of forecasted transactions that failed to occur during three months ended September 30, 2019 or 2018.

| Derivative Instruments Not Designated as Hedging Instruments | Amount of Gain or (Loss) Recognized in Net Income September 30, 2019 | Amount of Gain or (Loss) Recognized in Net Income September 30, 2018 | Location of Gain or (Loss) Recognized in Net Income |
|---|---|---|---|
| **Three Months Ended** | | | |
| Foreign currency forward contracts | $ (2,563) | $ (2,200) | Foreign currency loss, net |
| **Nine Months Ended** | | | |
| Foreign currency forward contracts | $ (3,793) | $ (7,570) | Foreign currency loss, net |

As of September 30, 2019 and December 31, 2018, the Company had not posted any collateral related to these agreements.

**NOTE 10 – Leases**

The Company leases certain assets used in its business, including land, buildings and equipment. These leased assets are used for operational and administrative purposes.

The components of lease expense are set forth in the table below:

| | Three Months Ended September 30, 2019 | Nine Months Ended September 30, 2019 |
|---|---|---|
| Operating lease expense | $ 3,671 | $ 11,148 |
| Finance lease expense: | | |
| Amortization of assets | 244 | 733 |
| Interest on lease liabilities | 11 | 39 |
| Short-term lease expense | 89 | 223 |
| Variable lease expense | 681 | 2,101 |
| Total lease expense | $ 4,696 | $ 14,244 |

The table below sets forth supplemental balance sheet information related to leases:

| | September 30, 2019 |
|---|---|
| **Operating leases:** | |
| Operating lease ROU assets | $60,217 |
| | |
| Current operating lease liabilities | 12,235 |
| Noncurrent operating lease liabilities | 29,920 |
| Total operating lease liabilities | $42,155 |
| | |
| **Finance leases:** | |
| Finance lease ROU assets | $3,396 |
| Accumulated amortization | (1,680) |
| Finance lease ROU assets, net | $1,716 |
| | |
| Current finance lease liabilities | $896 |
| Non-current finance lease liabilities | 367 |
| Total finance lease liabilities | $1,263 |
| | |
| **Weighted average remaining lease term (in years):** | |
| Operating leases | 4.6 |
| Finance leases | 1.5 |
| | |
| **Weighted average discount rate:** | |
| Operating leases | 3.8% |
| Finance leases | 3.6% |

The table below sets forth supplemental cash flow and other information related to leases:

| | Nine Months Ended September 30, 2019 |
|---|---|
| Cash paid for the amounts included in the measurements of lease liabilities: | |
| Operating cash outflows from operating leases | $14,728 |
| Operating cash outflows from finance leases | 39 |
| Financing cash outflow from finance leases | 912 |
| | |
| ROU assets obtained in exchange for lease liabilities incurred: | |
| Operating leases | 3,611 |

The table below sets forth information about lease liability maturities:

| | September 30, 2019 | |
|---|---|---|
| | Operating Leases | Finance Leases |
| Remainder of 2019 | $ 3,535 | $ 230 |
| 2020 | 13,410 | 922 |
| 2021 | 9,476 | 139 |
| 2022 | 8,028 | - |
| 2023 | 4,437 | - |
| 2024 | 2,370 | - |
| 2025 and thereafter | 4,785 | - |
| Total lease payments | 46,041 | 1,291 |
| Less: imputed interest | (3,886) | (28) |
| Total lease obligations | 42,155 | 1,263 |
| Less: current obligations | (12,235) | (896) |
| Long-term lease obligations | $ 29,920 | $ 367 |

**NOTE 11 – Employee Benefit Plans**

*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, 2019 and December 31, 2018, these investments totaled approximately $11.5 million and $10.6 million, respectively. All gains and losses in these investments are materially offset by corresponding gains and losses in the Deferred Compensation Plan liabilities.

**NOTE 12 – Related Parties**

We conduct business with a related party company, Lite-On Semiconductor Corporation and its subsidiaries and affiliates (collectively, "LSC"), and Nuvoton Technology Corporation and its subsidiaries and affiliates (collectively, "Nuvoton"). LSC is our largest stockholder, owning approximately 15% of our outstanding Common Stock as of September 30, 2019, and is a member of the Lite-On Group of companies. On August 8, 2019, we announced that we entered into an agreement with LSC pursuant to which the Company shall acquire LSC, see Note 13 for additional information. Raymond Soong, the Chairman of our 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 our 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. 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 purchase wafers from Nuvoton for use in our production process.

We also conduct business with Keylink International (B.V.I.) Inc. and its subsidiaries and affiliates (collectively, "Keylink"). Keylink is our 5% joint venture partner in our Shanghai assembly and test facilities. We sell products to, and purchase inventory from Keylink. 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 fees for plating and rental services and consulting to Keylink. The aggregate amounts paid to Keylink for the three months ended September 30, 2019 and 2018 were approximately $3.7 million and $3.8 million, respectively. The aggregate amounts paid to Keylink for the nine months ended September 30, 2019 and 2018 were approximately $11.5 million and $12.6 million, respectively. In addition, Chengdu Ya Guang Electronic Company Limited ("Ya Guang") is our 2% joint venture partner in one of our Chengdu assembly and test facilities and is our 5% joint venture partner in our other Chengdu assembly and test facility; however, we have no material transactions with Ya Guang. We also purchase materials from Jiyuan Crystal Photoelectric Frequency Technology Ltd ("JCP"), a frequency control product manufacturing company in which we have made an equity investment and account for that investment using the equity method of accounting.

