

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended March 31, 2018

Or

**Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number: 002-25577

**DIODES INCORPORATED**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**4949 Hedgcoxe Road, Suite 200**  
**Plano, Texas**  
(Address of principal executive offices)

**95-2039518**  
(I.R.S. Employer  
Identification Number)

**75024**  
(Zip code)

**(972) 987-3900**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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 May 4, 2018 was 49,590,347.

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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)*

	<b>March 31, 2018</b>	<b>December 31, 2017</b>
	<i>(Unaudited)</i>	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 182,411	\$ 203,820
Short-term investments	3,851	4,558
Accounts receivable, net of allowances of \$4,039 and \$4,480 at March 31, 2018 and December 31, 2017, respectively	174,141	200,112
Inventories	236,501	216,506
Prepaid expenses and other	37,415	37,328
Total current assets	<u>634,319</u>	<u>662,324</u>
Property, plant and equipment, net	469,654	459,169
Deferred income tax	41,157	40,580
Goodwill	135,994	134,187
Intangible assets, net	151,810	156,445
Other	38,428	35,968
Total assets	<u>\$ 1,471,362</u>	<u>\$ 1,488,673</u>
<b>Liabilities</b>		
Current liabilities:		
Line of credit	\$ 4,466	\$ 1,008
Accounts payable	106,973	108,001
Accrued liabilities and other	86,027	99,301
Income tax payable	21,041	18,216
Current portion of long-term debt	21,876	20,636
Total current liabilities	<u>240,383</u>	<u>247,162</u>
Long-term debt, net of current portion	199,924	247,492
Deferred tax liabilities	26,321	25,176
Other long-term liabilities	94,925	94,925
Total liabilities	<u>561,553</u>	<u>614,755</u>
Commitments and contingencies (See Note 8)		
<b>Stockholders' equity</b>		
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; 49,571,038 and 49,130,090, issued and outstanding at March 31, 2018 and December 31, 2017, respectively	34,021	33,727
Additional paid-in capital	385,928	386,338
Retained earnings	551,213	532,687
Treasury stock, at cost, 1,457,206 shares held at March 31, 2018 and December 31, 2017	(37,768)	(37,768)
Accumulated other comprehensive loss	(64,841)	(83,480)
Total stockholders' equity	<u>868,553</u>	<u>831,504</u>
Noncontrolling interest	41,256	42,414
Total equity	<u>909,809</u>	<u>873,918</u>
Total liabilities and stockholders' equity	<u>\$ 1,471,362</u>	<u>\$ 1,488,673</u>

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)

	<b>Three Months Ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
<b>Net sales</b>	\$ 274,512	\$ 236,303
<b>Cost of goods sold</b>	175,917	162,392
Gross profit	98,595	73,911
<b>Operating expenses</b>		
Selling, general and administrative	47,150	39,690
Research and development	20,200	18,040
Amortization of acquisition related intangible assets	4,767	4,758
Restructuring	(320)	2,231
Other operating income	(142)	(165)
Total operating expenses	71,655	64,554
<b>Income from operations</b>	26,940	9,357
<b>Other income (expense)</b>		
Interest income	514	295
Interest expense	(2,757)	(3,485)
Foreign currency loss, net	(3,029)	(3,794)
Other income (expense)	4,635	(271)
Total other income (expense)	(637)	(7,255)
<b>Income before income taxes and noncontrolling interest</b>	26,303	2,102
Income tax provision	7,783	560
<b>Net income</b>	18,520	1,542
<b>Less net loss (income) attributable to noncontrolling interest</b>	6	(325)
<b>Net income attributable to common stockholders</b>	\$ 18,526	\$ 1,217
<b>Earnings per share attributable to common stockholders:</b>		
Basic	\$ 0.38	\$ 0.03
Diluted	\$ 0.37	\$ 0.02
<b>Number of shares used in earnings per share computation:</b>		
Basic	49,337	48,316
Diluted	50,622	49,663

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)*

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2018</b>	<b>2017</b>
Net income	\$ 18,520	\$ 1,542
Unrealized gain on defined benefit plan, net of tax	435	856
Unrealized gain on interest rate swap, net of tax	2,348	527
Unrealized foreign currency gain, net of tax	15,855	9,442
Comprehensive income	37,158	12,367
Less: Comprehensive income attributable to noncontrolling interest	6	(325)
Total comprehensive income attributable to common stockholders	<u>\$ 37,164</u>	<u>\$ 12,042</u>

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)

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2018</b>	<b>2017</b>
<b>Cash flows from operating activities</b>	\$ 53,959	\$ 45,626
<b>Cash flows from investing activities</b>		
Purchases of property, plant and equipment	(31,636)	(19,106)
Proceeds from sales of property, plant and equipment	208	211
Purchases of short-term investments	(237)	(6,787)
Proceeds from maturity of short-term investments	1,027	4,588
Other	1,203	(155)
Net cash and cash equivalents used in investing activities	(29,435)	(21,249)
<b>Cash flows from financing activities</b>		
Advances on lines of credit and short-term debt	3,414	-
Taxes paid related to net share settlement	(7,264)	-
Debt issuance costs	-	(67)
Proceeds from long-term debt	91,000	7,500
Repayments of long-term debt	(137,482)	(18,701)
Net proceeds from issuance of common stock	866	2,166
Repayment of capital lease obligation	(603)	(1,238)
Dividend distribution to noncontrolling interest	(151)	-
Other	378	-
Net cash and cash equivalents used in financing activities	(49,842)	(10,340)
Effect of exchange rate changes on cash and cash equivalents	3,971	2,472
Change in cash and cash equivalents, including restricted cash	(21,347)	16,509
Cash and cash equivalents, beginning of period, including restricted cash	205,202	249,712
Cash and cash equivalents, end of period, including restricted cash	\$ 183,855	\$ 266,221
<b>Supplemental Cash Flow Information</b>		
Interest	\$ 2,790	\$ 2,626
Taxes	\$ 4,139	\$ 7,619
Non-cash financing activities:		
Decrease in accounts payable related to the purchase of property, plant and equipment	\$ 6,917	\$ 7
(Increase) decrease dividend accrued for noncontrolling interest	\$ (1,000)	\$ 1,000

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

**DIODES INCORPORATED AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

**NOTE 1 – Nature of Operations, Basis of Presentation and Recently Issued Accounting Pronouncements**

**Nature of Operations**

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

**Basis of Presentation**

The condensed consolidated financial data at December 31, 2017 is derived from audited financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2017 filed with the Securities and Exchange Commission (“SEC”) on February 20, 2018 (“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 ended March 31, 2018 are not necessarily indicative of the results that may be expected for other interim periods or the year ending December 31, 2018.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. As permitted under GAAP, interim accounting for certain expenses, including income taxes, are based on full year forecasts. For interim financial reporting purposes, income taxes are recorded based upon estimated annual effective income tax rates taking into consideration discrete items occurring in a quarter. Dollar amounts and share amounts are presented in thousands, except per share amounts, unless otherwise noted. Certain prior year’s balances have been reclassified to conform to the current financial statement presentation.

**Recently Issued Accounting Pronouncements**

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

ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* - On January 1, 2018, we adopted the comprehensive new revenue recognition standard issued by the FASB. This standard is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This standard sets forth a five-step revenue recognition model which replaces the previous revenue recognition guidance in its entirety and is intended to eliminate numerous industry-specific pieces of revenue recognition guidance. The adoption of this standard did not have a material impact on our condensed consolidated financial position, reported revenue, results of operations or cash flows as of and for the three months ended March 31, 2018. See Note 7 for our expanded revenue disclosures required by the new standard.

ASU No. 2016-02, *Leases (Topic 842)* (“ASU 2016-02”) - In February 2016, the FASB issued ASU 2016-02, which amends the accounting treatment for leases. The amendments are effective for fiscal years beginning after December 15, 2018, including

interim periods within those fiscal years. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. Early adoption is permitted. The Company is currently evaluating the impact that the adoption of ASU 2016-02 may have on its consolidated financial statements and has not elected early adoption as of the period ended March 31, 2018. During the second quarter of 2017 we engaged outside accounting consultants to assist us in the implementation of this new standard.

ASU No. 2016-15, *Statement of Cash Flows (Topic 230) Classification of Certain Cash Receipts and Cash Payments* – In November 2016, the FASB issued guidance on the presentation of restricted cash which requires that on the statement of cash flows, amounts generally described as restricted cash or restricted cash equivalents should be included within the beginning and ending balances of cash and cash equivalents. We adopted this guidance in the first quarter of 2018 on a retrospective basis. As a result, restricted cash amounts that have historically been included in prepaid expenses on our consolidated balance sheets are now included with cash and cash equivalents on the consolidated statements of cash flows. As of March 31, 2018 and December 31, 2017 we had restricted cash of \$1.4 million. Restricted cash is pledged as collateral when we enter into agreements with banks for certain banking facilities.

## 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.

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

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2018</b>	<b>2017</b>
<b>Earnings (numerator)</b>		
Net income attributable to common stockholders	\$ 18,526	\$ 1,217
<b>Shares (denominator)</b>		
Weighted average common shares outstanding (basic)	49,337	48,316
Dilutive effect of stock options and stock awards outstanding	1,285	1,347
Adjusted weighted average common shares outstanding (diluted)	50,622	49,663
<b>Earnings per share attributable to common stockholders</b>		
Basic	\$ 0.38	\$ 0.03
Diluted	\$ 0.37	\$ 0.02
<b>Stock options and stock awards excluded from EPS calculation because the effect would be anti-dilutive</b>	<b>6</b>	<b>768</b>

## NOTE 3 – Inventories

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

	<b>March 31, 2018</b>	<b>December 31, 2017</b>
Finished goods	\$ 91,835	\$ 81,194
Work-in-progress	54,619	52,578
Raw materials	90,047	82,734
Total	\$ 236,501	\$ 216,506

## NOTE 4 – Goodwill and Intangible Assets



The table below sets forth the changes in goodwill:

Balance at December 31, 2017	\$	134,187
Foreign currency translation adjustment		1,807
Balance at March 31, 2018	\$	<u>135,994</u>

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

	<u>March 31, 2018</u>	<u>December 31, 2017</u>
Intangible assets subject to amortization:		
Gross carrying amount	\$ 236,667	\$ 234,533
Accumulated amortization	(92,827)	(88,059)
Foreign currency translation adjustment	(8,195)	(8,249)
Total	<u>135,645</u>	<u>138,225</u>
Intangible assets with indefinite lives:		
Gross carrying amount	17,083	19,217
Foreign currency translation adjustment	(918)	(997)
Total	<u>16,165</u>	<u>18,220</u>
Total intangible assets, net	<u>\$ 151,810</u>	<u>\$ 156,445</u>

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

<u>Amortization expense</u>	<u>2018</u>	<u>2017</u>
Three months ended March 31	\$ 4,767	\$ 4,758

#### NOTE 5 – Income Tax Provision

##### *Tax Cuts and Jobs Act*

The Tax Cuts and Jobs Act (the “Tax Act”) was enacted on December 22, 2017. The Tax Act reduced the U.S. federal corporate tax rate from 35% to 21% effective January 1, 2018, required companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred, provided an exemption from U.S. federal tax for dividends received from foreign subsidiaries, and created new taxes on certain foreign sourced earnings. As of the completion of these financial statements and related disclosures, we have not completed our accounting for the tax effects of the Tax Act on our 2017 tax year. We have not made any adjustments to the provisional tax expense of \$45.9 million we recorded in the fourth quarter of 2017 to account for the tax effects of the Tax Act. The Company expects to finalize the accounting for the effects of the Tax Act on the 2017 tax year no later than the fourth quarter of 2018, in accordance with Securities and Exchange Commission Staff Accounting Bulletin No. 118. Future adjustments made to the provisional effects will be reported as a component of income tax expense from continuing operations in the reporting period in which any such adjustments are determined.

