DIODES INC /DEL/
Form 10-Q
May 08, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended March 31, 2009

Or

o **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)
15660 North Dallas Parkway, Suite 850	
Dallas, Texas	**75248**
(Address of principal executive offices)	(Zip code)

(972) 385-2810

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes o No o

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

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

The number of shares of the registrant s Common Stock outstanding as of May 5, 2009 was 41,401,625.

Table of Contents

Table of Contents

PART I FINANCIAL INFORMATION
Item 1 Financial Statements
DIODES INCORPORATED AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS
(Unaudited)
(In thousands)
ASSETS

	December 31, 2008 *(As Adjusted)*	**March 31, 2009**
CURRENT ASSETS		
Cash and cash equivalents	$ 103,496	$ **93,208**
Accounts receivable, net	74,574	**68,174**
Inventories	99,118	**82,835**
Deferred income taxes, current	6,761	**7,810**
Prepaid expenses and other	15,578	**13,468**
Total current assets	299,527	**265,495**
LONG-TERM INVESTMENT SECURITIES	320,625	**320,625**
PROPERTY, PLANT AND EQUIPMENT, net	174,667	**168,432**
OTHER ASSETS		
Goodwill	56,791	**63,672**
Intangible assets, net	35,928	**34,899**
Other	5,907	**5,964**
Total assets	$ 893,445	$ **859,087**

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

- 3 -

Table of Contents

DIODES INCORPORATED AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS *(cont)*
LIABILITIES AND EQUITY
(Unaudited)
(In thousands, except share data)

	December 31, 2008 *(As Adjusted)*	**March 31, 2009**
CURRENT LIABILITIES		
Lines of credit	$ 6,098	$ **4,129**
Accounts payable	47,561	**30,709**
Accrued liabilities	31,195	**28,286**
Income tax payable	358	**1,553**
Current portion of long-term debt	1,339	**348**
Current portion of capital lease obligations	377	**350**
Total current liabilities	86,928	**65,375**
LONG-TERM DEBT, net of current portion		
2.25% Convertible Senior Notes due 2026	155,451	**149,497**
Long-term borrowings	217,146	**216,111**
CAPITAL LEASE OBLIGATIONS, net of current portion	1,854	**1,776**
DEFERRED INCOME TAXES, non-current	10,753	**16,982**
OTHER LONG-TERM LIABILITIES	22,935	**28,766**
Total liabilities	495,067	**478,507**
COMMITMENTS AND CONTINGENCIES		
EQUITY		
Diodes Incorporated stockholders equity		
Preferred stock par value $1.00 per share; 1,000,000 shares authorized; no shares issued or outstanding		
Common stock par value $0.66 2/3 per share; 70,000,000 shares authorized; 41,378,816 and 41,395,815 issued and outstanding at December 31, 2008 and March 31, 2009, respectively	27,586	**27,597**
Additional paid-in capital	167,964	**170,416**
Retained earnings	241,814	**231,048**
Accumulated other comprehensive loss	(48,439)	**(56,536)**
Total Diodes Incorporated stockholders equity	388,925	**372,525**
Noncontrolling interest	9,453	**8,055**
Total equity	398,378	**380,580**

Total liabilities and equity	$ 893,445	$ **859,087**

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

Table of Contents

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

	Three Months Ended March 31, 2008 *(As Adjusted)*	Three Months Ended March 31, **2009**
NET SALES	$ 95,580	$ **78,050**
COST OF GOODS SOLD	63,664	**63,557**
Gross profit	31,916	**14,493**
OPERATING EXPENSES		
Selling, general and administrative	14,542	**16,056**
Research and development	3,574	**5,275**
Amortization of acquisition related intangible assets	234	**1,091**
Restructuring charge		**99**
Total operating expenses	18,350	**22,521**
Income (loss) from operations	13,566	**(8,028)**
OTHER INCOME (EXPENSES)		
Interest income	5,448	**1,757**
Interest expense	(1,621)	**(2,048)**
Amortization of debt discount	(2,634)	**(2,209)**
Other	(294)	**263**
Total other income (expenses)	899	**(2,237)**
Income (loss) before income taxes and noncontrolling interest	14,465	**(10,265)**
INCOME TAX PROVISION	1,218	**397**
NET INCOME (LOSS)	13,247	**(10,662)**
Less: NET INCOME attributable to noncontrolling interest	(604)	**(104)**
NET INCOME (LOSS) attributable to common stockholders	$ 12,643	$ **(10,766)**