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.

The table below sets forth net sales to and purchases from related parties:

| | **Three Months Ended September 30,** | | **Nine Months Ended September 30,** | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| LSC | | | | |
| Net sales | $ 273 | $ 304 | $ 729 | $ 896 |
| Purchases | $ 2,548 | $ 5,208 | $ 11,039 | $ 16,630 |
| | | | | |
| Nuvoton | | | | |
| Purchases | $ 2,650 | $ 2,361 | $ 5,951 | $ 7,774 |
| | | | | |
| Keylink | | | | |
| Net sales | $ 4,923 | $ 4,684 | $ 11,304 | $ 8,762 |
| Purchases | $ 604 | $ 907 | $ 1,794 | $ 2,646 |
| | | | | |
| JCP | | | | |
| Purchases | $ 151 | $ 201 | $ 462 | $ 488 |

The table below sets forth accounts receivable from, and accounts payable to, related parties:

| | **September 30, 2019** | **December 31, 2018** |
|---|---|---|
| LSC | | |
| Accounts receivable | $ 337 | $ 286 |
| Accounts payable | $ 1,749 | $ 2,696 |
| Nuvoton | | |
| Accounts payable | $ 1,238 | $ 1,939 |
| Keylink | | |
| Accounts receivable | $ 15,004 | $ 6,264 |
| Accounts payable | $ 11,597 | $ 4,656 |
| JCP | | |
| Accounts payable | $ 206 | $ 151 |

**Note 13 –Acquisitions**

*Wafer Fabrication Facility Acquisition*

On April 1, 2019, the Company completed the previously announced acquisition of a wafer fabrication facility (“GFAB”) located in Greenock, Scotland. The Company recorded the purchase of GFAB as a business acquisition. The Company purchased GFAB in order to increase the Company’s wafer production capacity. Total consideration paid by the Company was $33.2 million and was funded by advances under the revolving portion of our long-term credit facility. The facility and assets were wholly acquired, and there is no remaining minority interest. The goodwill will not be tax deductible. The Company also incurred acquisition costs of approximately $0.6 million that were recognized in selling, general and administrative expense. Due to a lack of data we are unable to provide historical financial pro forma data. The table below sets forth the fair value of the assets and liabilities recorded in the GFAB acquisition and the corresponding line item in which the item is recorded in our condensed consolidated balance sheet.

| | | |
|---|---|---|
| Property, plant and equipment, net | $ | 24.4 |
| Inventories | | 3.6 |
| Prepaid expenses and other | | 5.2 |
| Goodwill | | 0.9 |
| Deferred tax liabilities | | 1.0 |

*LSC Acquisition*

On August 8, 2019, we announced we had entered into a Share Swap Agreement that provides for the acquisition of LSC by the Company for approximately $428 million in cash. This amount is subject to change, based on Taiwan dollar to United States dollar exchange rates at closing. The acquisition received LSC shareholder approval on October 25, 2019, but is subject to customary closing conditions and regulatory approvals. We expect to fund the purchase price of the transaction primarily with proceeds from a new bank financing arrangement. We anticipate completing the acquisition in April 2020.

**Note 14 – Assets Held for Sale**

Assets held for sale consist of approximately 16 acres of raw land located in Plano, Texas, that the Company is in the process of selling. The land was originally acquired as a site to construct a future corporate headquarters. The Company decided that its existing headquarters is adequate and construction of a new headquarters building is not necessary. The Company has been actively marketing the land and has a signed contract to sell the land to an unaffiliated third party for cash. During the second quarter of 2019, the buyer received necessary local zoning approval for its building plans. We anticipate the sale will close within the next 12 months. We have not recorded any impairment charges in connection with the land.

**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 "PSLRA") 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 PSLRA. We undertake no obligation to publicly release the results of any revisions to our 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. Dollar amounts and share amounts are presented in thousands, except per share amounts, unless otherwise noted.*

*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, 2018 ("Form 10-K"), previously filed with Securities and Exchange Commission ("SEC") on February 21, 2019.*

**Overview**

We are a leading global manufacturer and supplier of high-quality, application-specific standard products within the broad discrete, logic, analog and mixed-signal semiconductor markets. For detailed information, see Note 1 – Nature of Operations, Basis of Presentation, Recently Issued Accounting Pronouncements and Updates to Accounting Policies and Estimates, included in the condensed consolidated financial statements in Item 1 above. Our products are sold primarily throughout Asia, North America and Europe. 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.

**Factors Relevant to Our Results of Operations for the Three Months Ended September 30, 2019**

- During the third quarter of 2019, net sales were $323.7 million, an increase of 0.8% from the $320.9 million in the third quarter of 2018, and an increase of 0.5% from the $322.0 million in the second quarter of 2019;

- Gross profit was $122.0 million, compared to $115.2 million of gross profit in the third quarter of 2018 and $122.0 million in the second quarter of 2019;

- Gross profit margin was 37.7%, compared to gross profit margin of 35.9% in the third quarter of 2018 and 37.9% in the second quarter of 2019;

- Net income was $38.1 million, or $0.73 per diluted share, compared to net income of $30.9 million, or $0.61 per diluted share, in the third quarter of 2018 and net income of $36.3 million, or $0.70 per diluted share, in the second quarter of 2019; and

- Cash flow from operations was $67.2 million. Net cash flow was a negative $17.7 million, which includes a paydown of $52.6 million of long-term debt and $25.4 million of capital expenditures.

