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

FORM 10-Q

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

For the quarterly period ended September 30, 2023

Or

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

For the transition period from __________ to __________.

Commission file number: 002-25577

DIODES INCORPORATED

(Exact name of registrant as specified in its charter)

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

(972) 987-3900

(Registrant’s telephone number, including area code)

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

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

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

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

The number of shares of the registrant’s Common Stock outstanding as of November 2, 2023 was 45,938,233.

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

	September 30, 2023	December 31, 2022
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	$ 295,045	$ 336,732
Restricted cash	2,592	4,367
Short-term investments	9,872	7,059
Accounts receivable, net of allowances of $4,686 and $5,852 at September 30, 2023 and December 31, 2022, respectively	414,188	369,233
Inventories	343,694	360,281
Prepaid expenses and other	117,191	83,999
Total current assets	1,182,582	1,161,671
Property, plant and equipment, net	736,126	736,730
Deferred income tax	35,788	35,308
Goodwill	143,745	144,757
Intangible assets, net	67,445	79,137
Other long-term assets	174,536	130,709
Total assets	$ 2,340,222	$ 2,288,312
Liabilities		
Current liabilities:		
Lines of credit	$ 29,429	$ 36,280
Accounts payable	161,079	160,442
Accrued liabilities and other	193,383	214,433
Income tax payable	29,892	19,682
Current portion of long-term debt	1,124	1,693
Total current liabilities	414,907	432,530
Long-term debt, net of current portion	22,645	147,470
Deferred tax liabilities	12,982	12,903
Unrecognized tax benefits	31,595	31,594
Other long-term liabilities	99,210	80,896
Total liabilities	581,339	705,393
Commitments and contingencies (See Note 9)		
Stockholders' equity		
Preferred stock - par value $1.00 per share; 1,000,000 shares authorized; no shares issued or outstanding	-	-
Common stock - par value $0.66 2/3 per share; 70,000,000 shares authorized; and 45,936,090 shares and 45,469,722 shares issued and outstanding at September 30, 2023 and December 31, 2022, respectively	36,817	36,503
Additional paid-in capital	502,482	494,773
Retained earnings	1,649,982	1,448,092
Treasury stock, at cost 9,286,862 shares and 9,281,581 shares at September 30, 2023 and December 31, 2022, respectively	(337,986)	(337,490)
Accumulated other comprehensive loss	(161,633)	(128,233)
Total stockholders' equity	1,689,662	1,513,645
Noncontrolling interest	69,221	69,274
Total equity	1,758,883	1,582,919
Total liabilities and stockholders' equity	$ 2,340,222	$ 2,288,312

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

DIODES INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	**2022**	**2023**	**2022**
Net sales	$ 404,647	$ 521,273	$ 1,339,040	$ 1,504,368
Cost of goods sold	248,771	303,455	793,334	883,327
Gross profit	155,876	217,818	545,706	621,041
Operating expenses				
Selling, general and administrative	62,964	68,545	201,455	209,055
Research and development	34,068	32,787	101,911	92,226
Amortization of acquisition related intangible assets	3,808	3,938	11,476	11,780
Restructuring cost	2,566	-	2,566	-
Other operating (income) expense	(1,404)	102	(1,570)	(3,762)
Total operating expense	102,002	105,372	315,838	309,299
Income from operations	53,874	112,446	229,868	311,742
Other income (expense)				
Interest income	4,507	862	8,503	2,549
Interest expense	(898)	(2,724)	(5,219)	(5,428)
Foreign currency gain (loss), net	1,314	(1,008)	(2,796)	2,532
Unrealized gain (loss) on investments	401	(2,648)	16,462	(15,960)
Other income	1,309	2,218	3,237	5,741
Total other income (expense)	6,633	(3,300)	20,187	(10,566)
Income before income taxes and noncontrolling interest	60,507	109,146	250,055	301,176
Income tax provision	10,674	20,172	44,514	55,279
Net income	49,833	88,974	205,541	245,897
Less net income attributable to noncontrolling interest	(1,113)	(2,588)	(3,651)	(6,665)
Net income attributable to common stockholders	$ 48,720	$ 86,386	$ 201,890	$ 239,232
Earnings per share attributable to common stockholders:				
Basic	$ 1.06	$ 1.90	$ 4.41	$ 5.28
Diluted	$ 1.05	$ 1.88	$ 4.36	$ 5.21
Number of shares used in earnings per share computation:				
Basic	45,936	45,475	45,758	45,283
Diluted	46,320	46,014	46,296	45,938

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net income	$ 49,833	$ 88,974	$ 205,541	$ 245,897
Unrealized (loss) gain on defined benefit plan, net of tax	(4,009)	(391)	(1,930)	5,209
Unrealized (loss) gain on derivative instruments, net of tax	(2,464)	4,939	(4,143)	9,833
Unrealized foreign currency loss, net of tax	(16,056)	(55,054)	(27,327)	(109,005)
Comprehensive income	27,304	38,468	172,141	151,934
Less: Comprehensive income attributable to noncontrolling interest	(1,113)	(2,588)	(3,651)	(6,665)
Total comprehensive income attributable to common stockholders	$ 26,191	$ 35,880	$ 168,490	$ 145,269

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

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

	Common stock		Treasury stock		Additional paid-in	Retained	Accumulated other comprehensive	Total Diodes Incorporated stockholders'	Noncontrolling	Total
	Shares	Amount	Shares	Amount	capital	earnings	loss	equity	interest	equity
Balance, June 30, 2023	55,032	$ 36,690	(9,283)	$ (337,670)	$ 501,302	$ 1,601,262	$ (139,104)	$ 1,662,480	$ 68,098	$ 1,730,578
Total comprehensive income (loss)	-	-	-	-	-	48,720	(22,529)	26,191	1,113	27,304
Net changes in noncontrolling interest	-	-	-	-	-	-	-	-	10	10
Common stock issued for share-based plans	191	127	-	-	(127)	-	-	-	-	-
Share-based compensation	-	-	-	-	5,928	-	-	5,928	-	5,928
Deferred compensation plan	-	-	(4)	(316)	316	-	-	-	-	-
Tax related to net share settlement	-	-	-	-	(4,937)	-	-	(4,937)	-	(4,937)
Balance, September 30, 2023	55,223	$ 36,817	(9,287)	$ (337,986)	$ 502,482	$ 1,649,982	$ (161,633)	$ 1,689,662	$ 69,221	$ 1,758,883

	Common stock		Treasury stock		Additional paid-in	Retained	Accumulated other comprehensive	Total Diodes Incorporated stockholders'	Noncontrolling	Total
	Shares	Amount	Shares	Amount	capital	earnings	loss	equity	interest	equity
Balance, December 31, 2022	54,751	$ 36,503	(9,282)	$ (337,490)	$ 494,773	$ 1,448,092	$ (128,233)	$ 1,513,645	$ 69,274	$ 1,582,919
Total comprehensive income (loss)	-	-	-	-	-	201,890	(33,400)	168,490	3,651	172,141
Net changes in noncontrolling interest	-	-	-	-	-	-	-	-	(3,704)	(3,704)
Common stock issued for share-based plans	472	314	-	-	(314)	-	-	-	-	-
Share-based compensation	-	-	-	-	23,111	-	-	23,111	-	23,111
Deferred compensation plan	-	-	(5)	(496)	496	-	-	-	-	-
Tax related to net share settlement	-	-	-	-	(15,584)	-	-	(15,584)	-	(15,584)
Balance, September 30, 2023	55,223	$ 36,817	(9,287)	$ (337,986)	$ 502,482	$ 1,649,982	$ (161,633)	$ 1,689,662	$ 69,221	$ 1,758,883

