

United States
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2012

or

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

For the transition period from _____ to _____.

Commission file number: 002-25577

DIODES INCORPORATED

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

95-2039518

(I.R.S. Employer Identification
Number)

4949 Hedgcoxe Road, Suite 200

Plano, Texas

(Address of principal executive offices)

75024

(Zip Code)

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

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

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
Common Stock, Par Value \$0.66 2/3	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the 37,645,038 shares of Common Stock held by non-affiliates of the registrant, based on the closing price of \$18.77 per share of the Common Stock on the Nasdaq Global Select Market on June 29, 2012, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$706,597,363.

The number of shares of the registrant's Common Stock outstanding as of February 22, 2013 was 46,018,715.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement to be filed with the United States Securities and Exchange Commission ("SEC") pursuant to Regulation 14A in connection with the 2013 annual meeting of stockholders are incorporated by reference into Part III of this Annual Report. The proxy statement will be filed with the SEC not later than 120 days after the registrant's fiscal year ended December 31, 2012.

TABLE OF CONTENTS

	<u>Page</u>
<u>PART I</u>	
ITEM 1. BUSINESS	1
ITEM 1A. RISK FACTORS	9
ITEM 1B. UNRESOLVED STAFF COMMENTS	24
ITEM 2. PROPERTIES	25
ITEM 3. LEGAL PROCEEDINGS	25
ITEM 4. MINE SAFETY DISCLOSURES	25
<u>PART II</u>	
ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES	26
ITEM 6. SELECTED FINANCIAL DATA	28
ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	29
ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK	44
ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA	45
ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE	45
ITEM 9A. CONTROLS AND PROCEDURES	46
ITEM 9B. OTHER INFORMATION	47
<u>PART III</u>	
ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE	47
ITEM 11. EXECUTIVE COMPENSATION	47
ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS	47
ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE	47
ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES	47
<u>PART IV</u>	
ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES	48

PART I

Item 1. Business.

GENERAL

We are a leading global manufacturer and supplier of high-quality, application specific standard products within the broad discrete, logic and analog semiconductor markets, serving the consumer electronics, computing, communications, industrial and automotive markets. These products include diodes, rectifiers, transistors, MOSFETs, protection devices, functional specific arrays, single gate logic, amplifiers and comparators, Hall-effect and temperature sensors, power management devices, including LED drivers, DC-DC switching and linear voltage regulators, and voltage references along with special function devices, such as USB power switches, load switches, voltage supervisors, and motor controllers. The products are sold primarily throughout Asia, North America and Europe.

We design, manufacture and market these semiconductors for diverse end-use applications. Semiconductors, which provide electronic signal amplification and switching functions, are basic building-blocks that are incorporated into almost every electronic device. We believe that our focus on application-specific standard products utilizing innovative, highly efficient packaging and cost-effective process technologies, coupled with our collaborative, customer-focused product development, gives us a meaningful competitive advantage relative to other semiconductor companies.

Our product portfolio addresses the design needs of advanced electronic equipment, including high-volume consumer devices such as digital media players, smartphones, tablets, notebook computers, flat-panel displays, mobile handsets, digital cameras and set-top boxes. We believe that we have particular strength in designing innovative, highly power efficient semiconductors in miniature packaging for applications with a critical need to minimize product size while maximizing power density and overall performance, and at a lower cost than alternative solutions. Our product line includes over 7,500 products, and we shipped approximately 32 billion units, 29 billion units, and 28 billion units in 2012, 2011 and 2010, respectively. From 2007 to 2012, our net sales grew from \$401 million to \$634 million, representing a compound annual growth rate of 10%.

We serve approximately 150 direct customers worldwide, which consist of original equipment manufacturers (“OEM”) and electronic manufacturing services (“EMS”) providers. Additionally, we have approximately 67 distributor customers worldwide, through which we indirectly serve over 10,000 customers. During 2012, we increased our number of direct customers and distributor customers primarily due to acquisitions. See “Business – *Our Strategy—Pursue selective strategic acquisitions.*”

We were incorporated in 1959 in California and reincorporated in Delaware in 1968. Our headquarters, logistics center, and Americas’ sales office are located in Plano, Texas. Our design, marketing and engineering centers are located in Plano; San Jose, California; Taipei, Taiwan; Manchester, United Kingdom (“U.K”) and Neuhaus, Germany. We have wafer fabrication facilities located near Kansas City, Missouri and Manchester, joint venture manufacturing facilities located in Shanghai, China and Chengdu, China, as well as manufacturing facilities located in Neuhaus and Taipei. Additional engineering, sales, warehouse and logistics offices are located in Fort Worth, Texas; Taipei; Hong Kong; Manchester; Shanghai; Shenzhen, China; Seongnam-si, South Korea; Tokyo, Japan and Munich, Germany, with support offices located throughout the world.

BUSINESS OUTLOOK

For 2013, we look to combine synergies with our acquisitions to enhance profitability and growth opportunities with our global customer base and sales channels, especially in China. We expect our business to continue to benefit from increasing demand in China, as we consider the China market a major growth driver for our business. We expect revenue for the first quarter of 2013 to be slightly better than the normal seasonal pattern, although the first quarter is typically a seasonally down quarter. The success of our business depends, among other factors, on the strength of the global economy and the stability of the financial markets, our customers’ demand for our products, the ability of our customers to meet their payment obligations, the likelihood of customers canceling or deferring existing orders and end-user consumers’ demand for items containing our products in the end-markets we serve. We believe the long-term outlook for our business remains generally favorable despite the recent volatility in the global economy and the equity and credit markets as we continue to execute on the strategy that has proven successful for us over the years. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—*Business Outlook*” in Part II, Item 7 and “Risk Factors – *The success of our business depends on the strength of the global economy and the stability of the financial markets, and any weaknesses in these areas may have a material adverse effect on our revenues, results of operations and financial condition.*” in Part I, Item 1A of this Annual Report for additional information.

SEGMENT INFORMATION AND ENTERPRISE-WIDE DISCLOSURES

For financial reporting purposes, we operate in a single segment, standard semiconductor products, through our various design, manufacturing and distribution facilities. We sell product primarily through our operations in Asia, North America and Europe. We aggregate our products in a single segment because the products have similar economic characteristics, are similar in production process and manufacturing flow, and share the same customers and target end-equipment markets. See Note 15 of “Notes to Consolidated Financial Statements” of this Annual Report for additional information.

OUR INDUSTRY

Semiconductors are critical components used in the manufacture of a broad range of electronic products and systems. Since the invention of the transistor in 1948, continuous improvements in semiconductor processes and design technologies have led to smaller, more complex and more reliable devices at a lower cost per function. The availability of low-cost semiconductors, together with increased customer demand for sophisticated electronic systems, has led to the proliferation of semiconductors in diverse end-use applications in the consumer electronics, computing, communications, industrial and automotive sectors.

OUR COMPETITIVE STRENGTHS

We believe our competitive strengths include the following:

Flexible, scalable and cost-effective manufacturing – Our manufacturing operations are a core element of our success, and we have designed our manufacturing base to allow us to respond quickly to changes in demand trends in the end-markets we serve. For example, we have structured our Shanghai, China packaging, assembly and test facilities to enable us to rapidly and efficiently add capacity and adjust product mix to meet shifts in customer demand and overall market trends. As a result, we have historically operated our Shanghai manufacturing facilities at near full capacity, while at the same time expanding that capacity to meet our growth objectives. In 2011, we established an additional manufacturing facility for semiconductor packaging, assembly and test in Chengdu, China. Additionally, the Shanghai and Chengdu locations of our manufacturing operations provide us with access to a workforce at a relatively low overall cost base while enabling us to better serve our leading customers, many of which are located in Asia. In 2012, we acquired approximately 51% of the outstanding common stock of Eris Technology Corporation (“Eris”), primarily to obtain its automatic manufacturing capabilities in test and assembly for various diode products. See “Risk Factors—*During times of difficult market conditions, our fixed costs combined with lower revenues and lower profit margins may have a negative impact on our business, results of operations and financial condition.*” in Part I, Item 1A of this Annual Report for additional information.

Integrated packaging expertise – Our expertise in designing and manufacturing innovative and proprietary packaging solutions enables us to package a variety of different device functions into an assortment of packages ranging from miniature chip-scale packaging to packages that integrate multiple separate discrete and/or analog chips into a single semiconductor product called an array. Our ability to design and manufacture multi-chip semiconductor solutions as well as advanced integrated devices provides our customers with products of equivalent functionality with fewer individual parts, and at lower overall cost, than alternative products. This combination of integration, functionality and miniaturization makes our products well suited for high-volume consumer devices such as LED televisions, LCD panels, set-top boxes and consumer portables such as smartphones, tablets and notebooks.

Broad customer base and diverse end-markets – Our customers are comprised of leading OEMs as well as major EMS providers. Overall, we serve approximately 150 direct customers worldwide and over 10,000 additional customers through our distributors. Our products are ultimately used in end-products in a number of markets served by our broad customer base, which we believe makes us less susceptible to market fluctuations driven by either specific customers or specific end-user applications.

Customer focused product development – Effective collaboration with our customers and a commitment to customer service are essential elements of our business. We believe focusing on dependable delivery and support tailored to specific end-user applications has fostered deep customer relationships and created a key competitive advantage for us in the highly fragmented discrete, logic and analog semiconductor marketplace. We believe our close relationships with our customers have provided us with keener insight into our customers’ product needs. This results in a stronger demand for our product designs and often provides us with insight into additional opportunities for new design wins in our customers’ products. See “Risk Factors— *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*” in Part I, Item 1A of this Annual Report for additional information.

[Table of Contents](#)

Management experience – The members of our executive team average well over 20 years of industry experience, and the length of their service has created significant institutional insight into our markets, our customers and our operations. Our executive officers have an average of over 29 years experience in the semiconductor industry. See “Risk Factors—*We may fail to attract or retain the qualified technical, sales, marketing, finance and management personnel required to operate our business successfully, which could adversely affect on our business, results of operations and financial condition.*” in Part I, Item 1A of this Annual Report for additional information.

OUR STRATEGY

Our strategy is to continue to enhance our position as a leading global designer, manufacturer and supplier of high-quality application specific standard semiconductor products, utilizing our innovative and cost-effective packaging technology and leveraging our process expertise and design excellence to achieve above-market profitable growth.

The principal elements of our strategy include the following:

Continue to rapidly introduce innovative discrete, logic and analog semiconductor products – We intend to maintain our rapid pace of new product introductions, especially for high-volume, high-growth applications with short design cycles, such as LCD and LED televisions and panels, set-top boxes, portables such as smartphones, tablets and notebooks along with other consumer electronics and computing devices. During 2012, we achieved many significant new design wins at OEMs. Although a design win from a customer does not necessarily guarantee future sales to that customer, we believe that continued introduction of new and well-defined product solutions is critically important in maintaining and extending our market share in the highly competitive semiconductor marketplace. See “Risk Factors – *Obsolete inventories as a result of changes in demand for our products and change in life cycles of our products could adversely affect our business, results of operations and financial condition.*” in Part I, Item 1A of this Annual Report for additional information.

Expand our available market opportunities – We believe we have many paths to increasing our addressable market opportunity. From a product perspective, we intend to continue expanding our portfolio by developing derivative and enhanced performance devices that target adjacent markets and end-equipments. We will continue to cultivate new and emerging customers within our targeted markets, further increasing our already broad customer base. As we focus on new customers, we try to expand our product portfolio penetration within these new, as well as existing, customers. As we expand our extensive range of high power efficiency and small form factor packages, we plan to introduce new and existing product functions in these new packages to allow an even greater market range.

Maintain intense customer focus – We intend to continue to strengthen and deepen our customer relationships. We believe that continued focus on customer service is important and will help to increase our net sales, operating performance and overall market share. To accomplish this, we intend to continue to closely collaborate with our customers to design products that meet their specific needs. A critical element of this strategy is to further reduce our design cycle time in order to quickly provide our customers with innovative products. Additionally, to support our customer-focused strategy, we historically expand our sales force and field application engineers, particularly in Asia and Europe, during periods of growth. See “Risk Factors – *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.*” in Part I, Item 1A of this Annual Report for additional information.

Enhance cost competitiveness – A key element of our success is our overall low-cost manufacturing base. While we believe that our Shanghai manufacturing facilities are among the most efficient in the industry, we will continue to refine our proprietary manufacturing processes and technology to achieve additional cost efficiencies. In 2011, we expanded our capacity further by establishing an additional manufacturing facility for semiconductor packaging, assembly and test in Chengdu, China. Historically, we typically operate our Shanghai facilities at near full utilization rates and focus on increasing production yields, in order to achieve meaningful economies of scale.

Pursue selective strategic acquisitions – As part of our strategy to expand our semiconductor product offerings and to maximize our market opportunities, we may acquire discrete, logic, analog or mixed-signal technologies, product lines or companies in order to enhance our portfolio and accelerate our new product offerings. During 2011, we announced an agreement to invest in Eris and acquired approximately 30% of the outstanding common stock. During 2012, we increased our ownership in Eris and on August 31, 2012, we obtained approximately 51% of the outstanding common stock of Eris. The business scope for Eris comprises Schottky Diodes, TVS Diodes, Zener Diodes, Bridge Diodes, Wafers, LEDs and the relevant devices. On October 29, 2012, we completed the acquisition of Power Analog Microelectronics, Inc. (“PAM”), a provider of advanced analog and high-voltage power ICs, whose product portfolio includes Class D audio amplifiers, DC-DC converters and LED backlighting drivers. In addition, on December 26, 2012, we entered into an Agreement and Plan of Merger with BCD Semiconductor Manufacturing Limited (“BCD”). We expect to complete the acquisition of BCD late in the first quarter or early in the second quarter of 2013. BCD’s established presence in Asia with a particularly strong local market position in China offers us an even greater penetration of the consumer, computing and

[Table of Contents](#)

communications markets. See “Risk Factors – *Part of our growth strategy involves identifying and acquiring companies with complementary product lines or customers. We may be unable to identify suitable acquisition candidates or consummate desired acquisitions and, if we do make any acquisitions, we may be unable to successfully integrate any acquired companies with our operations, which could adversely affect our business, results of operations and financial condition*” in Part I, Item 1A and Note 17 of “Notes to Consolidated Financial Statements” of this Annual Report for additional information.

OUR PRODUCTS

Our product portfolio includes over 7,500 products that are designed for use in high-volume consumer devices such as LCD and LED televisions and LCD panels, set-top boxes, consumer portables such as smart phones, tablets and notebooks. We target and serve end-equipment markets that we believe have larger volumes than other end-market segments served by the overall semiconductor industry.

Our broad product line includes:

- Discrete semiconductor products, including: performance Schottky rectifiers; performance Schottky diodes; Zener diodes and performance Zener diodes, including tight tolerance and low operating current types; standard, fast, super-fast and ultra-fast recovery rectifiers; bridge rectifiers; switching diodes; small signal bipolar transistors; prebiased transistors; MOSFETs; thyristor surge protection devices; and transient voltage suppressors;
- Analog products, including: power management devices such as DC-DC converters, USB power switches, low dropout and linear voltage regulators; standard linear devices such as operational amplifiers and comparators, current monitors, voltage references, and reset generators; LED lighting drivers; and sensor products including Hall-effect sensors and motor drivers;
- Standard logic products, including low-voltage complementary metal-oxide-semiconductor (“CMOS”) and advanced high-speed CMOS devices;
- Complex discrete, analog and mixed technology arrays in miniature packages, including customer specific and function specific arrays; and
- Silicon wafers used in manufacturing these products.

The following table lists the end-markets, some of the applications in which our products are used, and the percentage of net sales for each end-market for the last three years:

<u>End-Markets</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>End product applications</u>
Consumer Electronics	33%	33%	32%	Digital media players, set-top boxes, digital cameras, consumer portables, LCD and LED TV’s, games consoles, portable GPS
Computing	28%	28%	28%	Notebooks, LCD monitors, PDAs, printers
Industrial	19%	20%	20%	Lighting, power supplies, DC-DC conversion, security systems, motor controls, DC fans, proximity sensors, solenoid and relay driving
Communications	16%	16%	17%	IP in gateways, routers, switches, hubs, fiber optics
Automotive	4%	3%	3%	Comfort controls, lighting, audio/video players, GPS navigation, satellite radios, electronics

PRODUCT PACKAGING

Our device packaging technology includes a wide variety of innovative surface-mounted packages. Our focus on the development of smaller, more thermally efficient, and increasingly integrated packaging, is a critical component of our product development. We provide a comprehensive offering of miniature high power density packaging, enabling us to fit our components into smaller and more efficient packages, while maintaining the same device functionality and power handling capabilities. Smaller packaging provides a reduction in the height, weight and board space required for our components; as such, our products are well suited for battery-powered, hand-held and wireless consumer applications and high-volume consumer devices such as LCD and LED televisions and LCD panels, set-top boxes, consumer portables such as smart phones, tablets and notebooks.

CUSTOMERS

We serve approximately 150 direct customers worldwide, including major OEMs and EMS companies. Additionally, we have approximately 67 distributor customers worldwide, through which we indirectly serve over 10,000 customers. Our customers include: (i) industry leading OEMs in a broad range of industries, such as Cisco Systems, Inc., Continental AG, Delta Electronics, Emerson, Hella, Ltd., LG Electronics, Inc., Motorola, Inc., Quanta Computer, Inc., Sagem Communication, and Samsung Electronics Co., Ltd.; (ii) leading EMS providers, such as Celestica, Inc., Flextronics International, Ltd., Hon Hai Precision Industry Co., Ltd., Inventec Corporation, Jabil Circuit, Inc., and Sanmina-SCI Corporation, who build end-market products incorporating our semiconductors for companies such as Apple, Inc., Dell, Inc., EMC Corporation, Intel Corporation, Microsoft Corporation, Thompson, Inc. and Roche Diagnostics; and (iii) leading distributors such as Arrow Electronics, Inc., Avnet, Inc., Future Electronics, Rutronic, Yosun Industrial Corporation, and Zenitron Corporation. For the years of 2012, 2011 and 2010, our OEM and EMS customers together accounted for 47%, 47% and 46%, respectively, of our net sales.

No customer accounted for 10% or more of our net sales in 2012, 2011 and 2010. In addition, for information concerning our business with related parties, see “Business—*Certain relationships and related party transactions.*”

We believe that our close relationships with our OEM and EMS customers have provided us with deeper insight into our customers’ product needs. In addition to seeking to expand relationships with our existing customers, our strategy is to pursue new customers and diversify our customer base by focusing on leading global consumer electronics companies and their EMS providers and distributors. See “Risk Factors – *Our customers require our products to undergo a lengthy and expensive qualification process without any assurance of product sales, which could adversely affect our revenues, results of operations and financial condition*” in Part I, Item 1A of this Annual Report for additional information.

We generally warrant that products sold to our customers will, at the time of shipment, be free from defects in workmanship and materials and conform to our approved specifications. Subject to certain exceptions, our standard warranty extends for a period of one year from the date of shipment. Warranty expense has not been significant. Generally, our customers may cancel orders on short notice without incurring a penalty. See “Risk Factors – *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 results of operations and financial condition*” in Part I, Item 1A of this Annual Report for additional information.

Many of our customers are based in Asia or have manufacturing facilities in Asia. Net sales by country consists of sales to customers in that country based on the country to which products are billed. For the year ended December 31, 2012, approximately 35%, 20%, 18%, 9% and 18% of our net sales were derived from China, Taiwan, Europe, the United States (“U.S.”) and all other markets, respectively, compared to 33%, 21%, 18%, 8% and 20% in 2011, respectively.

SALES AND MARKETING

We market and sell our products worldwide through a combination of direct sales and marketing personnel, independent sales representatives and distributors. We have direct sales personnel in the U.S., U.K., France, Germany, Korea, Taiwan and China. We also have independent sales representatives in the U.S., Japan, Korea, and Europe. We currently have distributors in the U.S., Europe and Asia.

As of December 31, 2012, our direct global sales and marketing organization consisted of 190 employees operating out of 16 offices. We have sales and marketing offices or representatives in Taipei, Taiwan; Shanghai and Shenzhen, China; Beauzelle, France; Gyeonggi, South Korea; and Munich, Germany; and we have four regional sales offices in the U.S. As of December 31, 2012, we also had approximately 20 independent sales representative firms marketing our products.

Our marketing group focuses on our product strategy, product development roadmap, new product introduction process, demand assessment and competitive analysis. Our marketing programs include participation in industry tradeshows, technical conferences and technology seminars, sales training and public relations. The marketing group works closely with our sales and research and development groups to align our product development roadmap. The marketing group coordinates its efforts with our product development, operations and sales groups, as well as with our customers, sales representatives and distributors. We support our customers through our field application engineering and customer support organizations.

To support our global customer-base, our website is language-selectable into English, Chinese and Korean, giving us an effective marketing tool for worldwide markets. With its extensive online product catalog with advanced search capabilities, our website facilitates quick and easy product selection. Our website, www.diodes.com, provides easy access to our worldwide sales contacts and customer support, as well as incorporates a distributor-inventory check to provide component inventory availability. In addition, our website provides investors access to our financial and corporate governance information.

MANUFACTURING OPERATIONS AND FACILITIES

We operate two manufacturing facilities located in Shanghai, China, one in Neuhaus, Germany, one in Taipei, Taiwan and are developing a fifth facility in Chengdu, China. Our wafer fabrication facilities are located near Kansas City, Missouri and Manchester, U.K. Our facilities in Shanghai, Neuhaus and Taipei are packaging, assembly and test manufacturing sites, as is the facility being developed in Chengdu. Our Kansas City facility includes a 125mm and 150mm wafer fabrication line, and our Manchester facility includes a 150mm wafer fabrication line.

During 2010, we announced an investment agreement with the Management Committee of the Chengdu Hi-Tech Industrial Development Zone (the “CDHT”). Under this agreement, we have agreed to form a joint venture with a Chinese partner, Chengdu Ya Guang Electronic Company Limited, to establish a semiconductor manufacturing facility for surface-mounted component production, assembly and test in Chengdu, China. We initially will own at least 95% of the joint venture. The manufacturing facility will be developed in phases over a ten year period, and in order to qualify for certain financial incentives, we were obligated to contribute at least \$48 million to the joint venture in installments by December 14, 2012. Due to pending approval from the Chinese government for completion of the restructuring of our China corporate entities, we received an extension to contribute the required amount until December 31, 2013. The CDHT will grant the joint venture a fifty year land lease, provides temporary facilities for up to three years at a subsidized rent while the joint venture builds the manufacturing facility and provides corporate and employee tax incentives, tax refunds, subsidies and other financial support to the joint venture and its qualified employees. If the joint venture fails to achieve specified levels of investment, the investment agreement allows for a renegotiation as well as the option to repay a portion of such financial support. This is a long-term, multi-year project that will provide us additional capacity as needed. As of December 31, 2012, we have invested approximately \$25 million of which \$20 million were for capital expenditures. See “Risk Factors— *In 2010, we established a joint venture to build a semiconductor facility in Chengdu, China. We are required to contribute at least \$48 million to the joint venture during the first three years with additional contributions thereafter, as well as a substantial amount of time and resources to establish and operate the joint venture. Any failure to meet any such requirements, delays or unforeseen circumstances may cause us to incur penalties or require us to contribute additional expenses or resources and, as a result, could have an adverse effect on our operating efficiencies, results of operations and financial conditions.*” in Part I, Item 1A of this Annual Report for additional information.

For the years ending December 31, 2012 and 2011, we invested approximately \$50 million and \$64 million, respectively, in plant and state-of-the-art equipment in China (\$397 million total investment in China from inception). Our facilities in China manufacture product for sale by our U.S., Europe and Asia operations. For the years ending December 31, 2012 and 2011, our capital expenditures were approximately \$60 million and \$83 million, respectively, in equipment, primarily related to manufacturing expansion in our facilities in China.

Our manufacturing processes use many raw materials, including silicon wafers, aluminum and copper lead frames, gold and copper wire and other metals, molding compounds and various chemicals and gases. We are continuously evaluating our raw material costs in order to reduce our gold consumption while protecting and maintaining product performance. We have no material agreements with any of our suppliers that impose minimum or continuing supply obligations. From time to time, suppliers may extend lead-times, limit supplies or increase prices due to capacity constraints or other factors. Although we believe that supplies of the raw materials we use are currently and will continue to be available, shortages could occur in various essential materials due to interruption of supply or increased demand in the industry. See “Risk Factors— *We depend on third-party suppliers for timely deliveries of raw materials, parts and equipment, as well as finished products from other manufacturers, and our reputation with customers, results of operations and financial condition could be adversely affected if we are unable to obtain adequate supplies in a timely manner.*” in Part I, Item 1A of this Annual Report for additional information.

Our corporate headquarters are located in a facility we own in Plano, Texas. We also lease or own properties around the world for use as sales and administrative offices, research and development centers, manufacturing facilities, warehouses and logistics centers. The size and/or location of these properties can change from time to time based on our business requirements. See “Properties” in Part I, Item 2 of this Annual Report for additional information.

BACKLOG

The amount of backlog to be shipped during any period is dependent upon various factors, and all orders are subject to cancellation or modification, usually with no penalty to the customer. Orders are generally booked from one month to greater than twelve months in advance of delivery. The rate of booking of new orders can vary significantly from month to month. We, and the industry as a whole, have been experiencing a trend towards shorter lead-times, and we expect this trend to continue. The amount of backlog at any date depends upon various factors, including the timing of the receipt of orders, fluctuations in orders of existing product lines, and the introduction of any new lines. Accordingly, we believe that the amount of our backlog at any date is not an accurate measure of our future sales. We strive to maintain proper inventory levels to support our customers’ just-in-time order expectations.

PATENTS, TRADEMARKS AND LICENSES

Historically, patents and trademarks have not been material to our operations, but we expect them to become more important, particularly as they relate to our miniature and power efficient packaging technologies.

Our initial product patent portfolio was primarily composed of discrete technologies. In the late 1990s, our engineers began to research and develop innovative packaging technologies, which produced several important breakthroughs and patents, such as the PowerDI[®] series of packaging technology to foster our growth in the semiconductor industry.

PowerDI is a registered trademark of Diodes Incorporated

We acquired Anachip Corp. in early 2006, a fabless semiconductor company, which initiated our presence in the analog product market with a portfolio of standard linear and low dropout regulator products, among others.

Through our acquisition of the assets of APD Semiconductor, Inc. in late 2006, we acquired the SBR[®] patents and trademark. SBR[®] is a state-of-the-art integrated circuit wafer processing technology, which is able to integrate and improve the benefits of the two existing rectifier technologies into a single device. The creation of a finite conduction cellular IC, combined with inherent design uniformity has allowed manufacturing costs to be kept competitive with the existing power device technology, and thus has produced a breakthrough in rectifier technology.

In 2008, we acquired Zetex, which subsequently increased our available discrete and analog technologies with patents and trademarks for bipolar transistors and power management products such as LED drivers. LED drivers support a wide range of applications for automotive, safety and security, architecture, and portable lighting and are highly efficient and cost effective.

In 2012, we acquired PAM, a provider of advanced analog and high-voltage power ICs. PAM's product portfolio includes Class D audio amplifiers, DC-DC converters and LED backlighting drivers, which will strengthen our position as a global provider of high-quality and high-efficiency, space-saving analog products by expanding our product portfolio with innovative "filter-less" digital audio amplifiers, application-specific power management ICs, as well as high-performance LED drivers and DC-DC converters.

Currently, our licensing of patents to other companies is not material. We do, however, license certain product technology from other companies, but we do not consider any of the licensed technology currently to be material in terms of royalties. We believe the duration and other terms of the licenses are appropriate for our current needs. See "Risk Factors—*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, results of operations and financial condition.*" in Part I, Item 1A of this Annual Report for additional information.

COMPETITION

Numerous semiconductor manufacturers and distributors serve the discrete, logic and analog semiconductor components market, making competition intense. Some of our larger competitors include Fairchild Semiconductor Corporation, Infineon Technologies A.G., International Rectifier Corporation, NXP Semiconductors N.V., ON Semiconductor Corporation, Rohm Electronics USA, LLC, Toshiba Corporation and Vishay Intertechnology, Inc., many of which have greater financial, marketing, distribution, brand name recognition, research and development, manufacturing and other resources. Accordingly, we from time to time may reposition product lines or decrease prices, which may affect our sales of, and profit margins on, such product lines. The price and quality of the products, and our ability to design products and deliver customer service in keeping with the customers' needs, determine the competitiveness of our products. We believe that our product focus, packaging expertise and our flexibility and ability to quickly adapt to customer needs affords us competitive advantages. See "Risk Factors – *The semiconductor business is highly competitive, and increased competition may harm our business, results of operations and financial condition.*" in Part I, Item 1A of this Annual Report for additional information.

ENGINEERING AND RESEARCH AND DEVELOPMENT

Our engineering and research and development groups consist of applications, circuit design, and product development engineers who assist in determining the direction of our future product lines. One of their key functions is to work closely with market-leading customers to further refine, expand and improve our product portfolio within our target product types and packages. In addition, customer requirements and acceptance of new package types are assessed and new, higher-density and more energy-efficient packages are developed to satisfy customers' needs.

Product development engineers work directly with our semiconductor circuit design and layout engineers who develop die designs for products that match our customers' requirements. We have the capability to capture the customers' electrical and packaging requirements and translate those requirements into product specifications which can then be designed and manufactured to support customers' end-system applications.

[Table of Contents](#)

For the years ended December 31, 2012, 2011 and 2010, company-sponsored investment in research and development activities was approximately \$34 million, \$27 million and \$27 million, respectively. As a percentage of net sales, research and development expense was approximately 5%, 4% and 4% for 2012, 2011 and 2010, respectively. The dollar amount increase in 2012 was mainly due to increase in engineering supplies, material purchases, development services and wages and benefits as a result of increased activity compared to 2011.

EMPLOYEES

As of December 31, 2012, we employed a total of 4,605 employees, of which 3,744 of our employees were in Asia and includes approximately 1,600 independent contractors, 358 were in the U.S. and 503 were in Europe. None of our employees in Asia or the U.S. are subject to a collective bargaining agreement, but a majority of our employees in Europe are covered by local labor agreements. We consider our relations with our employees to be satisfactory. See “Risk Factors—*We may fail to attract or retain the qualified technical, sales, marketing, finance and management personnel required to operate our business successfully, which could adversely affect on our business, results of operations and financial condition.*” in Part I, Item 1A of this Annual Report for additional information.

ENVIRONMENTAL MATTERS

We are subject to a variety of U.S. federal, state, local and foreign governmental laws, rules and regulations related to the use, storage, handling, discharge or disposal of certain toxic, volatile or otherwise hazardous chemicals used in our manufacturing process both in the U.S. and the U.K. where our wafer fabrication facilities are located, and in China and Germany where our packaging, assembly and test facilities are located. Any of these regulations could require us to acquire equipment or to incur substantial other costs to comply with environmental regulations or remediate problems. For the years ended December 31, 2012, 2011 and 2010, our capital expenditures for environmental controls have not been material. As of December 31, 2012, there were no known environmental claims or recorded liabilities. See “Risk Factors—*We are subject to many environmental laws and regulations that could result in significant expenses and could adversely affect our business, results of operations and financial condition.*” in Part I, Item 1A of this Annual Report for additional information.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

We conduct business with one related party company, Lite-On Semiconductor Corporation and its subsidiaries and affiliates (collectively, “LSC”). LSC is our largest stockholder, owning 18% of our outstanding Common Stock as of December 31, 2012. We also conduct business with one significant company, Keylink International (B.V.I.) Inc. and its subsidiaries and affiliates (collectively, “Keylink”). Keylink is a 5% joint venture partner in our Shanghai manufacturing facilities. The Audit Committee reviews all related party transactions for potential conflict of interest situations on an ongoing basis. We believe that all related party transactions are on terms no less favorable to us than would be obtained from unaffiliated third parties. For more information concerning our relationships with LSC and Keylink, see “Risk Factors—*We receive a significant portion of our net sales from two customers, one of which is our largest external supplier and both of which are related parties. The loss of these customers or suppliers could harm our business, results of operations and financial condition.*” in Part I, Item 1A and Note 14 of “Notes to Consolidated Financial Statements” of this Annual Report for additional information.

SEASONALITY

Historically, our net sales have been affected by the cyclical nature of the semiconductor industry and the seasonal trends of related end-markets, specifically in the consumer and computing markets. See Note 18 (unaudited) of “Notes to Consolidated Financial Statements” of this Annual Report for additional information on our quarterly results.

AVAILABLE INFORMATION

Our website address is <http://www.diodes.com>. We make available, free of charge through our 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 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 filings may also be read and copied at the SEC’s Public Reference Room at 100 F Street NE, Room 1580 Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site (www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

[Table of Contents](#)

Our website also provides investors access to financial and corporate governance information including our Code of Business Conduct, as well as press releases, and stock quotes. The contents of our website are not incorporated by reference into this Annual Report on Form 10-K.

Cautionary Statement for Purposes of the “Safe Harbor” Provision of the Private Securities Litigation Reform Act of 1995

Many of the statements included in this Annual Report on Form 10-K contain forward-looking statements and information relating to our company. 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,” “project,” or similar phrases or the negatives of such terms. We base these statements on our beliefs as well as assumptions we made using information currently available to us. Such statements are subject to risks, uncertainties and assumptions, including those identified in “Risk Factors,” as well as other matters not yet known to us or not currently considered material by us. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated or projected. Given these risks and uncertainties, prospective investors are cautioned not to place undue reliance on such forward-looking statements. Forward-looking statements do not guarantee future performance and should not be considered as statements of fact.

You should not unduly rely on these forward-looking statements, which speak only as of the date of this Annual Report on Form 10-K. Unless required by law, we undertake no obligation to publicly update or revise any forward-looking statements to reflect new information or future events or otherwise. The Private Securities Litigation Reform Act of 1995 (the “Act”) provides certain “safe harbor” provisions for forward-looking statements. All forward-looking statements made on this Annual Report on Form 10-K are made pursuant to the Act.

Item 1A. Risk Factors

Investing in our Common Stock involves a high degree of risk. You should carefully consider the following risks and other information in this report before you decide to buy our Common Stock. Our business, financial condition or operating results may suffer if any of the following risks are realized. Additional risks and uncertainties not currently known to us may also adversely affect our business, financial condition or operating results. If any of these risks or uncertainties occurs, the trading price of our Common Stock could decline and you could lose part or all of your investment.

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 revenues, results of operations and financial condition.

Weaknesses in the global economy and financial markets can lead to lower consumer discretionary spending and demand for items that incorporate our products in the consumer electronics, computing, industrial, communications and the automotive sectors. A decline in end-user demand can affect our customers’ demand for our products, the ability of our customers to meet their payment obligations and the likelihood of customers canceling or deferring existing orders. Our revenues, operating results and financial condition could be negatively affected by such actions.

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

The semiconductor industry is characterized by high fixed costs. Notwithstanding our utilization of third-party manufacturing capacity, most of our production requirements are met by our own manufacturing facilities. In difficult economic environments, we could be faced with a decline in the utilization rates of our manufacturing facilities due to decreases in product demand. During such periods, our manufacturing facilities do not operate at full capacity and the costs associated with this excess capacity are expensed immediately and not capitalized into inventory. When our utilization rates decline to abnormally low production levels, we generally experience lower gross margins. The market conditions in the future may adversely affect our utilization rates and consequently our future gross margins, and this, in turn, could have a material negative impact on our business, results of operations and financial condition.

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

The semiconductor industry is highly cyclical, and periodically experiences significant economic downturns characterized by diminished product demand, production overcapacity and excess inventory, which can result in rapid erosion in average selling prices. From time to time, the semiconductor industry experiences order cancellations and reduced demand for products, resulting in significant revenue declines, due to excess inventories at end-equipment manufacturers and general economic conditions, especially in the technology sector. The market for semiconductors may experience renewed, and possibly more severe and prolonged downturns, which may harm our results of operations and financial condition.

[Table of Contents](#)

In addition, we operate in a few narrow markets of the broader semiconductor market and, as a result, cyclical fluctuations may affect these segments to a greater extent than they do to the broader semiconductor market. This may cause us to experience greater fluctuations in our results of operations and financial condition than compared to some of our broad line semiconductor manufacturer competitors. In addition, we may experience significant changes in our profitability as a result of variations in sales, changes in product mix, changes in end-user markets and the costs associated with the introduction of new products. The markets for our products depend on continued demand in the consumer electronics, computing, communications, industrial and automotive sectors. These end-user markets also tend to be cyclical and may also experience changes in demand that could adversely affect our results of operations and financial condition.

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

The semiconductor industry in which we operate is highly competitive. We expect intensified competition from existing competitors and new entrants. Competition is based on price, product performance, product availability, quality, reliability and customer service. We compete in various markets with companies of various sizes, many of which are larger and have greater resources or capabilities as it relates to financial, marketing, distribution, brand name recognition, research and development, manufacturing and other resources than we have. As a result, they may be better able to develop new products, market their products, pursue acquisition candidates and withstand adverse economic or market conditions. Most of our current major competitors are broad line semiconductor manufacturers who often have a wider range of product types and technologies than we do. In addition, companies not currently in direct competition with us may introduce competing products in the future. Some of our current major competitors are Fairchild Semiconductor Corporation, Infineon Technologies A.G., International Rectifier Corporation, NXP Semiconductors N.V., ON Semiconductor Corporation, Rohm Electronics USA, LLC, Toshiba Corporation and Vishay Intertechnology, Inc. We may not be able to compete successfully in the future, and competitive pressures may harm our business, results of operations and financial condition.

We receive a significant portion of our net sales from two customers, one of which is our largest external supplier and both of which are related parties. The loss of these customers or suppliers could harm our business, results of operations and financial condition.

In 2012, 2011 and 2010, LSC, our largest stockholder, accounted for approximately 1%, of our net sales. LSC is also our largest supplier, providing us with discrete semiconductor products for subsequent sale by us, which represented approximately 3%, 5% and 7%, respectively, of our net sales, in 2012, 2011 and 2010.

In addition, in 2012, 2011 and 2010, we sold products to companies owned by Keylink, totaling 3%, 2% and 3%, respectively, of our net sales. Also for 2012, 2011 and 2010, 1%, 1% and 2%, respectively, of our net sales were from semiconductor products purchased from companies owned by Keylink.

The loss of LSC as a supplier, or Keylink as a customer or supplier, could materially harm our business, results of operations 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, results of operations and financial condition.

Our manufacturing efficiency has been and will be an important factor in our future profitability, and we may not be able to maintain or increase our manufacturing efficiency. Our manufacturing and testing processes are complex, require advanced and costly equipment and are continually being modified in our efforts to improve yields and product performance. Difficulties in the manufacturing process can lower yields. Technical or other problems could lead to production delays, order cancellations and lost revenue. In addition, any problems in achieving acceptable yields, construction delays, or other problems in upgrading or expanding existing facilities, building new facilities, bringing new manufacturing capacity to full production or changing our process technologies, could also result in capacity constraints, production delays and a loss of future revenues and customers. Our operating results also could be adversely affected by any increase in fixed costs and operating expenses related to increases in production capacity if net sales do not increase proportionately, or in the event of a decline in demand for our products.

Our wafer fabrication facilities are located near Kansas City, Missouri, and Manchester, United Kingdom (“U.K.”), while our manufacturing facilities in Shanghai, China and Neuhaus, Germany, perform packaging, assembly and test functions and our manufacturing facilities in Chengdu, China are for surface-mounted component production, assembly and test functions. Any disruption of operations at these facilities could have a material adverse effect on our manufacturing efficiencies, results of operations 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.

Prices for our products tend to decrease over their life cycle. There is substantial and continuing pressure from customers to reduce the total cost of purchasing our products. To remain competitive and retain our customers and gain new ones, we must continue to reduce our costs through product and manufacturing improvements. We must also strive to minimize our customers' shipping and inventory financing costs and to meet their other goals for rationalization of supply and production. We experienced an increase in average selling prices ("ASP") for our products of 5% in 2010, a decrease of 2% in 2011 and a decrease of 10% in 2012. At times, we may be required to sell our products at ASP below our manufacturing costs or purchase prices in order to remain competitive. Our growth and the profit margins of our products will suffer if we cannot effectively continue to reduce our costs and keep our product prices competitive.

Our customers require our products to undergo a lengthy and expensive qualification process without any assurance of product sales, which could adversely affect our revenues, results of operations and financial condition.

Prior to purchasing our products, our customers require that our products undergo an extensive qualification process, which involves rigorous reliability testing. This qualification process may continue for six months or longer. However, qualification of a product by a customer does not ensure any sales of the product to that customer. Even after successful qualification and sales of a product to a customer, a subsequent revision to the product, changes in the product's manufacturing process or the selection of a new supplier by us may require a new qualification process, which may result in delays and in us holding excess or obsolete inventory. After our products are qualified, it can take an additional six months or more before the customer commences volume production of components or devices that incorporate our products. Despite these uncertainties, we devote substantial resources, including design, engineering, sales, marketing and management efforts, toward qualifying our products with customers in anticipation of sales. If we are unsuccessful or delayed in qualifying any of our products with a customer, such failure or delay would preclude or delay sales of such product to the customer, which may adversely affect our revenues, results of operations 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 revenues, results of operations and financial condition.

All of our customer orders are subject to cancellation or modification, usually with no penalty to the customer. Orders are generally made on a purchase order basis, rather than pursuant to long-term supply contracts, and are booked from one to twelve months in advance of delivery. The rate of booking new orders can vary significantly from month to month. We, and the semiconductor industry as a whole, are experiencing a trend towards shorter lead-times, which is the amount of time between the date a customer places an order and the date the customer requires shipment. Furthermore, our industry is subject to rapid changes in customer outlook and periods of excess inventory due to changes in demand in the end-markets our industry serves. As a result, many of our purchase orders are revised, and may be cancelled, with little or no penalty and with little or no notice. However, we must still commit production and other resources to fulfilling these purchase orders even though they may ultimately be cancelled. If a significant number of purchase orders are cancelled or product quantities ordered are reduced, and we are unable to timely generate replacement orders, we may build up excess inventory and our revenues, results of operations and financial condition may suffer.

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 results of operations and financial condition.

A disruption in production at our manufacturing facilities could have a material adverse effect on our business. Disruptions could occur for many reasons, including fire, floods, hurricanes, typhoons, droughts, tsunamis, volcanoes, earthquakes, disease or other similar natural disasters, unplanned maintenance or other manufacturing problems, labor shortages, power outages or shortages, telecommunications failures, strikes, transportation interruption, government regulation, terrorism or other extraordinary events. Such disruptions may cause direct injury or damage to our employees and property and related internal controls with significant indirect consequences. Alternative facilities with sufficient capacity or capabilities may not be available, may cost substantially more or may take a significant time to start production, each of which could negatively affect our business and financial performance. If one of our key manufacturing facilities is unable to produce our products for an extended period of time, our sales may be reduced by the shortfall caused by the disruption, and we may not be able to meet our customers' needs, which could cause them to seek other suppliers. Such disruptions could have an adverse effect on our results of operations and financial condition.

[Table of Contents](#)

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

Our product range and new product development program are focused on discrete, logic and analog semiconductor products. Our failure to develop new technologies, or anticipate or react to changes in existing technologies, either within or outside of the semiconductor market, could materially delay development of new products, which could result in a decrease in our net sales and a loss of market share to our competitors. The semiconductor industry is characterized by rapidly changing technologies and industry standards, together with frequent new product introductions. This includes the development of new types of technology or the improvement of existing technologies, such as analog and digital technologies that compete with, or seek to replace, discrete semiconductor technology. Our financial performance depends on our ability to design, develop, manufacture, assemble, test, market and support new products and product enhancements on a timely and cost-effective basis. New products often command higher prices and, as a result, higher profit margins. We may not successfully identify new product opportunities or develop and bring new products to market or succeed in selling them into new customer applications in a timely and cost-effective manner.

Products or technologies developed by other companies may render our products or technologies obsolete or noncompetitive, and since we operate primarily in a narrower segment of the broader semiconductor industry, this may have a greater effect on us than it would if we were a broad-line semiconductor manufacturer with a wider range of product types and technologies. Many of our competitors are larger and more established international companies with greater engineering and research and development resources than us. Our failure to identify or capitalize on any fundamental shifts in technologies in our product markets, relative to our competitors, could harm our business, have a material adverse effect on our competitive position within our industry and harm our relationships with our customers. In addition, to remain competitive, we must continue to reduce package sizes, improve manufacturing yields and expand our sales. We may not be able to accomplish these goals, which would adversely affect our net sales, market share, results of operations and financial condition.

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

Our operations are dependent upon our information technology systems, which encompass all of our major business functions. We rely upon such information technology systems to manage and replenish inventory, to fill and ship customer orders on a timely basis, to coordinate our sales activities across all of our products and services and to coordinate our administrative activities. A substantial disruption in our information technology systems for any prolonged time period (arising from, for example, system capacity limits from unexpected increases in our volume of business, outages or delays in our service) could result in delays in receiving inventory and supplies or filling customer orders and adversely affect our customer service and relationships. Our systems might be damaged or interrupted by natural or man-made events or by computer viruses, physical or electronic break-ins and similar disruptions affecting the global Internet. There can be no assurance that such delays, problems, or costs will not have a material adverse effect on our cash flows, results of operations and financial condition.

As our operations grow in both size and scope, we will continuously need to improve and upgrade our systems and infrastructure while maintaining the reliability and integrity of our systems and infrastructure. The expansion of our systems and infrastructure will require us to commit substantial financial, operational and technical resources before the volume of our business increases, with no assurance that the volume of business will increase. In particular, we have upgraded our financial reporting system and are currently seeking to upgrade other information technology systems. These and any other upgrades to our systems and information technology, or new technology, now and in the future, will require that our management and resources be diverted from our core business to assist in compliance with those requirements. There can be no assurance that the time and resources our management will need to devote to these upgrades, service outages or delays due to the installation of any new or upgraded technology (and customer issues therewith), or the impact on the reliability of our data from any new or upgraded technology will not have a material adverse effect on our cash flows, results of operations and financial condition.

A significant portion of our operations operate on a single Enterprise Resource Planning (ERP) platform. To manage our international operations efficiently and effectively, we rely heavily on our ERP system, internal electronic information and communications systems and on systems or support services from third parties. Any of these systems are subject to electrical or telecommunications outages, computer hacking or other general system failure. It is also possible that future acquisitions will operate on ERP systems different from ours and that we could face difficulties in integrating operational and accounting functions of new acquisitions. Difficulties in upgrading or expanding our ERP system or system-wide or local failures that affect our information processing could have a material adverse effect on our cash flows, results of operations and financial condition.

[Table of Contents](#)

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, results of operations and financial condition.

The semiconductor industry is characterized by vigorous protection and pursuit of intellectual property rights. From time to time, third parties have asserted, and may in the future assert, patent, copyright, trademark and other intellectual property rights to technology that is important to our business and have demanded, and may in the future demand, that we license their patents and technology. Any litigation to determine the validity of allegations that our products infringe or may infringe these rights, including claims arising through our contractual indemnification of our customers, or claims challenging the validity of our patents, regardless of its merit or resolution, could be costly and divert the efforts and attention of our management and technical personnel. We may not prevail in litigation given the complex technical issues and inherent uncertainties in intellectual property litigation. If litigation results in an adverse ruling, we could be required to:

- pay substantial damages for past, present and future use of the infringing technology;
- cease manufacture, use or sale of infringing products;
- discontinue the use of infringing technology;
- expend significant resources to develop non-infringing technology;
- pay substantial damages to our customers or end-users to discontinue use or replace infringing technology with non-infringing technology;
- license technology from the third party claiming infringement, which license may not be available on commercially reasonable terms, or at all; or
- relinquish intellectual property rights associated with one or more of our patent claims, if such claims are held invalid or otherwise unenforceable.

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

Our manufacturing operations depend upon obtaining adequate supplies of raw materials, parts and equipment on a timely basis from third parties. Our results of operations could be adversely affected if we are unable to obtain adequate supplies of raw materials, parts and equipment in a timely manner or if the costs of raw materials, parts or equipment were to increase significantly. Our business could also be adversely affected if there is a significant degradation in the quality of raw materials used in our products, or if the raw materials give rise to compatibility or performance issues in our products, any of which could lead to an increase in customer returns or product warranty claims. Although we maintain rigorous quality control systems, errors or defects may arise from a supplied raw material and be beyond our detection or control. Any interruption in, or change in quality of, the supply of raw materials, parts or equipment needed to manufacture our products could adversely affect our reputation with customers, results of operations and financial condition.

In addition, we sell finished products from other manufacturers. Our business could also be adversely affected if there is a significant degradation in the quality of these products. From time to time, such manufacturers may extend lead-times, limit supplies or increase prices due to capacity constraints or other factors. We have no long-term purchase contracts with any of these manufacturers and, therefore, have no contractual assurances of continued supply, pricing or access to finished products that we sell, and any such manufacturer could discontinue supplying to us at any time. Additionally, some of our suppliers of finished products or wafers compete directly with us and may in the future choose not to supply products to us.

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, results of operations and financial condition.

We are continuing to vertically integrate our business. Key elements of this strategy include continuing to expand the reach of our sales organization, expand our manufacturing capacity, expand our wafer foundry and research and development capability and expand our marketing, product development, package development and assembly/test operations in company-owned facilities or through the acquisition of established contractors. There are certain risks associated with our vertical integration strategy, including:

- difficulties associated with owning a manufacturing business, including, but not limited to, the maintenance and management of manufacturing facilities, equipment, employees and inventories and limitations on the flexibility of controlling overhead;
- difficulties in continuing expansion of our operations in Asia and Europe, because of the distance from our United States (“U.S.”) headquarters and differing regulatory and cultural environments;
- the need for skills and techniques that are outside our traditional core expertise;
- less flexibility in shifting manufacturing or supply sources from one region to another;
- even when independent suppliers offer lower prices, we would continue to acquire wafers from our captive manufacturing facilities, which may result in us having higher costs than our competitors;

[Table of Contents](#)

- difficulties developing and implementing a successful research and development team; and
- difficulties developing, protecting, and gaining market acceptance of, our proprietary technology.

The risks of becoming a fully integrated manufacturer are amplified in an industry-wide slowdown because of the fixed costs associated with manufacturing facilities. In addition, we may not realize the cost, operating and other efficiencies that we expect from continued vertical integration. If we fail to successfully vertically integrate our business, our ability to compete, profit margins, results of operations and financial condition may suffer.

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

A significant part of our growth strategy involves acquiring companies with complementary product lines, customers or other capabilities. For example, (i) in 2000, we acquired FabTech, Inc., a wafer fabrication company, in order to have our own wafer manufacturing capabilities, (ii) in 2006, we acquired Anachip Corp. as an entry into the analog market, (iii) in 2006, we acquired the net operating assets of APD Semiconductor, Inc., (iv) in 2008, we acquired Zetex plc., (v) in 2011, we acquired over 50% of the outstanding common stock of Eris Technology Corporation, (vi) also in 2011, we acquired Power Analog Microelectronics, Inc., and (vii) on December 26, 2012, we entered into an Agreement and Plan of Merger with BCD Semiconductor Manufacturing Limited and expect the acquisition to close late in the first quarter or early in the second quarter of 2013. In addition, from time to time, we may be in various stages of discussions with potential acquisition targets as we intend to continue to expand and diversify our operations by making further acquisitions. However, we may be unsuccessful in identifying suitable acquisition candidates, or we may be unable to consummate a desired acquisition. To the extent we do make acquisitions, if we are unsuccessful in integrating these companies or their operations or product lines with our operations, or if integration is more difficult than anticipated, we may experience disruptions that could have a material adverse effect on our business, results of operations and financial condition. In addition, we may not realize all of the benefits we anticipate from any such acquisitions. Some of the risks that may affect our ability to integrate or realize any anticipated benefits from acquisitions that we may make include those associated with:

- unexpected losses of key employees or customers of the acquired company;
- bringing the acquired company's standards, processes, procedures and controls into conformance with our operations;
- coordinating our new product and process development;
- hiring additional management and other critical personnel;
- increasing the scope, geographic diversity and complexity of our operations;
- difficulties in consolidating facilities and transferring processes and know-how;
- difficulties in reducing costs of the acquired entity's business;
- diversion of management's attention from the management of our business; and
- adverse effects on existing business relationships with customers.

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

We are subject to a variety of U.S. federal, state, local and foreign governmental laws, rules and regulations related to the use, storage, handling, discharge or disposal of certain toxic, volatile or otherwise hazardous chemicals used in manufacturing our products throughout the world. Some of these regulations in the U.S. include the Federal Clean Water Act, Clean Air Act, Resource Conservation and Recovery Act, Comprehensive Environmental Response, Compensation, and Liability Act and similar state statutes and regulations. Any of these regulations could require us to acquire equipment or to incur substantial other expenses to comply with environmental regulations. If we were to incur such additional expenses, our product costs could significantly increase, materially affecting our business, financial condition and results of operations. Any failure to comply with present or future environmental laws, rules and regulations could result in fines, suspension of production or cessation of operations, any of which could have a material adverse effect on our business, results of operations and financial condition. Our operations affected by such requirements include, among others: the disposal of wastewater containing residues from our manufacturing operations through publicly operated treatment works or sewer systems, and which may be subject to volume and chemical discharge limits and may also require discharge permits; and the use, storage and disposal of materials that may be classified as toxic or hazardous. Any of these may result in, or may have resulted in, environmental conditions for which we could be liable.

Some environmental laws impose liability, sometimes without fault, for investigating or cleaning up contamination on, or emanating from, our currently or formerly owned, leased or operated properties, as well as for damages to property or natural resources and for personal injury arising out of such contamination. Such liability may also be joint and several, meaning that we could be held responsible for more than our share of the liability involved, or even the entire liability. In addition, the presence of environmental contamination could also interfere with ongoing operations or adversely affect our ability to sell or lease our properties. Environmental requirements may also limit our ability to identify suitable sites for new or expanded plants. Discovery of contamination for which we are responsible, the enactment of new laws and regulations, or changes in how existing requirements are enforced, could require us to incur additional costs for compliance or subject us to unexpected liabilities.

[Table of Contents](#)

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

Our products are typically sold at prices that are significantly lower than the cost of the equipment or other goods in which they are incorporated. For example, our products that are incorporated into a personal computer may be sold for several cents, whereas the computer maker might sell the personal computer for several hundred dollars. Although we maintain rigorous quality control systems, we shipped approximately 32 billion, 29 billion and 28 billion individual semiconductor devices in years ending December 31, 2012, 2011 and 2010, respectively, to customers around the world, and in the ordinary course of our business, we receive warranty claims and product liability claims for some of these products that are defective, or that do not perform to published specifications. Since a defect or failure in our products could give rise to failures in the end-products that incorporate them (and consequential claims for damages against our customers from their customers), we may face claims for damages that are disproportionate to the revenues and profits we receive from the products involved. In addition, our ability to reduce such liabilities may be limited by the laws or the customary business practices of the countries where we do business. Even in cases where we do not believe we have legal liability for such claims, we may choose to pay for them to retain a customer's business or goodwill or to settle claims to avoid protracted litigation. Our results of operations and business could be adversely affected as a result of a significant quality or performance issue in our products, if we are required or choose to pay for the damages that result. Although we currently have liability insurance, we may not have sufficient insurance coverage, and we may not have sufficient resources, to satisfy all possible warranty claims and product liability claims. In addition, any perception that our products are defective would likely result in reduced sales of our products, loss of customers and harm to our business, reputation, results of operations and financial condition.

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

Our future success depends, in part, upon our ability to attract and retain highly qualified technical, sales, marketing, finance and managerial personnel. Personnel with the necessary expertise are scarce and competition for personnel with these skills is intense. We may not be able to retain existing key technical, sales, marketing, finance and managerial employees or be successful in attracting, assimilating or retaining other highly qualified technical, sales, marketing and managerial personnel in the future. For example, we have faced, and continue to face, intense competition for qualified technical and other personnel in China, where our assembly, test and packaging facilities are located. A number of U.S. and multi-national corporations, both in the semiconductor industry and in other industries, have recently established and are continuing to establish factories and plants in China, and the competition for qualified personnel has increased significantly as a result. If we are unable to retain existing key employees or are unsuccessful in attracting new highly qualified employees, our business, results of operations and financial condition could be materially and adversely affected.

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, results of operations and financial condition.

Our ability to successfully grow our business within the semiconductor industry requires effective planning and management. Our past growth, and our targeted future growth, may place a significant strain on our management and on our systems and resources, including our financial and managerial controls, reporting systems and procedures. In addition, we will need to continue to train and manage our workforce worldwide. If we are unable to effectively plan and manage our growth effectively, our business and prospects will be harmed and we will not be able to maintain our profit growth or achieve future growth, which could adversely affect our business, results of operations 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, results of operations and financial condition.

The life cycles of some of our products depend heavily upon the life cycles of the end-products into which our products are designed. End-market products with short life cycles require us to manage closely our production and inventory levels. Inventory may also become obsolete because of adverse changes in end-market demand. We may in the future be adversely affected by obsolete or excess inventories, which may result from unanticipated changes in the estimated total demand for our products or the estimated life cycles of the end-products into which our products are designed. In addition, some customers restrict how far back the date of manufacture for our products can be and certain customers may stop ordering products from us and go out of business due to adverse economic conditions; therefore, some of our product inventory may become obsolete and, thus, adversely affect our business, results of operations and financial condition.