We incorporated the effects of the Tax Act into our 28.7% estimated annual effective tax rate for 2018. As shown below, the actual 29.6% effective tax rate for the quarter ended March 31, 2018, varies from the estimated annual tax rate due to discrete items related to stock-based compensation activity during the quarter (accounted for under ASU 2016-09) and the tax rate change from 17% to 20% in Taiwan, which became effective January 1, 2018.

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

	Three Months Ended March 31,	
	2018	2017
Domestic pre-tax loss	\$ (9,372)	\$ (13,211)
Foreign pre-tax income	\$ 35,675	\$ 15,313
Income tax provision	\$ 7,783	\$ 560
Effective tax rate	29.6%	26.6%
Impact of tax holidays on tax expense	\$ (812)	\$ (963)
Earnings per share impact of tax holidays:		
Basic	\$ 0.02	\$ 0.02
Diluted	\$ 0.02	\$ 0.02

The increase in the effective tax rate for the three months ended March 31, 2018 when compared to the three months ended March 31, 2017, is primarily attributable to the “GILTI” tax, which is a new tax on global intangible low-taxed income of non-U.S. subsidiaries that was created by the Tax Act and to which the Company is subject effective January 1, 2018.

Our undistributed foreign earnings continue to be indefinitely reinvested in foreign operations, with limited exceptions related to earnings of European 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 2008, or for the 2010 and 2011 tax years. We are no longer subject to China income tax examinations by tax authorities for tax years before 2007. With respect to state and local jurisdictions and countries outside of the U.S. (other than China), with limited exceptions, the Company is no longer subject to income tax audits for years before 2012. Although the outcome of tax audits is always uncertain, the Company believes that adequate amounts of tax, interest and penalties, if any, have been provided for in the Company’s reserve for any adjustments that may result from currently pending tax audits. The Company recognizes accrued interest and penalties related to unrecognized tax benefits in interest expense. As of March 31, 2018, the gross amount of unrecognized tax benefits was approximately \$31.3 million.

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

#### NOTE 6 – Share-Based Compensation

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

	Three Months Ended March 31,	
	2018	2017
Cost of goods sold	\$ 90	\$ 158
Selling, general and administrative	5,454	3,304
Research and development	736	669
Total share-based compensation expense	<u>\$ 6,280</u>	<u>\$ 4,131</u>

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

	Three Months Ended March 31,	
	2018	2017
Stock options	\$ 191	\$ 298
Share grants	6,089	3,833
Total share-based compensation expense	<u>\$ 6,280</u>	<u>\$ 4,131</u>

**Stock Options.** Approximately \$0.9 million in cash proceeds was received from stock option exercises during the three months ended March 31, 2018.

As of March 31, 2018, total unrecognized share-based compensation expense related to unvested stock options was approximately \$0.1 million, before income taxes, and is expected to be recognized over a weighted average period of less than 1 year.

**Share Grants.** Restricted stock awards and restricted stock units generally vest in equal annual installments over a four-year period. We also have share grants that are performance based that vest upon achievement of certain performance criteria. Our Chief Executive Officer had a grant of 600,000 performance-based stock units that vested upon the Company reaching \$1.0 billion in revenue. Based on the Company reaching approximately \$1.1 billion in revenue in 2017, our Chief Executive Officer's grant of 600,000 performance-based stock units were released to the Chief Executive Officer, upon filing of the Company's Annual Report on Form 10-K, in February 2018. The expense related to the 600,000 performance-based units was all recognized in previous periods. During the three months ended March 31, 2018, we issued 292,800 stock awards. This was primarily made up of the annual grant for officers and directors.

As of March 31, 2018, total unrecognized share-based compensation expense related to share grants was approximately \$16.0 million, before income taxes, and is expected to be recognized over a weighted average period of approximately 2.3 years.

**Stock Modification.** During the three months ended March 31, 2018 we modified previously granted stock option and stock awards for two corporate officers who retired. The result of the modification was the acceleration of the vesting of 7,500 stock options and 79,720 stock awards for the corporate officers. The incremental expense recorded for this modification was approximately \$1.8 million, which was expensed in SG&A in the three months ended March 31, 2018.

#### NOTE 7 – Segment Information and Revenue Reporting

*Segment Reporting.* For financial reporting purposes, we operate in a single segment, standard semiconductor products, through our various manufacturing and distribution facilities. We aggregate our products because the products are similar and have similar economic characteristics, use similar production processes and share the same customer type. Our primary operations include operations in Asia, North America and Europe. During the three months ended March 31, 2018, one customer accounted for 10.3% or \$28.4 million of our revenue. This customer did not account for 10% or greater of our revenue for the three months ended March 31, 2017 or 10% or greater of our outstanding accounts receivable at March 31, 2018.

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

<b>Three Months Ended March 31, 2018</b>	<b>Asia</b>	<b>North America</b>	<b>Europe</b>	<b>Consolidated</b>
Total sales	\$ 244,530	\$ 26,836	\$ 49,998	\$ 321,364
Intercompany elimination	(31,827)	(1,145)	(13,880)	(46,852)
Net sales	<u>\$ 212,703</u>	<u>\$ 25,691</u>	<u>\$ 36,118</u>	<u>\$ 274,512</u>

<b>Three Months Ended March 31, 2017</b>	<b>Asia</b>	<b>North America</b>	<b>Europe</b>	<b>Consolidated</b>
Total sales	\$ 218,343	\$ 42,879	\$ 41,018	\$ 302,240
Intercompany elimination	(33,339)	(17,540)	(15,058)	(65,937)
Net sales	<u>\$ 185,004</u>	<u>\$ 25,339</u>	<u>\$ 25,960</u>	<u>\$ 236,303</u>

*Changes in Accounting Policies.* Effective January 1, 2018, we adopted a comprehensive new revenue recognition standard. The details of the significant changes to our accounting policies resulting from the adoption of the new standard are set out below. We adopted the standard using a modified retrospective method. There was no change in our revenue reported for the three months ended March 31, 2017. The adoption of this standard did not have a material impact on our condensed consolidated financial position, reported revenue, results of operations or cash flows as of and for the three months ended March 31, 2018.

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer, and is the unit of account under ASC 606. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. Generally speaking, our performance obligations represent a promise to transfer various semiconductor products, and have the same pattern of revenue recognition. Our performance obligations are satisfied at either

a point in time, or over time as work progresses. The vast majority of our revenue from products and services is accounted for at a point in time. Substantially all of our revenue in direct and Distributor sales is recognized at a point in time. Further, the payment terms on our sales are based on negotiations with our customers.

Customers can order different types of semiconductors in a single contract (purchase order), and each line on a purchase order represents a separate performance obligation. Depending on the terms of an arrangement, we may also be responsible for shipping and handling activities. In accordance with ASC 606-10-25-18B, we have elected to account for shipping and handling as activities to fulfill our promise to transfer the good(s). As such, shipping and handling activities do not represent a separate performance obligation, and are accrued as a fulfillment cost. Further, although we offer warranties on our products, our warranties are considered to be assurance-type in nature and do not cover anything beyond ensuring that the product is functioning as intended. Based on the guidance in ASC 606, assurance-type warranties do not represent separate performance obligations; therefore, the primary performance obligation in the majority of our contracts is the delivery of a specific good through the purchase order submitted by our customer.

We record allowances/reserves for a number of items. The following items are the largest dollar items for which we record allowances/reserves with ship and debit making up the vast majority: (i) ship and debit, which arise when we issue credit to certain distributors upon their shipments to their end customers; (ii) stock rotation, which are contractual obligations that permit certain distributors, up to four times a year, to return a portion of their inventory based on historical shipments to them in exchange for an equal and offsetting order; and (iii) price protection, which arise when market conditions cause average selling prices to decrease and we issue credit to certain distributors on their inventory. Ship and debit reserves are recorded as a reduction to net sales with a corresponding reduction to accounts receivable. Stock rotation reserves are recorded as a reduction to net sales. Price protection reserves are recorded as a reduction to net sales with a corresponding increase in accrued liabilities.

We also assess our customer's ability and intention to pay, which is based on a variety of factors including our customer's historical payment experience, their financial condition and the condition of the global economy and financial markets. Payment terms and conditions typically vary depending on negotiations with the customer.

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

The tables below set forth the amount of net sales by type, direct sales or Distributor and the location of the customer based on the location to where the products were shipped for the three months ended March 31, 2018 and 2017:

	<b>Net Sales for the Three Months Ended March 31,</b>			
	<b>Direct Sales</b>		<b>Distributor</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
China	\$ 49,325	\$ 53,334	\$ 98,866	\$ 76,192
U.S.	3,685	4,057	21,100	17,142
Korea	4,077	4,332	8,885	13,227
Germany	3,105	2,736	21,605	14,687
Singapore	288	114	15,830	10,728
Taiwan	856	2,813	19,193	13,334
All others (1)	15,320	14,729	12,377	8,878
<b>Total</b>	<b>\$ 76,656</b>	<b>\$ 82,115</b>	<b>\$ 197,856</b>	<b>\$ 154,188</b>

**Percent of Net Sales by Type for the Three Months Ended March 31,**

	Direct Sales		Distributor	
	2018	2017	2018	2017
China	64%	65%	50%	49%
U.S.	5%	5%	11%	11%
Korea	5%	5%	4%	9%
Germany	4%	3%	11%	10%
Singapore	-	-	8%	7%
Taiwan	1%	3%	10%	9%
All others (1)	21%	19%	6%	5%
Total	100%	100%	100%	100%

**Total Net Sales for the Three Months Ended March 31,**

	Dollar		Percent of Net Sales	
	2018	2017	2018	2017
China	\$ 148,191	\$ 129,526	54%	55%
U.S.	24,785	21,199	9%	9%
Korea	12,962	17,559	5%	7%
Germany	24,710	17,423	9%	7%
Singapore	16,118	10,842	6%	5%
Taiwan	20,049	16,147	7%	7%
All others (1)	27,697	23,607	10%	10%
Total	\$ 274,512	\$ 236,303	100%	100%

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

**Contract Balances.** The timing of revenue recognition, billings, and cash collections can result in billed accounts receivable, unbilled receivables (contract assets), and customer advances and deposits (contract liabilities) on the condensed consolidated balance sheets. However, billing generally occurs at or near the same time as revenue recognition, resulting in limited activity related to contract assets and liabilities. Contract asset and liability balances for the periods ended March 31, 2018, and December 31, 2017 were immaterial to our condensed consolidated financial statements.

**Other Practical Expedients Elected.** The Company decided to make use of the following practical expedients available under ASC 606:

- Sales tax excluded from the transaction price - The FASB decided to provide in ASU 2016-12 a practical expedient that permits entities to exclude from the transaction price all sales taxes that are assessed by a governmental authority and that are “imposed on and concurrent with a specific revenue-producing transaction and collected by the entity from a customer (for example, sales, use, value added, and some excise taxes);
- Incremental contract costs - Expense the incremental costs of obtaining a contract when if occurred the amortization period of the asset that the entity otherwise would have recognized is one year or less; and
- Portfolio approach - This guidance specifies the accounting for an individual contract with a customer. However, as a practical expedient, an entity may apply this guidance to a portfolio of contracts (or performance obligations) with similar characteristics if the entity reasonably expects that the effects on the financial statements of applying this guidance to the portfolio would not differ materially from applying this guidance to the individual contracts (or performance obligations) within that portfolio.

