# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
# Washington, D.C. 20549

## FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended June 30, 2022**

**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 August 1, 2022 was 45,481,026.

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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)*

| | June 30, 2022 | December 31, 2021 |
|---|---|---|
| | *(Unaudited)* | |
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 299,868 | $ 363,599 |
| Restricted cash | 7,679 | 3,219 |
| Short-term investments | 8,833 | 6,542 |
| Accounts receivable, net of allowances of $4,936 and $4,324 at June 30, 2022 and December 31, 2021, respectively | 401,196 | 358,496 |
| Inventories | 371,351 | 348,622 |
| Prepaid expenses and other | 125,686 | 107,194 |
| Total current assets | 1,214,613 | 1,187,672 |
| Property, plant and equipment, net | 671,654 | 582,079 |
| Deferred income tax | 20,189 | 21,256 |
| Goodwill | 145,898 | 149,890 |
| Intangible assets, net | 86,071 | 94,550 |
| Other long-term assets | 146,619 | 159,048 |
| Total assets | $ 2,285,044 | $ 2,194,495 |
| | | |
| **Liabilities** | | |
| Current liabilities: | | |
| Lines of credit | $ 25,907 | $ 18,068 |
| Accounts payable | 219,329 | 221,254 |
| Accrued liabilities and other | 205,152 | 184,649 |
| Income tax payable | 40,253 | 29,682 |
| Current portion of long-term debt | 9,336 | 17,381 |
| Total current liabilities | 499,977 | 471,034 |
| Long-term debt, net of current portion | 229,912 | 265,574 |
| Deferred tax liabilities | 31,541 | 32,230 |
| Other long-term liabilities | 106,155 | 122,933 |
| Total liabilities | 867,585 | 891,771 |
| | | |
| Commitments and contingencies (See Note 9) | | |
| | | |
| **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; and 45,288,669 shares and 45,017,774 shares issued and outstanding at June 30, 2022 and December 31, 2021, respectively | 36,376 | 36,195 |
| Additional paid-in capital | 478,374 | 471,649 |
| Retained earnings | 1,269,655 | 1,116,809 |
| Treasury stock, at cost, 9,272,513 shares at June 30, 2022 and at December 31, 2021 | (337,112) | (336,894) |
| Accumulated other comprehensive loss | (93,974) | (50,517) |
| Total stockholders' equity | 1,353,319 | 1,237,242 |
| Noncontrolling interest | 64,140 | 65,482 |
| Total equity | 1,417,459 | 1,302,724 |
| Total liabilities and stockholders' equity | $ 2,285,044 | $ 2,194,495 |

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 June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| **Net sales** | $ 500,972 | $ 440,448 | $ 983,095 | $ 853,569 |
| **Cost of goods sold** | 294,446 | 280,646 | 579,872 | 555,131 |
| Gross profit | 206,526 | 159,802 | 403,223 | 298,438 |
| | | | | |
| **Operating expenses** | | | | |
| Selling, general and administrative | 69,067 | 60,280 | 140,510 | 118,956 |
| Research and development | 30,762 | 29,987 | 59,439 | 57,646 |
| Amortization of acquisition related intangible assets | 3,980 | 4,060 | 7,842 | 8,083 |
| Other operating expense (income) | (3,521) | 118 | (3,864) | 1,006 |
| Total operating expense | 100,288 | 94,445 | 203,927 | 185,691 |
| | | | | |
| **Income from operations** | 106,238 | 65,357 | 199,296 | 112,747 |
| | | | | |
| **Other (expense) income** | | | | |
| Interest income | 861 | 818 | 1,687 | 1,586 |
| Interest expense | (1,590) | (2,017) | (2,704) | (4,881) |
| Foreign currency gain (loss), net | 1,819 | (510) | 3,540 | (1,789) |
| Unrealized (loss) gain on investments | (7,764) | 5,261 | (13,312) | 8,916 |
| Other income | 1,647 | 1,837 | 3,523 | 4,154 |
| Total other (expense) income | (5,027) | 5,389 | (7,266) | 7,986 |
| | | | | |
| **Income before income taxes and noncontrolling interest** | 101,211 | 70,746 | 192,030 | 120,733 |
| Income tax provision | 18,461 | 12,120 | 35,107 | 21,554 |
| **Net income** | 82,750 | 58,626 | 156,923 | 99,179 |
| **Less net income attributable to noncontrolling interest** | (2,595) | (3,252) | (4,077) | (4,353) |
| **Net income attributable to common stockholders** | $ 80,155 | $ 55,374 | $ 152,846 | $ 94,826 |
| | | | | |
| **Earnings per share attributable to common stockholders:** | | | | |
| Basic | $ 1.77 | $ 1.24 | $ 3.38 | $ 2.13 |
| Diluted | $ 1.75 | $ 1.22 | $ 3.33 | $ 2.09 |
| **Number of shares used in earnings per share computation:** | | | | |
| Basic | 45,265 | 44,667 | 45,185 | 44,538 |
| Diluted | 45,841 | 45,380 | 45,913 | 45,327 |

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 June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2022** | **2021** | **2022** | **2021** |
| Net income | $ 82,750 | $ 58,626 | $ 156,923 | $ 99,179 |
| Unrealized gain on defined benefit plan, net of tax | 7,133 | 4,961 | 5,600 | 6,855 |
| Unrealized gain (loss) on swaps and collars, net of tax | 2,063 | (2,027) | 4,894 | 1,799 |
| Unrealized foreign currency (loss), net of tax | (41,366) | 12,849 | (53,951) | 9,111 |
| Comprehensive income | 50,580 | 74,409 | 113,466 | 116,944 |
| Less: Comprehensive income attributable to noncontrolling interest | (2,595) | (3,252) | (4,077) | (4,353) |
| Total comprehensive income attributable to common stockholders | $ 47,985 | $ 71,157 | $ 109,389 | $ 112,591 |

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, March 31 2022 | 54,504 | $ 36,338 | (9,273) | $ (336,894) | $ 470,363 | $ 1,189,500 | $ (61,804) | $ 1,297,503 | $ 62,516 | $ 1,360,019 |
| Total comprehensive income (loss) | - | - | - | - | - | 80,155 | (32,170) | 47,985 | 2,595 | 50,580 |
| Net changes in noncontrolling interests | - | - | - | - | - | - | | - | (971) | (971) |
| Common stock issued for share-based plans | 58 | 38 | - | - | 18 | - | - | 56 | - | 56 |
| Share-based compensation | - | - | - | - | 8,607 | - | - | 8,607 | - | 8,607 |
| Deferred compensation plan | - | - | - | (218) | 218 | - | - | - | - | - |
| Tax related to net share settlement | - | - | - | - | (832) | - | - | (832) | - | (832) |
| Balance, June 30, 2022 | 54,562 | $ 36,376 | (9,273) | $ (337,112) | $ 478,374 | $ 1,269,655 | $ (93,974) | $ 1,353,319 | $ 64,140 | $ 1,417,459 |
| | | | | | | | | | | |
| Balance, December 31, 2021 | 54,290 | $ 36,195 | (9,273) | $ (336,894) | $ 471,649 | $ 1,116,809 | $ (50,517) | $ 1,237,242 | $ 65,482 | $ 1,302,724 |
| Total comprehensive income | - | - | - | - | - | 152,846 | (43,457) | 109,389 | 4,077 | 113,466 |
| Net changes in noncontrolling interests | - | - | - | - | (1,014) | - | - | (1,014) | (5,419) | (6,433) |
| Common stock issued for share-based plans | 272 | 181 | - | - | (41) | - | - | 140 | - | 140 |
| Share-based compensation | - | - | - | - | 16,426 | - | - | 16,426 | - | 16,426 |
| Deferred compensation plan | - | - | - | (218) | 218 | - | - | - | - | - |
| Tax related to net share settlement | - | - | - | - | (8,864) | - | - | (8,864) | - | (8,864) |
| Balance, June 30, 2022 | 54,562 | $ 36,376 | (9,273) | $ (337,112) | $ 478,374 | $ 1,269,655 | $ (93,974) | $ 1,353,319 | $ 64,140 | $ 1,417,459 |