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

We expect an increasingly significant portion of net sales will come from products we design specifically for our customers. However, we may be unable to achieve these design wins. In addition, a design win from a customer does not guarantee future sales to that customer. Without design wins from OEMs, we would only be able to sell our products to these OEMs as a second source, which usually means we are only able to sell a limited amount of product to them. Once an OEM designs another supplier's semiconductors into one of its product platforms, it is more difficult for us to achieve future design wins with that OEM's product platform because changing suppliers involves significant cost, time, effort and risk to an OEM. Achieving a design win with a customer does not ensure that we will receive significant revenues from that customer, and we may be unable to convert design wins into actual sales. Even after a design win, the customer is not obligated to purchase our products and can choose at any time to stop using our products, if, for example, its own products are not commercially successful.

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, results of operations and financial condition.

We have credit facilities with financial institutions in the U.S., Asia and Europe, as well as other debt instruments, with interest rates equal to LIBOR or similar indices plus a negotiated margin. A rise in interest rates could have an adverse impact upon our cost of working capital and our interest expense. As of December 31, 2012, an increase of 1% in interest rates on our credit facilities would increase our annual interest rate expense by less than \$1 million. In addition, on January 8, 2013, we entered into a five year \$300 million revolving senior credit facility, which will further increase our sensitivity to rising interest rates depending on how much we draw down in the future.

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

We may have a significant amount of debt and substantial debt service requirements in our borrowings, including our credit facilities with various financial institutions worldwide. On February 1, 2012, we obtained a three-year term loan in the amount of \$40 million with Bank of America, N.A. As of December 31, 2012, we had an aggregate outstanding debt of \$8 million on our lines of credit, which an additional \$1 million was used for import and export guarantees under our credit facilities with various financial institutions worldwide. In addition, as of December 31, 2012 an aggregate amount of \$102 million was available for future borrowings under our credit facilities in the U.S., Asia and Europe, and we are permitted under the terms of our debt agreements under various credit facilities to incur substantial additional debt. On January 8, 2013, we entered into a five year \$300 million revolving senior credit facility, under which we could significantly increase the amount of our outstanding debt depending on how much we draw down in the future.

A significant amount of debt could have significant consequences on our future operations, including:

- making it more difficult for us to meet our payment and other obligations under our outstanding debt;
- resulting in an event of default if we fail to comply with the financial and other restrictive covenants contained in our debt agreements, which event of default could result in all of our debt becoming immediately due and payable and, in the case of an event of default under our secured debt, such as our senior secured credit facility, could permit the lenders to foreclose on our assets securing that debt;
- reducing the availability of our cash flow to fund working capital, capital expenditures, acquisitions and other general corporate purposes, and limiting our ability to obtain additional financing for these purposes;
- subjecting us to the risk of increased sensitivity to interest rate increases on our indebtedness with variable interest rates, including borrowings under senior secured credit facility;
- limiting our flexibility in planning for, or reacting to, and increasing our vulnerability to, changes in our business, the industry in which we operate and the general economy; and
- placing us at a competitive disadvantage compared to our competitors that have less debt or are less leveraged.

Any of the above-listed factors could have an adverse effect on our business, results of operations, financial condition and our ability to meet our payment obligations under our debt.

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

On January 8, 2013, we entered into a Credit Agreement with Bank of America, N.A., as administrative agent for the lenders under the credit agreement, which provides for a five year \$300 million revolving senior credit facility, which includes \$10 million swing line sublimit, a \$10 million letter of credit sublimit, and \$20 million alternative currency sublimit. In addition, we may from time to time request increases in the aggregate commitment under the Credit Agreement of up to \$200 million, subject to the lenders electing to increase their commitments or by means of the addition of new lenders.

[Table of Contents](#)

This Credit Agreement contains covenants imposing various restrictions on our business and financial activities. These restrictions may affect our ability to operate our business and undertake certain financial activities and may limit our ability to take advantage of potential business or financial opportunities as they arise. The restrictions these covenants place on us include limitations on our ability to incur liens, incur indebtedness, make investments, dissolve or merge or consolidate with or into another entity, dispose of certain property, make restricted payments, issue or sell equity interests, engage in other different material lines of business, conduct related party transactions, enter into certain burdensome contractual obligations and use proceeds from any credit facility to purchase or carry margin stock or to extend credit to others for the same purpose. The Credit Agreement also requires us to meet certain financial ratios, including a fixed charge coverage ratio and a consolidated leverage ratio.

Our ability to comply with the Credit Agreement may be affected by events beyond our control, including prevailing economic, financial and industry conditions, and are subject to the risks stated in this section of the Annual Report. The breach of any of these covenants or restrictions could result in a default under the Credit Agreement. An event of default under the Credit Agreement would permit Bank of America, N.A. to declare all amounts owed under such Credit Agreement to be immediately due and payable in full. Acceleration of our indebtedness may cause us to be unable to make interest payments for the credit facilities and repay the principal amount of the credit facilities. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations – *Debt instruments*” in Part II, Item 7 of this Annual Report for additional information.

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

The Chinese government has provided various incentives to technology companies, including our manufacturing facilities located in Shanghai, China, in order to encourage development of the high-tech industry. These incentives include reduced tax rates and other measures. As a result, we are entitled to a preferential enterprise income tax rate of 15% so long as our manufacturing facilities continue to maintain their High and New Technology Enterprise “HNTE” status. One of our Shanghai facilities has been approved for its HNTE status for the tax years 2011-2013, while our other Shanghai facility has been approved for its HNTE status for the tax years 2012-2014. In addition, any prior years that have already been approved are subject to audits to ensure all requirements are met. If we were to no longer meet the HNTE requirements, our statutory tax rate for these facilities would increase to 25%, which would adversely affect our results of operations and financial condition.

During 2012, the China government began an audit of our largest Chinese subsidiary for our 2009-2011 HNTE status. To date, the government has not issued the results of their audit.

In connection with our joint venture in Chengdu, China, we have qualified for tax incentives offered in the Go West Initiative (“Go West”), where companies are entitled to a preferential income tax rate of 15% for doing business in western China. If we were to no longer meet the Go West requirements, our statutory tax rate for this joint venture would increase to 25%, which would adversely affect our results of operations and financial condition.

The impact of our Go West and HNTE status, collectively called tax holidays, decreased our tax expense by approximately \$6 million, \$7 million and \$8 million for the years ended December 31, 2012, 2011 and 2010, respectively. The benefit of the tax holidays on basic and diluted earnings per share for the year ended December 31, 2012 was approximately \$0.14 and \$0.13, respectively. The benefit of the tax holidays on both basic and diluted earnings per share for the year ended December 31, 2011 was approximately \$0.15. The benefit of the tax holidays on basic and diluted earnings per share for the year ended December 31, 2010 was approximately \$0.19 and \$0.18, respectively.

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.

Certain of our employees in the U.K. participate in a company-sponsored defined benefit, which is closed to new entrants and is frozen with respect to future benefit accruals. The retirement benefit is based on the final average compensation and service of each eligible employee. In accounting for these plans, we are required to make actuarial assumptions that are used to calculate the earning value of the related assets, where applicable, and liabilities and the amount of expenses to be recorded in our consolidated financial statements. Assumptions include the expected return on plan assets, discount rates, and mortality rates. While we believe the underlying assumptions under the projected unit credit method are appropriate, the carrying value of the related assets and liabilities and the actual amount of expenses recorded in the consolidated financial statements could differ materially from the assumptions used.

[Table of Contents](#)

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

The assets of our defined benefit plan (the "plan") consist primarily of high quality corporate bonds and stocks traded on the London Stock Exchange and are determined from time to time based on their fair value, requiring us to utilize certain actuarial assumptions for the plan's fair value determination.

As of December 31, 2012, the benefit obligation of the plan was approximately \$125 million and the total assets in such plan were approximately \$107 million. Therefore, the plan was underfunded by approximately \$18 million. The difference between plan obligations and assets, or the funded status of the plan, is a significant factor in determining the net periodic benefit costs of the plan and the ongoing funding requirements of the plan.

Any fluctuations in the United Kingdom's equity markets and bond markets or changes in several key actuarial assumptions, including, but not limited to, changes in discount rate, estimated return on the plan and mortality rates, can (i) affect the level of plan funding; (ii) cause volatility in the net periodic pension cost; and (iii) increase our future funding requirements. In the event that actual results differ from the actuarial assumptions or actuarial assumptions are changed, the funding status of the plan may change. Any deficiency in the funding of the plan could result in additional charges to equity and an increase in future plan expense and cash contribution. A significant increase in our funding requirements could have a negative impact on our results of operations and financial condition.

In 2012, we adopted a payment plan with the trustees of the defined benefit plan, in which we will pay approximately £2 million GBP (approximately \$3 million based on a USD:GBP exchange rate of 1.6:1) every year from 2012 through 2019.

In 2010, we established a joint venture to build a semiconductor facility in Chengdu, China. We are required to contribute at least \$48 million to the joint venture during the first three years with additional contributions thereafter, as well as a substantial amount of time and resources to establish and operate the joint venture. Any failure to meet any such requirements, delays or unforeseen circumstances may cause us to incur penalties or require us to contribute additional expenses or resources and, as a result, could have an adverse effect on our operating efficiencies, results of operations and financial conditions.

Effective as of September 10, 2010, we entered into an Investment Cooperation Agreement and a Supplementary Agreement to the Investment Cooperation Agreement (collectively, the "CDHT Agreements") with the Management Committee of the Chengdu Hi-Tech Industrial Development Zone ("CDHT") to build a facility in Chengdu, China, with a Chinese local partner, for surface-mounted component production, assembly and test functions. The CDHT Agreements required us to contribute substantial capital to the joint venture, including at least \$48 million in installments by December 14, 2012, as well as time and resources to establish and operate the joint venture. Due to pending approval from the Chinese government for completion of the restructuring of our China corporate entities, we received an extension to contribute the required amount until December 31, 2013. We must obtain various licenses, permissions, certifications and approvals, from time to time, related to the joint venture's business operations. Any failure to meet any such requirements, delays or unforeseen circumstances may cause us to incur penalties, or require us to cease of operations, or contribute additional expenses and/or resources and as a result, could have a material adverse effect on our operating efficiencies, results of operations and financial conditions. As of December 31, 2012, we have invested approximately \$25 million of which \$20 million were for capital expenditures.

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

Certain of our customers and suppliers require us to agree to comply with the Electronic Industry Code of Conduct ("EICC") or their own codes of conduct, which may include detailed provisions on labor, human rights, health and safety, environment, corporate ethics and management systems. Certain of these provisions are not requirements under the laws of the countries in which we operate and may be burdensome to comply with on a regular basis. Moreover, new provisions may be added or material changes may be made to any these codes of conduct, and we may have to promptly implement such new provisions or changes, which may substantially further increase the cost of our business, be burdensome to implement and adversely affect our operational efficiencies and results of operations. If we violate any such codes of conduct, we may lose further business with the customer or supplier and, in addition, we may be subject to fines from the customer or supplier. While we believe that we are currently in compliance with our customers and suppliers' codes of conduct, there can be no assurance that, from time to time, if any one of our customers and suppliers audits our compliance with such code of conduct, we would be found to be in full compliance. A loss of business from these customers or suppliers could have a material adverse effect on our business, results of operations and financial conditions.

[Table of Contents](#)

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, results of operations and financial condition.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 imposes new disclosure requirements regarding the use of certain minerals, which are mined from the Democratic Republic of Congo and adjoining countries, known as conflict minerals. When these new requirements are implemented, they could affect the pricing, sourcing and availability of minerals used in the manufacture of semiconductor devices (including our products). There will be additional costs associated with complying with the disclosure requirements, such as costs related to determining the source of any conflict minerals used in our products. Our supply chain is complex and we may be unable to verify the origins for all metals used in our products. Customers may demand that the products they purchase be free of conflict minerals. Therefore, we may encounter challenges with our customers and stockholders if we are unable to certify that our products are conflict free. The implementation of this requirement could affect the sourcing and availability of products we purchase from suppliers. This may reduce the number of suppliers that may be able to provide conflict free products, and may affect our ability to obtain products in sufficient quantities to meet customer demand or at competitive prices. The disclosure rules will take effect for us in May 2014.

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.

The risks commonly encountered in acquisitions of companies include, among other things, higher than anticipated acquisition costs and expenses, the difficulty and expense in integrating the operations and personnel of the companies, the difficulty of bringing standards, procedures and controls into conformance with our operations, the ability to coordinate our new products and process development, the ability to hire additional management and other critical personnel, the ability to increase the scope, geographic diversity and complexity of our operations, difficulties in consolidating facilities and transferring processes and know-how, difficulties in reducing costs, prolonged diversion of our management’s attention from the management of our business, the ability to clearly define our present and future strategies, the loss of key employees and customers as a result of changes in management and any geographic distances may make integration slower and more challenging. We may ultimately not be successful in overcoming these risks or any other problems encountered in connection with acquisitions.

In addition, any acquisition may cause large one-time expenses as well as create goodwill and other intangible assets that may result in significant asset impairment charges in the future.

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.

Effective internal controls are necessary for us to produce reliable financial reports and are important in our effort to prevent financial fraud. We are required to periodically evaluate the effectiveness of the design and operation of our internal controls. These evaluations may result in the conclusion that enhancements, modifications or changes to our internal controls are necessary or desirable. While management evaluates the effectiveness of our internal controls on a regular basis, these controls may not always be effective. There are inherent limitations on the effectiveness of internal controls, including collusion, management override, and failure of human judgment. Because of this, control procedures are designed to reduce rather than eliminate business risks. If we fail to maintain an effective system of internal controls or if management or our independent registered public accounting firm were to discover material weaknesses in our internal controls, we may be unable to produce reliable financial reports or prevent fraud, which could harm our financial condition and results of operations and result in loss of investor confidence and a decline in our stock price.

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

Terrorist attacks, or threats or occurrences of other terrorist or related activities, whether in the United States or internationally, may affect the markets in which our Common Stock trades, the markets in which we operate and our profitability. Future terrorist or related activities could affect our domestic and international sales, disrupt our supply chains and impair our ability to produce and deliver our products. Such activities could affect our physical facilities or those of our suppliers or customers. Such terrorist attacks could cause seaports or airports, to or through which we ship, to be shut down, thereby preventing the delivery of raw materials and finished goods to or from our manufacturing facilities in China, Taiwan and Germany and our wafer fabrication facilities in Missouri and the U.K., or to our regional sales offices. Due to the broad and uncertain effects that terrorist attacks have had on financial and economic markets generally, we cannot provide any estimate of how these activities might affect our future results of operations and financial condition.

[Table of Contents](#)

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 revenue, increase our expenses, damage our reputation and adversely affect our stock price.

Experienced computer programmers and hackers may be able to penetrate our security controls and misappropriate or compromise our confidential information or that of third parties, create system disruptions or cause shutdowns. Computer programmers and hackers also may be able to develop and deploy viruses, worms and other malicious software programs that attack our websites, products or otherwise exploit any security vulnerabilities of our websites and products. The costs to us to eliminate or alleviate cyber or other security problems, bugs, viruses, worms, malicious software programs and security vulnerabilities could be significant, and our efforts to address these problems may not be successful and could result in interruptions, delays, cessation of service and loss of existing or potential customers that may impede our sales, manufacturing, distribution or other critical functions.

We manage and store various proprietary information and sensitive or confidential data relating to our business and third party business. Breaches of our security measures or the accidental loss, inadvertent disclosure or unapproved dissemination of proprietary information or sensitive or confidential data about us or our partners or customers, including the potential loss or disclosure of such information or data as a result of fraud, trickery or other forms of deception, could expose us, our partners and customers or the individuals affected to a risk of loss or misuse of this information, result in litigation and potential liability for us, damage our brand and reputation or otherwise harm our business. In addition, the cost and operational consequences of implementing further data protection measures could be significant.

Delayed sales, significant costs or lost customers resulting from these system security risks, data protection breaches, cyber-attacks and other related cybersecurity issues could adversely affect our financial results, stock price and reputation.

RISKS RELATED TO OUR INTERNATIONAL OPERATIONS

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

We expect net sales from foreign markets to continue to represent a significant portion of our total net sales. In addition, the majority of our manufacturing facilities are located overseas in China. In 2012, 2011 and 2010, net sales to customers outside the U.S. represented 84%, 83% and 78%, respectively, of our net sales. There are risks inherent in doing business internationally, and any or all of the following factors could cause harm to our business:

- changes in, or impositions of, legislative or regulatory requirements, including tax laws in the U.S. and in the countries in which we manufacture or sell our products;
- compliance with trade or other laws in a variety of jurisdictions;
- trade restrictions, transportation delays, work stoppages, and economic and political instability;
- changes in import/export regulations, tariffs and freight rates;
- difficulties in collecting receivables and enforcing contracts;
- currency exchange rate fluctuations;
- restrictions on the transfer of funds from foreign subsidiaries to the U.S.;
- the possibility of international conflict, particularly between or among China, the U.K., Germany, Taiwan and the U.S.;
- legal, regulatory, political and cultural differences among the countries in which we do business;
- longer customer payment terms; and
- changes in U.S. or foreign tax regulations.

We have significant operations and assets in China, the United Kingdom, 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 results of operations.

We have a significant portion of our assets in mainland China, United Kingdom, Germany, Hong Kong and Taiwan. Our ability to operate in these countries may be adversely affected by changes in those jurisdictions' laws and regulations, including those relating to taxation, import and export tariffs, environmental regulations, land use rights, property and other matters. In addition, our results of operations and financial performance are subject to the economic and political situations. We believe that our operations are in compliance with all applicable legal and regulatory requirements. However, the central or local governments of these jurisdictions may impose new, stricter regulations or interpretations of existing regulations that would require additional expenditures and efforts on our part to ensure our compliance with such regulations or interpretations.

Changes in the political environment or government policies in those jurisdictions could result in revisions to laws or regulations or their interpretation and enforcement, increased taxation, restrictions on imports, import duties or currency revaluations. In addition, a significant destabilization of relations between or among China, the United Kingdom, Germany, Hong Kong, Taiwan and the U.S. could result in restrictions or prohibitions on our operations or the sale of our products or the forfeiture of our assets in these jurisdictions.

[Table of Contents](#)

There can be no certainty as to the application of the laws and regulations of these jurisdictions in particular instances. Enforcement of existing laws or agreements may be sporadic and implementation and interpretation of laws inconsistent. Moreover, there is a high degree of fragmentation among regulatory authorities, resulting in uncertainties as to which authorities have jurisdiction over particular parties or transactions. The possibility of political conflict between these countries or with the U.S. could have an adverse impact upon our ability to transact business in these jurisdictions and to generate profits.

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

We believe that an increase in demand in China for electronic devices that include our products will be an important factor in our future growth. Although the Chinese economy has grown significantly in recent years, there can be no assurance that such growth will continue. Any weakness in the Chinese economy could result in a decrease in demand for electronic devices containing our products and, thereby, materially and adversely affect our business, results of operations and prospects.

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

We have a significant portion of our manufacturing capacity in China. In addition, in 2012 35% of our total sales were billed to customers in China. In recent years, the Chinese economy has experienced periods of rapid expansion and wide fluctuations in the rate of inflation. In response to these factors, the Chinese government has, from time to time, adopted measures to regulate growth and contain inflation, including measures designed to restrict credit or control prices. Such actions in the future could increase the cost of doing business in China or decrease the demand for our products in China and, thereby, have a material adverse effect on our business, results of operations and prospects.

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

The United States' Foreign Corrupt Practices Act ("FCPA"), the United Kingdom's Bribery Act 2010 (the "UK Bribery Act") and similar anti-bribery laws in other jurisdictions generally prohibit companies and their intermediaries from making improper payments to government officials for the purpose of obtaining or retaining business. Our policies mandate compliance with these anti-bribery laws. We operate in many parts of the world that may have experienced governmental corruption to some degree and, in certain circumstances, strict compliance with anti-bribery laws may conflict with local customs and practices. We train our staff concerning FCPA, the UK Bribery Act and related anti-bribery laws. We have established procedures and controls to monitor internal and external compliance. There can be no assurance that our internal controls and procedures always will protect us from reckless or criminal acts committed by our employees or agents. If we are found to be liable for FCPA, the UK Bribery Act and other anti-bribery law violations (either due to our own acts or inadvertence, or due to the acts or inadvertence of others), we could incur criminal or civil penalties or other sanctions, which could have a material adverse effect on our business.

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

We face exposure to adverse movements in foreign currency exchange rates, principally the Chinese Yuan, the Taiwanese dollar, the Euro and the British Pound Sterling and, to a lesser extent, the Japanese Yen and the Hong Kong dollar. Our income and expenses are based on a mix of currencies and a decline in one currency relative to the other currencies could adversely affect our results of operations. Furthermore, our results of operations are reported in U.S. dollars, which is our reporting currency. In the event the U.S. dollar weakens against a foreign currency, we will experience a currency transaction loss, which could adversely affect our results of operations. Also, fluctuations in foreign currency exchange rates may have an adverse impact and be increasingly influential to our overall sales, profits and results of operations as amounts that are measured in foreign currency are translated back to U.S. dollars for reporting purposes. Our foreign currency risk may change over time as the level of activity in foreign markets grows and could have an adverse impact upon our financial results, especially as the portion of our sales attributable to Europe increases. We do not usually employ hedging techniques designed to mitigate foreign currency exposures and, therefore, we could experience currency losses as these currencies fluctuate against the U.S. dollar.

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

Historically, labor in China has been readily available at a lower cost compared to other countries, and any increase in labor cost in China has been consistent with the projected annual increase in the inflation index and the amount of past labor cost increases. However, because China is experiencing rapid social, political and economic change, there can be no assurance that labor will continue to be available in China at costs consistent with historical levels. Any future increase in labor cost in China is likely to be higher than historical and projected amounts and may occur multiple times in any given year. As a result of experiencing such rapid social, political and economic change, China is also likely to enact new, and/or revise its existing, labor laws and regulations on

[Table of Contents](#)

employee compensation and benefits. These changes in Chinese labor laws and regulations will likely to have an adverse effect on product manufacturing costs in China. Furthermore, if China workers go on strike to demand higher wages, our operations could be disrupted. Many of our suppliers are currently dealing with labor shortages in China, which may result in future supply delays and disruptions and may drive a substantial increase in their labor costs that is likely to be shared by us in the form of price increases to us. New or revised government labor laws or regulations, strikes or labor shortages could cause our product costs to rise and/or could cause manufacturing partners on whom we rely to exit the business. These events could have a material adverse impact on our product availability and quality, which would affect our business, results of operations 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.

As an incentive for establishing our manufacturing subsidiaries in China, we received preferential tax treatment. We also receive preferential tax treatment in Taiwan. Governmental changes in foreign tax law may cause us not to be able to continue receiving these preferential tax treatments in the future, which may cause an increase in our income tax expense, thereby reducing our net income.

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

With the establishment of our holding companies in 2007 and 2011, we intend to permanently reinvest overseas all earnings from foreign subsidiaries. Although we intend to permanently reinvest overseas all earnings, certain unusual circumstances may require us to repatriate funds. This was the case during the first quarter of 2009, in which we repatriated approximately \$29 million of accumulated earnings from one of our Chinese subsidiaries, resulting in additional non-cash U.S. federal and state income tax expense of approximately \$5 million.

As of December 31, 2012, accumulated and undistributed earnings of our subsidiaries in China were approximately \$192 million, which we consider as a permanent investment.

As of December 31, 2012, we have undistributed earnings from non-U.S. operations of approximately \$311 million (including approximately \$38 million of restricted earnings, which are not available for dividends). Additional U.S. federal and state income taxes of approximately \$58 million would be required should such earnings be repatriated to the U.S.

We may, in the future, plan to distribute earnings of our foreign subsidiaries to the U.S. We may be required to pay U.S. income taxes on these earnings to the extent we have not previously recorded deferred U.S. taxes on such earnings. Any such taxes would reduce our net income in the period in which these earnings are distributed.

RISKS RELATED TO OUR COMMON STOCK

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

We have experienced substantial variations in net sales, gross profit margin and operating results from quarter to quarter. We believe that the factors that influence this variability of quarterly results include:

- strength of the global economy and the stability of the financial markets;
- general economic conditions in the countries where we sell our products;
- seasonality and variability in the computing and communications market and our other end-markets;
- the timing of our and our competitors' new product introductions;
- product obsolescence;
- the scheduling, rescheduling and cancellation of large orders by our customers;
- the cyclical nature of the demand for our customers' products;
- our ability to develop new process technologies and achieve volume production at our fabrication facilities;
- changes in manufacturing yields;
- adverse movements in exchange rates, interest rates or tax rates; and
- the availability of adequate supply commitments from our outside suppliers or subcontractors.

Accordingly, a comparison of our results of operations from period to period is not necessarily meaningful to investors and our results of operations for any period do not necessarily indicate future performance. Variations in our quarterly results may trigger volatile changes in our stock price.

[Table of Contents](#)

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.

As part of our growth strategy, we expect to review acquisition prospects that would implement our vertical integration strategy or offer other growth opportunities. On December 26, 2012, we entered into an Agreement and Plan of Merger with BCD Semiconductor Manufacturing Limited and expect the acquisition to close late in the first quarter or early in the second quarter of 2013. In addition, from time to time, we may be in various stages of discussions and we may acquire businesses, products or technologies in the future. In the event of future acquisitions, we could:

- use a significant portion of our available cash;
- issue equity securities, which would dilute current stockholders' percentage ownership;
- incur substantial debt;
- incur or assume contingent liabilities, known or unknown;
- incur amortization expenses related to intangibles; and
- incur large, immediate accounting write-offs.

Such actions by us could harm our results from operations and 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.

Our directors, executive officers and our affiliate, LSC, beneficially own approximately 27% of our outstanding Common Stock, including options to purchase shares of our Common Stock that are exercisable within 60 days of December 31, 2012. These stockholders, acting together, will be able to influence significantly all matters requiring stockholder approval, including the election of directors and significant corporate transactions such as mergers or other business combinations. This control may delay, deter or prevent a third party from acquiring or merging with us, which could adversely affect the market price of our Common Stock.

LSC, our largest stockholder, owns approximately 18% (approximately 8 million shares) of our Common Stock. Some of our directors and executive officers may have potential conflicts of interest because of their positions with LSC or their ownership of LSC common stock. Raymond Soong, the Chairman of the Board of Directors, is the Chairman of LSC, and is the Chairman of Lite-On Technology Corporation, a significant shareholder of LSC. C.H. Chen, our former President and Chief Executive Officer and currently the Vice Chairman of the Board of Directors, is also Vice Chairman of LSC and Lite-On Technology Corporation. Dr. Keh-Shew Lu, our President and Chief Executive Officer and a member of our Board of Directors, is a member of the Board of Directors of Lite-On Technology Corporation. L.P. Hsu, a member of the Board of Directors since 2007, serves as a consultant to Lite-On Technology Corporation. Several of our directors and executive officers own LSC common stock and hold options to purchase LSC common stock. Service on our Board of Directors and as a director or officer of LSC, or ownership of LSC common stock by our directors and executive officers, could create, or appear to create, actual or potential conflicts of interest when directors and officers are faced with decisions that could have different implications for LSC and us. For example, potential conflicts could arise in connection with decisions involving the Common Stock owned by LSC, or under the other agreements we may enter into with LSC. In each of 2012, 2011 and 2010, LSC accounted for less than 1% of our net sales. Also, in 2012, 2011 and 2010, approximately 3%, 5% and 7%, respectively, of our net sales were from products manufactured by LSC, making LSC our largest external supplier of discrete semiconductor products.

We may have difficulty resolving any potential conflicts of interest with LSC, and even if we do, the resolution may be less favorable than if we were dealing with an unrelated third party.

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.

We were formed in 1959 under the laws of California and reincorporated in Delaware in 1968. We have had several transfer agents over the past 50 years. In addition, our early corporate records, including our stock ledger, 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.

We, from time to time, may utilize non-cash tender offers, debt equity swaps or equity exchanges in accordance with the guidance and rules promulgated by the United States Securities and Exchange Commission to consummate our business activities.

[Table of Contents](#)

Such means to consummate our business activities will likely involve issuance of our Common Stock in large quantities and will subsequently dilute the ownership interest of existing stockholders, including stockholders who previously received shares of our Common Stock in such transactions. Any sales in the public market of the newly issued Common Stock could adversely affect prevailing market prices of our Common Stock. In addition, utilizing non-cash tender offers, debt equity swaps or equity exchanges may encourage short selling because such utilization could depress the price of our Common Stock.

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

Some provisions of Delaware law, our certificate of incorporation and bylaws may be deemed to have an anti-takeover effect and may delay or prevent a tender offer or takeover attempt, including those attempts that might result in a premium over the market price for the shares held by stockholders.

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

Section 203 of the Delaware General Corporation Law prohibits transactions between a Delaware corporation and an “interested stockholder,” which is defined as a person who, together with any affiliates or associates, beneficially owns, directly or indirectly, 15.0% or more of the outstanding voting shares of a Delaware corporation. This provision prohibits certain business combinations between an interested stockholder and a Delaware corporation for a period of three years after the date the stockholder becomes an interested stockholder, unless:

- (i) either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder is approved by the corporation’s board of directors prior to the date the interested stockholder becomes an interested stockholder;
- (ii) the interested stockholder acquired at least 85.0% of the voting stock of the corporation (other than stock held by directors who are also officers or by certain employee stock plans) in the transaction in which the stockholder became an interested stockholder; or
- (iii) the business combination is approved by a majority of the board of directors and by the affirmative vote of 66.66% of the outstanding voting stock that is not owned by the interested stockholder.

For this purpose, business combinations include mergers, consolidations, sales or other dispositions of assets having an aggregate value in excess of 10.0% of the aggregate market value of the consolidated assets or outstanding stock of the corporation, and certain transactions that would increase the interested stockholder’s proportionate share ownership in the corporation.

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

Provisions of our certificate of incorporation and bylaws may have the effect of making it more difficult for a third party to acquire control of our Company. In particular, our certificate of incorporation authorizes our Board of Directors to issue, without further action by the stockholders, up to 1,000,000 shares of preferred stock with rights and preferences, including voting rights, designated from time to time by the Board of Directors. The existence of authorized but unissued shares of preferred stock enables our Board of Directors to render it more difficult or to discourage an attempt to obtain control of us by means of a merger, tender offer, proxy contest or otherwise.

Item 1B. Unresolved Staff Comments

None

[Table of Contents](#)

Item 2. Properties

Our primary physical properties at December 31, 2012 were as follows:

<u>Primary use</u>	<u>Location</u>	<u>Lease Expiration</u>	<u>Year Purchased</u>	<u>Sq. Ft.</u>
Regional sales office	Shanghai, China		2010	7,000
Regional sales office	Shenzhen, China	April 2014		5,000
Manufacturing facility/Logistics	Shanghai, China	February 2017		723,000
Manufacturing facility/Logistics	Shanghai, China	March 2017		230,000
Headquarters/R&D center	Plano, Texas		2010	42,000
Sales/Administrative office	Westlake Village, California	August 2013		2,000
Sales office/R&D center	San Jose, California	July 2013		4,000
Regional sales office	Amherst, New Hampshire	Monthly		1,000
Regional sales office	Great River, New York	December 2013		2,000
Regional sales office	Beauzelle, France	February 2015		1,000
Manufacturing facility/R&D center	Lee's Summit, Missouri	June 2013		70,000
Regional sales office	Seongnam-si, South Korea	December 2014		2,000
R&D center	Hsinchu, Taiwan	November 2015		26,000
Warehouse	Taipei, Taiwan		1987	12,000
Sales/Administrative/Logistics	Taipei, Taiwan		2006	35,500
Regional sales office	Kaohsiung City, Taiwan	April 2013		1,000
Regional sales office	Munich, Germany	July 2016		6,000
Manufacturing facility/R&D center	Manchester, England		1998	75,000
Administrative/Logistics	Manchester, England		2004	81,000
Manufacturing facility	Neuhaus, Germany		1996	53,000
Manufacturing facility	Chengdu, China	October 2013		25,000
Vacant land	Plano, Texas		2008	16 acres
Manufacturing facility/Logistics	Chengdu, China	May 2061		32 acres
Sales/Administrative office	Shanghai, China	October 2013		9,000
Sales/Administrative office	Taipei, Taiwan		2000-2008	11,000
Manufacturing facility	Taipei, Taiwan	June 2014		67,000
R&D/Warehouse/Administrative office	Taipei, Taiwan	April 2013		44,000

We believe our current facilities are adequate for the foreseeable future.

Item 3. Legal Proceedings

From time to time, the Company is involved in various routine legal proceedings incidental to the conduct of its business. The Company is not currently a party to any pending litigation.

Item 4. Mine Safety Disclosures

Not Applicable.

PART II**Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities****Market Information**

Our Common Stock is traded on the Nasdaq Global Select Market ("NasdaqGS") under the symbol "DIOD." In July 2000, November 2003, December 2005 and July 2007, we effected 50% stock dividends in the form of three-for-two stock splits. The following table shows the range of high and low closing sales prices per share for our Common Stock for each fiscal quarter from January 1, 2011 as reported by NasdaqGS.

<u>Calendar Quarter Ended</u>	<u>Closing Sales Price of Common Stock</u>	
	<u>High</u>	<u>Low</u>
First quarter 2013 (through February 22, 2013)	\$ 21.48	\$ 17.58
Fourth quarter 2012	17.35	13.29
Third quarter 2012	19.54	17.01
Second quarter 2012	23.32	17.60
First quarter 2012	27.29	21.29
Fourth quarter 2011	24.18	16.97
Third quarter 2011	26.94	17.57
Second quarter 2011	34.22	22.98
First quarter 2011	34.06	24.95

Holdings and Recent Stock Price

On February 22, 2013, the closing sales price of our Common Stock as reported by NasdaqGS was \$20.49, and there were approximately 415 holders of record of our Common Stock.

Dividends

We have never declared or paid cash dividends on our Common Stock, and currently do not intend to pay dividends in the foreseeable future as we intend to retain any earnings for use in our business. Our credit agreement, dated January 8, 2013, with Bank of America N.A. and other lender parties permits us to pay dividends up to \$1.5 million per fiscal year to our stockholders so long as we have not defaulted and are in continuing operation at the time of such dividend. The payment of dividends is within the discretion of our Board of Directors, and will depend upon, among other things, our earnings, financial condition, capital requirements, and general business conditions. We have never repurchased shares of our Common Stock.

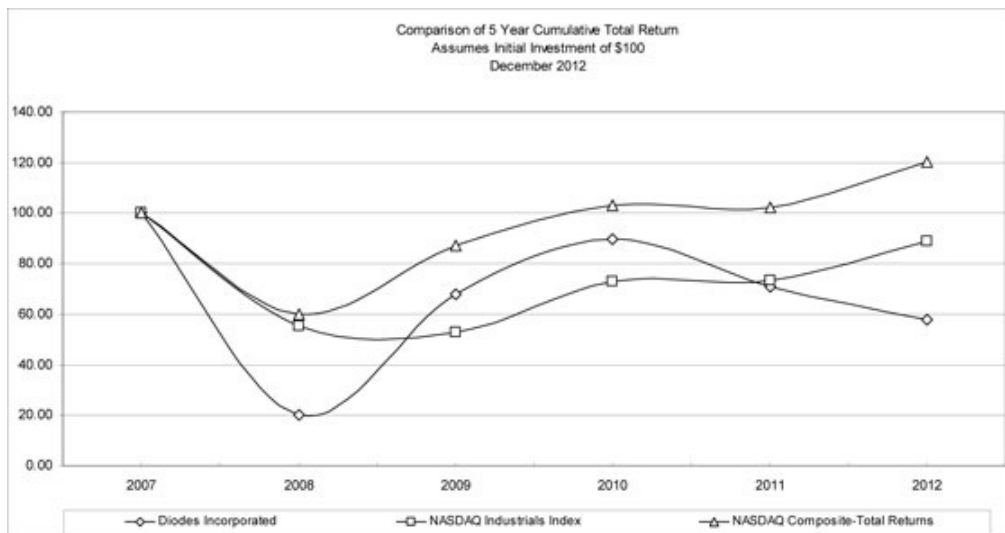
Securities Authorized for Issuance Under Equity Compensation Plans

The information regarding the Company's equity compensation plans required to be disclosed by Item 201(d) of Regulation S-K is incorporated by reference from the Company's 2013 definitive proxy statement into Item 12 of Part III of this Annual report.

Performance Graph

Set forth below is a line graph comparing the yearly percentage change in the cumulative total stockholder return of our Common Stock against the cumulative total return of the Nasdaq Composite and the Nasdaq Industrial Index for the five calendar years ending December 31, 2012. The graph is not necessarily indicative of future price performance.

The graph shall not be deemed incorporated by reference by any general statement incorporating by reference this Annual Report into any filing under the Securities Act of 1933 or under the Securities Exchange Act of 1934, except to the extent that the Company specifically incorporates this information by reference, and shall not otherwise be deemed filed under such Acts.



CUMULATIVE TOTAL RETURN SUMMARY

December 2012

	2007	2008	2009	2010	2011	2012
Diodes Incorporated	Return %	-79.85	236.78	32.24	-21.09	-18.54
	Cum \$	100.00	20.15	67.87	89.76	70.83
NASDAQ Industrials Index	Return %	-44.84	-4.42	38.40	0.31	21.52
	Cum \$	100.00	55.16	52.72	72.97	73.19
NASDAQ Composite-Total Returns	Return %	-39.98	45.36	18.16	-0.79	17.74
	Cum \$	100.00	60.02	87.25	103.09	102.28

Source: Data provided by Zacks Investment Research, Inc., copyright 2013. Used with permission. All rights reserved.

The graph assumes \$100 invested on December 31, 2007 in our Common Stock, the stock of the companies in the Nasdaq Composite Index and the stock of companies in the Nasdaq Industrial Index, and that all dividends received within a quarter, if any, were reinvested in that quarter.

Issuer Purchases of Equity Securities

There have been no repurchases of our Common Stock during the fourth quarter of 2012.

[Table of Contents](#)

Item 6. Selected Financial Data

The following selected consolidated financial data for the fiscal years ended December 31, 2012 through 2008 is qualified in its entirety by, and should be read in conjunction with, the other information and consolidated financial statements, including the notes thereto, appearing elsewhere herein. Certain amounts as presented in the accompanying consolidated financial statements have been reclassified to conform to 2012 financial statement presentation.

(In thousands, except per share data)

<i>Statement of Income Data</i>	Years ended December 31,				
	2012	2011	2010	2009	2008
Net sales	\$ 633,806	\$635,251	\$612,886	\$ 434,357	\$ 432,785
Gross profit	161,586	193,697	224,869	121,207	132,528
Selling, general and administrative	101,363	89,974	88,784	70,396	68,373
Research and development	33,761	27,231	26,584	23,757	21,882
Amortization of acquisition-related intangible assets	5,122	4,503	4,425	4,665	3,706
In-process research and development	—	—	—	—	7,865
Restructuring	—	—	—	(440)	4,089
Gain on sale of assets	(3,556)	—	—	—	—
Other	—	—	144	—	—
Total operating expenses	136,690	121,708	119,937	98,378	105,915
Income from operations	24,896	71,989	104,932	22,829	26,613
Interest income	778	1,024	2,842	4,871	11,991
Interest expense	(876)	(3,139)	(5,229)	(7,471)	(9,044)
Amortization of debt discount	—	(6,032)	(7,656)	(8,302)	(10,690)
Gain (loss) on securities carried at fair value	7,100	(1,039)	—	—	—
Other income (expense)	(1,091)	861	3,214	(777)	9,501
Income before income taxes and noncontrolling interest	30,807	63,664	98,103	11,150	28,371
Income tax provision (benefit)	4,825	10,157	17,839	1,302	(2,158)
Net income	25,982	53,507	80,264	9,848	30,529
Less: net income attributable to noncontrolling interest	(1,830)	(2,770)	(3,531)	(2,335)	(2,290)
Net income attributable to common stockholders	24,152	50,737	76,733	7,513	28,239
Earnings per share attributable to common stockholders:					
Basic	\$ 0.53	\$ 1.12	\$ 1.74	\$ 0.18	\$ 0.69
Diluted	\$ 0.51	\$ 1.09	\$ 1.68	\$ 0.17	\$ 0.66
Number of shares used in computation:					
Basic	45,780	45,202	44,146	42,237	40,709
Diluted	46,899	46,713	45,546	43,449	42,638

<i>Balance Sheet Data</i>	As of December 31,				
	2012	2011	2010	2009	2008
Total assets	\$ 920,063	\$ 793,064	\$ 846,550	\$ 1,021,898	\$ 890,712
Working capital	377,892	317,087	289,387	354,309	209,565
Long-term debt, net of current portion	44,131	2,857	3,393	124,797	372,597
Total Diodes Incorporated stockholders' equity	677,185	633,760	541,444	440,634	390,159

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following section discusses management's view of the financial condition, results of operations and cash flows of Diodes Incorporated and its subsidiaries (collectively, "the Company," "our Company," "we," "our," "ours," or "us") and should be read together with the consolidated financial statements and the notes to consolidated financial statements included elsewhere in this Form 10-K.

The following discussion contains forward-looking statements and information relating to our Company. 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," "project," or similar phrases or the negatives of such terms. We base these statements on our beliefs as well as assumptions we made using information currently available to us. Such statements are subject to risks, uncertainties and assumptions, including those identified in Part I, Item 1A. "Risk Factors," as well as other matters not yet known to us or not currently considered material by us. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated or projected. Given these risks and uncertainties, prospective investors are cautioned not to place undue reliance on such forward-looking statements. Forward-looking statements do not guarantee future performance and should not be considered as statements of fact.

You should not unduly rely on these forward-looking statements, which speak only as of the date of this Annual Report on Form 10-K. Unless required by law, we undertake no obligation to publicly update or revise any forward-looking statements to reflect new information or future events or otherwise. 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 Annual Report on Form 10-K are made pursuant to the Act.

Summary of the Year Ended December 31, 2012

- Net sales for 2012 was \$634 million, compared to \$635 million in 2011;
- Gross profit for 2012 was \$162 million, or 25% of net sales, a decrease of 17% from the \$194 million, or 30% of net sales, in 2011;
- Net income attributable to common stockholders for 2012 was \$24 million, or \$0.51 per diluted share, a decrease of 53% from the \$51 million, or \$1.09 per diluted share, in 2011;
- Cash flow from operations for 2012 was \$64 million, an increase of 4% from the \$62 million in 2011; and
- Announced three acquisitions as part of our strategy to pursue selective strategic acquisitions.

Overview of 2012

Late in the first quarter of 2012, we began to see signs of a recovery in our end-markets. We took advantage of this renewed strength by significantly reducing our lower margin finished goods inventory, which helped to support revenue and secure incremental market share gains. As a result, we achieved moderate sequential revenue growth, which was significantly better than the typical seasonal slowness. However, our decision to reduce inventory combined with increased pricing pressure and lower utilization, continued to impact margins during the quarter. We believed that the first quarter represented the low point in the cycle and that overall demand was beginning to improve across all of our geographies. As such, we shifted our strategy back to our growth model to aggressively capture additional market share. We begun adding capacity for new, more advanced packaging at our Shanghai facilities to support our anticipated growth. As the demand and pricing environment improves further, we will transition available capacity to higher margin products to enhance our product mix and margins going forward.

During the second quarter of 2012, we had 10% sequential growth in net sales driven by improved demand across all of our geographies and end-markets as we continued to gain market share. The second quarter benefited from the ramping of new projects for our products used in smartphones and tablets, where we are very well positioned. Our growth was particularly noteworthy considering our stronger than seasonal results in the first quarter, which traditionally is the low point in the demand cycle. Margins also improved in the second quarter as we began to slowly shift to higher margin products, while also benefiting from new product initiatives and manufacturing efficiency improvements. In addition, we have made targeted capital expenditures in our Shanghai facilities to increase capacity for specific packages and products.

Despite the slowdown in the general market during the third quarter of 2012, we were able to achieve 5% sequential growth and meet our expectations due to past design wins and new product initiatives that drove further market share gains. The third quarter was our third consecutive quarter of growth as we continued to increase sales for our products used in smartphones and tablets, while also benefiting from a rebound in LED TVs and a strong quarter in automotive. Gross margin improved moderately in the third quarter but remained under pressure primarily due to the effects of the generally weak global economy. Although we were gaining market share for our more advanced packages as supported by the capital investments we made in the second and third quarters, we were still underloaded on our standard packages. The unstable demand environment also caused pricing to weaken in the third quarter and product mix to be less favorable than we had anticipated. However, our cost reductions and manufacturing efficiency improvements were able to largely offset these factors and contributed to margins improving slightly over the prior quarter.

[Table of Contents](#)

During the fourth quarter of 2012, revenue grew 14% over the fourth quarter of 2011 as we continued to gain momentum for our products used in smartphones and tablets. Our new product initiatives and increasing customer content remained key drivers of our market share gains throughout the year. Despite gold prices being up approximately 4% and the loading down from third quarter to fourth quarter, margins improved due mainly to additional copper wire conversion and, productivity improvements, coupled with a small mix improvement. Also during the quarter, we began integrating our two recent acquisitions and announced a third proposed acquisition.

Business Acquisitions

Eris Technology Corporation

On August 31, 2012, we acquired approximately 51% of the outstanding common stock of Eris Technology Corporation (“Eris”) and consolidated Eris beginning September 1, 2012. The purpose of obtaining a controlling interest in Eris was to expand our semiconductor product offerings and to maximize our market opportunities. In addition, our main interest in Eris is for its automatic manufacturing capabilities in test and assembly for various diode products. The business scope for Eris comprises schottky diodes, TVS diodes, zener diodes, bridge diodes, wafers, LEDs and the relevant devices.

Power Analog Microelectronics, Inc.

On October 29, 2012, the Company acquired Power Analog Microelectronics, Inc. (“PAM”). PAM is a provider of advanced analog and high-voltage power ICs, and its product portfolio includes Class D audio amplifiers, DC-DC converters and LED backlighting drivers. PAM was founded in Silicon Valley in 2004 and has technical and business centers in Shanghai, Shenzhen, Taipei and Tokyo. We acquired PAM to strengthen our position as a global provider of high-quality analog products by expanding Diodes’ product portfolio with innovative ‘filter-less’ digital audio amplifiers, application-specific power management ICs, as well as high-performance LED drivers and DC-DC converters.

BCD Semiconductor Manufacturing Limited

On December 26, 2012, we entered into an Agreement and Plan of Merger (the “Merger Agreement”) with BCD Semiconductor Manufacturing Limited (“BCD”). The acquisition is expected to close late in the first quarter or early in the second quarter of 2013. We expect this acquisition to enhance our analog product portfolio by expanding our standard linear and power management offerings, including AC/DC and DC/DC solutions for power adapters and chargers, as well as other electronics products. BCD’s established presence in Asia with a particularly strong local market position in China offers us even greater penetration of the consumer, computing and communications markets. Likewise, we believe we can achieve increased market penetration for BCD’s products by leveraging our global customer base and sales channels. In addition, BCD has in-house manufacturing capabilities in China, as well as a cost-effective development team that can be deployed across multiple product families. We also believe we will be able to apply our packaging capabilities and expertise to BCD’s products in order to improve cost efficiencies, utilization as well as product mix.

See Note 17 of the “Notes to Consolidated Financial Statements” of this Annual Report for additional information about Eris, PAM and BCD.

Business Outlook

For 2013, we look to combine synergies with our acquisitions to enhance profitability and growth opportunities with our global customer base and sales channels, especially in China. We expect our business to continue to benefit from increasing demand in China, as we consider the China market a major growth driver for our business. We expect revenue for the first quarter of 2013 to be slightly better than the normal seasonal pattern, although the first quarter is typically a seasonally down quarter. The success of our business depends, among other factors, on the strength of the global economy and the stability of the financial markets, our customers’ demand for our products, the ability of our customers to meet their payment obligations, the likelihood of customers canceling or deferring existing orders and end-user consumers’ demand for items containing our products in the end-markets we serve. We believe the long-term outlook for our business remains generally favorable despite the recent volatility in the global economy and the equity and credit markets as we continue to execute on the strategy that has proven successful for us over the years. See “Risk Factors – *The success of our business depends on the strength of the global economy and the stability of the financial markets, and any weaknesses in these areas may have a material adverse effect on our revenues, results of operations and financial condition.*” in Part I, Item 1A of this Annual Report for additional information.

Factors Relevant to Our Results of Operations

In 2012, the following factors affected, and, we believe, will continue to affect, our results of operations:

- We have experienced pressure from our customers and competitors to reduce the selling price for our standard products, and we expect future improvements in net income to result primarily from increases in sales volume and improvements in product mix as well as manufacturing cost reductions in order to offset any reduced average selling prices (“ASP”) of our products. See “Risk Factors – *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*” in Part I, Item 1A of this Annual Report for additional information.
- For the years ended December 31, 2012, 2011 and 2010, our original equipment manufacturers (“OEM”) and electronic manufacturing services (“EMS”) customers together accounted for 47%, 47% and 46% of net sales, respectively, while our global network of distributors accounted for 53%, 53% and 54% of net sales, respectively.
- Our gross profit margin was 25% in 2012, compared to 30% in 2011 and 37% in 2010. Our gross profit margin decreased in 2012 primarily due to a weaker pricing environment and product mix coupled with increased manufacturing costs due mainly to raw materials cost increases, particularly gold, and lower equipment utilization. Future gross profit margins will depend primarily on our product mix, manufacturing cost savings, and the demand for our products.
- For 2012, the percentage of our net sales derived from our Asian subsidiaries was 79%, compared to 75% in 2011 and 73% in 2010. The 2012 increase in sales in Asia was helped by the increased demand for smartphones and tablets. Europe accounted for approximately 11%, 13% and 12% of our net sales in 2012, 2011 and 2010, respectively. The 2012 decrease in Europe was mainly due to continued economic uncertainty. In addition, North America accounted for approximately 10%, 12% and 15% of our net sales in 2012, 2011 and 2010, respectively. The 2012 decrease in North America was mainly due to the decline in the industrial market.
- As of December 31, 2012, we had invested approximately \$398 million in our manufacturing facilities in China. During 2012, we invested approximately \$50 million in these manufacturing facilities, and we expect to continue to invest in our manufacturing facilities, although the amount to be invested will depend on product demand and new product developments.
- For 2012, our capital expenditures, excluding capital expenditures related to our manufacturing facilities in Chengdu, China, were approximately 7% of our net sales, which is lower than our historical 10% to 12% of net sales model as we delayed capital investments in the third and fourth quarters in response to market conditions. For 2013, based on current market conditions and excluding Chengdu building expenditures, we expect capital expenditures to be 7% to 9% of net sales.
- Our investment in research and development for 2012 increased to \$34 million, or 5% of net sales, compared to \$27 million, or 4% of net sales, in 2011. We expect research and development costs to continue to increase as we look to invest in developing new products.

Description of Sales and Expenses

Net sales

The principal factors that have affected or could affect our net sales from period to period are:

- The condition of the economy in general and of the semiconductor industry in particular,
- Our customers’ adjustments in their order levels,
- Changes in our pricing policies or the pricing policies of our competitors or suppliers,
- The addition or termination of key supplier relationships,
- The rate of introduction and acceptance by our customers of new products,
- Our ability to compete effectively with our current and future competitors,
- Our ability to enter into and renew key corporate and strategic relationships with our customers, vendors and strategic alliances,
- Changes in foreign currency exchange rates,
- A major disruption of our information technology infrastructure,
- Unforeseen catastrophic events, such as armed conflict, terrorism, fires, typhoons and earthquakes, and
- Any other disruptions, such as labor shortages, unplanned maintenance or other manufacturing problems.

[Table of Contents](#)

Cost of goods sold

Cost of goods sold includes manufacturing costs for our semiconductors and our wafers. These costs include raw materials used in our manufacturing processes as well as labor costs and overhead expenses. Cost of goods sold is also impacted by yield improvements, capacity utilization and manufacturing efficiencies. In addition, cost of goods sold includes the cost of products that we purchase from other manufacturers and sell to our customers. Cost of goods sold is also affected by inventory obsolescence if our inventory management is not efficient.

Selling, general and administrative expenses

Selling, general and administrative expenses relate primarily to compensation and associated expenses for personnel in general management, sales and marketing, information technology, engineering, human resources, procurement, planning and finance, and sales commissions, as well as outside legal, accounting and consulting expenses, and other operating expenses.

Research and development expenses

Research and development expenses consist of compensation and associated costs of employees engaged in research and development projects, as well as materials and equipment used for these projects. Research and development expenses are primarily associated with our wafer facilities near Kansas City, Missouri and Manchester, United Kingdom (“U.K.”) and our manufacturing facilities in China, as well as with our engineers in the U.S. and Taiwan. All research and development expenses are expensed as incurred.

Amortization of acquisition-related intangible assets

Amortization of acquisition-related intangible assets consists of amortization of acquisition-related intangible assets, such as developed technologies and customer relationships.

Gain on sale of assets

Gain on sale of assets consists of the sale of certain assets such as intangibles or buildings.

Interest income / expense

Interest income consists of interest earned on our cash and investment balances. Interest expense consists of interest payable on our outstanding credit facilities and other debt instruments including the stated rate on our convertible senior notes with an aggregate principal amount of \$230 million due 2026 (the “Notes”), which were retired in 2011.

Amortization of debt discount

Amortization of debt discount consists of non-cash amortization expense related to our Notes. The amortization period ended September 30, 2011.

Gain (loss) on securities carried at fair value

From time to time we may hold investments in the form of common stock or some other similar equivalent and have elected fair value accounting treatment.

Income tax provision

Our global presence requires us to pay income taxes in a number of jurisdictions. See Note 11 of “Notes to Consolidated Financial Statements” for additional information.

Net income attributable to noncontrolling interest

Noncontrolling interest represents the minority investors’ share of earnings of our subsidiaries.

Net income attributable to common stockholders

Net income attributable to common stockholders is net income less net income attributable to noncontrolling interest.

[Table of Contents](#)

Results of Operations

The following table sets forth, for the periods indicated, the percentage that certain items in the statement of income bear to net sales and the percentage dollar increase (decrease) of such items from period to period.

	Percent of Net sales Year Ended December 31,			Percentage Dollar Increase (Decrease) Year Ended December 31,	
	2012 100 %	2011 100 %	2010 100 %	'11 to '12 %	'10 to '11 %
Net sales				—	3
Cost of goods sold	(75)	(70)	(63)	7	14
Gross profit	25	30	37	(17)	(14)
Operating expenses	(21)	(19)	(20)	12	2
Income from operations	4	11	17	(65)	(31)
Interest income	—	—	1	(24)	(64)
Interest expense and amortization of debt discount	—	(1)	(2)	(138)	(29)
Gain (loss) on securities carried at fair value	1	—	—	783	(29)
Other income (expense)	—	—	1	(227)	(94)
Income before taxes and noncontrolling interest	5	10	17	(52)	(35)
Income tax provision	1	2	3	(52)	(44)
Net income	4	8	14	(52)	(33)
Net income attributable to noncontrolling interest	—	—	(1)	(34)	(22)
Net income attributable to common stockholders	4	8	13	(53)	(34)

The following discussion explains in greater detail our consolidated operating results and financial condition. This discussion should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this Annual Report (*in thousands*).

Year 2012 Compared to Year 2011

	2012	2011
Net sales	\$633,806	\$635,251

Net sales for 2012 decreased \$1 million to \$634 million from \$635 million for 2011. The small decrease in net sales represented an approximately 10% increase in units sold, which was offset by a 10% decrease in ASP. ASP was impacted by pricing pressure and product mix.

[Table of Contents](#)

The following table sets forth the geographic breakdown of our net sales for the periods indicated based on the country to which the product is billed:

	Net sales for the year ended December 31		Percentage of net sales	
	2012	2011	2012	2011
China	\$ 223,473	\$206,965	35%	33%
Taiwan	126,356	136,129	20%	21%
Switzerland	57,200	57,696	9%	8%
U.S.	54,949	47,892	9%	8%
Korea	50,896	37,643	8%	6%
U.K.	28,558	30,065	5%	5%
Singapore	27,013	23,492	4%	4%
Germany	24,416	30,838	4%	5%
All Others	40,945	64,531	6%	10%
Total	<u>\$ 633,806</u>	<u>\$ 635,251</u>	<u>100%</u>	<u>100%</u>

	2012	2011
Cost of goods sold	\$ 472,220	\$ 441,554
Gross profit	\$ 161,586	\$ 193,697
Gross profit margin	25%	30%

Cost of goods sold increased \$31 million, or 7%, for 2012 to \$472 million, compared to \$442 million for 2011. As a percent of sales, cost of goods sold increased from 70% for 2011 to 75% for 2012. Our average unit cost (“AUP”) decreased approximately 3%. Although AUP decreased, it was not enough to offset the reduction in ASP.

Gross profit for 2012 decreased 17% to \$162 million from \$194 million for 2011. Gross profit as a percentage of net sales was 25% for 2012, compared to 30% for 2011. The decrease in gross margin was primarily due to a weaker pricing environment and product mix coupled with increased manufacturing costs due mainly to raw material cost increases, particularly gold, and lower equipment utilization.