**Recent Developments**

On August 8, 2019, we announced we had entered into a Share Swap Agreement that provides for the acquisition of LSC by the Company for approximately $428 million in cash. This amount is subject to change, based on Taiwan dollar to United States dollar exchange rates at closing. We are in the process of arranging financing for the transaction. The acquisition received LSC shareholder approval on October 25, 2019, but is subject to customary closing conditions and regulatory approvals. We expect to fund the purchase price of the transaction primarily with proceeds from a new bank financing arrangement. We anticipate completing the acquisition in April 2020.

**Results of Operations for the Three Months Ended September 30, 2019 and 2018**

The table below sets forth the consolidated statement of operations line items as a percentage of net sales.

| | Percent of Net Sales Three Months Ended September 30, | |
|---|---|---|
| | 2019 | 2018 |
| Net sales | 100% | 100% |
| Cost of goods sold | (62) | (64) |
| Gross profit | 38 | 36 |
| Total operating expense | 23 | 22 |
| Income from operations | 15 | 14 |
| Total other expense | - | - |
| Income before income taxes and noncontrolling interest | 15 | 14 |
| Income tax provision | (3) | (4) |
| Net income | 12 | 10 |
| Net income attributable to common stockholders | 12 | 10 |

The following table and discussion explains in greater detail our consolidated operating results and financial condition for the three months ended September 30, 2019, compared to the three months ended September 30, 2018. This discussion should be read in conjunction with the condensed consolidated financial statements and notes thereto appearing elsewhere in this Quarterly Report on Form 10-Q.

| | Three Months Ended | | | |
|---|---|---|---|---|
| | September 30, | | | |
| | 2019 | 2018 | Increase/(Decrease) | % Change |
| Net sales | $ 323,674 | $ 320,946 | $ 2,728 | 0.8% |
| Cost of goods sold | 201,628 | 205,732 | (4,104) | (2.0%) |
| Gross profit | 122,046 | 115,214 | 6,832 | 5.9% |
| Total operating expense | 73,331 | 69,376 | 3,955 | 5.7% |
| Interest income | 272 | 474 | (202) | (42.6%) |
| Interest expense | (2,007) | (2,318) | (311) | (13.4%) |
| Foreign currency (loss) gain, net | (822) | (655) | 167 | 25.5% |
| Other income | 2,577 | 1,061 | 1,516 | 142.9% |
| Income tax provision | 10,613 | 13,190 | (2,577) | (19.5%) |

Net sales increased approximately $2.7 million for the three months ended September 30, 2019, compared to the same period last year due to continued strong performance in the automotive market and our serial-connectivity products. For the three months ended September 30, 2019, combined net sales in the automotive and industrial markets represented 38% of total sales.

The table below sets forth our revenue as a percentage of total revenue by end-user market for the three months ended September 30, 2019 and 2018:

| | Three Months Ended September 30, | |
|---|---|---|
| | 2019 | 2018 |
| Industrial | 28.0% | 27.0% |
| Communications | 22.0% | 23.0% |
| Consumer | 24.0% | 25.0% |
| Computing | 16.0% | 16.0% |
| Automotive | 10.0% | 9.0% |

Cost of goods sold decreased approximately $4.1 million for the three months ended September 30, 2019, compared to the same period last year. As a percent of sales, cost of goods sold was 62.3% for the three months ended September 30, 2019, compared to 64.1% for the same period last year. Average unit cost increased approximately 8.0% for the three months ended September 30, 2019, compared to the same period last year. For the three months ended September 30, 2019, gross profit increased approximately 5.9% when compared to the same period last year. Gross profit margin for the three month periods ended September 30, 2019 and 2018 was 37.7% and 35.9%, respectively. The increase in gross profit margin was due to higher revenue contribution from the automotive market and our serial-connectivity products, which typically have higher gross profit margins.

Operating expenses for the three months ended September 30, 2019, increased approximately $4.0 million, or 5.7%, compared to the three months ended September 30, 2018. Selling, general and administrative expenses ("SG&A") increased approximately $3.6 million and research and development expenses ("R&D") increased approximately $0.1 million. Amortization of acquisition related intangibles increased $0.1 million. SG&A, as a percentage of sales, was 14.2% and 13.2% for the three months ended September 30, 2019 and 2018, respectively. R&D, as a percentage of sales, was 7.0% for both of the three month periods ended September 30, 2019 and 2018.

Interest income decreased 42.6% for the three months ended September 30, 2019, compared to the same period last year, due to lower interest rates earned on invested funds. Interest expense decreased 13.4% for the three months ended September 30, 2019, compared to the same period last year. The decrease in interest expense for the three months ended September 30, 2019 was due to lower levels of debt partially offset by higher interest rates on the floating rate portion of the borrowings used to effect the Pericom acquisition in the fourth quarter of 2015. Foreign currency (loss) gain, net was a net loss of $0.8 million for the three months ended September 30, 2019, compared to a net loss of $0.7 million for the same period last year.