EARNINGS (LOSS) PER SHARE attributable to common stockholders		
Basic	$ 0.31	$ **(0.26)**
Diluted	$ 0.30	$ **(0.26)**
Number of shares used in computation		
Basic	40,245	**41,146**
Diluted	42,534	**41,146**

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

Table of Contents

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

	Three Months Ended March 31, 2008 *(As Adjusted)*	Three Months Ended March 31, **2009**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ 12,644	**$ (10,766)**
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	7,444	**10,186**
Amortization of intangibles	212	**1,169**
Amortization of convertible bond issuance costs	233	**179**
Amortization of discount on convertible bond	2,634	**2,209**
Net income attributable to noncontrolling interest	608	**104**
Share-based compensation	2,550	**2,429**
Gain on disposal of property, plant and equipment	(37)	
Gain on extinguishment of debt		**(1,490)**
Investment gain recognized under equity method		**96**
Accounts receivable	3,573	**5,833**
Inventories	(8,031)	**15,798**
Prepaid expenses and other current assets	(3,012)	**2,070**
Deferred income taxes	(702)	**(1,036)**
Accounts payable	(4,220)	**(16,621)**
Accrued liabilities	(5,377)	**(4,862)**
Deferred income taxes	(1,027)	
Other liabilities	907	**217**
Income taxes payable	1,497	**1,235**
Net cash provided by operating activities	$ 9,896	**$ 6,750**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of securities	$ (963)	**$**
Proceeds from sale of securities	3,710	
Purchases of property, plant and equipment	(10,001)	**(4,322)**
Proceeds from sale of property, plant and equipment	45	**15**
Purchases of other assets		**(672)**
Net cash used in investing activities	$ (7,209)	**$ (4,979)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances (repayments) on line of credit	$ 2,382	**$ (1,673)**
Net proceeds from issuance of common stock	528	**34**
Dividend distribution to noncontrolling interest		**(1,500)**
Repayments of long-term debt	(341)	**(8,457)**

Repayments of capital lease obligations	(52)	**(103)**
Net cash provided by (used in) financing activities	$ 2,517	**$ (11,699)**
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(140)	**(360)**
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,064	**(10,288)**
CASH AND CASH EQUIVALENTS, beginning of period	56,179	**103,496**
CASH AND CASH EQUIVALENTS, end of period	$ 61,243	**$ 93,208**

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

Table of Contents

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

NOTE A Nature of Operations, Basis of Presentation and Recently Issued Accounting Pronouncements

Nature of Operations

Diodes Incorporated and its subsidiaries (collectively, the Company) is a leading global designer, manufacturer and supplier of high-quality, application specific standard products within the broad discrete and analog semiconductor markets, serving the consumer electronics, computing, communications, industrial and automotive markets. These products include diodes, rectifiers, transistors, MOSFETs, protection devices, functional specific arrays, amplifiers and comparators, Hall effect sensors and temperature sensors, power management devices (including LED drivers), DC-DC switching and linear voltage regulators, voltage references, special function devices (including USB power switch, load switch, voltage supervisor and motor controllers) and silicon wafers used to manufacture these products. The products are sold primarily throughout North America, Asia and Europe.

Basis of Presentation

The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States (U.S.) (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, results of operations and cash flows in conformity with GAAP for complete financial statements. These consolidated condensed financial statements should be read in conjunction with the consolidated financial statements and related notes contained in the Company s Annual Report on Form 10-K for the year ended December 31, 2008. 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 results of operations for the period presented have been included in the interim period. Operating results for the three months ended March 31, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. The condensed consolidated financial data at December 31, 2008 is derived from audited financial statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2008 that was subsequently adjusted for a change in accounting principle on January 1, 2009. See Note B for additional information regarding the change in accounting principle.

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. Such amounts are expensed in full in the year incurred. For interim financial reporting purposes, income taxes are recorded based upon estimated annual effective income tax rates.

Certain prior year s balances have been reclassified to conform to the current financial statement presentation.

Recently Issued Accounting Pronouncements

In December 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) FAS 132R-1, *Employers Disclosures about Postretirement Benefit Plan Assets.* This pronouncement provides additional guidance regarding disclosures about plan assets of defined benefit pension or other postretirement plans. FSP FAS 132R-1 is effective for financial statements issued for fiscal years beginning after December 15, 2009. The Company is currently evaluating the future impacts and required disclosures of this pronouncement.