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

**DIODES INCORPORATED AND SUBSIDIARIES**
**CONDENSED CONSOLIDATED STATEMENTS OF EQUITY (CONT.)**
*(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, March 31, 2021 | 53,860 | $ 35,908 | (9,260) | $ (335,910) | $ 446,697 | $ 927,498 | $ (71,624) | $ 1,002,569 | $ 54,411 | $ 1,056,980 |
| Total comprehensive income | - | - | - | - | - | 55,374 | 15,783 | 71,157 | 3,252 | 74,409 |
| Net changes in noncontrolling interests | - | - | - | - | (18) | - | - | (18) | 2,750 | 2,732 |
| Common stock issued for share-based plans | 134 | 90 | - | - | 1,259 | - | - | 1,349 | - | 1,349 |
| Share-based compensation | - | - | - | - | 8,280 | - | - | 8,280 | - | 8,280 |
| Deferred compensation plan | - | - | (3) | (218) | 218 | - | - | - | - | - |
| Tax related to net share settlement | - | - | - | - | (753) | - | - | (753) | - | (753) |
| Balance, June 30, 2021 | 53,994 | $ 35,998 | (9,263) | $ (336,128) | $ 455,683 | $ 982,872 | $ (55,841) | $ 1,082,584 | $ 60,413 | $ 1,142,997 |
| | | | | | | | | | | |
| Balance, December 31, 2020 | 53,536 | $ 35,692 | (9,260) | $ (335,910) | $ 449,598 | $ 888,046 | $ (73,606) | $ 963,820 | $ 52,303 | $ 1,016,123 |
| Total comprehensive income | - | - | - | - | - | 94,826 | 17,765 | 112,591 | 4,353 | 116,944 |
| Net changes in noncontrolling interests | - | - | - | - | (22) | - | - | (22) | 3,757 | 3,735 |
| Common stock issued for share-based plans | 458 | 306 | - | - | 1,797 | - | - | 2,103 | - | 2,103 |
| Share-based compensation | - | - | - | - | 14,138 | - | - | 14,138 | - | 14,138 |
| Deferred compensation plan | - | - | (3) | (218) | 218 | - | - | - | - | - |
| Tax related to net share settlement | - | - | - | - | (10,046) | - | - | (10,046) | - | (10,046) |
| Balance, June 30, 2021 | 53,994 | $ 35,998 | (9,263) | $ (336,128) | $ 455,683 | $ 982,872 | $ (55,841) | $ 1,082,584 | $ 60,413 | $ 1,142,997 |

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)*

| | Six Months June 30, 2022 | Six Months June 30, 2021 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net income | $ 156,923 | $ 99,179 |
| Adjustments to reconcile net income to net cash provided by operating activities, net of effects of acquisitions | | |
| Depreciation | 52,047 | 53,105 |
| Amortization of intangible assets | 7,842 | 8,083 |
| Share-based compensation expense | 16,513 | 14,764 |
| Deferred income taxes | (2,415) | 1,194 |
| Investment loss (gain) | 13,197 | (9,075) |
| (Gain) loss on disposal of property, plant and equipment | (3,756) | 136 |
| Other | (2,145) | 151 |
| Changes in operating assets: | | |
| Change in accounts receivable | (50,368) | (17,060) |
| Change in inventory | (35,119) | (2,451) |
| Change in other operating assets | (25,083) | (5,597) |
| Changes in operating liabilities: | | |
| Change in accounts payable | 5,404 | 19,456 |
| Change in accrued liabilities | 17,790 | 4,706 |
| Change in income tax payable | 11,988 | (2,332) |
| Change in other operating liabilities | (5,479) | (2,195) |
| **Net cash flows provided by operating activities** | 157,339 | 162,064 |
| | | |
| **Cash flows from investing activities** | | |
| Acquisitions, net of cash received | (85,692) | - |
| Purchases of property, plant and equipment | (78,105) | (45,037) |
| Proceeds from sale of property, plant and equipment | 89 | 3,042 |
| Proceeds from short-term investments | 3,819 | 4,020 |
| Purchases of short-term investments | (6,708) | (5,160) |
| Purchase of equity securities | (4,051) | (1) |
| Other | 6,080 | 6,462 |
| **Net cash and cash equivalents used in investing activities** | (164,568) | (36,674) |
| | | |
| **Cash flows from financing activities** | | |
| Advances on lines of credit and short-term debt | 45,214 | 6,404 |
| Repayments of lines of credit and short-term debt | (35,382) | (88,307) |
| Proceeds from long-term debt | 184,718 | 315,006 |
| Repayments of long-term debt | (227,078) | (384,554) |
| Net proceeds from issuance of common stock | 140 | 2,103 |
| Repayment of and proceeds from finance lease obligation | (12) | (151) |
| Taxes paid related to net share settlement | (8,864) | (10,046) |
| Net changes in noncontrolling interests | 2,701 | 3,753 |
| Other | (227) | (500) |
| **Net cash and cash equivalents used in financing activities** | (38,790) | (156,292) |
| | | |
| Effect of exchange rate changes on cash and cash equivalents | (13,252) | 5,291 |
| Change in cash and cash equivalents, including restricted cash | (59,271) | (25,611) |
| Cash and cash equivalents, beginning of period, including restricted cash | 366,818 | 320,529 |
| Cash and cash equivalents, end of period, including restricted cash | $ 307,547 | $ 294,918 |

**Supplemental Cash Flow Information**

| | | |
|---|---|---|
| Interest paid during the period | $ 2,226 | $ 4,545 |
| Taxes paid during the period | $ 29,674 | $ 23,904 |
| | | |
| Non-cash investing and financing activities: | | |
| Accounts payable balance related to the purchase of property, plant and equipment | $ 30,286 | $ 16,081 |
| Dividend payable to noncontrolling interest | $ 3,657 | $ - |

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. The Company's restricted cash primarily consisted of the cash required to be on deposit under our Asia credit facilities to support outstanding loan and import/export guarantees. As of June 30, 2022, restricted cash of $7.7 million was pledged as collateral for issuance of bank loans, bank acceptance notes and letters of credit.

| | Six Months Ended June 30, | |
|---|---|---|
| | **2022** | **2021** |
| Current assets: | | |
| Cash and cash equivalents | $ 299,868 | $ 292,650 |
| Restricted cash (included in other current assets) | 7,679 | 2,268 |
| Total cash, cash equivalents and restricted cash | $ 307,547 | $ 294,918 |

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

## NOTE 1 – Summary of Operations and Significant Accounting Policies

### Summary of Operations

Diodes Incorporated, together with its subsidiaries (collectively the "Company," "we" or "our"(Nasdaq: DIOD)), a Standard and Poor's Smallcap 600 and Russell 3000 Index company, 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. The Company serves the consumer electronics, computing, communications, industrial, and automotive markets.

The Company's products include diodes; rectifiers; transistors; MOSFETs; GPP bridges; GPP rectifiers; protection devices; function-specific arrays; single gate logic; amplifiers and comparators; Hall-effect and temperature sensors; and power management devices, including LED drivers, AC-DC converters and controllers, DC-DC switching and linear voltage regulators, voltage references along with special-function devices, such as USB power switches, load switches, voltage supervisors, and motor controllers. The Company also has timing, connectivity, switching, and signal integrity solutions for high-speed signals.