**NOTE 8 – Commitments and Contingencies**

**Purchase commitments** – As of March 31, 2018, we had approximately \$28.9 million in non-cancelable purchase contracts related to capital expenditures, primarily related to our manufacturing facilities in Asia.

**Defined Benefit Plan** - We have a contributory defined benefit plan that covers certain employees in the United Kingdom. As of March 31, 2018, the unfunded liability for this defined benefit plan was approximately \$34.0 million. We are obligated to make annual contributions, each year through December 2029, of approximately GBP 2 million (approximately \$2.8 million based on a

GBP:USD exchange rate of 1.4:1). The trustees are required to review the funding position every three years, and the most recent review was carried out as of April 5, 2016. The outcome of a review can result in a change in the amount of the payment.

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

#### Note 9 – Derivative Financial Instruments

**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 March 31, 2018, we had outstanding foreign currency forward contracts that are intended to preserve the economic value of foreign currency denominated monetary assets and liabilities; these instruments are not designated for hedge accounting treatment in accordance with ASC 815. There is no fair value of our foreign exchange hedges and therefore they are not recorded in our condensed consolidated balance sheets.

The table below sets forth outstanding foreign currency forward contracts at March 31, 2018 and December 31, 2017:

Notional Amount	Effective Date	Maturity Date	Index*	Weighted Average Fx Rate	Balance Sheet Hedge Designation
\$ 229	March 2018	April 2018	CNY/JPY	16.8277	Non-designated
20,267	March 2018	April 2018	EUR/USD	1.2348	Non-designated
10,685	March 2018	April 2018	GBP/USD	1.4047	Non-designated
59,061	March 2018	April 2018	USD/CNY	6.2862	Non-designated
2,476	March 2018	April 2018	USD/JPY	105.933	Non-designated
53,763	March 2018	April 2018	USD/TWD	29.001	Non-designated

Notional Amount	Effective Date	Maturity Date	Index*	Weighted Average Fx Rate	Balance Sheet Hedge Designation
\$ 2,494	December 2017	January 2018	EUR/GBP	1.2009	Non-designated
10,514	December 2017	January 2018	EUR/USD	1.2009	Non-designated
10,612	December 2017	January 2018	GBP/USD	1.3541	Non-designated
31,834	December 2017	January 2018	USD/CNY	6.5343	Non-designated
1,594	December 2017	January 2018	USD/JPY	112.35	Non-designated
30,594	December 2017	January 2018	USD/TWD	29.406	Non-designated

\* EUR = Euro

GBP = British Pound Sterling

USD = United States Dollar

CNY = Chinese Yuan Renminbi

JPY = Japan Yen

TWD = Taiwan dollar

**Hedges of Interest Rate 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 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.

The table below sets forth information related to the number of and the notional amount of our interest rate related derivative instruments:

	Number of Instruments		Notional Amount	
	December 31,		March 31, 2018	December 31, 2017
	March 31, 2018	2017		
Interest rate swaps and collars	14	6	\$ 220,000	\$ 150,000

The table below sets forth the fair value of the Company's interest rate related derivative financial instruments as well as their classification on our condensed consolidated balance sheets:

	Fair Value			
	Other Current Assets		Other Assets	
	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017
Interest rate swaps and collars	\$ 1,128	\$ 486	\$ 5,104	\$ 3,398

The tables below sets forth the effect of the Company's derivative financial instruments on the condensed consolidated statements of operations for the three months ended:

Derivatives Designated as Hedging Instruments	Amount of Gain or (Loss) Recognized in OCI on Derivative		Location of Gain or (Loss) Reclassified from Accumulated OCI into Income	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Net Income	
	March 31, 2018	March 31, 2017		March 31, 2018	March 31, 2017
	Interest rate swaps and collars	\$ 2,404		\$ 783	Interest expense

We estimate that \$1.1 million of net derivative gains included in accumulated other comprehensive income ("AOCI") as of March 31, 2018 will be reclassified into earnings within the following 12 months. No gains or losses were reclassified from AOCI into earnings as a result of forecasted transactions that failed to occur during three months ended March, 31, 2018 or 2017.

Derivatives Not Designated as Hedging Instruments	Amount of Gain or (Loss) Recognized in Net Income		Location of Gain or (Loss) Recognized in Net Income
	March 31, 2018	March 31, 2017	
Foreign currency forward contracts	\$ 1,394	\$ -	Foreign currency (loss) gain, net

At March 31, 2018 and December 31, 2017, the fair value of derivatives in a net asset position, which includes accrued interest but excludes any adjustments for nonperformance risk, related to these agreements was \$6.2 million and \$3.9 million, respectively. As of March 31, 2018 and December 31, 2017, the Company had not posted any collateral related to these agreements.

#### NOTE 10 – Employee Benefit Plans

##### Deferred Compensation

We maintain a Non-Qualified Deferred Compensation Plan (the "Deferred Compensation Plan") for executive officers, key employees and members of the Board of Directors. The Deferred Compensation Plan allows eligible participants to defer the receipt of eligible compensation, including equity awards, until designated future dates. We offset our obligations under the Deferred Compensation Plan by investing in the actual underlying investments. These investments are classified as trading securities and are carried at fair value. At March 31, 2018 and December 31, 2017, these investments totaled approximately \$9.2 million and \$8.8 million, respectively. All gains and losses in these investments are materially offset by corresponding gains and losses in the Deferred Compensation Plan liabilities.

#### NOTE 11 – Related Parties

We conduct business with a related party company, Lite-On Semiconductor Corporation and its subsidiaries and affiliates (collectively, "LSC"), and Nuvoton Technology Corporation and its subsidiaries and affiliates (collectively, "Nuvoton"). LSC is our largest stockholder, owning approximately 16% of our outstanding Common Stock as of March 31, 2018, and is a member of the Lite-On Group of companies. Raymond Soong, the Chairman of our Board of Directors, is the Chairman of LSC, and is the Chairman of Lite-On Technology Corporation ("LTC"), a significant shareholder of LSC. C.H. Chen, our former President and Chief Executive Officer and currently the Vice Chairman of our Board of Directors, is also Vice Chairman of LSC and a board member of LTC. Dr. Keh-Shew Lu, our President and Chief Executive Officer and a member of our Board of Directors, is a board member of LTC, and

a board member of Nuvoton. L.P. Hsu, a former member of our Board of Directors serves as a consultant to LTC, and is a supervisor of the board of Nuvoton. We consider our relationships with LSC and Nuvoton to be mutually beneficial, and we plan to continue our strategic alliance with LSC and Nuvoton. We purchase wafers from Nuvoton for use in our production process.

We also conduct business with Keylink International (B.V.I.) Inc. and its subsidiaries and affiliates (collectively, “Keylink”). Keylink is our 5% joint venture partner in our Shanghai assembly and test facilities. We sell products to, and purchase inventory from Keylink. In addition, our subsidiaries in China lease their manufacturing facilities in Shanghai from, and subcontract a portion of our manufacturing process (metal plating and environmental services) to, Keylink. We also pay a consulting fee to Keylink. The aggregate amounts paid to Keylink for the three months ended March 31, 2018 and 2017 were approximately \$4.5 million and \$3.4 million, respectively. In addition, Chengdu Ya Guang Electronic Company Limited (“Ya Guang”) is our 2% joint venture partner in one of our Chengdu assembly and test facilities and is our 5% joint venture partner in our other Chengdu assembly and test facility; however, we have no material transactions with Ya Guang. We also purchase materials from Jiyuan Crystal Photoelectric Frequency Technology Ltd. (“JCP”) an FCP manufacturing company in which we have made an equity investment and account for using the equity method of accounting.

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

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

	Three Months Ended	
	March 31,	
	2018	2017
<b>LSC</b>		
Net sales	\$ 258	\$ 231
Purchases	\$ 6,468	\$ 6,019
<b>Nuvoton</b>		
Purchases	\$ 3,054	\$ 2,909
<b>Keylink</b>		
Net sales	\$ 1,821	\$ 1,822
Purchases	\$ 858	\$ 1,078
<b>JCP</b>		
Purchases	\$ 190	\$ 201

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

	March 31,	December 31,
	2018	2017
<b>LSC</b>		
Accounts receivable	\$ 259	\$ 342
Accounts payable	\$ 4,558	\$ 3,308
<b>Keylink</b>		
Accounts receivable	\$ 3,463	\$ 4,089
Accounts payable	\$ 4,978	\$ 5,016
<b>Nuvoton</b>		
Accounts payable	\$ 1,793	\$ 1,121
<b>JCP</b>		
Accounts payable	\$ 247	\$ 317

#### NOTE 12 – Restructuring Costs

In February 2017, the Company announced its plan to transfer its wafer fabrication operation located in Lee’s Summit, MO. (“KFAB”) to other Company-owned wafer fabrication plants and external foundries. The Company ceased production operations at KFAB late in third quarter 2017 and vacated the premises in November 2017. Employees were provided retention and standard severance packages. During the quarter ended March 2017, the Company received \$6.0 million of insurance proceeds as a result of the fires sustained at the KFAB facility during 2016 of which \$4.2 million is recorded in Cost of Goods Sold and \$1.8 million is



recorded in Other Income. During the quarter ended March 31, 2018, the Company received \$2.9 million of insurance proceeds as a result of the aforementioned fire. This \$2.9 million is recorded in other income.

The table below sets forth the restructuring costs, recorded in restructuring expense in the condensed consolidated statements of operations, incurred during the three months ended March 31, 2018 and 2017:

	March 31, 2018	March 31, 2017
Early supply contract termination	\$ -	\$ 2,231
Cost of equipment relocation	(306)	-
Retention costs	(14)	-
	<u>\$ (320)</u>	<u>\$ 2,231</u>

In connection with the KFAB closure, during the three months ended March 31, 2017, the Company also recorded separation costs of \$0.5 million in cost of goods sold, \$0.09 million in selling, general and administrative expense and \$0.02 million in research and development expense.

The table below sets forth the costs accrued and paid related to the KFAB restructuring:

	Retention Costs	Equipment Relocation	Total
Beginning balance, January 1, 2018	\$ 659	\$ 645	\$ 1,304
Costs accrued	(14)	-	(14)
Restructuring costs paid	(645)	(645)	(1,290)
Balance at March 31, 2018	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

This asset retirement obligation is for the estimated amounts to be paid to contractors to remediate the KFAB facility upon vacating the property. The table below sets forth the asset retirement obligation related to the KFAB restructuring:

Asset retirement obligation, January 1, 2018	\$ 389
Reversal of accrual	(389)
Asset retirement obligation, March 31, 2018	<u>\$ -</u>

In connection with the asset retirement obligation as of March 31, 2018, the offsetting asset has been fully amortized.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Except for the historical information contained herein, the matters addressed in this Item 2 constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and as identified under the heading "Cautionary Statement for Purposes of the "Safe Harbor" Provision of the Private Securities Litigation Reform Act of 1995" herein. Such forward-looking statements are subject to a variety of risks and uncertainties, including those discussed below under the heading "Risk Factors" and elsewhere in this Quarterly Report on Form 10-Q, that could cause actual results to differ materially from those anticipated by our management. The Private Securities Litigation Reform Act of 1995 (the "Act") provides certain "safe harbor" provisions for forward-looking statements. All forward-looking statements made in this Quarterly Report on Form 10-Q are made pursuant to the Act. We undertake no obligation to publicly release the results of any revisions to 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, 2017 ("Form 10-K"), previously filed with Securities and Exchange Commission ("SEC") on February 20, 2018.