In April 2009, the FASB issued FSP FAS 107-1 and Accounting Principles Board (APB) 28-1, *Interim Disclosures about Fair Value of Financial Instruments.* These pronouncements amend FASB Statement of Financial Accounting Standards (SFAS) No. 107, *Disclosures about Fair Value of Financial Instruments,* to require disclosures about fair value of financial instruments, including method(s) and significant assumptions used to estimate the fair value in interim financial statements as well as in annual financial statements. FSP FAS 107-1 and APB 28-1 are effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company is currently evaluating the future impacts and required disclosures of these pronouncements.

In April 2009, the FASB issued FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*. This pronouncement provides additional guidance on determining whether a market for a financial asset is not active and a transaction is not distressed for fair value measurements under SFAS No. 157, *Fair Value Measurements.* FSP FAS 157-4 will be applied prospectively and is effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. An entity early adopting this FSP must also early adopt FSP FAS 115-2 and FAS 124-2. The Company is currently evaluating the future impacts and required disclosures of this pronouncement.

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*. These pronouncements are intended to provide greater clarity to investors about the credit and noncredit component of an other-than-temporary impairment (OTTI) event and to more effectively communicate when an OTTI event has occurred. FSP FAS 115-2 and FAS 124-2 apply to debt securities and require that the total OTTI be presented in the statement of earnings with an offset for the amount of impairment that is recognized in other comprehensive income, which is the noncredit component. Noncredit component losses are to be recorded in other comprehensive income if an investor can assess that (a) it does not have the intent to sell or (b) it is not more likely than not that it will have to sell the security prior to its anticipated recovery. FSP FAS 115-2 and FAS 124-2 are effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. FSP FAS 115-2 and FAS 124-2 will be applied prospectively with a cumulative effect transition adjustment as of the beginning of the period in which they are adopted. An entity early adopting FSP FAS 115-2 and FAS 124-2 must also early adopt FSP FAS 157-4. The Company is currently evaluating the future impacts and required disclosures of these pronouncements.

In April 2009, the FASB issued FSP FAS 141(R)-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination that Arise from Contingencies.* This pronouncement amends SFAS No. 141 (revised 2007), *Business Combinations*, to require that assets acquired and liabilities assumed in a business combination that arise from contingencies be recognized at fair value, in accordance with SFAS No. 157, *Fair Value Measurements*, if the fair value can be determined during the measurement period. FSP FAS 141(R)-1 is effective for business combinations occurring after December 31, 2008.

NOTE B Change in Accounting Principle

In accordance with the adoption of FSP APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)*, the Company adjusted the December 31, 2008 consolidated condensed balance sheet and the consolidated condensed statement of operations and consolidated condensed statement of cash flows for the three months ended March 31, 2008 to reflect the retrospective application of this pronouncement. This pronouncement clarifies that convertible debt instruments that may be settled in cash upon conversion are not addressed by paragraph 12 of Accounting Principles Board Opinion No. 14, *Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants*. FSP APB 14-1 also specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity s nonconvertible debt borrowing rate. All adjustments were made retrospectively as of the date of issuance of the Company s 2.25% convertible senior notes (Notes) due 2026 and therefore, the financial statements are presented as if the Notes have always been accounted for in accordance with this pronouncement. The material retrospective adjustments to the Company s December 31, 2008 consolidated condensed balance sheet were to adjust; long-term debt from $183.5 million to $155.5 million; additional paid-in capital of approximately $34.3 million to reflect the initial recognition of the equity component, deferred taxes and debt issuance costs; deferred taxes associated with the convertible debt instrument; retained earnings to reflect the additional non-cash, pre-tax interest expense retrospectively recorded for 2006, 2007 and 2008 by approximately $1.7 million, $10.0 million and $10.7 million, respectively, and to reflect the $15.7 million pre-tax reduction to the gain on extinguishment of debt for the repurchase of $46.5 million par value Notes in December 2008. The material retrospective adjustments to the Company s consolidated condensed statement of operations for the three months ended March 31, 2008 were to recognize the additional non-cash interest expense of approximately $2.6 million and the related tax effects to the tax provision. The retrospective adjustments to the Company s consolidated condensed statement of cash flows for the three months ended March 31, 2008 were to adjust separate line items within cash flows from operating activities, which did not affect the original net reported amounts for operating activities, investing activities or financing activities. See Note N for additional information regarding FSP APB 14-1.