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

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

	Common stock		Treasury stock		Additional paid-in	Retained	Accumulated other comprehensive	Total Diodes Incorporated stockholders'	Noncontrolling	Total
	Shares	Amount	Shares	Amount	capital	earnings	loss	equity	interest	equity
Balance, June 30, 2022	54,562	$ 36,376	(9,273)	$ (337,112)	$ 478,374	$ 1,269,655	$ (93,974)	$ 1,353,319	$ 64,140	$ 1,417,459
Total comprehensive income (loss)	-	-	-	-	-	86,386	(50,506)	35,880	2,588	38,468
Net changes in noncontrolling interest	-	-	-	-	-	-		-	54	54
Common stock issued for share-based plans	188	125	-	-	(126)	-	-	(1)	-	(1)
Share-based compensation	-	-	-	-	10,140	-	-	10,140	-	10,140
Deferred compensation plan	-	-	(9)	(378)	378	-	-	-	-	-
Tax related to net share settlement	-	-	-	-	(3,416)	-	-	(3,416)	-	(3,416)
Balance, September 30, 2022	54,750	$ 36,501	(9,282)	$ (337,490)	$ 485,350	$ 1,356,041	$ (144,480)	$ 1,395,922	$ 66,782	$ 1,462,704

	Common stock		Treasury stock		Additional paid-in	Retained	Accumulated other comprehensive	Total Diodes Incorporated stockholders'	Noncontrolling	Total
	Shares	Amount	Shares	Amount	capital	earnings	loss	equity	interest	equity
Balance, December 31, 2021	54,290	$ 36,195	(9,273)	$ (336,894)	$ 471,649	$ 1,116,809	$ (50,517)	$ 1,237,242	$ 65,482	$ 1,302,724
Total comprehensive income (loss)	-	-	-	-	-	239,232	(93,963)	145,269	6,665	151,934
Net changes in noncontrolling interest	-	-	-	-	(1,014)	-		(1,014)	(5,365)	(6,379)
Common stock issued for share-based plans	460	306	-	-	(167)	-	-	139	-	139
Share-based compensation	-	-	-	-	26,566	-	-	26,566	-	26,566
Deferred compensation plan	-	-	(9)	(596)	596	-	-	-	-	-
Tax related to net share settlement	-	-	-	-	(12,280)	-	-	(12,280)	-	(12,280)
Balance, September 30, 2022	54,750	$ 36,501	(9,282)	$ (337,490)	$ 485,350	$ 1,356,041	$ (144,480)	$ 1,395,922	$ 66,782	$ 1,462,704

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

DIODES INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Nine Months September 30,	
	2023	2022
Cash flows from operating activities		
Net income	$ 205,541	$ 245,897
Adjustments to reconcile net income to net cash provided by operating activities, net of effects of acquisitions		
Depreciation	91,220	81,622
Amortization of intangible assets	11,476	11,780
Share-based compensation expense	23,436	26,724
Deferred income taxes	(2,479)	(2,723)
Investment (gain) loss	(17,555)	15,778
Gain on disposal of property, plant and equipment	(1,554)	(3,677)
Other	(2,260)	(3,614)
Changes in operating assets:		
Change in accounts receivable	(49,452)	(33,819)
Change in inventory	10,905	(51,402)
Change in other operating assets	(42,144)	(40,587)
Changes in operating liabilities:		
Change in accounts payable	3,312	(10,522)
Change in accrued liabilities	(1,915)	35,552
Change in income tax payable	10,940	23,124
Change in other operating liabilities	3,051	(4,567)
Net cash flows provided by operating activities	242,522	289,566
Cash flows from investing activities		
Acquisitions, net of cash received	-	(85,692)
Purchases of property, plant and equipment	(123,472)	(147,927)
Proceeds from sale of property, plant and equipment	2,077	414
Proceeds from short-term investments	2,768	5,081
Purchases of short-term investments	(6,065)	(6,500)
Purchases of securities	(13,901)	(4,051)
Proceeds from sales of securities	3,891	2
Other	5,331	13,073
Net cash and cash equivalents used in investing activities	(129,371)	(225,600)
Cash flows from financing activities		
Advances on lines of credit and short-term debt	16,209	56,839
Repayments of lines of credit and short-term debt	(21,310)	(35,382)
Proceeds from long-term debt	25,204	324,718
Repayments of long-term debt	(150,527)	(344,390)
Net proceeds from issuance of common stock	-	139
Repayment of and proceeds from finance lease obligation	(34)	(61)
Taxes paid related to net share settlement	(15,584)	(12,280)
Net changes in noncontrolling interest	117	2,756
Other	(4,753)	(3,716)
Net cash and cash equivalents used in financing activities	(150,678)	(11,377)
Effect of exchange rate changes on cash and cash equivalents	(5,935)	(33,575)
Change in cash and cash equivalents, including restricted cash	(43,462)	19,014
Cash and cash equivalents, beginning of period, including restricted cash	341,099	366,818
Cash and cash equivalents, end of period, including restricted cash	$ 297,637	$ 385,832

Supplemental Cash Flow Information		
Interest paid during the period	$ 4,226	$ 4,692
Taxes paid during the period	$ 87,725	$ 50,192
Non-cash investing and financing activities:		
Accounts payable balance related to the purchase of property, plant and equipment	$ 14,730	$ 36,511

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

NOTE 1 – Summary of Operations and Significant Accounting Policies

Summary of Operations

Diodes Incorporated, together with its subsidiaries (collectively the "Company," "we" or "our" (Nasdaq: DIOD)), a Standard and Poor's Smallcap 600 and Russell 3000 Index company, is a leading global manufacturer and supplier of high-quality application-specific standard products within the broad discrete, logic, analog, and mixed-signal semiconductor markets. The Company serves the industrial, automotive, computing, consumer and communications markets.

The Company's diverse product portfolio covers diodes; rectifiers; transistors; MOSFETs; SiC diodes and MOSFETs; protection devices; logic; voltage translators; amplifiers and comparators; sensors; and power management devices such as AC-DC converters, DC-DC switching, linear voltage regulators, voltage references, LED drivers, power switches, and voltage supervisors. We also have timing and connectivity solutions including clock ICs, crystal oscillators, PCIe packet switches, multi-protocol switches, interface products, and signal integrity solutions for high-speed signals.

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

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

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

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

Basis of Presentation

The condensed consolidated financial data at December 31, 2022 are derived from audited financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2022 filed with the Securities and Exchange Commission ("SEC") on February 10, 2023 ("Form 10-K"). The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with United States Generally Accepted Accounting Principles ("GAAP") for interim financial information and with the instructions to Form 10-Q. They do not include all information and footnotes necessary for a fair presentation of financial position, operating results and cash flows in conformity with GAAP for complete financial statements. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes contained in our Form 10-K. All significant intercompany balances and transactions have been eliminated in consolidation. In the opinion of management, all adjustments (consisting of normal recurring adjustments and accruals) considered necessary for a fair presentation of the operating results for the period presented have been included in the interim period. Operating results for the three and nine months ended September 30, 2023 are not necessarily indicative of the results that may be expected for other interim periods or the year ending December 31, 2023.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. As permitted under GAAP, interim accounting for certain expenses, including income taxes, are based on full year forecasts. For interim financial reporting purposes, income taxes are recorded based upon estimated annual effective income tax rates taking into consideration discrete items occurring in a quarter.

Dollar amounts and share amounts are presented in thousands, except per share amounts, unless otherwise noted. Certain prior year's balances may have been reclassified to conform to the current condensed consolidated financial statement presentation.