	2012	2011
Selling, general and administrative (“SG&A”)	\$ 101,363	\$ 89,974

SG&A for 2012 increased \$11 million, or 13%, to \$101 million, compared to \$90 million for 2011. SG&A, as a percentage of net sales, was 16% in 2012, compared to 14% in 2011. The increase in SG&A was primarily due to increases in wages and benefits, freight and professional fees.

	2012	2011
Research and development (“R&D”)	\$ 33,761	\$ 27,231

R&D for 2012 increased to \$34 million, or 5% of net sales, compared to \$27 million, or 4% of net sales, for 2011. The increase in R&D was due to increase in engineering supplies, material purchases, development services and wages and benefits

	2012	2011
Amortization of acquisition-related intangible assets	\$ 5,122	\$ 4,503

Amortization of acquisition-related intangibles was approximately \$5 million for 2012 and 2011.

[Table of Contents](#)

	<u>2012</u>	<u>2011</u>
<u>Gain on sale of assets</u>	\$3,556	\$—

Gain on sale of assets was approximately \$4 million for 2012, which was mainly from the sale of an intangible asset located in Europe and a sale of a building located in Taiwan.

	<u>2012</u>	<u>2011</u>
<u>Interest income</u>	\$778	\$1,024

Interest income for 2012 and 2011 was \$1 million, which was mainly from interest earned on bank accounts.

	<u>2012</u>	<u>2011</u>
<u>Interest expense</u>	\$876	\$3,139

Interest expense for 2012 was \$1 million, compared to \$3 million for 2011. The \$2 million decrease is due primarily to the reduced interest paid on our Notes, which were repurchased in 2011.

	<u>2012</u>	<u>2011</u>
<u>Amortization of debt discount</u>	\$—	\$6,032

Amortization of debt discount for 2012 was \$0 million as the amortization period on our Notes ended as of September 30, 2011.

	<u>2012</u>	<u>2011</u>
<u>Gain (loss) on securities carried at fair value</u>	\$7,100	\$(1,039)

Gain on securities carried at fair value for 2012 was \$7 million compared to loss on securities carried at fair value of \$1 million for 2011. For 2012, the gain was from a \$4 million gain on the shares of common stock of BCD held as an investment and a \$3 million gain on the shares of common stock of Eris prior to obtaining a controlling interest. For 2011, the loss was from the shares of common stock of Eris that would have otherwise been accounted for under the equity method of accounting.

	<u>2012</u>	<u>2011</u>
<u>Other income (expense)</u>	\$(1,091)	\$861

Other expense for 2012 was \$1 million, compared to other income of \$1 million for 2011. Included in other expense for 2012 was foreign currency losses, partially offset by miscellaneous income. Included in other income for 2011 was foreign currency gains and miscellaneous income.

	<u>2012</u>	<u>2011</u>
<u>Income tax provision</u>	\$4,825	\$10,157

We recognized income tax expense of \$5 million for 2012, resulting in an effective tax rate of 16%, which is the same effective tax rate as 2011.

	<u>2012</u>	<u>2011</u>
<u>Net income attributable to noncontrolling interest</u>	\$1,830	\$2,770

Net income attributable to noncontrolling interest primarily represents the minority investor's share of the earnings of certain China subsidiaries for 2012 and 2011 and Eris for part of 2012. On August 31, 2012, the Company acquired approximately 51% of the outstanding common stock of Eris, which the 49% noncontrolling interest is included in this account. The joint venture investments were eliminated in the consolidations of our financial statements, and the activities of our subsidiaries were included therein. The noncontrolling interest in the subsidiaries and their equity balances are reported separately in the consolidation of our financial statements, and the activities of these subsidiaries are included therein.

[Table of Contents](#)

	<u>2012</u>	<u>2011</u>
<u>Net income attributable to common stockholders</u>	\$24,152	\$50,737

Net income attributable to common stockholders decreased 53% to \$24 million (or \$0.53 basic earnings per share and \$0.51 diluted earnings per share) for 2012, compared to \$51 million (or \$1.12 basic earnings per share and \$1.09 diluted earnings per share) for 2011, due primarily to increased cost of goods sold and operating expenses.

Year 2011 Compared to Year 2010

	<u>2011</u>	<u>2010</u>
<u>Net sales</u>	\$635,251	\$612,886

Net sales for 2011 increased \$22 million to \$635 million from \$613 million for 2010. The 4% increase in net sales represented an approximately 6% increase in units sold and a 2% decrease in ASP. The revenue increase for 2011 was attributable to increase in demand for our products in Asia and Europe, offset in part by a decline in North America.

The following table sets forth the geographic breakdown of our net sales for the periods indicated based on the country to which the product is billed:

	Net sales for the year ended December 31		Percentage of net sales	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
China	\$206,965	\$ 187,633	33%	31%
Taiwan	136,129	141,388	21%	23%
Switzerland	57,696	58,583	8%	10%
U.S.	47,892	76,328	8%	12%
Korea	37,643	35,180	6%	6%
Germany	30,838	31,704	5%	5%
U.K.	30,065	24,337	5%	4%
Singapore	23,492	24,468	4%	4%
All Others	64,531	33,265	10%	5%
Total	<u>\$ 635,251</u>	<u>\$612,886</u>	<u>100%</u>	<u>100%</u>

	<u>2011</u>	<u>2010</u>
<u>Cost of goods sold</u>	\$ 441,554	\$ 388,017
<u>Gross profit</u>	\$193,697	\$224,869
<u>Gross profit margin</u>	30%	37%

Cost of goods sold increased \$54 million, or 14%, for 2011 to \$442 million, compared to \$388 million for 2010. As a percent of sales, cost of goods sold increased from 63% for 2010 to 70% for 2011. Our average unit cost ("AUP") increased approximately 7%. The increase in cost of goods sold as a percentage of net sales and the increase in AUP was due to lower capacity utilization in our manufacturing operations.

Gross profit for 2011 decreased 14% to \$194 million from \$225 million for 2010. Gross profit as a percentage of net sales was 30% for 2011, compared to 37% for 2010. The decreased gross margin was primarily due to a weak pricing environment and a shift in product mix to lower margin products in an effort to maintain capacity utilization at our wafer fabrication facilities and Shanghai packaging facilities.

[Table of Contents](#)

<u>SG&A</u>	<u>2011</u>	<u>2010</u>
	\$89,974	\$88,784

SG&A for 2011 increased \$1 million, or 1%, to \$90 million, compared to \$89 million for 2010. SG&A, as a percentage of net sales, was 14% in 2011, compared to 15% in 2010.

<u>R&D</u>	<u>2011</u>	<u>2010</u>
	\$27,231	\$26,584

R&D for 2011 remained relatively flat at \$27 million, or 4% of net sales, compared to \$27 million, or 4% of net sales, for 2010.

<u>Amortization of acquisition-related intangible assets</u>	<u>2011</u>	<u>2010</u>
	\$4,503	\$4,569

Amortization of acquisition-related intangibles was approximately \$4 million for 2011 and 2010.

<u>Interest income</u>	<u>2011</u>	<u>2010</u>
	\$1,024	\$2,842

Interest income for 2011 decreased to \$1 million, compared to \$3 million for 2010, due primarily to a decrease in interest income earned on our auction rate securities, which were put back to UBS AG at par value on June 30, 2010 in accordance with the settlement agreement and lower interest earned on cash balances in 2011.

<u>Interest expense</u>	<u>2011</u>	<u>2010</u>
	\$3,139	\$5,229

Interest expense for 2011 was \$3 million, compared to \$5 million for 2010. The \$2 million decrease is due primarily to the reduced interest paid on our “no net cost” loan that was paid off on June 30, 2010 in connection with the settlement agreement with UBS AG and the retirement of our Notes.

<u>Amortization of debt discount</u>	<u>2011</u>	<u>2010</u>
	\$6,032	\$7,656

Amortization of debt discount for 2011 was approximately \$6 million, compared to \$8 million for 2010. The \$2 million decrease in amortization of debt discount was due primarily to the amortization period on our Notes ending as of September 30, 2011.

<u>Gain (loss) on securities carried at fair value</u>	<u>2011</u>	<u>2010</u>
	\$(1,039)	\$—

The loss on securities carried at fair value for 2011 of \$1 million was from the shares of common stock of Eris that would have otherwise been accounted for under the equity method of accounting.

<u>Other income (expense)</u>	<u>2011</u>	<u>2010</u>
	\$861	\$3,214

Other income for 2011 was \$1 million, compared to other income of \$3 million for 2010. Included in other income for 2011 was foreign currency gains. Included in other income for 2010 was a \$1.7 million gain on sale of non-core intellectual property for which no intangible assets were recorded and a \$1.1 million gain on forgiveness of debt from government subsidies in China.

[Table of Contents](#)

	<u>2011</u>	<u>2010</u>
<u>Income tax provision</u>	\$10,157	\$17,839

We recognized income tax expense of \$10 million for 2011, resulting in an effective tax rate of 16%, as compared to 18% for 2010. Our effective tax rate compared with the same period last year was lower due to lower income in higher-taxed jurisdictions.

	<u>2011</u>	<u>2010</u>
<u>Net income attributable to noncontrolling interest</u>	\$2,770	\$3,531

Net income attributable to noncontrolling interest primarily represents the minority investor's share of the earnings of certain China subsidiaries for 2011 and 2010. The joint venture investments were eliminated in the consolidations of our financial statements, and the activities of our subsidiaries were included therein. The noncontrolling interest in the subsidiaries and their equity balances are reported separately in the consolidation of our financial statements, and the activities of these subsidiaries are included therein.

	<u>2011</u>	<u>2010</u>
<u>Net income attributable to common stockholders</u>	\$50,737	\$76,733

Net income attributable to common stockholders decreased 34% to \$51 million (or \$1.12 basic earnings per share and \$1.09 diluted earnings per share) for 2011, compared to \$77 million (or \$1.74 basic earnings per share and \$1.68 diluted earnings per share) for 2010, due primarily to increased cost of goods sold and decreased gross profit.

Financial Condition

Liquidity and Capital Resources

Our primary sources of liquidity are cash and cash equivalents, funds from operations and borrowings under our credit facilities. As of December 31, 2012, we had a U.S. credit agreement for a \$10 million revolving credit facility with \$8 million outstanding borrowings, a \$10 million uncommitted facility with no outstanding borrowings and foreign credit facilities giving us total borrowing capacity of approximately \$102 million of which approximately \$1 million had been used for import and export guarantees. In addition, as of December 31, 2012, we had an outstanding \$40 million term loan. Our primary liquidity requirements have been to meet our inventory and capital expenditure needs and to fund on-going operations. For 2012, 2011 and 2010, our working capital was \$378 million, \$317 million, and \$289 million, respectively. Our working capital increased in 2012 primarily due to the increase in cash and cash equivalents, mainly due to a draw down on our \$40 million term loan, and an increase in accounts receivable and inventories, which were partially offset by the increase in accrued liabilities and other current liabilities. Our working capital increased in 2011 mainly due to an increase in inventory and prepaid expenses and a decrease in accounts payable, accrued liabilities and income tax payable, partially offset by an increase in lines of credit. We expect cash generated by our U.S. and international operations, together with existing cash, cash equivalents, and available credit facilities to be sufficient to cover cash needs for working capital and capital expenditures for at least the next 12 months.

During 2012 we amended our credit agreement with Bank of America, N.A. ("Bank of America") to provide for a term loan in the amount of \$40 million, which bore interest at the Eurocurrency Rate (as defined) plus 1.25% per annum. On January 8, 2013, we entered into a new credit agreement with Bank of America and other participating lenders. The new credit agreement provides for a five-year, \$300 million revolving senior credit facility. We intend to draw down on the revolving senior credit facility to, at least partially, fund the acquisition of BCD. In addition, as part of the new credit agreement, our credit agreement with Bank of America, as amended on February 1, 2012, was terminated and we drew down \$45 million on the revolving senior credit facility to retire the existing term loan and pay fees and expenses in connection with entering into the new credit agreement on January 8, 2013. See "*Debt instruments*" below for additional information on our credit agreements with Bank of America.

In 2012, 2011 and 2010, our capital expenditures were \$60 million, \$83 million and \$87 million, respectively, which includes \$14 million and \$18 million of capital expenditures related to the investment agreement with the Management Committee of the Chengdu Hi-Tech Industrial Development Zone (the "CDHT") for 2012 and 2011, respectively. Our capital expenditures for these periods were primarily related to manufacturing expansion in our facilities in China and, to a lesser extent, our wafer fabrication facility in the U.S. and office buildings in the U.S. and China. Capital expenditures, excluding capital expenditures related to the investment agreement, for 2012 were approximately 7% of our net sales, which was lower than our historical 10% to 12% of net sales model as we delayed capital investments in the third and fourth quarters in response to market conditions.

[Table of Contents](#)

During 2010, we announced an investment agreement with the Management Committee of the CDHT. Under this agreement, we have agreed to form a joint venture with a Chinese partner, Chengdu Ya Guang Electronic Company Limited, to establish a semiconductor manufacturing facility for surface-mounted component production, assembly and test in Chengdu, China. We initially will own at least 95% of the joint venture. The manufacturing facility will be developed in phases over a ten year period, and in order to qualify for certain financial incentives, we were obligated to contribute at least \$48 million to the joint venture in installments by December 14, 2012. Due to pending approval from the Chinese government for completion of the restructuring of our China corporate entities, we received an extension to contribute the required amount until December 31, 2013. The CDHT will grant the joint venture a fifty year land lease, provides temporary facilities for up to three years at a subsidized rent while the joint venture builds the manufacturing facility and provides corporate and employee tax incentives, tax refunds, subsidies and other financial support to the joint venture and its qualified employees. If the joint venture fails to achieve specified levels of investment, the investment agreement allows for a renegotiation as well as the option to repay a portion of such financial support. This is a long-term, multi-year project that will provide us additional capacity as needed. As of December 31, 2012, we have invested approximately \$25 million of which \$20 million were for capital expenditures.

In 2011, we purchased approximately \$14 million worth of Eris common stock. In 2012, we purchased approximately \$10 million of additional shares of common stock of Eris. On August 30, 2012, we acquired over 50% of the outstanding common stock of Eris and obtained a controlling financial interest. We may from time to time seek to purchase additional shares of Eris common stock in the open market, in privately negotiated transactions or otherwise. Such purchases, if any, will depend on prevailing market conditions, our liquidity requirements, and other factors. The amounts involved may be material. On October 29, 2012, we acquired PAM for which we paid \$16 million, \$3 million of which was held back and will be paid over the next two years subject to the satisfaction of certain terms and conditions. On December 26, 2012, we entered into an agreement to acquire BCD for approximately \$151 million; we intend to draw down on the revolving senior credit facility to, at least partially, fund the acquisition. In addition, as part of our strategy to expand our semiconductor product offerings and to maximize our market opportunities, we may acquire product lines or companies in order to enhance our portfolio and accelerate our new offerings, which could have a material impact on liquidity and require us to draw down on or increase our credit facilities borrowings. See Note 17 of the "Notes to Consolidated Financial Statements" of this Annual Report for additional information about Eris, PAM and BCD and Part I, Item 1 of this Annual Report for additional information about our strategy.

Discussion of Cash Flows

Cash and cash equivalents have decreased from \$271 million at December 31, 2010, to \$130 million at December 31, 2011, then increased to \$157 million at December 31, 2012. The decrease from 2010 to 2011 was primarily due to cash used in financing activities for the retirement of our Notes. The increase during 2012 was primarily due to the draw down on our \$40 million term loan.

	Year Ended December 31,					
	2012	2011	Change	2011	2010	Change
Net cash provided by operating activities	\$ 64,221	\$ 61,650	\$ 2,571	\$ 61,650	\$ 118,005	\$ (56,355)
Net cash provided by (used by) investing activities	(77,419)	(98,312)	20,893	(98,312)	209,569	(307,881)
Net cash provided by (used by) financing activities	38,542	(107,713)	146,255	(107,713)	(295,349)	187,636
Effect of exchange rates on cash and cash equivalents	2,267	2,984	(717)	2,984	(3,277)	6,261
Net increase (decrease) in cash and cash equivalents	<u>\$ 27,611</u>	<u>\$(141,391)</u>	<u>\$ 169,002</u>	<u>\$(141,391)</u>	<u>\$ 28,948</u>	<u>\$(170,339)</u>

[Table of Contents](#)

Operating Activities

Net cash provided by operating activities during 2012 was \$64 million, resulting primarily from \$26 million of net income in the period, \$64 million of depreciation and amortization and \$14 million from non-cash share-based compensation, partially offset by changes in operating assets and liabilities. Net cash provided by operating activities was \$62 million for 2011 and \$118 million for 2010.

Net cash provided by operating activities increased by \$2 million from 2011 to 2012. This increase resulted primarily from the treatment of certain tax items relating to the retirement of our Notes in 2011 that did not occur in 2012, partially offset by the decrease in net income (from \$54 million in 2011 to \$26 million in 2012).

Net cash provided by operating activities decreased by \$56 million from 2010 to 2011. This decrease resulted primarily from a decrease in net income (from \$80 million in 2010 to \$54 million in 2011) and increase in tax related items.

Investing Activities

Net cash used by investing activities for 2012 was \$77 million, resulting primarily from \$20 million in acquisitions, net of cash acquired and \$58 million in capital expenditures.

Net cash used by investing activities for 2011 was \$98 million, resulting primarily from \$14 million in purchases of securities and \$81 million in capital expenditures.

Net cash provided by investing activities for 2010 was \$210 million, resulting primarily from \$297 million in proceeds from sale of auction rate securities, offset by \$89 million in capital expenditures.

Financing Activities

Net cash provided by financing activities for 2012 was \$39 million, resulting primarily from \$40 million draw down on our term loan.

Net cash used by financing activities for 2011 was \$108 million, resulting primarily from \$135 million in repayments of short-term debt, which was mainly the retirement of our Notes.

Net cash used by financing activities for 2010 was \$295 million, resulting primarily from \$303 million in repayments of lines of credit and short-term debt, which was mainly the repayment of our “no net cost” loan.

Debt instruments

On November 25, 2009 we entered into a credit agreement with Bank of America as modified by certain amendments, including the Sixth Amendment to Credit Agreement dated as of April 30, 2012 (collectively the “Credit Agreement”). The Credit Agreement provided for a \$10 million revolving credit facility (the “Revolver”) and a \$10 million uncommitted facility (the “Uncommitted Facility”). The Fifth Amendment added an additional borrower, Diodes International B.V. (the “BV Entity”), to the Credit Agreement and provided for an additional term loan in the amount of \$40 million (the “Term Loan”). The Term Loan bore interest at a rate per annum equal to the Eurocurrency Rate (as defined) plus 1.25% per annum. On February 1, 2012, the BV Entity drew down the full \$40 million of the Term Loan.

On January 8, 2013, we and the B.V. Entity (collectively with us, the “Borrowers”) and certain subsidiaries of ours as guarantors, entered into a Credit Agreement (the “New Credit Agreement”) with Bank of America and other participating lenders (collectively, the “Lenders”). Certain capitalized terms used in this description of the New Credit Agreement have the meanings given to them in the New Credit Agreement.

The New Credit Agreement provides for a five-year, \$300 million revolving senior credit facility (the “Revolver”), which includes \$10 million swing line sublimit, a \$10 million letter of credit sublimit, and \$20 million alternative currency sublimit. The Borrowers may from time to time request increases in the aggregate commitment under the New Credit Agreement of up to \$200 million, subject to the lenders electing to increase their commitments or by means of the addition of new Lenders, and subject to at least half of each increase in aggregate commitment being in the form of term loans (“Incremental Term Loans”), with the remaining amount of each being an increase the amount of the Revolver.

The Revolver matures on January 8, 2018 (the “Revolver Maturity Date”). Incremental Term Loans mature no earlier than the Revolver Maturity Date. The proceeds under the Revolver and the Incremental Term Loans may be used for the purposes of refinancing certain existing debt, for working capital and capital expenditures, and for general corporate purposes, including financing permitted acquisitions.

[Table of Contents](#)

The B.V. Entity's obligations under the New Credit Agreement are guaranteed by us. Each Borrower's obligations under the New Credit Agreement are guaranteed by certain of that Borrower's subsidiaries. The Borrower's obligations under the New Credit Agreement are secured by substantially all assets of the Borrowers and certain of their subsidiaries.

Under the Revolver, the Borrowers may borrow through Base Rate Loans (as defined) in United States Dollars ("USD") or through Eurocurrency Rate Loans (as defined) in USD, Euros, British Pounds Sterling or another currencies approved by the Lenders subject, as to all currencies other than USD, to the Alternative Currency sublimit. Base Rate Loans bear interest at a fluctuating rate per annum equal to the sum of (a) the highest of (i) the Federal Funds Rate plus 1/2 of 1.00%, (ii) the rate of interest in effect for such day as publicly announced from time to time by Bank of America as its "prime rate," and (iii) the Eurocurrency Rate plus 1.00%, plus (b) an amount between 0.50% per annum and 1.25% per annum, based upon the Borrowers' and their subsidiaries' Consolidated Leverage Ratio. Eurocurrency Rate Loans bear interest at LIBOR plus an amount between 1.50% and 2.25% per annum, based upon the Borrowers' and their subsidiaries' Consolidated Leverage Ratio.

Incremental Term Loans will be on pricing and amortization terms to be agreed upon.

As part of the New Credit agreement, our Credit Agreement with Bank of America, as amended, was terminated with no penalties and on January 8, 2013, we drew down \$45 million on the Revolver to retire the existing Term Loan and pay fees and expenses in connection with entering into the New Credit Agreement.

The New Credit Agreement contains certain financial and non-financial covenants, including, but not limited to, a maximum Consolidated Leverage Ratio, a minimum Consolidated Fixed Charge Coverage Ratio, and restrictions on liens, indebtedness, investments, fundamental changes, dispositions, and restricted payments (including dividends).

As of December 31, 2012, our U.S., Asia and Europe subsidiaries had available lines of credit of up to an aggregate of approximately \$102 million, with several financial institutions. These lines of credit are unsecured, uncommitted and, in some instances, may be repayable on demand, except for two Taiwanese credit facilities that are collateralized by assets. Loans under these lines of credit bear interest at LIBOR or similar indices plus a specified margin. At December 31, 2012, there was \$8 million outstanding on these lines of credit, and the interest rates ranged from 1.4% to 3.3%. See Note 10 of "Notes to Consolidated Financial Statements" of this Annual Report for additional information.

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 provided off-balance sheet financing, liquidity or market or credit risk support, nor do we engage in leasing, hedging or research and development services, that could expose us to liability that is not reflected on the face of our financial statements.

Contractual Obligations

The following table represents our contractual obligations as of December 31, 2012:

	Total	Payments due by period (in thousands)			
		Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt	\$ 45,195	\$ 1,063	\$ 1,901	\$ 40,737	\$ 1,494
Capital leases	1,175	346	625	204	—
Operating leases	17,837	6,404	6,746	4,385	302
Defined benefit obligations	21,319	3,046	6,091	6,091	6,091
Purchase obligations	9,817	9,817	—	—	—
Other obligations (1)	22,800	22,800	—	—	—
Total obligations	<u>\$118,143</u>	<u>\$ 43,476</u>	<u>\$15,363</u>	<u>\$51,417</u>	<u>\$ 7,887</u>

(1) See "Other Commitments" in Note 16 of "Notes to Consolidated Financial Statements" for additional information.

Tax liabilities are not included in the above contractual obligations as we cannot make reasonable estimates of the amount and period in which those tax liabilities would be paid. See "Accounting for income taxes" below and Note 11 of "Notes to Consolidated Financial Statements" of this Annual Report for additional information.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with U.S. GAAP requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, we evaluate our estimates, which are based upon historical experiences, market trends and financial forecasts and projections, and upon various other assumptions that management believes to be reasonable under the circumstances at that certain point in time. Actual results may differ, significantly at times, from these estimates under different assumptions or conditions.

We believe the following critical accounting policies and estimates affect the significant estimates and judgments we use in the preparation of our consolidated financial statements, and may involve a higher degree of judgment and complexity than others.

Revenue recognition

Revenue is recognized when there is persuasive evidence that an arrangement exists, when delivery has occurred, when the price to the buyer is fixed or determinable and when collectability of the receivable is reasonably assured. These elements are met when title to the products is passed to the buyers, which is generally when product is shipped to the customers. Generally, we recognize revenue upon shipment to manufacturers (direct ship) as well as upon sales to distributors using the “sell in” model, which is when product is shipped to the distributors (point of purchase).

Certain customers have limited rights of return and/or are entitled to price adjustments on products held in their inventory or upon sale to their end customers. We reduce net sales in the period of sale for estimates of product returns, distributor price adjustments and other allowances. Our reserve estimates are based upon historical data as well as projections of sales, distributor inventories, price adjustments, average selling prices and market conditions. Actual returns and adjustments could be significantly different from our estimates and provisions, resulting in an adjustment to net sales.

We record allowances/reserves for the following items: (i) ship and debit, which arise when we, from time to time based on market conditions, issue credit to certain distributors upon their shipments to their end customers, (ii) stock rotation, which are contractual obligations that permit certain distributors, twice 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 with a corresponding reduction to cost of goods sold for the estimated cost of inventory that is expected to be returned. Price protection reserves are recorded as a reduction to net sales with a corresponding increase in accrued liabilities.

Inventories

Inventories are stated at the lower of cost or market value. Cost is determined principally by the first-in, first-out method. On an on-going basis, we evaluate our inventory for obsolescence and slow-moving items. This evaluation includes analysis of sales levels, sales projections, and purchases by item, as well as raw material usage related to our manufacturing facilities. If our review indicates a reduction in utility below carrying value, we reduce our inventory to a new cost basis. If future demand or market conditions are different than our current estimates, an inventory adjustment may be required, and would be reflected in cost of goods sold in the period the revision is made.

Accounting for income taxes

As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the tax jurisdictions in which we operate. This process involves using an asset and liability approach whereby deferred tax assets and liabilities are recorded for differences in the financial reporting bases and tax bases of our assets and liabilities. Deferred tax accounting requires that we evaluate net deferred tax assets by jurisdiction to determine if these assets will more likely than not be realized. This analysis requires considerable judgment and is subject to change to reflect future events and changes in the tax laws.

A tax position is recognized as a benefit only if it is more likely than not that the tax position would be sustained based on its technical merits in a tax examination, using the presumption the tax authority has full knowledge of all relevant facts regarding the position. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on ultimate settlement with the tax authority. For tax positions not meeting the more likely than not test, no tax benefit is recorded.

Goodwill and long-lived assets

Goodwill is tested for impairment on an annual basis, on October 1, and between annual tests if indicators of potential impairment exist. For 2012 and 2011, we used the simplified goodwill impairment test, which allows us to first assess qualitatively whether it is necessary to perform step one of the two-step annual goodwill impairment test. We are required to perform step one and calculate the fair value of its reporting units only if we conclude that it is more likely than not that a reporting unit's fair value is less than its carrying value (that is, a likelihood of more than 50%). The qualitative analysis, which we refer to as step zero, was performed and we considered all relevant factors specific to its reporting units. Some factors considered in step zero were macroeconomic conditions, industry and market considerations, cost factors, overall financial performance, events affecting a reporting unit and other relevant entity-specific events. Our conclusion of step zero was that goodwill is deemed to be not impaired and no further testing is required until the next annual test date (or sooner if conditions or events before that date raise concerns of potential impairment in the business). No impairment of goodwill has been identified during any of the periods presented.

Share-based compensation

We use the Black-Scholes-Merton model to determine the fair value of stock options on the date of grant. The amount of compensation expense recognized using the Black-Scholes-Merton model requires us to exercise judgment and make assumptions relating to the factors that determine the fair value of our stock option grants. The fair value calculated by this model is a function of several factors, including the grant price, the expected future volatility, the expected term of the option and the risk-free interest rate of the option. The expected term and expected future volatility of the options require our judgment. In addition, we are required to estimate the expected forfeiture rate and only recognize expense for those stock options expected to vest. We estimate the forfeiture rate based on historical experience and to the extent our actual forfeiture rate is different from our estimate, share-based compensation expense is adjusted accordingly. Restricted stock grants are measured based on the fair market value of the underlying stock on the date of grant.

Fair value measurements

Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, fair value is a market-based measurement that should be determined based on the assumptions that market participants would use in pricing an assets or liability. Fair value is based on a hierarchy of valuation techniques, which is determined on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our market assumptions. These two types of inputs create a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1: Quoted prices for identical instruments in active markets.
- Level 2: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
- Level 3: Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

Our defined benefit plan assets are valued under methods of fair value. All of the securities held by the plan are publicly traded and highly liquid. Therefore, the majority of the securities are valued under Level 1 and one security is valued under Level 2 using quoted prices for identical or similar securities.

Defined benefit plan

We maintain a pension plan covering certain of our employees in the U.K. For financial reporting purposes, the net pension and supplemental retirement benefit obligations and the related periodic pension costs are calculated based upon, among other things, assumptions of the discount rate for plan obligations, estimated return on pension plan assets and mortality rates. These obligations and related periodic costs are measured using actuarial techniques and assumptions. The projected unit credit method is the actuarial cost method used to compute the pension liabilities and related expenses. See "*Fair value measurements*" above in regard to pension plan assets.

Contingencies

From time to time, we are involved in a variety of legal matters that arise in the normal course of business. Based on information available, we evaluate the likelihood of potential outcomes. We record the appropriate liability when the amount is deemed probable and reasonably estimable. In addition, we do not accrue for estimated legal fees and other directly related costs as they are expensed as incurred.

Recently Issued Accounting Pronouncements

See Note 1 of “Notes to Consolidated Financial Statements” of this Annual Report for additional information regarding the status of recently issued accounting pronouncements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency Risk

We face exposure to adverse movements in foreign currency exchange rates, primarily in Asia and Europe. Our foreign currency risk may change over time as the level of activity in foreign markets grows and could have a material adverse impact upon our financial results. Certain of our assets, including certain bank accounts and accounts receivable, and liabilities exist in non-U.S. dollar denominated currencies, which are sensitive to foreign currency exchange fluctuations. These currencies are principally the Chinese Yuan, the Taiwanese dollar and the British Pound Sterling and, to a lesser extent, the Japanese Yen, the Euro and the Hong Kong dollar. In the future, we may enter into hedging arrangements designed to mitigate foreign currency fluctuations. See “Risk Factors– *We are subject to foreign currency risk as a result of our international operations.*” in Part I, Item 1A of this Annual Report for additional information.

Effect on Reporting Income

Certain of our subsidiaries have a functional currency that differs from the currencies in which some of their expenses are denominated. Our income and expenses are based on a mix of currencies and a decline in one currency relative to the other currencies could adversely affect our results of operations. Furthermore, our results of operations are reported in U.S. dollars, which is our reporting currency. In the event the U.S. dollar weakens against a foreign currency, we will experience a currency transaction loss, which could adversely affect our results of operations. If a foreign currency were to weaken (or strengthen) by 1.0% against the U.S. dollar, we would experience currency transaction gain (or loss) of less than \$1 million per quarter.

Foreign Currency Transaction Risk

We also are subject to foreign currency risk arising from intercompany transactions that are expected to be settled in cash in the near term where the cash balances are held in denominations other than our subsidiaries’ functional currency. If exchange rates weaken against the functional currency, we would incur a remeasurement gain in the value of the cash balances, and if the exchange rates strengthen against the functional currency, we would incur a remeasurement loss in the value of the cash balances, assuming the net monetary asset balances remained constant. Our ultimate realized gain or loss with respect to currency fluctuations will generally depend on the size and type of transaction, the size and currencies of the net monetary assets and the changes in the exchange rates associated with these currencies. If the Chinese Yuan, the Taiwanese dollar, the Euro and the British Pound Sterling were to weaken (or strengthen) by 1.0% against the U.S. dollar, we would experience currency transaction gain (or loss) of less than \$1 million. Net foreign exchange transaction gains (or losses) are included in other income and expense.

Foreign Currency Translation Risk

When our foreign subsidiaries’ books are maintained in their functional currency, fluctuations in foreign currencies impact the amount of total assets and liabilities that we report for our foreign subsidiaries upon the translation of these amounts into U.S. dollars for reporting purposes. All elements of the subsidiaries’ financial statements, except for stockholders’ equity accounts, are translated using a currency exchange rate. Assets and liabilities denominated in foreign currencies are translated at the exchange rate on the balance sheet date. Income and expense accounts denominated in foreign currencies are translated at the weighted-average exchange rate during the period presented. Resulting translation adjustments are recorded as a separate component of accumulated other comprehensive income or loss within stockholders’ equity in the consolidated balance sheets, which are accumulated in this account until sale or liquidation of the foreign entity investment, at which time they are reported as adjustments to the gain or loss on sale of investment.

Foreign Currency Denominated Defined Benefit Plans

We have a contributory defined benefit plan that covers certain employees in the U.K., which is closed to new entrants and frozen with respect to future benefit accruals. The retirement benefit is based on the final average compensation and service of each eligible employee. December 31 is our annual measurement date and on measurement date, defined benefit plan assets are determined based on fair value. Defined benefit plan assets consist primarily of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability. The net pension and supplemental retirement benefit obligations and the related periodic costs are based on, among other things, assumptions of the discount rate, estimated return on plan assets and mortality rates. These obligations and related periodic costs are measured using actuarial techniques and assumptions. The projected unit credit method is the actuarial cost method used to compute the pension liabilities and related expenses.

[Table of Contents](#)

As of December 31, 2012, the plan was underfunded and a liability of approximately \$18 million was reflected in our consolidated financial statements as a noncurrent liability. The amount recognized in accumulated other comprehensive income was a net loss of \$11 million. If the British Pound Sterling were to (weaken) or strengthen by 1.0% against the U.S. dollar, we would experience currency translation liability (decrease) or increase of less than \$1 million. The weighted-average discount rate assumption used to determine benefit obligations as of December 31, 2012 was 5.1%. A 0.2% increase/(decrease) in the discount rate used to calculate the net period benefit cost for the year would reduce annual benefit cost by less than \$1 million. A 0.2% increase/(decrease) in the discount rate used to calculate the year-end projected benefit obligation would increase/(decrease) the year-end projected benefit obligation by approximately \$4 million. The expected return on plan assets is determined based on historical and expected future returns of the various assets classes and as such, each 1.0% increase/(decrease) in the expected rate of return assumption would increase/(decrease) the net period benefit cost by approximately \$1 million. The asset value of the defined benefit plan has been volatile in recent years due primarily to wide fluctuations in the U.K. equity markets and bond markets. See “Risk Factors—*Due to the recent fluctuations in the United Kingdom’s equity markets and bond markets, changes in actuarial assumptions for our defined benefit plan could increase the volatility of the plan’s asset value, require us to increase cash contributions to the plan and have a negative impact on our results of operations and financial condition.*” in Part I, Item 1A of this Annual Report for additional information.

Interest Rate Risk

We have credit facilities with financial institutions in the U.S., Asia and Europe as well as other debt instruments with interest rates equal to LIBOR or similar indices plus a negotiated margin. A rise in interest rates could have an adverse impact upon our cost of working capital and our interest expense. As a matter of policy, we do not enter into derivative transactions for speculative purposes. As of December 31, 2012, our outstanding principal debt included our \$40 million term loan, lines of credit of \$8 million and \$1 million used for import and export guarantees. Based on an increase or decrease in interest rates by 1.0% for the year on our credit facilities, our annual interest rate expense would increase or decrease by less than \$1 million. In addition, on January 8, 2013, we entered into a five year \$300 million revolving senior credit facility, which will further increase our sensitivity to raising interest rates, depending on how much we draw down on the facility.

Political Risk

We have a significant portion of our assets in mainland China, Taiwan and the U.K. The possibility of political conflict between the any of these countries or with the U.S. could have a material adverse impact upon our ability to transact business through these important business channels and to generate profits. See “Risk Factors” – *Risks Related to our International Operations*” in Part I, Item 1A of this Annual Report for additional information.

Inflation Risk

Inflation did not have a material effect on net sales or net income in fiscal year 2012. A significant increase in inflation could affect future performance.

Credit Risk

The success of our business depends, among other factors, on the strength of the global economy and the stability of the financial markets, which in turn affect our customers’ demand for our products, the ability of our customers to meet their payment obligations, the likelihood of customers canceling or deferring existing orders and end-user consumers’ demand for items containing our products in the end-markets we serve. We provide credit to customers in the ordinary course of business and perform ongoing credit evaluations, while at times providing extended terms. We believe that our exposure to concentrations of credit risk with respect to trade receivables is largely mitigated by dispersion of our customers over various geographic areas, operating primarily in electronics manufacturing and distribution. We believe our allowance for doubtful accounts is sufficient to cover customer credit risks.

Item 8. Financial Statements and Supplementary Data

See Part IV, Item 15 “Exhibits and Financial Statement Schedules” for the Company’s Consolidated Financial Statements and the notes and schedules thereto filed as part of this Annual Report.

Item 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure

Not Applicable.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

Our Chief Executive Officer, Keh-Shew Lu, and Chief Financial Officer, Richard D. White, with the participation of the Company's management, carried out an evaluation of the effectiveness of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(e). Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer believe that, as of the end of the period covered by this report, our disclosure controls and procedures are effective at the reasonable assurance level to ensure that information required to be included in this report is:

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

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

Management's Annual Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of, the Company's Chief Executive Officer and the Chief Financial Officer and implemented by the Company's Board of Directors, management and other personnel, 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 in the United States of America.

The Company's internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles in the United States of America, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of management, including our Chief Executive Officer and the Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework and criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). This evaluation included review of the documentation of controls, testing of operating effectiveness of controls and a conclusion on this evaluation. Based on this evaluation, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2012.

Moss Adams LLP, an independent registered public accounting firm, has audited and reported on the consolidated financial statements of Diodes Incorporated and on the effectiveness of our internal control over financial reporting. The report of Moss Adams LLP is contained in this Annual Report.

Changes in Controls over Financial Reporting

There was no change in our internal control over financial reporting, known to the Chief Executive Officer or the Chief Financial Officer, that occurred during the last fiscal quarter covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting, except as follows:

On October 29, 2012, the Company completed the acquisition of Power Analog Microelectronics, Inc. ("PAM"), whose financial statements reflect total assets and revenues constituting less than 1% for both, of the consolidated financial statement amounts for the year ended December 31, 2012. As permitted by the rules of the SEC, the Company will exclude PAM from its annual assessment

[Table of Contents](#)

of the effectiveness of internal control over financial reporting for the year ending December 31, 2012, the year of acquisition. Management continues to monitor PAMs internal control over financial reporting and evaluate conformance with the Company's internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information concerning the directors, executive officers and corporate governance of the Company is incorporated herein by reference from the section entitled "Proposal One – Election of Directors" contained in the definitive proxy statement of the Company to be filed pursuant to Section 14(a) of the Securities Exchange Act of 1934 within 120 days after the Company's fiscal year end of December 31, 2012, for its annual stockholders' meeting for 2013 (the "Proxy Statement").

We have adopted a code of ethics that applies to our Chief Executive Officer and senior financial officers. The code of ethics has been posted on our website under the Corporate Governance portion of the Investor Relations section at www.diodes.com. We intend to satisfy disclosure requirements regarding amendments to, or waivers from, any provisions of our code of ethics on our website.

Item 11. Executive Compensation

The information concerning executive compensation is incorporated herein by reference from the section entitled "Proposal One – Election of Directors" contained in the Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information concerning the security ownership of certain beneficial owners and management and related stockholder matters is incorporated herein by reference from the section entitled "General Information – Security Ownership of Certain Beneficial Owners and Management" and "Proposal One – Election of Directors" contained in the Proxy Statement.

Item 13. Certain Relationships, Related Transactions and Director Independence

The information concerning certain relationships, related transactions and director independence is incorporated herein by reference from the section entitled "Proposal One – Election of Directors – Certain Relationships, Related Transactions and Director Independence" and "Proposal One – Elections of Directors" contained in the Proxy Statement.

Item 14. Principal Accounting Fees and Services

The information concerning the Company's principal accountant's fees and services is incorporated herein by reference from the section entitled "Ratification of the Appointment of Independent Registered Public Accounting Firm" contained in the Proxy Statement.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a) **Financial Statements and Schedules**

Our consolidated financial statements are as set forth under Item 8 of this report on Form 10-K.

	<u>Page</u>
(1) Financial statements:	
Report of Independent Registered Public Accounting Firm	49
Consolidated Balance Sheets at December 31, 2012, and 2011	50 to 51
Consolidated Statements of Income for the Years Ended December 31, 2012, 2011 and 2010	52
Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2012, 2011 and 2010	53
Consolidated Statements of Equity for the Years Ended December 31, 2012, 2011 and 2010	54
Consolidated Statements of Cash Flows for the Years Ended December 31, 2012, 2011 and 2010	55 to 56
Notes to Consolidated Financial Statements	57 to 85

(2) Schedules:

None

Schedules not listed above have been omitted because the information required to be set forth therein is not applicable or is shown in the financial statements and note thereto.

(b) **Exhibits**

The exhibits listed on the Index to Exhibits are filed as exhibits or incorporated by reference to this Annual Report.

(c) **Financial Statements of Unconsolidated Subsidiaries and Affiliates**

Not Applicable.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Diodes Incorporated and Subsidiaries

We have audited the accompanying consolidated balance sheets of Diodes Incorporated and Subsidiaries (the "Company") as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2012. We also have audited the Company's internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall consolidated financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also include performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Diodes Incorporated and Subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, Diodes Incorporated and Subsidiaries, maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ Moss Adams LLP
Los Angeles, California
February 27, 2013

[Table of Contents](#)

**DIODES INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS**

(Amounts in thousands)

<u>December 31,</u>	<u>2012</u>	<u>2011</u>
<i>ASSETS</i>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 157,121	\$ 129,510
Accounts receivable, net	152,073	132,408
Inventories	153,293	140,337
Deferred income taxes, current	9,995	5,450
Prepaid expenses and other	18,928	19,093
Total current assets	<u>491,410</u>	<u>426,798</u>
PROPERTY, PLANT AND EQUIPMENT, net	243,296	225,393
DEFERRED INCOME TAXES, non-current	36,819	26,863
OTHER ASSETS		
Goodwill	87,359	67,818
Intangible assets, net	44,337	24,197
Other	16,842	21,995
Total assets	<u>\$ 920,063</u>	<u>\$ 793,064</u>

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

[Table of Contents](#)**DIODES INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (Continued)**

(Amounts in thousands, except share data)

<u>December 31,</u>	<u>2012</u>	<u>2011</u>
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Lines of credit and short-term debt	\$ 7,629	\$ 8,000
Accounts payable	64,072	66,063
Accrued liabilities	41,139	30,793
Income tax payable	678	4,855
Total current liabilities	<u>113,518</u>	<u>109,711</u>
LONG-TERM DEBT , net of current portion		
Long-term borrowings	44,131	2,857
CAPITAL LEASE OBLIGATIONS , net of current portion		
	789	1,082
OTHER LONG-TERM LIABILITIES		
	41,185	30,699
Total liabilities	<u>199,623</u>	<u>144,349</u>
COMMITMENTS AND CONTINGENCIES		
EQUITY		
Diodes Incorporated stockholders' equity		
Preferred stock—par value \$1.00 per share; 1,000,000 shares authorized; no shares issued or outstanding	—	—
Common stock—par value \$0.666 2/3 per share; 70,000,000 shares authorized; 46,010,815 and 45,432,252 issued and outstanding at December 31, 2012 and December 31, 2011, respectively	30,674	30,423
Additional paid-in capital	280,571	263,455
Retained earnings	399,796	375,644
Accumulated other comprehensive loss	(33,856)	(35,762)
Total Diodes Incorporated stockholders' equity	<u>677,185</u>	<u>633,760</u>
Noncontrolling interest	<u>43,255</u>	<u>14,955</u>
Total equity	<u>720,440</u>	<u>648,715</u>
Total liabilities and equity	<u>\$ 920,063</u>	<u>\$ 793,064</u>

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

[Table of Contents](#)**DIODES INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME**

(Amounts in thousands, except per share data)

Years ended December 31,

	<u>2012</u>	<u>2011</u>	<u>2010</u>
NET SALES	\$ 633,806	\$ 635,251	\$ 612,886
COST OF GOODS SOLD	<u>472,220</u>	<u>441,554</u>	<u>388,017</u>
Gross profit	161,586	193,697	224,869
OPERATING EXPENSES			
Selling, general and administrative	101,363	89,974	88,784
Research and development	33,761	27,231	26,584
Amortization of acquisition related intangible assets	5,122	4,503	6,406
Gain on sale of assets	<u>(3,556)</u>	<u>—</u>	<u>(1,837)</u>
Total operating expenses	<u>136,690</u>	<u>121,708</u>	<u>119,937</u>
Income from operations	24,896	71,989	104,932
OTHER INCOME (EXPENSES)			
Interest income	778	1,024	2,842
Interest expense	(876)	(3,139)	(5,229)
Amortization of debt discount	—	(6,032)	(7,656)
Gain (loss) on securities carried at fair value	7,100	(1,039)	—
Other	<u>(1,091)</u>	<u>861</u>	<u>3,214</u>
Total other income (expenses)	5,911	(8,325)	(6,829)
Income before income taxes and noncontrolling interest	30,807	63,664	98,103
INCOME TAX PROVISION	<u>4,825</u>	<u>10,157</u>	<u>17,839</u>
NET INCOME	25,982	53,507	80,264
Less: NET INCOME attributable to noncontrolling interest	<u>(1,830)</u>	<u>(2,770)</u>	<u>(3,531)</u>
NET INCOME attributable to common stockholders	<u>\$ 24,152</u>	<u>\$ 50,737</u>	<u>\$ 76,733</u>
EARNINGS PER SHARE attributable to common stockholders			
Basic	<u>\$ 0.53</u>	<u>\$ 1.12</u>	<u>\$ 1.74</u>
Diluted	<u>\$ 0.51</u>	<u>\$ 1.09</u>	<u>\$ 1.68</u>
Number of shares used in computation			
Basic	<u>45,780</u>	<u>45,202</u>	<u>44,146</u>
Diluted	<u>46,899</u>	<u>46,713</u>	<u>45,546</u>

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

[Table of Contents](#)

DIODES INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Twelve Months Ended December 31,		
	2012	2011	2010
Net income	\$25,982	\$ 53,507	\$ 80,264
Translation adjustment	7,317	(690)	(1,519)
Unrealized gain (loss) on defined benefit plan, net of tax	(5,411)	10,008	4,750
Comprehensive income	27,888	62,825	83,495
Less: Comprehensive income attributable to noncontrolling interest	(1,830)	(2,770)	(3,531)
Total comprehensive income attributable to common stockholders	<u>\$ 26,058</u>	<u>\$ 60,055</u>	<u>\$ 79,964</u>

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

[Table of Contents](#)

**DIODES INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY**

(Amounts in thousands)

Years ended December 31, 2009, 2010 and 2011

	Common stock		Additional paid-in capital	Retained earnings	Accumulated other comprehensive gain (loss)	Total Diodes Incorporated Stockholders equity	Noncontrolling interest	Total equity
	Shares	Amount						
BALANCE, December 31, 2009	<u>43,729</u>	<u>\$ 29,153</u>	<u>\$ 211,618</u>	<u>\$248,174</u>	<u>\$ (48,311)</u>	<u>\$ 440,634</u>	<u>\$ 10,290</u>	<u>\$ 450,924</u>
Comprehensive income, net of tax:								
Net income	—	—	—	76,733	—	76,733	3,531	80,264
Translation adjustment	—	—	—	—	(1,519)	(1,519)	—	(1,519)
Unrealized gain on defined benefit plan	—	—	—	—	4,750	4,750	—	4,750
Total comprehensive income						79,964	3,531	83,495
Dividend to noncontrolling interest	—	—	—	—	—	—	(2,373)	(2,373)
Common stock issued for share-based plans	934	622	4,157	—	—	4,779	—	4,779
Excess tax benefit from share-based compensation	—	—	3,073	—	—	3,073	—	3,073
Convertible senior notes	—	—	(57)	—	—	(57)	—	(57)
Share-based compensation	—	—	13,051	—	—	13,051	—	13,051
BALANCE, December 31, 2010	<u>44,663</u>	<u>\$ 29,775</u>	<u>\$ 231,842</u>	<u>\$324,907</u>	<u>\$ (45,080)</u>	<u>\$ 541,444</u>	<u>\$ 11,448</u>	<u>\$ 552,892</u>
Comprehensive income, net of tax:								
Net income	—	—	—	50,737	—	50,737	2,770	53,507
Translation adjustment	—	—	—	—	(690)	(690)	—	(690)
Unrealized gain on defined benefit plan	—	—	—	—	10,008	10,008	—	10,008
Total comprehensive income						60,055	2,770	62,825
Dividend to noncontrolling interest	—	—	—	—	—	—	737	737
Common stock issued for share-based plans	769	648	2,886	—	—	3,534	—	3,534
Excess tax benefit from share-based compensation	—	—	15,024	—	—	15,024	—	15,024
Share-based compensation	—	—	13,703	—	—	13,703	—	13,703
BALANCE, December 31, 2011	<u>45,432</u>	<u>\$ 30,423</u>	<u>\$ 263,455</u>	<u>\$375,644</u>	<u>\$ (35,762)</u>	<u>\$ 633,760</u>	<u>\$ 14,955</u>	<u>\$ 648,715</u>
Comprehensive income, net of tax:								
Net income	—	—	—	24,152	—	24,152	1,830	25,982
Translation adjustment	—	—	—	—	7,317	7,317	—	7,317
Unrealized loss on defined benefit plan	—	—	—	—	(5,411)	(5,411)	—	(5,411)
Total comprehensive income						26,058	1,830	27,888
Acquisition of noncontrolling interest	—	—	—	—	—	—	26,470	26,470
Common stock issued for share-based plans	579	251	1,074	—	—	1,325	—	1,325
Excess tax benefit from share-based compensation	—	—	1,644	—	—	1,644	—	1,644
Share-based compensation	—	—	14,398	—	—	14,398	—	14,398
BALANCE, December 31, 2012	<u>46,011</u>	<u>\$ 30,674</u>	<u>\$ 280,571</u>	<u>\$ 399,796</u>	<u>\$ (33,856)</u>	<u>\$ 677,185</u>	<u>\$ 43,255</u>	<u>\$ 720,440</u>

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

[Table of Contents](#)**DIODES INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Amounts in thousands)

Years ended December 31,

	2012	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 25,982	\$ 53,507	\$ 80,264
Adjustments to reconcile net income to net cash provided by operating activities, net of effects of acquisitions:			
Depreciation	59,063	56,927	47,365
Amortization of intangibles	5,130	4,511	4,431
Amortization of convertible senior notes issuance costs	—	412	549
Amortization of discount on convertible senior notes	—	6,032	7,656
Share-based compensation	14,398	13,703	13,051
Excess tax benefit from share-based compensation	(1,639)	(15,024)	(3,073)
Loss (gain) on disposal of property, plant and equipment	(3,554)	31	(1,665)
Loss (gain) on securities carried at fair value	(7,100)	1,039	—
Deferred income taxes	(13,051)	(21,916)	(4,040)
Other	(334)	(297)	(464)
Changes in operating assets:			
Accounts receivable	(6,360)	(4,406)	(23,604)
Inventories	(5,492)	(20,187)	(30,388)
Prepaid expenses and other current assets	3,162	(7,483)	(2,290)
Changes in operating liabilities:			
Accounts payable	(7,440)	(3,584)	7,032
Accrued liabilities	2,257	(8,513)	8,022
Other liabilities	(4,179)	3,069	2,445
Income taxes payable	3,378	3,829	12,714
Net cash provided by operating activities	<u>64,221</u>	<u>61,650</u>	<u>118,005</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions, net of cash acquired	(20,048)	—	—
Purchases of equity securities	(3,413)	(14,117)	—
Proceeds from sale of debt securities	—	—	296,600
Purchases of property, plant and equipment	(58,166)	(80,941)	(88,809)
Proceeds from sales of property, plant and equipment	1,969	40	2,163
Proceeds from sales of intangibles	2,122	—	—
Other	117	(3,294)	(385)
Net cash provided by (used by) investing activities	<u>(77,419)</u>	<u>(98,312)</u>	<u>209,569</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Advance on lines of credit and short term debt	3,659	8,000	3,762
Repayments on lines of credit and short-term debt	(9,556)	—	(303,192)
Net proceeds from the issuance of common stock	1,318	3,526	4,818
Excess tax benefit from share-based compensation	1,639	15,024	3,073
Dividend to noncontrolling interest	—	—	(2,373)
Proceeds from long-term debt	71,720	—	—
Repayments of long-term debt	(30,445)	(134,706)	(1,165)
Repayments of capital lease obligations	(295)	(285)	(268)
Other	502	728	(4)
Net cash provided by (used by) financing activities	<u>38,542</u>	<u>(107,713)</u>	<u>(295,349)</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	<u>2,267</u>	<u>2,984</u>	<u>(3,277)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>27,611</u>	<u>(141,391)</u>	<u>28,948</u>
CASH AND CASH EQUIVALENTS, beginning of year	<u>129,510</u>	<u>270,901</u>	<u>241,953</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$157,121</u>	<u>\$ 129,510</u>	<u>\$ 270,901</u>

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

[Table of Contents](#)

DIODES INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Amounts in thousands)

Years ended December 31,

	<u>2012</u>	<u>2011</u>	<u>2010</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash paid during the year for:			
Interest	\$ 914	\$ 3,322	\$ 4,638
Income taxes	\$ 17,086	\$ 12,118	\$ 9,617
Non-cash activities:			
Property, plant and equipment purchased on accounts payable	\$ (1,957)	\$ (1,934)	\$ 2,229
Acquisition:			
Fair value of assets acquired	\$ 76,438	\$ —	\$ —
Liabilities assumed	(13,924)	—	—
Cash acquired	6,108	—	—
Net assets acquired	\$ 68,622	\$ —	\$ —

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

DIODES INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Table amounts in thousands except per share data)

NOTE 1 – SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of operations – Diodes Incorporated and its subsidiaries (collectively, the “Company”) is a leading global manufacturer and supplier of high-quality, application specific standard products within the broad discrete, logic and analog semiconductor markets, serving the consumer electronics, computing, communications, industrial and automotive markets. These products include diodes, rectifiers, transistors, MOSFETs, protection devices, functional specific arrays, single gate logic, amplifiers and comparators, Hall-effect and temperature sensors, power management devices including LED drivers, DC-DC switching and linear voltage regulators and voltage references along with special function devices including USB power switches, load switches, voltage supervisors and motor controllers. The products are sold primarily throughout Asia, North America and Europe.

Principles of consolidation – The consolidated financial statements include the accounts of Diodes Incorporated, its wholly-owned subsidiaries and its controlled majority-owned subsidiaries. The Company accounts for equity investments in companies over which it has the ability to exercise significant influence, but does not hold a controlling interest, under the equity method, and it records its proportionate share of income or losses in interest and other, net in the consolidated statements of income. All significant intercompany balances and transactions have been eliminated.

Revenue recognition – Revenue is recognized when there is persuasive evidence that an arrangement exists, when delivery has occurred, when the price to the buyer is fixed or determinable and when collectability of the receivable is reasonably assured. These elements are met when title to the products is passed to the buyers, which is generally when product is shipped to the customers. Generally, the Company recognizes revenue upon shipment to manufacturers (direct ship) as well as upon sales to distributors using the “sell in” model, which is when product is shipped to the distributors (point of purchase).

Certain customers have limited rights of return and/or are entitled to price adjustments on products held in their inventory or upon sale to their end customers. The Company reduces net sales in the period of sale for estimates of product returns, distributor price adjustments and other allowances. The Company’s reserve estimates are based upon historical data as well as projections of sales, distributor inventories, price adjustments, average selling prices and market conditions. Actual returns and adjustments could be significantly different from the Company’s estimates and provisions.

The Company records allowances/reserves for the following items: (i) ship and debit, which arise when the Company, from time to time based on market conditions, issues credit to certain distributors upon their shipments to their end customers, (ii) stock rotation, which are contractual obligations that permit certain distributors, twice 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 the Company issues 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 with a corresponding reduction to cost of goods sold for the estimated cost of inventory that is expected to be returned. Price protection reserves are recorded as a reduction to net sales with a corresponding increase in accrued liabilities. Revenue is reduced in the period of sale for estimates of product returns and other allowances including distributor adjustments, which were approximately \$48 million, \$41 million and \$32 million in 2012, 2011 and 2010, respectively.

Product warranty – The Company generally warrants its products for a period of one year from the date of sale. Historically, warranty expense has not been material.

Cash and cash equivalents – The Company considers all highly liquid investments with maturity of three months or less at the date of purchase to be cash equivalents. The Company currently maintains substantially all of its day-to-day operating cash balances with major financial institutions.