The Company's corporate headquarters and Americas' sales offices are located in Plano, Texas, and Milpitas, California, respectively. Design, marketing, and engineering centers are located in Plano; Milpitas; Taipei, Taoyuan City, Zhubei City, Taiwan; Shanghai and Yangzhou, China; Oldham, England; and Neuhaus, Germany. The Company's wafer fabrication facilities are located in Oldham, England; Greenock, Scotland; Shanghai and Wuxi, China; and Keelung, Hsinchu, Taiwan and South Portland, Maine, United States. The Company has assembly and test facilities located in Shanghai, Jinan, Chengdu, and Wuxi, China; Neuhaus, Germany; and Jhongli and Keelung, Taiwan. Additional engineering, sales, warehouse, and logistics offices are located in Taipei, Taiwan; Hong Kong; Oldham, England; Shanghai, Shenzhen, Wuhan, and Yangzhou, China; Seongnam-si, South Korea; and Munich and Frankfurt, Germany; with support offices throughout the world.

- The Company's manufacturing facilities have achieved certifications in the internationally recognized standards of ISO 9001:2015, ISO 14001:2015, and, for automotive products, IATF 16949:2016;
- Diodes Incorporated is also C-TPAT certified; and
- We believe these quality awards reflect the superior quality-control techniques established at Diodes Incorporated and further enhance our credibility as a vendor-of-choice to original equipment manufacturers ("OEMs") increasingly concerned with quality and consistency.

Our market focus is on high-growth, end-user applications in the following areas:

- Automotive: connected driving, comfort/style/safety, and electrification/powertrain;
- Industrial: embedded systems, precision controls, and Industrial IoT;
- Consumer: IoT, wearables, home automation, and smart infrastructure;
- Communications: smart phones, 5G networks, advanced protocols, and charging solutions; and
- Computing: cloud computing including server, storage, and data center applications.

### Basis of Presentation

The condensed consolidated financial data at December 31, 2021 are derived from audited financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2021 filed with the Securities and Exchange Commission ("SEC") on February 18, 2022 ("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 months and six months ended June 30, 2022 are not necessarily indicative of the results that may be expected for other interim periods or the year ending December 31, 2022.

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 condensed consolidated financial statement presentation.

**Recently Issued Accounting Pronouncements**

In March 2022, the Financial Accounting Standard Board ("FASB") issued Accounting Standards Update ("ASU") 2022-02, Financial Instruments - Credit Losses (Topic 740): Troubled Debt Restructurings and Vintage Disclosures. This ASU among other things, updates accounting and disclosures for public business entities to disclose gross write-offs and gross recoveries by class of financing receivable and major security type in vintage disclosures. This guidance is effective for annual reporting periods beginning after December 15, 2022, including interim periods therein. We are assessing this guidance but do not anticipate it will have material impact on our consolidated financial statements.

In October 2021, the FASB issued ASU No. 2021-08, Business Combinations (Topic 805): Accounting for Acquired Contract Assets and Contract Liabilities. Under the new guidance, the acquirer should determine what contract assets and/or contract liabilities it would have recorded under ASC 606 as of the acquisition date, as if the acquirer had entered into the original contract at the same date and on the same terms as the acquiree. The recognition and measurement of those contract assets and contract liabilities will likely be comparable to what the acquiree has recorded on its books under ASC 606 as of the acquisition date. *ASU 2021-08* is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Early adoption is permitted, including in an interim period, for any period for which financial statements have not yet been issued. However, adoption in an interim period other than the first fiscal quarter requires an entity to apply the new guidance to all prior business combinations that have occurred since the beginning of the annual period in which the new guidance is adopted. The Company will continue evaluating the impact of this ASU.

In November 2021, the FASB issued ASU No. 2021-10 Government Assistance (Topic 832), Disclosures by Business Entities About Government Assistance, which requires entities to provide disclosures on material government assistance transactions for annual reporting periods. The disclosures include information around the nature of the assistance, the related accounting policies used to account for government assistance, the effect of government assistance on the entity's financial statements, and any significant terms and conditions of the agreements, including commitments and contingencies. The new standard was effective for the Company on January 1, 2022 and only impacts annual financial statement footnote disclosures. The adoption will not have a material effect on our consolidated financial statements.

**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 months and six months ended June 30, 2022 and 2021, 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 June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2022** | **2021** | **2022** | **2021** |
| **Earnings (numerator)** | | | | |
| Net income attributable to common stockholders | $ 80,155 | $ 55,374 | $ 152,846 | $ 94,826 |
| **Shares (denominator)** | | | | |
| Weighted average common shares outstanding (basic) | 45,265 | 44,667 | 45,185 | 44,538 |
| Dilutive effect of stock options and stock awards outstanding | 576 | 713 | 728 | 789 |
| Adjusted weighted average common shares outstanding (diluted) | 45,841 | 45,380 | 45,913 | 45,327 |
| **Earnings per share attributable to common stockholders** | | | | |
| Basic | $ 1.77 | $ 1.24 | $ 3.38 | $ 2.13 |
| Diluted | $ 1.75 | $ 1.22 | $ 3.33 | $ 2.09 |
| **Stock options and stock awards excluded from EPS calculation because the effect would be anti-dilutive** | 175 | 6 | 76 | 3 |

**NOTE 3 – Inventories**

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

| | June 30, 2022 | December 31, 2021 |
|---|---|---|
| Finished goods | $ 100,501 | $ 108,557 |
| Work-in-progress | 91,343 | 81,784 |
| Raw materials | 179,507 | 158,281 |
| Total | $ 371,351 | $ 348,622 |

**NOTE 4 – Goodwill and Intangible Assets**

The table below sets forth the changes in goodwill:

| | |
|---|---|
| Balance at December 31, 2021 | $ 149,890 |
| Acquisition | $ 1,779 |
| Foreign currency translation adjustment | (5,771 ) |
| Balance at June 30, 2022 | $ 145,898 |

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

| | June 30, 2022 | December 31, 2021 |
|---|---|---|
| Intangible assets subject to amortization: | | |
| Gross carrying amount | $ 249,756 | $ 247,695 |
| Accumulated amortization | (164,769 ) | (156,927 ) |
| Foreign currency translation adjustment | (8,003 ) | (7,582 ) |
| Total | 76,984 | 83,186 |
| Intangible assets with indefinite lives: | | |
| Gross carrying amount | 10,303 | 12,364 |
| Foreign currency translation adjustment | (1,216 ) | (1,000 ) |
| Total | 9,087 | 11,364 |
| Total intangible assets, net | $ 86,071 | $ 94,550 |

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

| **Amortization expense** | 2022 | 2021 |
|---|---|---|
| Three Months Ended June 30, | $ 3,980 | $ 4,060 |
| Six Months Ended June 30, | $ 7,842 | $ 8,083 |

**NOTE 5 – Income Tax Provision**

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Domestic pre-tax income | $ 68,753 | $ 18,577 | $ 131,872 | $ 25,645 |
| Foreign pre-tax income | $ 32,458 | $ 52,169 | $ 60,158 | $ 95,088 |
| Income tax provision | $ 18,461 | $ 12,120 | $ 35,107 | $ 21,554 |
| Effective tax rate | 18.2 % | 17.1 % | 18.3 % | 17.9 % |
| Impact of tax holidays on tax expense | $ 1,334 | $ (679 ) | $ 1,291 | $ (1,261 ) |
| Earnings per share impact of tax holidays: | | | | |
| Basic | $ (0.03 ) | $ 0.02 | $ (0.03 ) | $ 0.03 |
| Diluted | $ (0.03 ) | $ 0.02 | $ (0.03 ) | $ 0.03 |

The increase in the effective tax rate for the three and six months ended June 30, 2022 when compared to the three and six months ended June 30, 2021, is primarily attributable to the change in pre-tax earnings during the comparable periods.

Our undistributed foreign earnings continue to be indefinitely reinvested in foreign operations, with limited exceptions related to earnings of certain 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 2013, or for the 2015 tax year. We are no longer subject to China income tax examinations by tax authorities for tax years before 2011. 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 2016. 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, if any, related to unrecognized tax benefits in interest expense. As of June 30, 2022, the gross amount of unrecognized tax benefits was approximately $45.9 million.