We recognized an income tax expense of approximately $10.6 million and $13.2 million for the three months ended September 30, 2019 and 2018, respectively. The decrease in income taxes for 2019 compared to 2018 was primarily attributable to the recognition of previously unrecognized tax benefits due to the lapse of the statute of limitations for the 2015 tax year during the third quarter of 2019.

**Results of Operations for the Nine Months Ended September 30, 2019 and 2018**

The table below sets forth the consolidated statement of operations line items as a percentage of net sales.

| | Percent of Net Sales Nine Months Ended September 30, | |
|---|---|---|
| | 2019 | 2018 |
| Net sales | 100% | 100% |
| Cost of goods sold | (62) | (64) |
| Gross profit | 38 | 36 |
| Total operating expense | 23 | 24 |
| Income from operations | 15 | 12 |
| Total other expense | - | - |
| Income before income taxes and noncontrolling interest | 15 | 12 |
| Income tax provision | (3) | (4) |
| Net income | 12 | 8 |
| Net income attributable to common stockholders | 12 | 8 |

The following table and discussion explains in greater detail our consolidated operating results and financial condition for the nine months ended September 30, 2019, compared to the nine months ended September 30, 2018. This discussion should be read in conjunction with the condensed consolidated financial statements and notes thereto appearing elsewhere in this Quarterly Report on Form 10-Q.

| | Nine Months Ended | | | |
|---|---|---|---|---|
| | September 30, | | | |
| | 2019 | 2018 | Increase/(Decrease) | % Change |
| Net sales | $ 947,973 | $ 899,543 | $ 48,430 | 5.4% |
| Cost of goods sold | 591,528 | 578,466 | 13,062 | 2.3% |
| Gross profit | 356,445 | 321,077 | 35,368 | 11.0% |
| Total operating expense | 217,090 | 210,455 | 6,635 | 3.2% |
| Interest income | 1,780 | 1,431 | 349 | 24.4% |
| Interest expense | (6,163) | (7,619) | (1,456) | (19.1%) |
| Foreign currency (loss) gain, net | (1,382) | (3,384) | (2,002) | (59.2%) |
| Other income | 5,056 | 6,073 | (1,017) | (16.7%) |
| Income tax provision | 32,085 | 31,726 | 359 | 1.1% |

Net sales increased approximately $48.4 million for the nine months ended September 30, 2019, compared to the same period last year due to continued market share gains. We experienced record net sales in Europe and record net sales in both the automotive and industrial end markets. For the nine months ended September 30, 2019, combined net sales in the automotive and industrial markets represented 38.7% of total sales.

The table below sets forth our revenue as a percentage of total revenue by end-user market for the nine months ended September 30, 2019 and 2018:

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2019 | 2018 |
| Industrial | 28.7% | 25.8% |
| Communications | 22.6% | 23.3% |
| Consumer | 23.0% | 25.6% |
| Computing | 15.7% | 16.3% |
| Automotive | 10.0% | 9.0% |

Cost of goods sold increased approximately $13.1 million for the nine months ended September 30, 2019, compared to the same period last year. As a percent of sales, cost of goods sold was 62.4% for the nine months ended September 30, 2019 compared to 64.3% for the same period last year. Average unit cost increased approximately 6.7% for the nine months ended September 30, 2019, compared to the same period last year. For the nine months ended September 30, 2019, gross profit increased approximately 11.0% when compared to the same period last year. Gross profit margin for the nine month periods ended September 30, 2019 and 2018 was 37.6% and 35.7%, respectively. The increase in gross profit margin was due to higher revenue contribution from the automotive and industrial markets and our serial-connectivity products, which typically have higher gross profit margins.

Operating expenses for the nine months ended September 30, 2019, increased approximately $6.6 million, or 3.2%, compared to the nine months ended September 30, 2018. SG&A increased approximately $5.4 million and R&D increased approximately $1.8 million. Amortization of acquisition related intangibles decreased $0.3 million. SG&A, as a percentage of sales, was 14.5% and 14.6% for the nine months ended September 30, 2019 and 2018, respectively. R&D, as a percentage of sales, was 7.0% and 7.2% for the nine months ended September 30, 2019 and 2018, respectively.

Interest income increased 24.4% for the nine months ended September 30, 2019, compared to the same period last year, due to interest received on cross currency swaps. Interest expense decreased 19.1% for the nine months ended September 30, 2019, compared to the same period last year. The decrease in interest expense for the nine months ended September 30, 2019 was due to lower levels of debt partially offset by higher interest rates on the floating rate portion of the borrowings used to effect the Pericom acquisition in the fourth quarter of 2015. Foreign currency (loss) gain, net was a net loss of $1.4 million for the nine months ended September 30, 2019, compared to a net loss of $3.4 million for the same period last year, reflecting the effectiveness of our currency hedges.

We recognized an income tax expense of approximately $32.1 million and $31.7 million for the nine months ended September 30, 2019 and 2018, respectively. The increase in income taxes for 2019 compared to 2018 was primarily attributable to an increase in pretax book income, partially offset by the recognition of previously unrecognized tax benefits due to the lapse of the statute of limitations for the 2015 tax year during the third quarter of 2019.