NOTE 2 – Earnings per Share

Earnings per share ("EPS") is calculated by dividing net income attributable to common stockholders by the weighted-average number of shares of Common Stock outstanding during the period. Diluted EPS is calculated similarly but includes potential dilution from the exercise of stock options and stock awards, except when the effect would be anti-dilutive. During the nine months ended September 30, 2023 and 2022, we paid no dividends on our Common Stock.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	**2022**	**2023**	**2022**
Earnings (numerator)				
Net income attributable to common stockholders	$ 48,720	$ 86,386	$ 201,890	$ 239,232
Shares (denominator)				
Weighted average common shares outstanding (basic)	45,936	45,475	45,758	45,283
Dilutive effect of stock options and stock awards outstanding	384	539	538	655
Adjusted weighted average common shares outstanding (diluted)	46,320	46,014	46,296	45,938
Earnings per share attributable to common stockholders				
Basic	$ 1.06	$ 1.90	$ 4.41	$ 5.28
Diluted	$ 1.05	$ 1.88	$ 4.36	$ 5.21
Stock options and stock awards excluded from EPS calculation because the effect would be anti-dilutive	271	104	94	83

NOTE 3 – Inventories

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

	September 30, 2023	December 31, 2022
Finished goods	$ 95,181	$ 96,659
Work-in-progress	64,789	80,616
Raw materials	183,724	183,006
Total	$ 343,694	$ 360,281

NOTE 4 – Goodwill and Intangible Assets

The table below sets forth the changes in goodwill:

Balance at December 31, 2022	$ 144,757
Foreign currency translation adjustment	(1,012)
Balance at September 30, 2023	$ 143,745

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

	September 30, 2023	December 31, 2022
Intangible assets subject to amortization:		
Gross carrying amount	$ 250,747	$ 250,747
Accumulated amortization	(184,013)	(172,537)
Foreign currency translation adjustment	(8,384)	(8,141)
Total	58,350	70,069
Intangible assets with indefinite lives:		
Gross carrying amount	10,303	10,303
Foreign currency translation adjustment	(1,208)	(1,235)
Total	9,095	9,068
Total intangible assets, net	$ 67,445	$ 79,137

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

Amortization expense	2023	2022
Three Months Ended September 30,	$ 3,808	$ 3,938
Nine Months Ended September 30,	$ 11,476	$ 11,780

NOTE 5 – Income Tax Provision

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Domestic pre-tax income	$ 21,480	$ 53,967	$ 118,209	$ 185,839
Foreign pre-tax income	$ 39,026	$ 55,179	$ 131,845	$ 115,337
Income tax provision	$ 10,674	$ 20,172	$ 44,514	$ 55,279
Effective tax rate	17.6%	18.5%	17.8%	18.4%
Impact of tax holidays on tax expense	$ (216)	$ (173)	$ 111	$ 1,118
Earnings per share impact of tax holidays:				
Basic	$ -	$ 0.01	$ -	$ (0.02)
Diluted	$ -	$ 0.01	$ -	$ (0.02)

The decrease in the effective tax rate for the three and nine months ended September 30, 2023, when compared to the three and nine months ended September 30, 2022, is primarily attributable to the geographical mix of pre-tax income and loss across tax jurisdictions relative to the Company's consolidated pre-tax income and the impact of changes to the outside basis difference in foreign subsidiaries where the Company does not assert permanent reinvestment.

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

We file income tax returns in the U.S. federal jurisdiction and in various state and foreign jurisdictions. We are no longer subject to U.S. federal income tax examinations by tax authorities for tax years before 2012, or for the tax years 2015 - 2018. We are no longer subject to China income tax examinations by tax authorities for tax years before 2012. With respect to state and local jurisdictions and countries outside of the U.S. (other than China), with limited exceptions, the Company is no longer subject to income tax audits for years before 2016. Although the outcome of tax audits is always uncertain, the Company believes that adequate amounts of tax, interest and penalties, if any, have been provided for in the Company's reserve for any adjustments that may result from currently pending tax audits. The Company recognizes accrued interest and penalties related to unrecognized tax benefits in interest expense. As of September 30, 2023, the gross amount of unrecognized tax benefits was approximately $51.5 million.

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

NOTE 6 – Share-Based Compensation

The table below sets forth information related to our share-based compensation expense:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Cost of goods sold	$ 521	$ 485	$ 1,354	$ 1,168
Selling, general and administrative	4,216	8,529	18,827	22,309
Research and development	1,233	1,197	3,255	3,247
Total share-based compensation expense	$ 5,970	$ 10,211	$ 23,436	$ 26,724

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

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

As of September 30, 2023, total unrecognized share-based compensation expense related to share grants was approximately $71.6 million, before income taxes, and is expected to be recognized over a weighted average period of approximately 2.4 years.

Stock Modification. During the nine months ended September 30, 2023 we modified previously granted stock awards for two corporate officers who retired. The result of the modification was the acceleration of the vesting of 54,525 stock awards for the corporate officers. The incremental expense recorded for this modification was approximately $2.1 million, which was expensed in SG&A in the nine months ended September 30, 2023.

NOTE 7 – Enterprise Wide Segment Information and Net Sales

Segment Reporting. For financial reporting purposes, we operate in a single segment, standard semiconductor products, through our various manufacturing and distribution facilities. We aggregate our products because the products are similar and have similar economic characteristics, use similar production processes and share similar customer type. Our primary operations include operations in Asia, the Americas and Europe. During the three months ended September 30, 2023, one customer accounted for approximately $64.8 million or 16.0% of our net sales. During the three months ended September 30, 2022, two customers accounted for $58.7 million, or 11.3%, and $56.4 million, or 10.8%, respectively, of our net sales. During the nine months ended September 30, 2023, two customers accounted for $169.8 million, or 12.7%, and $153.6 million, or 11.5%, respectively, of our net sales. No customer accounted for 10% or greater of our net sales during any other period presented in this Quarterly Report on Form 10-Q, and no customer accounted for 10% or more of our outstanding accounts receivable at any point in the periods presented in this Quarterly Report on Form 10-Q. All customers that accounted for 10% or more of our net sales during any period presented in this Quarterly Report on Form 10-Q, are broad-based global distributors that sell to thousands of different end users.

Disaggregation of Net Sales. We disaggregate net sales with customers into direct sales and distribution sales ("Distributors") and by geographic area. Direct sales customers consist of those customers using our product in their manufacturing process, and Distributors are those customers who resell our products to third parties. We deliver our products to customers around the world for use in the industrial, automotive, computing, consumer and communications markets. Further, most of our contracts are fixed-price arrangements, and are short term in nature, ranging from days to several months. The tables below set forth net sales based on the location of the subsidiary producing the net sale:

For the Three Months Ended September 30, 2023	Asia	Americas	Europe	Consolidated
Total sales	$ 379,181	$ 291,359	$ 97,625	$ 768,165
Intercompany elimination	(169,629)	(159,114)	(34,775)	(363,518)
Net sales	$ 209,552	$ 132,245	$ 62,850	$ 404,647

For the Three Months Ended September 30, 2022	Asia	Americas	Europe	Consolidated
Total sales	$ 473,454	$ 373,663	$ 98,100	$ 945,217
Intercompany elimination	(201,487)	(189,643)	(32,814)	(423,944)
Net sales	$ 271,967	$ 184,020	$ 65,286	$ 521,273

As of and for the Nine Months Ended September 30, 2023	Asia	Americas	Europe	Consolidated
Total sales	$ 1,206,777	955,944	$ 315,063	$ 2,477,784
Intercompany elimination	(539,598)	(499,802)	(99,344)	(1,138,744)
Net sales	$ 667,179	$ 456,142	$ 215,719	$ 1,339,040
Property, plant and equipment, net	$ 537,040	$ 86,951	$ 112,135	$ 736,126
Total assets	$ 1,562,240	$ 520,608	$ 257,374	$ 2,340,222

As of and for the Nine Months Ended September 30, 2022	Asia	Americas	Europe	Consolidated
Total sales	$ 1,388,493	$ 981,317	$ 262,556	$ 2,632,366
Intercompany elimination	(525,306)	(513,814)	(88,878)	(1,127,998)
Net sales	$ 863,187	$ 467,503	$ 173,678	$ 1,504,368
Property, plant and equipment, net	$ 500,534	$ 96,691	$ 101,227	$ 698,452
Total assets	$ 1,614,300	$ 509,439	$ 238,825	$ 2,362,564

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

	For the Three Months Ended September 30,	
Net Sales by Region	**2023**	**2022**
Asia	$ 292,968	$ 383,236
Europe	73,555	77,162
Americas	38,124	60,875
Total net sales	$ 404,647	$ 521,273
Net Sales by Type		
Direct sales	$ 137,661	$ 153,732
Distributor sales	266,986	367,541
Total net sales	$ 404,647	$ 521,273

	For the Nine Months Ended September 30,	
Net Sales by Region	**2023**	**2022**
Asia	$ 930,891	$ 1,120,107
Europe	242,783	209,965
Americas	165,366	174,296
Total net sales	$ 1,339,040	$ 1,504,368
Net Sales by Type		
Direct sales	$ 416,689	$ 449,399
Distributor sales	922,351	1,054,969
Total net sales	$ 1,339,040	$ 1,504,368

Net sales from products shipped to China was $189.7 million and $246.2 million for the three months ended September 30, 2023 and 2022, respectively. Net sales from products shipped to China was $541.3 million and $717.2 million for the nine months ended September 30, 2023 and 2022, respectively.