It is reasonably possible that the amount of the unrecognized benefit with respect to certain of the Company's unrecognized tax positions will significantly increase or decrease within the next 12 months. 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 information related to our share-based compensation expense:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Cost of goods sold | $ 336 | $ 282 | $ 683 | $ 557 |
| Selling, general and administrative | 7,246 | 7,627 | 13,780 | 12,659 |
| Research and development | 1,029 | 734 | 2,050 | 1,548 |
| Total share-based compensation expense | $ 8,611 | $ 8,643 | $ 16,513 | $ 14,764 |

**Share Grants** – Share grants consist of restricted stock awards, restricted stock units and performance stock units ("PSUs"). Restricted stock awards and restricted stock units generally vest in equal annual installments over a four-year period and are measured based on the fair market value of the underlying stock on the date of grant. Compensation expense is recognized on a straight-line basis over the requisite four-year service period. All new grants are granted under the Company's 2022 Equity Incentive Plan.

Performance stock units ("PSUs") are measured based on the fair market value of the underlying stock on the date of grant, and compensation expense is recognized over the three-year performance period, with adjustments made to the expense to recognize the probable payout percentage.

As of June 30, 2022, total unrecognized share-based compensation expense related to share grants was approximately $64.3 million, before income taxes, and is expected to be recognized over a weighted average period of approximately 2.1 years.

**Stock Options** –We recognized stock option expense of less than $10 thousand and less than $20 thousand for the three months ended June 30, 2022 and June 30, 2021, respectively. We recognized stock option expense of less than $20 thousand and less than $40 thousand for the six months ended June 30 2022 and 2021, respectively. All stock option expense is related to stock options granted by Savitech Corporation ("Savitech") in Savitech stock to their employees. We acquired a controlling interest in Savitech in 2020.

**NOTE 7 – Enterprise Wide 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 similar customer type. Our primary operations include operations in Asia, the Americas and Europe. No customer accounted for 10% or more of our net sales or outstanding accounts receivable at any point in the periods presented in this Quarterly Report.

**Disaggregation of Net Sales.** We disaggregate net sales 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 deliver our products to customers around the world for use in consumer electronics, computing, communications, industrial and automotive markets. 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 net sales based on the location of the subsidiary producing the net sale:

| Three Months Ended June 30, 2022 | Asia | Americas | Europe | Consolidated |
|---|---|---|---|---|
| Total sales | $ 464,154 | $ 313,884 | $ 86,399 | $ 864,437 |
| Intercompany elimination | (166,656) | (166,594) | (30,215) | (363,465) |
| Net sales | $ 297,498 | $ 147,290 | $ 56,184 | $ 500,972 |

| Three Months Ended June 30, 2021 | Asia | Americas | Europe | Consolidated |
|---|---|---|---|---|
| Total sales | $ 483,083 | $ 261,725 | $ 67,598 | $ 812,406 |
| Intercompany elimination | (176,404) | (167,318) | (28,236) | (371,958) |
| Net sales | $ 306,679 | $ 94,407 | $ 39,362 | $ 440,448 |

| As of and for the Six Months Ended June 30, 2022 | Asia | Americas | Europe | Consolidated |
|---|---|---|---|---|
| Total sales | $ 915,039 | $ 607,654 | $ 164,456 | $ 1,687,149 |
| Intercompany elimination | (323,819) | (324,171) | (56,064) | (704,054) |
| Net sales | $ 591,220 | $ 283,483 | $ 108,392 | $ 983,095 |
| Property, plant and equipment, net | $ 472,923 | $ 100,092 | $ 98,639 | $ 671,654 |
| Total assets | $ 1,627,631 | $ 424,489 | $ 232,924 | $ 2,285,044 |

| As of and for the Six Months Ended June 30, 2021 | Asia | Americas | Europe | Consolidated |
|---|---|---|---|---|
| Total sales | $ 954,152 | $ 508,552 | $ 127,772 | $ 1,590,476 |
| Intercompany elimination | (355,354) | (328,147) | (53,406) | (736,907) |
| Net sales | $ 598,798 | $ 180,405 | $ 74,366 | $ 853,569 |
| Property, plant and equipment, net | $ 412,421 | $ 25,044 | $ 84,717 | $ 522,182 |
| Total assets | $ 1,423,099 | $ 350,339 | $ 219,531 | $ 1,992,969 |

The tables below set forth net sales for the Company disaggregated into geographic locations based on shipment and by type *(direct sales or Distributor*):

| | Three Months Ended | |
|---|---|---|
| **Net Sales by Region** | **2022** | **2021** |
| Asia | $ 372,055 | $ 353,312 |
| Europe | 68,032 | 54,056 |
| Americas | 60,885 | 33,080 |
| Total net sales | $ 500,972 | $ 440,448 |
| **Net Sales by Type** | | |
| Direct sales | $ 147,249 | $ 151,048 |
| Distributor sales | 353,723 | 289,400 |
| Total net sales | $ 500,972 | $ 440,448 |

| | Six Months Ended | |
|---|---|---|
| **Net Sales by Region** | **2022** | **2021** |
| Asia | $ 736,871 | $ 687,937 |
| Europe | 132,803 | 102,442 |
| Americas | 113,421 | 63,190 |
| Total net sales | $ 983,095 | $ 853,569 |
| **Net Sales by Type** | | |
| Direct sales | $ 295,667 | $ 298,939 |
| Distributor sales | 687,428 | 554,630 |
| Total net sales | $ 983,095 | $ 853,569 |

Net sales from products shipped to China was $240.6 million and $229.3 million for the three months ended June 30, 2022 and 2021, respectively. Net sales from products shipped to China was $471.0 million and $451.7 million for the six months ended June 30, 2022 and 2021, respectively.

**NOTE 8 – Debt**

*Short-term debt*

Our Asia subsidiaries maintain credit facilities with several financial institutions through our foreign entities worldwide totaling $201.8 million. Other than two Taiwanese credit facilities that are collateralized by assets, our foreign credit lines are unsecured, uncommitted and contain no restrictive covenants. These credit facilities bear interest at LIBOR or similar indices plus a specified margin. Interest payments are due monthly on outstanding amounts under the credit lines. The unused and available credit under the various facilities as of June 30, 2022, was approximately $175.1 million, net of $25.9 million advanced under our foreign credit lines and $0.9 million credit used for import and export guarantee.

*Long-term debt*

The Company maintains a long-term credit facility ("U.S. Credit Agreement") consisting of a term loan with a current balance of $63.6 million and a $200.0 million revolving senior credit facility with $30.0 million drawn as of June 30, 2022. Borrowings outstanding as of June 30, 2022 and December 31, 2021, are set forth in the table below:

| Description | June 30, 2022 | December 31, 2021 | Interest Rate | Current Amount Maturity |
|---|---|---|---|---|
| ***Short-term debt*** | $ 25,907 | $ 18,068 | Various indices plus margin | Various during 2022 |
| | | | | |
| ***Long-term debt*** | | | | |
| Term loan and revolver | $ 93,560 | $ 155,122 | Libor plus margin | May 2024 |
| Notes payable to Bank of Taiwan | 2,225 | 2,492 | Variable, 1.3% base | June 2033 |
| Notes payable to Bank of Taiwan | 1,682 | 1,807 | 2-yr deposit rate floating | September 2023 |
| Notes payable to Bank of China Trust Company | 14,678 | 16,168 | Taibor 3 month rate + 0.5% | May 2024 |
| Notes payable to Bank of China Trust Company | 3,365 | 3,614 | Taibor 3 month rate + 0.5% | December 2023 |
| Notes payable to E Sun Bank | 3,365 | 3,614 | 1-M deposit rate plus 0.08% | December 2023 |
| Notes payable to E Sun Bank | 315 | 371 | 1-M deposit rate plus 0.08% | June 2027 |
| Notes payable to E Sun Bank | 1,649 | 1,771 | 1-M deposit rate plus 0.08% | June 2030 |
| Notes payable to HSBC | 100,000 | 100,000 | Libor plus margin | January 2024 |
| Notes payable to HSBC | 20,000 | - | Libor plus margin | December 2023 |
| Total long-term debt | 240,839 | 284,959 | | |
| Less: Current portion of long-term debt | (9,336) | (17,381) | | |
| Less: Unamortized debt costs | (1,591) | (2,004) | | |
| Total long-term debt, net of current portion | $ 229,912 | $ 265,574 | | |

**NOTE 9 – Commitments and Contingencies**

**Purchase commitments** – We have entered into non-cancelable purchase contracts for capital expenditures, primarily for manufacturing equipment, for approximately $124.1 million at June 30, 2022. As of June 30, 2022, we also had a commitment to purchase approximately $195.8 million of wafers to be used in our manufacturing process. These wafer purchases will occur through 2025.