In addition, in accordance with the adoption of SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51*, the Company adjusted the December 31, 2008 consolidated condensed balance sheet to reflect the retrospective application of this pronouncement. This pronouncement established new standards governing the accounting for and reporting of noncontrolling interests (NCIs) in partially owned consolidated subsidiaries and the loss of control of subsidiaries. Certain provisions of this pronouncement indicate, among other things, that: NCIs (previously referred to as minority interests) be treated as a separate component of equity, not as a liability; increases and decreases in the parent s ownership interest, that leave control intact, be treated as equity transactions, rather than as step acquisitions or dilution gains or losses; and losses of a partially owned consolidated subsidiary be allocated to the NCIs even when such allocation might result in a deficit balance. This pronouncement also requires changes to certain presentation and disclosure requirements. The provisions of the standard are to be applied to all NCIs prospectively, except for the presentation and disclosure requirements, which are to be applied retrospectively to all periods presented. Upon adoption, NCI s of $9.5 million as of December 31, 2008 were reclassified to equity, a change from its previous classification between liabilities and stockholders equity.

The adjustments made to the December 31, 2008 consolidated condensed balance sheet are as follows *(in thousands)*:

	December 31, 2008				
	As Reported	**FSP APB 14-1 Adjustments**	**SFAS 160 Adjustment**	**Reclass Adjustment**	**Adjusted**
ASSETS					
Deferred income taxes, current	$ 3,994	2,767			**$ 6,761**
Deferred income taxes, non-current	2,745	(13,498)		10,753	
Other assets	6,627	(720)			**5,907**
LIABILITIES AND EQUITY					
2.25% Convertible Senior Notes due 2026	183,500	(28,049)			**155,451**
Deferred income taxes, non-current				10,753	**10,753**
Noncontrolling interest (previously referred to as minority interests)	9,453		(9,453)		
Additional paid-in capital	133,701	34,263			**167,964**
Retained earnings	259,479	(17,665)			**241,814**
Noncontrolling interest			9,453		**9,453**

The adjustments made to the three months ended March 31, 2008 consolidated condensed statement of operations are as follows *(in thousands)*:

	Three Months Ended March 31, 2008		
	As Reported	**APB 14-1 Adjustments**	**Adjusted**
Interest expense	$ (1,698)	77	**$ (1,621)**
Amortization of debt discount		(2,634)	**(2,634)**
Income tax provision (benefit)	2,215	(997)	**1,218**
Net income	14,807	(1,560)	**13,247**
Earnings per share attributable to common stockholders			
Basic	$ 0.35	(0.04)	**$ 0.31**
Diluted	$ 0.33	(0.04)	**$ 0.30**
Number of shares used in computation			
Basic	40,245		**40,245**
Diluted	42,534		**42,534**

NOTE C Functional Currencies, Comprehensive Income and Foreign Currency Translation

Functional Currencies and Translation The functional currency for most of our international operations is the U.S. dollar, while some subsidiaries use their local currency as their functional currency. Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are recorded as other income (expense) in the consolidated condensed statements of operations. The Company had foreign exchange transaction losses of approximately $0.5 million and $1.5 million for the three months ended March 31, 2008 and 2009, respectively.

Comprehensive Income (Loss) GAAP generally requires that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities are reported as separate components of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income or loss. As of March 31, 2009, the components of other comprehensive income or loss include foreign currency translation adjustments, unrealized gain or loss on defined benefit plan and foreign currency loss on forward contracts. Accumulated other comprehensive loss was $56.5 million at March 31, 2009.

Table of Contents

Total comprehensive income for the three months ended March 31, 2009 and 2008 is as follows *(in thousands)*:

Total Comprehensive Income (Loss)

	Three Months Ended March 31,	
	2008	**2009**
Net income (loss)	$ 13,247	$ **(10,662)**
Translation adjustment	3,059	**(2,421)**
Unrealized loss on securities	(11,493)	
Unrealized loss on defined benefit plan, net of tax		**(7,241)**
Foreign currency gain on forward contracts, net of tax		**1,564**
Comprehensive income (loss)	4,813	**(18,760)**
Comprehensive income attributable to noncontrolling interest	604	**104**
Total comprehensive income (loss) attributable to common stockholders	$ 4,209	$ **(18,864)**

Table of Contents

NOTE D Hedging

As of March 31, 2009, the Company had forward contracts, primarily relating to its United Kingdom (U.K.) operations, of approximately $10.9 million that mature monthly over the next nine months. For the three months ended March 31, 2009, the Company had deferred net unrealized loss on outstanding forward exchange contracts recorded within other comprehensive income (loss) (OCI) of $1.6 million (net of tax). For the three months ended March 31, 2009, the Company had no material ineffective hedges because forward foreign currency contract amounts were less than the specifically identified anticipated transactions.