NOTE 8 – Debt

Short-term debt

Our Asia subsidiaries maintain credit facilities with several financial institutions through our foreign entities worldwide totaling $139.2 million. Other than two Taiwanese credit facilities that are collateralized by assets, our foreign credit lines are unsecured, uncommitted and contain no restrictive covenants. These credit facilities bear interest at SOFR or similar indices plus a specified margin. Interest payments are due monthly on outstanding amounts under the credit lines. The unused and available credit under the various facilities as of September 30, 2023, was approximately $109.4 million, net of $29.4 million advanced under our foreign credit lines and $0.4 million credit used for import and export guarantee.

Long-term debt

On May 26, 2023, the Company, Diodes Holdings UK Limited (the "Foreign Borrower" and, collectively with the Company, the "Borrowers"), and certain subsidiaries of the Company as guarantors, entered into a Third Amended and Restated Credit Agreement (the "Credit Agreement") that amends and restates that certain Second Amended and Restated Credit Agreement dated as of May 29, 2020 (as amended, modified and/or supplemented from time to time prior to the date of the Credit Agreement, the "Existing Credit Agreement"). Certain capitalized terms used in this description of the Credit Agreement have the meanings given to them in the Credit Agreement, which is attached as Exhibit 10.1 to our Current Report on Form 8-K that we filed with the SEC on June 2, 2023.

The Existing Credit Agreement consisted of a term loan with no outstanding balance as of the date of the Credit Agreement and a $225.0 million revolving senior credit facility with nothing drawn as of the date of the Credit Agreement.

The Credit Agreement, which represented a complete amendment and restatement of the Existing Credit Agreement, consists of a Revolving Credit Facility in the amount of $225.0 million, including a swing line sublimit equal to the lesser of $50.0 million and the Revolving Credit Facility, a letter of credit sublimit equal to the lesser of $100.0 million and the Revolving Credit Facility, and an alternative currency sublimit equal to the lesser of $40.0 million and the Revolving Credit Facility. The Borrowers have the option to increase the Revolving Facility and/or incur Incremental Term Loans in an aggregate principal amount of up to $350.0 million. The Revolving Credit Facility bears interest at Term SOFR or similar other indices plus a specified margin. The Credit Agreement contains certain financial and non-financial covenants, including, but not limited to, a maximum Consolidated Leverage Ratio, a minimum Consolidated Interest Coverage Ratio, and restrictions on liens, indebtedness, investments, fundamental changes, dispositions, and restricted payments (including dividends and share repurchases). Furthermore, under the Credit Agreement, restricted payments, including dividends and share repurchases, are permitted in certain circumstances, including while the pro forma Consolidated Leverage Ratio is, both before and after giving effect to any such restricted payment, at least 0.25 to 1.00 less than the maximum permitted under the Credit Agreement.

The Revolving Credit Facility matures on May 26, 2028. The Company plans to use a portion of the proceeds available under the Credit Agreement (i) to refinance certain existing indebtedness of the Borrowers and their subsidiaries under the Existing Credit Agreement and (ii) for working capital, capital expenditures, and other general corporate purposes, including, without limitation, financing permitted acquisitions.

Borrowings outstanding as of September 30, 2023 and December 31, 2022, are set forth in the table below:

Description	September 30, 2023	December 31, 2022	Interest Rate	Current Amount Maturity
Short-term debt	$ 29,429	$ 36,280	Various indices plus margin	Various during 2023 & 2024
Long-term debt				
Notes payable to Bank of Taiwan	1,848	2,063	2-yr deposit rate floating plus 0.1148%	June-2033
Notes payable to Bank of Taiwan	1,549	1,628	2-yr deposit rate floating plus 0.082%	September-2025
Notes payable to CTBC Bank	3,098	3,256	TAIBOR 3M plus 0.5%	December-2024
Notes payable to CTBC Bank	12,647	13,840	TAIBOR 3M plus 0.5%	May-2028
Notes payable to E Sun Bank	3,098	3,256	1-M deposit rate floating plus 0.08%	December-2024
Notes payable to E Sun Bank	221	276	1-M deposit rate floating plus 0.08%	July-2027
Notes payable to E Sun Bank	1,308	1,516	1-M deposit rate floating plus 0.08%	July-2027
Notes payable to HSBC	-	105,000	1M SOFR+Margin	January-2025
Notes payable to HSBC	-	18,558	1M SOFR+Margin	January-2025
Notes Payable to E Sun Bank	-	166	2-yr deposit rate plus annual rate floating	September-2023
Notes Payable to Taishin International Bank	-	43	Annual rate plus cost of capital	April-2023
Notes Payable to Taishin International Bank	-	11	Fixed annual rate	April-2023
Notes Payable to Taishin International Bank	-	217	Fixed annual rate	April-2024
Notes payable to Chang Hwa Bank	-	518	2-yr deposit rate floating plus 1.405% - 1.655%	June-July 2026
Total long-term debt	23,769	150,348		
Less: Current portion of long-term debt	(1,124)	(1,693)		
Less: Unamortized debt costs	-	(1,185)		
Total long-term debt, net of current portion	$ 22,645	$ 147,470		

NOTE 9 – Commitments and Contingencies

Purchase commitments – We have entered into non-cancelable purchase contracts for capital expenditures, primarily for manufacturing equipment, for approximately $37.7 million at September 30, 2023. As of September 30, 2023, we also had a commitment to purchase approximately $68.7 million of wafers to be used in our manufacturing process. These wafer purchases are scheduled to occur through 2025.

Defined Benefit Plan - We have a contributory defined benefit plan that covers certain employees in the United Kingdom. As of September 30, 2023, the underfunded liability for this defined benefit plan was approximately $10.0 million. We have agreed to a revised schedule of contributions of GBP 2.0 million (approximately $2.4 million based on a GBP: USD exchange rate of 1:1.2) to be paid annually with effect from January 1, 2023 to address the deficit revealed by the valuation (with the annual payments to be made by December 31, 2023 through December 31, 2028. A final payment of GBP 1.5 million (approximately $1.8 million based on a GBP: USD rate of 1:1.3) will be made by December 31, 2029.

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

Note 10 – Derivative Financial Instruments

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

Hedges of Foreign Currency Risk - We are exposed to fluctuations in various foreign currencies against our different functional currencies. We use foreign currency forward agreements to manage this exposure. As of September 30, 2023 and December 31, 2022, we had $220.3 million and $183.1 million, respectively, of outstanding foreign currency forward agreements that are intended to preserve the economic value of foreign currency denominated monetary assets and liabilities; these instruments are not designated for hedge accounting treatment in accordance with Accounting Standards Codification ("ASC") No. 815.

Hedges of Interest Rate and Net Investment Risk -The Company's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish these objectives, the Company primarily uses interest rate swaps, including interest rate collars, as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. The Company makes use of cross-currency swaps and foreign-currency forward contracts to decrease the foreign exchange risk inherent in the Company's investment in some of its foreign subsidiaries.