**Defined Benefit Plan -** We have a contributory defined benefit plan that covers certain employees in the United Kingdom. As of June 30, 2022, the underfunded liability for this defined benefit plan was approximately $4.4 million. We have agreed to a schedule of contributions of GBP 2.0 million (approximately $2.4 million based on a GBP: USD exchange rate of 1.2:1) to be paid in annual installments that began on March 31, 2021, and payments to be made by December 31 each year thereafter). These contributions, together with the assumed asset performance, are expected to eliminate the deficit by December 31, 2028. Further, we will pay GBP 0.2 million (approximately $0.2 million based on GBP: USD exchange rate oat 1.2:1) in annual installments to cover expenses.

**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 10 – 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 June 30, 2022 and December 31, 2021, we had $240.1 million and $195.2 million, respectively, of outstanding foreign currency forward agreements 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 Accounting Standards Codification ("ASC") No. 815.

**Hedges of Interest Rate and Net Investment Risk -**The Company's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish these objectives, 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. The Company makes use of cross currency swaps to decrease the foreign exchange risk inherent in the Company's investment in some of its foreign subsidiaries.

The table below sets forth the fair value of the Company's currency swap related derivative financial instruments as well as their classification on our condensed consolidated balance sheets as of June 30, 2022 and December 31, 2021:

| | Other Assets | | Other Liabilities | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Currency Swaps | $ 7,092 | $ - | $ 3,392 | $ 1,330 |

**NOTE 11 – 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 June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Operating lease expense | $ 3,349 | $ 4,149 | $ 6,859 | $ 8,384 |
| Finance lease expense: | | | | |
| Amortization of assets | 3 | 2 | 5 | 213 |
| Interest on lease liabilities | – | – | – | 1 |
| Short-term lease expense | 256 | 246 | 526 | 491 |
| Variable lease expense | 862 | 1,161 | 1,837 | 2,290 |
| Total lease expense | $ 4,470 | $ 5,558 | $ 9,227 | $ 11,379 |

The table below sets forth supplemental balance sheet information related to leases. In our condensed consolidated balance sheets, right of use ("ROU") assets are included in other long-term assets while lease liabilities are located in accrued liabilities and other for the current portion and other long-term liabilities for the non-current portion:

| | June 30, 2022 | December 31, 2021 |
|---|---|---|
| **Operating leases:** | | |
| Operating lease ROU assets | $ 44,365 | $ 49,703 |
| | | |
| Current operating lease liabilities | 9,062 | 11,199 |
| Noncurrent operating lease liabilities | 19,160 | 22,291 |
| Total operating lease liabilities | $ 28,222 | $ 33,490 |
| | | |
| **Finance leases:** | | |
| Finance lease ROU assets | $ 2,557 | $ 2,561 |
| Accumulated amortization | (2,534) | (2,524) |
| Finance lease ROU assets, net | $ 23 | $ 37 |
| | | |
| Current finance lease liabilities | $ 9 | $ 15 |
| Non-current finance lease liabilities | 13 | 23 |
| Total finance lease liabilities | $ 22 | $ 38 |
| | | |
| **Weighted average remaining lease term (in years):** | | |
| Operating leases | 7.1 | 6.9 |
| Finance leases | 2.1 | 2.3 |
| | | |
| **Weighted average discount rate:** | | |
| Operating leases | 4.0% | 4.0% |
| Finance leases | 3.7% | 3.7% |

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

| | Six Months Ended | |
|---|---|---|
| | June 30, 2022 | June 30, 2021 |
| Cash paid for the amounts included in the measurements of lease liabilities: | | |
| Operating cash outflows from operating leases | $ 9,494 | $ 10,973 |
| Operating cash outflows from finance leases | – | 1 |
| Financing cash outflow from finance leases | 12 | 151 |
| | | |
| ROU assets obtained in exchange for lease liabilities incurred: | | |
| Operating leases | 2,186 | 12,265 |

The table below sets forth information about lease liability maturities:

| | June 30, 2022 | |
|---|---|---|
| | Operating Leases | Finance Leases |
| 2022 | $ 6,020 | $ 10 |
| 2023 | 7,522 | 8 |
| 2024 | 4,734 | 4 |
| 2025 | 4,139 | 1 |
| 2026 | 2,711 | - |
| 2027 | 657 | - |
| 2028 and thereafter | 7,873 | - |
| **Total lease payments** | 33,656 | 23 |
| Less: imputed interest | (5,434) | (1) |
| Total lease obligations | 28,222 | 22 |
| Less: current obligations | (9,062) | (9) |
| Long-term lease obligations | $ 19,160 | $ 13 |

**NOTE 12 – Employee Benefit Plans**

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 primarily by investing in the actual underlying investments. At June 30, 2022 and December 31, 2021, these investments totaled approximately $12.4 million and $15.5 million, respectively.

**NOTE 13 – Related Parties**

We conduct business with the following related parties: Keylink International (B.V.I.) Inc. and its subsidiaries and affiliates ("Keylink"), Nuvoton Technology Corporation ("Nuvoton") and Jiyuan Crystal Photoelectric Frequency Technology Ltd. ("JCP").

Keylink is a 5% joint venture partner in our Shanghai assembly and test facilities. We sell products to, and purchase inventory from, companies owned by 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 a consulting fee to Keylink.

Our Chairman and CEO serves as a member of the Nuvoton board of directors and we purchase wafers from Nuvoton for use in our production process and we have an agreement to purchase approximately $41.2 million of wafers from Nuvoton that ends in the fourth quarter of 2025. We consider our relationships Nuvoton to be mutually beneficial and plan to continue our strategic alliance with Nuvoton.

JCP is a frequency control product manufacturing company from which we purchase material and in which we have made an equity investment. We account for this investment using the equity method of accounting.

The table below set forth the net sales, purchases and expenses with our related parties for the three months and six months ended June 30:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Keylink: | | | | |
| Net sales | $ 4,149 | $ 4,333 | $ 9,915 | $ 9,899 |
| Purchases | $ 506 | $ 501 | $ 928 | $ 980 |
| Plating, rental and consulting expense | $ 4,418 | $ 4,341 | $ 8,965 | $ 8,656 |
| Nuvoton: | | | | |
| Net sales | $ 8 | $ - | $ 43 | $ - |
| Purchases | $ 4,094 | $ 2,288 | $ 7,160 | $ 3,695 |
| JCP: | | | | |
| Purchases | $ 157 | $ 328 | $ 370 | $ 687 |

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

| | June 30, 2022 | December 31, 2021 |
|---|---|---|
| Keylink: | | |
| Accounts receivable | $ 47,373 | $ 39,530 |
| Accounts payable | $ 45,132 | $ 36,090 |
| Nuvoton: | | |
| Accounts receivable | $ 9 | $ - |
| Accounts payable | $ 2,328 | $ 2,014 |
| JCP: | | |
| Accounts payable | $ 152 | $ 235 |

**Note 14 - Equity Investments**

*Equity Investments*

The Company maintains equity investments in companies which are accounted for under the measurement alternative described in ASC 321-10-35-2 for equity securities that lack readily determinable fair values. During the six months ended June 30, 2022 the Company recognized $3.9 million upward fair value adjustments, based on the valuation of additional equity issued by the investee which was deemed to be an observable transaction of a similar investment under ASC 321. The gain was recorded within Other income, in the condensed consolidated statement of operations. The upward fair value adjustment represents a nonrecurring fair value measurement based on observable price changes.