### Factors Relevant to Our Results of Operations for the Three Months Ended March 31, 2018

- During the first quarter of 2018, revenue was \$274.5 million, an increase of 16.2% from the \$236.3 million in the first quarter of 2017 and an increase of 2.3% from the \$268.4 million in the fourth quarter of 2017;
- Gross profit was a record high of \$98.6 million, compared to \$73.9 million of gross profit in the first quarter of 2017 and \$96.4 million in the fourth quarter of 2017;
- Gross profit margin was 35.9%, compared to gross profit margin of 31.3% in the first quarter of 2017 and 35.9% in the fourth quarter of 2017;
- Net income was \$18.5 million, or \$0.37 per diluted share, compared to net income of \$1.2 million, or \$0.02 per diluted share, in the first quarter of 2017 and a net loss of (\$30.7) million, or (\$0.62) per diluted share, in the fourth quarter 2017;
- Cash flow from operations was \$54.0 million. Net cash flow was negative \$21.3 million, which includes the pay down of \$46.5 million of long-term debt;
- We had strong growth in the consumer, automotive and industrial markets, contributing to revenue in Europe reaching record levels. Since implementing our automotive strategy in 2013, we have achieved a compound annual growth rate of 27%, reflecting our expanded customer base, increasing pipeline of design wins and growing content across multiple applications;
- Our automotive market reached 9% of net sales, compared to 7% in the first quarter of 2017 and 8% in the fourth quarter of 2017; and,
- Looking ahead to the second quarter of 2018, we expect to extend our growth momentum with continued strength across our target geographies and end markets.

## Overview

We are a leading global manufacturer and supplier of high-quality, application-specific standard products within the broad discrete, logic, analog and mixed-signal semiconductor markets. For detailed information, see Note 1 – Nature of Operations, Basis of Presentation and Recently Issued Accounting Pronouncements, included in the condensed consolidated financial statements in Item 1 above. Our products are sold primarily throughout Asia, North America and Europe. We believe that our focus on application-specific standard products utilizing innovative, highly efficient packaging and cost-effective process technologies, coupled with our collaborative, customer-focused product development, provides us with a meaningful competitive advantage relative to other semiconductor companies.

## Results of Operations for the Three Months Ended March 31, 2018 and 2017

The following table sets forth the percentage that certain items in the statements of operations bear to net sales.

	Percent of Net Sales	
	Three Months Ended March 31,	
	2018	2017
Net sales	100%	100%
Cost of goods sold	(64)	(69)
Gross profit	36	31
Total operating expenses	26	27
Income from operations	10	4
Total other expense	-	(3)
Income before income taxes and noncontrolling interest	10	1
Income tax provision	(3)	-
Net income	7	1
Net income attributable to common stockholders	7	1

The following table and discussion explains in greater detail our consolidated operating results and financial condition for the three months ended March 31, 2018, compared to the three months ended March 31, 2017. This discussion should be read in conjunction with the condensed consolidated financial statements and notes thereto appearing elsewhere in this quarterly report (*in thousands*).

	Three Months Ended			
	March 31,		Increase/(Decrease)	% Change
2018	2017			
Net sales	\$ 274,512	\$ 236,303	\$ 38,209	16.2%
Cost of goods sold	175,917	162,392	13,525	8.3%
Gross profit	98,595	73,911	24,684	33.4%
Total operating expenses	71,655	64,554	7,101	11.0%
Interest income	514	295	219	74.2%
Interest expense	(2,757)	(3,485)	(728)	(20.9%)
Foreign currency loss, net	(3,029)	(3,794)	(765)	(20.2%)
Other income (expense)	4,635	(271)	4,906	(1810.3%)
Income tax provision	7,783	560	7,223	1289.8%

Net sales increased approximately \$38.2 million for the three months ended March 31, 2018, compared to the same period last year, due to strong growth in the consumer, automotive and industrial markets, complimented by net sales from Europe reaching record levels. Our revenue in the automotive market reached 9% of net sales.

Cost of goods sold increased approximately \$13.5 million for the three months ended March 31, 2018, compared to the same period last year. As a percent of sales, cost of goods sold was 64% for the three months ended March 31, 2018 compared to 69% for the same period last year. Average unit cost increased approximately 12% for the three months ended March 31, 2018, compared to the same period last year. For the three months ended March 31, 2018, gross profit increased approximately 33.4% when compared to the same period last year. Gross profit margin for the three month periods ended March 31, 2018 and 2017 was 35.9% and 31.3%, respectively. The increase in gross profit margin was related to favorable product mix, increased contribution from the Pericom products as well improved capacity utilization.

Operating expenses for the three months ended March 31, 2018 increased approximately \$7.1 million, or 11.0%, compared to the same period last year. Selling, general and administrative expenses (“SG&A”) increased approximately \$7.5 million and research and development expenses (“R&D”) increased approximately \$2.2 million. The increase in SG&A was partially driven by \$2.6 million of expenses related to officer retirements. Amortization of acquisition related intangibles was relatively flat. SG&A, as a percentage of sales, was 17.2% and 16.8% for the three months ended March 31, 2018 and 2017, respectively. R&D, as a percentage of sales, was 7.4% and 7.6% for the three months ended March 31, 2018 and 2017, respectively.

Interest income increased \$0.2 million for the three month ended March 31, 2018 compared to the same period last year, due to higher amounts of cash invested on a short-term basis. The decrease in interest expense for the three months ended March 31, 2018 was due to lower levels of debt partially offset by higher interest rates on the floating rate portion of the borrowings to effect the Pericom acquisition. Expense related to foreign currency changes decreased \$0.8 million reflecting currency hedges partially offset by losses due to stronger European and Great Britain currencies and the Taiwan dollar, when compared to the U.S. dollar.

We recognized an income tax expense of approximately \$7.8 million and \$0.6 million for the three months ended March 31, 2018 and 2017, respectively. The increase in income taxes for 2018 compared to 2017 is attributable to the increase in pretax net income.

## **Financial Condition**

### **Liquidity and Capital Resources**

Our primary sources of liquidity are cash and cash equivalents, funds from operations and, if necessary, borrowings under our credit facilities. We currently have a U.S. banking credit facility (the “U.S. Credit Facility”) under which we may draw up to \$250 million on a revolving basis, in addition to a \$250 million term loan included in the U.S. Credit Facility. The U.S. Credit Facility matures October 26, 2021. The term loan portion of the U.S. Credit Facility is repayable in part through quarterly installments that increase over time from \$4.7 million in the first three quarters of 2018, of the U.S. Credit Facility to \$9.4 million per quarter in the final year of the U.S. Credit Facility. We may from time to time request increases in the aggregate commitments under the U.S. Credit Facility of up to \$200 million, subject to the lenders electing to increase their commitments or by means of the addition of new lenders, and subject to at least half of each increase in aggregate commitments being in the form of term loans, with the remaining amount of each increase being an increase in the amount of the revolving portion of the U.S. Credit Facility. The U.S. Credit Facility bears interest at LIBOR or similar indices plus a specified margin based on our consolidated leverage ratio. The U.S. Credit Facility contains certain financial and non-financial covenants, including, but not limited to, a maximum consolidated leverage ratio, a minimum consolidated fixed charge coverage ratio, and restrictions on liens, indebtedness, investments, fundamental changes, dispositions, and restricted payments (including dividends and share repurchases). At March 31, 2018, we owed \$223.6 million under the U.S. Credit Facility, \$83.5 million of which was drawn under the revolving portion and \$140.1 million of which was outstanding under the term loan.

In addition to our U.S. Credit Facility, we maintain credit facilities with several financial institutions through our foreign entities worldwide totaling \$91.9 million in outstanding loans as of March 31, 2018. As of March 31, 2018, in addition to the U.S. Credit Facility, our Asia subsidiaries had unused and available credit lines of up to an aggregate of approximately \$86.7 million, with several financial institutions. In some cases, our foreign credit lines are unsecured, uncommitted and may be repayable on demand. Our foreign credit lines include two Taiwanese credit facilities that are collateralized by assets. Our foreign credit lines bear interest at LIBOR or similar indices plus a specified margin. At March 31, 2018, \$4.5 million was outstanding on these credit lines.

Our primary liquidity requirements have been to meet our inventory and capital expenditure needs and to fund on-going operations. At March 31, 2018 and December 31, 2017, our working capital was \$393.9 million and \$415.2 million, respectively. We expect cash generated by our operations together with existing cash, cash equivalents, short-term investments and available credit facilities to be sufficient to cover cash needs for working capital and capital expenditures for at least the next 12 months.

Capital expenditures for the three months ended March 31, 2018 and 2017 were \$24.7 million and \$19.1 million, respectively. For the first three months of 2018 capital expenditures were approximately 9.0% of our net sales, which is at the high end of our capital spending target range of 5% to 9% of net sales. This increase in capital expenditures was to put capacity in place for the expected strong revenue growth in the remainder of 2018.

Our undistributed foreign earnings continue to be indefinitely reinvested in foreign operations, with limited exceptions related to earnings of European subsidiaries. As of March 31, 2018, our foreign subsidiaries held approximately \$179.5 million of cash, cash equivalents and investments of which approximately \$95.3 million would be subject to a potential non-U.S. withholding tax if distributed outside the country in which the cash is currently held. Of this total, \$77.7 million is held in China.

As of March 31, 2018, we had short-term investments totaling \$3.9 million. These investments are highly liquid with maturity dates greater than three months at the date of purchase. We generally can access these investments in a relatively short time frame but in doing so we generally forfeit all earned and future interest income.

### Share Repurchase Program

During 2015, our Board of Directors (“Board”) approved a stock repurchase program. The Board authorized the repurchase of up to an aggregate of \$100.0 million of our outstanding Common Stock. The share repurchase program is expected to continue through the end of 2019 unless extended or shortened by the Board. Currently there is approximately \$62.3 million available for repurchase of outstanding Common Stock under this publicly announced repurchase program. No shares were repurchased during the three months ended March 31, 2018.

### Discussion of Cash Flow

Our primary source of liquidity is cash flow from operations. Additional sources of liquidity are cash and cash equivalents, short-term investments and our credit facilities. Our cash and cash equivalents decreased from \$203.8 million at December 31, 2017 to \$182.4 million at March 31, 2018.

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

	<b>Three Months Ended March 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>Change</b>
Cash flows from operating activities	\$ 53,959	\$ 45,626	\$ 8,333
Net cash and cash equivalents used in investing activities	(29,435)	(21,249)	(8,186)
Net cash and cash equivalents used in financing activities	(49,842)	(10,340)	(39,502)
Effect of exchange rate changes on cash and cash equivalents	3,971	2,472	1,499
Net increase (decrease) in cash and cash equivalents, including restricted cash	<u>\$ (21,347)</u>	<u>\$ 16,509</u>	<u>\$ (37,856)</u>

#### *Operating Activities*

Cash flows from operating activities for the three months ended March 31, 2018 was \$54.0 million. Cash flows from operating activities resulted from net income of \$18.5 million, depreciation and amortization of \$25.2 million, share-based compensation of \$6.3 million and an increase in noncash working capital accounts of \$5.5 million. Cash flows from operating activities for the three months ended March 31, 2017 was \$45.6 million. Cash flows from operating activities resulted from net income of \$1.5 million, depreciation and amortization of \$23.4 million, share-based compensation of \$4.1 million and an increase in noncash working capital accounts of \$18.7 million.