The table below sets forth the fair value of the Company's derivative financial instruments as well as their classification on our condensed consolidated balance sheets as of September 30, 2023 and December 31, 2022:

	Fair Value			
	Other Assets		Other Liabilities	
	2023	2022	2023	2022
Cross-currency swaps	$ 7,285	$ 1,427	$ 7,190	$ 6,314
Foreign-currency forward contracts	-	-	7,285	-

NOTE 11 – Leases

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Operating lease expense	$ 3,184	$ 3,265	$ 9,788	$ 10,124
Finance lease expense:				
Amortization of assets	9	4	24	9
Interest on lease liabilities	1	–	2	–
Short-term lease expense	583	231	1,288	757
Variable lease expense	1,134	855	3,215	2,692
Total lease expense	$ 4,911	$ 4,355	$ 14,317	$ 13,582

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

	September 30, 2023	December 31, 2022
Operating leases:		
Operating lease ROU assets	$ 51,805	$ 43,907
Current operating lease liabilities	8,498	7,390
Noncurrent operating lease liabilities	27,942	20,765
Total operating lease liabilities	$ 36,440	$ 28,155
Finance leases:		
Finance lease ROU assets	$ 2,625	$ 2,618
Accumulated amortization	(2,559)	(2,542)
Finance lease ROU assets, net	$ 66	$ 76
Current finance lease liabilities	$ 35	$ 30
Non-current finance lease liabilities	31	46
Total finance lease liabilities	$ 66	$ 76
Weighted average remaining lease term (in years):		
Operating leases	7.7	8.2
Finance leases	2.0	2.6
Weighted average discount rate:		
Operating leases	4.1%	4.2%
Finance leases	3.6%	3.6%

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

	Nine Months Ended	
	September 30, 2023	September 30, 2022
Cash paid for the amounts included in the measurements of lease liabilities:		
Operating cash outflows from operating leases	$ 14,295	$ 14,104
Operating cash outflows from finance leases	2	–
Financing cash outflow from finance leases	34	61
ROU assets obtained in exchange for lease liabilities incurred:		
Operating leases	13,360	6,845

The table below sets forth information about lease liability maturities:

	September 30, 2023	
	Operating Leases	Finance Leases
2023	$ 2,745	$ 9
2024	9,304	36
2025	7,965	21
2026	6,208	2
2027	3,868	-
2028	1,854	-
2029 and thereafter	11,260	-
Total lease payments	43,204	68
Less: imputed interest	(6,764)	(2)
Total lease obligations	36,440	66
Less: current obligations	(8,498)	(35)
Long-term lease obligations	$ 27,942	$ 31

NOTE 12 – Employee Benefit Plans

We maintain a Non-Qualified Deferred Compensation Plan (the "Deferred Compensation Plan") for executive officers, key employees and members of the Board of Directors. The Deferred Compensation Plan allows eligible participants to defer the receipt of eligible compensation, including equity awards, until designated future dates. We offset our obligations under the Deferred Compensation Plan primarily by investing in the actual underlying investments. At September 30, 2023 and December 31, 2022, these investments totaled approximately $13.5 million and $12.1 million, respectively.

NOTE 13 – Related Parties

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

Keylink is a 5% joint venture partner in our Shanghai assembly and test facilities. We sell products to, and purchase inventory from, companies owned by Keylink. In addition, our subsidiaries in China lease their manufacturing facilities in Shanghai from, and subcontract a portion of our manufacturing process (metal plating and environmental services) to Keylink. We also pay a consulting fee to Keylink.

We purchase wafers from Nuvoton for use in our production process and we have an agreement to purchase approximately $21.4 million of wafers from Nuvoton that ends in the fourth quarter of 2025. We consider our relationships Nuvoton to be mutually beneficial and plan to continue our strategic alliance with Nuvoton.

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Keylink:				
Net sales	$ 3,630	$ 4,760	$ 10,118	$ 14,675
Purchases	$ 404	$ 608	$ 1,123	$ 1,536
Plating, rental and consulting expense	$ 4,117	$ 4,803	$ 12,797	$ 13,768
Nuvoton:				
Net sales	$ 9	$ 76	$ 16	$ 119
Purchases	$ 2,837	$ 3,526	$ 8,281	$ 10,686
JCP:				
Purchases	$ 72	$ 86	$ 206	$ 456

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

	September 30, 2023	December 31, 2022
Keylink:		
Accounts receivable	$ 35,906	$ 40,510
Accounts payable	$ 34,283	$ 33,733
Nuvoton:		
Accounts receivable	$ 4	$ 30
Accounts payable	$ 1,704	$ 2,859
JCP:		
Accounts payable	$ 74	$ 133

Note 14 - Equity Investments

The Company maintains equity investments in companies which are accounted for under the measurement alternative described in ASC 321-10-35-2 for equity securities that lack readily determinable fair values. As of September 30, 2023, the Company had $55.6 million of investments accounted for under the measurement alternative. During the nine months ended September 30, 2023 and September 30, 2022, the Company recognized upward adjustments in value of $15.3 million and $3.9 million, respectively, for a cumulative total of upward adjustments of $19.2 million on these investments. These adjustments were based on the valuation of additional equity issued by the investee which was deemed to be an observable transaction of a similar investment under ASC 321. The upward adjustments were recorded within other income, in the condensed consolidated statement of operations. The upward fair value adjustment represents a nonrecurring fair value measurement based on observable price changes.

Variable Interest Entities

The Company determines at the inception of each arrangement whether an entity in which it has made an investment or in which the Company has other variable interests is considered a variable interest entity (“VIE”). The Company consolidates VIEs when it is the primary beneficiary. The Company is the primary beneficiary of a VIE when it has the power to direct activities that most significantly affect the economic performance of the VIE and has the obligation to absorb the majority of their losses or benefits. If the Company is not the primary beneficiary of a VIE, the Company accounts for the investment or other variable interests in a VIE in accordance with applicable GAAP. Each reporting period, the Company assesses whether any changes in our interest or relationship with the entity affect our determination of whether the entity is a VIE and, if so, whether the Company is the primary beneficiary.

Unconsolidated Variable Interest Entity

During July 2021, the Company acquired an interest in an early stage privately held fabless wafer design company (“PWDC”), located in the western United States. The Company’s initial investment in July 2021 was $10.0 million of preferred stock and a $5.0 million convertible promissory note. In May 2023, the Company acquired an additional interest in PWDC by purchasing $13.9 million of preferred stock. As part of the May 2023 agreement, the Company’s previously held convertible note converted to $5.2 million of preferred stock and as of September 30, 2023, the Company owns more than 50% of PWDC. The Company determined that PWDC is a VIE and while the Company does no business with PWDC, other than the investment transactions described above, the Company determined that PWDC is a related party. The Company does not have the power to direct the activities that most significantly impact PWDC, and therefore, has determined that the Company is not the primary beneficiary. As the Company is not the primary beneficiary of PWDC, the Company did not consolidate the assets and liabilities of the PWDC in our financial statements and instead accounted for the investment under the measurement alternative described in ASC 321-10-35-2 using the available measurement alternative for equity securities that lack readily determinable fair value. As such, the Company’s investment is measured at cost less impairment, and adjusted to fair value if there are any observable price changes for identical or similar investment of the same issuer.

As a result of entering into an additional interest in PWDC in May 2023, the Company recorded an upward adjustment of $15.3 million during the nine months ended September 30, 2023. PWDC is funded through debt and equity. The Company's maximum exposure to loss is limited to its investment in PWDC and notes receivable and accrued interest owed to the Company from the PWDC.

The following is a summary of the Company’s holdings in the VIE, in which we are not the primary beneficiary:

	September 30, 2023	December 31, 2022
Privately Held Wafer Design Company ("PWDC")		
VIE total assets	$ 25,134	$ 13,671
VIE total liabilities	379	6,625
Diodes' equity in VIE	$ 44,420	$ 10,000
Diodes' note receivable from VIE	-	5,000
Diodes' interest receivable from VIE	-	222
Diodes' maximum exposure to loss	$ 44,420	$ 15,222

Note 15 –Acquisitions and Divestitures

Wafer Fabrication Plant in South Portland, Maine

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

Assets	
Spare parts and inventories	$ 1,257
Prepaid expenses	257
Property, plant and equipment	77,115
Goodwill	1,779
Total assets purchased	$ 80,408

Note 16 –Restructuring Costs

In the three months ended September 30, 2023, the Company began the process to consolidate certain activities performed at one of its foreign locations.

The table below sets forth the restructuring costs, recorded in restructuring expense in the condensed consolidated statements of operations, incurred during the three and nine months ended September 30, 2023 and 2022:

	Three Months Ended		Nine Months Ended	
	2023	2022	2023	2022
Asset impairment	$ 582	$ -	$ 582	$ -
Contract termination	405	-	405	-
Employee severance	1,139	-	1,139	-
Other	440	-	440	-
	$ 2,566	$ -	$ 2,566	$ -

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

	Asset Impairment	Contract Termination	Employee Severance	Other	Total
Beginning balance, December 31, 2022	$ -	$ -	$ -	$ -	$ -
Costs accrued	582	405	1,139	440	2,566
Costs paid	-	-	(1,139)	(115)	(1,254)
Ending balance, September 30, 2023	$ 582	$ 405	$ -	$ 325	$ 1,312

In connection with the restructuring, the Company recorded approximately $0.1 million to assets held for sale. Assets held for sale are in included in prepaid expenses and other in the condensed consolidated balance sheet.