**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.

*Short-term debt*

Our Asia subsidiaries maintain credit facilities with several financial institutions through our foreign entities worldwide totaling $133.4 million. At September 30, 2019, borrowings were $1.0 million and letters of credit were $0.4 million under the Asia credit facilities. Other than two Taiwanese credit facilities that are collateralized by assets, our foreign credit lines are unsecured, uncommitted, repayable on demand, terminable by the lender at any time and contain no restrictive covenants. These credit facilities bear interest at LIBOR or similar indices plus a specified margin. Interest payments are due quarterly on outstanding amounts under the credit lines. In addition to our credit lines, our 51% owned subsidiary, ERIS Technology Corporation ("ERIS"), borrowed $19.6 million on a long-term basis from local Taiwan banks in order to make an investment. The first loan of $4.3 million matures in 2033, while the second loan of $15.3 million matures in 2024.

*Long-term debt*

We currently have a U.S. banking credit facility (the "U.S. Credit Facility") under which we may draw up to $250 million on a revolving basis, in addition to a $250 million term loan. The U.S. Credit Facility matures October 26, 2021. The remaining portion of the term loan of the U.S. Credit Facility is repayable in part through quarterly installments that increase over time from $6.3 million in the first three quarters of 2019 to $9.4 million per quarter in the final year of the U.S. Credit Facility. We may, from time to time, request increases in the aggregate commitments under the U.S. Credit Facility 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 revolving portion of the U.S. Credit Facility. The U.S. Credit Facility 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 and share repurchases). The obligations of the Company and the other borrowers under the U.S. Credit Facility are secured by substantially all of the assets of the Company, including controlling interests in its first-tier subsidiaries, and by specified assets of certain of its subsidiaries.

The details of our borrowings outstanding as of September 30, 2019 are set forth in the table below:

| Description | Amount outstanding | Interest Rate | Maturity Date |
|---|---|---|---|
| Short-term debt: | | | |
| Foreign credit lines | $17,086 | Libor or other similar indices plus a specified margin | Various during 2019 - 2020 |
| | | | |
| Long-term debt | | | |
| Notes payable to Bank of Taiwan | 4,169 | Two-year savings rate +0.1148% | June 2033 |
| Notes payable to CTBC Bank | 15,345 | TAIBOR 3 month rate +.05% | May 2024 |
| U.S. Credit facility: | | | |
| Revolving portion | - | Libor + a specified margin | October 2021 |
| Term portion | 101,000 | Libor + a specified margin | October 2021 |
| Total long-term debt | 120,514 | | |
| Less: Current portion of long-term debt | (31,532) | | |
| Less: Unamortized debt issuance costs | (1,043) | | |
| Total long-term debt, net of current portion | $87,939 | | |

Our primary liquidity requirements have been to meet our inventory and capital expenditure needs and to fund on-going operations. At September 30, 2019 and December 31, 2018, our working capital was $465.3 million and $480.8 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, 2019 and 2018 were $77.4 million and $64.1 million, respectively. For the first nine months of 2019 capital expenditures were approximately 8% of our net sales, which is in line with our capital spending target range of 5% to 9% of net sales.

Our undistributed foreign earnings continue to be indefinitely reinvested in foreign operations, with limited exceptions related to earnings of European subsidiaries. As of September 30, 2019, our foreign subsidiaries held approximately $68.4 million of cash, cash equivalents and investments of which approximately $19.6 million would be subject to a potential non-U.S. withholding tax if distributed outside the country in which the cash is currently held. Of this total, $7.6 million is held in China.

As of September 30, 2019, we had short-term investments totaling $7.9 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 time frame but in doing so we generally forfeit all earned and future interest income.

**Share Repurchase Program**

During 2015, our Board of Directors (“Board”) approved a stock repurchase program. The Board authorized the repurchase of up to an aggregate of $100.0 million of our outstanding Common Stock. The share repurchase program is expected to continue through the end of 2019 unless extended or shortened by the Board. Currently there is approximately $62.3 million available for repurchase of outstanding Common Stock under this publicly announced repurchase program. No shares were repurchased during the three months ended September 30, 2019.

**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 facilities. Our cash and cash equivalents decreased from $241.1 million at December 31, 2018 to $218.3 million at September 30, 2019.

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

| | Nine Months Ended September 30, | | |
|---|---|---|---|
| | 2019 | 2018 | Change |
| Net cash flows provided by operating activities | $ 177,705 | $ 123,928 | $ 53,777 |
| Net cash and cash equivalents used in investing activities | (110,176) | (74,093) | (36,083) |
| Net cash and cash equivalents used in financing activities | (86,992) | (97,957) | 10,965 |
| Effect of exchange rate changes on cash and cash equivalents | (2,614) | (6,039) | 3,425 |
| Net decrease in cash and cash equivalents, including restricted cash | $ (22,077) | $ (54,161) | $ 32,084 |

***Operating Activities***

Net cash flows provided by operating activities for the nine months ended September 30, 2019 was $177.7 million.  Net cash flows provided by operating activities resulted from net income of $106.6 million, depreciation and amortization of $81.3 million, share-based compensation of $15.4 million and a decrease in noncash working capital accounts of $25.3 million. Cash flows from operating activities for the nine months ended September 30, 2018 was $123.9 million.  Net cash flows from operating activities resulted from net income of $75.4 million, depreciation and amortization of $76.9 million, share-based compensation of $16.0 million and a decrease in noncash working capital accounts of $43.7 million.