Allowance for doubtful accounts – The Company evaluates the collectability of its accounts receivable based upon a combination of factors, including the current business environment and historical experience. If the Company is aware of a customer’s inability to meet its financial obligations, it records an allowance to reduce the receivable to the amount it reasonably believes will be collected from the customer. For all other customers, the Company records an allowance based upon the amount of time the receivables are past due. If actual accounts receivable collections differ from these estimates, an adjustment to the allowance may be necessary with a resulting effect on operating expense. Accounts receivable are presented net of a valuation allowances, which were approximately \$2 million, \$2 million and \$1 million in 2012, 2011 and 2010, respectively.

DIODES INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Table amounts in thousands except per share data)

Inventories – Inventories are stated at the lower of cost or market value. Cost is determined principally by the first-in, first-out method. Cost includes materials, labor, and manufacturing overhead related to the purchase and production of inventories. Any write-down of inventory to the lower of cost or market at the close of a fiscal period creates a new cost basis that subsequently would not be marked up based on changes in underlying facts and circumstances. On an on-going basis, the Company evaluates inventory for obsolescence and slow-moving items. This evaluation includes analysis of sales levels, sales projections, and purchases by item, as well as raw material usage related to the Company's manufacturing facilities. If the Company's review indicates a reduction in utility below carrying value, it reduces inventory to a new cost basis. If future demand or market conditions are different than the Company's current estimates, an inventory adjustment to write down inventory may be required, and would be reflected in cost of goods sold in the period the revision is made.

Property, plant and equipment – Purchased property, plant and equipment is recorded at historical cost and acquired property, plant and equipment is recorded at fair value on the date of acquisition. Property, plant and equipment is depreciated using straight-line methods over the estimated useful lives, which range from 20 to 55 years for buildings and 3 to 10 years for machinery and equipment. The estimated lives of leasehold improvements range from 3 to 5 years, and are amortized over the shorter of the remaining lease term or their estimated useful lives.

Goodwill and other intangible assets – Goodwill is tested for impairment on an annual basis, on October 1, and between annual tests if indicators of potential impairment exist. For 2012 and 2011, the Company used the simplified goodwill impairment test, which allows the Company to first assess qualitatively whether it is necessary to perform step one of the two-step annual goodwill impairment test. The Company is required to perform step one and calculate the fair value of its reporting units only if the Company concludes that it is more likely than not that a reporting unit's fair value is less than its carrying value (that is, a likelihood of more than 50%). The qualitative analysis, which we refer to as step zero, was performed and the Company considered all relevant factors specific to its reporting units. Some factors considered in step zero were macroeconomic conditions, industry and market considerations, cost factors, overall financial performance, events affecting a reporting unit and other relevant entity-specific events. The Company's conclusion of step zero was that goodwill is deemed to be not impaired and no further testing is required until the next annual test date (or sooner if conditions or events before that date raise concerns of potential impairment in the business). No impairment of goodwill has been identified during any of the periods presented.

Impairment of long-lived assets – The Company's long-lived assets are reviewed whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The Company considers assets to be impaired if the carrying value exceeds the undiscounted projected cash flows from operations. If impairment exists, the assets are written down to fair value or to the projected discounted cash flows from related operations. As of December 31, 2012, the Company expects the remaining carrying value of assets to be recoverable. No impairment of long-lived assets has been identified during any of the periods presented. The weighted average amortization period for amortizable intangible assets is approximately 8 years.

Income taxes – Income taxes are accounted for using an asset and liability approach whereby deferred tax assets and liabilities are recorded for differences in the financial reporting bases and tax bases of the Company's assets and liabilities. If it is more likely than not that some portion of deferred tax assets will not be realized, a valuation allowance is recorded.

Generally accepted accounting principles in the United States of America ("GAAP") prescribes a comprehensive model for how companies should recognize, measure, present, and disclose in their financial statements uncertain tax positions taken or expected to be taken on a tax return. Tax positions shall initially be recognized in the financial statements when it is more likely than not the position will be sustained upon examination by the tax authorities. Such tax positions shall initially and subsequently be measured as the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement with the tax authority assuming full knowledge of the position and all relevant facts.

Research and development costs – Research and development costs are expensed as incurred. Acquired in-process research and development ("IPR&D") is capitalized as an indefinite-lived intangible asset and evaluated periodically for impairment. When the project is completed, an expected life is determined and the IPR&D is amortized to expense over the expected life.

Shipping and handling costs – Shipping and handling costs for products shipped to customers, which are included in selling, general and administrative expenses, were \$7 million, \$6 million and \$5 million for the years ended December 31, 2012, 2011 and 2010, respectively.

DIODES INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS*(Table amounts in thousands except per share data)*

Concentration of credit risk – Financial instruments, which potentially subject the Company to concentrations of credit risk, include trade accounts receivable. Credit risk is limited by the dispersion of the Company’s customers over various geographic areas, operating primarily in electronics manufacturing and distribution. The Company performs on-going credit evaluations of its customers, and generally requires no collateral. Historically, credit losses have not been significant.

The Company currently maintains substantially all of its day-to-day cash balances with major financial institutions. Cash balances are usually in excess of Federal and/or foreign deposit insurance limits.

Valuation of financial instruments – The carrying value of the Company’s financial instruments, including cash and cash equivalents, accounts receivable, accounts payable, working capital line of credit, and long-term debt approximate fair value due to their current market conditions, maturity dates and other factors.

Use of estimates – The preparation of financial statements in conformity with GAAP requires that management make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The level of uncertainty in estimates and assumptions increases with the length of time until the underlying transactions are completed. Actual results may differ from these estimates in amounts that may be material to the consolidated financial statements and accompanying notes.

Earnings per share – Basic earnings per share is calculated by dividing net earnings by the weighted-average number of shares of Common Stock outstanding during the period. Diluted earnings per share is calculated similarly but includes potential dilution from the exercise of stock options and stock awards, except when the effect would be anti-dilutive. Earnings per share are computed using the “treasury stock method.”

For the three years ended December 31, 2012, 2011 and 2010, options and share grants outstanding for 2 million shares, of common stock have been excluded from the computation of diluted earnings per share because their effect was anti-dilutive.

	Year Ended December 31,		
	2012	2011	2010
Basic			
Weighted average number of common shares outstanding used in computing basic earnings per share	45,780	45,202	44,146
Net income attributable to common stockholders	<u>\$ 24,152</u>	<u>\$ 50,737</u>	<u>\$ 76,733</u>
Basic earnings per share attributable to common stockholders	<u>\$ 0.53</u>	<u>\$ 1.12</u>	<u>\$ 1.74</u>
Diluted			
Weighted average number of common shares outstanding used in computing basic earnings per share	45,780	45,202	44,146
Add: Assumed exercise of stock options and stock awards	<u>1,119</u>	<u>1,511</u>	<u>1,400</u>
Weighted average number of common shares outstanding used in computing diluted earnings per share	<u>46,899</u>	<u>46,713</u>	<u>45,546</u>
Net income attributable to common stockholders	<u>\$ 24,152</u>	<u>\$ 50,737</u>	<u>\$ 76,733</u>
Diluted earnings per share attributable to common stockholders	<u>\$ 0.51</u>	<u>\$ 1.09</u>	<u>\$ 1.68</u>

Share-based compensation – The Company uses the Black-Scholes-Merton model to determine the fair value of stock options on the date of grant and recognizes compensation expense for stock options on a straight-line basis. Restricted stock grants are measured based on the fair market value of the underlying stock on the date of grant and compensation expense for restricted stock grants is recognized on a straight-line basis over the requisite service period.

DIODES INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Table amounts in thousands except per share data)

The amount of compensation expense recognized using the Black-Scholes-Merton model requires the Company to exercise judgment and make assumptions relating to the factors that determine the fair value of its stock option grants. The fair value calculated by this model is a function of several factors, including the grant price, the expected future volatility, the expected term of the option and the risk-free interest rate of the option. The expected term and expected future volatility of the options require judgment. In addition, the Company is required to estimate the expected forfeiture rate and only recognize expense for those stock options expected to vest. The Company estimates the forfeiture rate based on historical experience, and to the extent its actual forfeiture rate is different from its estimate, share-based compensation expense is adjusted accordingly.

Functional currencies and foreign currency translation – The functional currency for most of the Company’s international operations is the U.S. dollar. In some cases, we enter into transactions involving foreign currencies. Some subsidiaries functional currency is their local currency, as the Company believes it is the appropriate currency. The Company believes the New Taiwan (“NT”) dollar is the functional currency for its Taiwan based entities and the British Pound Sterling (“GBP”) is the functional currency for its U.K. based entities, which most appropriately reflects the current economic facts and circumstances of their operations. Assets and liabilities denominated in foreign currencies are translated at the exchange rate on the balance sheet date. Income and expense accounts denominated in foreign currencies are translated at the weighted-average exchange rate during the period presented. Resulting translation adjustments are recorded as a separate component of accumulated other comprehensive income or loss within stockholders’ equity in the consolidated balance sheets. Included in other income are foreign exchange losses of \$2 million, \$1 million and \$0 million for the years ended December 31, 2012, 2011 and 2010, respectively.

The Company uses the U.S. dollar as the functional currency for its mainland China and Hong Kong based entities as substantially all monetary transactions are made in U.S. dollars, and other significant economic facts and circumstances currently support that position. As these factors may change in the future, the Company periodically assesses its position with respect to the functional currency of its foreign subsidiaries.

Defined benefit plan – The Company maintains pension plans covering certain of its employees in the U.K. The overfunded or underfunded status of pension and postretirement benefit plans are recognized on the balance sheet. Actuarial gains and losses, prior service costs or credits, are recognized in other comprehensive income, net of tax effects, until they are amortized as a component of net periodic benefit cost. For financial reporting purposes, the net pension and supplemental retirement benefit obligations and the related periodic pension costs are calculated based upon, among other things, assumptions of the discount rate for plan obligations, estimated return on pension plan assets and mortality rates. These obligations and related periodic costs are measured using actuarial techniques and assumptions. The projected unit credit method is the actuarial cost method used to compute the pension liabilities and related expenses.

Investment in joint ventures – Investment in joint ventures over which the Company does not have the ability to exercise significant influence and that, in general, are at least 20 percent owned are stated at cost plus equity in undistributed net income (loss) of the joint venture. These investments are evaluated for impairment, in which an impairment loss would be recorded whenever a decline in the value of an equity investment below its carrying amount is determined to be “other than temporary.” In judging “other than temporary,” the Company would consider the length of time and extent to which the fair value of the investment has been less than the carrying amount of the investment, the near-term and longer-term operating and financial prospects of the investee, and the Company’s longer-term intent of retaining the investment in the investee.

Noncontrolling interest—Noncontrolling interest (previously referred to as minority interest) primarily relate to the minority investors’ share of the earnings of certain China and Taiwan subsidiaries. Noncontrolling interests are a separate component of equity and not as a liability, which increases or decreases in the Company’s ownership interest, that leave control intact, be treated as equity transactions, rather than step acquisitions or diluted gain or losses. The noncontrolling interest in the Company’s subsidiaries and their equity balances are reported separately in the consolidated financial statements, and activities of these subsidiaries are included therein.

Contingencies – From time to time, the Company may be involved in a variety of legal matters that arise in the normal course of business. Based on information available, the Company evaluates the likelihood of potential outcomes. The Company records the appropriate liability when the amount is deemed probable and reasonably estimable. In addition, the Company does not accrue for estimated legal fees and other directly related costs as they are expensed as incurred.

Comprehensive income (loss) – GAAP generally requires that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities are reported as separate components of the equity section of the consolidated balance sheet, such items, along with net income, are components of comprehensive income or loss. The components of other comprehensive income or loss include foreign currency translation adjustments, unrealized gain or loss on defined benefit plan, foreign currency gain (loss) on forward contracts and other items. Accumulated other comprehensive loss was \$(34) million, \$(36) million and \$(45) million at December 31, 2012, 2011 and 2010, respectively.

[Table of Contents](#)

DIODES INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Table amounts in thousands except per share data)

There is no income tax expense or benefit associated with each component of comprehensive income. As of December 31, 2012, the accumulated balance for each component of comprehensive income are as follows:

	2012	2011
Translation adjustment	\$(22,663)	\$(29,919)
Unrealized loss on defined benefit plan	\$(11,254)	\$ (5,843)

Reclassifications – Certain amounts from prior periods have been reclassified to conform to the current years’ presentation such as certain statement of income line items.

Recently issued accounting pronouncements – In July 2012, the FASB issued ASU No. 2012-02, *Intangibles-Goodwill and Other*. ASU No. 2012-02 will allow the Company the option to first assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that an indefinite-lived intangible asset is impaired. Determining that it is more likely than not that an indefinite-lived intangible asset is impaired will require quantitative impairment testing, otherwise, no further action will be required. This ASU is effective for annual and interim impairment tests performed for fiscal years beginning after September 18, 2012, with early adoption permitted. The adoption is not expected to have an impact on the Company’s consolidated financial statements.

NOTE 2 – FAIR VALUE MEASUREMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact and (iv) willing to transact.

The Company uses valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement costs). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity’s own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. These two types of inputs create a three-tier fair value hierarchy that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1 Inputs – Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 Inputs – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (for example, interest rates, volatilities, prepayment speeds, loss severities, credit risks and default rates) or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 Inputs – Significant unobservable inputs that reflect an entity’s own assumptions that market participants would use in pricing the assets or liabilities.

[Table of Contents](#)

DIODES INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Table amounts in thousands except per share data)

As of December 31, 2012, the Company had investments in shares of common stock of BCD Semiconductor Manufacturing Limited (“BCD”), which were purchased on the open market and records unrealized gains and losses in other income (expense). The shares of common stock are valued under the fair value hierarchy as a Level 1 Input. See Note 17 for further information about BCD.

Financial assets and liabilities carried at fair value as of December 31, 2012 are classified in the following table:

Trading Securities	Fair Market Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Changes in Fair Values Included in Current Period Earnings
BCD	\$7,092	\$7,092	\$ —	\$ —	\$3,679

On September 7, 2011, the Company purchased 10 million shares of the common stock of Eris Technology Corporation (“Eris”), a publicly traded company listed on Taiwan’s GreTai Securities Market that provides design, manufacturing and after-market services for diode products. The Company paid NT\$39 per share or NT\$390 million (approximately US\$14 million), which represents an approximately 30 percent ownership in Eris after the transaction. As of December 31, 2011, the Company held 12,413,604 shares of Eris.

The accounting rules permit a company to choose, at specified election dates, to measure at fair value certain eligible financial assets and liabilities that are not currently required to be measured at fair value. The specified election dates include, but are not limited to, the date when an entity first recognizes the item, when an entity enters into a firm commitment or when changes in the financial instrument causes it to no longer qualify for fair value accounting under a different accounting standard. The fair value option may be elected for each entire financial instrument, but need not be applied to all similar instruments. Once the fair value option has been elected, it is irrevocable. Unrealized gains and losses on items for which the fair value option has been elected will be reported in other income (expense).

The Company has elected the fair value option for the shares of Eris common stock. Fair value is the price that would be received on the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The shares of Eris common stock will be valued under the fair value hierarchy as a Level 1 Input.

Financial assets and liabilities carried at fair value as of December 31, 2011 are classified in the following table:

Description	Fair Value Estimate	Fair Value Measurements			Changes in Fair Values for Items Measured at Fair Value Pursuant to Election of the Fair Value Option	
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Other Gains and (Losses)	Total Changes in Fair Values Included in Current - Period Earnings
Securities carried at fair value *	\$13,078	\$13,078	\$ —	\$ —	\$(1,039)	\$ (1,039)

(*) Represents investments that would otherwise be accounted for under the equity method of accounting and is included in other assets.

DIODES INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Table amounts in thousands except per share data)

On August 31, 2012, the Company acquired approximately 51% of the outstanding common stock of Eris. The Company has accounted for the additional purchase of shares as a business combination achieved in stages (“step acquisition”) and consolidated Eris beginning September 1, 2012. See Note 17 for further information about Eris.

Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Financial assets and financial liabilities measured at fair value on a non-recurring basis were not significant at December 31, 2012 and 2011. Certain non-financial assets and non-financial liabilities measured at fair value on a recurring and non-recurring basis include goodwill, other intangible assets and other non-financial long-lived assets.

NOTE 3 – INVENTORIES

Inventories, stated at the lower of cost or market value, at December 31 were:

	<u>2012</u>	<u>2011</u>
Finished goods	\$ 59,319	\$ 52,027
Work-in-progress	30,564	22,937
Raw materials	63,410	65,373
	<u>\$153,293</u>	<u>\$140,337</u>

NOTE 4 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at December 31 were:

	<u>2012</u>	<u>2011</u>
Buildings and leasehold improvements	\$ 53,068	\$ 46,654
Machinery and equipment	465,106	410,559
	518,174	457,213
Less: Accumulated depreciation and amortization	(322,403)	(266,228)
	195,771	190,985
Construction in-progress	31,227	19,468
Land	16,298	14,940
	<u>\$ 212,069</u>	<u>\$ 205,925</u>

Depreciation and amortization of property, plant and equipment was \$59 million, \$57 million and \$47 million for the years ended December 31, 2012, 2011 and 2010, respectively.

[Table of Contents](#)

DIODES INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Table amounts in thousands except per share data)

NOTE 5 – INTANGIBLE ASSETS

Intangible assets subject to amortization at December 31 were as follows:

December 31, 2012					
<u>Intangible Assets</u>	<u>Useful life</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Currency Exchange</u>	<u>Net</u>
Amortized intangible assets:					
Patents	5-15 years	\$ 11,795	\$ (5,393)	\$ (273)	\$ 6,129
Software license	3 years	1,212	(1,149)	(63)	—
Developed product technology	2-10 years	42,408	(15,316)	(5,481)	21,611
Customer relationships	12 years	14,292	(2,303)	(1,234)	10,755
Total amortized intangible assets:		<u>\$ 69,707</u>	<u>\$ (24,161)</u>	<u>\$ (7,051)</u>	<u>\$ 38,495</u>
Intangible assets with indefinite lives:					
Trademarks and trade names	Indefinite	\$ 6,403	\$ —	\$ (561)	\$ 5,842
Total Intangible assets with indefinite lives:		<u>\$ 6,403</u>	<u>\$ —</u>	<u>\$ (561)</u>	<u>\$ 5,842</u>
Total intangible assets:		<u>\$ 76,110</u>	<u>\$ (24,161)</u>	<u>\$ (7,612)</u>	<u>\$ 44,337</u>

December 31, 2011					
<u>Intangible Assets</u>	<u>Useful life</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Currency Exchange and Other</u>	<u>Net</u>
Amortized intangible assets:					
Patents	5-15 years	\$ 10,892	\$ (4,619)	\$ (339)	\$ 5,934
Software license	3 years	1,212	(1,149)	(63)	—
Developed product technology	2-10 years	29,643	(11,765)	(5,958)	11,920
Customer relationships	12 years	6,917	(1,660)	(1,400)	3,857
Total amortized intangible assets:		<u>\$ 48,664</u>	<u>\$ (19,193)</u>	<u>\$ (7,760)</u>	<u>\$ 21,711</u>
Intangible assets with indefinite lives:					
Trademarks and trade names	Indefinite	\$ 3,162	\$ —	\$ (676)	\$ 2,486
Total Intangible assets with indefinite lives:		<u>\$ 3,162</u>	<u>\$ —</u>	<u>\$ (676)</u>	<u>\$ 2,486</u>
Total intangible assets:		<u>\$ 51,826</u>	<u>\$ (19,193)</u>	<u>\$ (8,436)</u>	<u>\$ 24,197</u>

Amortization expense related to intangible assets subject to amortization was \$5 million, \$5 million and \$4 million for the years ended December 31, 2012, 2011 and 2010, respectively.

[Table of Contents](#)

DIODES INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Table amounts in thousands except per share data)

Amortization of intangible assets through 2017 is as follows:

Years	
2013	\$5,647
2014	5,247
2015	4,726
2016	4,310
2017	4,281

NOTE 6 – GOODWILL

Changes in goodwill for the years ended December 31 were as follows:

Balance at December 31, 2010	\$68,949
Currency exchange	(1,131)
Balance at December 31, 2011	\$67,818
Acquisitions	16,913
Currency exchange	2,628
Balance at December 31, 2012	\$ 87,359

NOTE 7 – BANK CREDIT AGREEMENTS AND OTHER SHORT-TERM AND LONG-TERM DEBT

Credit Facilities – The Company maintains credit facilities with several financial institutions through its entities in the U.S., Asia and Europe totaling \$102 million. These credit facilities, except for one Taiwanese credit facility, are collateralized by each subsidiary’s premises, are unsecured, uncommitted and, in some instances, may be repayable on demand.

On November 25, 2009 the Company entered into a credit agreement with Bank of America, N.A. (“Bank of America”) as modified by a certain letter dated March 31, 2010, the First Amendment to Credit Agreement dated as of July 16, 2010, the Second Amendment to Credit Agreement dated as of November 24, 2010, the Third Amendment to Credit Agreement dated as of February 4, 2011, the Fourth Amendment to Credit Agreement dated as of November 23, 2011, the Fifth Amendment to Credit Agreement dated as of February 1, 2012, and the Sixth Amendment to Credit Agreement dated as of April 30, 2012 (collectively the “Credit Agreement”). The Credit Agreement provides for a \$10 million revolving credit facility (the “Revolver”) and a \$10 million uncommitted facility (the “Uncommitted Facility”).

The Fifth Amendment added an additional borrower, Diodes International B.V. (the “BV Entity”), to the Credit Agreement and provides for an additional term loan in the amount of \$40 million (the “Term Loan”). The Term Loan matures on January 17, 2015 and bears interest at a rate per annum equal to the Eurocurrency Rate plus 1.25% per annum. One February 1, 2012, BV Entity drew down the full \$40 million. The Term Loan is not a revolving credit facility, and any amount repaid may not be reborrowed.

The Revolver includes a \$2 million sublimit for letters of credit. Both the Revolver and the Uncommitted Facility mature on January 17, 2013 (the “Maturity Date”). The proceeds under the Revolver and the Uncommitted Facility may be used for general corporate purposes, to finance temporary cash shortages and to minimize taxes associated with moving cash between countries. Any borrowing and obligations under the Revolver or under the Uncommitted Facility is secured by accounts, chattel paper, deposit accounts and inventory, and all dividends, distributions, and income attributable to proceeds, products, additions to, substitutions, replacements and supporting obligations for, model conversions, and accessions of the foregoing, of the Company and of certain of its subsidiaries. Certain subsidiaries of the Company also guaranty any borrowing and obligations and pledge their interests to Bank of America in certain subsidiary stock owned by such subsidiary guarantors. In addition, as amended, 65% of our interest in the BV Entity have been pledged as security for all obligations under the Credit Agreement.

In addition, the Credit Agreement contains certain restrictive and financial covenants, including, but not limited to, the following: (a) the Company shall maintain on a consolidated basis a Fixed Charge Coverage Ratio of not less than 2.00 to 1.0 and a Quick Ratio of not less than 1.50 to 1.0 (excluding the Company’s Notes for both ratios); (b) the Company and its subsidiaries shall not create, incur, assume or suffer to exist any lien upon any of its property, assets or revenues except as specified in the Credit Agreement; (c) the Company and its subsidiaries shall not make any investments except as specified in the Credit Agreement; (d) the Company and its subsidiaries shall not create, incur, assume or suffer to exist any indebtedness except as specified in the Credit

[Table of Contents](#)

DIODES INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Table amounts in thousands except per share data)

Agreement; (e) the Company and its subsidiaries shall not dissolve or merge or consolidate with or into another entity except as specified in the Credit Agreement; (f) the Company and its subsidiaries shall not make any disposition except as specified in the Credit Agreement; (g) the Company and its subsidiaries shall not make any restricted payment, or issue or sell any equity interests, except as specified in the Credit Agreement; (h) the Company and its subsidiaries shall not engage in any material line of business substantially different from those lines of business that are currently conducted by the Company and its subsidiaries; (i) the Company and its subsidiaries shall not enter into any transaction of any kind with any affiliate of the Company except as specified in the Credit Agreement; (j) the Company and its subsidiaries shall not enter into certain burdensome contractual obligations except as specified in the Credit Agreement; (k) the Company and its subsidiaries shall not use the proceeds of any credit extension to purchase or carry margin stock or to extend credit to others for the purpose of purchasing or carrying margin stock or to refund indebtedness originally incurred for such purpose; (l) Interest Coverage Ratio (as defined) will be at least 3.0 to 1.0 on a consolidated basis; and (m) Funded Debt to EBITDA Ratio (as defined) will not exceed 2.50 to 1.0 on a consolidated basis. As of December 31, 2012, the Company was in compliance with these covenants.

The credit unused and available under the various facilities as of December 31, 2012, was \$93 million (net of \$1 million credit used for import and export guarantee), as follows:

2012 Lines of Credit	Terms	Outstanding at December 31,	
		2012	2011
\$81,581	Unsecured, interest at LIBOR plus margin, due quarterly	\$ 5,629	\$ —
10,000	Secured, interest at LIBOR plus margin, due monthly (Revolver)	2,000	8,000
10,000	Secured, uncommitted, interest at LIBOR plus margin, due monthly (Uncommitted Facility)	—	—
\$101,581		\$ 7,629	\$ 8,000

See Note 19 for additional information regarding the Company's lines of credit.

Long-term debt – The balances as of December 31, consist of the following:

	2012	2011
Notes payable to Taiwan bank, principal amount of TWD 158 million, variable interest (approximately 3.3% and 2.0% as of December 31, 2012 and 2011, respectively), of which TWD 132 million matures on July 6, 2021, and TWD 26 million matures July 6, 2013, secured by land and building.	2,979	3,265
Notes payable to Taiwan banks, variable interest between 1.8% and 2.5% as of December 31, 2012, maturity dates range from 2013 to 2023, secured by land, building and equipment.	2,215	—
Term Loan	40,000	—
Total long-term debt	45,194	3,265
Less: Current portion	(1,063)	(408)
Long-term debt, net of current portion	\$ 44,131	\$ 2,857

[Table of Contents](#)

DIODES INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Table amounts in thousands except per share data)

The annual contractual maturities of long-term debt at December 31, 2012 are as follows:

2013	1,063
2014	947
2015	954
2016	40,374
2017	363
Thereafter	1,493
Total long-term debt	\$45,194

Convertible senior notes – In October 2006, the Company issued and sold Notes with an aggregate principal amount of \$230 million due 2026. On September 30, 2011, substantially all of the note holders surrendered their Notes for purchase. On December 1, 2011, the Company elected to purchase the remaining outstanding principal amount plus accrued and unpaid interest to, but excluding, December 1, 2011, the redemption date. The Company has delivered the aggregate purchase price for the accepted Notes, which includes accrued and unpaid interest, to the Paying Agent for distribution to the note holders. As of December 31, 2011, all Notes have been redeemed.

The amount of interest expense, including amortization of debt discount for the liability component and debt issuance costs, for the years ended December 31, 2011 and 2010 is as follows:

	<u>2011</u>	<u>2010</u>
Notes contractual interest expense	\$2,267	\$ 3,077
Amortization of debt discount	6,032	7,656
Amortization of debt issuance costs	412	549
Total	<u>\$ 8,711</u>	<u>\$11,282</u>

NOTE 8 – CAPITAL LEASE OBLIGATIONS

Future minimum lease payments under capital lease agreements are summarized as follows:

For years ending December 31,	
2013	\$ 346
2014	346
2015	279
2016	185
Thereafter	19
	<u>1,175</u>
Less: Interest	<u>(76)</u>
Present value of minimum lease payments	1,099
Less: Current portion	<u>(310)</u>
Long-term portion	<u>\$ 789</u>

At December 31, 2012, property under capital leases had a cost of \$3 million, and the related accumulated depreciation was \$2 million. Depreciation of assets held under capital lease is included in depreciation expense.

[Table of Contents](#)

DIODES INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Table amounts in thousands except per share data)

NOTE 9 – ACCRUED LIABILITIES AND OTHER LONG-TERM LIABILITIES

Accrued liabilities at December 31 were:

	<u>2012</u>	<u>2011</u>
Compensation and payroll taxes	\$12,837	\$10,120
Accrued expenses	12,338	6,544
Accrued pricing adjustments	1,304	1,130
Equipment purchases	7,081	5,412
Accrued professional services	2,512	1,423
Other	5,067	6,164
	<u>\$41,139</u>	<u>\$30,793</u>

Other long-term liabilities at December 31 were:

	<u>2012</u>	<u>2011</u>
Accrued defined benefit plan	\$17,853	\$13,493
Unrecognized tax benefits	14,591	10,177
Deferred compensation	2,213	1,932
Other	6,528	5,097
	<u>\$41,185</u>	<u>\$30,699</u>

NOTE 10 – STOCKHOLDERS' EQUITY

The Company has never declared or paid cash dividends on its Common Stock, and currently does not intend to pay dividends in the foreseeable future as it intends to retain any earnings for use in the business. The Company's credit agreement, dated January 8, 2013, with Bank of America N.A. and other lenders parties permits the Company to pay dividends up to \$1.5 million per fiscal year to its stockholders so long as it has not defaulted and is in continuing operation at the time of such dividend. The payment of dividends is within the discretion of the Company's Board of Directors, and will depend upon, among other things, the Company's earnings, financial condition, capital requirements, and general business conditions. See Note 7 for additional information regarding the Company's credit agreements.

NOTE 11 – INCOME TAXES

<u>Income before income taxes</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
U.S.	\$(24,411)	\$(28,238)	\$(32,260)
Foreign	55,218	91,902	130,363
Total	<u>\$ 30,807</u>	<u>\$ 63,664</u>	<u>\$ 98,103</u>

[Table of Contents](#)

DIODES INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Table amounts in thousands except per share data)

The components of the income tax provision (benefit) are as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Current tax provision (benefit)			
Federal	\$ 1,424	\$ 14,049	\$ 330
Foreign	10,756	18,324	23,211
State	142	214	25
	<u>12,322</u>	<u>32,587</u>	<u>23,566</u>
Deferred tax provision (benefit)			
Federal	(8,784)	(20,906)	243
Foreign	(3,247)	(1,165)	(7,079)
State	317	(466)	—
	<u>(11,714)</u>	<u>(22,537)</u>	<u>(6,836)</u>
Liability for unrecognized tax benefits	4,217	107	1,109
Total income tax provision	<u>\$ 4,825</u>	<u>\$ 10,157</u>	<u>\$ 17,839</u>

Effective Tax Rate Reconciliation

Reconciliation between the effective tax rate and the statutory tax rates for the years ended December 31, 2012, 2011 and 2010 is as follows:

	<u>2012</u>		<u>2011</u>		<u>2010</u>	
	Amount	Percent of pretax earnings	Amount	Percent of pretax earnings	Amount	Percent of pretax earnings
Federal tax	\$ 10,783	35.0	\$ 22,282	35.0	\$ 34,336	35.0
State income taxes, net of federal tax provision (benefit)	213	0.7	(366)	(0.6)	293	0.3
Foreign income taxes, net of federal tax provision (benefit)	(15,515)	(50.4)	(6,356)	(10.0)	(5,050)	(5.2)
Subpart F income and foreign dividends	496	1.6	1,115	1.8	1,786	1.8
Foreign tax credits, net of valuation allowance (2)	3,135	10.2	(5,843)	(9.2)	(6,503)	(6.6)
Liability for unrecognized tax benefits	4,217	13.7	107	0.2	1,109	1.1
U.S. provision-to-return adjustments	(102)	(0.3)	(167)	(0.3)	(2,345)	(2.4)
Valuation allowance—net operating loss carryforwards	521	1.7	—	—	(5,820)	(5.9)
Other	1,077	3.5	(615)	(1.0)	33	0.1
Income tax provision	<u>\$ 4,825</u>	<u>15.7</u>	<u>\$ 10,157</u>	<u>15.9</u>	<u>\$ 17,839</u>	<u>18.2</u>

- (1) The increase in 2012 compared to 2011 and 2010 in foreign income taxed at lower tax rates was primarily due to decreased earnings in the U.K.
- (2) The change in 2012 to expense rather than a benefit as in 2011 and 2010 was primarily due to decreased earnings in the U.K. and a correction of the 2011 valuation allowance recorded in 2012.

[Table of Contents](#)

DIODES INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Table amounts in thousands except per share data)

Uncertain Tax Positions

In accordance with the provisions related to accounting for uncertainty in income taxes, the Company recognizes the benefit of a tax position if the position is “more likely than not” to prevail upon examination by the relevant tax authority. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	<u>2012</u>	<u>2011</u>
Balance at January 1,	\$ 10,177	\$ 9,173
Additions based on tax positions related to the current year	1,593	2,233
Additions for prior years tax positions	3,945	—
Reductions for prior years tax positions	(1,124)	(1,229)
Balance at December 31,	<u>\$ 14,591</u>	<u>\$ 10,177</u>

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

The Company files income tax returns in the U.S. federal jurisdiction and in various state and foreign jurisdictions. The Company is no longer subject to U.S. federal income tax examinations by tax authorities for tax years before 2007. With respect to state and local jurisdictions and countries outside of the U.S., with limited exceptions, the Company is no longer subject to income tax audits for years before 2009. Although the outcome of tax audits is always uncertain, the Company believes that adequate amounts of tax, interest and penalties, if any, have been provided for in the Company’s reserve for any adjustments that may result from future tax audits. The Company recognizes accrued interest and penalties, if any, related to unrecognized tax benefits in income tax expense. The Company had an insignificant amount of accrued interest and penalties at December 31, 2012, 2011 and 2010.

Deferred Taxes

At December 31, 2012 and 2011, the Company’s deferred tax assets and liabilities are comprised of the following items:

	<u>2012</u>	<u>2011</u>
Deferred tax assets, current		
Inventory cost	\$ 6,158	\$ 2,158
Accrued expenses and accounts receivable	2,047	1,754
Share based compensation and others	1,790	1,538
Total deferred tax assets, current	<u>\$ 9,995</u>	<u>\$ 5,450</u>
Deferred tax assets, non-current		
Plant, equipment and intangible assets	\$ (3,775)	\$ (1,818)
Foreign tax credits	22,391	19,354
Research and development tax credits	4,331	4,098
Net operating loss carryforwards	13,977	1,600
Accrued pension	10,089	11,750
Share based compensation and others	21,646	23,945
	68,659	58,929
Valuation allowances	(28,876)	(28,099)
Total deferred tax assets, non-current	39,783	30,830
Deferred tax liabilities, non-current		
Step up in basis—acquisition	(2,964)	(3,967)
Total deferred tax liabilities, non-current	(2,964)	(3,967)
Net deferred tax assets, non-current	<u>\$ 36,819</u>	<u>\$ 26,863</u>

DIODES INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Table amounts in thousands except per share data)

At December 31, 2012, the Company had federal and state tax credit carryforwards of approximately \$24 million and \$1 million, respectively which are available to offset future income tax liabilities. The federal tax credit carryforwards begin to expire in 2013 and the state tax credit carryforwards will begin to expire in 2020. The Company determined that it is more likely than not that a portion of its federal foreign tax credit and research credit carryforwards will expire before they are utilized. Accordingly, the Company recorded valuation allowances of \$4 million, \$1 million and \$2 million during the years ended December 31, 2012, 2011 and 2010, respectively.

At December 31, 2012, the Company had federal and state net operating loss (“NOL”) carryforwards of approximately \$36 million and \$13 million, respectively, which are available to offset future taxable income. The federal NOL carryforwards will begin to expire in 2018. The Company determined that it is more likely than not that the federal NOL carryforwards will be utilized; thus, no valuation allowance has been recorded. The state NOL carryforwards will begin to expire in 2013. The Company determined that it is more likely than not that the state NOL carryforwards will expire before they are fully utilized and recorded a full valuation allowance on the state NOL carryforwards in prior years. The Company maintained this full valuation allowance for the year ended December 31, 2012.

Supplemental Information

Funds repatriated from foreign subsidiaries to the U.S. may be subject to federal and state income taxes. The Company intends to permanently reinvest overseas all of its earnings from its foreign subsidiaries; accordingly, U.S. taxes are not being recorded on undistributed foreign earnings. As of December 31, 2012, the Company has undistributed earnings from its non-U.S. operations of approximately \$311 million (including approximately \$38 million of restricted earnings which are not available for dividends). Additional federal and state income taxes of approximately \$58 million would be required should such earnings be repatriated to the U.S.

The impact of tax holidays decreased the Company’s tax expense by approximately \$6 million, \$7 million and \$8 million for the years ended December 31, 2012, 2011 and 2010, respectively. The benefit of the tax holidays on basic and diluted earnings per share for the year ended December 31, 2012 was approximately \$0.14 and \$0.13, respectively. The benefit of the tax holidays on both basic and diluted earnings per share for the year ended December 31, 2011 was approximately \$0.15. The benefit of the tax holidays on basic and diluted earnings per share for the year ended December 31, 2010 was approximately \$0.19 and \$0.18, respectively. During 2012, the China government began an audit of the Company’s High and New Technology Enterprise status for its largest Chinese subsidiary for 2009-2011 as part of an overall evaluation of the reduced tax rates provided to many high tech companies. This subsidiary has a reduced tax rate of 15%.

During 2012, the Company realized a tax benefit of \$2 million related to exercises of non-qualified stock options and to disqualified dispositions of incentive stock options. The Company credited additional paid-in capital to record this benefit.

NOTE 12 – EMPLOYEE BENEFIT PLANS

Defined Benefit Plan

The Company has adopted a contributory defined benefit plan that covers certain employees in the U.K. The defined benefit plan is closed to new entrants and frozen with respect to future benefit accruals. The retirement benefit is based on the final average compensation and service of each eligible employee. The Company determined the fair value of the defined benefit plan assets and utilizes an annual measurement date of December 31. At subsequent measurement dates, defined benefit plan assets will be determined based on fair value. Defined benefit plan assets consist primarily of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. The net pension and supplemental retirement benefit obligations and the related periodic costs are based on, among other things, assumptions of the discount rate, estimated return on plan assets and mortality rates. These obligations and related periodic costs are measured using actuarial techniques and assumptions. The projected unit credit method is the actuarial cost method used to compute the pension liabilities and related expenses.

Net period benefit costs associated with the defined benefit were less than \$1 million for both the years ended December 31, 2012 and 2011, respectively. All unrecognized actuarial gains and losses, prior service costs and accumulated other comprehensive income are eliminated and the balance sheet liability is set equal to the funded status of the defined benefit plan at acquisition date.

[Table of Contents](#)

DIODES INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Table amounts in thousands except per share data)

The following table summarizes the net periodic benefit costs of the Company's plan for the years ended December 31, 2012 and 2011:

	Defined Benefit Plan	
	2012	2011
Components of net periodic benefit cost:		
Service cost	\$ 317	\$ 321
Interest cost	5,638	6,088
Recognized actuarial loss	(70)	—
Expected return on plan assets	(5,446)	(6,241)
Net periodic benefit cost	\$ 439	\$ 168

The following tables set forth the benefit obligation, the fair value of plan assets, and the funded status as of December 31:

	Defined Benefit Plan	
	2012	2011
Change in benefit obligation:		
Beginning balance	\$ 109,877	\$ 118,505
Service cost	317	321
Interest cost	5,638	6,088
Actuarial gain (loss)	7,134	(10,576)
Benefits paid	(3,506)	(3,825)
Currency changes	5,291	(636)
Benefit obligation at December 31	\$ 124,751	\$ 109,877
Change in plan assets:		
Beginning balance—fair value	\$ 96,384	\$ 93,642
Employer contribution	1,904	1,524
Actual return on plan assets	7,536	5,852
Benefits paid	(3,506)	(3,825)
Currency changes	4,580	(809)
Fair value of plan assets at December 31	\$ 106,898	\$ 96,384
Underfunded status at December 31	\$ (17,853)	\$ (13,493)

Based on an actuarial study performed as of December 31, 2012, the plan is underfunded by approximately \$18 million and the liability is reflected in the Company's consolidated balance sheets as a noncurrent liability and the amount recognized in accumulated other comprehensive income was approximately \$12 million.

[Table of Contents](#)

DIODES INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Table amounts in thousands except per share data)

The Company applies the “10% corridor” approach to amortize unrecognized actuarial gains (losses). Under this approach, only actuarial gains (losses) that exceed 10% of the greater of the projected benefit obligation or the market-related value of the plan assets are amortized. For the year ended December 31, 2012, the plans total recognized loss decreased by \$5 million. The variance between the actual and expected return to plan assets during 2012 decreased the total unrecognized net loss by \$2 million. The total unrecognized net loss is less than 10% of the projected benefit obligation and 10% of the plan assets. Therefore, there will not be any excess amount to be amortized over the average term to retirement of plan participants not yet in receipt of pension, which as of December 31, 2012 the average term was 11 years.

The following weighted-average assumptions were used to determine net periodic benefit costs for the year ended December 31:

	<u>2012</u>	<u>2011</u>
Discount rate	5.1%	5.1%
Expected long-term return on plan assets	5.6%	5.6%

The following weighted-average assumption was used to determine the benefit obligations for the year ended December 31:

	<u>2012</u>	<u>2011</u>
Discount rate	4.6%	5.1%

The expected long-term return on plan assets was determined based on historical and expected future returns of the various asset classes. The plans investment policy includes a mandate to diversify assets and invest in a variety of asset classes to achieve its expected long-term return and is currently invested in a variety of funds representing most standard equity and debt security classes. Trustees of the plan may make changes at any time. The following summarizes the plan asset allocations of the assets in the plan and expected long-term return by asset category:

<u>Asset category</u>	<u>Expected long-term return</u>	<u>Assets allocation</u>
Cash	0.5%	1%
Equity securities	7.0%	43%
Debt securities	3.8%	44%
Target return funds	7.0%	12%
Total	5.5%	100%

Benefit plan payments are primarily made from funded benefit plan trusts and current assets. The following summarizes the expected future benefit payments, including future benefit accrual, as of December 31, 2012:

<u>Year</u>	
2013	\$ 3,804
2014	4,454
2015	4,584
2026	4,503
2017	4,823
2018-2022	32,055

The Company adopted a payment plan with the trustees of the defined benefit plan, in which the Company will pay approximately £2 million GBP (approximately \$3 million based on a USD:GBP exchange rate of 1.6:1) every year from 2012 through 2019.

[Table of Contents](#)**DIODES INCORPORATED AND SUBSIDIARIES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Table amounts in thousands except per share data)

The Company's overall defined benefit plan investment strategy is to achieve a mix of investments for long-term growth and for near-term benefit payments with a wide diversification of asset types and fund strategies. The target allocations for plan assets are 48% equity securities, 40% corporate bonds and government securities, and 12% to absolute return funds. Equity securities primarily include investments in large-cap and mid-cap companies primarily located in the U.K. Fixed income securities include corporate bonds of companies from diversified industries, and U.K. government bonds. The absolute return fund is mainly invested in a mixture of equities and bonds.

The plan's trustees appoint fund managers to carry out all the day-to-day functions relating to the management of the fund and its administration. The fund managers must invest their portion of the plan's assets in accordance with their investment manager agreement agreed by the trustees. The trustees are responsible for agreeing these investment manager agreements and for deciding on the portion of the plan's assets that will be invested with each fund manager. When making decisions, the trustees take advice from experts including the plan's actuary and also consult with the Company.

The following table summarizes the major categories of the plan assets:

December 31, 2012				
Assets Category	Level 1	Level 2	Level 3	Total
Cash	\$ 1,087	\$ —	\$ —	\$ 1,087
Equity securities:				
U.K.	23,898	—	—	23,898
North America	8,248	—	—	8,248
Europe (excluding U.K.)	7,123	—	—	7,123
Japan	3,139	—	—	3,139
Pacific Basin (excluding Japan)	3,145	—	—	3,145
Emerging markets	970	—	—	970
Fixed income securities:				
Corporate bonds	—	25,770	—	25,770
Index linked securities:				
U.K. Treasuries	21,188	—	—	21,188
Other types of investments:				
Absolute return funds	12,330	—	—	12,330
Total	\$81,128	\$25,770	\$—	\$106,898

Fair value is taken to mean the bid value of securities, as supplied by the fund managers. All the plan's securities are publically traded and highly liquid. Therefore, the majority of the securities are valued under Level 1 and one security is valued under Level 2 using quoted prices for identical or similar securities. The plan does not hold any level 3 securities. See Note 2 for additional information regarding fair value and Levels 1, 2 and 3.

The investment manager agreements require the fund managers to invest in a diverse range of stocks and bonds across each particular asset class. The stocks held by the plan in a particular asset class should therefore match closely the underlying stocks in the relevant index. The Company believes that this leads to minimal concentration of risk within each asset class; although it recognizes that some asset classes are inherently more risky than others.

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

[Table of Contents](#)

DIODES INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Table amounts in thousands except per share data)

401(k) Retirement Plan

The Company maintains a 401(k) retirement plan (the Plan) for the benefit of qualified employees at its U.S. locations. Employees who participate may elect to make salary deferral contributions to the Plan up to 100% of the employees' eligible payroll subject to annual Internal Revenue Code maximum limitations. The Company makes a matching contribution of \$1 for every \$2 contributed by the participant up to 6% (3% maximum matching) of the participant's eligible payroll, which vests over four years. In addition, the Company may make a discretionary contribution to the entire qualified employee pool, in accordance with the Plan.

As stipulated by the regulations of China, the Company maintains a retirement plan pursuant to the local municipal government for the employees in China. The Company is required to make contributions to the retirement plan at a rate between 10% and 22% of the employee's eligible payroll. Pursuant to the Taiwan Labor Standard Law and Factory Law, the Company maintains a retirement plan for the employees in Taiwan, whereby the Company makes contributions at a rate of 6% of the employee's eligible payroll.

For the years ended December 31, 2012, 2011 and 2010, total amounts expensed under these plans were approximately \$6 million, \$5 million and \$4 million, respectively.

Deferred Compensation Plan

The Company maintains a Non-Qualified Deferred Compensation Plan (the "Deferred Compensation Plan") for executive officers, key employees and members of the Board of Directors (the "Board"). The Deferred Compensation Plan allows eligible participants to defer the receipt of eligible compensation, including equity awards, until designated future dates. The Company offsets its obligations under the Deferred Compensation Plan by investing in the actual underlying investments. These investments are classified as trading securities and are carried at fair value. At December 31, 2012, these investments totaled approximately \$3 million. All gains and losses in these investments are equally offset by corresponding gains and losses in the deferred compensation plan liabilities.

Share-Based Plans

The Company maintains share-based compensation plans for its Board, officers and key employees, which provide for stock options and stock awards under its 2001 Omnibus Equity Incentive Plan.

NOTE 13—SHARE-BASED COMPENSATION

The following table shows the total compensation cost charged against income for share-based compensation plans, including stock options and share grants, recognized in the statements of income for the years ended December 31, 2012, 2011 and 2010:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Cost of goods sold	\$ 458	\$ 394	\$ 350
Selling, general and administrative expense	12,715	12,266	11,347
Research and development expense	1,226	1,043	1,354
Total share-based compensation expense	<u>\$ 14,399</u>	<u>\$ 13,703</u>	<u>\$ 13,051</u>

[Table of Contents](#)

DIODES INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Table amounts in thousands except per share data)

Stock Options – Stock options generally vest in equal annual installments over a four-year period and expire ten years after the grant date. Share-based compensation expense for stock options granted during 2012, 2011 and 2010 was calculated on the date of grant using the Black-Scholes-Merton option-pricing model with the following weighted-average assumptions:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Expected volatility	53.86%	52.53%	57.99%
Expected term (years)	7.5	7.5	7.3
Risk free interest rate	1.16%	2.37%	2.60%
Forfeiture rate	0.76%	0.47%	0.88%
Dividend yield	N/A	N/A	N/A

Expected volatility – The Company estimates expected volatility using historical volatility. Public trading volume on options in the Company’s stock is not material. As a result, the Company determined that utilizing an implied volatility factor would not be appropriate. The Company calculates historical volatility for the period that is commensurate with the option’s expected term assumption. For 2012, the expected volatility for grants to officers and the Board is 52.45%, while the expected volatility for grants to all other employees is 53.90%.

Expected term – The Company has evaluated expected term based on history and exercise patterns across its demographic population. The Company believes that this historical data is the best estimate of the expected term of a new option. For 2012, the expected term for grants to officers and the Board is 8 years, while the expected term for grants to all other employees is 5 years.

Risk free interest rate – The Company estimate the risk-free interest rate based on zero-coupon U.S. treasury securities for a period that is commensurate with the expected term assumption.

Forfeiture rate—The amount of stock-based compensation recognized during a period is based on the value of the portion of the awards that are ultimately expected to vest as forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The term “forfeitures” is distinguished from “cancellations” or “expirations” and represents only the unvested portion of the surrendered option. This analysis will be re-evaluated at least annually, and the forfeiture rate will be adjusted as necessary.

Dividend yield – The Company historically has not paid a cash dividend on its common stock; therefore this input is not applicable.

Discount for post vesting restrictions – This input is not applicable.

The weighted-average grant-date fair value of options granted during 2012, 2011 and 2010 was \$10.60, \$16.55, and \$11.45, respectively. The total cash received from option exercises was \$1 million, \$4 million and \$5 million during 2012, 2011 and 2010, respectively.

For the years ended December 31, 2012, 2011 and 2010, stock option expense was \$5 million, \$5 million and \$4, respectively.

At December 31, 2012, unamortized compensation expense related to unvested options, net of estimated forfeitures, was approximately \$9 million. The weighted average period over which share-based compensation expense related to these options will be recognized is approximately 2 years.

[Table of Contents](#)

DIODES INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Table amounts in thousands except per share data)

A summary of the Company's stock option plans is as follows:

<u>Stock Options</u>	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term (years)</u>	<u>Aggregate Intrinsic Value</u>
Outstanding at January 1, 2010	3,980	\$ 12.50	5.2	\$ 34,989
Granted	405	18.98		
Exercised	(669)	7.16		9,712
Forfeited or expired	(9)	27.39		
Outstanding at January 1, 2010	3,707	14.14	5.2	47,891
Exercisable at December 31, 2010	2,785	12.53	4.1	40,420
Outstanding at January 1, 2011	3,707	14.14		
Granted	385	29.07		
Exercised	(496)	7.17		11,120
Forfeited or expired	(9)	20.80		
Outstanding at December 31, 2011	3,587	16.69	5.1	22,299
Exercisable at December 31, 2011	2,622	14.51	3.9	20,201
Outstanding at January 1, 2012	3,587	16.69		
Granted	402	19.31		
Exercised	(274)	4.81		4,249
Forfeited or expired	(2)	20.10		
Outstanding at December 31, 2012	3,713	17.85	5.0	9,744
Exercisable at December 31, 2012	2,715	16.48	3.7	9,472

The following table summarizes information about stock options outstanding at December 31, 2012:

<u>Plan</u>	<u>Range of exercise prices</u>	<u>Number outstanding</u>	<u>Weighted average remaining contractual life (years)</u>	<u>Weighted average exercise price</u>
2001 Plan	5.80- \$ 29.21	3,713	5.0	\$ 17.85

The following summarizes information about stock options exercisable at December 31, 2012:

<u>Plan</u>	<u>Range of exercise prices</u>	<u>Number exercisable</u>	<u>Weighted average remaining contractual life (years)</u>	<u>Weighted average exercise price</u>
2001 Plan	5.80-29.21	2,715	3.7	16.48

DIODES INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS*(Table amounts in thousands except per share data)*

Share Grants—Restricted stock awards and restricted stock units generally vest in equal annual installments over a four-year period. A summary of the Company's non-vested share grants in 2012, 2011 and 2010 are presented below:

<u>Restricted Stock Grants</u>	<u>Shares</u>	<u>Weighted Average Grant Date Fair Value</u>	<u>Aggregate Intrinsic Value</u>
Nonvested at January 1, 2010	714	\$ 20.50	
Granted	477	17.89	
Vested	(265)	21.94	
Forfeited	(55)	20.12	
Nonvested at December 31, 2010	871	\$ 18.66	\$ 7,257
Nonvested at January 1, 2011	871	\$ 18.66	
Granted	472	25.78	
Vested	(274)	20.23	
Forfeited	(45)	19.68	
Nonvested at December 31, 2011	1,024	\$ 21.48	\$ —
Nonvested at January 1, 2012	1,024	\$ 21.48	
Granted	482	18.95	
Vested	(305)	21.48	\$ 6,560
Forfeited	(37)	21.67	
Nonvested at December 31, 2012	1,164	\$ 20.42	\$ —

For each of the years ended December 31 of 2012, 2011 and 2010, there was approximately \$9 million of total recognized share-based compensation expense related to restricted stock arrangements granted under the plans. The total unrecognized share-based compensation expense as of December 31 2012 was approximately \$20 million, which is expected to be recognized over a weighted average period of approximately 2 years.

On September 22, 2009, the Company entered into an employment agreement (the "Agreement") with Dr. Keh-Shew Lu, President and Chief Executive Officer of the Company (the "Employee"), pursuant to which he will continue to be employed by the Company in such positions for an additional six-year term. As part of the Agreement, the Company and the Employee entered into a Stock Award Agreement that provides that: (i) the Company shall grant to the Employee 100,000 shares of Common Stock in the form of restricted stock awards on each of April 14, 2010, 2011, 2012, 2013, 2014 and 2015; (ii) each such installment would vest only if the Company achieved a specified amount of net sales; (iii) upon the termination of the Employee's employment, the Company's obligation to grant any subsequent installment would terminate; and (iv) any granted shares would be automatically forfeited and returned to the Company if the Employee's employment with the Company is terminated before the Company achieves the specified target amount of net sales, except in the case of death or disability (as defined) in which case the granted shares would become fully vested on the date of death or disability. The estimated fair value of this grant is approximately \$12 million and is being expensed on a straight line basis through April 14, 2015. As of December 31, 2012, no installments have vested. As of December 31, 2012, three annual installments have been granted and are included in the above table as granted but not vested.

NOTE 14 – RELATED PARTY TRANSACTIONS

The Company conducts business with one related party company, Lite-On Semiconductor Corporation, and its subsidiaries and affiliates ("LSC"). LSC is the Company's largest stockholder, owning 18% of the Company's outstanding Common Stock as of December 31, 2012, and is a member of the Lite-On Group of companies. C.H. Chen, the Company's former President and Chief Executive Officer and currently the Vice Chairman of the Board of Directors, is also Vice Chairman of LSC and Lite-On Technology Corporation. Raymond Soong, the Chairman of the Board of Directors, is the Chairman of LSC, and is the Chairman of Lite-On Technology Corporation, a significant shareholder of LSC. Dr. Keh-Shew Lu, the Company's President and Chief Executive Officer and a member of its Board of Directors, is a member of the Board of Directors of Lite-On Technology Corporation. L.P. Hsu, a member of the Board of Directors since May 2007 serves as a consultant to Lite-On Technology Corporation. The Company considers its relationship with LSC, a member of the Lite-On Group of companies, to be mutually beneficial and the Company plans to continue its strategic alliance with LSC.

[Table of Contents](#)

DIODES INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Table amounts in thousands except per share data)

The Company also conducts business with one significant company, Keylink International (B.V.I.) Inc. and its subsidiaries and affiliates (“Keylink”). Keylink is the Company’s 5% joint venture partner in the Company’s Shanghai manufacturing facilities.

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

Lite-On Semiconductor Corporation (LSC) – The Company sold products to LSC totaling approximately 1% of its net sales for the years ended December 31, 2012, 2011 and 2010, respectively. Also for the years ended December 31, 2012, 2011 and 2010, 3%, 5% and 7%, respectively, of the Company’s net sales were from semiconductor products purchased from LSC for subsequent sale, making LSC one of the Company’s largest suppliers. The Company also rented warehouse space in Hong Kong, which the lease term ended March 2011 from a member of the Lite-On Group.

Net sales to, and purchases from, LSC were as follows for years ended December 31:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Net sales	\$ 1,054	\$ 1,980	\$ 6,918
Purchases	\$33,928	\$37,879	\$42,867

Keylink International (B.V.I.) Inc. – The Company sells products to, and purchases inventory from, companies owned by Keylink. The Company sold products to companies owned by Keylink, totaling 3%, 2% and 3% of net sales for the years ended December 31, 2012, 2011 and 2010, respectively. Also for the years ended December 31, 2012, 2011 and 2010, 1%, 1% and 2%, respectively of the Company’s net sales were from semiconductor products purchased from companies owned by Keylink. In addition, the Company’s subsidiaries in China lease their manufacturing facilities in Shanghai from, and subcontract a portion of their manufacturing process (metal plating and environmental services) to, Keylink. The Company also pays a consulting fee to Keylink. The aggregate amounts for these services for the years ended December 31, 2012, 2011 and 2010 were \$16 million, \$17 million and \$14 million, respectively.

Net sales to, and purchases from, companies owned by Keylink were as follows for years ended December 31:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Net sales	\$ 19,336	\$ 11,965	\$ 15,209
Purchases	\$ 7,826	\$ 11,168	\$ 10,824

Accounts receivable from, and accounts payable to, LSC and Keylink were as follows as of December 31:

	<u>2012</u>	<u>2011</u>
Accounts receivable		
LSC	\$ 204	\$ 133
Keylink	10,457	11,237
	<u>\$10,661</u>	<u>\$ 11,370</u>
Accounts payable		
LSC	\$ 5,308	\$ 5,106
Keylink	5,095	6,002
	<u>\$ 10,403</u>	<u>\$11,108</u>

DIODES INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Table amounts in thousands except per share data)

Eris Technology Corporation – Prior to the Company obtaining a controlling financial interest in Eris on August 31, 2012, it treated Eris as a related party. The Company subcontracted to Eris some of its wafers for assembly and test and also purchased finished goods not sourced from the Company's wafers. With respect to assembly and test fees and the finished goods purchases, the Company paid Eris approximately \$10 million, \$16 million and \$18 million for the years ended December 31, 2012, 2011 and 2010, respectively. See Note 17 for further information about business combinations.