The following details the location and amount of derivative instrument fair values in the consolidated condensed balance sheets *(in thousands)*:

	Asset Derivatives 2009		Liability Derivatives 2009	
As of March 31:	Balance sheet location	Fair value	Balance sheet location	Fair value
Derivatives designated as hedging instruments under SFAS 133:				
Foreign exchange contracts	Other assets	$	Other liabilities	$2,229

The following details the location and amount of gains and losses on derivative instruments in the consolidated condensed statement of income *(in thousands)*:

Derivatives in SFAS 133 Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion) 2009	Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) 2009	Location of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) 2009
Foreign exchange contracts	$ (325)	Other income (expense)	$ (2,088)	Other income (expense)	$

Table of Contents

NOTE E Earnings (Loss) Per Share

Basic net earnings (loss) per share is calculated by dividing net earnings by the weighted-average number of shares of common stock outstanding during the period. Diluted net earnings per share is calculated similarly but includes potential dilution from the exercise of stock options and stock awards, except when the effect would be anti-dilutive.

The shares used in the computation of basic and diluted earnings (loss) per common share are as follows *(in thousands, except per share data)*:

	Three Months Ended March 31,	
	2008	**2009**
BASIC		
Weighted average number of common shares outstanding used in computing basic earnings (loss) per share	40,245	**41,146**
Net income (loss) attributable to common stockholders	$ 12,643	**$ (10,766)**
Earnings (loss) per share attributable to common stockholders	$ 0.31	**$ (0.26)**
DILUTED		
Weighted average number of common shares outstanding used in computing basic earnings (loss) per share	40,245	**41,146**
Add: Assumed exercise of stock options and stock awards	2,289	
	42,534	**41,146**
Net income (loss) attributable to common stockholders	$ 12,643	**$ (10,766)**
Earnings (loss) per share attributable to common stockholders	$ 0.30	**$ (0.26)**

There are no shares in the earnings per share calculation related to the Notes outstanding as our average stock price did not exceed the conversion price of $39.00 and, therefore, there is no conversion spread. For the three months ended March 31, 2009, the Company has excluded the assumed exercise of stock options and stock awards from the calculation of diluted net loss per share because these securities are anti-dilutive.

NOTE F Fair Value Measurements

Financial assets and liabilities carried at fair value as of March 31, 2009 are classified in the following table *(in thousands)*:

Description	Level 1	Level 2	Level 3	Total
Long-term trading securities	$	$	$ 283,817	$ 283,817
Long-term put option			36,808	36,808
Total	$	$	$ 320,625	$ 320,625

There has been no change in the balances for assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the three months ended March 31, 2009.

Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Financial assets and financial liabilities measured at fair value on a non-recurring basis were not significant at March 31, 2009.

Table of Contents

NOTE G Long-term Investments

As of March 31, 2009, the Company had $320.6 million invested in auction rate securities (ARS), classified as trading securities. In connection with the settlement with UBS AG the Company was given the option to put the ARS portfolio back to UBS AG at any time between June 30, 2010 and July 2, 2012 at par value. Upon settlement, the Company elected the fair value option for the put option and recorded an asset and a gain for the fair value of the put option. The Company classified the put option as a long-term investment as it is a free standing instrument tied to the ARS portfolio, which are also classified as long-term investments.

Long-term investments at March 31, 2009 are as follows *(in thousands)*:

As of March 31, 2009	Cost Basis	Cumulative Realized Gains	Cumulative Realized Losses	Fair Value
Long-term investments				
Long-term trading securities	$ 320,625	$	$ (36,808)	$ **283,817**
Long-term put option		36,808		**36,808**
Total long-term investments	$ 320,625	$ 36,808	$ (36,808)	$ **320,625**

The Company s ARS are primarily backed by student loan association bonds. None of the Company s investments are collateralized mortgage obligations or are any other type of mortgage-backed or real estate-backed securities. The Company continues to earn interest on its ARS at a weighted average rate of 2.1% as of March 31, 2009, which it is currently collecting. The weighted average maximum contractual default rate is 17.3%.

As of March 31, 2009, approximately 85.7%, or $274.8 million, of the $320.6 million par value ARS are collateralized by higher education funded student loans that are supported by the federal government as part of the Federal Family Education Loan Program (FFELP). The following table shows a natural grouping of the FFELP guaranteed securities, as well as the percentage of the ARS portfolio guaranteed by FFELP *(in thousands)*.