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

Except for the historical information contained herein, the matters addressed in this Item 2 constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and as identified under the heading "Cautionary Statement for Purposes of the "Safe Harbor" Provision of the Private Securities Litigation Reform Act of 1995" herein. Such forward-looking statements are subject to a variety of risks and uncertainties, including those discussed below under the heading "Risk Factors" and elsewhere in this Quarterly Report on Form 10-Q, that could cause actual results to differ materially from those anticipated by our management. The Private Securities Litigation Reform Act of 1995 (the "PSLRA") provides certain "safe harbor" provisions for forward-looking statements. All forward-looking statements made in this Quarterly Report on Form 10-Q are made pursuant to the PSLRA. We undertake no obligation to publicly release the results of any revisions to our forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unexpected events. Unless the context otherwise requires, the words "Diodes," the "Company," "we," "us" and "our" refer to Diodes Incorporated and its subsidiaries. Dollar amounts and share amounts are presented in thousands, except per share amounts, unless otherwise noted.

This management's discussion should be read in conjunction with the management's discussion included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022 ("Form 10-K"), previously filed with Securities and Exchange Commission ("SEC") on February 10, 2023.

Overview

We are a leading global manufacturer and supplier of high-quality application-specific standard products within the broad discrete, logic, analog, and mixed-signal semiconductor markets. The Company serves the industrial, automotive, computing, communications and consumer markets. For detailed information, see Note 1 – **S**ummary of Operations and Significant Accounting Policies, included in the condensed consolidated financial statements in Item 1 above. Our products are sold primarily throughout Asia, the Americas and Europe. We believe that our focus on application-specific standard products utilizing innovative, highly efficient packaging and cost-effective process technologies, coupled with our collaborative, customer-focused product development, provides us with a meaningful competitive advantage relative to other semiconductor companies.

Summary for the Three Months Ended September 30, 2023

- Net sales were $404.6 million, a decrease of 22.4% from the $521.3 million in the third quarter 2022 and a decrease of 13.4% from the $467.2 million in the second quarter 2023;
- Gross profit was $155.9 million, a decrease of 28.4% from the $217.8 million in the third quarter 2022 and a decrease of 20.2% from the $195.4 million in the second quarter 2023;
- Gross profit margin was 38.5%, compared to 41.8% in the third quarter 2022 and the second quarter of 2023;
- Net income attributable to common stockholders was $48.7 million, compared to $86.4 million in the third quarter 2022 and $82.0 million in the second quarter 2023;
- Earnings per share attributable to common stockholders was $1.05 per diluted share, compared to $1.88 per diluted share in the third quarter 2022 and $1.77 per diluted share in the second quarter of 2023; and
- We achieved $50.1 million cash flow from operations. We had cash capital expenditures of $38.5 million, or 9.5% of net sales and a decrease in debt of $35.3 million.

COVID-19

We remain focused on the safety and well-being of our stakeholders and on the service to our customers. We will continuously review and assess the rapidly-changing COVID-19 pandemic and its impacts on our customers, our suppliers and our business so that we can seek to address those impacts. COVID-19 has caused disruptions in the supply chain, creating worldwide shortages and delays in receiving goods and products. These shortages and delays have led to increased inflation and could result in a world-wide recession.

As of September 30, 2023, our cash, cash equivalents, and short-term investments were $304.9 million, and we had access to additional borrowing capacity of $225.0 million under the revolving portion of our U.S. Credit Agreement, which we believe assures us adequate liquidity to manage the impacts of the COVID-19 pandemic on our business and to cover cash needs for working capital, capital expenditures and acquisitions for at least the next 12 months.

Results of Operations for the Three Months Ended September 30, 2023 and 2022

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

	Percent of Net Sales Three Months Ended September 30,	
	2023	2022
Net sales	100 %	100 %
Cost of goods sold	(61)	(58)
Gross profit	39	42
Total operating expense	(25)	(20)
Income from operations	13	22
Total other income (expense)	2	(1)
Income before income taxes and noncontrolling interest	15	21
Income tax provision	(3)	(4)
Net income	12	17
Net income attributable to common stockholders	12	17

The following table and discussion explains in greater detail our consolidated operating results and financial condition for the three months ended September 30, 2023, compared to the three months ended September 30, 2022. This discussion should be read in conjunction with the condensed consolidated financial statements and notes thereto appearing elsewhere in this Quarterly Report on Form 10-Q.

	Three Months Ended September 30,			
	2023	2022	Increase/(Decrease)	% Change
Net sales	$ 404,647	$ 521,273	$ (116,626)	(22.4 %)
Cost of goods sold	248,771	303,455	(54,684)	(18.0 %)
Gross profit	155,876	217,818	(61,942)	(28.4 %)
Total operating expense	102,002	105,372	(3,370)	(3.2 %)
Interest income	4,507	862	3,645	422.9 %
Interest expense	(898)	(2,724)	(1,826)	(67.0 %)
Foreign currency gain (loss), net	1,314	(1,008)	2,322	230.4 %
Unrealized gain (loss) on investments	401	(2,648)	3,049	115.1 %
Other income	1,309	2,218	(909)	(41.0 %)
Income tax provision	10,674	20,172	(9,498)	(47.1 %)

Net sales decreased approximately $116.6 million, or 22.4%, for the three months ended September 30, 2023, compared to the same period last year due to weaker than expected end-customer demand in the consumer, computing and communications markets as well as overall weakness in the China market. During the three months ended September 30, 2023, weighted-average sales price decreased 16.2%, when compared to the same period in 2022.

The table below sets forth our product revenue as a percentage of total product revenue by end-user market for the three months ended September 30, 2023 and 2022:

	Three Months Ended September 30,	
	2023	2022
Industrial	26%	28%
Automotive	19%	16%
Computing	25%	23%
Consumer	18%	18%
Communications	12%	15%

Cost of goods sold decreased approximately $54.7 million for the three months ended September 30, 2023, compared to the same period last year, due to the decreased net sales during the three months ended September 30, 2023. As a percent of sales, cost of goods sold was 61.5% for the three months ended September 30, 2023, compared to 58.2% for the same period last year. Average unit cost decreased approximately 11.5% for the three months ended September 30, 2023, compared to the same period last year. For the three months ended September 30, 2023, gross profit decreased approximately 28.4% when compared to the same period last year. Gross profit margin for the three month periods ended September 30, 2023 and 2022 was 38.5% and 41.8%, respectively.

Operating expenses for the three months ended September 30, 2023, decreased $3.4 million when compared to the three months ended September 30, 2022. Operating expenses as a percentage of net sales was 25.2% and 20.2% for the three months ended September

30, 2023 and 2022, respectively. Selling, general and administrative expenses ("SG&A") decreased approximately $5.6 million as compared to the same period last year driven primarily by decreases in wages and benefits and freight and duty costs. These decreases were partially offset by increases in professional services and selling expenses. Research and development expenses ("R&D") increased approximately $1.3 million due to increases in supplies and depreciation as compared to the same period last year. SG&A, as a percentage of net sales, was 15.6% and 13.1% for the three months ended September 30, 2023 and 2022, respectively. R&D, as a percentage of net sales, was 8.4% and 6.3% for the three months ended September 30, 2023 and 2022, respectively. We incurred restructuring expense of $2.6 million for the three months ended September 30, 2023 due to the Company consolidating certain of its foreign operations. We had not restructuring expense in the same period last year. Other operating income (expense) for the three months ended September 30, 2023 changed to income of $1.4 million in the three months ended September 30, 2023, from an expense of $0.1 million for the three months ended September 30, 2022, due to gains on the disposal of fixed assets.

Interest income increased $3.6 million for the three months ended September 30, 2023, compared to the same period last year due to income earned on financial instruments to hedge the Company's net investment risk as well as higher interest rates earned, partially offset by lower cash balances. Interest expense decreased $1.8 million, or 67.0% for the three months ended September 30, 2023, compared to the same period last year due to lower debt levels partially offset by higher interest rates.. Unrealized gain on investments increased from 2022 due to mark to market adjustments on investments.