#### *Investing Activities*

Net cash and cash equivalents used in investing activities was \$29.4 million for the three months ended March 31, 2018. Net cash and cash equivalents used in investing activities was primarily due to the purchase of property, plant and equipment of \$31.6 million, partially offset by \$1.0 million of proceeds received upon the maturity of short-term investments. Net cash and cash equivalents used in investing activities was \$20.4 million for the three months ended March 31, 2017, primarily due to the purchase of property, plant and equipment of \$19.1 million, and purchases of short-term investments of \$6.8 million, partially offset by net funds received from the sale and purchase of short-term investments of \$4.6 million.

## **Financing Activities**

Net cash and cash equivalents used in financing activities was \$49.8 million for the three months ended March 31, 2018. Net cash and cash equivalents used in 2018 consisted primarily of repayments of long-term debt, net of \$46.5 million, taxes paid on net share settlement of \$7.3 million, partially offset by proceeds from short-term line of credit of \$3.4 million. Net cash and cash equivalents used in financing activities was \$10.3 million for the three months ended March 31, 2017. Net cash and cash equivalents used in 2017 consisted primarily of repayments of long-term debt.

### **Off-Balance Sheet Arrangements**

We do not have any transactions, arrangements and other relationships with unconsolidated entities that will affect our liquidity or capital resources. We have no special purpose entities that provide off-balance sheet financing, liquidity or market or credit risk support, nor do we engage in leasing, swap agreements, or outsourcing of research and development services, that could expose us to liability that is not reflected on the face of our financial statements.

### **Contractual Obligations**

There have been no material changes in any of our contractual obligations as disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017, filed with the SEC on February 20, 2018.

### **Critical Accounting Policies**

No material changes were made to the Company's critical accounting policies as set forth in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017, filed with the SEC on February 20, 2018.

### **Recently Issued Accounting Pronouncements**

See Note 1 - Nature of Operations, Basis of Presentation and Recently Issued Accounting Pronouncements of the Notes to Condensed Consolidated Financial Statements, for detailed information regarding the status of recently issued accounting pronouncements.

### **Available Information**

Our Internet address is <http://www.diodes.com>. Information included on, or accessible through, our website shall not be deemed to form a part of the Quarterly Report on Form 10-Q. We make available, free of charge through our Internet website, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy statements, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 ("Exchange Act") as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission (the "SEC"). Our website also provides access to investor financial information, including SEC filings and press releases, as well as stock quotes and information on corporate governance compliance.

### **Cautionary Statement for Purposes of the "Safe Harbor" Provision of the Private Securities Litigation Reform Act of 1995**

Except for the historical information contained herein, the matters addressed in this Quarterly Report on Form 10-Q constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the 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 "Risks 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 Private Securities Litigation Reform Act of 1995 (the "Act") provides certain "safe harbor" provisions for forward-looking statements. All forward-looking statements made in this Quarterly Report on Form 10-Q are made pursuant to the Act.

All forward-looking statements contained in this Quarterly Report on Form 10-Q are subject to, in addition to the other matters described in this Quarterly Report on Form 10-Q, a variety of significant risks and uncertainties. The following discussion highlights some of these risks and uncertainties. Further, from time to time, information provided by us or statements made by our employees may contain forward-looking information. There can be no assurance that actual results or business conditions will not

differ materially from those set forth or suggested in such forward-looking statements as a result of various factors, including those discussed below.

For more detailed discussion of these factors, see the “Risk Factors” discussion in Item 1A of our most recent Annual Report on Form 10-K as filed with the SEC and in Part II, Item 1A of this report. The forward-looking statements included in this Quarterly Report on Form 10-Q are made only as of the date of this report, and we undertake no obligation to update the forward-looking statements to reflect subsequent events or circumstances.

## **Risk Factors**

### **RISKS RELATED TO OUR BUSINESS**

*The success of our business depends on the strength of the global economy and the stability of the financial markets, and any weaknesses in these areas may have a material adverse effect on our net sales, operating results and financial condition.*

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

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

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

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

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

*We are and will continue to be under continuous pressure from our customers and competitors to reduce the price of our products, which could adversely affect our growth and profit margins.*

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

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

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

*New technologies could result in the development of new products by our competitors and a decrease in demand for our products, and we may not be able to develop new products to satisfy changes in demand, which would adversely affect our net sales, market share, operating results and financial condition.*

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

*We may be subject to claims of infringement of third-party intellectual property rights or demands that we license third-party technology, which could result in significant expense, reduction in our intellectual property rights and a negative impact on our business, operating results and financial condition.*

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

*If we do not succeed in continuing to vertically integrate our business, we will not realize the cost and other efficiencies we anticipate, which could adversely affect our ability to compete, our operating results and financial condition.*

*Part of our growth strategy involves identifying and acquiring companies. We may be unable to identify suitable acquisition candidates or consummate desired acquisitions and, if we do make any acquisitions, we may be unable to successfully integrate any acquired companies with our operations, which could adversely affect our business, operating results and financial condition.*

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

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

*Our products, or products we purchase from third parties for resale, may be found to be defective and, as a result, warranty claims and product liability claims may be asserted against us and we may not have recourse against our suppliers, which may harm our business, reputation with our customers, operating results and financial condition.*

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

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

*Obsolete inventories as a result of changes in demand for our products and change in life cycles of our products could adversely affect our business, operating results and financial condition.*

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

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

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

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

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

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

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

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

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

*Certain of our customers and suppliers require us to comply with their codes of conduct, which may include certain restrictions that may substantially increase our cost of doing business as well as have an adverse effect on our operating efficiencies, operating results and financial condition.*

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



*There are risks associated with previous and future acquisitions. We may ultimately not be successful in overcoming these risks or any other problems encountered in connection with acquisitions.*

*If we fail to maintain an effective system of internal controls or discover material weaknesses in our internal control over financial reporting, we may not be able to report our financial results accurately or detect fraud, which could harm our business and the trading price of our Common Stock.*

*Terrorist attacks, or threats or occurrences of other terrorist activities, whether in the U.S. or internationally, may affect the markets in which our Common Stock trades, the markets in which we operate and our operating results and financial condition.*

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

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

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

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

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

*A slowdown in the Chinese economy could limit the growth in demand for electronic devices containing our products, which would have a material adverse effect on our business, operating results and prospects.*

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

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

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

*China is experiencing rapid social, political and economic change, which has increased labor costs and other related costs that could make doing business in China less advantageous than in prior years. Increased labor costs in China could adversely affect our business, operating results and financial condition.*

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

*The distribution of any earnings of certain foreign subsidiaries may be subject to foreign income taxes, thus reducing our net income.*

## **RISKS RELATED TO OUR COMMON STOCK**

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

*We may enter into future acquisitions and take certain actions in connection with such acquisitions that could adversely affect the price of our Common Stock.*

*Our directors, executive officers and significant stockholders hold a substantial portion of our Common Stock, which may lead to conflicts with other stockholders over corporate transactions and other corporate matters.*

*We were formed in 1959, and our early corporate records are incomplete. As a result, we may have difficulty in assessing and defending against claims relating to rights to our Common Stock purporting to arise during periods for which our records are incomplete.*

*Non-cash tender offers, debt equity swaps or equity exchanges to consummate our business activities are likely to have the effect of diluting the ownership interest of existing stockholders, including qualified stockholders who receive shares of our Common Stock in such business activities.*

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

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

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

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

There have been no material changes to our market risks as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2017, filed with the SEC on February 20, 2018.

**Item 4. Controls and Procedures.**

Our Chief Executive Officer, Keh-Shew Lu, and Chief Financial Officer, Richard D. White, with the participation of our management, carried out an evaluation, as of March 31, 2018, of the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e).) Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer believe that, as of the end of the period covered by this Quarterly Report on Form 10-Q, our disclosure controls and procedures are effective at the reasonable assurance level to ensure that information required to be included in this report is:

- recorded, processed, summarized and reported within the time period specified in the Commission’s rules and forms; and
- accumulated and communicated to our management, including the Chief Executive Officer and the Chief Financial Officer, to allow timely decisions on required disclosure.

Disclosure controls and procedures, no matter how well designed and implemented, can provide only reasonable assurance of achieving an entity’s disclosure objectives. The likelihood of achieving such objectives is affected by limitations inherent in disclosure controls and procedures. These include the fact that human judgment in decision-making can be faulty and that breakdowns in internal control can occur because of human failures such as simple errors, mistakes or intentional circumvention of the established processes.

**Changes in Controls over Financial Reporting**

Beginning January 1, 2018, we adopted Accounting Standards Codification 606, “Revenue from Contracts with Customers” (“ASC 606”). We implemented changes to our processes and the related control activities related to revenue recognition. Other than the adoption of ASC 606, 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 March 31, 2018, which has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Item 1. Legal Proceedings.**

The Company is not currently 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 current pending legal proceeding will not have any material adverse effect on our financial position, cash flows or operating results. However, litigation is subject to inherent uncertainties, and unfavorable rulings could occur. An unfavorable ruling could include monetary damages, which could impact our business and operating results for the period in which the ruling occurs or future periods.

**Item 1A. Risk Factors.**

Other than the following, there have been no material changes from the risk factors disclosed in the “Risk Factors” section of our Annual Report on Form 10-K for the fiscal year ended December 31, 2017, filed with the SEC on February 20, 2018.

***Imposition of tariffs or other restrictions that may affect our operations in China may disrupt our production and/or sale activities in China and may have an adverse impact on our profitability and results of operations.***

The U.S. government has recently proposed, among other actions, imposing new or higher tariffs on specified products imported from China in response to what it characterizes as unfair trade practices, and China has responded by proposing new or higher tariffs on specified products imported from the United States. It is not clear at this time what the ultimate outcome of this controversy will be, but given the importance of our Chinese operations and related sales, and existing and possible future restrictions with regard to transactions with Chinese entities, it is possible that our operation results and/or financial condition may be adversely affected.

**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	<a href="#">Certificate of Incorporation, as amended</a>	10-K	February 20, 2018	3.1	
3.2	<a href="#">Amended By-laws of the Company as of January 6, 2016</a>	8-K	January 11, 2016	3.1	
4.1	<a href="#">Form of Certificate for Common Stock, par value \$0.66 2/3 per share</a>	S-3	August 25, 2005	4.1	
10.1	<a href="#">Separation letter between the Company and Mark King dated January 11, 2018</a>				X
10.2	<a href="#">Separation letter between the Company and Ed Tang date d January 18, 2018</a>				X
31.1	<a href="#">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</a>				X
31.2	<a href="#">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.</a>				X
32.1**	<a href="#">Certification Pursuant to 18 U.S.C. 1350 adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>				X
32.2**	<a href="#">Certification Pursuant to 18 U.S.C. 1350 adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>				X
101.INS	XBRL Instance Document				X
101.SCH	XBRL Taxonomy Extension Schema				X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase				X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document				X
101.LAB	XBRL Taxonomy Extension Labels Linkbase				X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase				X

\* *Constitute management contracts, or compensatory plans or arrangements, which are required to be filed pursuant to Item 601 of Regulation S-K.*

\*\* *A certification furnished pursuant to Item 601(b)(2) of the Regulation S-K will not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.*

PLEASE NOTE: It is inappropriate for investors to assume the accuracy of any covenants, representations or warranties that may be contained in agreements or other documents filed as exhibits to this Quarterly Report on Form 10-Q. In certain instances the disclosure schedules to such agreements or documents contain information that modifies, qualifies and creates exceptions to the representations, warranties and covenants. Moreover, some of the representations and warranties may not be complete or accurate as of a particular date because they are subject to a contractual standard of materiality that is different from those generally applicable to stockholders and/or were used for the purpose of allocating risk among the parties rather than establishing certain matters as facts. Accordingly, you should not rely on the representations and warranties as characterizations of the actual state of facts at the time they were made or otherwise.