**Note 15 –Acquisitions and Divestitures**

*Wafer Fabrication Plant in South Portland, Maine*

On June 3, 2022, the Company completed the previously announced acquisition of onsemi's wafer fabrication facility and operations located in South Portland, Maine.  The South Portland Facility ("SPFAB") was purchased to provide additional 200mm wafer fabrication capacity for analog products to accelerate the Company's growth initiatives in the automotive and industrial end markets. This US-based facility, together with the Company's existing wafer fabrication facilities in Asia and Europe, will further enhance the Company's global manufacturing operations. The Company recorded the purchase of SPFAB as a business combination. Total consideration paid by the Company was $80.4 million and was funded by existing cash and advances under the revolving portion of our U.S. Credit Agreement. The SPFAB facility and assets were wholly acquired, and there is no remaining minority interest. The goodwill is assigned to the standard semiconductor products segment and will not be tax deductible. The Company also incurred acquisition costs of approximately $0.5 million that were recognized in selling, general and administrative expense. The table below sets forth the fair value of the assets and liabilities recorded in the SPFAB acquisition and the corresponding line item in which the item is recorded in our condensed consolidated balance sheet. These estimates, judgments and assumptions are subject to change upon final valuation and should be treated as preliminary values.

| | | |
|---|---|---|
| Assets | | |
| Inventories | $ | 1,257 |
| Prepaid expenses and other | | 257 |
| Property, plant and equipment | | 77,115 |
| Goodwill | | 1,779 |
| Total assets purchased | $ | 80,408 |

**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, 2021 (“Form 10-K”), previously filed with Securities and Exchange Commission (“SEC”) on February 18, 2021.*

**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. The Company serves the consumer electronics, computing, communications, industrial, and automotive markets. For detailed information, see Note 1 – **S**ummary of Operations and Significant Accounting Policies, included in the condensed consolidated financial statements in Item 1 above. Our products are sold primarily throughout Asia, the Americas 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.

**Summary for the Three Months Ended June 30, 2022**

- Successfully completed the acquisition of the onsemi wafer fabrication plant located in South Portland, Maine ("SPFAB");
- Net sales were $501.0 million, an increase of 13.7% from the $440.4 million in second quarter of 2021 and 3.9% from the $482.1 million in the first quarter of 2022;
- Gross profit was $206.5 million, a 29.2% increase from the $159.8 million in the second quarter of 2021 and a 5.0% increase from the $196.7 million in the first quarter of 2022;
- Gross profit margin improved 490 basis points to 41.2% from 36.3% in the second quarter of 2021 and 40 basis points from the 40.8% in the first quarter of 2022;
- Net income was $80.2 million, or $1.75 per diluted share, compared to $55.4 million, or $1.22 per diluted share, in the second quarter of 2021 and $72.7 million, or $1.59 per share in the first quarter of 2022; and
- We achieved $85.0 million cash flow from operations. We had cash capital expenditures of $39.6 million, or 7.9% of net sales and an increase in debt of $35.1 million.

*COVID-19*

We remain focused on the safety and well-being of our stakeholders and on the service to our customers. We will continuously review and assess the rapidly-changing COVID-19 pandemic and its impacts on our customers, our suppliers and our business so that we can seek to address those impacts. With the current lockdowns being experienced in Shanghai, China, there can be no assurances we will not be required to close or reduce our manufacturing production in the future in response to the COVID-19 pandemic or other events beyond our control. In response to these lockdowns in Shanghai, the Company has been providing relief assistance for the impacted employees, including sleeping and shower arrangements at our local facilities, in addition to providing meals for employees.

As of June 30, 2022, our cash, cash equivalents, and short-term investments were $308.7 million, and we had access to additional borrowing capacity of 170.0 million under the revolving portion of our U.S. Credit Agreement, which we believe assures us adequate liquidity to manage the impacts of the COVID-19 pandemic on our business and to cover cash needs for working capital, capital expenditures and acquisitions for at least the next 12 months.

See “Risk Factors **-** *Shanghai, China has been experiencing government imposed lockdowns due to a resurgence of the Covid-19 virus"* in Item 1A of this Quarterly Report on Form 10-Q for an additional discussion of risks and potential risks of the COVID-19 pandemic on our business, financial condition and results of operations.

**Results of Operations for the Three Months Ended June 30, 2022 and 2021**

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

| | Percent of Net Sales<br>Three Months Ended June 30, | |
|---|---|---|
| | 2022 | 2021 |
| Net sales | 100 % | 100 % |
| Cost of goods sold | (59 ) | (64 ) |
| Gross profit | 41 | 36 |
| Total operating expense | 20 | 21 |
| Income from operations | 21 | 15 |
| Total other (expense) income | (1 ) | 1 |
| Income before income taxes and noncontrolling interest | 20 | 16 |
| Income tax provision | (4 ) | (3 ) |
| Net income | 17 | 13 |
| Net income attributable to common stockholders | 16 | 13 |

The following table and discussion explains in greater detail our consolidated operating results and financial condition for the three months ended June 30, 2022, compared to the three months ended June 30, 2021. 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 | | | |
|---|---|---|---|---|
| | June 30, | | | |
| | 2022 | 2021 | Increase/(Decrease) | % Change |
| Net sales | $ 500,972 | $ 440,448 | $ 60,524 | 13.7 % |
| Cost of goods sold | 294,446 | 280,646 | 13,800 | 4.9 % |
| Gross profit | 206,526 | 159,802 | 46,724 | 29.2 % |
| Total operating expense | 100,288 | 94,445 | 5,843 | 6.2 % |
| Interest income | 861 | 818 | 43 | 5.3 % |
| Interest expense | (1,590 ) | (2,017 ) | (427 ) | (21.2 %) |
| Foreign currency gain (loss), net | 1,819 | (510 ) | 2,329 | 456.7 % |
| Unrealized (loss) gain on investments | (7,764 ) | 5,261 | (13,025 ) | N/A |
| Other income | 1,647 | 1,837 | (190 ) | 10.3 % |
| Income tax provision | 18,461 | 12,120 | 6,341 | 52.3 % |

Net sales increased approximately $60.5 million, or 13.7%, for the three months ended June 30, 2022, compared to the same period last year. This increase was driven by product mix improvements and revenue growth in the automotive and industrial end markets. The expansion of gross margin is attributable to a greater mix of higher margin products, as weighted-average sales price increased 28.1% when compared to the same period last year, along with expanded factory utilization and loading. Additionally, we attribute the Company's continued net sales growth to our content expansion initiatives and our total solution sales approach, resulting in expanded customer relationships and increasing design win momentum.

The table below sets forth our product revenue as a percentage of total product revenue by end-user market for the three months ended June 30, 2022 and 2021:

| | Three Months Ended<br>June 30, | |
|---|---|---|
| | 2022 | 2021 |
| Industrial | 27% | 22% |
| Communications | 16% | 17% |
| Consumer | 19% | 19% |
| Computing | 24% | 30% |
| Automotive | 14% | 12% |

Strong revenue and margin performance continues to be driven by records achieved in the automotive end market, which reached 14% of revenue, the industrial market, as well as for our Pericom products. Another key factor to our ongoing success has been our content expansion initiatives and our total solution sales approach, resulting in expanded customer relationships and increasing design win momentum.