***Investing Activities***

Net cash and cash equivalents used in investing activities was $110.2 million for the nine months ended September 30, 2019. Net cash and cash equivalents used in investing activities was primarily due to the purchase of property, plant and equipment of $76.1 and the acquisition of GFAB for $33.2 million during the nine months ended September 30, 2019. Net cash and cash equivalents used in investing activities was $74.1 million for the nine months ended September 30, 2018. Net cash and cash equivalents used in investing activities was primarily due to the purchase of property, plant and equipment of $72.2 million during the nine months ended September 30, 2018.

***Financing Activities***

Net cash and cash equivalents used in financing activities was $87.0 million for the nine months ended September 30, 2019. Net cash used in financing activities in the nine months ended September 30, 2019 consisted primarily of $94.7 million net repayments of long-term debt, taxes paid on net share settlement of $4.4 million and dividend distributions to noncontrolling interests of $2.6 million.  These uses of cash were partially offset by inflows of $7.2 million related to stock option exercises and $6.9 million of net increases in lines of credit and short-term debt. Net cash and cash equivalents used in financing activities was $98.0 million for the nine months ended September 30, 2018. Net cash and cash equivalents used in the nine months ended September 30, 2018 consisted primarily of repayments of long-term debt, net of $104.2 million, taxes paid on net share settlement of $11.1 million, partially offset by proceeds from our short-term lines of credit of $9.2 million, proceeds from a capital contribution in a partially owned subsidiary by a noncontrolling interest of $5.3 million and proceeds received upon the exercise of stock options of $4.9 million.

***Use of Derivative Instruments and Hedging***

We use interest rate swaps, foreign exchange forward contracts and cross currency swaps to provide a level of protection against interest rate risks and foreign exchange exposure.

*Hedges of Interest Rate Risk*

The Company's objectives in using interest rate derivatives are to add stability to interest expense and to manage exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate swaps, including interest rate collars, as part of its interest rate risk management strategy.  Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.

*Hedges of Foreign Currency Risk*

We are exposed to fluctuations in various foreign currencies against our different functional currencies. We use foreign currency forward agreements to manage this exposure and to preserve the economic value of foreign currency denominated monetary assets and liabilities; these instruments are not designated for hedge accounting treatment in accordance with ASC 815. The fair value of our foreign exchange hedges approximates zero.

*Net Investment Hedges*

During 2019, we used cross currency swaps to hedge our foreign exchange exposure related to our investment in our foreign subsidiaries. These instruments were subject to market fluctuations due to changes in foreign exchange rates and at times may be in a loss position. Market fluctuations were recorded to other comprehensive income/loss since these instruments are subject to hedge accounting. If these instruments are in a loss position at maturity, or if we decided to exit these instruments while they are in a loss position, we would have to make a cash payment in the amount of the loss position. During the second quarter of 2019, we decided to exit our positions in cross currency swaps. As a result of exiting this position we were required to make a cash payment of approximately $0.3 million.

**Off-Balance Sheet Arrangements**

We do not have any transactions, arrangements or 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 our Contractual Obligations as disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018, filed with the SEC on February 21, 2019.

**Critical Accounting Policies**

Our critical accounting policies are described in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, and in the notes to our consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2018 filed with the SEC on February 21, 2019. Any new accounting policies or updates to existing accounting policies as a result of new accounting pronouncements have been discussed in the notes to our condensed consolidated financial statements in this Quarterly Report on Form 10-Q in Note 1 – Nature of Operations, Basis of Presentation, Recently Issued Accounting Pronouncements and Updates to Accounting Policies and Estimates. The application of our critical accounting policies may require management to make judgments and estimates about the amounts reflected in the condensed consolidated financial statements. Management uses historical experience and all available information to make these estimates and judgments, and different amounts could be reported using different assumptions and estimates.

**Recently Issued Accounting Pronouncements**

See Note 1 - Nature of Operations, Basis of Presentation, Recently Issued Accounting Pronouncements and Updates to Accounting Policies and Estimates, 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. Information included on, or accessible through, our website shall not be deemed to form a part of the Quarterly Report on Form 10-Q. 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 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 Exchange Act of 1934. 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, and in other reports we file with the SEC from time to time, that could cause actual results to differ materially from those anticipated by our management. The PSLRA 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 PSLRA.

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 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 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, product and process development, parts and 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 and intellectual property 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, or products we purchase from third parties for resale, may be found to be defective and, as a result, warranty claims and product liability claims may be asserted against us and we may not have recourse against our suppliers, 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 our direct sales customers 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.*

*Our hedging strategies may not be successful in mitigating our risks associated with interest rates or foreign exchange exposure or our counterparties might not perform as agreed.*

*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 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 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 plan could increase the volatility of the plan's asset value, require us to increase cash contributions to the plan and have a negative impact on our 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 our cost of doing 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 U.S. 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.*

*Significant uncertainties related to changes in governmental policies and participation in international trading partnerships or economic unions currently exist, and, depending upon how such uncertainties are resolved, the changes could have a material adverse effect on us.*

*Tariffs or other restrictions imposed by the United States Trade Representative may affect our operations in the U.S. and may disrupt our activities in the U.S. and may have an adverse impact on our profitability and results of operations.*

*The U.K.'s referendum to exit from the European Union ("E.U.") will continue to have uncertain effects and could adversely impact our business, results of operations and financial condition.*

*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, China's anti-corruption campaign 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.*

*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 certain foreign subsidiaries may be subject to foreign 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, 2018, filed with the SEC on February 21, 2019.