**SIGNATURES**

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

DIODES INCORPORATED  
(Registrant)

May 8, 2018  
Date

By: /s/ Keh-Shew Lu  
\_\_\_\_\_  
KEH SHEW LU  
President and Chief Executive Officer  
(Principal Executive Officer)

May 8, 2018  
Date

By: /s/ Richard D. White  
\_\_\_\_\_  
RICHARD D. WHITE  
Chief Financial Officer and Secretary  
(Principal Financial Officer)

May 8, 2018  
Date

By: /s/ Brett R. Whitmire  
\_\_\_\_\_  
BRETT R. WHITMIRE  
Corporate Controller  
(Principal Accounting Officer)



January 11, 2018

Mark King  
6771 Las Olas Way  
Malibu, CA 90265

Dear Mark:

This letter confirms that effective as of the close of business on January 12, 2018 (the "Separation Date"), you have resigned from all positions with the Company and any of its subsidiaries or affiliated companies, and the terms of your separation.

The Separation Date will constitute a "separation from service" within the meaning of Internal Revenue Code (the "Code") Section 409A and as of such Separation Date you are a "specified employee" within the meaning of Code Section 409A. As of the Separation Date, your annual base salary was \$388,300 (the "Base Salary").

**1. Separation And Payments.**

You will voluntarily terminate from your employment effective at the close of business on the Separation Date. On the Separation Date, you will be paid for all compensation and wages due and owing to you through the Separation Date, and was paid all accrued and unused paid time off in accordance with the Company's policy. Diodes will continue to keep you on your existing health insurance coverage through January 31, 2018 as an active employee. Diodes will pay you the remainder of your earned annual bonus for 2017 (if any) in 2018 after the Company has filed its annual report on Form 10-K.

**2. Additional Compensation And Benefits.**

Provided you remain in compliance with the terms of this letter agreement and the surviving provisions of the Employment Agreement between you and the Company dated August 29, 2005, you will receive the following payments and benefits to which you are not otherwise entitled: (i) payment of your Base Salary with twelve pro rata payments each calendar month from February 2018 through January 2019, (ii) payment of your health insurance premiums for 12 months based on your election of coverage, whether through COBRA or a comparable plan provided under the Marketplace, (iii) all of your outstanding Company stock options and time-based vesting restricted stock units shall continue to vest in accordance with their terms as if you were still employed by the Company and such stock options shall expire on the terms of each applicable equity plan and award agreement, and (iv) one-third of the outstanding performance stock units which were granted to you in 2017 will vest in February 2020 in accordance with the terms of the applicable equity plan and award agreement as if you were still employed by the Company. The above payments and benefits are subject to withholding requirements to satisfy any applicable federal, state or local tax withholding requirements.

As further consideration, and as you requested, the Company is willing to transfer to you your companyissued laptop on condition that the Company be able to backup and wipe the hard drive. The Company is also willing to keep the cell phone number associated with your company-issued cell phone, and let you keep said cell phone, for up to two (2) months following your Separation Date, provided that: (a) the Company be able to backup and wipe the cell phone; and (b) as of the Separation Date, you will be responsible to pay for the cell phone services associated therewith. After these two (2) months, you agree to return the company-issued cell phone and the Company will release the cell phone number associated with it.

**3. Additional Provisions.**

The additional terms and conditions set forth on Exhibit A are hereby incorporated by reference into and shall become part of this letter agreement.

DATED: 1-15, 2018 MARK KING

By: /s/ MARK KING  
MARK KING

DATED: 1-11, 2018 DIODES INCORPORATED

By: /s/ RICHARD D. WHITE  
RICHARD D. WHITE  
Chief Financial Officer



## EXHIBIT A

1. **Release.** Except for the obligations undertaken in this letter agreement, you hereby fully and forever release and discharge Diodes and its current and former parents, subsidiaries, affiliates, divisions, employees, trustees, fiduciaries, insurers, officers, directors, investors, shareholders, owners, attorneys, agents, successors, assignees, benefit plans, and representatives (“Releasees”) from any and all claims, actions, suits, losses, rights, damages, costs, fees, expenses, accounts, demands, obligations, liabilities, and causes of action of every character, nature, kind or description whatsoever, known or unknown, foreseen or unforeseen, and suspected or unsuspected, arising out of, or relating to, any act or omission, whatsoever arising from, occurring during or related in any manner to your performance of work for Diodes, as well as the cessation of your performance of work for Diodes, including, without limitation, those arising out of the Employment Agreement, the Employee Retirement Income Security Act of 1974, as amended; Title VII of the Civil Rights Act of 1964, which prohibits discrimination and harassment in employment based on race, color, national origin, religion and sex; the Family and Medical Leave Act; the Sarbanes-Oxley Act; the Fair Labor Standards Act; the Americans with Disabilities Act, which prohibits discrimination based upon disability or handicap; the Age Discrimination in Employment Act; the California Fair Employment and Housing Act; and/or any other federal, state or local laws, common law, or regulations prohibiting employment discrimination, harassment, and/or retaliation. This letter agreement also includes a release of any claim for breach of contract, wrongful termination, interference with contractual relations or economic advantage, defamation, misrepresentation, fraud, or wages. It is your intent to waive and release any and all claims that you have or may have against the Releasees as of the date of the execution of this letter agreement.

Notwithstanding the foregoing, the parties are not waiving their right to enforce the terms of this letter agreement or bring any other claims that cannot be released as a matter of law.

2. **Waiver Of Unknown Claims.** It is the parties’ intention that the foregoing release shall be construed in the broadest sense possible, and shall be effective as a prohibition to all claims, charges, actions, suits, demands, obligations, damages, injuries, liabilities, losses, and causes of action of every character, nature, kind or description, known or unknown, and suspected or unsuspected that you may have against the Releasees.

The parties expressly acknowledge that they are aware of the existence of California Civil Code § 1542 and its meaning and effect. The parties expressly acknowledge that they have read and understand the following provision of that section which provides:

**A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR.**

You expressly waive and release any right to benefits you may have under California Civil Code § 1542 to the fullest extent you may do so lawfully. You further acknowledge you may later discover facts different from, or in addition to, those facts now known to you or believed by you to be true with respect to any or all of the matters covered by this letter agreement, and you agree this letter agreement nevertheless shall remain in full and complete force and effect.

3. **Cooperation and Non-Disparagement.** You agree that you will facilitate a smooth transition of your current work to a person designated by Diodes.

You agree not to take, either directly or indirectly, any action detrimental to the interests of Diodes, including, but not limited to, negatively commenting on, disparaging or calling into question the business operations or conduct of the Diodes or its affiliated entities, or its past or present directors, executives, officers or agents.

4. **Fully Compensated.** You agree that up to the date of signing this letter agreement, you have been fully compensated by Diodes for all amounts owed for salary or bonus. Diodes will reimburse you for your reasonable business expenses necessarily incurred in connection with the performance of your duties prior to the Separation Date.

5. **No Admission Of Liability.** This letter agreement shall not at any time or for any purpose constitute or be considered or deemed any admission of liability on the part of any party.

6. **Return of Property.** You agree that, by the Separation Date, you will return to Diodes and not keep in your possession or under your control any confidential or trade secret information, nor any financial information nor any other property of Diodes, including keys, equipment, automobile or similar property. Nevertheless, you may keep your Diodes-provided computer and mobile phones after Diodes implements the appropriate exit procedures upon the said devices.

7. **Employment Agreement And Proprietary Information.** That certain Employment Agreement dated as of August 29, 2005 (the "Employment Agreement") will terminate as of the Separation Date except that Sections 1.4, 1.7, 1.6, 1.7, 1.8, 1.9, 4.7, 4.8, 4.9, 4.11 and 4.12 of the Employment Agreement shall survive such termination and shall continue to be operative.

8. **Warranties.**

(a) Each party represents and warrants that you/it has the full power, capacity and authority to enter into this letter agreement, that no portion of any charge, claim, right, demand, action or cause of action that any party has or might have arising out of the transactions, omissions or acts referred to herein has been assigned, transferred or conveyed to any third party, by way of subrogation, operation of law or otherwise, and that no other agreement, release, or settlement is necessary from any other person or entity to release and discharge completely the other party from the claims specified above that may be held by such party.

(b) You expressly represent, warrant and covenant not to sue the Releasees to enforce any charge, claim or cause of action released pursuant to this letter agreement. This covenant not to bring or maintain any action in law or equity shall be specifically enforced and the Releasees shall have standing to bring any such action for specific enforcement and shall be deemed a real party. This covenant does not apply to any suits or other proceedings to enforce the provisions of this letter agreement. This covenant also does not preclude the filing of a charge with the Equal Employment Opportunity Commission.

(c) In the event you breach the covenant not to sue as set forth in Paragraph 8(b), subject to the limitations provided therein, and files any claim, charge or action with any court or administrative body that is released pursuant to this letter agreement, you shall be liable for all damages incurred by the Releasees, including without limitation, compensatory damages as well as attorneys' fees and costs.

(d) The parties represent and acknowledge that in executing this letter agreement, they do not rely and have not relied upon any representation or statement not set forth herein. You also represent and agree that you have entered into this letter agreement voluntarily and without coercion or duress and have been given a reasonable amount of time to consider the letter agreement.

(e) The parties expressly represent and warrant that you/it/they have not assigned or transferred or purported to assign or transfer to any person, firm, corporation, or other entity any claim, demand, right, damage, liability, debt, account, action, cause of action, or any other matter herein released. The parties agree to indemnify and hold the other party harmless against any claim, demand, right, damage, liability, debt, account, action, cause of action, cost or expense, including attorneys' fees, arising out of or any way connected with any liens, encumbrances, transfer or assignment, or any such purported claimed lien, encumbrance, transfer or assignment.

9. **General.**

(a) Except as otherwise provided herein, this letter agreement constitutes the entire agreement between the parties and supersedes any and all other agreements or understandings, either oral or written, between them with respect to the subject matter hereof. Each party to this letter agreement acknowledges that no representations, inducements, promises, or other agreements have been made by or on behalf of any party except those covenants, agreements and promises embodied in this letter agreement. This letter agreement is binding upon, and shall inure to the benefit of, the parties and their current and former respective agents, beneficiaries, employees, representatives, officers, directors, trustees, fiduciaries, divisions, subsidiaries, affiliates, heirs, predecessors, successors in interest, and shareholders.

(b) The provisions of this letter agreement may not be altered, amended or repealed, in whole or in part, except by the written consent of the parties.

(c) If any term of this letter agreement is declared invalid for any reason, such determination shall not affect the validity of the remainder of the letter agreement. The remaining parts of this letter agreement shall remain in effect as if the letter agreement had been executed without the invalid term.

(d) This letter agreement shall be deemed to have been executed and delivered in the State of California, and the rights and obligations of the parties shall be construed and enforced in accordance with and governed by the laws of the State of California.