Cost of goods sold increased approximately $13.8 million for the three months ended June 30, 2022, compared to the same period last year, due to the increased net sales during the three months ended June 30, 2021. As a percent of sales, cost of goods sold was 58.8% for the three months ended June 30, 2022, compared to 63.7% for the same period last year. Average unit cost increased approximately 18.1% for the three months ended June 30, 2022, compared to the same period last year due to cost increases from various subcontractors and foundries and the improvement in product mix. For the three months ended June 30, 2022, gross profit increased approximately 29.2% when compared to the same period last year. Gross profit margin for the three month periods ended June 30, 2022 and 2021 was 41.2% and 36.3%, respectively.

Operating expenses for the three months ended June 30, 2022, increased $5.8 million when compared to the three months ended June 30, 2021. Operating expenses as a percentage of net sales was 20.0% and 21.4% for the three months ended June 30, 2022 and 2021, respectively. Selling, general and administrative expenses ("SG&A") increased approximately $8.8 million, due to increases in wages and benefits, freight and duty expenses, general selling expenses and taxes and insurance as compared to the same period last year. Research and development expenses ("R&D") increased approximately $1.0 million due to increases in supplies, wages and benefits and professional services, partially offset by decreases in fees and services as compared to the same period last year. SG&A, as a percentage of net sales, was 13.8% and 13.7% for the three months ended June 30, 2022 and 2021, respectively. R&D, as a percentage of net sales, was 6.1% and 6.8% for the three months ended June 30, 2022 and 2021, respectively.

Interest income was flat for the three months ended June 30, 2022, compared to the same period last year. Interest expense decreased 21.2% for the three months ended June 30, 2022, compared to the same period last year, due to a decrease in the borrowing levels, partially offset by higher interest rates on our floating rate debt. Unrealized gain on investments decreased from 2021 due to mark to market adjustments on investments.

We recognized income tax expense of approximately $18.5 million and $12.1 million for the three months ended June 30, 2022 and 2021, respectively. The increase in income taxes for 2022 compared to 2021 was primarily attributable to an increase in pretax book income.

**Results of Operations for the Six Months Ended June 30, 2022 and 2021**

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

| | Percent of Net Sales Six Months Ended June 30, 2022 | 2021 |
|---|---|---|
| Net sales | 100% | 100% |
| Cost of goods sold | (59) | (65) |
| Gross profit | 41 | 35 |
| Total operating expense | 21 | 22 |
| Income from operations | 20 | 13 |
| Total other (expense) income | (1) | 1 |
| Income before income taxes and noncontrolling interest | 20 | 14 |
| Income tax provision | (4) | (3) |
| Net income | 16 | 11 |
| Net income attributable to common stockholders | 16 | 11 |

The following table and discussion explains in greater detail our consolidated operating results and financial condition for the six months ended June 30, 2022, compared to the six months ended June 30, 2021. 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.

| | Six Months Ended June 30, 2022 | 2021 | Increase/(Decrease) | % Change |
|---|---|---|---|---|
| Net sales | $ 983,095 | $ 853,569 | $ 129,526 | 15.2% |
| Cost of goods sold | 579,872 | 555,131 | 24,741 | 4.5% |
| Gross profit | 403,223 | 298,438 | 104,785 | 35.1% |
| Total operating expense | 203,927 | 185,691 | 18,236 | 9.8% |
| Interest income | 1,687 | 1,586 | 101 | 6.4% |
| Interest expense | (2,704) | (4,881) | (2,177) | (44.6%) |
| Foreign currency gain (loss), net | 3,540 | (1,789) | 5,329 | 297.9% |
| Unrealized (loss) gain on investments | (13,312) | 8,916 | (22,228) | N/A |
| Other income | 3,523 | 4,154 | (631) | (15.2%) |
| Income tax provision | 35,107 | 21,554 | 13,553 | 62.9% |

Net sales increased approximately $129.5 million, or 15.2%, for the six months ended June 30, 2022, compared to the same period last year. This increase was driven primarily by revenue growth in the automotive and industrial end markets along with continued growth in our Pericom-branded products. The increase in gross margin is attributable to a greater mix of higher margin products, as weighted-average sales price increased 22.3% when compared to the same period last year. Additionally, we attribute the Company's continued net sales growth to our content expansion initiatives and our total solution sales approach, resulting in expanded customer relationships and increasing design win momentum.

The table below sets forth our product revenue as a percentage of total product revenue by end-user market for the six months ended June 30, 2022 and 2021:

| | Six Months Ended June 30, | |
|---|---|---|
| | 2022 | 2021 |
| Industrial | 27% | 22% |
| Communications | 16% | 17% |
| Consumer | 18% | 19% |
| Computing | 25% | 30% |
| Automotive | 14% | 12% |

Strong revenue and margin performance continues to be driven by records achieved in the automotive end market, which reached 14% of revenue, the industrial market, as well as for our Pericom products. Gross margin expanded 605 basis points year-over-year due to a greater mix of higher margin products along with expanded factory utilization and loading. Another key factor to our ongoing success has been our content expansion initiatives and our total solution sales approach, resulting in expanded customer relationships and increasing design win momentum.

Cost of goods sold increased approximately $24.7 million for the six months ended June 30, 2022, compared to the same period last year, due to the increased net sales during the six months ended June 30, 2021. As a percent of sales, cost of goods sold was 59.0% for the six months ended June 30, 2022, compared to 65.0% for the same period last year. Average unit cost increased approximately 14.8% for the six months ended June 30, 2022, compared to the same period last year due to cost increases from various subcontractors and foundries and the improvement in product mix. For the six months ended June 30, 2022, gross profit increased approximately 35.1% when compared to the same period last year. Gross profit margin for the six month periods ended June 30, 2022 and 2021 was 41.0% and 35.0%, respectively.

Operating expenses for the six months ended June 30, 2022, increased $18.2 million when compared to the six months ended June 30, 2021. Operating expenses as a percentage of net sales was 20.7% and 21.8% for the six months ended June 30, 2022 and 2021, respectively. SG&A increased approximately $21.6 million, due to increases in wages and benefits, freight and duty expenses and taxes and insurance as compared to the same period last year. R&D increased approximately $1.8 million due to increases in wages and benefits, partially offset by decreases in fees and services as compared to the same period last year. SG&A, as a percentage of net sales, was 14.3% and 13.9% for the six months ended June 30, 2022 and 2021, respectively. R&D, as a percentage of net sales, was 6.1% and 6.8% for the six months ended June 30, 2022 and 2021, respectively.

Interest income was flat for the six months ended June 30, 2022, compared to the same period last year. Interest expense decreased 44.6% for the six months ended June 30, 2022, compared to the same period last year, due to a decrease in the borrowing levels partially offset by an increase in the rate on our floating rate debt. Unrealized gain on investments decreased from 2021 due to mark to market adjustments on investments held in China.

We recognized income tax expense of approximately $35.1 million and $21.6 million for the six months ended June 30, 2022 and 2021, respectively. The increase in income taxes for 2022 compared to 2021 was primarily attributable to an increase in pretax book income.

**Financial Condition**

**Liquidity and Capital Resources**

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 and restricted cash decreased from $366.8 million at December 31, 2021 to $307.5 million at June 30, 2022. This decrease in cash, cash equivalents and restricted cash reflects normal operations of the Company and the purchase of the wafer fabrication plant in South Portland, Maine, described more fully elsewhere in this Quarterly Report on Form 10-Q. As of June 30, 2022, we had short-term investments totaling $8.8 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.

At June 30, 2022 and December 31, 2021, our working capital was $714.6 million and $716.6 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, capital expenditures and acquisitions for at least the next 12 months.