**Item 4. Controls and Procedures.**

Our Chief Executive Officer, Keh-Shew Lu, and Chief Financial Officer, Brett R. Whitmire, with the participation of our management, carried out an evaluation, as of September 30, 2019, of the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-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.

**Changes in Controls over Financial Reporting**

There was no change in our internal control over financial reporting, known to our Chief Executive Officer or Chief Financial Officer, that occurred in the three months ended September 30, 2019, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II—OTHER INFORMATION

### Item 1. Legal Proceedings.

The Company is not a party to any pending litigation that we consider material.

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 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.

Except as identified in the modified Risk Factors set out below, there have been no material changes to our risk factors from those disclosed in the "Risk Factors" section of our Annual Report on Form 10-K for the year ended December 31, 2018, filed with the Securities and Exchange Commission on February 21, 2019.

***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.***

Experienced computer programmers and hackers may be able to penetrate our security controls and misappropriate or compromise our confidential information or that of third parties, create system disruptions, compromise physical assets, intellectual property, or misappropriate monetary assets or cause shutdowns. Computer programmers and hackers also may be able to develop and deploy viruses, worms and other malicious software programs that attack our websites or exploit any security vulnerabilities of our websites and information systems. In September 2019, our anti-virus defenses identified a malware infection and brute force password attack. Recovery was accomplished by our internal IT staff. We do not believe that any confidential or proprietary information was exposed or that there was any material impact on production. In response to this cyber-intrusion, we engaged an information technology security company to assess the timetable and scope of the intrusion, identify any weaknesses in our IT systems, and assist in designing security measures to strengthen our protection against, and preparation for identifying and responding to, such attacks. We are reviewing this assessment and have enhanced and continue to enhance our security measures. Specific measures we have taken include strengthening our global network access control to further prevent unauthorized or non-compliant devices from accessing our internal networks and developing policies and procedures to more timely respond to intrusions.

The costs to the Company to eliminate or alleviate cyber or other security problems, bugs, viruses, worms, malicious software programs and security vulnerabilities could be significant, and our ongoing efforts to prevent and address these problems may not be successful. Such problems could result in interruptions, delays, cessation of service, extortionate demands to decrypt files and loss of existing or potential customers that may impede our sales, manufacturing, distribution or other critical functions and materially adversely affect our operating results, stock price and reputation.

We manage and store various proprietary information and sensitive or confidential data relating to our business and third party business. Breaches of our security measures or the accidental loss, inadvertent disclosure or unapproved dissemination of proprietary information or sensitive or confidential data about us or our partners or customers, including the potential loss, encryption or disclosure of such information or data or the unauthorized transfer of monetary assets as a result of fraud, trickery or other forms of deception, could expose us, our partners and customers or the individuals affected to a risk of loss or misuse of this information, extortionate demands to decrypt files, result in litigation and potential liability for us, damage our brand and reputation or otherwise harm our business. In addition, the cost and operational consequences of implementing further data protection measures could be significant. Delayed sales, significant costs or lost customers resulting from these system security risks, data protection breaches, cyber-attacks and other related cyber-security issues could materially adversely affect our operating results, stock price and reputation.

***Tariffs or other restrictions imposed by the United States Trade Representative may affect our operations in the U.S., may disrupt our activities in the U.S., may have an adverse impact on our profitability and results of operations and may encourage the independent development in China of products and electronic components that will compete with ours or displace our products and components, resulting in an adverse impact on our Chinese business.***

In May 2019, at the direction of the President, the United States increased the level of tariffs from 10 percent to 25 percent on approximately $200 billion worth of Chinese imports. The President also ordered the U.S. Trade Representative to begin the process of raising tariffs on essentially all remaining imports from China, which are valued at approximately $300 billion. These tariffs are in addition to the recently imposed new or higher tariffs on specified products imported from China in response to what the U.S. characterizes as unfair trade practices. China responded to the earlier increased tariffs by proposing new or higher tariffs on specified products imported from the United States. Negotiations between the U.S. and China to resolve the issues that precipitated the impositions of these tariffs are reported to be ongoing, but the situation is dynamic and the timing and nature of any ultimate resolution is currently uncertain. In June 2019, President Trump and Chinese President Xi Jinping agreed that they did not plan more tariffs against each other's countries, but on August 1, 2019, President Trump announced that on September 1, 2019, the U.S. would put an additional tariff of 10% on $300 billion of goods and products coming from China to the U.S.

On August 23, 2019, in response to China announcing additional tariffs on U.S. products, President Trump instructed the U.S. Trade Representative to increase by 5% the tariffs on approximately $550 billion worth of Chinese imports to the U.S. This would increase the tariff rate on $250 billion worth of Chinese imports, effective October 1, 2019 to 30% and raise the tariff rate to 15% on $300 worth of Chinese imports previously announced, but on September 11, 2019 President Trump announced that the effective date would be extended to October 15, 2019 as "a gesture of goodwill." On October 12, 2019, President Trump announced that the U.S. would halt the October 15, 2019 tariff increase after positive negotiations with the China representatives in Washington, D.C.