(e) Resolution of any and all disputes arising under this letter agreement shall be submitted to arbitration under the terms hereof, which arbitration shall be final, conclusive and binding upon the parties, their successors and assigns. The arbitration shall be conducted in accordance with the Employment Arbitration Rules and Mediation Procedures of the American Arbitration Association (the "AAA Rules"). Arbitration shall be by a single arbitrator experienced in the matters at issue selected in accordance with the AAA Rules. The arbitration shall be held in Los Angeles, California. The decision of the arbitrator shall be final and binding as to any matters submitted to arbitration and shall be in lieu of any other action or proceeding of any nature whatsoever; and, if necessary, any judgment upon the arbitrator's decision may be entered in any court of record having jurisdiction over the subject matter or over the party against whom the judgment is being enforced. Except as required by law, the parties agree to keep confidential the existence and details of any dispute subject to this provision, including the results of arbitration.

Nothing in this letter agreement shall prevent either party from seeking equitable and/or injunctive relief from any court of competent jurisdiction for a temporary restraining order, preliminary injunction, or other interim relief, as necessary, without breach of this letter agreement and without abridgement of the powers of the arbitrator.

In the event that a claim is submitted to arbitration, the parties will be required to split the arbitrator's fee equally. All fees, costs, and expenses of the arbitration, including attorneys' fees, shall be borne by the party incurring them. Any postponement or cancellation fee imposed by the arbitration service will be paid by the party requesting the postponement or cancellation, unless the arbitrator determines otherwise. The arbitrator must award attorneys' fees, costs and other expenses of arbitration to the prevailing party, such that the prevailing party shall be reimbursed for all attorneys' fees, costs and expenses borne by that party, to the extent permitted by law. At the conclusion of the arbitration, each party agrees to pay promptly any arbitration award imposed against that party.

(f) Each of the parties acknowledges that this letter agreement was jointly negotiated and reviewed and approved by them. The letter agreement shall not be construed by any court of law or equity against any party by virtue of any party having drafted this letter agreement.

(g) This letter agreement may be executed in counterparts including facsimile counterparts. All counterparts when executed shall constitute one agreement binding upon all parties notwithstanding that all of the parties are not a signatory to the original or the same counterpart. A copy or facsimile of this letter agreement shall have the same force and effect as the original.

(h) Each party shall bear your/its own attorneys' fees and costs incurred as a result of negotiating this letter agreement.

(i) You, for yourself and on behalf of your respective agents, representatives, attorneys, and assigns, agrees and warrants that he understands that as a material condition of this letter agreement, and in exchange for consideration hereunder, the existence of the letter agreement together with its terms and conditions are to remain strictly private and confidential to the extent permitted by law, subject only to the exceptions set forth below.

You expressly agree that you will not disclose, discuss, consent to disclosure, or otherwise disseminate said information to anyone with the sole exceptions of your spouse, attorneys, accountants, financial advisors, and tax preparers, and shall instruct those individuals not to disclose the fact of this letter agreement or the terms and conditions of this letter agreement to anyone, unless specifically required by law, and in that event, only such information as the law permits or requires to be disclosed. Notwithstanding the foregoing, Diodes and you may disclose this letter agreement in order to enforce the releases and covenants provided herein.

You acknowledge and agree that any breach of this provision will cause damage to the Releasees in an amount or amounts difficult to ascertain. Accordingly, in addition to any other relief the Releasees may be entitled, they shall also be entitled to seek injunctive relief as may be ordered by any court of competent jurisdiction to prevent violation of this provision.

Notwithstanding anything to the contrary contained herein, no provision of this letter agreement or any other Diodes agreement to which you are a party shall be interpreted so as to impede you (or any other individual) from reporting possible violations of federal law or regulation to any governmental agency or entity, including but not limited to the Department of Justice, the Securities and Exchange Commission, the Congress, and any agency Inspector General, or making other disclosures under the whistleblower provisions of federal law or regulation. You do not need the prior authorization of Diodes to make any such reports or disclosures and you shall not be required to notify Diodes that such reports or disclosures have been made.

(j) Solely to the extent necessary to comply with Code Section 409A and avoid the imposition of taxes under Code Section 409A, Diodes shall defer payment of "nonqualified deferred compensation" subject to Code Section 409A payable as a result of and within six (6) months following your "separation from service" under this letter agreement until the earlier of (i) the first business day of the seventh month following the your "separation from service," or (ii) ten (10) days after Diodes receives written notification of your death. Any such delayed payments shall be made without interest. Notwithstanding anything else to the contrary, Diodes shall not be responsible for any other Code Section 409A taxes, interest or penalties that may be imposed on you (including without limitation that might be imposed in connection with the Employment Agreement) and you shall have no recourse against Diodes for any other Code Section 409A taxes. Moreover, Diodes (including without limitation members of the Diodes Board of the Directors) shall not be liable to you or other persons as to any unexpected or adverse tax consequence realized by you and you shall be solely responsible for the timely payment of all taxes, interest and/or penalties that are imposed on you in connection with this letter agreement or any other agreement between you and Diodes.

(k) It is strongly recommended, urged, and advised that you discuss this letter agreement with your attorney before executing it. You expressly acknowledges that you have been provided at least 21 days to review and consider this letter agreement before signing it. Should you decide not to use the full 21 days, then you knowingly and voluntarily waive any claim that you were not given that period of time or did not use the entire 21 days to consult an attorney or consider this letter agreement.

You may revoke this letter agreement at any time up to seven (7) calendar days following your execution of the letter agreement, and this letter agreement shall not become effective or enforceable until the revocation period has expired which is at 12:00:01 a.m. on the eighth day following your execution of this letter agreement ("Effective Date"). If you decide to revoke this letter agreement, such revocation must be in writing to Rick White, Chief Financial Officer, Diodes Incorporated, 4949 Hedgcoxe Road Suite 200, Plano, Texas 75024, and sent to him by facsimile or email no later than the end of the seventh day after you signed this letter agreement.

Without limiting the scope of this letter agreement in any way, you also certify that this letter agreement constitutes a knowing and voluntary waiver of any and all rights or claims that exist or that you have or may claim to have under the Federal Age Discrimination in Employment Act ("ADEA"), as amended by the Older Workers Benefit Protection Act of 1990 ("OWBPA"), which is set forth at 29 U.S.C. § § 621, et seq. This letter agreement does not govern any rights or claims that may arise under the ADEA after the date this letter agreement is signed by you.

**CONFIDENTIAL**

January 18, 2018

Ed Tang  
5329 Tate Avenue  
Plano, Texas 75093

Dear Ed:

This letter confirms that effective as of the close of business on February 8, 2018 (the "Separation Date"), you have resigned from all positions with the Company and any of its subsidiaries or affiliated companies, and the terms of your separation.

The Separation Date will constitute a "separation from service" within the meaning of Internal Revenue Code (the "Code") Section 409A and as of such Separation Date you are a "specified employee" within the meaning of Code Section 409A. As of the Separation Date, your annual base salary was \$362,050 (the "Base Salary").

**1. Separation And Payments.**

You will voluntarily terminate from your employment effective at the close of business on the Separation Date. On the Separation Date, you will be paid for all compensation and wages due and owing to you through the Separation Date, and will be paid all accrued and unused paid time off in accordance with the Company's policy. Diodes will pay you the remainder of your earned annual bonus for 2017 (if any) in 2018 after the Company has filed its annual report on Form 10-K.

**2. Additional Compensation And Benefits.**

Provided you remain in compliance with the terms of this letter agreement, you will receive the following payments and benefits to which you are not otherwise entitled: (i) payment of your Base Salary with twelve pro rata payments each calendar month from March 2018 through February 2019, (ii) a monthly benefit allowance of \$1,061.20 towards the payment of your health insurance premiums for 12 months, (iii) all of your outstanding Company stock options and time-based vesting restricted stock units shall continue to vest in accordance with their terms as if you were still employed by the Company and such stock options shall expire on the terms of each applicable equity plan and award agreement, and (iv) one-third of the outstanding performance stock units which were granted to you in 2017 will vest in February 2020 in accordance with the terms of the applicable equity plan and award agreement as if you were still employed by the Company. The above payments and benefits are subject to withholding requirements to satisfy any applicable federal, state or local tax withholding requirements.

As further consideration, and as you requested, the Company is willing to transfer to you your company issued laptop on condition that the Company be able to backup and wipe the hard drive. The Company is also willing to let you keep the cell phone number associated with your company-issued cell phone, and let you keep said cell phone after wiping all information relating to the Company.

**3. Additional Provisions.**

The additional terms and conditions set forth on Exhibit A are hereby incorporated by reference into and shall become part of this letter agreement.

DATED: January 19, 2018 Ed Tang

By: /s/ Ed Tang  
Ed Tang

DATED: January 19, 2018 DIODES INCORPORATED

By: /s/ RICHARD D. WHITE  
RICHARD D. WHITE  
Chief Financial Officer

## EXHIBIT A

1. **Release.** Except for the obligations undertaken in this letter agreement, you hereby fully and forever release and discharge Diodes and its current and former parents, subsidiaries, affiliates, divisions, employees, trustees, fiduciaries, insurers, officers, directors, investors, shareholders, owners, attorneys, agents, successors, assignees, benefit plans, and representatives ("Releasees") from any and all claims, actions, suits, losses, rights, damages, costs, fees, expenses, accounts, demands, obligations, liabilities, and causes of action of every character, nature, kind or description whatsoever, known or unknown, foreseen or unforeseen, and suspected or unsuspected, arising out of, or relating to, any act or omission, whatsoever arising from, occurring during or related in any manner to your performance of work for Diodes, as well as the cessation of your performance of work for Diodes, including, without limitation, those arising out of the Employee Retirement Income Security Act of 1974, as amended; Title VII of the Civil Rights Act of 1964, which prohibits discrimination and harassment in employment based on race, color, national origin, religion and sex; the Family and Medical Leave Act; the Sarbanes-Oxley Act; the Fair Labor Standards Act; the Americans with Disabilities Act, which prohibits discrimination based upon disability or handicap; the Age Discrimination in Employment Act; the California Fair Employment and Housing Act; and/or any other federal, state or local laws, common law, or regulations prohibiting employment discrimination, harassment, and/or retaliation. This letter agreement also includes a release of any claim for breach of contract, wrongful termination, interference with contractual relations or economic advantage, defamation, misrepresentation, fraud, or wages. It is your intent to waive and release any and all claims that you have or may have against the Releasees as of the date of the execution of this letter agreement.

Notwithstanding the foregoing, the parties are not waiving their right to enforce the terms of this letter agreement or bring any other claims that cannot be released as a matter of law.

2. **Waiver Of Unknown Claims.** It is the parties' intention that the foregoing release shall be construed in the broadest sense possible, and shall be effective as a prohibition to all claims, charges, actions, suits, demands, obligations, damages, injuries, liabilities, losses, and causes of action of every character, nature, kind or description, known or unknown, and suspected or unsuspected that you may have against the Releasees.

The parties expressly acknowledge that they are aware of the existence of California Civil Code § 1542 and its meaning and effect. The parties expressly acknowledge that they have read and understand the following provision of that section which provides:

**A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR.**

You expressly waive and release any right to benefits you may have under California Civil Code § 1542 to the fullest extent or by any law of any state or territory of the United States or other jurisdiction, or principle of common law, which is similar comparable or equivalent to California Civil Code § 1542 you may do so lawfully. You further acknowledge you may later discover facts different from, or in addition to, those facts now known to you or believed by you to be true with respect to any or all of the matters covered by this letter agreement, and you agree this letter agreement nevertheless shall remain in full and complete force and effect.