% of FFELP guaranty	Par Value	% of Total
Greater than 99.0%	$195,000	60.8%
Between 81.2% and 82.1%	86,825	27.1%
50.50%	17,000	5.3%
10.00%	3,800	1.2%
non-FFELP guaranteed	18,000	5.6%
Total	**$320,625**	**100.0%**

As of March 31, 2009, the Company s portfolio of ARS was valued using a valuation model that relies exclusively on Level 3 inputs. The discount of the total ARS portfolio was 11.5% of par value, or $36.8 million loss.

NOTE H Inventories

Inventories stated at the lower of cost or market value are as follows *(in thousands)*:

	December 31, 2008	**March 31, 2009**
Raw materials	$ 28,690	$ **24,738**
Work-in-progress	23,436	**21,319**
Finished goods	46,992	**36,778**
Total	$ 99,118	$ **82,835**

Table of Contents

NOTE I Goodwill and Other Intangible Assets

Changes in goodwill for the three months ended March 31, 2009 are as follows *(in thousands):*

Balance at December 31, 2008	$ 56,791
Acquisitions and purchase price adjustments	7,576
Currency exchange and other	(695)
Balance at March 31, 2009	**$ 63,672**

Intangible assets at March 31, 2009 are as follows *(in thousands):*

Balance at March 31, 2009:	
Intangible assets subject to amortization:	
Gross carrying amount	$ 47,825
Accumulated amortization	(5,940)
Currency exchange and other	(9,280)
Net value	32,605
Intangible assets with indefinite lives:	
Gross carrying amount	3,162
Currency exchange and other	(868)
Total	2,294
Total intangible assets, net	**$ 34,899**

Amortization expense related to intangible assets subject to amortization was $0.2 million and $1.2 million for the three months ended March 31, 2008 and 2009, respectively.

Table of Contents

NOTE J Income Tax Provision

Income tax expense of $0.4 million was recorded for the three months ended March 31, 2009. This resulted in an effective tax rate of (3.9)% for the three months ended March 31, 2009, as compared to 8.4% in the same period of last year and compared to (7.6)% for the full year of 2008. The Company s effective tax rate for the three months ended March 31, 2009 was impacted by the non-cash income tax expense associated with repatriating earnings of foreign subsidiaries to the U.S. parent. In addition, amounts for the three months ended March 31, 2008 and full year 2008 have been retrospectively adjusted for the adoption of APB 14-1. See Notes B for this retrospective treatment and the impacts on previously issued financial statements.

For the three months ended March 31, 2009, the Company reported domestic and foreign pre-tax income (loss) of approximately $(12.8) million and $2.5 million, respectively. For the three month ended March 31, 2008, the Company reported domestic and foreign pre-tax income (loss) of approximately $(4.1) million and $18.6 million, respectively.

The impact of tax holidays decreased the Company s tax expense by approximately $2.3 million and $2.4 million for the three months ended March 31, 2009 and 2008, respectively. The benefit of the tax holidays on basic and diluted earnings per share for both the three months ended March 31, 2009 and 2008 was $0.06.

Funds repatriated from foreign subsidiaries to the U.S. may be subject to federal and state income taxes. During the three months ended March 31, 2009, the Company repatriated approximately $28.5 million of accumulated earnings from one of its Chinese subsidiaries, resulting in additional non-cash federal and state income tax expense of approximately $5.7 million. The Company intends to permanently reinvest overseas all of its remaining earnings from its foreign subsidiaries. Furthermore, the Company determined that it was more likely than not that a portion of its federal foreign tax credit carryforwards would expire before they could be utilized. Accordingly, the Company has recorded valuation allowances of $5.6 million and $7.3 million as of December 31, 2008 and March 31, 2009.

The Company files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. The Company is no longer subject to U.S. federal income tax examinations by tax authorities for tax years before 2005. The Internal Revenue Service has contacted the Company regarding an examination for the 2005 tax year. The Taiwan tax authorities have also contacted the Company regarding an examination for the 2007 tax year. 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 FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* reserve for any adjustments that may result from future tax audits. The Company recognizes accrued interest and penalties, if any, related to unrecognized tax benefits in income tax expense. As of March 31, 2009, the gross amount of unrecognized tax benefits was approximately $4.2 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. These changes may be the result of settlement of ongoing audits or competent authority proceedings. At this time, an estimate of the range of the reasonably possible outcomes cannot be made.

NOTE K Share-based Compensation

The following table shows the total compensation cost charged against income for share-based compensation plans, including stock options and share grants, recognized in the statements of operations *(in thousands)*:

	Three Months Ended March 31,	
	2008	**2009**
Cost of sales	$ 127	**$ 81**
Selling and administrative expense	2,199	**2,087**
Research and development expense	224	**261**
Total share-based compensation expense	$ 2,550	**$ 2,429**

Stock Options. Stock options generally vest in equal annual installments over a four-year period and expire ten years after the grant date and expense was estimated on the date of grant using the Black-Scholes option pricing model.