NOTE 15 – SEGMENT INFORMATION AND ENTERPRISE-WIDE DISCLOSURES

An operating segment is defined as a component of an enterprise about which separate financial information is available that is evaluated regularly by the chief decision maker, or decision-making group, in deciding how to allocate resources and in assessing performance. The Company's chief decision-making group consists of the President and Chief Executive Officer, Chief Financial Officer, Senior Vice President of Operations and Senior Vice President of Sales and Marketing. For financial reporting purposes, the Company operates in a single segment, standard semiconductor products, through its various manufacturing and distribution facilities. The Company aggregates its products in a single segment because the products have similar economic characteristics, are similar in production process and manufacture flow, and share the same customers and target end-equipment markets.

The Company's primary operations include the operations in Asia, North America and Europe. Revenues are attributed to geographic areas based on the location of subsidiaries producing the revenues:

	Asia	North America	Europe	Consolidated
2012				
Total sales	\$ 573,085	\$ 133,973	\$ 154,955	\$ 862,013
Inter-company sales	(75,230)	(66,626)	(86,351)	(228,207)
Net sales	\$ 497,855	\$ 67,347	\$ 68,604	\$ 633,806
Property, plant and equipment	\$ 186,563	\$ 31,309	\$ 25,424	\$ 243,296
Assets	\$ 554,603	\$ 136,261	\$ 229,199	\$ 920,063
2011				
Total sales	\$ 559,109	\$ 137,789	\$ 194,455	\$ 891,353
Inter-company sales	(82,958)	(61,907)	(111,237)	(256,102)
Net sales	\$ 476,151	\$ 75,882	\$ 83,218	\$ 635,251
Property, plant and equipment	\$ 162,022	\$ 33,684	\$ 29,687	\$ 225,393
Assets	\$ 494,375	\$ 112,863	\$ 185,826	\$ 793,064
2010				
Total sales	\$ 499,315	\$ 149,029	\$ 177,063	\$ 825,407
Inter-company sales	(54,782)	(54,909)	(102,830)	(212,521)
Net sales	\$ 444,533	\$ 94,120	\$ 74,233	\$ 612,886
Property, plant and equipment	\$ 137,225	\$ 33,115	\$ 30,405	\$ 200,745
Assets	\$ 444,729	\$ 178,018	\$ 223,803	\$ 846,550

The accounting policies of the operating entities are the same as those described in the summary of significant accounting policies. Sales are attributed to geographic areas based on the location of the subsidiaries producing the sales.

[Table of Contents](#)

DIODES INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Table amounts in thousands except per share data)

Geographic Information—Revenues were derived from (billed to) customers located in the following countries. “All Others” represents countries with less than 4% of total revenues each:

<u>2012</u>	<u>Revenue</u>	<u>% of Total Revenue</u>
China	\$ 223,473	35%
Taiwan	126,356	20%
Switzerland	57,200	9%
U.S.	54,949	9%
Korea	50,896	8%
U.K.	28,558	5%
Singapore	27,013	4%
Germany	24,416	4%
All others	40,945	6%
Total	<u>\$ 633,806</u>	<u>100%</u>

<u>2011</u>	<u>Revenue</u>	<u>% of Total Revenue</u>
China	\$206,965	33%
Taiwan	136,129	21%
Switzerland	57,696	8%
U.S.	47,892	8%
Korea	37,643	6%
Germany	30,838	5%
U.K.	30,065	5%
Singapore	23,492	4%
All others	64,531	10%
Total	<u>\$ 635,251</u>	<u>100%</u>

<u>2010</u>	<u>Revenue</u>	<u>% of Total Revenue</u>
China	\$ 187,633	31%
Taiwan	141,388	23%
U.S.	76,328	12%
Switzerland	58,583	10%
Korea	35,180	6%
Germany	31,704	5%
Singapore	24,468	4%
U.K.	24,337	4%
All others	33,265	5%
Total	<u>\$ 612,886</u>	<u>100%</u>

Major customers – No customer accounted for 10% or greater of the Company’s total net sales in 2012, 2011 and 2010.

DIODES INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Table amounts in thousands except per share data)

NOTE 16 – COMMITMENTS

Operating leases – The Company leases offices, manufacturing plants and warehouses under operating lease agreements expiring through December 2018. Rental expense amounted to approximately \$7 million for the years ended December 31, 2012, 2011 and 2010.

Future minimum lease payments under non-cancelable operating leases at December 31, 2012 are:

2013	\$ 6,404
2014	3,947
2015	2,799
2016	2,370
2017 and thereafter	2,317
	<u>\$ 17,837</u>

Purchase commitments – The Company has entered into non-cancelable purchase contracts for capital expenditures, primarily for manufacturing equipment in China, for approximately \$10 million at December 31, 2012.

Other commitments – During 2010, The Company announced an investment agreement with the Management Committee of the Chengdu Hi-Tech Industrial Development Zone (the “CDHT”). Under this agreement, The Company has agreed to form a joint venture with a Chinese partner, Chengdu Ya Guang Electronic Company Limited, to establish a semiconductor manufacturing facility for surface-mounted component production, assembly and test in Chengdu, China. The Company initially will own at least 95% of the joint venture. The manufacturing facility will be developed in phases over a ten year period, and in order to qualify for certain financial incentives, the Company was obligated to contribute at least \$48 million to the joint venture in installments by December 14, 2012. Due to pending approval from the Chinese government for completion of the restructuring of the Company’s China corporate entities, it received an extension to contribute the required amount until December 31, 2013. The CDHT will grant the joint venture a fifty year land lease, provides temporary facilities for up to three years at a subsidized rent while the joint venture builds the manufacturing facility and provides corporate and employee tax incentives, tax refunds, subsidies and other financial support to the joint venture and its qualified employees. If the joint venture fails to achieve specified levels of investment, the investment agreement allows for a renegotiation as well as the option to repay a portion of such financial support. This is a long-term, multi-year project that will provide additional capacity for the Company has needed. As of December 31, 2012, the Company has invested approximately \$25 million of which \$20 million were for capital expenditures.

NOTE 17 – BUSINESS COMBINATION

Eris Technology Corporation

Prior to August 31, 2012, the Company owned less than 50% of the outstanding common stock of Eris, a publicly traded company listed on Taiwan’s GreTai Securities Market that provides design, manufacturing and after-market services for diode products. The Company elected the fair value option to account for its less than 50% ownership that otherwise would have been accounted for under the equity method of accounting. See Note 2 for further information about the fair value option.

On August 31, 2012, the Company acquired approximately 51% of the outstanding common stock of Eris. The Company has accounted for the additional purchase of shares as a business combination achieved in stages (“step acquisition”) and consolidated Eris beginning September 1, 2012. The consolidated revenue for Eris for the period ended December 31, 2012 was approximately \$3 million. The Company may from time to time seek to purchase additional shares of Eris common stock in the open market, in privately negotiated transactions or otherwise. Such purchases, if any, will depend on prevailing market conditions, the Company’s liquidity requirements, and other factors. The amounts involved may be material.

The Company’s purpose for obtaining a controlling interest in Eris was to expand its semiconductor product offerings and to maximize its market opportunities. In addition, the Company’s main interest in Eris is for its automatic manufacturing capabilities in test and assembly for various diode products. The business scope for Eris comprises Schottky Diodes, TVS Diodes, Zener Diodes, Bridge Diodes, Wafers, LEDs and the relevant devices.

DIODES INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Table amounts in thousands except per share data)

Under the accounting guidance for step acquisitions, the Company is required to record all assets acquired, liabilities assumed, and noncontrolling interests at fair value, and recognize the entire goodwill of the acquired business. The step acquisition guidelines also require that the Company remeasure its preexisting investment in Eris at fair value, and recognize any gains or losses from such remeasurement. The fair value of the Company's interest immediately before the closing date was \$27 million, which resulted in the Company recognizing a non-cash gain of approximately \$2 million within other income (expense) for the year ended December 31, 2012. The shares of Eris common stock were valued under the fair value hierarchy as a Level 1 Input. In addition, Level 1 Input fair value measurements were used to measure both the fair value of the Company's preexisting investment and the fair value of the noncontrolling interest, which was \$26 million.

The Company recorded \$8 million of goodwill (which is not deductible for tax purposes) and \$18 million of intangible assets associated with this acquisition. The intangible assets associated with this acquisition consist primarily of finite-lived intangibles of \$15 million for developed technology and customer relationships to be amortized on a straight-line basis over a period of 12 years and 10 years, respectively. In addition, an indefinite-lived trade name in the amount of \$3 million was also recorded. The fair value of the significant identified intangible assets was estimated by using the market approach, income approach and cost approach valuation methodologies. Inputs used in the methodologies primarily included projected future cash flows, discounted at a rate commensurate with the risk involved.

Unaudited pro forma results of operations assuming this acquisition had taken place at the beginning of each period are not provided as this acquisition does not meet the definition of a material business combination.

Power Analog Microelectronics, Inc.

On October 29, 2012, the Company acquired Power Analog Microelectronics, Inc. ("PAM") for \$16 million, \$3 million of which was held back and will be paid over the next two years subject to the satisfaction of certain terms and conditions. PAM is a provider of advanced analog and high-voltage power ICs, and its product portfolio includes Class D audio amplifiers, DC-DC converters and LED backlighting drivers. PAM was founded in Silicon Valley in 2004 and has technical and business centers in Shanghai, Shenzhen, Taipei and Tokyo.

The Company acquired PAM as it believes PAM will strengthen its position as a global provider of high-quality analog products by expanding Diodes' product portfolio with innovative 'filter-less' digital audio amplifiers, application-specific power management ICs, as well as high-performance LED drivers and DC-DC converters.

The Company recorded \$9 million of goodwill (which is not deductible for tax purposes) and \$6 million of intangible assets associated with this acquisition. The intangible assets associated with this acquisition consist of finite-lived intangibles for developed technology and customer relationships to be amortized on a straight-line basis over a period of 3 to 12 years. The fair value of the significant identified intangible assets was estimated by using the market approach, income approach and cost approach valuation methodologies. Inputs used in the methodologies primarily included projected future cash flows, discounted at a rate commensurate with the risk involved.

The consolidated revenue for PAM for the year ended December 31, 2012 was approximately \$1 million. Unaudited pro forma results of operations assuming this acquisition had taken place at the beginning of each period are not provided as this acquisition does not meet the definition of a material business combination.

BCD Semiconductor Manufacturing Limited

On December 26, 2012, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with BCD. Under the Merger Agreement, each ordinary share, par value \$0.001 per share, of BCD (the "Shares"), including Shares represented by American Depositary Shares ("ADSs"), will be cancelled in exchange for the right to receive \$1.33-1/3 in cash per Share, without interest. Each ADS represents six Shares and will be converted into the right to receive \$8.00 in cash, without interest. The aggregate consideration will be approximately \$151 million. The acquisition is expected to be funded by a combination of the Company's cash resources and drawings on the Company's bank credit facilities. The acquisition is expected to close late in the first quarter or early in the second quarter of 2013. See Notes 7 and 19 for additional information regarding the Company's bank credit facilities.

The acquisition is subject to customary conditions, including the affirmative vote of shareholders representing two-thirds or more of the Shares present and voting in person or by proxy as a single class at BCD's shareholder meeting to be held in accordance with the Cayman Companies Law, the affirmative vote of a majority of the Shares present and voting in person or by proxy at such

[Table of Contents](#)**DIODES INCORPORATED AND SUBSIDIARIES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Table amounts in thousands except per share data)

shareholder meeting and held by shareholders other than BCD's directors and executive officers, and no more than 20% of BCD's issued and outstanding Shares have validly exercised and not effectively withdrawn or lost their rights to dissent from the Merger prior to such shareholder meeting pursuant to Section 238 of the Cayman Companies Law.

BCD's directors have agreed to unanimously recommend that BCD's shareholders vote in favor of the Merger, and the Company has received undertakings to vote in favor of the Merger from directors and certain officers of BCD. These undertakings are irrevocable except in specified circumstances. BCD has agreed to pay the Company a fee of \$6 million in certain circumstances, including in the event BCD's board of directors authorizes BCD to enter into another agreement. The Merger Agreement sets forth, among other things, various matters in relation to the implementation of the Merger, cooperation in relation to the Merger, the conduct of BCD's business.

The Company's purpose for entering into the Merger Agreement is in line with its strategy to expand its market and growth opportunities through select strategic acquisitions. This acquisition will enhance the Company's analog product portfolio by expanding its standard linear and power management offerings, including AC/DC and DC/DC solutions for power adapters and chargers, as well as other electronics products. BCD's established presence in Asia with a particularly strong local market position in China offers the Company even greater penetration of the consumer, computing and communications markets. Likewise, the Company can achieve increased market penetration for BCD's products by leveraging its global customer base and sales channels. In addition, BCD has in-house manufacturing capabilities in China, as well as a cost-effective development team that can be deployed across multiple product families. The Company will also be able to apply its packaging capabilities and expertise to BCD's products in order to improve cost efficiencies, utilization as well as product mix.

NOTE 18 – SELECTED QUARTERLY FINANCIAL DATA (Unaudited)

	Quarter Ended			
	March 31	June 30	Sept. 30	Dec. 31 (i)
Fiscal 2012				
Net sales	\$ 144,663	\$ 159,239	\$ 166,617	\$ 163,287
Gross profit	33,706	41,028	43,605	43,247
Net income attributable to common shareholders	4,871	6,653	8,553	4,075
Earnings per share attributable to common shareholders				
Basic	\$ 0.11	\$ 0.15	\$ 0.19	\$ 0.09
Diluted	0.10	0.14	0.18	0.09
	Quarter Ended			
	March 31	June 30	Sept. 30	Dec. 31
Fiscal 2011				
Net sales	\$ 161,555	\$ 169,806	\$ 160,577	\$ 143,313
Gross profit	57,393	55,615	45,194	35,495
Net income attributable to common shareholders	19,684	17,981	9,957	3,115
Earnings per share attributable to common shareholders				
Basic	\$ 0.44	\$ 0.38	\$ 0.22	\$ 0.07
Diluted	0.42	0.37	0.21	0.07

Note: The sum of the quarterly earnings per share may not equal the full year amount, as the computations of the weighted average number of common shares outstanding for each quarter and for the full year are performed independently.

(i) In the fourth quarter of 2012, a correction of the 2011 foreign tax credits valuation allowance was recorded.

DIODES INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Table amounts in thousands except per share data)

NOTE 19 – SUBSEQUENT EVENTS

On January 8, 2013, the Company and Diodes International B.V. (the “Foreign Borrower” and collectively with the Company, the “Borrowers”) and certain subsidiaries of the Company as guarantors, entered into a Credit Agreement (the “New Credit Agreement”) with Bank of America and other participating lenders (collectively, the “Lenders”).

The New Credit Agreement provides for a five-year, \$300 million revolving senior credit facility (the “Revolver”), which includes \$10 million swing line sublimit, a \$10 million letter of credit sublimit, and \$20 million alternative currency sublimit. The Borrowers may from time to time request increases in the aggregate commitment under the New Credit Agreement of up to \$200 million, subject to the Lenders electing to increase their commitments or by means of the addition of new Lenders, and subject to at least half of each increase in aggregate commitment being in the form of term loans (“Incremental Term Loans”), with the remaining amount of each being an increase the amount of the Revolver.

The Revolver matures on January 8, 2018 (the “Revolver Maturity Date”). Incremental Term Loans mature no earlier than the Revolver Maturity Date. The proceeds under the Revolver and the Incremental Term Loans may be used for the purposes of refinancing certain existing debt, for working capital and capital expenditures, and for general corporate purposes, including financing permitted acquisitions.

The Foreign Borrower’s obligations under the New Credit Agreement are guaranteed by the Company. Each Borrower’s obligations under the New Credit Agreement are guaranteed by certain of that Borrower’s subsidiaries. The Borrower’s obligations under the New Credit Agreement are secured by substantially all assets of the Borrowers and certain of their subsidiaries.

Under the Revolver, the Borrowers may borrow in United States Dollars (“USD”), Euros, British Pounds Sterling or another currency approved by the Lenders. Borrowed amounts bear interest at a rate per annum equal to the sum of (a) the highest of (i) the Federal Funds Rate plus $\frac{1}{2}$ of 1.00%, (ii) the rate of interest in effect for such day as publicly announced from time to time by Bank of America as its “prime rate,” and (iii) the Eurocurrency Rate plus 1.00%, plus (b) an amount between 0.50% per annum and 1.25% per annum, based upon the Borrowers’ and their subsidiaries’ Consolidated Leverage Ratio. Eurocurrency loans bear interest at LIBOR plus an amount between 1.50% and 2.25% per annum, based upon the Borrowers’ and their subsidiaries’ Consolidated Leverage Ratio.

Incremental Term Loans will be on pricing and amortization terms to be agreed upon.

The New Credit Agreement 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 restrictive payments (including dividends).

As part of the New Credit agreement, the Company’s Credit Agreement with Bank of America, as amended, was terminated with no penalties and on January 8, 2013, the Company drew down \$45 million on the Revolver to retire the existing Term Loan and pay fees and expenses in connection with entering into the New Credit Agreement. In addition, the Company intends to draw down on the Revolver to, at least partially, fund the acquisition of BCD. See Note 7 for additional information regarding the Company’s Credit Agreement and Note 17 about the acquisition of BCD.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DIODES INCORPORATED (Registrant)

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

February 27, 2013

By: /s/ Richard D. White
RICHARD D. WHITE
Chief Financial Officer, Secretary, and Treasurer
(Principal Financial and Accounting Officer)

February 27, 2013

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints Dr. Keh-Shew Lu, President and Chief Executive Officer, and Richard D. White, Chief Financial Officer, Secretary, and Treasurer, his true and lawful attorneys-in-fact and agents, with full power of substitution, to sign and execute on behalf of the undersigned and any and all amendments to this report, and to perform any acts necessary in order to file the same, with all exhibits thereto and other documents in connection therewith with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requested and necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agents, or their or his or her substitutes, shall do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on February 27, 2013.

/s/ Keh-Shew, Lu
KEH-SHEW LU
President and Chief Executive Officer
(Principal Executive Officer)

/s/ Richard D. White
RICHARD D. WHITE
Chief Financial Officer, Secretary, and Treasurer
(Principal Financial and Accounting Officer)

/s/ Raymond Soong
RAYMOND SOONG
Chairman of the Board of Directors

/s/ C.H. Chen
C.H. CHEN
Director

/s/ Michael R. Giordano
MICHAEL R. GIORDANO
Director

/s/ L.P. Hsu
L.P. HSU
Director

/s/ Keh-Shew Lu
KEH-SHEW LU
Director

/s/ John M. Stich
JOHN M. STICH
Director

/s/ Michael K.C. Tsai
MICHAEL K.C. TSAI
Director

INDEX TO EXHIBITS

<u>Number</u>	<u>Description</u>	<u>Form</u>	<u>Date of First Filing</u>	<u>Exhibit Number</u>	<u>Filed Herewith</u>
3.1	Certificate of Incorporation, as amended.	S-3	September 8, 2005	3.1	
3.2	Amended By-laws of the Company dated May 21, 2012	8-K	May 24, 2012	3.1	
4.1	Form of Certificate for Common Stock, par value \$0.66 2/3 per share	S-3	August 25, 2005	4.1	
4.2	Form of Convertible Senior Notes due 2026	S-3	October 4, 2006	4.1	
4.3	Form of Indenture for the Convertible Senior Notes due 2026	S-3	October 4, 2006	4.3	
10.1*	Company's 1993 Non-Qualified Stock Option Plan	S-8	May 9, 1994		
10.2*	Company's 1993 Incentive Stock Option Plan	10-K	March 31, 1995		
10.3	Loan Agreement between the Company and FabTech Incorporated	10-K	April 1, 1996	10.16	
10.4	KaiHong Joint Venture Agreement between the Company and Mrs. J.H. Xing	10-K	April 1, 1996	10.17	
10.5*	2001 Omnibus Equity Incentive Plan	DEF14A	April 27, 2001	B	
10.6	Sale and Leaseback Agreement between Shanghai Kaihong Electronic Co., Ltd. and Shanghai Ding Hong Company, Ltd.	10-Q	May 15, 2002	10.46	
10.7	Lease Agreement between Shanghai Kaihong Electronic Co., Ltd. and Shanghai Ding Hong Company, Ltd.	10-Q	May 15, 2002	10.47	
10.8	Lease Agreement for Plant #2 between Shanghai Kaihong Electronic Co., Ltd. and Shanghai Ding Hong Electronic Equipment Limited	10-Q	August 9, 2004	10.52	
10.9	Amendment to The Sale and Lease Agreement dated as January 31, 2002 with Shanghai Ding Hong Electronic Co., Ltd.	10-Q	August 9, 2004	10.56	
10.10	Lease Agreement between Diodes Shanghai Co., Ltd. (a/k/a Shanghai Kaihong Technology) and Shanghai Yuan Hao Electronic Co., Ltd.	10-Q	August 9, 2004	10.57	
10.11	Supplementary to the Lease agreement dated as September 30, 2003 with Shanghai Ding Hong Electronic Co., Ltd.	10-Q	August 9, 2004	10.58	
10.12*	Employment agreement between the Company and Mark King, dated August 29, 2005	8-K	September 2, 2005	10.2	
10.13*	Employment agreement between the Company and Joseph Liu, dated August 29, 2005	8-K	September 2, 2005	10.3	
10.14*	Form of Indemnification Agreement between the Company and its directors and executive officers.	8-K	September 2, 2005	10.5	
10.15	Wafer purchase Agreement dated January 10, 2006 between Diodes Taiwan Inc. and Lite-On Semiconductor Corporation	8-K	January 12, 2006	2.1	
10.16	Supplementary to the Lease Agreement dated on September 5, 2004 with Shanghai Ding Hong Electronic Co., Ltd.	10-Q	May 10, 2006	10.14	
10.17	Supplementary to the Lease Agreement dated on June 28, 2004 with Shanghai Yuan Hao Electronic Co., Ltd.	10-Q	May 10, 2006	10.15	
10.18	Agreement on Application, Construction and Transfer of Power Facilities, dated as of March 15, 2006, between the Company and Shanghai Yahong Electronic Co., Ltd	10-Q	May 10, 2006	10.16	
10.19	Amended and Restated Lease Agreement dated as of September 1, 2006, between Diodes FabTech Inc. with Townsend Summit, LLC	8-K	October 11, 2006	10.1	
10.20*	Deferred Compensation Plan effective January 1, 2007	8-K	January 8, 2007	99.1	

INDEX TO EXHIBITS (continued)

<u>Number</u>	<u>Description</u>	<u>Form</u>	<u>Date of First Filing</u>	<u>Exhibit Number</u>	<u>Filed Herewith</u>
10.21	A Supplement dated January 1, 2007 to the Lease Agreement on Disposal of Waste and Scraps between Diodes Shanghai Co., Ltd. (a/k/a Shanghai Kaihong Technology) and Shanghai Yuan Hao Electronic Co., Ltd.	10-K	February 29, 2008	10.50	
10.22	A Supplement dated January 1, 2007 to the Lease Agreement on Disposal of Waste and Scraps between Shanghai Kaihong Electronic Co., Ltd. and Shanghai Ding Hong Electronic Co., Ltd	10-K	February 29, 2008	10.51	
10.23	Supplementary Agreement dated December 31, 2007 to the Lease Agreement dated June, 28, 2004 for Leasing Diodes Shanghai New Building's Fourth and Fifth Floor between Diodes Shanghai Co., Ltd. (a/k/a Shanghai Kaihong Technology) and Shanghai Yuan Hao Electronic Co., Ltd.	10-K	February 29, 2008	10.53	
10.24	Accommodation Building Fourth and Fifth Floor Lease Agreement dated December 31, 2007 between Diodes Shanghai Co., Ltd. (a/k/a Shanghai Kaihong Technology) and Shanghai Ding Hong Electronic Co., Ltd.	10-K	February 29, 2008	10.54	
10.25	Consulting Agreement between the Company and Mr. M.K. Lu.	10-K	February 29, 2008	10.55	
10.26	Service Agreement between Diodes Zetex Limited and Colin Keith Greene, dated June 30, 2008.	10-Q	August 11, 2008	10.2	
10.27	Fourth Floor of the Accommodation Building Lease Agreement dated January 1, 2008, between Diodes Shanghai Co., Ltd. (a/k/a Shanghai Kaihong Technology) and Shanghai Ding Hong Electronic Co., Ltd.	10-Q	August 11, 2008	10.5	
10.28	Factory Building Lease Agreement dated March 1, 2008 between Diodes Shanghai Co., Ltd. (a/k/a Shanghai Kaihong Technology) and Shanghai Yuan Hao Electronic Co. Ltd.	10-Q	August 11, 2008	10.6	
10.29	Supplemental Agreement to the Factory Building Lease Agreement dated as of August 11, 2008 between Diodes Shanghai Co., Ltd. (a/k/a Shanghai Kaihong Technology) and Shanghai Yuan Hao Electronic Co., Ltd.	10-Q	November 7, 2008	10.2	
10.30	Distributorship Agreement dated November 1, 2008 between Diodes Shanghai Co., Ltd. (a/k/a Shanghai Kaihong Technology) and Shanghai Keylink Logistic Co., Ltd.	10-K	February 26, 2009	10.83	
10.31	Lease Facility Safety Management Agreement dated December 31, 2008 between Diodes Shanghai Co., Ltd. (a/k/a Shanghai Kaihong Technology) and Shanghai Yuan Howe Electronic Co., Ltd.	10-K	February 26, 2009	10.84	
10.32	Company's 2001 Omnibus Equity Incentive Plan, as amended December 22, 2008	10-K	February 26, 2009	10.87	
10.33	Company's Deferred Compensation Plan Effective January 1, 2007, as amended December 22, 2008	10-K	February 26, 2009	10.88	
10.34	Second Supplemental Agreement to the Factory Building Lease Agreement dated August 19, 2009 between Diodes Shanghai Co., Ltd. (a/k/a Shanghai Kaihong Technology) and Shanghai Yuan Hao Electronic Co., Ltd.	10-Q	November 16, 2009	10.1	
10.35	Employment Agreement dated as of September 22, 2009, between the Company and Keh-Shew Lu	8-K	September 28, 2009	99.1	

[Table of Contents](#)

INDEX TO EXHIBITS (continued)

<u>Number</u>	<u>Description</u>	<u>Form</u>	<u>Date of First Filing</u>	<u>Exhibit Number</u>	<u>Filed Herewith</u>
10.36***	Stock Award Agreement dated as of September 22, 2009, between the Company and Keh-Shew Lu	8-K	September 28, 2009	99.3	
10.37	Consulting Agreement dated January 1, 2009, between Diodes Incorporated and Keylink International (B.V.I.) Co., Ltd.	10-Q	May 8, 2009	10.1	
10.38	Power Facility Construction Agreement dated October 29, 2009 between Diodes Shanghai Co., Ltd. (a/k/a Shanghai Kaihong Technology) and Shanghai Yuan Hao Electronic Co., Ltd.	10-K	March 1, 2010	10.97	
10.39	First Amendment to the DSH #2 Building Lease Agreement dated December 31, 2009 between Diodes Shanghai Co., Ltd. (a/k/a Shanghai Kaihong Technology) and Shanghai Yuan Howe Electronics Co., Ltd.	10-K	March 1, 2010	10.98	
10.40	Amendment, dated March 31, 2010, to the Credit Agreement among the Company, Diodes Zetex Limited and Bank of America, N.A.	10-Q	May 7, 2010	10.1	
10.41	Construction Project Contract between Diodes Shanghai Co., Ltd. (a/k/a Shanghai Kaihong Technology) and Shanghai Yuan Howe Electronic Co., Ltd.	10-Q	May 7, 2010	10.2	
10.42	Third Floor of the Accommodation Building Lease Agreement, dated April 12, 2010, between Diodes Shanghai Co., Ltd. (a/k/a Shanghai Kaihong Technology) and Shanghai Ding Hong Electronic Co., Ltd.	10-Q	May 7, 2010	10.3	
10.43	First Amendment to Credit Agreement, dated July 16, 2010, among the Company, Diodes Zetex Limited and Bank of America, N.A.	10-Q	August 6, 2010	10.1	
10.44*****	Credit Agreement, dated November 25, 2009, by and among the Company, Diodes Zetex Limited and Bank of America, N.A.	10-Q	August 6, 2010	10.2	
10.45	Second Floor of the Accommodation Building Lease Agreement, dated September 1, 2010, between Diodes Shanghai Co., Ltd. (a/k/a Shanghai Kaihong Technology) and Shanghai Ding Hong Electronic Company Limited.	10-Q	November 9, 2010	10.1	
10.46	Security Guards Transfer Memorandum of Understanding, dated September 1, 2010, between Diodes Shanghai Co., Ltd. (a/k/a Shanghai Kaihong Technology) and Shanghai Yuan Hao Electronic Company Limited.	10-Q	November 9, 2010	10.2	
10.47***	Investment Cooperation Agreement effective as of September 10, 2010, between Diodes Hong Kong Holding Company Limited and the Management Committee of the Chengdu Hi-Tech Industrial Development Zone.	8-K	September 16, 2010	99.1	
10.48***	Supplementary Agreement to the Investment Cooperation Agreement effective as of September 10, 2010, between Diodes Hong Kong Holding Company Limited and the Management Committee of the Chengdu Hi-Tech Industrial Development Zone.	8-K	September 16, 2010	99.2	
10.49***	Joint Venture Agreement effective as of November 5, 2010 between Diodes Hong Kong Holding Company Limited and Chengdu Ya Guang Electronic Company Limited.	8-K	November 12, 2010	99.1	
10.50	Joint Venture Agreement Supplement Concerning the Establishment of Diodes Technology (Chengdu) Company Limited effective as of November 5, 2010, between Diodes Hong Kong Holding Company Limited and Chengdu Ya Guang Electronic Company Limited.	8-K	November 12, 2010	99.2	
10.51	Second Amendment to Credit Agreement, dated November 24, 2010, among the Company, Diodes Zetex Limited and Bank of America, N.A.	8-K	December 1, 2010	10.1	
10.52	Third Amendment to Credit Agreement, dated February 9, 2011, among the Company, Diodes Zetex Limited and Bank of America, N.A.	8-K	February 15, 2011	10.1	
10.53	Second Amendment to the DSH #2 Building Lease Agreement, dated November 15, 2010, between Diodes Shanghai Co., Ltd. (a/k/a Shanghai Kaihong Technology) and Shanghai Yuan Howe Electronics Company Limited.	10-K	February 28, 2012	10.112	

INDEX TO EXHIBITS (continued)

<u>Number</u>	<u>Description</u>	<u>Form</u>	<u>Date of First Filing</u>	<u>Exhibit Number</u>	<u>Filed Herewith</u>
10.54	Power Facility Expansion Construction Contract, dated January 24, 2011, between Diodes Shanghai Co., Ltd. (a/k/a Shanghai Kaihong Technology) and Shanghai Yuan Howe Electronics Company Limited.	10-K	February 28, 2011	10.113	
10.55	First Floor of the Accommodation Building Agreement, dated June 1, 2011, between Diodes Shanghai Co., Ltd. (a/k/a Shanghai Kaihong Technology) and Shanghai Ding Hong Electronic Company Limited.	10-Q	November 9, 2011	10.1	
10.56	Third Floor of the Dormitory Building Lease Agreement, dated July 1, 2011, between Diodes Shanghai Co., Ltd. (a/k/a Shanghai Kaihong Technology) and Shanghai Ding Hong Electronic Company Limited.	10-Q	November 9, 2011	10.2	
10.57	Third Supplemental Agreement to the Factor Building Lease Agreement, dated May 16, 2011, between Diodes Shanghai Co., Ltd. (a/k/a Shanghai Kaihong Technology) and Shanghai Yuan Hao Electronic Company Limited.	10-Q	November 9, 2011	10.3	
10.58	Supplemental Agreement to the Power Facility Construction Agreement, dated March 21, 2011, between Shanghai Kai Hong Technology Company Limited and Shanghai Yuan Hao Electronic Company Limited.	10-Q	August 9, 2011	10.1	
10.59	Credit Agreement, dated March 21, 2011, between Mega International Commercial Bank and Diodes Taiwan Inc.	10-Q	August 9, 2011	10.2	
10.60*****	Exchange Agreement dated September 28, 2009, between the Company and Raymond James & Associates, Inc.	10-K	February 28, 2012	10.61	
10.61	Fourth Amendment to Credit Agreement, dated November 23, 2011, by and among Diodes Incorporated, Diodes Zetex Limited and Bank of America, N.A.	10-K	February 28, 2012	10.62	
10.62	Fifth Amendment to Credit Agreement, dated February 1, 2012, by and among Diodes Incorporated, Diodes Zetex Limited, Diodes International B.V. and Bank of America, N.A.	8-K	February 7, 2012	10.1	
10.63	Notice to Trustee of Optional Redemption dated October 12, 2011	8-K	October 13, 2011	99.1	
10.64	Plating Process Agreement made and entered into among Shanghai Kaihong Electronic Co., Ltd., Diodes Shanghai Co., Ltd. (a/k/a Shanghai Kaihong Technology), Diodes Shanghai, Shanghai Ding Hong Electronic Co., Ltd. and Shanghai Micro-Surface Co., Ltd.	10-K	February 29, 2008	10.52	
10.65	Construction Design Consulting Agreement between Diodes Technology (Chengdu) Company Limited and Lite-On Technology Corporation.	10-Q	August 9, 2012	10.1	
10.66	Diodes Zetex Pension Scheme Recovery plan, dated February 28, 2012, between Trustees of the Diodes Zetex Pension Scheme and Diodes Zetex Limited	10-Q	August 9, 2012	10.2	
10.67	Diodes Zetex Pension Scheme Schedule of contributions, dated March 28, 2012, between Trustees of the Diodes Zetex Pension Scheme and Diodes Zetex Limited	10-Q	August 9, 2012	10.3	
10.68	Framework Agreement, dated March 26, 2012, among Diodes Zetex Limited, Diodes Zetex Semiconductors Limited, Diodes Incorporated, HR Trustees Limited, and Trustees	10-Q	August 9, 2012	10.4	

[Table of Contents](#)

INDEX TO EXHIBITS (continued)

<u>Number</u>	<u>Description</u>	<u>Form</u>	<u>Date of First Filing</u>	<u>Exhibit Number</u>	<u>Filed Herewith</u>
10.69	Guarantee, dated March 26, 2012, among Diodes Zetex Semiconductors Limited, Diodes Zetex Limited, HR Trustees Limited, and Trustees	10-Q	August 9, 2012	10.5	
10.70	Diodes Zetex Pension Scheme Information Protocol, dated April 10, 2012, among Diodes Zetex Limited, Diodes Zetex Semiconductors Limited, the Company, HR Trustees Limited and Trustees	10-Q	August 9, 2012	10.6	
10.71	Legal Charge, dated March 26, 2012, among Zetex Semiconductors Limited, HR Trustees Limited, and Trustees	10-Q	August 9, 2012	10.7	
10.72	Sixth Amendment to Credit Agreement, dated April 30, 2012, by and among the Company, Diodes Zetex Limited, Diodes International B.V., and Bank of America, N.A.	10-Q	November 9, 2012	10.1	
10.73***	Credit Agreement, dated January 8, 2013, by and among the Company, Diodes International B.V., Diodes Investment Company, Diodes FabTech Inc., Diodes Holdings UK Limited, Diodes Zetex Limited, Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer, and the other Lenders party thereto.	8-K	January 11, 2013	99.1	
10.74	Agreement and Plan of Merger by and among the Company, Diodes Cayman Islands Company Limited and BCD Semiconductor Manufacturing Limited, dated as of December 26, 2012.	10-K	February 27, 2013	10.74	X
10.75	Second Supplementary Agreement, dated as of January 23, 2013, to the Investment Cooperation Agreement effective as of September 10, 2010, by and among Diodes Hong Kong Holding Company Limited, Diodes (Shanghai) Investment Company Limited, Diodes Technology (Chengdu) Company Limited, and the Management Committee of the Chengdu Hi-Tech Industrial Development Zone	10-K	February 27, 2013	10.75	X
10.76	DSH #2 Building Lease Agreement dated as of January 28, 2013 between Diodes Shanghai Co., Ltd. (a/k/a Shanghai Kaihong Technology) and Shanghai Yuan Howe Electronics Co., Ltd.	10-K	February 27, 2013	10.76	X
14**	Code of Ethics for Chief Executive Officer and Senior Financial Officers				
21	Subsidiaries of the Registrant				X
23.1	Consent of Independent Registered Public Accounting Firm				X
31.1	Certification Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				X
31.2	Certification Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				X
32.1****	Certification Pursuant to 18 U.S.C. adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				X
32.2****	Certification Pursuant to 18 U.S.C. adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				X
101.INS*****	XBRL Instance Document				X
101.SCH*****	XBRL Taxonomy Extension Schema				X
101.CAL*****	XBRL Taxonomy Extension Calculation Linkbase				X
101.LAB*****	XBRL Taxonomy Extension Labels Linkbase				X
101.DEF*****	XBRL Taxonomy Extension Definition Linkbase				X
101.PRE*****	XBRL Taxonomy Extension Presentation Linkbase				X

INDEX TO EXHIBITS (continued)

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

** Provided in the Corporate Governance portion of the Investor Relations section of the Company's website at <http://www.diodes.com>.

*** Confidential treatment has been requested with respect to the omitted portions of these exhibits, which portions have been filed separately with the Securities and Exchange Commission.

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

***** Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability.

***** This exhibit supersedes the exhibit 10.1 to the Form 8-K that was filed on December 2, 2009.

***** This document was refiled pursuant to the expiration of the order granting confidential treatment on November 20, 2009 under the Securities Exchange Act of 1934.

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 Annual Report on Form 10-K. 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.

Final

AGREEMENT AND PLAN OF MERGER
BY AND AMONG
DIODES INCORPORATED
DIODES CAYMAN ISLANDS COMPANY LIMITED
AND
BCD SEMICONDUCTOR MANUFACTURING LIMITED
Dated as of December 26, 2012

AGREEMENT AND PLAN OF MERGER

AGREEMENT AND PLAN OF MERGER, dated as of December 26, 2012 (this “*Agreement*”), by and among DIODES INCORPORATED, a corporation incorporated in the State of Delaware (“*Diodes*”), DIODES CAYMAN ISLANDS COMPANY LIMITED, an exempted company incorporated in the Cayman Islands with number 274088 and a wholly-owned subsidiary of Diodes (“*Merger Sub*”), and BCD SEMICONDUCTOR MANUFACTURING LIMITED, an exempted company incorporated in the Cayman Islands (the “*Company*”). Each of the parties to this Agreement is individually referred to herein as a “*Party*” and collectively as the “*Parties*.” Capitalized terms used herein that are not otherwise defined herein shall have the meanings ascribed to them in Annex A hereto.

BACKGROUND

RECITALS

WHEREAS, the Parties intend to effect a merger (the “*Merger*”) in which Merger Sub will be merged with and into the Company, with the Company surviving the Merger on the terms and subject to the conditions set forth herein (subject to exceptions as stated in the Cayman Plan of Merger);

WHEREAS, in the Merger, upon the terms and subject to the conditions of this Agreement, each ordinary share, par value \$0.001 per share, of the Company will be converted into the right to receive the Per Share Merger Consideration;

WHEREAS, the Board of Directors of the Company has unanimously (a) determined that it is in the best interests of the Company and its shareholders, and declared it advisable, to enter into this Agreement with Diodes and Merger Sub, (b) approved the execution, delivery and performance of this Agreement and the consummation of the Transactions contemplated hereby, including the Merger, and (c) resolved, subject to the terms and conditions set forth in this Agreement, to recommend the approval and authorization of this Agreement and the Cayman Plan of Merger by the shareholders of the Company;

WHEREAS, the respective Boards of Directors of Diodes and Merger Sub have, on the terms and subject to the conditions set forth in this Agreement, unanimously approved the execution, delivery and performance of this Agreement and the consummation of the Transactions contemplated hereby, including the Merger, and Diodes has procured the passing of a resolution of the sole shareholder of Merger Sub approving and authorizing this Agreement and the Cayman Plan of Merger in accordance with the Cayman Companies Law;

WHEREAS, Diodes intends to enter into Voting Agreements with certain of the shareholders of the Company pursuant to which such shareholders, on the terms and subject to the conditions set forth herein, have agreed to vote or cause to be voted all of the Shares beneficially owned by such shareholders for the approval and adoption of the Merger, this Agreement and any related action reasonably required in furtherance thereof; and

WHEREAS, the Parties desire to make certain representations, warranties, covenants and agreements in connection with the Merger and the Transactions contemplated by this Agreement and also to prescribe certain conditions to the Merger.

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing and the respective representations, warranties, covenants and agreements set forth herein, and intending to be legally bound hereby, the Parties agree as follows:

ARTICLE I

The Merger

Section 1.1 The Merger. On the terms and subject to the conditions set forth in this Agreement, and in accordance with the Cayman Companies Law, at the Effective Time, (a) Merger Sub will merge with and into the Company, and (b) the separate corporate existence of Merger Sub will cease and the Company will continue its corporate existence under the Cayman Companies Law as the surviving corporation in the Merger (sometimes referred to herein as the “*Surviving Corporation*”).

Section 1.2 Closing. Upon the terms and subject to the conditions set forth herein, the closing of the Merger (the “*Closing*”) will take place at 10:00 a.m., California time, as soon as practicable (and, in any event, within three (3) Business Days) after satisfaction or, to the extent permitted hereunder, waiver of all conditions to the Merger set forth in ARTICLE VIII (other than those conditions that by their nature are to be satisfied at the Closing, but subject to the satisfaction or, to the extent permitted hereunder, waiver of all such conditions), unless this Agreement has been terminated pursuant to ARTICLE IX hereof or unless another time or date is agreed to in writing by the Parties hereto. The Closing shall be held at the offices of Sheppard Mullin Richter & Hampton, LLP, 379 Lytton Avenue, Palo Alto, California 94301, unless another place is agreed to in writing by the Parties hereto, and the actual date of the Closing is hereinafter referred to as the “*Closing Date*.”

Section 1.3 Effective Time. On or prior to the Closing, Merger Sub and the Company shall execute a plan of merger (the “*Cayman Plan of Merger*”) substantively in the form contained in Exhibit 1 hereto and the Parties hereto shall file the Cayman Plan of Merger and other documents required to effect the Merger by the Cayman Companies Law with the Registrar of Companies of the Cayman Islands as provided in Section 233 of the Cayman Companies Law. The Merger shall become effective on the date when the Cayman Plan of Merger is registered by the Registrar of Companies of the Cayman Islands, or on such later date (being not later than the 90th day after the date of such registration) as specified in Section 5 of the Cayman Plan of Merger in accordance with the Cayman Companies Law (the “*Effective Time*”).

Section 1.4 Effects of the Merger. The Merger shall have the effects set forth herein and in the applicable provisions of the Cayman Companies Law. Without limiting the generality of the foregoing, and subject thereto, from and after the Effective Time, all property, rights, privileges, immunities, powers, franchises, licenses and authority of the Company and Merger Sub shall vest in the Surviving Corporation, and all debts, liabilities, obligations, restrictions and duties of each of the Company and Merger Sub shall become the debts, liabilities, obligations, restrictions and duties of the Surviving Corporation.

Section 1.5 The Memorandum and Articles of Association. At the Effective Time, the memorandum and articles of association of Merger Sub as in effect immediately prior to the Effective Time shall be the memorandum and articles of association of the Surviving Corporation (except that, at the Effective Time, the memorandum and articles of association of the Surviving Corporation shall be amended to show the name of the corporation as “BCD Semiconductor Manufacturing Limited,” and all references in the memorandum and articles of association to the authorized capital of the Surviving Corporation shall be amended to correctly describe the authorized capital of the Surviving Corporation immediately following the Effective Time) (the “*Memorandum and Articles of Association*”) until thereafter changed or amended as provided therein or by applicable Law.

Section 1.6 Directors and Officers. The Parties shall take all actions necessary so that the directors and officers of Merger Sub at the Effective Time shall, from and after the Effective Time, be the directors and officers of the Surviving Corporation, unless otherwise determined by Diodes prior to the Effective Time, until their successors have been duly elected or appointed and qualified or until their earlier death, resignation or removal in accordance with the Memorandum and Articles of Association.

ARTICLE II

Effect of Merger on Share Capital

Section 2.1 Effect on Issued Share Capital. At the Effective Time, by virtue of the Merger and without any action on the part of the Company, Diodes, Merger Sub or the shareholders of the Company:

(a) Merger Consideration. Each ordinary share, par value \$0.001 per share, of the Company (a “**Share**” or, collectively, the “**Shares**”), including Shares represented by American Depositary Shares, each representing six (6) Shares (the “**ADSs**”), issued and outstanding immediately prior to the Effective Time, other than the Excluded Shares, shall be cancelled in exchange for the right to receive US \$1.33-1/3 in cash per Share without interest payable in the manner provided herein (the “**Per Share Merger Consideration**”). As each ADS represents six (6) Shares, each ADS issued and outstanding immediately prior to the Effective Time, other than ADSs representing Excluded Shares, shall represent the right to receive US \$8.00 in cash without interest payable in the manner provided herein (the “**Per ADS Merger Consideration**”) pursuant to the terms and conditions set forth in the Deposit Agreement. At the Effective Time, all of the Shares, including Shares represented by ADSs and Excluded Shares, shall cease to be outstanding, shall be cancelled and shall cease to exist, and the register of members of the Company will be amended accordingly. Each Share (other than each Excluded Share) shall thereafter represent only the right to receive the Per Share Merger Consideration without interest, each Dissenting Share shall thereafter represent only the right to receive the applicable payments set forth in Section 2.1(j), and each Share and ADS owned by Diodes shall be treated pursuant to Section 2.1(b). For purposes of this Agreement, “**Excluded Shares**” means, collectively, (i) Shares and ADSs owned by Diodes and (ii) Shares owned by holders of Shares who have validly exercised and not effectively withdrawn or lost their rights to dissent from the Merger pursuant to Section 238 of the Cayman Companies Law (the “**Dissenting Shares**,” and holders of the Dissenting Shares, the “**Dissenting Shareholders**”). In the event that the Company changes the number of Shares or securities convertible into or exchangeable or exercisable for Shares issued and outstanding prior to the Effective Time as a result of a reclassification, share subdivision (including a reverse stock split), share dividend or distribution, recapitalization, merger, issuer self-tender or exchange offer, or any other similar transaction, the Per Share Merger Consideration, the Per ADS Merger Consideration, and any other amounts payable pursuant to Section 2.2 shall be appropriately adjusted to reflect such change and as so adjusted shall, from and after the date of such change, be the Per Share Merger Consideration and the Per ADS Merger Consideration.

(b) Cancellation of Excluded Shares. Each of the Excluded Shares, other than Dissenting Shares, issued and outstanding immediately prior to the Effective Time, shall cease to be outstanding, shall be cancelled and shall cease to exist without payment of any consideration or distribution therefor, and the register of members of the Company will be amended accordingly. Each of the Dissenting Shares, issued and outstanding immediately prior to the Effective Time, shall

cease to be outstanding, shall be cancelled in accordance with Section 238(15) of the Cayman Companies Law and shall cease to exist, in consideration for the right to receive the fair value of such Dissenting Share as provided in Section 2.1(j), and the register of members of the Company will be amended accordingly.

(c) Merger Sub. At the Effective Time, each share, par value US \$0.001 per share, of Merger Sub issued and outstanding immediately prior to the Effective Time, shall be converted into one fully paid and non-assessable share, par value US \$0.001 per share, of the Surviving Corporation. Such shares shall be the only issued and outstanding share capital of the Surviving Corporation and the Surviving Corporation shall make entries in its register of members to reflect the holder of shares of Merger Sub immediately prior to the Effective Time as the holder of shares of the Surviving Corporation after the Effective Time.

(d) Untraceable Shareholders. Remittances for the Per Share Merger Consideration shall not be sent to shareholders of the Company who are untraceable unless and until, except as provided below, they notify the Paying Agent of their current contact details prior to the Effective Time. A Company shareholder will be deemed to be untraceable if (i) such shareholder has no registered address in the register of members (or branch register) maintained by the Company or the Depositary, or (ii) notice of the Company Shareholders Meeting has been sent to such shareholder and has been returned undelivered. Any Company shareholder who is untraceable or deemed untraceable and who requests payment for the Per Share Merger Consideration subsequent to the Effective Time but within the time limits set forth in Section 2.1(h) shall be advised to contact the Surviving Corporation.

(e) Paying Agent. At the Effective Time, Diodes shall deposit, or shall cause to be deposited, with a bank or trust company selected by it with the Company's prior written approval (such approval not to be unreasonably withheld, conditioned or delayed) (the "**Paying Agent**"), for the benefit of the holders of Shares and ADSs, a cash amount in immediately available funds sufficient for the Paying Agent to make full and timely payments under Section 2.1(a) and Section 2.1(j) (such aggregate cash amount being hereinafter referred to as the "**Exchange Fund**"). If a Dissenting Shareholder effectively withdraws or loses its rights to dissent from the Merger pursuant to Section 238 of the Cayman Companies Law with respect to any Dissenting Shares, (i) such Dissenting Shares shall cease to be Excluded Shares and (ii) Diodes shall make available or cause to be made available to the Paying Agent additional funds in an amount equal to the product of (x) the number of Dissenting Shares for which such Dissenting Shareholder has withdrawn or lost its rights to dissent from the Merger pursuant to Section 238 of the Cayman Companies Law and (y) the Per Share Merger Consideration. The Paying Agent shall invest the Exchange Fund as directed by Diodes prior to the Effective Time and by the Surviving Corporation after the Effective Time; *provided that* Diodes or the Surviving Corporation, as applicable, shall not direct the Paying Agent to make any such investments that are speculative in nature. Any interest and other income resulting from such investments shall become a part of the Exchange Fund, and any amounts in excess of the aggregate amounts payable under Section 2.1(a) and Section 2.1(j) shall be returned to the Surviving Corporation in accordance with Section 2.1(h), and the Surviving Corporation or Diodes shall pay all charges and expenses of the Paying Agent. To the extent that there are any losses with respect to any such investments, or the Exchange Fund diminishes for any reason below the level required for the Paying Agent to make full and timely cash payments under Section 2.1(a) and Section 2.1(j), Diodes shall, or shall cause the Surviving Corporation to, promptly replace or restore the cash in the Exchange Fund so as to ensure that the Exchange Fund is at all times maintained at a level sufficient for the Paying Agent to make such payments under Section 2.1(a) and Section 2.1(j), and the Surviving Corporation and Diodes shall in any event remain liable for the full and timely payments under Section 2.1(a) and 2.1(j).

(f) Exchange Procedures. Promptly after the Effective Time (and in any event within (x) five (5) Business Days in the case of record holders and (y) three (3) Business Days in the case of the Depository on behalf of beneficial holders holding through brokers, nominees, custodians or through a third-party), the Surviving Corporation shall cause the Paying Agent to mail (or in the case of the Depository Trust Company, deliver) to each registered holder of Shares (other than holders of Excluded Shares) (i) a letter of transmittal specifying how the payment of amounts due from the Exchange Fund to registered holders of the Shares (other than holders of Excluded Shares) shall be effected, such letter of transmittal to be in such form and have such other provisions as Diodes and the Company may reasonably agree; and (ii) instructions for effecting the surrender of share certificates representing Shares (the “*Share Certificates*”) (or affidavits and indemnities of loss in lieu of the Share Certificate as provided in Section 2.1(i)) in exchange for the Per Share Merger Consideration. Upon surrender of a Share Certificate (or affidavit and indemnity of loss in lieu of the Share Certificate as provided in Section 2.1(i)) to the Paying Agent in accordance with the terms of such letter of transmittal, each registered holder of Shares represented by such Share Certificate and each registered holder of Shares which are not represented by a Share Certificate (“*Uncertificated Shares*”) (in each case, excluding any Excluded Shares) shall be entitled to receive in exchange therefor a check, in the amount equal to (x) the number of Shares represented by such Share Certificate (or affidavit and indemnity of loss in lieu of the Share Certificate as provided in Section 2.1(i)) or the number of Uncertificated Shares multiplied by (y) the Per Share Merger Consideration, and the Share Certificate so surrendered shall forthwith be marked as cancelled. Prior to the Effective Time, Diodes and the Company shall establish procedures with the Paying Agent and the Depository to ensure that (i) the Paying Agent will transmit to the Depository promptly following the Effective Time an amount in cash equal to the product of (x) the number of ADSs issued and outstanding immediately prior to the Effective Time (other than the ADSs representing the Excluded Shares) and (y) the Per ADS Merger Consideration and (ii) the Depository will distribute the Per ADS Merger Consideration to ADS holders pro rata to their holdings of ADSs upon surrender by them of the ADSs. Pursuant to the Deposit Agreement, the ADS holders will pay any applicable fees, charges and expenses of the Depository and government charges (other than withholding taxes if any) due to or incurred by the Depository in connection with distribution of the Per ADS Merger Consideration to ADS holders. No interest will be paid or accrued on any amount payable in respect of the Shares or ADSs. In the event of a transfer of ownership of Shares that is not registered in the register of members of the Company, a check for any cash to be paid in respect of such Shares may be issued to such transferee if the Share Certificates (if any) which immediately prior to the Effective Time represented such Shares are presented and surrendered to the Paying Agent, or in the case of Uncertificated Shares, sufficient documentation with respect to the ownership of such Uncertificated Shares by the transferee, accompanied by all documents reasonably required to evidence and effect such transfer and to evidence that any applicable share transfer taxes have been paid or are not applicable.

(g) Transfers. From and after the Effective Time, no transfers of Shares shall be effected in the register of members of the Company. If, after the Effective Time, any Share Certificate is presented to the Surviving Corporation, Diodes or the Paying Agent for transfer or any other reason, such Share Certificate shall be cancelled and (except for Excluded Shares) exchanged for the cash amount in immediately available funds to which the holder of the Shares evidenced by such Share Certificate is entitled pursuant to this Section 2.

(h) Termination of Exchange Fund. Any portion of the Exchange Fund (including the proceeds of any investments of the Exchange Fund) that remains unclaimed by the shareholders of the Company for nine (9) months after the Effective Time shall be delivered to the Surviving Corporation upon demand by the Surviving Corporation. Any holder of Shares (other than Excluded Shares) who has not theretofore complied with this Section 2 shall thereafter look only to

the Surviving Corporation for payment of the Per Share Merger Consideration to which such holder is entitled pursuant to this Section 2 upon due surrender of its Share Certificates (or affidavits and indemnities of loss in lieu of the Share Certificates as provided in Section 2.1(i)), or in the case of Uncertificated Shares, sufficient documentation with respect to the ownership of such Uncertificated Shares, without any interest thereon. Notwithstanding the foregoing, none of the Surviving Corporation, Diodes, the Paying Agent, the Depositary, the Company or any other Person shall be liable to any former holder of Shares for any amount properly delivered to a public official pursuant to applicable abandoned property, bona vacantia, escheat or similar Laws. Any amounts remaining unclaimed by such holders at such time at which such amounts would otherwise escheat to or become property of any Governmental Entity shall become, to the extent permitted by applicable Laws, the property of the Surviving Corporation or its designee, free and clear of all claims or interest of any Person previously entitled thereto.

(i) Lost, Stolen or Destroyed Certificates. In the event any Share Certificate shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the Person claiming such Share Certificate to be lost, stolen or destroyed and, if reasonably required by Diodes or by the Paying Agent, the granting of an indemnity and/or the posting by such Person of a bond in customary amount and upon such terms as may be reasonably required by Diodes or the Paying Agent as indemnity against any claim that may be made against it or the Surviving Corporation with respect to such Share Certificate, the Paying Agent will issue a check in the amount equal to (x) the number of Shares (other than Excluded Shares) represented by such lost, stolen or destroyed Share Certificate multiplied by (y) the Per Share Merger Consideration.

(j) Dissenters' Rights. No Person who has validly exercised such Person's rights to dissent from the Merger pursuant to Section 238 of the Cayman Companies Law shall be entitled to receive the Per Share Merger Consideration with respect to the Shares owned by such Person unless and until such Person shall have effectively withdrawn or lost such Person's rights to dissent from the Merger under the Cayman Companies Law. Each Dissenting Shareholder shall be entitled to receive only the fair value of such Shares owned by such Dissenting Shareholder as determined in accordance with the procedure in Section 238 of the Cayman Companies Law. The Company shall give Diodes (i) prompt notices of objection, notices of dissent, written demands for appraisal, attempted withdrawals of such notices or demands, and any other instruments served pursuant to the Cayman Companies Law that are received by the Company relating to Company shareholders' rights to dissent from the Merger; and (ii) the opportunity to direct all negotiations and proceedings with respect to the exercise of dissenter rights under the Cayman Companies Law. The Company shall not, except with the prior written Consent of Diodes, voluntarily make any payment with respect to any exercise by a shareholder of its rights to dissent from the Merger, any demands for appraisal, offer to settle or settle any such demands or approve any withdrawal of any such demands.