Most of our products are manufactured in China and then a portion of those products are imported into the U.S. The impacts on us of the recently imposed and proposed tariffs are uncertain because of the dynamic nature of governmental actions and responses, as well as possible exemptions for certain products. If the U.S. and China are able to negotiate the issues to restore a mutually advantageous and fair trading regime, the increased tariffs could be eliminated, but given the uncertainties, there can be no assurance of whether, or when, this will be accomplished. We have taken actions, and may take additional steps, to mitigate those impacts and protect our competitive position in the marketplace. If we determine to pass some or all of these new tariff burdens on to our customers, the result may be a degradation of our competitive position and a loss of customers that would adversely affect our operating performance. It is not clear at this time what the ultimate outcome of these tariff actions and our mitigation efforts will be, but given the importance of our Chinese operations and related sales, and the impacts of existing and possible future restrictions with regard to transactions with Chinese entities, it is very possible that our operating results and/or financial condition may be adversely affected.

On or about August 25, 2019, President Trump advised American companies to seek alternatives to China for the manufacture of their products, citing the U.S. "International Emergency Economic Powers Act of 1977" as a possible basis for applying a sanction of this sort. It is not clear at this time when, whether or in what form, this threat will be put into action, but if it does materialize, our results of operations and financial condition likely will be materially adversely affected.

In addition, China is stepping up efforts to design and manufacture semiconductors itself rather than buy from the U.S., amid fears that sanctions might cripple its high-tech industry. U.S. restrictions on exports to Chinese telecoms equipment makers have sharpened Beijing's focus on semiconductor self-sufficiency. China's ministry of finance announced tax breaks "to support the development of integrated circuit design and the software industry," cancelling corporate taxes for some companies for two years. Although the outcome of these efforts is uncertain, the development of such capacity in China would likely have a material adverse effect on our profitability and results of operations.

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

None.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**Item 5. Other Information.**

None.

**Item 6. Exhibits.**

| Number | Description | Form | Date of First Filing | Exhibit Number | Filed Herewith |
|---|---|---|---|---|---|
| 3.1 | Certificate of Incorporation, as amended | 10-K | February 20, 2018 | 3.1 | |
| 3.2 | Amended By-laws of the Company as of January 6, 2016 | 8-K | January 11, 2016 | 3.1 | |
| 4.1 | Form of Certificate for Common Stock, par value $0.66 2/3 per share | S-3 | August 25, 2005 | 4.1 | |
| 10.1 | Share Swap Agreement, dated as of August 8, 2019, between the Company and Lite-On Semiconductor Corporation | 8-K | August 9, 2019 | 2.1 | |
| 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 |
| 32.1* | Certification Pursuant to 18 U.S.C. 1350 adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | | | | X |
| 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 | Inline XBRL Instance Document- the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document. | | | | X |
| 101.SCH | Inline XBRL Taxonomy Extension Schema | | | | X |
| 101.CAL | Inline XBRL Taxonomy Extension Calculation Linkbase | | | | X |
| 101.DEF | Inline XBRL Taxonomy Extension Definition Linkbase | | | | X |
| 101.LAB | Inline XBRL Taxonomy Extension Labels Linkbase | | | | X |
| 101.PRE | Inline XBRL Taxonomy Extension Presentation Linkbase | | | | X |
| 104 | Cover Page Interactive Data File, formatted in Inline XBRL | | | | X |

* *A certification furnished pursuant to Item 601(b)(32) 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.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DIODES INCORPORATED
(Registrant)

| | |
|---|---|
| November 4, 2019 | By: /s/ Keh-Shew Lu |
| Date | KEH-SHEW LU<br>President and Chief Executive Officer<br>(Principal Executive Officer) |
| November 4, 2019 | By: /s/ Brett R. Whitmire |
| Date | BRETT R. WHITMIRE<br>Chief Financial Officer<br>(Principal Financial Officer) |

**Exhibit 31.1**

**CERTIFICATION**
**PURSUANT TO EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a),**
**AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, **Keh-Shew Lu**, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Diodes Incorporated;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 4, 2019

/s/ Keh-Shew Lu
Keh-Shew Lu
Chief Executive Officer

**Exhibit 31.2**

**CERTIFICATION**
**PURSUANT TO EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a),**
**AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, **Brett R. Whitmire**, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Diodes Incorporated;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 4, 2019

/s/ Brett R. Whitmire
Brett R. Whitmire
Chief Financial Officer

**Exhibit 32.1**

**CERTIFICATION PURSUANT TO 18 U.S.C. 1350
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to his knowledge, the Quarterly Report on Form 10-Q for the quarterly period ended **September 30, 2019** of Diodes Incorporated (the "Company") fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in such periodic report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 4, 2019

/s/ Keh-Shew Lu
Keh-Shew Lu
Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to Diodes Incorporated and will be furnished to the Securities and Exchange Commission or its staff upon request.

**Exhibit 32.2**

**CERTIFICATION PURSUANT TO 18 U.S.C. 1350**
**AS ADOPTED PURSUANT TO SECTION 906**
**OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to his knowledge, the Quarterly Report on Form 10-Q for the quarterly period ended **September 30, 2019** of Diodes Incorporated (the “Company”) fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in such periodic report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 4, 2019

/s/ Brett R. Whitmire
Brett R. Whitmire
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Diodes Incorporated and will be furnished to the Securities and Exchange Commission or its staff upon request.