Table of Contents

The total intrinsic value (actual gain) of options exercised during the three months ended March 31, 2009 was approximately $19,000. The total net cash proceeds received from stock option exercises during the three months ended March 31, 2009 was $34,000. Stock option expense for the three months ended March 31, 2008 and 2009 was $1.2 million and $0.7 million, respectively.

A summary of the stock option plans as of March 31, 2009 are as follows:

Stock options	Shares (000)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (yrs)	Aggregate Intrinsic Value ($000)
Outstanding at January 1, 2009	3,895	$ 11.61	5.3	$ 2,327
Granted				
Exercised	(8)	4.74		19
Forfeited or expired	(35)	14.22		
Outstanding at March 31, 2009	**3,852**	$ **11.60**	**5.1**	$ **10,604**
Exercisable at March 31, 2009	**3,304**	$ **9.26**	**4.6**	$ **10,604**

The aggregate intrinsic value in the table above is before applicable income taxes and represents the amount optionees would have received if all options had been exercised on the last business day of the period indicated, based on the Company s closing stock price.

As of March 31, 2009, total unrecognized stock-based compensation expense related to unvested stock options, net of forfeitures, was approximately $6.3 million, before income taxes, and is expected to be recognized over a weighted average of approximately 2.4 years.

Share Grants. Restricted stock awards and restricted stock units generally vest in equal annual installments over a four-year period. Share grant expense for the three months ended March 31, 2008 and 2009 was $1.3 million and $1.7 million, respectively.

A summary of the status of the Company s non-vested share grants as of March 31, 2009 are as follows:

Share Grants	Shares (000)	Weighted-Average Grant-Date Fair Value	Aggregate Intrinsic Value ($000)
Nonvested at January 1, 2009	846	$ 21.41	$ 5,125
Granted	3	6.58	
Vested	(9)	25.21	383
Forfeited	(19)	25.52	
Nonvested at March 31, 2009	**821**	**$ 21.24**	**$ 8,713**

During the three months ended March 31, 2008 and 2009, there was $1.3 million and $1.7 million, respectively, of share-based compensation expense related to non-vested stock award arrangements granted under the plans.

The total fair value of restricted stock awards vested during the three months ended March 31, 2009 was approximately $0.4 million.

As of March 31, 2009, total unrecognized share-based compensation expense related to non-vested stock award arrangements, net of forfeitures, was approximately $12.2 million, before income taxes and is expected to be recognized over a weighted average of approximately 1.7 years.

Table of Contents

NOTE L Segment Information and Enterprise-Wide Disclosure

For financial reporting purposes, the Company operates in a single segment, standard semiconductor products, through the Company s various manufacturing and distribution facilities. The Company aggregated its products since the products are similar and have similar economic characteristics, and the products are similar in production process and share the same customer type.

The Company s primary operations include the domestic operations in Asia, North America and Europe.

Revenues are attributed to geographic areas based on the location of subsidiaries producing the revenues *(in thousands)*:

Three Months Ended March 31, 2008	Asia	North America	Europe (1)	Consolidated Segments
Total sales	$ 138,735	$ 29,856	$	$ 168,591
Inter-company sales	(64,812)	(8,199)		(73,011)
Net sales	$ 73,923	$ 21,657	$	$ 95,580
Property, plant and equipment	$ 109,123	$ 20,711	$	$ 129,834
Assets	$ 329,547	$ 385,204	$	$ 714,751

Three Months Ended March 31, 2009	Asia	North America	Europe	Consolidated Segments
Total sales	$ 99,081	$ 16,996	$ 19,296	$ **135,373**
Inter-company sales	(41,083)	(5,149)	(11,091)	**(57,323)**
Net sales	$ 57,998	$ 11,847	$ 8,205	$ **78,050**
Property, plant and equipment	$ 100,477	$ 31,227	$ 36,728	$ **168,432**
Assets	$ 288,972	$ 419,081	$ 151,034	$ **859,087**

(1) Information for the three months ended March 31, 2008 is not presented as the amounts are immaterial.