(k) Termination of Deposit Agreement. As soon as reasonably practicable after the Effective Time, the Surviving Corporation shall provide notice to the Depositary to terminate the Deposit Agreement in accordance with its terms.

(l) Agreement of Fair Value. Diodes, Merger Sub and the Company respectively agree that the Per Share Merger Consideration represents the fair value of the Shares for the purposes of Section 238(8) of the Cayman Companies Law.

Section 2.2 Company Stock Options.

(a) The Company shall take such action, including providing any notices and obtaining any Consents, as shall be required:

(1) to effectuate the cancellation, as of the Effective Time, of all Company Stock Options that are outstanding immediately prior to the Effective Time (without regard to the exercise price thereof); and

(2) to cause each outstanding Company Stock Option upon such cancellation to represent as of the Effective Time solely the right to receive from Diodes, in accordance with this Section 2.2, a lump sum cash payment in the amount of the Option Consideration, if any, with respect to such Company Stock Option and to no longer represent the right to purchase Shares or any other equity security of the Company, Diodes, the Surviving Corporation or any other Person or any other consideration.

(b) Each holder of a Company Stock Option shall receive from Diodes, in respect and in consideration of each Company Stock Option so cancelled, promptly following the Effective Time, an amount (net of applicable taxes) equal to the product of (i) the excess, if any, of (A) the Per Share Merger Consideration over (B) the exercise price per share of the Shares issuable upon exercise of such Company Stock Option, multiplied by (ii) the total number of Shares issuable upon exercise of such Company Stock Option, without any interest thereon (the “**Option Consideration**”). The Option Consideration shall be delivered to the recipient thereof promptly following the Effective Time through (x) the Company’s payroll system or (y) if such recipient is not employed by the Company on such date, by check or wire transmittal, as elected by the recipient, or other means in compliance with the Legal Requirements of the jurisdiction where such recipient is subject to. In the event that the per share exercise price of any Company Stock Option is equal to or greater than the Per Share Merger Consideration, such Company Stock Option shall be cancelled without consideration therefor and shall have no further force or effect.

(c) As soon as reasonably practicable following the execution of this Agreement, the Company shall notify each Person who is a holder of a Company Stock Option regarding the treatment of such security pursuant to this Section 2.2, including a description of the payment, if any, for, and instructions for use in obtaining payment for, such cancelled security.

Section 2.3 Company Warrants. As soon as reasonably practicable following the execution of this Agreement (but no later than 30 days prior to the Effective Time), the Company shall notify the holders of warrants to purchase Shares (such warrants, the “**Company Warrants**”) regarding the Transactions contemplated by this Agreement, including the Merger. The holders of Company Warrants shall thereafter have up until the day before the Effective Time to exercise such Company Warrants, it being understood that (i) holders of Company Warrants who have exercised Company Warrants shall be issued Shares pursuant to the Company Warrants and treated pursuant to Section 2.1 of this Agreement and (ii) all outstanding Company Warrants that have not been exercised prior to the Effective Time shall expire at the Effective Time.

Section 2.4 Cancellation of Options, Warrants and Rights. Except as specifically set forth in Sections 2.2 and 2.3, any equity securities of any class of the Company, and any securities exchangeable into or exercisable for such equity securities (including options, warrants, calls, rights, commitments or Contracts obligating the Company or any of its Subsidiaries to issue, exchange, transfer, deliver or sell, or cause to be issued, exchanged, transferred, delivered or sold, additional shares of capital stock or other equity interests of the Company) and any security or rights convertible into or exchangeable or exercisable for any such shares or other equity interests, if any, shall be canceled and extinguished at the Effective Time. Subject to the review and approval of Diodes, which approval shall not be unreasonably withheld, the Company shall take all actions necessary to effect the provisions set forth in this Section 2.4, including without limitation any necessary amendments to any Contracts or other instruments and the delivery of all required notice, as applicable.

ARTICLE III

Representations and Warranties of the Company

Except (x) as may be disclosed in the Company Reports filed or furnished with the SEC prior to the date of the Agreement (excluding, in each case, any nonspecific disclosures set forth in any risk factor section to the extent they are general, nonspecific and forward-looking statements or cautionary or forward-looking in nature) or (y) as may be disclosed in the corresponding sections or subsections of the disclosure schedule delivered to Diodes by the Company on the date of the Agreement (the “*Company Disclosure Schedule*”), the Company hereby represents and warrants to Diodes and Merger Sub that:

Section 3.1 Organization, Good Standing and Qualification. The Company is an exempted company duly incorporated with limited liability, validly existing under the laws of the Cayman Islands and in good standing with the Registrar of Companies in the Cayman Islands. Each of the Company’s Subsidiaries is an independent legal Person duly organized, validly existing and in good standing under the Laws of the place of its establishment or incorporation. Each of the Company and its Subsidiaries has all requisite corporate or similar power and authority to own, lease and operate its properties and assets and to carry on its business as presently conducted under the Laws of the place of its establishment or incorporation and is qualified to do business and in good standing as a foreign corporation or other legal entity under the Laws of the places where the ownership, leasing or operation of its assets or properties or conduct of its business requires such qualification, except where the failure to be so qualified or in good standing, or to have such power or authority, is not reasonably likely to have, individually or in the aggregate, a Material Adverse Effect on the Company.

Section 3.2 Capital Structure.

(a) The authorized share capital of the Company consists of \$1,050,000 divided into 1,000,000,000 Shares of a par value of US \$0.001 and 50,000,000 Preference Shares of a par value of US \$0.001, of which 106,854,744 Shares and no Preference Shares are issued and outstanding as of December 21, 2012. Of the total number of issued and outstanding Shares as of December 21, 2012, 70,764,744 Shares are represented by ADSs. All of the issued and outstanding Shares have been duly authorized and are validly issued, fully paid and nonassessable. As of December 21, 2012, there are 9,177,886 Shares reserved for outstanding Company Stock Options and 12,500 Shares reserved for Company Warrants. Each of the outstanding shares of share capital or other securities of each of the Company’s directly or indirectly wholly-owned Subsidiaries, which are set forth in Exhibit 8 included in the Company’s annual report on Form 20-F for the year ended December 31, 2011, has been duly authorized, and validly issued, and is fully paid and nonassessable and owned by the Company or by a wholly-owned Subsidiary, free and clear of any Liens. Except as set forth in Section 3.2(a) of the Company Disclosure Schedule, there are no preemptive or other outstanding rights, options, warrants, conversion rights, stock appreciation rights, redemption rights, repurchase rights, agreements, arrangements, calls, commitments or rights of any kind that obligate the Company or any of its Subsidiaries to issue or sell any shares of share capital or other securities of the Company or any of its Subsidiaries or any securities or obligations convertible or exchangeable into or exercisable for, or giving any Person a right to subscribe for or acquire, any securities of the Company or any of its Subsidiaries, and no securities or obligations evidencing such rights are authorized, issued or outstanding. The Company does not have outstanding any bonds, debentures, notes or other obligations the holders of which have the right to vote (or convertible into or exercisable for securities having the right to vote) with the shareholders of the Company on any matter.

(b) Each Company Stock Option (A) was granted in compliance with all applicable Laws in all material respects and all of the terms and conditions of the applicable equity incentive plan, (B) has an exercise price per Share equal to or greater than the fair market value of a Share on the date of such grant, and (C) has a grant date identical to the date on which the Company Board or compensation committee actually awarded such Company Stock Option.

Section 3.3 Corporate Authority; Approval and Fairness; No Violations.

(a) The Company has full corporate power and authority and has taken all corporate action necessary in order to execute, deliver and perform its obligations under this Agreement and to consummate the Merger and the Transactions contemplated hereby in accordance with the terms hereof, subject only to approval and authorization of this Agreement and the Cayman Plan of Merger by the affirmative vote of the holders of two-thirds (2/3) or more of the Shares present and voting in person or by proxy at a meeting of the shareholders of the Company conducted in accordance with the Cayman Companies Law (the “**Company Shareholder Approval**”). This Agreement has been duly executed and delivered by the Company and, assuming due authorization, execution and delivery hereof by the other Parties, constitutes a valid and binding agreement of the Company enforceable against the Company in accordance with its terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar Laws of general applicability relating to or affecting creditors’ rights and to general equity principles.

(b) The Company Board has (A) determined that the Merger, on the terms and subject to the conditions set forth herein, is fair to, and in the best interests of, the Company and its shareholders, (B) approved and declared advisable this Agreement, the Merger and the other Transactions contemplated hereby and (C) resolved to give its unanimous recommendation that the Company’s shareholders approve and authorize this Agreement and the Cayman Plan of Merger (the “**Company Board Recommendation**”). The Company Board has directed that this Agreement and the Cayman Plan of Merger be submitted to the holders of Shares for their approval and authorization.

(c) The execution, delivery and performance of this Agreement by the Company do not, and the consummation by the Company of the Merger or the other Transactions contemplated hereby will not, constitute or result in (A) a breach or violation of, or a default under, any provision (x) of the Memorandum and Articles of Association or (y) of the similar organizational documents of any of the Company’s Subsidiaries, (B) a breach or violation of, assuming (solely with respect to performance of this Agreement and consummation of the Merger and the other Transactions contemplated hereby) that the matters referred to in Section 3.4 are complied with and the Company Shareholder Approval is obtained, any Law to which the Company or any of its Subsidiaries is subject, (C) a default under any of the terms, conditions or provisions of any Contract to which the Company or any of its Subsidiaries is a party, or an acceleration of the Company’s or, if applicable, any of its Subsidiaries’, obligations under any such Contract or require any Consent under any such Contract, (D) the creation of any Lien on any properties or assets of the Company or any of its Subsidiaries, except, in the case of clause (B), clause (C) or clause (D) above, for any such breach, violation, default, creation or acceleration that is not reasonably likely to have, individually or in the aggregate, a Material Adverse Effect on the Company.

Section 3.4 Government Approvals. Except for (A) compliance with the applicable requirements of the Exchange Act and the rules and regulations promulgated thereunder (including the furnishing of Form 6-K with the Company proxy statement relating to the Merger (including any amendment or supplement thereto) to be sent to the Company shareholders in connection with the Merger and the other Transactions contemplated hereby (the “**Company Proxy Statement**”), (B) the filing of the Cayman Plan of Merger with the Registrar of Companies of the Cayman Islands pursuant to the Cayman Companies Law and related documentation, (C) if applicable, any required Consent or approval of, or filing with any applicable Governmental Antitrust Entity, and (D) all required filings with and Consents required (i) from the relevant China tax authority under GuoShuiHan [2009] Circular 698, (ii) under the PRC Anti-Monopoly Law, which became effective on August 1, 2008, and the related publicly available rules, regulations and guidelines issued by various PRC Governmental Entities, and (iii) under the Notice on Establishing National Security Review Mechanism for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors and related regulations issued by China’s State Council in 2011, no Consent or approval of, or filing, license, permit or authorization, declaration or registration with, any Governmental Entity necessary for the execution and delivery of this Agreement by the Company, the performance by the Company of its obligations hereunder and the consummation by the Company of the Transactions, except for those that the failure to make or obtain are not reasonably likely to have, individually or in the aggregate, a Material Adverse Effect on the Company or materially delay or impede the Closing. The Company has no secured creditors whose approval of the Merger is required under the laws of the Cayman Islands.

Section 3.5 Company Reports: Financial Statements.

(a) The Company has filed or furnished, as applicable, on a timely basis, all forms, statements, certifications, reports and documents required to be filed or furnished by it with the SEC pursuant to the Exchange Act or the Securities Act, since January 5, 2011 (the “**Applicable Date**,” and the forms, statements, reports and documents filed or furnished since the Applicable Date and those filed or furnished subsequent to the date of the Agreement, including any amendments thereto, the “**Company Reports**”). No Subsidiary of the Company is or has been required to file or furnish any periodic reports with the SEC. Each of the Company Reports, at the time of its filing or being furnished complied or, if not yet filed or furnished, will comply when filed or furnished, in all material respects with the applicable requirements of the Securities Act, the Exchange Act, applicable accounting standards and the Sarbanes-Oxley Act of 2002 (as amended and including the rules and regulations promulgated thereunder), and any rules and regulations promulgated thereunder applicable to the Company Reports. As of their respective dates (or, if amended prior to the date of the Agreement, as of the date of such amendment), the Company Reports did not, and any Company Reports filed with or furnished to the SEC subsequent to the date of the Agreement will not, contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements made therein, in light of the circumstances in which they were made, not misleading.

(b) The Company maintains internal control over financial reporting (as defined in Rule 13a-15 or 15d-15, as applicable, under the Exchange Act) that are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP and includes policies and procedures that (A) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company, (B) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company, and (C) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company’s assets that could have a material effect on its financial statements.

(c) Each of the consolidated balance sheets included in or incorporated by reference into the Company Reports (including the related notes and schedules) fairly presents, or, in the case of Company Reports filed after the date of the Agreement, will fairly present, in all material respects, the consolidated financial position of the Company and its consolidated Subsidiaries as of its date, and each of the consolidated statements of income, changes in shareholders' equity and cash flows included in or incorporated by reference into the Company Reports (including any related notes and schedules) fairly presents, or in the case of Company Reports filed after the date of the Agreement, will fairly present, in all material respects, the results of operations, changes in shareholders' equity and cash flows, as the case may be, of the Company and its consolidated Subsidiaries for the periods set forth therein (subject, in the case of unaudited interim statements, to normal year-end audit adjustments and the exclusion of certain notes in accordance with the rules of the SEC relating to unaudited financial statements), in each case in accordance with U.S. GAAP, Regulation S-X and the rules and standards of the Public Company Accounting Oversight Board except as may be noted therein.

(d) The Company has implemented disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) that are reasonably designed to ensure that material information relating to the Company, including its Subsidiaries, required to be included in reports filed under the Exchange Act is made known to the chief executive officer and chief financial officer of the Company or other Persons performing similar functions by others within those entities. Neither the Company nor, to the Company's Knowledge, the Company's independent registered public accounting firm has identified or been made aware of "significant deficiencies" or "material weaknesses" (as defined by the Public Company Account Oversight Board) in the design or operation of the Company's internal controls and procedures which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial data, in each case which has not been subsequently remediated. To the Company's Knowledge, there is no fraud, whether or not material, that involves the Company's management or other employees who have a significant role in the internal control over financial reporting utilized by the Company and its Subsidiaries.

Section 3.6 Absence of Certain Changes or Events. Except as disclosed in the Company Reports, from December 31, 2011, to the date of this Agreement, the Company and its Subsidiaries have conducted their respective businesses only in the ordinary course (except for the execution and performance of this Agreement and the discussions, negotiations and transactions related thereto), and during such period there has not been:

(a) any change in the assets, liabilities, financial condition or operating results of the Company or any of its Subsidiaries, except changes in the ordinary course of business that have not caused, in the aggregate, a Material Adverse Effect on the Company;

(b) any damage, destruction or loss to, or any material interruption in the use of, any of the assets of the Company or any of its Subsidiaries (whether or not covered by insurance) that has had or could reasonably be expected to have a Material Adverse Effect on the Company;

(c) any waiver or compromise by the Company or any of its Subsidiaries of (i) a debt owed to it or (ii) a valuable right to which it is entitled, if the amount, in the aggregate, exceeds \$100,000;

(d) any satisfaction or discharge of any Lien, claim, or encumbrance or payment of any obligation by the Company or any of its Subsidiaries, except in the ordinary course of business or the satisfaction or discharge of which would not have a Material Adverse Effect on the Company;

(e) any material change to a Material Contract by which the Company or any of its Subsidiaries or any of their respective assets is bound or subject;

(f) any mortgage, pledge, transfer of a security interest in, or Lien, created by the Company or any of its Subsidiaries, with respect to any of their respective material properties or assets, except Liens for taxes not yet due or payable and Liens that arise in the ordinary course of business and do not materially impair the Company's or such Subsidiary's ownership or use of such property or assets;

(g) any loans or guarantees made by the Company or any of its Subsidiaries to or for the benefit of its employees, officers or directors, or any members of their immediate families, other than travel advances and other advances made in the ordinary course of its business;

(h) any alteration of the method of accounting, accounting practice or the identity of auditors of the Company or any of its Subsidiaries;

(i) any declaration, accrual, set aside or payment of dividend or any other distribution of cash or other property in respect of any shares of capital stock of the Company or any of its Subsidiaries or any purchase, redemption or agreements to purchase or redeem by the Company or any of its Subsidiaries of any shares of capital stock or other securities;

(j) any sale, issuance or grant, or authorization of the issuance of equity securities of the Company or any of its Subsidiaries, except pursuant to existing stock option plans of the Company or any of its Subsidiaries;

(k) any amendment to any Company Constituent Instruments, any merger, consolidation, share exchange, business combination, recapitalization, reclassification of shares, stock split, reverse stock split or similar transaction involving the Company or any of its Subsidiaries;

(l) any creation of any Subsidiary of the Company or acquisition by the Company or any of its Subsidiaries of any equity interest or other interest in any other Person;

(m) any material Tax election by the Company or any of its Subsidiaries;

(n) any commencement or settlement of any Actions by the Company or any of its Subsidiaries; or

(o) any negotiations, arrangement or commitment by the Company or any of its Subsidiaries to do any of the things described in this Section 3.6.

Section 3.7 No Undisclosed Liabilities. Neither the Company nor any of its Subsidiaries has any material obligations or liabilities of any nature (matured or unmatured, fixed or contingent, including any obligations to issue capital stock or other securities of the Company) due after the date of the Agreement, other than (a) those set forth or adequately provided for in the Company Balance Sheet, (b) those incurred in the ordinary course of business and not required to be set forth in the Company Balance Sheet under U.S. GAAP, (c) those incurred in the ordinary course of business since the Company Balance Sheet date; (d) those that would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on the Company and (e) those incurred in connection with the execution of this Agreement.

Section 3.8 Litigation. To the Knowledge of the Company, as of the date of the Agreement, there is no private or governmental action, suit, inquiry, notice of violation, claim, arbitration, audit, proceeding (including any partial proceeding such as a deposition) or investigation (“**Action**”) pending or threatened in writing against or affecting the Company, any of its officers or directors (in their capacities as such), any of its Subsidiaries or any of their properties, before or by any Governmental Entity which (a) adversely affects or challenges the legality, validity or enforceability of any of this Agreement or (b) could, if there were an unfavorable decision, have or reasonably be expected to result in, individually or in the aggregate, a Material Adverse Effect on the Company. To the Knowledge of the Company, as of the date of the Agreement, there is no Judgment imposed upon the Company, any of its officers or directors (in their capacities as such), any of its Subsidiaries or any of their respective properties, that would prevent, enjoin, alter or materially delay any of the Transactions, or that would reasonably be expected to have a Material Adverse Effect on the Company. To the Knowledge of the Company, as of the date of the Agreement, neither the Company, any of its Subsidiaries nor any director or officer thereof (in his or her capacity as such), is or has been the subject of any Action involving a claim or violation of or liability under the securities laws of any Governmental Entity or a claim of breach of fiduciary duty.

Section 3.9 Licenses, Permits, Etc. The Company and its Subsidiaries possess or will possess prior to the Closing all Material Permits. Such Material Permits are described or set forth on Section 3.9 of the Company Disclosure Schedule. True, complete and correct copies of the Material Permits issued to the Company and its Subsidiaries have previously been delivered to Diodes. All such Material Permits are in full force and effect. Unless otherwise stipulated herein or disclosed in the Company Reports, the Company, its Subsidiaries and each of their respective officers, directors, employees, Representatives and agents have complied with all terms of such Material Permits except where instances of such noncompliance have not had and would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on the Company, and they will take any and all actions reasonably necessary to ensure that all such Material Permits remain in full force and effect and that the terms of such Material Permits are not violated through the Closing Date. To the Knowledge of the Company, neither the Company nor any of its Subsidiaries is in default under any of such Material Permits and no event has occurred and no condition exists which, with the giving of notice or the passage of time, or both, would constitute a default thereunder. Neither the execution and delivery of this Agreement, the Transaction Documents or any of the other documents contemplated hereby or thereby nor the consummation of the Transactions or compliance by the Company and its Subsidiaries with any of the provisions hereof or thereof will result in any suspension, revocation, impairment, forfeiture or nonrenewal of any Material Permit applicable to the business of the Company and its Subsidiaries.

Section 3.10 Title to Properties.

(a) Real Property. Section 3.10(a) of the Company Disclosure Schedule contains an accurate and complete list and description of (i) all real properties with respect to which the Company directly or indirectly holds valid land use rights as well as any other real estate that is in the possession of or leased by the Company and its Subsidiaries and the improvements (including buildings and other structures) located on such real estate (collectively, the “**Real Property**”), and (ii) any lease under which any such Real Property is possessed (the “**Real Estate Leases**”). Neither the Company nor any of its Subsidiaries is in default under any of the Real Estate Leases, except where such defaults have not had and would not be reasonably expected to have, individually or in the aggregate, a Material Adverse Effect on the Company, and the officers of the Company are not aware of any default by any of the lessors thereunder.

(b) Tangible Personal Property. The Company and its Subsidiaries are in possession of and have good title to, or have valid leasehold interests in or valid contractual rights to use all material tangible personal property used in the conduct of their business, including the tangible personal property reflected in the Company Financial Statements and material tangible personal property acquired since December 31, 2011 (collectively, the “**Tangible Personal**”).

Property”). All Tangible Personal Property is free and clear of all Liens, other than Permitted Liens, and is in a condition materially adequate and suitable for the purposes for which it is presently being used, ordinary wear and tear excepted, and its use complies in all material respects with all applicable Laws. Neither Company nor any of its Subsidiaries has granted any lease, sublease, tenancy or license of any portion of the Tangible Personal Property.

(c) Accounts Receivable. The accounts receivable of the Company and each of its Subsidiaries reflected on the Company Financial Statements and created after December 31, 2011 are bona fide accounts receivable created in the ordinary course of business.

Section 3.11 Intellectual Property. To the Knowledge of the Company, the Company and its Subsidiaries collectively own or are validly licensing or otherwise have the right to use any patents, trademarks, trade names, service marks, domain names, copyrights, Trade Secrets, and computer software programs, which are material to the conduct of their business as currently conducted or planned to be conducted as described in Section 3.11 of the Company Disclosure Schedule taken as a whole (the “**Intellectual Property Rights**”). No claims are pending or, to the Knowledge of the Company, threatened, in each case against the Company or any of its Subsidiaries, that the Company or any of its Subsidiaries is infringing or otherwise misappropriating the rights of any third party with regard to any Intellectual Property Right. To the Knowledge of the Company, no third party is infringing the rights of the Company or any of its Subsidiaries with respect to any Intellectual Property Right owned by the Company or its Subsidiary in a manner that materially adversely affects or can reasonably be expected so to affect the conduct of the business currently being conducted or planned to be conducted as described in Section 3.11 of the Company Disclosure Schedule by the Company and its Subsidiaries taken as a whole.

Section 3.12 Taxes.

(a) The Company and its Subsidiaries have timely (taken into account any valid extensions) filed, or have caused to be timely (taken into account any valid extensions) filed on their behalf, all material Tax Returns that are or were required to be filed by or with respect to any of them, either separately or as a member of group of corporations, pursuant to applicable Legal Requirements. All Tax Returns filed by (or that included on a consolidated basis) the Company and its Subsidiaries were (and, as to a Tax Return not filed as of the date of the Agreement, will be) in material respects true, complete and accurate. To the Knowledge of the Company, there are neither unpaid Taxes claimed to be over-due by any Governmental Entity in charge of taxation in any jurisdiction nor any claim for additional unpaid Taxes for any period for which Tax Returns have been filed, and none of the Company’s officers or directors knows of any basis for any such claim.

(b) Neither the Company nor any of its Subsidiaries has received any written notice from any Governmental Entity that such Governmental Entity will audit or examine (except for any general audits or examinations routinely performed by such Governmental Entities), seek information with respect to, or make material claims or assessments with respect to any Taxes.

(c) The Company Financial Statements reflect an adequate reserve for all Taxes known to be payable by the Company and its Subsidiaries (in addition to any reserve for deferred Taxes to reflect timing differences between book and Tax items) for all taxable periods and portions thereof through the date of such Company Financial Statements. None of the Company or its Subsidiaries is a party to or bound by any Tax indemnity, Tax sharing or similar agreement and the Company and its Subsidiaries currently have no material liability and will not have any material liabilities for any Taxes of any other Person under any agreement or by the operation of any Law. No deficiency with respect to any Taxes has been proposed, asserted or assessed against the Company or its Subsidiaries, and no requests for waivers of the time to assess any such Taxes are pending.

(d) Neither the Company nor any of its Subsidiaries has requested any extension of time within which to file any Tax Return, which Tax Return has not since been filed. Neither the Company nor any of its Subsidiaries has executed any outstanding waivers or comparable consents regarding the application of the statute of limitations with respect to any Taxes or Tax Returns. No power of attorney currently in force has been granted by the Company or any of its Subsidiaries concerning any Taxes or Tax Return.

(e) Except as disclosed in the Company Reports, neither the Company nor any of its Subsidiaries (i) is currently engaged in the conduct of a trade or business within the United States; (ii) is a corporation or other entity organized or incorporated in the United States; and (iii) has been a “United States real property holding corporation” within the meaning of Section 897(c)(2) of the Code.

Section 3.13 Employment Matters.

(a) Benefit Plan. Except as set forth in Section 3.13 of the Company Disclosure Schedule, neither the Company nor any of its Subsidiaries maintains any collective bargaining agreement or any bonus, pension, profit sharing, deferred compensation, incentive compensation, stock ownership, stock purchase, stock option, phantom stock, retirement, vacation, severance, disability, death benefit, hospitalization, medical or other plan, arrangement or understanding (whether or not legally binding) providing benefits to any current or former employee, officer or director of the Company or any such Subsidiary (collectively, the “**Company Benefit Plans**”). Neither the execution and delivery of this Agreement nor the consummation of the Transactions will (either alone or in conjunction with any other event) result in, cause the accelerated vesting or delivery of, or increase the amount or value of, any payment or benefit to any employee of the Company or any such Subsidiary. The consummation of the Transactions will not trigger any severance or termination agreements or arrangements between the Company or any of its Subsidiaries and any of their respective current or former employees, officers or directors, nor does the Company have any general severance plan or policy. Since December 31, 2011, there has not been any adoption or amendment in any material respect by the Company or any of its Subsidiaries of any Company Benefit Plan.

(b) Labor Matters. Except for disputes, agreements and other matters that do not have or are not expected to have, individually or in the aggregate, a Material Adverse Effect on the Company, (a) there are no collective bargaining or other labor union agreements to which the Company or any of its Subsidiaries is a party or by which it is bound; (b) no labor dispute exists or, to the Knowledge of the Company, is imminent with respect to the employees of the Company or any of its Subsidiaries; (c) there is no strike, work stoppage or other labor dispute involving the Company or any of its Subsidiaries pending or, to the Knowledge of the Company, threatened; (d) no complaint, charge or Actions by or before any Governmental Entity brought by or on behalf of any employee, prospective employee, former employee, retiree, labor organization or other Representative of its employees is pending or, to the Knowledge of the Company, threatened against the Company or any of its Subsidiaries; (e) no grievance is pending or, to the Knowledge of the Company, threatened against the Company or any of its Subsidiaries; and (f) neither the Company nor any of its Subsidiaries is a party to, or otherwise bound by, any consent decree with, or citation by, any Governmental Entities relating to employees or employment practices.

(c) Executive Officers. Except as set forth in Section 3.13(c) of the Company Disclosure Schedule, no executive officer of the Company or any of its Subsidiaries has notified the Company or such Subsidiary in writing that such executive officer intends to leave the Company or any such Subsidiary or otherwise terminate such executive officer’s employment with the Company or such Subsidiary in connection with the consummation of the Transactions or within 60 days following the Closing Date.

Section 3.14 Related Party Transactions. Except as disclosed in the Company Reports or in Section 3.14 of the Company Disclosure Schedule, none of the executive officers (as such term is used in the Company Reports) or directors of the Company or any of its subsidiaries is presently a party, directly or indirectly, to any transaction with the Company or any of its Subsidiaries (other than for services as executive officers and directors), including any Contract providing for the furnishing of services to or by, providing for rental of real or personal property to or from, or otherwise requiring payments to or from any such executive officer or director or, to the Knowledge of the Company, any entity in which any such executive officer or director has a substantial interest or is an officer, director, trustee or partner.

Section 3.15 Insurance. The Company has made available to Diodes, prior to the date of this Agreement, true and correct copies of all Contracts of material insurance or indemnification, as amended and supplemented to which the Company or any of its Subsidiaries is a party. All such material insurance policies are in full force and effect, all premiums due thereon have been paid and, to the Knowledge of the Company, the Company and any such Subsidiary have complied with the provisions of such policies in all material aspects. Neither the Company nor any such Subsidiary has been advised of any defense to coverage in connection with any claim to coverage asserted or noticed by the Company or any such Subsidiary under or in connection with any of their extant insurance policies. The Company and its Subsidiaries are insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as are prudent and customary in the businesses in which they are engaged and in the geographic areas where any of which engages in such businesses. The Company has no reason to believe that the Company and its Subsidiaries will not be able to renew their existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue their business on terms consistent with market for the Company's or any of its Subsidiaries' respective lines of business.

Section 3.16 Material Contracts.

(a) The Company is not in violation of or in default under (nor does there exist any condition which upon the passage of time or the giving of notice would cause such a violation of or default under) any Material Contract to which it or any such Subsidiary is a party or by which they or any of their respective properties or assets is bound, except for violations or defaults that would not reasonably be expected to result in, individually or in the aggregate, a Material Adverse Effect on the Company; and, to the Knowledge of the Company, no other Person has violated or breached, or committed any default under, any Material Contract, except for violations, breaches and defaults that have not had and would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on the Company.

(b) Each Material Contract is a legal, valid and binding agreement, and is in full force and effect, and (i) neither the Company nor any of its Subsidiaries is in breach or default of any Material Contract to which it is a party in any material respect; (ii) to the Knowledge of the Company, no event has occurred or circumstance has existed that (with or without notice or lapse of time), will or would reasonably be expected to, (A) contravene, conflict with or result in a violation or breach of, or become a default or event of default under, any provision of any Material Contract; (B) permit the Company or any other Person the right to declare a default or exercise any remedy under, or to accelerate the maturity or performance of, or to cancel, terminate or modify any Material Contract; or (iii) neither the Company nor any of its Subsidiaries has received written notice of any proposed cancellation, revocation or termination of any Material Contract to which it is a party; and (iv) there are no renegotiations of, or attempts to renegotiate, any material terms of any Material Contract. Since December 31, 2011, neither the Company nor any of its Subsidiaries has received

any written notice regarding any actual or possible violation or breach of, or default under, any Material Contract, except in each such case for defaults, acceleration rights, termination rights and other rights that have not had and would not reasonably be expected to have a Material Adverse Effect on the Company.

Section 3.17 Compliance with Applicable Laws. The Company and its Subsidiaries are in compliance with all applicable Laws, including those relating to occupational health and safety and the Environment, except for instances of noncompliance that have not had and would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on the Company. Neither the Company nor any of its Subsidiaries has received any written communication during the past two (2) years from a Governmental Entity alleging that the Company or any such Subsidiary is not in compliance in any material respect with any applicable Law. This Section 3.17 does not relate to matters with respect to Taxes, which are the subject of Section 3.12.

Section 3.18 Foreign Corrupt Practices. Neither the Company, any of its Subsidiaries, nor, to the Knowledge of the Company, any of their respective Representatives, has, in the course of its actions for, or on behalf of, the Company or any of its Subsidiaries, directly or indirectly, (a) used any corporate funds for any unlawful contribution, gift, entertainment or other unlawful expenses relating to political activity; (b) made any direct or indirect unlawful payment to any Governmental Entity or any foreign or domestic government official or employee from corporate funds; (c) violated or is in violation of any provision of the U.S. Foreign Corrupt Practices Act of 1977, as amended, and the rules and regulations thereunder that are applicable to the Company or its Subsidiaries; or (d) made any unlawful bribe, rebate, payoff, influence payment, kickback or other unlawful payment in connection with the operations of the Company or any such Subsidiary to any foreign or domestic government official or employee. To the Knowledge of the Company, neither the Company nor any of its directors, officers, or employees is in violation of any applicable Law that is intended to prevent or deter bribery or corrupt business practices, including Section 385 of the PRC Criminal Law, which would subject the Company or the relevant directors, officers, or employees to a criminal offense under such applicable Law.

Section 3.19 Money Laundering Laws. The Company and its Subsidiaries have conducted their business at all times in compliance with applicable money laundering statutes in all applicable jurisdictions, rules and regulations thereunder and any related or similar rules, regulations or guidelines, issued, administered or enforced by any Governmental Entity (collectively, the “**Money Laundering Laws**”) and no proceeding involving the Company with respect to the Money Laundering Laws is pending or, to the Knowledge of the Company, is threatened.

Section 3.20 Governmental Inquiry. Neither the Company nor any of its Subsidiaries has received any material written inspection report, questionnaire, inquiry, demand or request for information from a Governmental Entity.

Section 3.21 Records. Except for the execution and performance of this Agreement and the discussions, negotiations and transactions related thereto, the minutes of the meetings of the Company Board and the register of members of the Company made available to Diodes are complete and accurate in all material respects, and there have been no material transactions involving the Company or any of its Subsidiaries which are required to be set forth therein and which have not been so set forth.

Section 3.22 Brokers; Schedule of Fees and Expenses. Except as set forth in Section 3.22 of the Company Disclosure Schedule, no broker, investment banker, financial advisor or other Person is entitled to any broker’s, finder’s, financial advisor’s or other similar fee or commission in connection with this Agreement or the Transactions based upon arrangements made by or on behalf of the Company or any of its Subsidiaries.

Section 3.23 Business Relationships. To the Knowledge of the Company, as of the date of this Agreement, none of the Company's end customers or distributors which individually accounted for at least 5% of the Company's net revenue for the first three fiscal quarters of fiscal year 2012 is reasonably expected by the Company to cancel a Material Contract with the Company as a result of the execution of this Agreement and the Transaction Documents and the consummation of the Transactions contemplated hereby and thereby.

Section 3.24 OFAC. None of the Company, any director or officer of the Company, or, to the Knowledge of the Company, any agent, employee, Affiliate or Person acting on behalf of the Company is currently identified on the specially designated nationals or other blocked person list or otherwise currently subject to any U.S. sanctions administered by the Office of Foreign Assets Control of the U.S. Treasury Department ("OFAC"); and the Company has not, directly or indirectly, used any funds, or loaned, contributed or otherwise made available such funds to any Subsidiary, joint venture partner or other Person, in connection with any sales or operations in Cuba, Iran, Syria, Sudan, Myanmar or any other country sanctioned by OFAC or for the purpose of financing the activities of any Person currently subject to, or otherwise in violation of, any U.S. sanctions administered by OFAC in the last five (5) fiscal years.

Section 3.25 Additional PRC Representations and Warranties.

(a) All Consents, approvals, authorizations or licenses requisite under PRC law for the due and proper establishment and operation of the Company and its Subsidiaries have been duly obtained from the relevant PRC Governmental Entity and are in full force and effect, except those that would not be reasonably expected to have a Material Adverse Effect on the Company and its Subsidiaries.

(b) All filings and registrations with the PRC Governmental Entities required in respect of the Company and its Subsidiaries and their respective operations including, without limitation, the registration with and/or approval by the Ministry of Commerce, the State Administration of Industry and Commerce, the State Administration for Foreign Exchange, tax bureau and customs offices and other PRC Governmental Entities that administer foreign investment enterprises have been duly completed in accordance with the relevant PRC rules and regulations, except where the failure to complete such filings and registrations does not, and would not, individually or in the aggregate, have a Material Adverse Effect on the Company.

(c) The Company and its Subsidiaries have complied with all material relevant PRC laws and regulations regarding the contribution and payment of their registered share capital, the payment schedules of which have been approved by the relevant PRC Governmental Entity.

(d) Neither the Company nor any of its Subsidiaries is in receipt of any letter or notice from any relevant PRC Governmental Entity notifying it of the revocation, or otherwise questioning the validity, of any licenses or qualifications issued to it or any subsidy granted to it by any PRC Governmental Entity for non-compliance with the terms thereof or with applicable PRC laws, or the need for compliance or remedial actions in respect of the activities carried out by the Company or any of its Subsidiaries, except where the notice or the letter does not, and would not, individually or in the aggregate, have a Material Adverse Effect on the Company.

(e) The Company and its Subsidiaries have conducted their respective businesses activities within the permitted scope of businesses or have otherwise operated their respective businesses in compliance, in all material respects, with all relevant legal requirements and with all requisite licenses and approvals granted by competent PRC Governmental Entities, except where such non-compliance has not had and would not reasonably be expected to have resulted in a

Material Adverse Effect on the Company. As to licenses, approvals and government grants and concessions requisite or material for the conduct of any part of the Company's business which are subject to periodic renewal, the Company has no Knowledge of any grounds on which such requisite renewals would not be granted by the relevant PRC Governmental Entities, except where such grounds do not, and would not, individually or in the aggregate, result in a Material Adverse Effect on the Company.

(f) With regard to employment and staff or labor, the Company and its Subsidiaries have complied, in all material respects, with all applicable material PRC laws and regulations, including without limitation, laws and regulations pertaining to welfare funds, social benefits, medical benefits, insurance, retirement benefits, pensions or the like.

Section 3.26 Environmental Matters. Except for such matters as would not have or would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on the Company, to the Knowledge of the Company, each of the Company and its Subsidiaries is, and at all times has been, in substantial compliance with, and has not been and is not in material violation of or subject to any material liability under, any applicable Environmental Law, and the Company does not have any basis to expect, nor has the Company and its Subsidiaries, nor any other Person for whose conduct they are or may be held to be responsible, received any written order or notice from (a) any Governmental Entity or private citizen acting in the public interest, or (b) the current or prior owner or operator of any Facilities, of any actual or potential material violation by the Company or any of its Subsidiaries, or failure by the Company or any of its Subsidiaries to comply with, any Environmental Law, or of any actual or threatened material obligation by the Company or any of its Subsidiaries to undertake or bear the cost of any liabilities under the Environmental Laws with respect to any of the Facilities or any other properties or assets (whether real, personal, or mixed) in which the Company or any of its Subsidiaries has or has had an interest, or with respect to any property or Facility at or to which Hazardous Materials were generated, manufactured, refined, transferred, imported, used, or processed by the Company or any other Person for whose conduct the Company is or may be held legally responsible, or from any such Hazardous Materials have been transported, treated, stored, handled, transferred, disposed, recycled, or received.

Section 3.27 Disclosure. All of the representations or warranties made by the Company herein, in the Company Disclosure Schedule or in any certificate furnished by the Company pursuant to this Agreement, are true and correct in all material respects, and when all such documents are read together in their entirety, to the Knowledge of the Company, none of them contains or will contain at the Closing Date any untrue statement of a material fact, or omits or will omit at the Closing Date to state any material fact necessary in order to make the statements contained herein or therein, in the light of the circumstances under which made, not misleading.

Section 3.28 No Additional Agreements. The Company does not have any agreement or understanding with Diodes with respect to the Transactions contemplated by this Agreement other than as specified in this Agreement.

ARTICLE IV

Representations and Warranties of Diodes and Merger Sub

Diodes and Merger Sub hereby jointly and severally represent and warrant to the Company as follows:

Section 4.1 Organization and Good Standing. Each of Diodes and its Subsidiaries is a legal entity duly organized, validly existing and in good standing under the Laws of its respective jurisdiction of organization.

Section 4.2 Corporate Authority and Approval. Each of Diodes and Merger Sub has all requisite corporate power and authority and has taken all corporate action necessary in order to execute, deliver and perform its obligations under this Agreement and to consummate the Merger and the Transactions contemplated hereby in accordance with the terms hereof. This Agreement has been duly executed and delivered by Diodes and Merger Sub and, assuming due authorization, execution and delivery hereof by the other Parties, constitutes a valid and binding agreement of Diodes and Merger Sub enforceable against Diodes and Merger Sub in accordance with its terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar Laws of general applicability relating to or affecting creditors' rights and to general equity principles.

Section 4.3 Non-Contravention. The execution, delivery and performance of this Agreement by Diodes and Merger Sub do not, and the consummation by the Merger Sub of the Merger and the other Transactions contemplated hereby will not, constitute or result in (A) a breach or violation of, or a default under, any provision (x) of the certificate of incorporation and bylaws of Diodes and (y) the Memorandum and Articles of Association of Merger Sub, (B) a breach or violation of, assuming (solely with respect to performance of this Agreement and consummation of the Merger and the other Transactions contemplated hereby) that the matters referred to in Section 4.4 are complied with, any Law to which Diodes or Merger Sub is subject, (C) a default under any of the terms, conditions or provisions of any Contract to which Diodes or Merger Sub is a party, or an acceleration of Diodes' or, if applicable, Merger Sub's, obligations under any such Contract or require any Consent under any such Contract, (D) the creation of any Lien on any properties or assets of Diodes or Merger Sub, except, in the case of clause (B), clause (C) or clause (D) above, for any such breach, violation, default, creation or acceleration that is not individually or in the aggregate, reasonably likely to affect adversely the ability of Diodes and Merger Sub to consummate the Transactions.

Section 4.4 Government Approvals. Except for (A) compliance with the applicable requirements of the Exchange Act and the rules and regulations promulgated thereunder, (B) the filing of the Cayman Plan of Merger with the Registrar of Companies of the Cayman Islands pursuant to the Cayman Companies Law and related documentation, and (C) if applicable, any required Consent or approval of, or filing with any applicable Governmental Antitrust Entity, no Consent or approval of, or filing, license, permit or authorization, declaration or registration with, any Governmental Entity necessary for the execution and delivery of this Agreement by Diodes or Merger Sub, the performance by Diodes and Merger Sub of their obligations hereunder and the consummation by Diodes and Merger Sub of the Transactions, except for those that the failure to make or obtain are not, individually or in the aggregate, reasonably likely to affect adversely the ability of Diodes and Merger Sub to consummate the Transactions.

Section 4.5 Litigation. To the Knowledge of Diodes and Merger Sub, there is no Action pending or threatened in writing against or affecting Diodes or Merger Sub, any of their officers or directors (in their capacities as such), any of their Subsidiaries or any of their properties, before or by any Governmental Entity which (a) adversely affects or challenges the legality, validity or enforceability of any of this Agreement or (b) could, if there were an unfavorable decision, individually or in the aggregate, have or reasonably be expected to affect adversely the ability of Diodes and Merger Sub to consummate the Transactions. To the Knowledge of Diodes and Merger Sub, there is no Judgment imposed upon Diodes or Merger Sub, any of their officers or directors (in their capacities as such), any of their Subsidiaries or any of their respective properties, that would prevent, enjoin, alter or materially delay any of the Transactions, or that would reasonably be expected to affect adversely the ability of Diodes and Merger Sub to consummate the Transactions.

Section 4.6 Company Proxy Statement. None of the information with respect to Diodes or Merger Sub that Diodes or any of its Representatives furnishes in writing to the Company expressly for use in the Company Proxy Statement, will on the date so provided contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading. Notwithstanding the foregoing, no representation or warranty is made by Diodes or Merger Sub with respect to statements made or incorporated by reference therein supplied by the Company or its Representatives expressly for inclusion or incorporation by reference in the Company Proxy Statement.

Section 4.7 Financial Capability. Diodes has or will have, and will cause Merger Sub to have, prior to the Effective Time, sufficient funds to pay the aggregate Per Share Merger Consideration, Per ADS Merger Consideration, and the Option Consideration, each as contemplated by this Agreement and all fees and expenses related thereto and to perform the other obligations of Diodes and Merger Sub contemplated by this Agreement.

Section 4.8 Operations of Merger Sub. Merger Sub was formed solely for the purpose of engaging in the Merger. Since its date of formation, Merger Sub has not carried on any business or conducted any other operations other than the execution of this Agreement, the performance of its obligations hereunder and matters ancillary thereto.

ARTICLE V

Covenants of the Company

Section 5.1 Conduct of Business of the Company. During the period from the date of this Agreement and continuing until the earlier of the termination of this Agreement in accordance with the terms set forth in ARTICLE IX of this Agreement or the Closing Date, the Company agrees that the Company and its Subsidiaries shall use commercially reasonable efforts to (except to the extent expressly contemplated by this Agreement or as consented to in writing by Diodes), (i) in all material respects, carry on their businesses in the ordinary course in substantially the same manner as heretofore conducted, pay debts and Taxes when due (subject to good faith disputes over such debts or Taxes), pay or perform other obligations when due, and use all reasonable efforts consistent with past practice and policies to preserve intact their present business organizations, and (ii) use their commercially reasonable efforts consistent with past practice to keep available the services of their present executive officers and directors and use their commercially reasonable efforts consistent with past practice to, in all material aspects, preserve their relationships with customers, suppliers, distributors, licensors, licensees, and others having business dealings with them, to the end that there shall not be a Material Adverse Effect on the Company as of the Closing Date. The Company agrees to promptly notify Diodes of any material event or occurrence not in the ordinary course of business consistent with past practice that would have or reasonably be expected to have a Material Adverse Effect on the Company. Without limiting the generality of the foregoing, during the period from the date of this Agreement and continuing until the earlier of the termination of this Agreement in accordance with the terms set forth in ARTICLE IX of this Agreement or the Closing Date, except as otherwise expressly permitted by or provided for in this Agreement, the Company shall not do, allow, cause or permit any of the following actions to occur with respect to the Company without the prior written Consent of Diodes, which Consent shall not be unreasonably delayed or withheld; *provided, however, that* Diodes and Merger Sub acknowledge and agree that (i) this Section 5.1 shall not give Diodes the right, directly or indirectly, to control or direct the operations of the Company prior to the Closing to the extent prohibited by applicable Antitrust Laws, and (ii) Diodes shall be deemed to have provided its written Consent for any matter of which the Company delivers a written notice to Diodes expressly identifying this Section 5.1 and concerning which the Company has not received any written and specific objection from Diodes within five (5) days of the delivery of such notice:

(a) Charter Documents. Cause or permit any amendments to any of the Company Constituent Instruments or any other equivalent organizational documents, except for such amendments made pursuant to a Legal Requirement or as contemplated by this Agreement;

(b) Dividends; Changes in Share Capital. Declare or pay any dividends on or make any other distributions (whether in cash, stock or property) in respect of any of its share capital, or split, combine or reclassify any of its share capital or issue or authorize the issuance of any other securities in respect of, in lieu of or in substitution for shares of its share capital;

(c) Material Contracts. Enter into any new Material Contract, or materially violate, amend or otherwise modify or waive any of the terms of any existing Material Contract, other than (i) in the ordinary course of business consistent with past practice or (ii) upon prior written Consent of Diodes;

(d) Issuance of Securities. Issue, deliver or sell or authorize or propose the issuance, delivery or sale of, or purchase or propose the purchase of, any shares of its capital stock or securities convertible into, or subscriptions, rights, warrants or options to acquire, or other agreements or commitments of any character obligating it to issue any such shares or other convertible securities, in each case, other than pursuant to the exercise or conversion of rights to acquire such securities outstanding as of the date of the Agreement;

(e) Intellectual Property. Transfer or license to any Person or entity any Intellectual Property Rights other than in the ordinary course of business consistent with past practice;

(f) Dispositions. Sell, lease, license or otherwise dispose of or encumber any of its properties or assets which are material, individually or in the aggregate, to its business, taken as a whole, except in the ordinary course of business consistent with past practice;

(g) Indebtedness. Except in its ordinary course of business, issue or sell any debt securities or guarantee any debt securities of others in excess of US \$100,000 in the aggregate;

(h) Payment of Obligations. Pay, discharge or satisfy in an amount in excess of US \$100,000 in any one case, any claim, liability or obligation (absolute, accrued, asserted or un-asserted, contingent or otherwise) arising other than (i) in the ordinary course of business, and (ii) the payment, discharge or satisfaction of liabilities reflected or reserved against in the Company Financial Statements, as applicable;

(i) Capital Expenditures. Make any capital expenditures, capital additions or capital improvements except that do not exceed US \$500,000 individually or in the aggregate;

(j) Employment. Except as mutually agreed to by the Parties prior to the date of this Agreement and identified on Schedule 5.1(j), or required under the Legal Requirements or agreements or pursuant to plans or arrangements existing on the date of the Agreement, (i) take any action with respect to, adopt, enter into, terminate or amend any employment, severance, retirement, retention, incentive or similar agreement, arrangement or benefit plan for the benefit or welfare of any current or former director, executive officer or any collective bargaining agreement, (ii) increase in any material respect the compensation or fringe benefits of, or pay any bonus to, any director or executive officer, (iii) materially amend or accelerate the payment, right to payment or vesting of any compensation or benefits, (iv) pay any material benefit not provided for as of the date of this Agreement under any benefit plan, or (v) grant any awards under any bonus, incentive, performance

or other compensation plan or arrangement or benefit plan, including the grant of stock options, stock appreciation rights, stock based or stock related awards, performance units or restricted stock, or the removal of existing restrictions in any benefit plans or agreements or awards made thereunder;

(k) Facilities. Open or close any Facilities or office except in the ordinary course of business;

(l) Litigation. Initiate, compromise or settle any material litigation or arbitration proceedings; and

(m) Other. Agree in writing or otherwise to take any of the actions described in Sections 5.1(a)-(l) above.

Section 5.2 Access to Information; Confidentiality.

(a) From the date of this Agreement until the earlier to occur of the Effective Time or the termination of this Agreement in accordance with the terms set forth in ARTICLE IX of this Agreement, the Company shall, and shall cause its Subsidiaries to, afford to Diodes and Diodes' Representatives reasonable access, at reasonable times and in a manner as shall not unreasonably interfere with the business or operations of the Company or any Subsidiary thereof, to the officers, employees, accountants, agents, vendors and customers (to the extent access to such vendors and customers can be obtained by the Company using commercially reasonable efforts), properties, offices and other Facilities and to all books, records, Contracts and other assets of the Company and its Subsidiaries, and the Company shall, and shall cause its Subsidiaries to, furnish promptly to Diodes such other information concerning the business and properties of the Company and its Subsidiaries as Diodes may reasonably request from time to time. Neither the Company nor any of its Subsidiaries shall be required to provide access to or disclose information where such access or disclosure would jeopardize the protection of attorney-client privilege or contravene any Law (it being agreed that the Parties shall use their reasonable best efforts to cause such information to be provided in a manner that would not result in such jeopardy or contravention). No investigation shall affect the Company's representations and warranties contained herein, or limit or otherwise affect the remedies available to Diodes or Merger Sub pursuant to this Agreement.

(b) Diodes and the Company shall comply with, and shall cause their respective Representatives to comply with, all of their respective obligations under the Confidentiality Agreement, which shall survive the termination of this Agreement in accordance with the terms set forth in ARTICLE IX of this Agreement in accordance with the terms set forth therein.

Section 5.3 Additional Company Financial Information. If the Closing Date is on or after March 1, 2013, the Company shall deliver to Diodes the unaudited consolidated balance sheet as of the end of the year ending December 31, 2012, and the related unaudited consolidated statements of income and statements of cash flows of the Company for the year then ended (the "*Company Additional Financial Statements*"), not later than March 1, 2013. If delivered, the Company Additional Financial Statements, including the notes thereto, will be prepared in accordance with U.S. GAAP applied on a consistent basis throughout the periods involved, and will fairly present in all material respects the consolidated financial condition and operating results, change in shareholders' equity and cash flow of the Company, as of the dates, and for the periods, indicated therein (subject to normal year-end audit adjustments and the exclusion of certain notes in accordance with the rules of the SEC relating to unaudited financial statements).

Section 5.4 Insurance. Through the Closing Date, the Company and its Subsidiaries shall use commercially reasonable efforts to maintain insurance policies existing as of the date of this Agreement providing insurance coverage for the businesses in which the Company and its Subsidiaries are engaged and the assets and properties of the Company and its Subsidiaries of the kinds, in the amounts and against the risks as are commercially reasonable for such businesses and risks covered and for the geographic areas where the Company and its Subsidiaries engage in such businesses.

Section 5.5 Fulfillment of Conditions. The Company shall use its commercially reasonable efforts to fulfill the conditions specified in ARTICLE VIII to the extent that the fulfillment of such conditions is within its control. The foregoing obligation includes (a) executing and delivering documents necessary or desirable to consummate the Transactions contemplated hereby, and (b) taking or refraining from such actions as may be necessary to fulfill such conditions (including using its commercially reasonable efforts to conduct its business in such manner that on the Closing Date the representations and warranties of the Company contained herein shall be accurate as though then made, except as contemplated by the terms hereof).

Section 5.6 Disclosure of Certain Matters. From the date of the Agreement through the Closing Date, the Company shall give Diodes prompt written notice of any event or development that occurs that (a) is of a nature that would have or reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on the Company, or (b) would require any amendment or supplement to the Company Proxy Statement.

Section 5.7 Regulatory and Other Authorizations; Notices and Consents .

(a) The Company shall use its commercially reasonable efforts to obtain all material Consents that may be or become necessary for their execution and delivery of, and the performance of their obligations pursuant to, this Agreement and the Transaction Documents and will cooperate with Diodes in promptly seeking to obtain all such authorizations, Consents, orders and approvals, including, but not limited to any matters involving Government Antitrust Entities.

(b) The Company shall give promptly such notices to third parties and use its commercially reasonable efforts to obtain such third party Consents and estoppel certificates as are required to consummate the Transactions.

(c) The Company shall cooperate and use commercially reasonable efforts to assist the other in giving such notices and obtaining such Consents and estoppel certificates as are required to consummate the Transactions; *provided, however, that* the Company shall have no obligation to give any guarantee or other consideration of any nature in connection with the seeking of such Consent or to consent to any change in the terms of any agreement or arrangement which the Company in its reasonable discretion may deem adverse to the interests of Diodes, the Company or the business of the Company.

Section 5.8 Related Taxes. From the date of the Agreement through the Closing Date, each of the Company and its Subsidiaries, consistent with past practice, shall (i) duly and timely file all Tax Returns and other documents required to be filed by it with applicable Governmental Entities subject to extensions permitted by law and properly granted by the appropriate authority, *provided that* the Company shall promptly notify Diodes that any of the Company and its Subsidiaries is availing itself of such extensions; and (ii) pay all Taxes shown as due on such Tax Returns.

Section 5.9 No Solicitation.

(a) From the date of this Agreement until the earlier to occur of the Effective Time or the termination of this Agreement in accordance with the terms set forth in ARTICLE IX of this Agreement (the “**Exclusivity Period**”), the Company shall not, and shall cause its Subsidiaries not to, and shall not authorize or permit its employees, directors, officers or Representatives to, directly or indirectly, solicit, initiate or knowingly take any action that could reasonably be expected to facilitate or encourage the submission of any Takeover Proposal or the making of any proposal that could reasonably be expected to lead to any Takeover Proposal, or, subject to Section 5.9(b), (i) conduct or engage in any discussions or negotiations with, disclose any non-public information relating to the Company or any of its Subsidiaries to, afford access to the business, properties, assets, books or records of the Company or any of its Subsidiaries to, or knowingly assist, participate in, facilitate or encourage any effort by, any third party that is seeking to make, or has made, any Takeover Proposal, (ii) amend or grant any waiver or release under any standstill or similar agreement with respect to any class of equity securities of the Company or any of its Subsidiaries, or (iii) enter into any agreement in principle, letter of intent, term sheet, acquisition agreement, merger agreement, option agreement, joint venture agreement, partnership agreement or other Contract relating to any Takeover Proposal (each, a “**Company Acquisition Agreement**”). Subject to Section 5.9(b), during the Exclusivity Period, neither the Company Board nor any committee thereof shall fail to make, withdraw, amend, modify or materially qualify, in a manner adverse to Diodes or Merger Sub, the Company Board Recommendation, or recommend a Takeover Proposal, or fail to recommend against acceptance of any tender offer or exchange offer for the Shares within ten (10) Business Days after the commencement of such offer, or resolve or agree to take any of the foregoing actions (any of the foregoing, a “**Company Adverse Recommendation Change**”). The Company shall, and shall cause its Subsidiaries to cease immediately and cause to be terminated, and shall not authorize or knowingly permit any of its or their Representatives to continue, any and all existing activities, discussions or negotiations, if any, with any third party conducted prior to the date of the Agreement with respect to any Takeover Proposal and shall use its reasonable best efforts to cause any such third party (or its agents or advisors) in possession of non-public information in respect of the Company or any of its Subsidiaries that was furnished by or on behalf of the Company and its Subsidiaries to return or destroy (and confirm destruction of) all such information.