3. **Cooperation and Non-Disparagement.** You agree that you will facilitate a smooth transition of your current work to a person designated by Diodes.

You agree not to take, either directly or indirectly, any action detrimental to the interests of Diodes, including, but not limited to, negatively commenting on, disparaging or calling into question the business operations or conduct of the Diodes or its affiliated entities, or its past or present directors, executives, officers or agents.

4. **Fully Compensated.** You agree that up to the date of signing this letter agreement, you have been fully compensated by Diodes for all amounts owed for salary or bonus. Diodes will reimburse you for your reasonable business expenses necessarily incurred in connection with the performance of your duties prior to the Separation Date.

5. **No Admission Of Liability.** This letter agreement shall not at any time or for any purpose constitute or be considered or deemed any admission of liability on the part of any party.

6. **Return of Property.** You agree that, by the Separation Date, you will return to Diodes and not keep in your possession or under your control any confidential or trade secret information, nor any financial information nor any other property of Diodes, including keys, equipment, automobile or similar property. Nevertheless, you may keep your Diodes-provided computer and mobile phone after Diodes implements the appropriate exit procedures upon the said devices.

7. **Proprietary Information.** You agree to keep all proprietary information of the Company in the strictest confidence, and the same confidentiality obligation that applied to you as an employee of Diodes of such employment shall survive such termination and shall continue to be operative after the Separation Date.

8. **Warranties.**

(a) Each party represents and warrants that you/it has the full power, capacity and authority to enter into this letter agreement, that no portion of any charge, claim, right, demand, action or cause of action that any party has or might have arising out of the transactions, omissions or acts referred to herein has been assigned, transferred or conveyed to any third party, by way of subrogation, operation of law or otherwise, and that no other agreement, release, or settlement is necessary from any other person or entity to release and discharge completely the other party from the claims specified above that may be held by such party.

(b) You expressly represent, warrant and covenant not to sue the Releasees to enforce any charge, claim or cause of action released pursuant to this letter agreement. This covenant not to bring or maintain any action in law or equity shall be specifically enforced and the Releasees shall have standing to bring any such action for specific enforcement and shall be deemed a real party. This covenant does not apply to any suits or other proceedings to enforce the provisions of this letter agreement. This covenant also does not preclude the filing of a charge with the Equal Employment Opportunity Commission.

(c) In the event you breach the covenant not to sue as set forth in Paragraph 8(b), subject to the limitations provided therein, and file any claim, charge or action with any court or administrative body that is released pursuant to this letter agreement, you shall be liable for all damages incurred by the Releasees, including without limitation, compensatory damages as well as attorneys' fees and costs.

(d) The parties represent and acknowledge that in executing this letter agreement, they do not rely and have not relied upon any representation or statement not set forth herein. You also represent and agree that you have entered into this letter agreement voluntarily and without coercion or duress and have been given a reasonable amount of time to consider the letter agreement.

(e) The parties expressly represent and warrant that you/it/they have not assigned or transferred or purported to assign or transfer to any person, firm, corporation, or other entity any claim, demand, right, damage, liability, debt, account, action, cause of action, or any other matter herein released. The parties agree to indemnify and hold the other party harmless against any claim, demand, right, damage, liability, debt, account, action, cause of action, cost or expense, including attorneys' fees, arising out of or any way connected with any liens, encumbrances, transfer or assignment, or any such purported claimed lien, encumbrance, transfer or assignment.

9. **General.**

(a) Except as otherwise provided herein, this letter agreement constitutes the entire agreement between the parties and supersedes any and all other agreements or understandings, either oral or written, between them with respect to the subject matter hereof. Each party to this letter agreement acknowledges that no representations, inducements, promises, or other agreements have been made by or on behalf of any party except those covenants, agreements and promises embodied in this letter agreement. This letter agreement is binding upon, and shall inure to the benefit of, the parties and their current and former respective agents, beneficiaries, employees, representatives, officers, directors, trustees, fiduciaries, divisions, subsidiaries, affiliates, heirs, predecessors, successors in interest, and shareholders.



(b) The provisions of this letter agreement may not be altered, amended or repealed, in whole or in part, except by the written consent of the parties.

(c) If any term of this letter agreement is declared invalid for any reason, such determination shall not affect the validity of the remainder of the letter agreement. The remaining parts of this letter agreement shall remain in effect as if the letter agreement had been executed without the invalid term.

(d) This letter agreement shall be deemed to have been executed and delivered in the State of Texas, and the rights and obligations of the parties shall be construed and enforced in accordance with and governed by the laws of the State of Texas.

(e) Resolution of any and all disputes arising under this letter agreement shall be submitted to arbitration under the terms hereof, which arbitration shall be final, conclusive and binding upon the parties, their successors and assigns. The arbitration shall be conducted in accordance with the Employment Arbitration Rules and Mediation Procedures of the American Arbitration Association (the "AAA Rules"). Arbitration shall be by a single arbitrator experienced in the matters at issue selected in accordance with the AAA Rules. The arbitration shall be held in Dallas, Texas. The decision of the arbitrator shall be final and binding as to any matters submitted to arbitration and shall be in lieu of any other action or proceeding of any nature whatsoever; and, if necessary, any judgment upon the arbitrator's decision may be entered in any court of record having jurisdiction over the subject matter or over the party against whom the judgment is being enforced. Except as required by law, the parties agree to keep confidential the existence and details of any dispute subject to this provision, including the results of arbitration.

Nothing in this letter agreement shall prevent either party from seeking equitable and/or injunctive relief from any court of competent jurisdiction for a temporary restraining order, preliminary injunction, or other interim relief, as necessary, without breach of this letter agreement and without abridgement of the powers of the arbitrator.

In the event that a claim is submitted to arbitration, the parties will be required to split the arbitrator's fee equally. All fees, costs, and expenses of the arbitration, including attorneys' fees, shall be borne by the party incurring them. Any postponement or cancellation fee imposed by the arbitration service will be paid by the party requesting the postponement or cancellation, unless the arbitrator determines otherwise. The arbitrator must award attorneys' fees, costs and other expenses of arbitration to the prevailing party, such that the prevailing party shall be reimbursed for all attorneys' fees, costs and expenses borne by that party, to the extent permitted by law. At the conclusion of the arbitration, each party agrees to pay promptly any arbitration award imposed against that party.

(f) Each of the parties acknowledges that this letter agreement was jointly negotiated and reviewed and approved by them. The letter agreement shall not be construed by any court of law or equity against any party by virtue of any party having drafted this letter agreement.

(g) This letter agreement may be executed in counterparts including facsimile counterparts. All counterparts when executed shall constitute one agreement binding upon all parties notwithstanding that all of the parties are not a signatory to the original or the same counterpart. A copy or facsimile of this letter agreement shall have the same force and effect as the original.

(h) Each party shall bear your/its own attorneys' fees and costs incurred as a result of negotiating this letter agreement.

(i) You, for yourself and on behalf of your respective agents, representatives, attorneys, and assigns, agree and warrant that you understand that as a material condition of this letter agreement, and in exchange for consideration hereunder, the existence of the letter agreement together with its terms and conditions are to remain strictly private and confidential to the extent permitted by law, subject only to the exceptions set forth below.

You expressly agree that you will not disclose, discuss, consent to disclosure, or otherwise disseminate said information to anyone with the sole exceptions of your spouse, attorneys, accountants, financial advisors, and tax preparers, and shall instruct those individuals not to disclose the fact of this letter agreement or the terms and conditions of this letter agreement to anyone, unless specifically required by law, and in that event, only such information as the law permits or requires to be disclosed. Notwithstanding the foregoing, Diodes and you may disclose this letter agreement in order to enforce the releases and covenants provided herein.

You acknowledge and agree that any breach of this provision will cause damage to the Releasees in an amount or amounts difficult to ascertain. Accordingly, in addition to any other relief the Releasees may be entitled, they shall also be entitled to seek injunctive relief as may be ordered by any court of competent jurisdiction to prevent violation of this provision.

Notwithstanding anything to the contrary contained herein, no provision of this letter agreement or any other Diodes agreement to which you are a party shall be interpreted so as to impede you (or any other individual) from reporting possible violations of federal law or regulation to any governmental agency or entity, including but not limited to the Department of Justice, the Securities and Exchange Commission, the Congress, and any agency Inspector General, or making other disclosures under the whistleblower provisions of federal law or regulation. You do not need the prior authorization of Diodes to make any such reports or disclosures and you shall not be required to notify Diodes that such reports or disclosures have been made.

(j) Solely to the extent necessary to comply with Code Section 409A and avoid the imposition of taxes under Code Section 409A, Diodes shall defer payment of "nonqualified deferred compensation" subject to Code Section 409A payable as a result of and within six (6) months following your "separation from service" under this letter agreement until the earlier of (i) the first business day of the seventh month following the your "separation from service," or (ii) ten (10) days after Diodes receives written notification of your death. Any such delayed payments shall be made without interest. Notwithstanding anything else to the contrary, Diodes shall not be responsible for any other Code Section 409A taxes, interest or penalties that may be imposed on you (including without limitation that might be imposed in connection with your employment) and you shall have no recourse against Diodes for any other Code Section 409A taxes. Moreover, Diodes (including without limitation members of the Diodes Board of the Directors) shall not be liable to you or other persons as to any unexpected or adverse tax consequence realized by you and you shall be solely responsible for the timely payment of all taxes, interest and/or penalties that are imposed on you in connection with this letter agreement or any other agreement between you and Diodes.

**(k) It is strongly recommended, urged, and advised that you discuss this letter agreement with your attorney before executing it.** You expressly acknowledges that you have been provided at least 21 days to review and consider this letter agreement before signing it. Should you decide not to use the full 21 days, then you knowingly and voluntarily waive any claim that you were not given that period of time or did not use the entire 21 days to consult an attorney or consider this letter agreement.

You may revoke this letter agreement at any time up to seven (7) calendar days following your execution of the letter agreement, and this letter agreement shall not become effective or enforceable until the revocation period has expired which is at 12:00:01 a.m. on the eighth day following your execution of this letter agreement ("Effective Date"). If you decide to revoke this letter agreement, such revocation must be in writing to Rick White, Chief Financial Officer, Diodes Incorporated, 4949 Hedgcoxe Road Suite 200, Plano, Texas 75024, and sent to him by facsimile or email no later than the end of the seventh day after you signed this letter agreement.

Without limiting the scope of this letter agreement in any way, you also certify that this letter agreement constitutes a knowing and voluntary waiver of any and all rights or claims that exist or that you have or may claim to have under the Federal Age Discrimination in Employment Act ("ADEA"), as amended by the Older Workers Benefit Protection Act of 1990 ("OWBPA"), which is set forth at 29 U.S.C. § § 621, et seq. This letter agreement does not govern any rights or claims that may arise under the ADEA after the date this letter agreement is signed by you.

**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: May 8, 2018

/s/ Keh-Shew Lu

Keh-Shew Lu

Chief Executive Officer

**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, **Richard D. White**, 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: May 8, 2018

/s/ Richard D. White

Richard D. White  
Chief Financial Officer

**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 **March 31, 2018** 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: May 8, 2018

/s/ Keh-Shew Lu

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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.

**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 **March 31, 2018** 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: May 8, 2018

/s/ Richard D. White

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Richard D. White  
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.