Our undistributed foreign earnings continue to be indefinitely reinvested in foreign operations, with limited exceptions related to earnings of certain European and Asian subsidiaries. As of June 30, 2022, our foreign subsidiaries held approximately $273.6 million of cash, cash equivalents and investments of which approximately $39.4 million would be subject to a potential non-U.S. withholding tax if distributed outside the country in which the cash is currently held. The $39.4 million is held in Germany, China, Korea, and Taiwan.

*Short-term debt*

Our Asia subsidiaries maintain credit facilities with several financial institutions through our foreign entities worldwide totaling $201.8 million. At June 30, 2022, outstanding borrowings were $25.9 million and outstanding letters of credit were $0.9 million under the Asia credit facilities.

*Long-term debt*

The Company maintains a long-term credit facility (“U.S. Credit Agreement”) consisting of a term loan with a current balance of $63.6 million and a $200.0 million revolving senior credit facility, of which $30.0 million was drawn on June 30, 2022. The U.S. Credit Agreement matures in May 2024.

In addition to the liquidity provided by the U.S. Credit Agreement, our 51% owned subsidiary, Eris Technology Company ("ERIS"), borrowed $27.3 million on a long-term basis from local Taiwan banks. The ERIS debt matures in periods through 2033.

**Discussion of Cash Flow**

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

| | Six Months Ended June 30, | |
|---|---|---|
| | **2022** | **2021** |
| Net cash flows provided by operating activities | $ 157,339 | $ 162,064 |
| Net cash and cash equivalents used in investing activities | (164,568) | (36,674) |
| Net cash and cash equivalents used in financing activities | (38,790) | (156,292) |
| Effect of exchange rate changes on cash and cash equivalents | (13,252) | 5,291 |
| Change in cash and cash equivalents, including restricted cash | $ (59,271) | $ (25,611) |

***Operating Activities***

Net cash flows provided by operating activities for the six months ended June 30, 2022 was $157.3 million. Net cash flows provided by operating activities for the six months ended June 30, 2022 resulted from net income of $156.9 million, depreciation and amortization of intangible assets of $59.9 million, share-based compensation of $16.5 million and net non-cash investment losses of $13.2 million. The increases were partially offset by a decrease in operating asset and liability accounts of $80.9 million and a gain in the disposal of property, plant and equipment of $3.8 million. Net cash flows provided by operating activities for the six months ended June 30, 2021 was $162.1 million. Net cash flows provided by operating activities for the six months ended June 30, 2021 resulted from net income of $99.2 million, depreciation and amortization of intangible assets of $61.2 million, share-based compensation of $14.8 million and an increase in deferred taxes of $1.2 million. The increases were partially offset by a noncash gain on an investment of $9.1 million and a decrease in noncash working capital accounts of $5.5 million.

***Investing Activities***

Net cash and cash equivalents used in investing activities was $164.6 million for the six months ended June 30, 2022. Net cash and cash equivalents used in investing activities for the six months ended June 30, 2022 was primarily due to the acquisition of SPFAB for $80.4 million and purchases of property, plant and equipment of $78.1 million or 7.9% of net sales. Net cash and cash equivalents used in investing activities was $36.7 million for the six months ended June 30, 2021. Net cash and cash equivalents used in investing activities for the six months ended June 30, 2021 was primarily due to the purchase of property, plant and equipment of $45.0 million and the net purchase of short-term investments of $1.1 million, partially offset by the proceeds from the sale of property, plant and equipment of $3.0 million and other investing cash inflows of $6.5 million for the six months ended June 30, 2021.

***Financing Activities***

Net cash and cash equivalents used in financing activities was $38.8 million for the six months ended June 30, 2022. Net cash used in financing activities in the six months ended June 30, 2022 consisted primarily of $32.5 million of net reductions in our debt and taxes paid on net share settlements of $8.9 million. Net cash and cash equivalents used in financing activities was $156.3 million for the six months ended June 30, 2021. Net cash used in financing activities in the six months ended June 30, 2021 consisted primarily of $151.5 million of net reductions in our debt and taxes paid on net share settlements of $10.0 million, partially offset by a capital contribution by a noncontrolling interest on $4.0 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 No. 815. The fair value of our foreign exchange hedges approximates zero.

**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, 2021, filed with the SEC on February 18, 2022.

**Critical Accounting Estimates**

Our critical accounting estimates 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 fiscal year ended December 31, 2021, filed with the SEC on February 18, 2022. Any new accounting estimates or updates to existing accounting estimates 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 – Summary of Operations and Significant Accounting Policies. The application of our critical accounting estimates 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 - Summary of Operations and Significant Accounting Policies, of the Notes to Condensed Consolidated Financial Statements, for detailed information regarding the status of recently issued accounting pronouncements, if any.

**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 Quarterly Report The forward-looking statements included in this Quarterly Report on Form 10-Q are made only as of the date of this Quarterly 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 impact of the continuing COVID-19 pandemic may have a material adverse effect on our business, financial condition and results of operations.*

*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.*

*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 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.*

*A significant part of our growth strategy involves 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 many environmental laws and regulations that could result in significant expenses and could adversely affect our business, operating results and financial condition.*

*We may incur additional costs and face emerging risks associated environmental, social and governance (“ESG”) factors impacting our operations.*

*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 or our distributors' 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.*

*Certain of our employees in the U.K. participate in a company-sponsored defined benefit plan which subjects the Company to risks associated with the estimates and assumptions used in calculating expense and funding requirements recorded in the Company's consolidated financial statements. Inaccuracies or changes in these estimates could require material changes in the expense and funding required.*

*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.*

*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.*

***RISKS RELATED TO OUR INTERNATIONAL OPERATIONS***

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

*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.*

*We could be adversely affected by the compromise or theft of our technology, know-how, data or intellectual property or a requirement that we yield rights in technology, know-how, data stored in foreign jurisdictions or intellectual property that we use in such foreign jurisdictions.*

***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.*

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

***GENERAL RISK FACTORS***

*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.*

*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.*

*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.*

**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 fiscal year ended December 31, 2021, filed with the SEC on February 18, 2022.

**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 June 30, 2021, 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 Quarterly 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 Internal 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 June 30, 2022, 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.**

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, 2021, filed with the Securities and Exchange Commission on February 18, 2022, other than the additional risk factors below related to the lockdown of Shanghai, China and the ongoing conflict between Ukraine and Russia.

***Shanghai, China has been experiencing government imposed lockdowns due to a resurgence of the Covid-19 virus.***

We have manufacturing facilities located in Shanghai, China, where operations are subject to being shut-down by the Chinese government due to a resurgence in the Covid-19 virus. An extended shut-down of our Shanghai facilities could have a material adverse effect on the operations, results of operations, financial condition, liquidity and business outlook of our business.

***The invasion of Ukraine by Russia could negatively impact our business.***

Russia’s recent military invasion of Ukraine has led to, and may lead to, additional sanctions being levied by the United States, European Union and other countries against Russia. Russia’s military invasion and the resulting sanctions have had an adverse effect on global markets. We cannot predict the progress or outcome of the situation in Ukraine, as the conflict and governmental reactions are rapidly developing and beyond our control. Prolonged unrest, intensified military activities, or more extensive sanctions impacting the region could have a material adverse effect on the global economy, and such effect could in turn have a material adverse effect on the operations, results of operations, financial condition, liquidity and business outlook of our business.

**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 | |
| 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 Quarterly Report to be signed on its behalf by the undersigned thereunto duly authorized.

DIODES INCORPORATED
(Registrant)

| | |
|---|---|
| August 4, 2022<br>Date | By: /s/ Keh-Shew Lu<br>KEH-SHEW LU<br>Chairman, President and Chief Executive Officer<br>(Principal Executive Officer) |
| August 4, 2022<br>Date | By: /s/ Brett R. Whitmire<br>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: August 4, 2022

/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: August 4, 2022

/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 June 30, 2022 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: August 4, 2022

/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 June 30, 2022 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: August 4, 2022

/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.