(b) Notwithstanding Section 5.9(a), during the 30 days following the date of this Agreement, the Company Board, directly or indirectly through any Representative, may, subject to Section 5.9(c), (i) participate in negotiations or discussions with any third party that has made (and not withdrawn) a bona fide, unsolicited Takeover Proposal in writing that the Company Board by majority rule believes in good faith, after consultation with outside legal counsel and the Company Financial Advisor, constitutes or would reasonably be expected to result in a Superior Proposal, (ii) thereafter furnish to such third party non-public information relating to the Company or any of its Subsidiaries pursuant to an executed confidentiality agreement that constitutes an Acceptable Confidentiality Agreement (a copy of which confidentiality agreement shall be promptly (in all events within twenty-four (24) hours) provided for informational purposes only to Diodes), (iii) following receipt of and on account of a Superior Proposal, make a Company Adverse Recommendation Change, and/or (iv) take any action that any court of competent jurisdiction orders the Company to take (which order remains unstayed), but in each case referred to in the foregoing clauses (i) through (iv), only if the Company Board determines in good faith, after consultation with outside legal counsel, that the failure to take such action would reasonably be expected to be inconsistent with the fiduciary duties of the Company Board under applicable Law. Nothing contained herein shall prevent the Company Board from disclosing to the Company’s shareholders a position contemplated by Rule 14d-9 and Rule 14e-2(a) promulgated under the Exchange Act with regard to a Takeover Proposal, if the Company determines, after consultation with outside legal counsel, that failure to disclose such position would constitute a violation of applicable Law.

(c) The Company Board shall not take any of the actions referred to in clauses (i) through (iv) of Section 5.9(b) unless the Company shall have delivered to Diodes a prior written notice advising Diodes that it intends to take such action. The Company shall notify Diodes promptly (but in no event later than twenty-four (24) hours) after it obtains Knowledge of the receipt by the Company (or any of its Representatives) of any Takeover Proposal, any inquiry, any request for non-public information relating to the Company or any of its Subsidiaries or for access to the business, properties, assets, books or records of the Company or any of its Subsidiaries by any third party, in each case, in a way that would reasonably be expected to lead to a Takeover Proposal. In such notice, the Company shall identify the third party making, and details of the material terms and conditions of, any such Takeover Proposal, indication or request. The Company shall keep Diodes fully informed, on a current basis, of the status and material terms of any such Takeover Proposal, indication or request, including any material amendments or proposed amendments as to price and other material terms thereof. The Company shall provide Diodes with at least forty-eight (48) hours prior notice of any meeting of the Company Board (or such lesser notice as is provided to the members of the Company Board) at which the Company Board is reasonably expected to consider any Takeover Proposal and shall provide Diodes and its Representatives with the opportunity and a reasonable period of time to make a presentation to the Company Board at the meeting. The Company shall promptly provide Diodes with a list of any non-public information concerning the Company's business, present or future performance, financial condition or results of operations, provided to any third party, and, to the extent such information has not been previously provided to Diodes, copies of such information.

(d) Except as set forth in this Section 5.9(d), the Company Board shall not make any Company Adverse Recommendation Change or enter into (or permit any Subsidiary to enter into) a Company Acquisition Agreement. Notwithstanding the foregoing, at any time prior to the receipt of the Company Shareholder Approval, the Company Board may make a Company Adverse Recommendation Change or enter into (or permit any Subsidiary to enter into) a Company Acquisition Agreement, if: (i) the Company promptly notifies Diodes, in writing, at least five (5) Business Days (the "**Notice Period**") before making a Company Adverse Recommendation Change or entering into (or causing a Subsidiary to enter into) a Company Acquisition Agreement, of its intention to take such action with respect to a Superior Proposal, which notice shall state expressly that the Company has received a Takeover Proposal that the Company Board intends to declare a Superior Proposal and that the Company Board intends to make a Company Adverse Recommendation Change and/or the Company intends to enter into a Company Acquisition Agreement; (ii) the Company attaches to such notice the most current version of the proposed agreement (which version shall be updated on a prompt basis) and the identity of the third party making such Superior Proposal; (iii) the Company shall, and shall cause its Subsidiaries to, and shall use its reasonable best efforts to cause its and its Subsidiaries' Representatives to, during the Notice Period, negotiate with Diodes in good faith to make such adjustments in the terms and conditions of this Agreement so that such Takeover Proposal ceases to constitute a Superior Proposal, if Diodes, in its discretion, proposes to make such adjustments in a manner that would form a binding Contract if accepted by the Company (it being agreed that in the event that, after commencement of the Notice Period, there is any material revision to the material terms of a Superior Proposal, including, any revision in price, the Notice Period shall be extended, if applicable, to ensure that at least three (3) Business Days remains in the Notice Period subsequent to the time the Company notifies Diodes of any such material revision (it being understood that there may be multiple extensions)); and (iv) the Company Board determines in good faith, after consulting with outside legal counsel and its Company Financial Advisor, that such Takeover Proposal continues to constitute a Superior Proposal after taking into account any adjustments made by Diodes during the Notice Period in the terms and conditions of this Agreement.

Section 5.10 Company Shareholder Meeting.

(a) Subject to the terms set forth in this Agreement, the Company shall take all action necessary to duly call, give notice of, convene and hold the Company Shareholders Meeting as soon as reasonably practicable after the date of this Agreement, and in connection therewith, the Company shall mail the Company Proxy Statement to the holders of the Shares in advance of such meeting. Except to the extent that the Company Board shall have effected a Company Adverse Recommendation Change as permitted by Section 5.9(b) hereof, the Company Proxy Statement shall include the Company Board Recommendation. Subject to Section 5.9 hereof, the Company shall use reasonable best efforts to (i) solicit from the holders of the Shares proxies in favor of the approval and authorization of this Agreement and the Cayman Plan of Merger and (ii) take all other actions necessary or advisable to secure the vote or Consent of the holders of Shares required by applicable Law to obtain such approval and authorization. The Company shall keep Diodes and Merger Sub updated with respect to proxy solicitation results as requested by Diodes or Merger Sub. Once the Company Shareholders Meeting has been called and noticed, the Company shall not postpone or adjourn the Company Shareholders Meeting without the Consent of Diodes (other than (i) in order to obtain a quorum of its shareholders, or (ii) as reasonably determined by the Company to comply with applicable Law). At the Company Shareholders Meeting, Diodes and its Affiliates shall vote all Shares owned by them in favor of approval and authorization of this Agreement and the Cayman Plan of Merger. Notwithstanding anything contained herein to the contrary, the Company shall not be required to hold the Company Shareholders Meeting if this Agreement is terminated before it is held.

(b) In connection with the Company Shareholders Meeting, as soon as reasonably practicable following the date of this Agreement the Company shall prepare the Company Proxy Statement. Diodes, Merger Sub and the Company will cooperate and consult with each other in the preparation of the Company Proxy Statement. Without limiting the generality of the foregoing, each of Diodes and Merger Sub will furnish the Company the information relating to it required by the Exchange Act and the rules and regulations promulgated thereunder to be set forth in the Company Proxy Statement. The Company shall not mail the Company Proxy Statement, or any amendment or supplement thereto, without providing Diodes a reasonable opportunity to review and comment thereon (which comments shall be reasonably considered by the Company). Each of Diodes, Merger Sub and the Company agree to correct any information provided by it for use in the Company Proxy Statement which shall have become false or misleading and the Company shall promptly prepare and mail to its shareholders an amendment or supplement setting forth such correction.

ARTICLE VI

Covenants of Diodes

Section 6.1 Fulfillment of Conditions. From the date of the Agreement to the Closing Date, Diodes shall use its commercially reasonable efforts to fulfill the conditions specified in ARTICLE VIII. The foregoing obligation includes, without limitation, (a) executing and delivering documents necessary or desirable to consummate the Transactions, (b) taking or refraining from such actions as may be necessary to fulfill such conditions (including using its commercially reasonable efforts to conduct the business of Diodes and the Merger Sub in such manner that on the Closing Date the representations and warranties of Diodes contained herein shall be accurate as though then made).

Section 6.2 Regulatory and Other Authorizations; Notices and Consents. Diodes shall use its commercially reasonable efforts to obtain all authorizations, Consents, orders and approvals of all Governmental Entities and officials that may be or become necessary for its execution and delivery of, and the performance of its obligations pursuant to, this Agreement and the Transaction Documents to which it is a party and shall cooperate fully with the Company in promptly seeking to obtain all such authorizations, Consents, orders and approvals (and in such regard use commercially reasonable efforts to cause the relevant Government Entities to permit the Company and/or its counsel to participate in the conversation and correspondence with such Government Authorities together with Diodes' counsel).

Section 6.3 Retention Bonuses. Diodes has agreed to and shall pay retention bonuses to such employees of the Surviving Corporation and/or its Subsidiaries, in such individual amounts, and pursuant to such terms as indicated in Section 6.3 of the Company Disclosure Schedule.

Section 6.4 Directors' and Officers' Indemnification and Insurance

(a) Diodes and Merger Sub agree that all rights to indemnification, advancement of expenses and exculpation by the Company or its Subsidiaries now existing in favor of each Person who is now, or has been at any time prior to the date of the Agreement or who becomes prior to the Effective Time an officer or director of the Company or its Subsidiaries (each an "Indemnified Party") as provided in the Company Constituent Instruments, in each case as in effect on the date of this Agreement, or pursuant to any other Contracts in effect on the date of the Agreement and disclosed in Section 6.4(a) of the Company Disclosure Schedule for acts or omissions occurring prior to the Effective Time (including acts or omissions occurring in connection with this Agreement and the consummation of the Merger) shall be assumed by the Surviving Corporation in the Merger, without further action, at the Effective Time and shall survive the Merger and shall remain in full force and effect in accordance with their terms, and, in the event that any proceeding is pending or asserted or any claim made during such period, until the final disposition of such proceeding or claim.

(b) For six years after the Effective Time, to the fullest extent permitted under applicable Law, the Surviving Corporation and any successor to the Surviving Corporation shall, and Diodes shall cause the Surviving Corporation or its successor to, out of the assets of the Company, its Subsidiaries, and any applicable insurance (but not from any assets of Diodes, other than those of the Company and its Subsidiaries) indemnify, defend and hold harmless each Indemnified Party against all losses, claims, damages, liabilities, fees, expenses, Judgments and fines arising directly or indirectly, in whole or in part out of actions or omissions in their capacity as such occurring at or prior to the Effective Time (including in connection with the Transactions contemplated by this Agreement), and shall advance and/or reimburse each Indemnified Party for any legal or other expenses reasonably incurred by such Indemnified Party in connection with investigating or defending any such losses, claims, damages, liabilities, fees, expenses, Judgments and fines as such expenses are incurred, subject to the Surviving Corporation's receipt of an undertaking by such Indemnified Party to repay such legal and other fees and expenses paid in advance if it is ultimately determined in a final and non-appealable Judgment of a court of competent jurisdiction that such Indemnified Party is not entitled to be indemnified under applicable Law; provided, however, that the Surviving Corporation will not be liable for any settlement effected without the Surviving Corporation's prior written Consent (which Consent shall not be unreasonably withheld or delayed).

(c) The Company shall obtain (and pay the premium in full in cash for) a "tail" insurance policy with a claims period of six (6) years from the Effective Time with at least the same coverage and amounts and containing terms and conditions that are not less advantageous to the directors and officers of the Company and its Subsidiaries with respect to claims arising out of or relating to events which occurred before or at the Effective Time (including in connection with the Transactions contemplated by this Agreement).

(d) The obligations of Diodes and the Surviving Corporation under this Section 6.4 shall survive the consummation of the Merger and shall not be terminated or modified in such a manner as to adversely affect any Indemnified Party to whom this Section 6.4 applies without the Consent of such affected Indemnified Party (it being expressly agreed that the Indemnified Parties to whom this Section 6.4 applies shall be third party beneficiaries of this Section 6.4, each of whom may enforce the provisions of this Section 6.4).

(e) In the event the Surviving Corporation or any of its respective successors or assigns (i) consolidates with or merges into any other Person and shall not be the continuing or surviving corporation or entity in such consolidation or merger or (ii) transfers or licenses all or substantially all of its properties and assets (including Intellectual Property Rights) to any Person, then, and in either such case, proper provision shall be made so that each of such successors and assigns of the Surviving Corporation shall assume all of the obligations set forth in this Section 6.4 to the extent of the assets transferred to such successor or assign. The agreements and covenants contained herein shall not be deemed to be exclusive of any other rights to which any Indemnified Party is entitled, whether pursuant to Law, Contract or otherwise. Nothing in this Agreement is intended to, shall be construed to or shall release, waive or impair any rights to directors' and officers' insurance claims under any policy that is or has been in existence with respect to the Company or its officers, directors and employees, it being understood and agreed that the indemnification provided for in this Section 6.4 is not prior to, or in substitution for, any such claims under any such policies.

ARTICLE VII

Additional Agreements and Covenants

Section 7.1 Company Disclosure Schedule. The Company shall, as of the Closing Date, have the obligation to supplement or amend the Company Disclosure Schedule being delivered concurrently with the execution of this Agreement and annexes and exhibits hereto with respect to any matter hereafter arising or discovered which resulted in, or could reasonably be expected to result in a Material Adverse Effect on the Company. The obligations of the Company to amend or supplement the Company Disclosure Schedule being delivered herewith shall terminate on the Closing Date. Notwithstanding any such amendment or supplementation, the representations and warranties of the Company shall be made with reference to the Company Disclosure Schedule as it exists at the time of execution of this Agreement.

Section 7.2 Confidentiality. Between the date of the Agreement and the Effective Time, Diodes and Merger Sub, on the one hand, and the Company, on the other hand, shall each hold and shall cause its Representatives to hold in strict confidence, unless compelled to disclose by judicial or administrative process or by other requirements of Law or by the rules and regulations of, or pursuant to any agreement, rules or regulations of, the relevant stock exchange or trading system, the Confidential Information of the other Party. Each Party shall be deemed to have satisfied its obligations to hold Confidential Information concerning or supplied by the other Party in connection with the Transactions, if it exercises the same care as it takes to preserve confidentiality for its own similar information. If the Receiving Party or any of its Representatives is required by Law, upon the advice of the Receiving Party's counsel, to disclose any Confidential Information (whether by oral questions, interrogatories, requests for information or documents, subpoena, civil investigative demand or other similar process), the Receiving Party and its Representatives shall, prior to any such compelled disclosure, give the Disclosing Party prompt notice of any such requirement, take all reasonable steps requested by the Disclosing Party to preserve the confidentiality or privileged nature of the Confidential Information, and use reasonable efforts to cooperate with the Disclosing Party's efforts in protecting against any such disclosure or obtaining confidential treatment or a protective order narrowing the scope of such disclosure or use of the Confidential Information. In the event that such protective order or other remedy is not obtained, the Receiving Party will furnish only that portion of the

Confidential Information which, on the advice of the Receiving Party's counsel, is legally required to be disclosed. To the extent that any Confidential Information includes materials subject to the attorney-client privilege, the Disclosing Party is not waiving, and shall not be deemed to have waived or diminished, its attorney work-product protections, attorney-client privileges or similar protections and privileges as a result of disclosing such Confidential Information to the Receiving Party or its Representatives. For the avoidance of doubt, any disclosure of Confidential Information required to be included by Diodes or the Company in its filings with the SEC as required by the applicable Laws will not be a violation of this Section 7.2.

Section 7.3 Public Announcements. From the date of this Agreement until the Closing or termination of this Agreement in accordance with the terms set forth in ARTICLE IX of this Agreement, Diodes and the Company shall cooperate in good faith to jointly prepare all press releases and public announcements pertaining to this Agreement and the Transactions governed by it, and none of the foregoing shall issue or otherwise make any public announcement or communication pertaining to this Agreement or the Transactions without the prior Consent of Diodes (in the case of the Company) or the Company (in the case of Diodes), except as required by Law as determined after consultation with outside counsel or by the rules and regulations of, or pursuant to any agreement, rules or regulations of, the relevant stock exchange or trading system, or for information that has been publicly disclosed in accordance with the requirements of this Section 7.3 prior to such public announcement or communication. Each Party will not unreasonably withhold approval from the others with respect to any press release or public announcement.

ARTICLE VIII

Conditions to Closing

Section 8.1 Company's Conditions Precedent. The obligations of the Company to enter into and complete the Closing are subject, at the option of the Company, to the fulfillment on or prior to the Closing Date of the following conditions by Diodes and Merger Sub, any one or more of which may be waived by the Company in writing:

(a) Representations and Covenants. The representations and warranties of Diodes and Merger Sub contained in this Agreement shall be true on and as of the Closing Date, and Diodes and Merger Sub shall each have performed and complied in all material respects with all covenants and agreements required by this Agreement to be performed or complied with by each of them on or prior to the Closing Date, and Diodes shall have delivered to the Company a certificate, dated the Closing Date, to the foregoing effect.

(b) Litigation. No Action shall have been instituted before any court or governmental or regulatory body by any Governmental Entities to restrain, modify or prevent the carrying out of the Transactions or to seek damages in connection with the Transactions.

(c) Approval and Authorization by the Company's Shareholders. This Agreement and the Cayman Plan of Merger shall have been approved and authorized by the holders of at least two-thirds (2/3) of the Shares present and voting in person or by proxy at the Company Shareholders Meeting in accordance with the Cayman Companies Law.

(d) Merger Document. The Cayman Plan of Merger to be filed in accordance with the Cayman Companies Law on Closing shall have been executed and delivered by Merger Sub.

Section 8.2 Diodes' Conditions Precedent. The obligations of Diodes and Merger Sub to enter into and complete the Closing are subject, at the option of Diodes, to the fulfillment on or prior to the Closing Date of the following conditions by the Company, any one or more of which may be waived by Diodes in writing:

(a) Representations and Covenants. The representations and warranties of the Company contained in this Agreement shall be true on and as of the Closing Date (except those representations and warranties that address matters only as of a particular date, which shall be true and correct as of that date), except where the failure of such representations or warranties to be so true and correct has not had or would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on the Company, and the Company shall have performed and complied in all material respects with all covenants and agreements required by this Agreement to be performed or complied with by it on or prior to the Closing Date, and the Company shall have delivered to Diodes a certificate, dated the Closing Date, to the foregoing effect.

(b) No Material Adverse Change. There shall not have been any occurrence, event, incident, action, failure to act, or transaction since the date of the Agreement which has had or is reasonably likely to cause a Material Adverse Effect on the Company.

(c) Litigation. No Action shall have been instituted before any court or governmental or regulatory body by any Governmental Entities to restrain, modify or prevent the carrying out of the Transactions, or to seek damages in connection with the Transactions.

(d) Delivery of Company Additional Financial Statements. Section 5.3 shall have been complied with.

(e) Officer's Certificate. Diodes shall have received a certificate from the Company signed by an authorized officer or representative of the Company, certifying that the attached copies of the Company's Constituent Instruments and resolutions or other authorizing documents approving the Agreement and the Transactions are all true, complete and correct and remain in full force and effect.

(f) Fab 2 Requirements. All environmental permits required to enable the Company's fabrication facility known as Fab 2 to commence operations shall have been issued and shall be effective. The Company shall have delivered to Diodes a letter or other document issued by the Chief Executive Officer of the Company confirming his reasonable belief that the Company will be entitled to the tax benefits and subsidies afforded to the Company in connection with the facility provided that the facility commences operations promptly after receiving all environmental permits required for such commencement.

(g) Dissenting Shares. No more than 20% of the outstanding Shares shall be Dissenting Shares as of the Closing Date.

(h) Minimum Vote. This Agreement shall have been approved by the affirmative vote of at least a majority of the Non-affiliated Voting Shares.

ARTICLE IX

Termination, Amendment and Waiver

Section 9.1 Termination by Mutual Consent. This Agreement may be terminated at any time prior to the Effective Time (notwithstanding any approval of this Agreement by the shareholders of the Company) by mutual written Consent of Diodes, Merger Sub and the Company.

Section 9.2 Termination by either Diodes or the Company. This Agreement may be terminated by either Diodes or the Company at any time prior to the Effective Time (notwithstanding any approval and authorization of this Agreement and the Cayman Plan of Merger by the shareholders of the Company):

(a) if the Merger has not been consummated on or before June 30, 2013 (the “*End Date*”); *provided, however, that* the right to terminate this Agreement pursuant to this Section 9.2(a) shall not be available to any Party whose breach of any representation, warranty, covenant or agreement set forth in this Agreement has been the cause of, or resulted in, the failure of the Merger to be consummated on or before the End Date;

(b) if any Governmental Entity of competent jurisdiction shall have enacted, issued, promulgated, enforced or entered any Law or order making illegal, permanently enjoining or otherwise permanently prohibiting the consummation of the Transactions or materially and adversely affecting the benefits of the Transactions to such Party, and such Law or order (i) shall have or is reasonably expected to have a Material Adverse Effect on the Company and its Subsidiaries taken as a whole and (ii) shall have become final and nonappealable; *provided, however, that* the right to terminate this Agreement pursuant to this Section 9.2(b) shall not be available to any Party whose breach of any representation, warranty, covenant or agreement set forth in this Agreement has been the cause of, or resulted in, the issuance, promulgation, enforcement or entry of any such Law or Order; or

(c) if this Agreement and the Cayman Plan of Merger have been submitted to the shareholders of the Company for approval and authorization at a duly convened Company Shareholders Meeting and the Company Shareholder Approval shall not have been obtained at such meeting (including any adjournment or postponement thereof).

Section 9.3 Termination By Diodes. This Agreement may be terminated by Diodes at any time prior to the Effective Time (notwithstanding any approval of this Agreement by the shareholders of the Company):

(a) if (i) a Company Adverse Recommendation Change shall have occurred, (ii) the Company shall have entered into, or publicly announced its intention to enter into, a Company Acquisition Agreement (other than an Acceptable Confidentiality Agreement), (iii) the Company shall have breached or failed to perform in any material respect any of the covenants and agreements set forth in Section 5.9, (iv) the Company Board fails to reaffirm (publicly, if so requested by Diodes) the Company Board Recommendation within ten (10) Business Days after the date any Takeover Proposal (or material modification thereto) is first publicly disclosed by the Company or the Person making such Takeover Proposal, (v) a tender offer or exchange offer relating to the Shares shall have been commenced by a Person unaffiliated with Diodes and the Company shall not have sent to its shareholders pursuant to Rule 14e-2 under the Securities Act, within ten (10) Business Days after such tender offer or exchange offer is first published, sent or given, a statement reaffirming the Company Board Recommendation and recommending that shareholders reject such tender or exchange offer, or (vi) the Company or the Company Board (or any committee thereof) shall publicly announce its intentions to do any of the actions specified in this Section 9.3(a); or

(b) if there shall have been a breach of any representation, warranty, covenant or agreement on the part of the Company set forth in this Agreement such that the conditions to the Closing of the Merger set forth in Section 8.2(a) would not be satisfied and such breach is incapable of being cured by the End Date; *provided that* Diodes shall have given the Company at least 30 days written notice prior to such termination stating Diodes’ intention to terminate this Agreement pursuant to this Section 9.3(b).

Section 9.4 Termination by the Company. This Agreement may be terminated by the Company at any time prior to the Effective Time (notwithstanding, in the case of Section 9.4(b) immediately below, any approval and authorization of this Agreement and the Cayman Plan of Merger by the shareholders of the Company):

(a) if prior to the receipt of the Company Shareholder Approval at the Company Shareholders Meeting, the Company Board authorizes the Company, in full compliance with the terms of this Agreement, including Section 5.9(b) hereof, to enter into a Company Acquisition Agreement (other than an Acceptable Confidentiality Agreement) in respect of a Superior Proposal; provided that the Company shall have paid any amounts due pursuant to Section 9.6(b) hereof in accordance with the terms, and at the times, specified therein; and provided further that in the event of such termination, the Company substantially concurrently enters into such Company Acquisition Agreement; or

(b) if there shall have been a breach of any representation, warranty, covenant or agreement on the part of Diodes or Merger Sub set forth in this Agreement such that the conditions to the Closing of the Merger set forth in Section 8.1(a) would not be satisfied and such breach is incapable of being cured by the End Date; *provided that* the Company shall have given Diodes at least 30 days written notice prior to such termination stating the Company's intention to terminate this Agreement pursuant to this Section 9.4(b).

Section 9.5 Notice of Termination; Effect of Termination. The Party desiring to terminate this Agreement pursuant to this ARTICLE IX (other than pursuant to Section 9.1) shall deliver written notice of such termination to each other Party specifying with particularity the reason for such termination, and any such termination in accordance with Section 9.5 shall be effective immediately upon delivery of such written notice to the other Parties. If this Agreement is terminated pursuant to this Article IX, it will become void and of no further force and effect, with no liability on the part of any Party (or any shareholder, director, officer, employee, agent or Representative of such Party) to any other Party hereto, except (i) with respect to Section 5.2(b), this Section 9.5, Section 9.6 and ARTICLE X (and any related definitions contained in any such Sections or ARTICLE X), which shall remain in full force and effect and (ii) with respect to any liabilities or damages incurred or suffered by a Party, to the extent such liabilities or damages were the result of fraud or the willful and material breach by another Party of this Agreement.

Section 9.6 Fees and Expenses Following Termination.

(a) If this Agreement is terminated by Diodes pursuant to Section 9.3(a), then the Company shall pay to Diodes (by wire transfer of immediately available funds), within two (2) Business Days after such termination, a fee in an amount equal to the Termination Fee.

(b) If this Agreement is terminated by the Company pursuant to Section 9.4(a), then the Company shall pay to Diodes (by wire transfer of immediately available funds), at or prior to such termination, the Termination Fee.

h a r e h o l d e r A p p r o v a l s h a l l n o t h a v e b e e n
obtained at the Company Shareholders Meeting (including any adjournment or postponement thereof) or (ii) by the Company or Diodes pursuant to
(x) Section 9.2(a) hereof and *provided that* the Company Shareholder Approval shall not have been obtained at the Company Shareholders Meeting
(including any adjournment or

postponement thereof) or (y) Section 9.2(c) hereof and, in the case of clauses (i) and (ii) immediately above, (A) prior to such termination (in the case of termination pursuant to Section 9.2(a) or Section 9.3(b)) or the Company Shareholders Meeting (in the case of termination pursuant to Section 9.2(c)), a Takeover Proposal shall (1) in the case of a termination pursuant to Section 9.2(a) or Section 9.2(c), have been publicly disclosed and not withdrawn or (2) in the case of a termination pursuant to Section 9.3(b), have been publicly disclosed or otherwise made or communicated to the Company or the Company Board, and not withdrawn, and (B) within twelve 12 months following the date of such termination of this Agreement the Company shall have entered into a definitive agreement with respect to any Takeover Proposal, or any Takeover Proposal shall have been consummated (in each case whether or not such Takeover Proposal is the same as the original Takeover Proposal made, communicated or publicly disclosed), then in any such event the Company shall pay to Diodes (by wire transfer of immediately available funds), immediately prior to and as a condition to consummating such transaction, the Termination Fee, (it being understood for all purposes of this Section 9.6(c), all references in the definition of Takeover Proposal to 10% shall be deemed to be references to "more than 50%" instead). If a Person (other than Diodes or its Affiliates) makes a Takeover Proposal that has been publicly disclosed and subsequently withdrawn prior to such termination or the Company Shareholder Meeting, as applicable, and, within 12 months following the date of the termination of this Agreement, such Person or any of its controlled Affiliates makes a Takeover Proposal that is publicly disclosed, such initial Takeover Proposal shall be deemed to have been "not withdrawn" for purposes of clauses (1) and (2) of this paragraph (c).

(d) The Company acknowledges and hereby agrees that the provisions of this Section 9.6 are an integral part of the Transactions contemplated by this Agreement (including the Merger), and that, without such provisions, Diodes and Merger Sub would not have entered into this Agreement. If the Company shall fail to pay in a timely manner the amounts due pursuant to this Section 9.6, and, in order to obtain such payment, Diodes makes a claim against the Company that results in a Judgment against the Company, the Company shall pay to Diodes the reasonable and documented costs and expenses of Diodes (including its reasonable attorneys' fees and expenses) incurred or accrued in connection with such suit, together with interest on the amounts set forth in this Section 9.6 at the prime lending rate prevailing during such period as published in The Wall Street Journal. Any interest payable hereunder shall be calculated on a daily basis from the date such amounts were required to be paid until (but excluding) the date of actual payment, and on the basis of a 360-day year. The Parties acknowledge and agree that in no event shall the Company be obligated to pay the Termination Fee on more than one occasion. Notwithstanding anything to the contrary in this Agreement, Diodes and Merger Sub agree that, upon any termination of this Agreement under circumstances where the Termination Fee is payable by the Company pursuant to this Section 9.6 and such Termination Fee is paid in full, Diodes and Merger Sub shall be precluded from any other remedy against the Company or its Subsidiaries, at law or in equity or otherwise, and neither Diodes nor Merger Sub shall seek to obtain any recovery, Judgment, or damages of any kind, including consequential, indirect, or punitive damages, against the Company or any of the Company's Subsidiaries or any of their respective directors, officers, employees, partners, managers, members, shareholders or Affiliates or their respective Representatives in connection with this Agreement or the Transactions contemplated hereby.

(e) Except as expressly set forth in this Section 9.6, all Expenses incurred in connection with this Agreement and the Transactions contemplated hereby will be paid by the Party incurring such Expenses.

Section 9.7 Amendment. At any time prior to the Effective Time, this Agreement may be amended or supplemented in any and all respects, whether before or after receipt of the Company Shareholder Approval, by written agreement signed by each of the Parties hereto; *provided, however, that* following the receipt of the Company Shareholder Approval, there shall be no amendment or supplement to the provisions of this Agreement which by Law or in accordance with the rules of any relevant self-regulatory organization would require further approval by the holders of the Shares without such approval.

Section 9.8 Extension; Waiver. At any time prior to the Effective Time, Diodes or Merger Sub, on the one hand, or the Company, on the other hand, may (a) extend the time for the performance of any of the obligations of the other Party(ies), (b) waive any inaccuracies in the representations and warranties of the other Party(ies) contained in this Agreement or in any document delivered under this Agreement, or (c) unless prohibited by applicable Law, waive compliance with any of the covenants, agreements or conditions contained in this Agreement. Any agreement on the part of a Party to any extension or waiver will be valid only if set forth in an instrument in writing signed by such Party. The failure of any Party to assert any of its rights under this Agreement or otherwise will not constitute a waiver of such rights.

ARTICLE X

Miscellaneous

Section 10.1 Non-Survival and Representations and Warranties. None of the representations and warranties contained in this Agreement or in any instrument delivered under this Agreement will survive the Effective Time. This Section 10.1 does not limit any covenant of the Parties to this Agreement which, by its terms, contemplates performance after the Effective Time. The Confidentiality Agreement will (a) survive termination of this Agreement in accordance with its terms and (b) terminate as of the Effective Time.

Section 10.2 Notices. All notices, requests, claims, demands and other communications under this Agreement shall be in writing and shall be deemed given upon receipt by the Parties at the addresses set forth on the signature pages hereto (or at such other address for a Party as shall be specified in writing to all other Parties).

Section 10.3 Amendments; Waivers; Additional Selling Shareholders. No provision of this Agreement may be waived or amended except in a written instrument signed by all of the Parties hereto. No waiver of any default with respect to any provision, condition or requirement of this Agreement shall be deemed to be a continuing waiver in the future or a waiver of any subsequent default or a waiver of any other provision, condition or requirement hereof, nor shall any delay or omission of any Party to exercise any right hereunder in any manner impair the exercise of any such right.

Section 10.4 Interpretation. When a reference is made in this Agreement to a Section, such reference shall be to a Section of this Agreement unless otherwise indicated. Whenever the words “include,” “includes” or “including” are used in this Agreement, they shall be deemed to be followed by the words “without limitation.”

Section 10.5 Severability. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule or Law, or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the Transactions is not affected in any manner materially adverse to any Party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the Parties shall negotiate in good faith to modify this Agreement so as to effect the original intent of the Parties as closely as possible in an acceptable manner to the end that Transactions are fulfilled to the extent possible.

Section 10.6 Counterparts; Facsimile Execution. This Agreement may be executed in two or more counterparts, all of which shall be considered one and the same agreement and shall become effective when two or more counterparts have been signed by each of the Parties and delivered to the other Parties. Facsimile execution and delivery of this Agreement is legal, valid and binding for all purposes.

Section 10.7 Entire Agreement; Third Party Beneficiaries. This Agreement, taken together with all Exhibits, Annexes and Schedules hereto (a) constitutes the entire agreement, and supersedes all prior agreements and understandings, both written and oral, among the Parties with respect to the Transactions (except the Confidentiality Agreement, which shall survive the execution of this Agreement and continue to be binding pursuant to its terms) and (b) are not intended to confer upon any Person other than the Parties any rights or remedies, except as expressly provided in Section 6.4, which is intended to confer rights and remedies upon each Indemnified Party as set forth therein. Nothing in this Agreement shall constitute an amendment to any benefit plan, and no benefit plan shall be amended absent a separate written amendment that complies with such plan's amendment procedures.

Section 10.8 Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Delaware regardless of the laws that might otherwise govern under applicable principles of conflicts of laws thereof (provided that the fiduciary duties of the Company Board, the internal corporate affairs of the Company, the Merger, and any exercise of dissenter rights with respect to the Merger shall in each case be governed by the laws of the Cayman Island).

Section 10.9 Dispute Resolution.

(a) All disputes among the Parties arising out of or relating to this Agreement will be resolved by mandatory, binding arbitration in accordance with this Section 10.9.

(b) Before any arbitration is commenced pursuant to this Section 10.9, the Parties must endeavor to reach an amicable settlement of the dispute through friendly negotiations.

(c) If no mutually acceptable settlement of the dispute is made within the sixty (60) days from the commencement of the settlement negotiation or if any Party refuses to engage in any settlement negotiation, any Party may submit the dispute for arbitration.

(d) Any arbitration commenced pursuant to this Section 10.9 will be conducted in Hong Kong under the Arbitration Rules of the United Nations Commission on International Trade Law by arbitrators appointed in accordance with such rules. The arbitration and appointing authority will be the Hong Kong International Arbitration Centre ("*HKIAC*"). The arbitration will be conducted by a panel of three arbitrators, one chosen by the Diodes Representative, one chosen by the Company and the third chosen by agreement of the two selected arbitrators; failing agreement within thirty (30) days prior to commencement of the arbitration proceeding, the HKIAC will appoint the third arbitrator. The proceedings will be confidential and conducted in English. The arbitral tribunal will have the authority to grant any equitable and legal remedies that would be available in any judicial proceeding instituted to resolve a disputed matter, and its award will be final and binding on the Parties. The arbitral tribunal will determine how the Parties will bear the costs of the arbitration. Notwithstanding the foregoing, each Party will have the right at any time to immediately seek injunctive relief, an award of specific performance or any other equitable relief against the other Party in any court or other tribunal of competent jurisdiction. During the pendency of any arbitration or other proceeding relating to a dispute between the Parties, the Parties will continue to exercise their remaining respective rights and fulfill their remaining respective obligations under this Agreement, except with regard to the matters under dispute.

Section 10.10 Specific Performance. The Company, Diodes and Merger Sub acknowledge and agree that irreparable damage would occur in the event any of the provisions of this Agreement required to be performed by any of the Parties were not performed in accordance with their specific terms or were otherwise breached, and that monetary damages, even if available, would not be an adequate remedy therefor. Accordingly, in the event of any breach or threatened breach by any Party of any covenant or obligation contained in this Agreement, the Company or Diodes shall be entitled to obtain, without proof of actual damages (and in addition to any other remedy to which such party may be entitled at law or in equity): (a) a decree or order from a court of competent jurisdiction of specific performance to enforce the observance and performance of such covenant or obligation; and (b) an injunction from a court of competent jurisdiction restraining such breach or threatened breach. The Company and Diodes each hereby waives any requirement for the securing or posting of any bond in connection with any such remedy.

Section 10.11 Assignment. Neither this Agreement nor any of the rights, interests or obligations under this Agreement shall be assigned, in whole or in part, by operation of law or otherwise by any of the Parties without the prior written Consent of the other Parties. Any purported assignment without such Consent shall be void. Subject to the preceding sentences, this Agreement will be binding upon, inure to the benefit of, and be enforceable by, the Parties and their respective successors and assigns.

Section 10.12 Governing Language. This Agreement shall be governed and interpreted in accordance with the English language.

[Signature Page Follows]

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be duly executed by their respective authorized signatories as of the date first indicated above.

DIODES INCORPORATED

By: _____
Name:
Title:
Address:

DIODES CAYMAN ISLANDS COMPANY LIMITED

By: _____
Name:
Title:
Address:

BCD SEMICONDUCTOR MANUFACTURING LIMITED

By: _____
Name:
Title:
Address:

ANNEX A

Definitions

“Acceptable Confidentiality Agreement” means a confidentiality agreement that contains confidentiality provisions that are no less favorable to the Company than those contained in the Confidentiality Agreement.

“Action” has the meaning set forth in Section 3.8 of the Agreement.

“ADSs” has the meaning set forth in Section 2.1(a) of the Agreement.

“Affiliates” means any Person that directly or indirectly through one or more intermediaries, controls or is controlled by or is under common control with the Person specified. For purposes of this definition, control of a Person means the power, direct or indirect, to direct or cause the direction of the management and policies of such Person whether by Contract or otherwise and, in any event and without limitation of the previous sentence, any Person owning fifty percent (50%) or more of the voting securities of a second Person shall be deemed to control that second Person. For the purposes of this definition, a Person shall be deemed to control any of his or her immediate family members.

“Agreement” has the meaning set forth in the preamble to the Agreement.

“Antitrust Laws” means any Laws that are designed or intended to prohibit, restrain or regulate actions having the purpose or effect of monopolization or restraint of trade or significant impediment or lessening of competition or strengthening of dominant positions through merger or acquisition.

“Applicable Date” has the meaning set forth in Section 3.5(a) of the Agreement.

“Business Day” means a day (excluding Saturdays, Sundays and public holidays) on which commercial banks are generally open for banking business in the United States, the PRC, and the Cayman Islands.

“Cayman Companies Law” means the Companies Law (2012 Revision) of the Cayman Islands.

“Cayman Plan of Merger” has the meaning set forth in Section 1.3 of the Agreement.

“Change” has the meaning set forth in the definition of Material Adverse Effect in this Annex A.

“Closing” has the meaning set forth in Section 1.2 of the Agreement.

“Closing Date” has the meaning set forth in Section 1.2 of the Agreement.

“Code” means the Internal Revenue Code of 1986, as amended, and applicable Treasury Regulations issued pursuant thereto.

“Company” has the meaning set forth in the preamble to the Agreement.

“Company Acquisition Agreement” has the meaning set forth in Section 5.9(a) of the Agreement.

“Company Additional Financial Statements” has the meaning set forth in Section 5.3 of the Agreement.

“Company Adverse Recommendation Change” has the meaning set forth in Section 5.9(a) of the Agreement.

“Company Balance Sheet” means the audited balance sheet of the Company as of December 31, 2011, included in the Company Reports.

“Company Benefit Plans” has the meaning set forth in Section 3.13(a) of the Agreement.

“Company Board” means the Board of Directors of the Company.

“Company Board Recommendation” has the meaning set forth in Section 3.3(b) of the Agreement.

“Company Constituent Instruments” means the memorandum and articles of association of the Company, together with its statutory registers, and similar organizational documents of each of its Subsidiaries, each as amended to the date of the Agreement.

“Company Disclosure Schedule” has the meaning set forth in ARTICLE III of the Agreement.

“Company Financial Advisor” means RBC Capital Markets, LLC, or another financial advisor of nationally recognized reputation engaged by the Company to provide advice related to the Transactions provided that notice of the engagement is given to Diodes prior to the engagement of such other financial advisor.

“Company Financial Statements” means the financial statements of the Company included in the Company Reports.

“Company Proxy Statement” has the meaning set forth in Section 3.4 of the Agreement.

“Company Reports” has the meaning set forth in Section 3.5(a) to the Agreement.

“Company Shareholder Approval” has the meaning set forth in Section 3.3(a) of the Agreement.

“Company Shareholders Meeting” means an extraordinary general meeting of the shareholders of the Company to be held pursuant to the Cayman Companies Law to consider the approval and authorization of this Agreement and the Cayman Plan of Merger.

“Company Stock Option” shall mean an option to purchase Shares granted under any stock option plans or other equity-related plans of the Company, whether vested or unvested.

“Company Warrants” has the meaning set forth in Section 2.3 of the Agreement.

“Confidential Information” means, when used with respect to a specified Party or its Affiliates (collectively, the “**Disclosing Party**”), all information, whether or not patentable, copyrightable or otherwise protected by Law, which either is (1) furnished by or on behalf of the Disclosing Party or its Representatives to the other Party or its Affiliates (collectively, the “**Receiving Party**”) or its Representatives, either before or after the date of the Agreement, and whether in written, electronic, graphic or verbal form or media, (2) obtained by the Receiving Party or its Representatives through the inspection of the property or facilities of the Disclosing Party, or (3) generated or derived from the information described in clause (1) or clause (2). Confidential Information does not include information concerning the Disclosing Party which (i) was known to the Receiving Party or its Representatives before its disclosure by the Disclosing Party or its Representatives, as evidenced by written records existing at the time of disclosure (other than information

disclosed to the Receiving Party or its Representatives by a third party who was prohibited from disclosing such information to the Receiving Party or its Representatives by a legal, fiduciary or contractual obligation to the Disclosing Party or its Representatives), (ii) is, at the time of disclosure, or thereafter shall become, generally known in the Disclosing Party's industry (other than as a result of the disclosure directly or indirectly by the Receiving Party or its Representatives in violation of this Agreement), (iii) was disclosed to the Receiving Party or its Representatives by a third party who, after reasonable inquiry, the Receiving Party believes to be entitled to disclose such information, (iv) is independently developed by the Receiving Party or its Representatives without use of Confidential Information or violating any of their obligations under this Agreement, or (v) is disclosed to the Receiving Party after written notice to the Disclosing Party that the Receiving Party does not wish to receive any further Confidential Information of the Disclosing Party (*provided that* such notice by Diodes shall constitute a termination of the Company's obligations under Section 5.9 of this Agreement).

“Confidentiality Agreement” means the Confidentiality Agreement between the Company and Diodes dated October 12, 2012.

“Consent” means the consent, approval, order or authorization of, or registration, declaration or filing with any Person.

“Contract” means a contract, lease, license, indenture, note, bond, agreement, permit, concession, franchise or other instrument, written or oral.

“Depository” means Deutsche Bank Trust Company Americas.

“Deposit Agreement” means the Deposit Agreement between the Depository and the Company dated February 2, 2011.

“Diodes” has the meaning set forth in the preamble to the Agreement.

“Disclosing Party” has the meaning set forth in the definition of Confidential Information in this Annex A.

“Dissenting Shareholders” has the meaning set forth in Section 2.1(a) of the Agreement.

“Dissenting Shares” has the meaning set forth in Section 2.1(a) of the Agreement.

“Effective Time” has the meaning set forth in Section 1.3 of the Agreement.

“End Date” has the meaning set forth in Section 9.2(a) of the Agreement.

“Environment” means soil, land surface or subsurface strata, surface waters (including navigable waters, ocean waters, streams, ponds, drainage basins, and wetlands), groundwaters, drinking water supply, stream sediments, ambient air (including indoor air), plant and animal life, and any other environmental medium or natural resource.

“Environmental Law” means any Legal Requirement that requires or relates to: (a) releases of pollutants or hazardous substances or materials, violations of discharge limits, or other prohibitions and of the commencements of activities, such as resource extraction or construction, that could have significant impact on the Environment; (b) protecting resources, species, or ecological amenities; (c) cleaning up pollutants that have been released, preventing the threat of release, or paying the costs of such clean up or prevention; or (d) making responsible parties pay private parties, or groups of them, for damages done to their health or the Environment, or permitting self-appointed representatives of the public interest to recover for injuries done to public assets.

“Exchange Act” means the Securities Exchange Act of 1934, as amended, supplemented or otherwise modified from time to time.

“Exchange Fund” has the meaning set forth in Section 2.1(e) of the Agreement.

“Excluded Shares” has the meaning set forth in Section 2.1(a) of the Agreement.

“Exclusivity Period” has the meaning set forth in Section 5.9(a) of the Agreement.

“Expenses” means all out-of-pocket expenses (including all fees and expenses of counsel, accountants, investment bankers, experts and consultants to a party hereto and its Affiliates) incurred by a party on its behalf in connection with or related to the authorization, preparation, diligence, negotiation, execution and performance of this Agreement and the Transaction Documents.

“Facilities” means any Real Property, leaseholds, or other interests currently or formerly owned or leased by the Company or any of its Subsidiaries and any buildings, plants, structures, or equipment (including tank cars, and rolling stock) currently or formerly owned or leased by the Company or any of its Subsidiaries.

“Government Antitrust Entity” means any Government Entity with jurisdiction over Antitrust Laws.

“Governmental Entity” means any national, federal, state, provincial, local or foreign government, governmental, regulatory or administrative authority, agency or commission or any court, tribunal or judicial or arbitral body of competent jurisdiction, or other governmental authority or instrumentality, domestic or foreign.

“Hazardous Material” means any chemical, material or substance defined as or included in the definition of “hazardous substances,” “hazardous wastes,” “hazardous materials,” “extremely hazardous waste,” “restricted hazardous waste,” or “toxic substances” or words of similar import under any applicable Law or regulations, including Environmental Laws.

“HKIAC” shall have the meaning set forth in Section 10.9(d) of the Agreement.

“Intellectual Property Rights” shall have the meaning set forth in Section 3.11 of the Agreement.

“Judgment” means any judgment, order or decree.

“Knowledge”, (i) with respect to the Company, means the actual knowledge at such time of its executive officers and members of the Company Board, and (ii) with respect to Diodes or Merger Sub, means the actual knowledge at such time of its executive officers and the members of its board of directors.

“Law(s)” means any law, statute, ordinance, rule, regulation, order, writ, injunction or decree.

“Legal Requirement” means any federal, state, local, municipal, provincial, foreign or other law, statute, constitution, principle of common law, resolution, ordinance, code, edict, decree, rule, regulation, ruling or requirement issued, enacted, adopted, promulgated, implemented or otherwise put into effect by or under the authority of any Governmental Entities (or under the authority of any national securities exchange upon which securities of Diodes and the Company are then listed or traded).

“Liens” means any liens, security interests, pledges, equities and claims of any kind, voting trusts, shareholder agreements and other encumbrances.

“Material Adverse Effect” means any event, change or effect (collectively, a “*Change*”) that, considered with all Changes, had a material adverse effect on the condition (financial or otherwise), properties, assets, liabilities, business, operations, results of operations of the Company and its Subsidiaries, taken as a whole, *provided, however, that* a Change occurring after the date of this Agreement shall not be deemed a Material Adverse Effect or considered in determining whether there has occurred (or would reasonably be expected to occur) a Material Adverse Effect, if (i) such Change results from (A) general economic or political conditions in the U.S. or the PRC, (B) conditions generally affecting the other companies in the Company’s industry, (C) any cancellation of or delays in customer orders, failure to obtain new customer orders, disruption in supplier, partnership, distributor, reseller or similar relationships, or loss of employees resulting in each case from the announcement or pendency of this Agreement, (D) stockholder class action or derivative litigation alleging (1) a breach of fiduciary duty by the Company Board relating to the negotiation, execution, delivery or performance (or disclosure with respect thereto) of this Agreement or the proposed consummation of the Merger or the other Transactions, or (2) that the Company Proxy Statement violates the disclosure requirements of the Exchange Act or other applicable Law unless a Governmental Entity of competent jurisdiction shall have entered an order prohibiting the consummation of the Transactions (provided, however, that for this exception to apply, the Company must have complied with its obligations in Section 5.10(b)), (E) acts of war or terrorism or natural disasters in any locations where the Company conducts material business operations, (F) the failure of the Company to meet internal or analysts’ financial expectations or projections (it being understood that the underlying causes of any such failure may be taken into account in determining whether a Material Adverse Effect has occurred), (G) changes in trading volume or a decline in the Company’s stock price (it being understood that the underlying causes of any such change or decline may be taken into account in determining whether a Material Adverse Effect has occurred), and (H) Material Adverse Effect Diodes or Merger Sub or their respective Representatives knew or should have known prior to the date of this Agreement, and (ii) with respect to clauses (A), (B), and (E), the conditions or circumstances that caused such Change do not have an impact on the Company and its Subsidiaries, taken as a whole, that is in any material respect disproportionate to the average impact such conditions or circumstances have on the other companies in the Company’s industry.

“Material Contract” means a written Contract, as amended and supplemented to which the Company or any of its Subsidiaries is a party or by which any of their respective assets and properties is currently bound, which may involve obligations of, or payments to, the Company or its Subsidiaries in excess of US \$250,000.

“Material Permits” means all Permits other than such franchises, licenses, permits, authorizations and approvals the lack of which has not had and would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on the Company.

“Memorandum and Articles of Association” has the meaning set forth in Section 1.5 of the Agreement.

“Merger” has the meaning set forth in the Background section of the Agreement.

“Merger Sub” has the meaning set forth in the preamble to the Agreement.

“Money Laundering Laws” has the meaning set forth in Section 3.19 of the Agreement.

“Non-affiliated Voting Shares” means Shares present and voting in person or by proxy at the Company Shareholder Meeting that are held of record by Persons other than directors and executive officers (as such term is used in the Company Reports) of the Company.

“Notice Period” has the meaning set forth in Section 5.9(d) of the Agreement.

“OFAC” has the meaning set forth in Section 3.24 of the Agreement.

“Option Consideration” has the meaning set forth in Section 2.2(b) of the Agreement.

“Party” or “Parties” has the meaning set forth in the preamble to the Agreement.

“Paying Agent” has the meaning set forth in Section 2.1(e) of the Agreement.

“Permits” means all governmental franchises, licenses, permits, authorizations and approvals necessary to enable a Person to own, lease or otherwise hold its properties and assets and to conduct its businesses as presently conducted.

“Permitted Lien” means (a) any restriction on transfer arising under applicable securities law; (b) any Liens for Taxes not yet due or delinquent, payable thereafter without interest or penalty, or being contested in good faith by appropriate proceedings for which adequate reserves have been established in accordance with U.S. GAAP; (c) any statutory Liens arising in the ordinary course of business by operation of Law with respect to a liability that is not yet due and delinquent and which are not, individually or in the aggregate, significant or any statutory Liens to secure the performance of tenders, statutory obligations, surety and appeal bonds, bids, leases, government contracts, performance and return of money bonds and similar obligations; (d) zoning, entitlement, building and other land use regulations imposed by governmental agencies having jurisdiction over the Real Property which are not violated by the current use and operation of the Real Property; (e) covenants, conditions, restrictions, easements and other similar matters of record affecting title to the Real Property which do not materially impair the occupancy or use of the Real Property for the purposes for which it is currently used or proposed to be used in connection with the such relevant Person’s business; (f) Liens identified on title policies, title opinions or preliminary title reports or other documents or writings included in the public records ; (g) Liens arising under worker’s compensation, unemployment insurance, social security, retirement and similar legislation; (h) Liens of lessors and licensors arising under lease agreements or license arrangements; and (i) those Liens the existence of which are disclosed in the notes to the consolidated financial statements of the Company included in the Company Reports filed prior to the date of this Agreement or those Liens set forth in the Company Disclosure Schedule.

“Per ADS Merger Consideration” has the meaning set forth in Section 2.1(a) of the Agreement.

“Per Share Merger Consideration” has the meaning set forth in Section 2.1(a) of the Agreement.

“Person” means an individual, partnership, corporation, joint venture, unincorporated organization, cooperative or a Governmental Entity or agency thereof.

“PRC” means the People’s Republic of China, for the purposes of this Agreement, excluding the Hong Kong Special Administrative Region and the Macao Special Administrative Region and Taiwan.

“Real Estate Leases” has the meaning set forth in Section 3.10(a) of the Agreement.

“Real Property” has the meaning set forth in Section 3.10(a) of the Agreement.

“Receiving Party” has the meaning set forth in the definition of Confidential Information in this Annex A.

“Regulation S-X” means Regulation S-X promulgated under the Securities Act.

“Representatives” of any Party means such Party’s employees, accountants, auditors, actuaries, counsel, financial advisors, bankers, investment bankers and consultants and any other Person acting on behalf of such Party.

“SEC” means the United States Securities and Exchange Commission.

“Securities Act” means the Securities Act of 1933, as amended, supplemented or otherwise modified from time to time.

“Share Certificates” has the meaning set forth in Section 2.1(f) of the Agreement.

“Share(s)” has the meaning set forth in Section 2.1(a) of the Agreement.

“Subsidiary” means with respect to a Person an entity if (a) such Person directly or indirectly owns, beneficially or of record, an amount of voting securities or other interests in such entity that is sufficient to enable such Person to elect at least a majority of the members of such entity’s board of directors or other governing body, or (b) at least 50% of the outstanding equity or financial interests of such entity such that its financial results are consolidated with such other Person.

“Superior Proposal” means a bona fide written Takeover Proposal involving the direct or indirect acquisition pursuant to a tender offer, exchange offer, merger, consolidation or other business combination, of all or substantially all of the Company’s consolidated assets or a majority of the outstanding Shares, that the Company Board determines in good faith (after consultation with outside legal counsel and the Company Financial Advisor but arriving at such determination independently) is more favorable from a financial point of view to the holders of the Shares than the Transactions contemplated by this Agreement, taking into account (a) all financial considerations, (b) the identity of the third party making such Takeover Proposal, (c) the anticipated timing, conditions (including any financing condition or the reliability of any debt or equity funding commitments) and prospects for completion of such Takeover Proposal, (d) the other terms and conditions of such Takeover Proposal and the implications thereof on the Company, including relevant legal, regulatory and other aspects of such Takeover Proposal deemed relevant by the Company Board and (e) any revisions to the terms of this Agreement and the Merger proposed by Diodes during the Notice Period set forth in Section 5.9(d).

“Surviving Corporation” has the meaning set forth in Section 1.1 of the Agreement.

“Takeover Proposal” means a proposal or offer from, or indication of interest in making a proposal or offer by, any Person (other than Diodes and its Affiliates, including Merger Sub) relating to any (a) direct or indirect acquisition of assets of the Company or its Subsidiaries (including any voting equity interests of Subsidiaries, but excluding sales of assets in the ordinary course of business) equal to ten percent (10%) or more of the fair market value of the Company’s consolidated assets or to which ten percent (10%) or more of the Company’s net revenues or net income on a consolidated basis are attributable, (b) direct or indirect acquisition of ten percent (10%) or more of the voting equity interests of the Company, (c) tender offer or exchange offer that if consummated would result in any Person beneficially owning (within the meaning of Section 13(d) of the Exchange Act) ten percent (10%) or more of the voting equity interests of the Company, (d) merger, consolidation, other business combination or similar transaction involving the Company or any of its Subsidiaries, pursuant to which such Person would own ten percent (10%) or more of the consolidated assets, net revenues or net income of the Company, taken as a whole, or (e) liquidation or dissolution (or the adoption of a plan of liquidation or dissolution) of the Company or the declaration or payment of an extraordinary dividend (whether in cash or other property) by the Company.

“Tangible Personal Property” has the meaning set forth in Section 3.10(b) of the Agreement.

“Tax(es)” includes all forms of taxation, whenever created or imposed, and whether of the United States or elsewhere, and whether imposed by a local, municipal, governmental, state, foreign, federal or other Governmental Entity, or in connection with any agreement with respect to Taxes, including all interest, penalties and additions imposed with respect to such amounts.

“Tax Return” means all federal, state, local, provincial and foreign Tax returns, declarations, statements, reports, schedules, forms and information returns and any amended Tax return relating to Taxes.

“Termination Fee” means US \$6,000,000.

“Trade Secrets” means all trade secrets under applicable law and other rights in know-how and confidential or proprietary information, processing, manufacturing or marketing information, including new developments, inventions, processes, ideas or other proprietary information, in each case, that provides advantages over competitors who do not know or use it, derives independent economic value from not being generally known and not being easily ascertainable by proper means by others, and are subject to commercially efforts to maintain their secrecy.

“Transaction Documents” means this Agreement and any other agreement or document to be delivered by the Parties on the Closing Date.

“Transactions” means any transactions contemplated by this Agreement or any Transaction Document.

“U.S.” or “United States” means the United States of America.

“U.S. GAAP” means generally accepted accounting principles of the United States.

“Uncertificated Shares” has the meaning set forth in Section 2.1(f) of the Agreement.

“Voting Agreement” means an agreement in the form of Exhibit 2 to this Agreement.

EXHIBIT 1

THE COMPANIES LAW (2012 REVISION) OF THE CAYMAN ISLANDS

PLAN OF MERGER

THIS PLAN OF MERGER is made on _____, 201_____

BETWEEN

- (1) DIODES CAYMAN ISLANDS COMPANY LIMITED, an exempted company incorporated WITH NUMBER 274088 under the laws of the Cayman Islands on 19 December, 2012, with its registered office situate at the offices of Intertrust Corporate Services (Cayman) Limited, 190 Elgin Avenue, George Town, Grand Cayman 1541-9005, Cayman Islands (“Merger Sub”); and
- (2) BCD SEMICONDUCTOR MANUFACTURING LIMITED, an exempted company incorporated under the laws of the Cayman Islands, with its registered office situate at the offices of Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands (“BCD” or “Surviving Company” and together with Merger Sub, the “Constituent Companies”).