We recognized an income tax expense of approximately $10.7 million and $20.2 million for the three months ended September 30, 2023, and 2022, respectively. The decrease in income taxes for 2023 compared to 2022 was primarily attributable to a decrease in pretax book income and the impact of changes to the outside basis difference in foreign subsidiaries where the Company does not assert permanent reinvestment.

Results of Operations for the nine months Ended September 30, 2023 and 2022

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

	Percent of Net Sales Nine Months Ended September 30, 2023	Percent of Net Sales Nine Months Ended September 30, 2022
Net sales	100 %	100 %
Cost of goods sold	(59)	(59)
Gross profit	41	41
Total operating expense	(24)	(21)
Income from operations	17	21
Total other income (expense)	2	(1)
Income before income taxes and noncontrolling interest	19	20
Income tax provision	(3)	(4)
Net income	15	16
Net income attributable to common stockholders	15	16

The following table and discussion explains in greater detail our consolidated operating results and financial condition for the nine months ended September 30, 2023, compared to the nine months ended September 30, 2022. This discussion should be read in conjunction with the condensed consolidated financial statements and notes thereto appearing elsewhere in this Quarterly Report on Form 10-Q.

	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022	Increase/(Decrease)	% Change
Net sales	$ 1,339,040	$ 1,504,368	$ (165,328)	(11.0 %)
Cost of goods sold	793,334	883,327	(89,993)	(10.2 %)
Gross profit	545,706	621,041	(75,335)	(12.1 %)
Total operating expense	315,838	309,299	6,539	2.1 %
Interest income	8,503	2,549	5,954	233.6 %
Interest expense	(5,219)	(5,428)	(209)	(3.9 %)
Foreign currency (loss) gain	(2,796)	2,532	5,328	210.4 %
Unrealized gain (loss) on investments	16,462	(15,960)	32,422	203.1 %
Other income	3,237	5,741	(2,504)	(43.6 %)
Income tax provision	44,514	55,279	(10,765)	(19.5 %)

Net sales decreased approximately $165.3 million, or 11.0%, for the nine months ended September 30, 2023, compared to the same period last year. This decrease was the result of an economic slowdown resulting in less demand for our products. During the nine months ended September 30, 2023, weighted-average sales price increased 2.6%, when compared to the same period in 2022.

The table below sets forth our product revenue as a percentage of total product revenue by end-user market for the nine months ended September 30, 2023 and 2022:

	Nine Months Ended September 30,	
	2023	**2022**
Industrial	28%	27%
Automotive	19%	14%
Computing	23%	25%
Consumer	18%	18%
Communications	12%	16%

Cost of goods sold decreased approximately $90.0 million for the nine months ended September 30, 2023, compared to the same period last year, due to the decreased net sales during the nine months ended September 30, 2023. As a percent of sales, cost of goods sold was 59.2% for the nine months ended September 30, 2023, compared to 58.7% for the same period last year. Average unit cost increased approximately 3.6% for the nine months ended September 30, 2023, compared to the same period last year due to cost increases from various subcontractors and foundries and the improvement in product mix. For the nine months ended September 30, 2023, gross profit decreased approximately 12.1% when compared to the same period last year. Gross profit margin for the nine month periods ended September 30, 2023 and 2022 was 40.8% and 41.3%, respectively.

Operating expenses for the nine months ended September 30, 2023, increased $6.5 million when compared to the nine months ended September 30, 2022. Operating expenses as a percentage of net sales was 23.6% and 20.6% for the nine months ended September 30, 2023 and 2022, respectively. SG&A decreased approximately $7.6 million as compared to the same period last year due to decreases in wages and benefits and freight and duty costs. These decreases were partially offset by increases in professional services and other selling expenses. R&D increased approximately $9.7 million due to increases in materials, supplies, wages and benefits and depreciation, partially offset by decreases in professional services fees as compared to the same period last year. SG&A, as a percentage of net sales, was 15.0% and 13.9% for the nine months ended September 30, 2023 and 2022, respectively. R&D, as a percentage of net sales, was 7.6% and 6.1% for the nine months ended September 30, 2023 and 2022, respectively. We incurred restructuring expense of $2.6 million for the nine months ended September 30, 2023 due to the Company consolidating certain of its foreign operations. We had no restructuring expense in the same period last year.

Interest income increased $6.0 million, or 233.6% for the nine months ended September 30, 2023, compared to the same period last year due income to on financial instruments used in the Company's net investment hedging program, as well as higher interest rates and increased investment levels. Interest expense decreased $0.2 million, or 3.9% for the nine months ended September 30, 2023, compared to the same period last year, due to lower debt levels. Unrealized gain on investments increased from 2022 due to mark to market adjustments on investments.

We recognized an income tax expense of approximately $44.5 million and $55.3 million for the nine months ended September 30, 2023 and 2022, respectively. The decrease in income taxes for 2023 compared to 2022 was primarily attributable to a decrease in pretax book income and the impact of changes to the outside basis difference in foreign subsidiaries where the Company does not assert permanent reinvestment.

Financial Condition

Liquidity and Capital Resources

Our primary source of liquidity is cash flow from operations. Additional sources of liquidity are cash and cash equivalents, short-term investments and our credit facilities. Our cash and cash equivalents and restricted cash decreased from $341.1 million at December 31, 2022 to $297.6 million at September 30, 2023. This decrease in cash, cash equivalents and restricted cash reflects normal operations of the Company. As of September 30, 2023, we had short-term investments totaling $9.9 million. These investments are highly liquid with maturity dates greater than three months at the date of purchase. We generally can access these investments in a relatively short time frame but in doing so we generally forfeit all earned and future interest income.

At September 30, 2023 and December 31, 2022, our working capital was $767.7 million and $729.1 million, respectively. We expect cash generated by our operations together with existing cash, cash equivalents, short-term investments and available credit facilities to be sufficient to cover cash needs for working capital, capital expenditures and acquisitions for at least the next 12 months.

Our undistributed foreign earnings continue to be indefinitely reinvested in foreign operations, with limited exceptions related to earnings of certain European and Asian subsidiaries. As of September 30, 2023, our foreign subsidiaries held approximately $215.4 million of cash, cash equivalents and investments of which approximately $46.7 million would be subject to a potential non-U.S.

withholding tax if distributed outside the country in which the cash is currently held. The $46.7 million is held in Germany, China, Korea, and Taiwan.

Short-term debt

Our Asia subsidiaries maintain credit facilities with several financial institutions through our foreign entities worldwide totaling $139.2 million. At September 30, 2023, outstanding borrowings were $29.4 million and outstanding letters of credit were $0.4 million under the Asia credit facilities.

Long-term debt

The Company maintains a long-term credit facility (“U.S. Credit Agreement”) consisting of a $225.0 million revolving senior credit facility, with no outstanding balance at September 30, 2023. The U.S. Credit Agreement matures in May 2028.

In addition to the liquidity provided by the U.S. Credit Agreement, our 51% owned subsidiary, Eris Technology Company ("ERIS"), borrowed $23.7 million on a long-term basis from local Taiwan banks. The ERIS debt matures in periods through 2033.

Because some of our outstanding debt is subject to variable interest rates, the recent rise in interest rates will potentially increase our overall debt service cost. If interest rates continue to rise globally, our cost of capital may increase in the future.

Discussion of Cash Flow

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

	Nine Months Ended September 30,	
	2023	2022
Net cash flows provided by operating activities	$ 242,522	$ 289,566
Net cash and cash equivalents used in investing activities	(129,371)	(225,600)
Net cash and cash equivalents used in financing activities	(150,678)	(11,377)
Effect of exchange rate changes on cash and cash equivalents	(5,935)	(33,575)
Change in cash and cash equivalents, including restricted cash	$ (43,462)	$ 19,014

Operating Activities

Net cash flows provided by operating activities for the nine months ended September 30, 2023 was $242.5 million. Net cash flows provided by operating activities for the nine months ended September 30, 2023 resulted from net income of $205.5 million, depreciation and amortization of intangible assets of $102.7 million and share-based compensation of $23.4 million. The increases were partially offset by a decrease in operating asset and liability accounts of $65.3 million and a non-cash investment gain of $17.6 million. Net cash flows provided by operating activities for the nine months ended September 30, 2022 was $289.6 million. Net cash flows provided by operating activities for the nine months ended September 30, 2022 resulted from net income of $245.9 million, depreciation and amortization of intangible assets of $93.4 million and share-based compensation of $26.7 million. The increases were partially offset by a decrease in operating asset and liability accounts of $82.2 million.