WHEREAS

- (a) Merger Sub and BCD have agreed to merge (the “Merger”) on the terms and conditions contained or referred to in an agreement (the “Agreement”) dated December 26, 2012, made among Diodes Incorporated, Merger Sub and BCD, a copy of which is attached as Annex A to this Plan of Merger and under the provisions of Part XVI of the Companies Law (2012 Revision) of the Cayman Islands (the “Companies Law”).
- (b) This Plan of Merger is made in accordance with section 233 of the Companies Law.

WITNESSETH

1. CONSTITUENT COMPANIES

1.1 The Constituent Companies to the Merger are Diodes Cayman Islands Company Limited and BCD Semiconductor Manufacturing Limited.

2. NAME OF THE SURVIVING COMPANY

2.1 The Surviving Company shall be BCD Semiconductor Manufacturing Limited.

3. REGISTERED OFFICE

3.1 The Surviving Company shall have its registered office at the offices of Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

Exhibits 1 and 2-1

4. AUTHORIZED AND ISSUED SHARE CAPITAL

4.1 Immediately prior to the Merger the authorized share capital of Merger Sub was US\$20,000 divided into 20,000,000 shares of US\$0.001 par value per share all of which have been issued.

4.2 Immediately prior to the Merger the authorized share capital of BCD was US\$1,050,000 divided into 1,000,000,000 ordinary shares of US\$0.001 par value per share and 50,000,000 Preference Shares of US\$0.001 par value per share, of which 106,854,744 ordinary shares had been issued and fully paid and no Preference Shares had been issued.

4.3 The authorized share capital of the Surviving Company shall be US\$20,000 divided into 20,000,000 shares of US\$0.001 par value per share.

4.4 Each share of Merger Sub issued and outstanding on the Effective Date shall be converted into and continue as a share of the Surviving Company in accordance with the provisions of the Agreement, a copy of which is annexed at Annexure 1 hereto.

4.5 Each ordinary share, par value US\$0.001 per share, of BCD issued and outstanding on the Effective Date, other than any ordinary shares which are owned by shareholders of BCD who have validly exercised and not effectively withdrawn or lost their rights to dissent from the Merger pursuant to Section 238 of the Companies Law ("Dissenting Shares") and any ordinary shares beneficially owned by Diodes Incorporated prior to the Effective Date, shall be cancelled in exchange for the right to receive US\$1.33-1/3 in cash per ordinary share in accordance with the provisions of the Agreement.

4.6 Each Dissenting Share issued and outstanding on the Effective Date, shall cease to be outstanding, shall be cancelled in accordance with Section 238(15) of the Companies Law and shall cease to exist, in consideration for the right to receive the fair value of such Dissenting Share as determined in accordance with the procedure in Section 238 of the Companies Law.

4.7 Each ordinary share of BCD issued and outstanding on the Effective Date beneficially owned by Diodes Incorporated shall cease to be outstanding, shall be cancelled and shall cease to exist without payment of any consideration or distribution therefor.

4.8 On the Effective Date (as defined below) the shares of the Surviving Company shall:

- 4.8.1. be entitled to one vote per share;
- 4.8.2. be entitled to such dividends as the board of directors of the Surviving Company may from time to time declare;
- 4.8.3. in the event of a winding-up or dissolution of the Surviving Company, whether voluntary or involuntary or for the purpose of a reorganization or otherwise or upon any distribution of capital, be entitled to the surplus assets; and
- 4.8.4. generally be entitled to enjoy all of the rights attaching to shares;

in each case as set out in the Memorandum and Articles of Association of the Surviving Company.

Exhibits 1 and 2-2

5. EFFECTIVE DATE

5.1 The Merger shall take effect on the date this Plan of Merger is registered by the Registrar of Companies (the "Effective Date").

6. PROPERTY

6.1 On the Effective Date Merger Sub shall be merged with and into the Surviving Company and the rights, property of every description including choses in action, and the business, undertaking, goodwill, benefits, immunities and privileges of each of the Constituent Companies shall immediately vest in the Surviving Company which shall be liable for and subject to, in the same manner as the Constituent Companies, all mortgages, charges, security interests, contracts, obligations, claims, debts and liabilities of each of the Constituent Companies.

7. MEMORANDUM AND ARTICLES OF ASSOCIATION

7.1 The Memorandum of Association and Articles of Association of the Surviving Company shall be the Memorandum of Association and Articles of Association of BCD on the Effective Date.

8. DIRECTORS BENEFITS

8.1 There are no amounts or benefits payable to the directors of the Constituent Companies on the Merger becoming effective.

9. DIRECTORS OF THE SURVIVING COMPANY

9.1 The names and addresses of the directors of the Surviving Company are as follows:

NAME ADDRESS

Exhibits 1 and 2-3

10. SECURED CREDITORS

10.1 Merger Sub has no secured creditors; and

10.2 BCD has no secured creditors.

11. RIGHT OF TERMINATION

11.1 Merger Sub and BCD may terminate this Plan of Merger immediately prior to the Effective Date in the event the Agreement has been validly terminated pursuant to the terms and conditions of the Agreement.

12. AUTHORIZATION

12.1 This Plan of Merger has been approved by the board of directors of each of the Surviving Company and the Merger Sub pursuant to section 233(3) of the Companies Law.

12.2 This Plan of Merger has been authorized in writing by the sole shareholder of Merger Sub pursuant to section 233(6) of the Companies Law.

12.3 This Plan of Merger has been authorized by the shareholders of the Surviving Company pursuant to section 233(6) of the Companies Law by way of resolutions passed at an extraordinary general meeting of the Surviving Company.

13. GOVERNING LAW

13.1 This Plan of Merger is governed by and shall be construed in accordance with the laws of the Cayman Islands.

Exhibits 1 and 2-4

Each of the undersigned, being the duly authorized signatories of the Constituent Companies, has executed this Plan of Merger, which may be executed by facsimile and in one or more counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same instrument, on the date indicated alongside the name below.

DIODES CAYMAN ISLANDS COMPANY LIMITED

By: _____

Name: Richard Dallas White

Title: Director

BCD SEMICONDUCTOR
MANUFACTURING LIMITED

By: _____

Name: Chieh Chang

Title: CEO

Exhibits 1 and 2-5

Annexure 1: Agreement and Plan of Merger

Exhibits 1 and 2-6

EXHIBIT 2

Voting Agreement

This Voting Agreement (this "**Agreement**"), dated as of December __, 2012, between the undersigned Shareholder ("**Shareholder**") of BCD SEMICONDUCTOR MANUFACTURING LIMITED, an exempted company incorporated in the Cayman Islands (the "**Company**"), and DIODES INCORPORATED, a Delaware corporation ("**Diodes**").

WHEREAS, concurrently with or following the execution of this Agreement, the Company, Diodes and Diodes Cayman Islands, an exempted company incorporated in the Cayman Islands, and wholly owned subsidiary of Diodes ("**Merger Sub**"), have entered, or will enter, into an Agreement and Plan of Merger (as the same may be amended from time to time, the "**Merger Agreement**"), providing for, among other things, the merger (the "**Merger**") of Merger Sub and the Company pursuant to the terms and conditions of the Merger Agreement;

WHEREAS, as a condition to its willingness to enter into the Merger Agreement, Diodes has required that Shareholder execute and deliver this Agreement; and

WHEREAS, in order to induce Diodes to enter into the Merger Agreement, Shareholder is willing to make certain representations, warranties, covenants and agreements with respect to the ordinary shares, par value \$0.001 per share, of the Company ("**Company Ordinary Stock**") beneficially owned by Shareholder and set forth below Shareholder's signature on the signature page hereto (the "**Original Shares**" and, together with any additional shares of Company Ordinary Stock pursuant to Section 6 hereof, the "**Shares**").

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt, sufficiency and adequacy of which are hereby acknowledged, the parties hereto agree as follows:

1. Definitions.

For purposes of this Agreement, capitalized terms used and not defined herein shall have the respective meanings ascribed to them in the Merger Agreement.

2. Representations of Shareholder.

Shareholder represents and warrants to Diodes that:

(a) (i) Shareholder owns beneficially (as such term is defined in Rule 13d-3 under the Exchange Act) of all of the Original Shares free and clear of all Liens, and (ii) except as set forth in this Agreement, there are no options, warrants or other rights, agreements, arrangements or commitments of any character to which Shareholder is a party relating to the pledge, disposition or voting of any of the Original Shares and there are no voting trusts or voting agreements with respect to the Original Shares.

(b) Shareholder does not beneficially own any shares of Company Ordinary Stock other than (i) the Original Shares and (ii) any options, warrants or other rights to acquire any additional shares of Company Ordinary Stock or any security exercisable for or convertible into shares of Company Ordinary Stock, set forth on the signature page of this Agreement (collectively, “*Options*”).

(c) Shareholder has full corporate power and authority or legal capacity, if Shareholder is a natural Person, to enter into, execute and deliver this Agreement and to perform fully Shareholder’s obligations hereunder (including the proxy described in Section 3(b) below). This Agreement has been duly and validly executed and delivered by Shareholder and constitutes the legal, valid and binding obligation of Shareholder, enforceable against Shareholder in accordance with its terms.

(d) None of the execution and delivery of this Agreement by Shareholder, the consummation by Shareholder of the transactions contemplated hereby or compliance by Shareholder with any of the provisions hereof will conflict with or result in a breach, or constitute a default (with or without notice of lapse of time or both) under any provision of, any trust agreement, loan or credit agreement, note, bond, mortgage, indenture, lease or other agreement, instrument or Law applicable to Shareholder or to Shareholder’s property or assets.

(e) No consent, approval or authorization of, or designation, declaration or filing with, any Governmental Entity or other Person on the part of Shareholder is required in connection with the valid execution and delivery of this Agreement. No consent of Shareholder’s spouse is necessary under any “community property” or other Laws in order for Shareholder to enter into and perform its obligations under this Agreement, unless such spousal consent has been properly obtained.

3. Agreement to Vote Shares; Irrevocable Proxy.

(a) Shareholder agrees during the Term of this Agreement to vote the Shares, and to cause any holder of record of Shares to vote or execute a written consent or consents if shareholders of the Company are requested to vote their shares through the execution of an action by written consent in lieu of any annual or special meeting of Shareholders of the Company: (i) in favor of the Merger and the Merger Agreement, at every meeting (or in connection with any action by written consent) of the shareholders of the Company at which such matters are considered and at every adjournment or postponement thereof; (ii) against (1) any Takeover Proposal, (2) any action, proposal, transaction or agreement which could reasonably be expected to result in a breach of any covenant, representation or warranty or any other obligation or agreement of the Company under the Merger Agreement or of Shareholder under this Agreement and (3) any action, proposal, transaction or agreement that could reasonably be expected to impede, interfere with, delay, discourage, adversely affect or inhibit the timely consummation of the Merger or the fulfillment of Diodes’, the Company’s or Merger Sub’s conditions under the Merger Agreement or change in any manner the voting rights of any class of shares of the Company (including any amendments to the Company Constituent Instruments) and Diodes has identified in writing prior to such vote that such action, proposal, transaction or agreement satisfies the conditions set forth in this Section 3(a)(ii)(3).

(b) Shareholder hereby appoints Diodes and any designee of Diodes, and each of them individually, its proxies and attorneys-in-fact, with full power of substitution and resubstitution, to vote or act by written consent during the Term of this Agreement with respect to the Shares in accordance with Section 3(a). This proxy and power of attorney is given to secure the performance of the duties of Shareholder under this Agreement. Shareholder shall take such further action or execute such other instruments as Diodes may request to effectuate the intent of this proxy. This proxy and power of attorney granted by Shareholder shall be irrevocable during the Term of this Agreement, shall be deemed to be coupled with an interest sufficient in law to support an irrevocable proxy and shall revoke any and all prior proxies granted by Shareholder with respect to the Shares. The power of attorney granted by Shareholder herein is a durable power of attorney and shall survive the dissolution, bankruptcy, death or incapacity of Shareholder. The proxy and power of attorney granted hereunder shall terminate at the end of the Term.

4. No Voting Trusts or Other Arrangement.

Shareholder agrees that Shareholder will not, and will not permit any entity under Shareholder's control to, deposit any of the Shares in a voting trust, grant any proxies with respect to the Shares or subject any of the Shares to any arrangement with respect to the voting of the Shares other than agreements entered into with Diodes.

5. Transfer and Encumbrance.

Shareholder agrees that during the Term of this Agreement, Shareholder will not, directly or indirectly, transfer, sell, offer, exchange, assign, pledge or otherwise dispose of or encumber ("**Transfer**") any of the Shares or enter into any contract, option or other agreement with respect to, or consent to, a Transfer of, any of the Shares or Shareholder's voting or economic interest therein. Any attempted Transfer of Shares or any interest therein in violation of this Section 5 shall be null and void. This Section 5 shall not prohibit a Transfer of the Shares by Shareholder, if Shareholder is a natural Person, to any member of Shareholder's immediate family, or to a trust for the benefit of Shareholder or any member of Shareholder's immediate family, or upon the death of Shareholder, or, if Shareholder is an entity, to an Affiliate of Shareholder; provided, that a Transfer referred to in this sentence shall be permitted only if, as a precondition to such Transfer, the transferee agrees in a writing, reasonably satisfactory in form and substance to Diodes, to be bound by all of the terms of this Agreement.

6. Additional Shares.

Shareholder agrees that all shares of Company Ordinary Stock that Shareholder purchases, acquires the right to vote or otherwise acquires beneficial ownership (as defined in Rule 13d-3 under the Exchange Act, but excluding shares of Company Ordinary Stock underlying unexercised Options) of after the execution of this Agreement shall be subject to the terms of this Agreement and shall constitute Shares for all purposes of this Agreement.

7. Waiver of Appraisal and Dissenters' Rights.

Shareholder hereby waives, and agrees not to assert or perfect, any rights of appraisal or rights to dissent from the Merger that Shareholder may have by virtue of ownership of the Shares.

8. Term.

The term of this Agreement (the "**Term**") shall begin on the date of this Agreement and shall end upon the earliest to occur of (i) the Effective Time and (ii) the date on which the Merger Agreement is terminated in accordance with Article IX of the Merger Agreement.

9. No Agreement as Director or Officer.

Shareholder makes no agreement or understanding in this Agreement in Shareholder's capacity as a director or officer of the Company or any of its subsidiaries (if Shareholder holds such office), and nothing in this Agreement: (a) will limit or affect any actions or omissions taken by Shareholder in Shareholder's capacity as such a director or officer, including in exercising rights under the Merger Agreement, and no such actions or omissions shall be deemed a breach of this Agreement or (b) will be construed to prohibit, limit or restrict Shareholder from exercising Shareholder's fiduciary duties as an officer or director to the Company or its shareholders.

10. Specific Performance.

Each party hereto acknowledges that it will be impossible to measure in money the damage to the other party if a party hereto fails to comply with any of the obligations imposed by this Agreement, that every such obligation is material and that, in the event of any such failure, the other party will not have an adequate remedy at law or damages. Accordingly, each party hereto agrees that injunctive relief or other equitable remedy, in addition to remedies at law or damages, is the appropriate remedy for any such failure and will not oppose the seeking of such relief on the basis that the other party has an adequate remedy at law. Each party hereto agrees that it will not seek, and agrees to waive any requirement for, the securing or posting of a bond in connection with the other party's seeking or obtaining such equitable relief.

11. Entire Agreement.

This Agreement supersedes all prior agreements, written or oral, between the parties hereto with respect to the subject matter hereof and contains the entire agreement between the parties with respect to the subject matter hereof. This Agreement may not be amended or supplemented, and no provisions hereof may be modified or waived, except by an instrument in writing signed by both of the parties hereto. No waiver of any provisions hereof by either party shall be deemed a waiver of any other provisions hereof by such party, nor shall any such waiver be deemed a continuing waiver of any provision hereof by such party.

12. Notices.

All notices, requests, claims, demands, and other communications hereunder shall be in writing and shall be deemed to have been given (a) when delivered by hand (with written confirmation of receipt), (b) when received by the addressee if sent by a nationally recognized overnight courier (receipt requested), (c) on the date sent by facsimile or email of a PDF document (with confirmation of transmission) if sent during normal business hours of the recipient, and on the next Business Day if sent after normal business hours of the recipient, or (d) on the third day after the date mailed, by certified or registered mail, return receipt requested, postage prepaid. Such communications must be sent to the respective parties at the following addresses (or at such other address for a party as shall be specified in a notice given in accordance with this Section 12:

If to Diodes:

Diodes Incorporated
4949 Hedgecoxe Road, Suite 200
Plano Texas 75024
Tel: 972-987-3900
Fax: 972-731-3510
Attention : Richard D. White

Copy to:

Sheppard Mullin Richter & Hampton, LLP
333 South Hope Street
Forty-Third Floor
Los Angeles, CA 90071
Tel: 213.620.1780
Fax: 213.620.1398
Attention: Peter M. Menard, Esq.

Exhibits 1 and 2-10

If to Shareholder, to the address or facsimile number set forth for Shareholder on the signature page hereof.

13. Miscellaneous.

(a) This Agreement shall be governed by and construed in accordance with the internal laws of the State of Delaware without giving effect to any choice or conflict of law provision or rule (whether of the State of California or any other jurisdiction) that would cause the application of Laws of any jurisdiction other than those of the State of Delaware.

(b) Each of the parties hereto irrevocably agrees that any legal action or proceeding with respect to this Agreement and the rights and obligations arising hereunder, or for recognition and enforcement of any judgment in respect of this Agreement and the rights and obligations arising hereunder brought by the other party hereto or its successors or assigns, shall be brought and determined exclusively in the state courts of the State of Delaware, or in the event (but only in the event) that such courts do not have subject matter jurisdiction over such action or proceeding, in the federal district court located in the State of Delaware. Each of the parties hereto agrees that mailing of process or other papers in connection with any such action or proceeding in the manner provided in Section 12 or in such other manner as may be permitted by applicable Laws, will be valid and sufficient service thereof. Each of the parties hereto hereby irrevocably submits with regard to any such action or proceeding for itself and in respect of its property, generally and unconditionally, to the personal jurisdiction of the aforesaid courts and agrees that it will not bring any action relating to this Agreement or any of the transactions contemplated by this Agreement in any court or tribunal other than the aforesaid courts. Each of the parties hereto hereby irrevocably waives, and agrees not to assert, by way of motion, as a defense, counterclaim or otherwise, in any action or proceeding with respect to this Agreement and the rights and obligations arising hereunder, or for recognition and enforcement of any judgment in respect of this Agreement and the rights and obligations arising hereunder (i) any claim that it is not personally subject to the jurisdiction of the above named courts for any reason other than the failure to serve process in accordance with this Section 13(b), (ii) any claim that it or its property is exempt or immune from jurisdiction of any such court or from any legal process commenced in such courts (whether through service of notice, attachment prior to judgment, attachment in aid of execution of judgment, execution of judgment or otherwise), and (iii) to the fullest extent permitted by the applicable Law, any claim that (x) the suit, action or proceeding in such court is brought in an inconvenient forum, (y) the venue of such suit, action or proceeding is improper, or (z) this Agreement, or the subject matter hereof, may not be enforced in or by such courts.

(c) EACH PARTY ACKNOWLEDGES AND AGREES THAT ANY CONTROVERSY WHICH MAY ARISE UNDER THIS AGREEMENT IS LIKELY TO INVOLVE COMPLICATED AND DIFFICULT ISSUES AND, THEREFORE, EACH SUCH PARTY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LEGAL ACTION ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT. EACH PARTY TO THIS AGREEMENT CERTIFIES AND ACKNOWLEDGES THAT (A) NO REPRESENTATIVE OF ANY OTHER PARTY HAS REPRESENTED EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT SEEK TO ENFORCE THE FOREGOING WAIVER IN THE EVENT OF A LEGAL ACTION, (B) SUCH PARTY HAS CONSIDERED THE IMPLICATIONS OF THIS WAIVER, (C) SUCH PARTY MAKES THIS WAIVER VOLUNTARILY, AND (D) SUCH PARTY HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION 13(c).

Exhibits 1 and 2-11

(d) If any term or provision of this Agreement is invalid, illegal or unenforceable in any jurisdiction, such invalidity, illegality or unenforceability shall not affect any other term or provision of this Agreement or invalidate or render unenforceable such term or provision in any other jurisdiction. Upon such determination that any term or other provision is invalid, illegal or unenforceable, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in a mutually acceptable manner in order that the transactions contemplated hereby be consummated as originally contemplated to the greatest extent possible.

(e) This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together shall constitute one and the same instrument.

(f) Each party hereto shall execute and deliver such additional documents as may be necessary or desirable to effect the transactions contemplated by this Agreement.

(g) All Section headings herein are for convenience of reference only and are not part of this Agreement, and no construction or reference shall be derived therefrom.

(h) The obligations of Shareholder set forth in this Agreement shall not be effective or binding upon Shareholder until after such time as the Merger Agreement is executed and delivered by the Company, Diodes and Merger Sub, and the parties agree that there is not and has not been any other agreement, arrangement or understanding between the parties hereto with respect to the matters set forth herein.

(i) Neither party to this Agreement may assign any of its rights or obligations under this Agreement without the prior written consent of the other party hereof, except that Diodes may assign, in its sole discretion, all or any of its rights, interests and obligations hereunder to any of its Affiliates. Any assignment contrary to the provisions of this Section 13(i) shall be null and void.

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Agreement as of the date first written above.

(Signature of Shareholder)

(Printed Name of Shareholder)

Number of shares of the Company Ordinary Stock
Beneficially Owned as of the Date of this
Agreement: _____

Number of Options Beneficially Owned as of the Date of this
Agreement: _____

Street Address: _____

City/State/Zip Code: _____

Fax: _____

DIODES INCORPORATED

By: _____
Richard Dallas White
Chief Financial Officer

Exhibits 1 and 2-13

CONSENT OF SPOUSE]

I, [_____], spouse of [_____], acknowledge that I have read the Voting Agreement, dated as of December __, 2012, to which this Consent is attached as Exhibit A (the “**Agreement**”), and that I know the contents of the Agreement. I am aware that the Agreement contains provisions regarding the voting and transfer of shares of capital stock of the Company that my spouse may own, including any interest I might have therein.

I hereby agree that my interest, if any, in any shares of capital stock of the Company subject to the Agreement shall be irrevocably bound by the Agreement and further understand and agree that any community property interest I may have in such shares of capital stock of the Company shall be similarly bound by the Agreement.

I am aware that the legal, financial and related matters contained in the Agreement are complex and that I am free to seek independent professional guidance or counsel with respect to this Consent. I have either sought such guidance or counsel or determined after reviewing the Agreement carefully that I will waive such right.

Dated: December ____, 2012

[Name of Holder's Spouse, if any]

Exhibits 1 and 2-14

补充协议 (2)
Supplementary Agreement (2)

本补充协议由以下各方于 2013 年 1 月 23 日在中华人民共和国成都

签署：

This Supplementary Agreement (“This Agreement”) is made and effective as of January 23, 2013, by and among the following parties in Chengdu, the People’s Republic of China (“PRC”):

成都高新技术产业开发区管理委员会 (以下简称“成都高新区”)

Management Committee of the Chengdu Hi-Tech Industrial Development Zone (hereinafter referred as “Chengdu Hi-Tech”)

和

And

达尔香港控股有限公司 (以下简称“达尔香港”), 一家在中国香港注册

成立的有限公司, 住所地: 香港九龙尖沙咀广东道 30 号新港中心第

一座 511 室;

Diodes Hong Kong Holding Company Limited (hereinafter referred as “Diodes Hong Kong”), a company incorporated in Hong Kong Special Administrative Region of the PRC, with its principal place of business at Unit 511 5/F Tower 1, silvercord 30 Canton Road, Tsimshatsui, Kowloon, Hong Kong;

达迩 (上海) 投资有限公司 (以下简称“达迩上海”), 一家在中国上海注册成立的外商独资企业 , 注册地址为上海市松江区新桥镇莘砖公路 518 号 3 幢 ;

Diodes (Shanghai) Investment Company Limited (hereinafter referred as “Diodes Shanghai”), a foreign invested company incorporated in the PRC with its registered address at 518-3 Xinzhuan Road, XinQiao Town, Songjiang District, Shanghai;

达迩科技 (成都) 有限公司 (以下简称“达迩成都”), 一家在中国成都注册成立的中外合资企业 , 注册地址为四川省成都市高新区西部园区科新路 8 号出口加工区一号标准厂房 ;

Diodes Technology (Chengdu) Company Limited (hereinafter referred as “Diodes Chengdu”), a joint venture company incorporated in the PRC with its registered address at #8 Kexin Road, Chengdu Hi-Tech Zone (West Park), Chengdu, Sichuan. (#1 Standard Workshop) 611731;

(上述方单称为“一方”, 合称为“各方”).

(Each of the above is a “Party” and together the “Parties”).

鉴于 :

Whereas:

成都高新区与达尔香港于 2010 年 9 月 1 日签订了《投资合作协议》，达尔香港根据《投资合作协议》投资成立达迩成都(“项目公司”)；因达尔公司内部股权调整，现达尔香港为达迩上海的唯一股东，达尔香港持有的达迩成都股权已转让给达迩上海；就此，成都高新区及达尔香港同意，上述《投资合作协议》中有关达尔香港的权利义务由达迩上海承继；

Chengdu Hi-Tech and Diodes Hong Kong signed an Investment Cooperation Agreement on September 1, 2010. Based on the mutual understanding of the Investment Cooperation Agreement, Diodes Hong Kong incorporated Diodes Chengdu (“Project Company”). Due to the adjustments of the internal ownership structure of the companies of Diodes Incorporated, Diodes Hong Kong sold all the shares of Diodes Chengdu to Diodes Shanghai, and Diodes Hong Kong is the only shareholder of Diodes Shanghai. Accordingly, Chengdu Hi-Tech and Diodes Hong Kong agree that all rights and obligations of Diodes Hong Kong under the Investment Cooperation Agreement shall be transferred and assigned to Diodes Shanghai.

根据《投资合作协议》第 2.3 条款：甲方承诺乙方或项目公司取得项目用地时，土地应具备规划红线外三通（即水、电、通路）和规划红线内原地貌自然平整（即，宗地内无应赔而未赔的建（构）筑物、青苗及其他地上附着物，宗地内不存在影响施工的天空障碍物）。甲方承诺乙方，甲方将提供地块外围基础设施达到“七通一平”市政配套，并满足项目需求（即自来水、雨污水排放、天然气、通讯管网、电力配套至用地相邻市政道路同侧及场地自然平整）；

In accordance with Article 2.3 of the Investment Cooperation Agreement, Party A promises that when the Land is provided to Party B or the Project Company, the Land would have access to three (3) rights (i.e. water, power, and road) outside the regulated redline and a plain and natural features of the Land inside the regulated redline (i.e., in the Land construction, there is no building or structure that should have been but yet to be paid, no grass or other ground fixtures, and no matters above the Land that would obstruct the Land construction). Party A promises Party B that Party A shall provide related municipal utilities and infrastructures of Seven Connections and One Leveling and ensure it meets the requirements of the Project Company (i.e., tap water, rainwater discharge, sewage, natural gas supply, telecommunication network, and electric power supply being connected to the same side of the adjacent municipal road of the Land and proper and natural Land leveling);

目前达迩成都一期封测厂房已于 2012 年 6 月份完成土建建设，预计在 2012 年 12 月开始机电安装和作业车间的精装修（如超净厂房等），并在 2013 年 3 月底完成机电/生产设备安装调试并进行试生产，达迩成都将依据市场及业务逐年增建厂房和机电设备（分三到四期）。根据以上情况达迩成都所需电力将会逐步增加并最终达到 60,000 千瓦。

The engineering construction for the first installment of the assembly and testing facility of Diodes Chengdu has been completed in June of 2012, and the installation of mechanics and electronics and refined decoration of workshop (such as super-clean workshop) is expected to begin in December of 2012, and the installation and the calibration of electronic and mechanical equipment are expected to be completed by the end of March, 2013, as well as the initiation to test production. Based on the annual market share and business growth, Diodes Chengdu will build more workshops and add more electronic and mechanical equipment in three or four installments. Accordingly, the electricity demand for Diodes Chengdu will steadily increase to 60,000 KW.

据此，本着节约成都资源及有效利用国家资源的前提，各方经过

友好协商达成以下合意：

Therefore, in order to conserve Chengdu's resources and effectively use national resources, each Party hereby agree as follows:

- 一、同意达迩成都所需电量 60,000 千瓦采用整体规划分批次(分三到四期)到位的原则。

Both Parties agree to meet Diodes Chengdu's electricity demand for 60,000 KW under the principle of overall planning that would supply in installments (in three or four installments).

二、成都高新区协调电力部门支持上述原则及达迩成都从两个或两个以上变电站出线。

Chengdu Hi-Tech shall negotiate with the electric authority to ensure the implementation of the aforementioned principle and let two or more substations provide the electricity to Diodes Chengdu.

三、达迩成都第一期项目 15,000 千瓦用电负荷计划从 110KW 天健变电站出线。若天健变电站在满足第一期项目用电计划后，在后续各期项目需要用电时仍有可用负荷并能满足达迩成都剩余所需用电量，原则上从天健变电站出线；如果届时天健变电站不能负荷达迩成都剩余所需电量时，则由成都高新区负责协调成都电业局由其他变电站出线。达迩成都理解实施后续各期项目间隔时间的长短对出线变电站的选择至关重要，达迩成都将尽可能缩短项目实施的时间。届时如果达迩成都根据实际营运的需要，要求成都电业局从其预定出线的变电站更换到其他变电站出线时，在此情形下，各方同意由此增加的费用由各方另行协商解决。

The first installment of the 15,000 KW electricity demand of Diodes Chengdu shall be provided by Tianjian's 110KW substation. If there are extra capacity to satisfy subsequent remaining installment demands for Diodes Chengdu after TianJian substation fulfills the first installment of the electricity demand of Diodes Chengdu, then in principle, TianJian substations should provide the electricity. If TianJian substation is unable to provide electricity for the subsequent remaining installment demands for Diodes Chengdu, Chengdu Hi-Tech shall be responsible to negotiate with the electric authority to ensure that other substations would provide electricity. Diodes Chengdu understands that the time period to implement various installments is vital to the decision in selecting which substation to provide electricity; therefore, Diodes Chengdu shall try to shorten the implementation process of various installments. In the event Diodes Chengdu under its actual operational needs requires Chengdu electric authority to change the scheduled substation to another substation to supply electricity to Diodes Chengdu, the Parties agree to separately negotiate the additional cost.

四、为提供成都高新区和成都电业局足够的作业时间，在第一期项目 15,000 千瓦用电负荷计划完成后，达迩成都后续用电计划（剩余 45,000 千瓦之全部或部分），将由达迩成都在每一阶段用电需求来临前六个月向成都电业局提出书面申请，并书面告知成都高新区，成都高新区协调成都电业局按照前述约定提供达迩成都所需电量。

In order to provide adequate time to Chengdu Hi-Tech and Chengdu electric authority, after the first installment of 15,000 KW electricity demand of Diodes Chengdu has been satisfied, for the remaining demand of 45,000 KW from Diodes Chengdu (partially or entirely), Diodes Chengdu shall submit application to Chengdu electric authority six months in advance of every installment prior to its actual need of electricity, and shall inform Chengdu Hi-Tech in writing. Chengdu Hi-Tech shall negotiate with Chengdu electric authority in accordance with the aforementioned agreement to provide the electricity as needed by Diodes Chengdu.

五、本协议为《投资合作协议》的补充协议，与《投资合作协议》构成完整的协议。本协议与《投资合作协议》内容有冲突的，以本协议约定为准。本协议未涉及之内容，《投资合作协议》的约定继续有效。

This Agreement is an integral part of Investment Cooperation Agreement and constitutes an entire agreement with the Investment Cooperation Agreement. In the event any of the terms and conditions of this Agreement conflict with or are inconsistent with the Investment Cooperation Agreement, the terms and conditions of this Agreement, as the case may be, shall govern. Except as expressly provided herein, all terms and conditions of the Investment Cooperation Agreement shall remain in full force and effect without any changes.

六、本协议一式捌份，一方各执两份，具有同等法律效力。

This Agreement is made in eight (8) originals, and each Party shall keep two (2) originals in both Chinese and English languages. Both versions shall have equal legal force.

七、本协议以中英文两种语言拟就，具有同等法律效力，中、英文有歧义时，以中文为准。

This Agreement is written in both Chinese and English languages. Both versions shall have equal legal force. If there are conflicts between the Chinese and the English versions, the Chinese version shall be the determinative version.

【签署页】

[Signature Page]

成都高新技术产业开发区管理委员会

授权代表：

姓名：

Management Committee of the Chengdu Hi-Tech Industrial Development Zone

By: Authorized Representative

Authorized Representative

Name: Authorized Representative

达尔香港控股有限公司

授权代表：

姓名：Keh-Shew Lu

Diodes Hong Kong Holding Company Limited

By: Keh-Shew Lu

Authorized Representative

Name: Keh-Shew Lu

达迩 (上海) 投资有限公司

法定代表人 :

姓名 : Shiao-Kwang Edmund Tang

Diodes (Shanghai) Investment Company Limited

By: Shiao-Kwang Edmund Tang

Authorized Representative

Name: Shiao-Kwang Edmund Tang

达迩科技 (成都) 有限公司

法定代表人 :

姓名 : Keh-Shew Lu

Diodes Technology (Chengdu) Company Limited

By: Keh-Shew Lu

Authorized Representative

Name: Keh-Shew Lu

DSH #2 Building Lease Agreement

SHANGHAI YUAN HOWE ELECTRONICS CO., LTD. Address: No.8, Lane 18, SanZhuang Road, Songjiang Export Processing Zone, Shanghai, People's Republic of China. ("Yuan Howe")

SHANGHAI KAI HONG TECHNOLOGY ELECTRONIC CO., LTD. Address: No.1, Lane 18, SanZhuang Road, Songjiang Export Processing Zone, Shanghai, People's Republic of China. ("DSH")

DSH and Yuan Howe are collectively referred to as the "Parties" and individually as a "Party".

RECITALS

1. Yuan Howe and DSH, in January 2013, entered into a memorandum of renewing a five year lease agreement (From February 1, 2013 to January 31, 2018) about Yuan Howe to lease a manufacturing facility ("DSH #2 Building") and other relevant support facilities to DSH; and
2. Yuan Howe and DSH, based on relevant laws of the People's Republic of China and city of Shanghai, now desire to enter into a Lease Agreement with detail terms and conditions concerning the lease of the DSH #2 Building and relevant support facilities.

Now, THEREFORE, in consideration of the premises and of the mutual covenants contained in this Lease Agreement, the parties agree as follows:

1. Definitions

Unless otherwise defined in this Lease Agreement, the terms used herein shall have the following meanings:

- 1.1. "DSH #2 Building" shall mean a five-story building located at No.2, Lane 18, SanZhuang Road, Songjiang Export Processing Zone, Shanghai, People's Republic of China ("PRC"). A general overview of the DSH #2 Building area is set forth in the Exhibit 1 of this Lease Agreement along with the government certified actual building area.
- 1.2. "DSH #1 Building" shall mean a five-story building located at No.1, Lane 18, SanZhuang Road, Songjiang Export Processing Zone, Shanghai, PRC.
- 1.3. "Skyway Bridges" shall mean two crosswalk bridges located at the second floor and the fourth floor in between DSH #1 Building and DSH #2 Building.

-
- 1.4. “#3 Auxiliary Building” shall mean a three-story building that is currently providing DSH #1 Building and DSH #2 Building with air compressor, vacuum, purified water and emergency generator supports.
 - 1.5. “#4 Auxiliary Building” shall mean a new three-story building, located at the north side of #3 Auxiliary Building, that is providing DSH #2 Building with air compressor, vacuum, purified water and emergency generator supports.
 - 1.6. “Total Lease Area” shall mean the total lease areas of the entire DSH #2 Building, the two Skyway Bridges and the #4 Auxiliary Building.
 - 1.7. “Building” shall mean DSH #2 Building, the two Skyway Bridges and the #4 Auxiliary Building.
 - 1.8. “Actual Area” either shall mean the government certified actual building area measurement of the areas of DSH #2 Building and the #4 Auxiliary Building or shall mean two Skyway Bridge’s final measured actual areas approved in writing by both Parties.

2. Total Lease Area And Other Facilities

- 2.1. Yuan Howe shall obtain from all necessary government authority checked and accepted inspection certificates. Yuan Howe further guarantees it is the legal and rightful owner of the DSH #2 Building, the two Skyway Bridges, the #4 Auxiliary Building and warrants that the quality of the materials used in construction shall meet DSH’s and relevant inspection’s requirements.
- 2.2. DSH and Yuan Howe further agree to sign another agreement governing the quality and contents of the Total Lease Area’s current and future interior designs, interior modifications, safety regulations, manufacturing regulations, and other relevant issues.
- 2.3. Yuan Howe constructed two Skyway Bridges between DSH #1 Building and DSH #2 Building. Two Skyway Bridges is located at the second floor and the fourth floor in between DSH #1 Building and DSH #2 Building.
- 2.4. Yuan Howe installed two (2) commercial-grade elevators with the capacity of each such elevator for transport approximately two (2) tons of goods and readied for DSH’s use.
- 2.5. Yuan Howe completed the construction of the DSH #2 Building and the #4 Auxiliary Building in a form completely ready for DSH’s occupancy, including the completion of each building floor’s major and necessary components.

3. Lease Purpose and Use of Goods Manufactured

- 3.1. Yuan Howe has inspected DSH's business operation license and business investment in manufacturing certificate or the premise for DSH's business manufacturing operations. DSH's Total Lease Area should strictly adhere to government approved perimeters for manufacturing operations, and DSH should use the Total Lease Area according to its original intended purposes, including its original intended manufacturing plans and designs, for its intended manufacturing goods.

4. Lease Period

- 4.1. Both Parties agree that the lease period for the DSH #2 Building, the two Skyway Bridges and the #4 Auxiliary Building (collectively called the "Lease Period") starts from February 1, 2013 to January 31, 2018.
- 4.2. The Parties agree that the Lease Period for the Total Lease Area shall be terminated without further extension unless either party gives written notice of a request to extend such Lease Period not less than thirty (30) days before the expiration of the Lease Period. Either party shall not terminate this Lease Agreement without written approval from the other party. During the extension period of the Lease Period, various items and lease fees stated in Section 6 of this Lease Agreement may be adjusted on the basis of the market prices.
- 4.3. If during the Lease Period Yuan Howe receives from a third party a bona fide, legally binding offer to lease any portion of the Actual Area that has not already leased by DSH, Yuan Howe shall notify DSH of this fact. Yuan Howe's notice shall specify all the terms of the bona fide third party offer. DSH shall then have thirty (30) days to lease that portion of the Actual Area that has not already leased by DSH but has been specified in the third party's bona fide offer. Yuan Howe shall not lease any such portion of the Actual Area to any third party until the thirty (30) day period has expired without DSH exercising its right of first refusal. Any other necessary terms and conditions not specified in this Lease Agreement, both Parties shall negotiate and sign a supplemental agreement for such unspecified terms and conditions. Such signed supplemental agreement shall constitute a part of this Lease Agreement and shall have the same effectiveness as this Lease Agreement.

5. Total Lease Area

- 5.1. DSH #2 Building has a total lease area of approximately 30,412.95 square meters, which includes the following:

-
- a) Floor 1A is approximately 3,356.48 square meters;
 - b) Floor 1B is approximately 3,397.40 square meters;
 - c) Floor 2 is approximately 3,397.40 square meters;
 - d) Floor 3 is approximately 6,753.89 square meters;
 - e) Floor 4 is approximately 6,753.89 square meters;
 - f) Floor 5 is approximately 6,753.89 square meters.
- 5.2. The total lease area of two Skyway Bridges is approximately 100 square meters. (Each Skyway Bridge is approximately 50 square meters).
 - 5.3. The total lease area of #4 Auxiliary Building is approximately 718.42 square meters. (Each floor of the #4 Auxiliary Building is approximately 239.47 square meters).
 - 5.4. The Total Lease Area is approximately 31,231.37 square meters, which includes lease areas of DSH #2 Building, two Skyway Bridges and the #4 Auxiliary Building.
 - 5.5. The Actual Area is measured according to the government's real estate department issued final certification and actual measurement procedures.
- 6. Lease Fees**
- 6.1. Regarding the DSH #2 Building floor 1A, both Parties agree that the monthly lease per square meter for the floor 1A shall be Renminbi ("RMB") 41.46 per square meter. The total monthly lease shall be RMB 139,159.66.
 - 6.2. Regarding all other floors of DSH #2 Building except floor 1A, both Parties agree that the monthly lease per square meter for these floors shall be RMB 27.63 per square meter. The total month lease shall be RMB 747,570.27.
 - 6.3. Regarding two Skyway Bridges, both Parties agree that the monthly lease per square meter for both Skyway Bridges shall be RMB 55.27. The total monthly lease shall be RMB 5,527.00.
 - 6.4. Regarding the #4 Auxiliary Building, both Parties agree that the monthly lease per square meter for the #4 Auxiliary Building shall be RMB 27.63. The total monthly lease shall be RMB 19,849.94.
 - 6.5. Both Parties agree that the total monthly lease for the Total Lease Area shall be RMB 912,106.87.

7. Deposit and Other Fees

- 7.1. DSH shall pay Yuan Howe a deposit amount of RMB 912,106.87 ("Security Deposit"), equal to the Total Lease Area's one-month lease fee, upon the Effective Date of this Lease Agreement.
- 7.2. Yuan Howe, upon receiving the Security Deposit, shall issue an evidentiary receipt of the Security Deposit to DSH. Upon the termination of this Lease Agreement, Yuan Howe shall return the Security Deposit to DSH minus any portion of fees and/or expenses of DSH as specified in this Lease Agreement.

7.3. Building Management Fee

DSH agrees to pay Yuan Howe Building Management Fee equivalent to the amount of 4% of the total monthly lease for the Total Lease Area.

Yuan Howe shall provide DSH management services as follows:

- (1) maintenance and repairs of buildings and facilities in the Total Lease Area;
- (2) maintenance and repairs of public buildings and areas and public facilities within the Total Lease Area;
- (3) maintain cleanliness and sanitation in the Total Lease Area and any public facilities and areas;
- (4) maintain landscaping and environment in the Total Lease Area and any public facilities and areas;

7.4. Ground Lease Fee

Both Parties agree, upon the Effective Date of this Lease Agreement, that DSH shall pay the ground lease fee for the full 6,166.71 square meters of gross area related to the Total Lease Area. Each square meter shall cost RMB 4.38, and the total monthly ground lease fee shall be RMB 27,010.19.

8. Method of Payment

- 8.1. DSH shall pay the total monthly lease for the Total Lease Area, Building Management Fee, Ground Lease Fee, and any related fees to Yuan Howe on the first calendar day of every month of the Lease Period to a RMB bank account as designated by Yuan Howe.

9. Usage Requirements for the Total Lease Area

- 9.1. Both Parties, upon signing this Lease Agreement, shall specify various manufacturing safety, fire safety, special safety and security regulations for the Total Lease Area in accordance with the government's safety and security regulations.
- 9.2. During the Lease Period, both Parties guarantee that all facilities and safety equipments in the Total Lease Area shall operate normally and safely. When Yuan Howe is inspecting any facilities or managing its safety management operations,

DSH shall coordinate with Yuan Howe to complete these tasks. If Yuan Howe discovers any hidden dangers or problems with DSH's manufacturing operations, Yuan Howe has the obligation to notify DSH of these hidden dangers or problems and order DSH to correct these hidden dangers or problems with DSH's manufacturing operations.

10. Status of the Total Lease Area Upon the Termination of the Lease Agreement

- 10.1. Except both Parties agree to extend this Lease Agreement, DSH shall return the Total Lease Area to Yuan Howe after the termination date of this Lease Agreement.
- 10.2. When DSH returns the Total Lease Area and related lease facilities to Yuan Howe, the Total Lease Area and related lease facilities should meet its standard usage and be able to be used to carry out its original intended purpose. Both Parties shall also negotiate and agree to pay any remaining fees or expenses to be paid by each Party. Except any damage by nature cause, if DSH has caused any damages to any buildings or facilities in the Total Lease Area, Yuan Howe can demand DSH to repair the damaged buildings or facilities back to their original condition or demand compensations for the damages.

11. Termination of the Lease Agreement

- 11.1. If either Party terminates the Lease Agreement prior to the expiration of the Lease Period without the consent from the other Party, the Party that terminates the Lease Agreement shall pay damages to the other Party to compensate for such Party's actual loss. The amount of damages shall include, but not be limited to, the reasonable profits, out-of-pocket costs, legal service fees, court fees, arbitration fees, accounting fees and removal or relocation fees.

12. Insurance and Repair Costs

- 12.1. During the term of the Lease, Yuan Howe shall purchase and maintain building insurance coverage to cover any and all casualty damage to the Total Lease Area.

13. Liability for Breach of the Lease Agreement

- 13.1. If DSH violates any provisions in Section 6 of this Lease Agreement and fails to pay the lease on time then DSH shall pay a penalty at the rate of 0.011% of the total monthly lease for the Total Lease Area for each day of the payment delay.

13.2. During the term of the Lease Agreement, DSH shall not:

- (1) sub-lease any portion of the Total Lease Area or exchange the use of the Total Lease Area with any third party;
- (2) alter the structure of the Total Lease Area or damage any buildings or facilities in the Total Lease Area;
- (3) change this Lease Agreement purpose stipulated by the competent authorities.

14. Warranties

- 14.1. Yuan Howe hereby warrants that if any portion of the Total Lease Area is sold to any third party during the Lease Period or the extended period of the Lease Period, such third party shall be required to fulfill all obligations of Yuan Howe under this Lease Agreement. If said third party fails to carry out this Lease Agreement, Yuan Howe shall compensate DSH for all of DSH's losses and damages.
- 14.2. In case Yuan Howe mortgages any portion of the Total Lease Area to the third party, any loss suffered by DSH shall be paid by Yuan Howe.

15. Force Majeure

15.1. Force Majeure shall mean any event which arises after the Effective Date that is beyond the control of the Parties, and is unforeseen, unavoidable and insurmountable, and which prevents total or partial performance by either Party. Such events shall include earthquakes, typhoons, flood, fire, war, acts of government or public agencies, strikes and any other event which cannot be foreseen, prevented and controlled, including events which are recognized as Force Majeure in general international commercial practice.

15.2. Consequences of Force Majeure

- (1) If an event of Force Majeure occurs, the contractual obligation of a Party affected by such an event shall be suspended during the period of delay and the time for performing such obligation shall be extended, without penalty, for a period equal to such suspension.
- (2) The Party claiming Force Majeure shall give prompt notice to the other Party in writing and shall furnish, within fifteen (15) days thereafter, sufficient proof of the occurrence and expected duration of such Force Majeure. The Party claiming Force Majeure shall also use all reasonable efforts to mitigate or eliminate the effects of the Force Majeure.
- (3) If an event of Force Majeure occurs, the Parties shall immediately consult with each other in order to find an equitable solution and shall use all reasonable efforts to minimize the consequences of such Force Majeure.

16. Effective Date of the Lease Agreement

16.1. This Lease Agreement shall become effective after the legal representatives or authorized representatives of both Parties affix their signatures and company seals on the Lease Agreement.

17. Language of the Lease Agreement

17.1. The Lease Agreement is made and executed in Chinese and English, both versions having equal validity except as otherwise prohibited under the law.

18. Settlement of Dispute**18.1. Friendly consultations**

- (1) In the event of any dispute, difference, controversy or claim arising out of or related to the Lease, including, but not limited to, any breach, termination or validity of this Lease Agreement, (the "Dispute") then upon one Party giving the other Party notice in writing of the Dispute (the "Notice of Dispute"), the Parties shall attempt to resolve such Dispute through friendly consultation.
- (2) If the Dispute has not been resolved through friendly consultations with thirty (30) days from the Notice of Dispute, the Dispute shall be resolved by arbitration in accordance with Section 18.2 of this Lease Agreement. Such arbitration may be initiated by either Party.

18.2. Arbitration

The arbitration shall be conducted by Shanghai Arbitration Commission in Shanghai, China in accordance with its procedure and rules. The arbitration award shall be final and binding on the Parties. The costs of arbitration shall be borne by the losing Party except as may be otherwise determined by the arbitration tribunal.

18.3. Continuance of performance

Except for the matter in Dispute, the Parties shall continue to perform their respective obligations under this Lease Agreement during any friendly consultations or any arbitration pursuant to this Section 18.

18.4. Separability

The provisions of this Section 18 shall be separable from the other terms of this Lease Agreement. Neither the terminated nor the invalidity of this Lease Agreement shall affect the validity of the provisions of this Section 18.

19. Applicable Law

19.1. The validity, interpretation and implementation of this Lease Agreement and the settlement of Disputes shall be governed by relevant PRC laws and regulations that are officially promulgated and publicly available.

20. Compliance with the Foreign Corrupt Practices Act and U.K. Bribery Act

20.1. Yuan Howe acknowledges that DSH is a corporation with substantial presence and affiliation in the United States and, as such, is subject to the provisions of the Foreign Corrupt Practices Act of 1977 of the United States of America, 15 U.S.C. §§78dd-1, et seq., which prohibits the making of corrupt payments (the “FCPA”). Under the FCPA, it is unlawful to pay or to offer to pay anything of value to foreign government officials, or employees, or political parties or candidates, or to persons or entities who will offer or give such payments to any of the foregoing in order to obtain or retain business or to secure an improper commercial advantage.

20.2. Yuan Howe acknowledges that DSH is a corporation with substantial presence and affiliation in the United Kingdom and, as such, is subject to the provisions of the United Kingdom’s Bribery Act 2010, which prohibits the making and receiving of corrupt payments to and from both public officials and commercial organizations (the “UK Bribery Act”). Under UK Bribery Act, it is unlawful to pay, to offer to pay or to receive anything of value to or from foreign government officials, employees, political parties or candidates, or private company employees or commercial organizations, or to or from persons or entities who will offer, give or receive such payments to or from any of the foregoing in order to obtain or retain business or to secure any improper commercial advantage.

20.3. Yuan Howe further acknowledges that it is familiar with the provisions of the FCPA and UK Bribery Act and hereby agrees that Yuan Howe shall take or permit no action which will either constitute a violation under, or cause DSH to be in violation of, the provision of the FCPA and UK Bribery Act.

21. Open Terms

21.1. This Lease Agreement contains certain open terms including, but not limited to, Section 4,5,6,7 and related terms concerning the Actual Area of the Total Lease Area, the total monthly lease of the Total Lease Area, the Security Deposit and other related fees and expenses, which must be in accordance with the real estate sector of the Chinese government issued the actual area of the real estate license lease area for the entire lease area.

22. Miscellaneous

- 22.1. Any amendment to this Lease Agreement shall be in writing and duly signed by both Parties. Such Amendment shall constitute a part of this Lease Agreement.
- 22.2. Both Parties acknowledge that they are aware of their respective rights, obligations and liabilities and will perform their obligations under this Lease Agreement in accordance with the provisions of the Lease Agreement. If one Party violates this Lease Agreement, the other Party shall be entitled to claim damages in accordance with this Lease Agreement.
- 22.3. Any notice or written communication required or permitted by this Lease Agreement shall be made in writing in Chinese and English and sent by courier service. The date of receipt of a notice or communication shall be deemed to be seven (7) days after the letter is deposited with the courier service provided the deposit is evidenced by a confirmation receipt. All notice and communication shall be sent to the appropriate address set forth below, until the same is changed by notice given in writing to the other Party.
- To: Yuan Howe
Address: No.8, Lane 18, SanZhuang Road, Songjiang Export Processing Zone,
Shanghai, P.R. China
Attn: Shanghai Yuan Howe Electronic Co., Ltd.
- To: DSH
Address: No.1, Lane 18, SanZhuang Road, Songjiang Export Processing Zone,
Shanghai, P.R. China
Attn: Shanghai Kai Hong Technology Co., Ltd.
- 22.4. This Lease Agreement comprises the entire understanding between the Parties with respect to its subject matters and supersedes any previous or contemporaneous communications, representations, or agreements, whether oral or written. For purposes of construction, this Lease Agreement will be deemed to have been drafted by both Parties. No modification of this Lease Agreement will be binding on either Party unless in writing and signed by an authorized representative of each Party.

Shanghai Yuan Howe Electronic Co., Ltd.
Representative: /s/ Legal Representative
Date: 1/28/2013

Shanghai Kai Hong Technology Co., Ltd.
Representative: /s/ Justin Kong
Date:

SUBSIDIARIES OF THE REGISTRANT

<u>Subsidiary Name</u>	<u>Incorporated Location</u>	<u>Holding Company (1) or Subsidiary (2)</u>	<u>Percentage Owned</u>
Diodes Taiwan Inc.	Taiwan	2	100%
Diodes Cayman Islands Company Limited	Cayman Islands	2	100%
Shanghai Kaihong Electronic Co., Ltd.	China	2	95%
Power Analog Microelectronics (Shanghai) Co., Ltd.	China	2	100%
Diodes FabTech Inc.	Delaware	2	100%
Diodes Hong Kong Limited	Hong Kong	2	100%
Diodes Kaihong (Shanghai) Company Limited	China	2	100%
Diodes (Shanghai) Investment Company Limited	China	1	100%
Diodes Technology (Chengdu) Company Limited	China	2	95%
Diodes Shanghai Co., Ltd. (a/k/a Shanghai Kaihong Technology)	China	2	95%
Diodes Japan Kabushiki Kaisha	Japan	2	100%
Diodes International B.V.	Netherlands	1	100%
Diodes Hong Kong Holding Company Limited	Hong Kong	1	100%
Diodes Korea Inc.	Korea	2	100%
Diodes Zetex Hong Kong Limited	Hong Kong	2	100%
Diodes Investment Company	Delaware	1	100%
Diodes Holdings UK Limited	United Kingdom	1	100%
Diodes Zetex Semiconductors Limited	United Kingdom	2	100%
Diodes Zetex Neuhaus GmbH	Germany	2	100%
Diodes Zetex GmbH	Germany	2	100%
Zetex Inc.	New York*	2	100%
Diodes Zetex (Asia) Limited	Hong Kong	2	100%
Diodes Zetex UK Limited	United Kingdom	2	100%
Diodes Zetex Limited	United Kingdom	2	100%
Diodes Zetex Asia Pacific Limited	British Virgin Island*	2	100%
Diodes Zetex Asia Pacific Ventures Limited	British Virgin Island*	2	100%
Diodes Chinatex Limited	British Virgin Island*	2	100%
Diodes Torus Network Products Limited	United Kingdom*	2	100%
Diodes Knaves Beech Securities Limited	United Kingdom*	2	100%
Diodes Seal Semiconductors Limited	United Kingdom*	2	100%
Diodes Fast Analog Solutions Limited	United Kingdom*	2	100%
Diodes Zetex Investment Limited	United Kingdom*	2	100%
Telemetrix Share Scheme Trustees Limited	United Kingdom*	2	100%
Diodes Telemetrix Investments Limited	United Kingdom*	2	100%
Diodes Telemetrix Securities Limited	United Kingdom*	2	100%
Diodes Westward Technology Limited	United Kingdom*	2	100%

*Dormant subsidiary

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements of Diodes Incorporated and Subsidiaries of our report dated February 27, 2013, which report expresses an unqualified opinion related to the consolidated financial statements of Diodes Incorporated and Subsidiaries (the "Company") and the effectiveness of internal control over financial reporting of the Company appearing in this Annual Report (Form 10-K) for the year ended December 31, 2012:

- Registration Statement on Form S-8 (No. 333-78716) pertaining to the Incentive Bonus Plan and 1993 Non-Qualified Stock Option Plan of Diodes Incorporated;
- Registration Statements on Form S-8 (Nos. 333-106775 and 333-124809) pertaining to the 2001 Omnibus Equity Incentive Plan of Diodes Incorporated; and
- Registration Statement on Form S-3 (No. 333-137803) pertaining to convertible senior notes and common stock issuable by Diodes Incorporated.

/s/ Moss Adams LLP

Los Angeles, California
February 27, 2013

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

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

1. I have reviewed this Annual Report on Form 10-K 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.

/s/ Keh-Shew Lu

Keh-Shew Lu

Chief Executive Officer

Date: February 27, 2013

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, **Richard D. White**, certify that:

1. I have reviewed this Annual Report on Form 10-K 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.

/s/ Richard D. White

Richard D. White

Chief Financial Officer

Date: February 27, 2013

CERTIFICATION PURSUANT TO 18 U.S.C. 1350 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 Annual Report on Form 10-K for the twelve-month period ended December 31, 2012 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 as of, and for, the periods presented in such report.

Very truly yours,

/s/ Keh-Shew Lu

Keh-Shew Lu

Chief Executive Officer

Date: February 27, 2013

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

CERTIFICATION PURSUANT TO 18 U.S.C. 1350 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 Annual Report on Form 10-K for the twelve-month period ended December 31, 2012 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 as of, and for, the periods presented in such report.

Very truly yours,

/s/ Richard D. White

Richard D. White

Chief Financial Officer

Date: February 27, 2013

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