Investing Activities

Net cash and cash equivalents used in investing activities was $129.4 million for the nine months ended September 30, 2023. Net cash and cash equivalents used in investing activities for the nine months ended September 30, 2023 was primarily due to purchases of property, plant and equipment of $123.5 million, or 9.2% of net sales, due to the expansion of a wafer fabrication facility located in Hsinchu Science Park in Taiwan and the additional investment of $13.9 million in a privately held wafer design company. We expect capital expenditures for the twelve months ended December 31, 2023 to be within our target model. Net cash and cash equivalents used in investing activities was $225.6 million for the nine months ended September 30, 2022. Net cash and cash equivalents used in investing activities for the nine months ended September 30, 2022 was primarily due to purchases of property, plant and equipment of $147.9, or 9.8% of net sales, and the acquisition of SPFAB for $80.4 million.

Financing Activities

Net cash and cash equivalents used in financing activities was $150.7 million for the nine months ended September 30, 2023. Net cash used in financing activities in the nine months ended September 30, 2023 consisted primarily of $130.4 million of net reductions in our debt and taxes paid on net share settlements of $15.6 million. Net cash and cash equivalents used in financing activities was $11.4 million for the nine months ended September 30, 2022. Net cash used in financing activities in the nine months ended September 30, 2022 consisted primarily of $1.8 million of net increases in our debt offset by $12.3 million in taxes paid on net share settlements.

Use of Derivative Instruments and Hedging

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

Hedges of Interest Rate Risk

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

Hedges of Foreign Currency Risk

We are exposed to fluctuations in various foreign currencies against our different functional currencies. We use foreign currency forward agreements to manage this exposure and to preserve the economic value of foreign currency denominated monetary assets and liabilities; these instruments are not designated for hedge accounting treatment in accordance with ASC No. 815. The fair value of our foreign exchange hedges approximates zero.

Off-Balance Sheet Arrangements

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

Contractual Obligations

There have been no material changes in our Contractual Obligations as disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022, filed with the SEC on February 10, 2023.

Critical Accounting Estimates

Our critical accounting estimates are described in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, and in the notes to our consolidated financial statements contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022, filed with the SEC on February 10, 2023. Any new accounting estimates or updates to existing accounting estimates as a result of new accounting pronouncements have been discussed in the notes to our condensed consolidated financial statements in this Quarterly Report on Form 10-Q in Note 1 – Summary of Operations and Significant Accounting Policies. The application of our critical accounting estimates may require management to make judgments and estimates about the amounts reflected in the condensed consolidated financial statements. Management uses historical experience and all available information to make these estimates and judgments, and different amounts could be reported using different assumptions and estimates.

Recently Issued Accounting Pronouncements

See Note 1 - Summary of Operations and Significant Accounting Policies, of the Notes to Condensed Consolidated Financial Statements, for detailed information regarding the status of recently issued accounting pronouncements, if any.

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

Except for the historical information contained herein, the matters addressed in this Quarterly Report on Form 10-Q constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act of 1934. We generally identify forward-looking statements by the use of terminology such as "may," "will," "could," "should," "potential," "continue," "expect," "intend," "plan," "estimate," "anticipate," "believe," or similar phrases or the negatives of such terms. Such forward-looking statements are subject to a variety of risks and uncertainties, including those discussed under "Risk Factors" and elsewhere in this Quarterly Report on Form 10-Q, and in other reports we file with the SEC from time to time, that could cause actual results to differ materially from those anticipated by our management. The PSLRA provides certain "safe harbor" provisions for forward-looking statements. All forward-looking statements made in this Quarterly Report on Form 10-Q are made pursuant to the PSLRA.

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

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

Risk Factors

RISKS RELATED TO OUR BUSINESS

The impact of the continuing COVID-19 pandemic may have a material adverse effect on our business, financial condition and results of operations.

Shanghai, China experienced government imposed lockdowns due to a resurgence of the COVID-19 virus.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

If our direct sales customers or our distributors' customers do not design our products into their applications, our net sales may be adversely affected.

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

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

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

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

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

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

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

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

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

RISKS RELATED TO OUR INTERNATIONAL OPERATIONS

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

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

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

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

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

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

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

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

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

RISKS RELATED TO OUR COMMON STOCK

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

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

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

GENERAL RISK FACTORS

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

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

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

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

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There have been no material changes to our market risks as disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022, filed with the SEC on February 10, 2023.

Item 4. Controls and Procedures.

Our Chief Executive Officer, Keh-Shew Lu, and Chief Financial Officer, Brett R. Whitmire, with the participation of our management, carried out an evaluation, as of September 30, 2023, of the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)). Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer believe that, as of the end of the period covered by this Quarterly Report on Form 10-Q, our disclosure controls and procedures are effective at the reasonable assurance level to ensure that information required to be included in this Quarterly Report is:

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

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

Changes in Internal Controls over Financial Reporting

There was no change in our internal control over financial reporting, known to our Chief Executive Officer or Chief Financial Officer, that occurred in the three months ended September 30, 2023, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

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

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

Item 1A. Risk Factors.

There have been no material changes to our risk factors from those disclosed in the Risk Factors section of our Annual Report on Form 10-K for the year ended December 31, 2022, filed with the Securities and Exchange Commission on February 10, 2023.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

Number	Description	Form	Date of First Filing	Exhibit Number	Filed Herewith
3.1	Certificate of Incorporation, as amended	10-K	February 20, 2018	3.1	
3.2	Amended By-laws of the Company as of January 6, 2016	8-K	January 11, 2016	3.1	
4.1	Form of Certificate for Common Stock, par value $0.66 2/3 per share	S-3	August 25, 2005	4.1	
10.1	Third Amended and Restated Credit Agreement, dated as of May 26, 2023, by and among Diodes Incorporated, Diodes Holding UK Limited, Diodes Zetex Limited, Diodes US Manufacturing Incorporated, Bank of America, N.A., as Administrative Agent, Lender, L/C Issuer, and Swing Line Lender, and the other Lenders party thereto.	8-K	June 2, 2023	10.1	
31.1	Certification Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				X
31.2	Certification Pursuant to Rule 13a-14(a) /15d-14(a) of the Securities Exchange Act of 1934, adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				X
32.1*	Certification Pursuant to 18 U.S.C. 1350 adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				X
32.2*	Certification Pursuant to 18 U.S.C. 1350 adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				X
101.INS	Inline XBRL Instance Document- the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.				X
101.SCH	Inline XBRL Taxonomy Extension Schema				X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase				X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase				X
101.LAB	Inline XBRL Taxonomy Extension Labels Linkbase				X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase				X
104	Cover Page Interactive Data File, formatted in Inline XBRL				X

* *A certification furnished pursuant to Item 601(b)(32) of the Regulation S-K will not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.*

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

SIGNATURES

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

DIODES INCORPORATED
(Registrant)

November 8, 2023	By: /s/ Keh-Shew Lu
Date	KEH-SHEW LU
	Chairman, President and Chief Executive Officer
	(Principal Executive Officer)
November 8, 2023	By: /s/ Brett R. Whitmire
Date	BRETT R. WHITMIRE
	Chief Financial Officer
	(Principal Financial Officer)

Exhibit 31.1

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

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

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

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

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

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

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

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

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

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

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

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

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

Date: November 8, 2023

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

Exhibit 31.2

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

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

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

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

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

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

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

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

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

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

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

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

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

Date: November 8, 2023

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

Exhibit 32.1

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

The undersigned hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to his knowledge, the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2023 of Diodes Incorporated (the "Company") fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in such periodic report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2023

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

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

Exhibit 32.2

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

The undersigned hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to his knowledge, the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2023 of Diodes Incorporated (the "Company") fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in such periodic report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2023

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

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