Table of Contents

Geographic Information

Revenues were derived from (billed to) customers located in the following countries. All Others represents countries with less than 10% of the total revenues each (*in thousands)*:

	Net Sales for the Three Months Ended March 31,		Percentage of Net Sales	
	2008	**2009**	2008	**2009**
China	$ 26,234	$ **22,894**	27.4%	**29.3%**
Taiwan	32,615	**21,443**	34.1%	**27.5%**
United States	20,590	**13,958**	21.5%	**17.9%**
Korea	5,257	**4,994**	5.5%	**6.4%**
Germany	1,748	**4,463**	1.8%	**5.7%**
Singapore	2,221	**3,780**	2.3%	**4.8%**
England	2,768	**2,070**	2.9%	**2.7%**
All Others	4,147	**4,448**	4.4%	**5.7%**
Total	$ 95,580	$ **78,050**	100.0%	**100.0%**

NOTE M Business Acquisitions

Zetex Acquisition On June 9, 2008, the Company completed the acquisition of all the outstanding ordinary capital stock of Zetex, a company incorporated under the laws of England and Wales. The Zetex shareholders received 85.45 pence in cash per ordinary share, valuing the fully diluted share capital of Zetex at approximately $176.1 million (based on a USD:GBP exchange rate of 1.9778), excluding acquisition costs, fees and expenses.

As consideration for Zetex, the Company paid the following (*in thousands*):

Purchase price (cost of shares)	$ 176,138
Acquisition related costs	3,595
Total purchase price	$ 179,733

Table of Contents

In addition, in order to finance the acquisition, the Company entered into a margin loan agreement with UBS Financial Services Inc. for $165 million, collateralized by the Company s ARS portfolio. On November 4, 2008, the Company entered into a no net cost loan with UBS BANK USA as part of the settlement with UBS AG, which replaced the margin loan.

The results of operations of the Zetex acquisition have been included in the consolidated financial statements as of June 1, 2008. The purpose of this acquisition was to create revenue, operating and cost synergies and to enhance the Company s leadership in discrete and analog solutions. In addition, the Company believes that the acquisition will strengthen and broaden the Company s product offerings, including entry into the LED lighting and automotive markets and expand the Company s geographical footprint in the European markets.

A final determination of the allocation of the purchase price to the assets acquired and liabilities assumed has not been made and the following table is considered preliminary. The final determination is subject to the completion of the valuation of the assets acquired and liabilities assumed, which will be completed during the second quarter of 2009.

The following summarizes the preliminary (subject to final determination) allocation of the purchase price to the fair value of the assets acquired and liabilities assumed at the date of acquisition (in thousands):

	Revised purchase price allocation as of December 31, 2008	Changes in purchase price allocation	Revised purchase price allocation on acquisition date
Assets acquired:			
Accounts receivable, net	$ 13,445	$	$ 13,445
Inventory	35,991		35,991
Prepaid expenses and other current assets	4,363		4,363
Property, plant and equipment, net	52,243	(198)	52,045
Other long-term assets	136		136
Intangible assets	48,274		48,274
Goodwill	40,227	11,916	52,143
Total assets acquired	$ 194,679	$ 11,718	$ 206,397
Liabilities assumed:			
Accounts payable	$ 6,057	$	$ 6,057
Accrued expenses and other liabilities	16,806		16,806
Pension liability	10,873		10,873
Deferred tax liabilities	1,931	11,718	13,649
Other liabilities	3,846		3,846
Total liabilities assumed	39,513	11,718	51,231
Total net assets acquired	$ 155,166	$	$ 155,166

Table of Contents

The preliminary fair values and lives for amortization purposes assigned to acquired intangible assets are as follows *(amounts in thousands)*:

Intangible asset		Fair value assigned	Estimated useful life (in years)
IPR&D			
Power management	$	1,383	N/A
Lighting		3,952	N/A
Other		2,569	N/A
Total IPR&D		7,904	
Developed technology:			
Discretes		16,007	10
Power management		4,941	5
Lighting		3,360	5
ASIC		3,162	7
Other		2,174	2 7
Total Developed technology		29,644	
Customer relationships		6,917	12
Trade name		3,162	Indefinite
Other intangibles		647	Various
Total intangibles acquired	**$**	**48,274**	

Subsequent to the acquisition, the Company evaluated and adjusted its inventory for a reasonable profit allowance in accordance with SFAS No. 141, *Business Combinations*, which is intended to permit the Company to report only the profits normally associated with its activities following the acquisition as it relates to the work-in-progress and finished goods inventory. As such, the Company increased its acquired inventory from Zetex by approximately $5.4 million, and subsequently recorded that increase, adjusted for foreign exchange rates, into cost of goods sold in the amount of approximately $5.2 million during 2008.

Acquired intangible in process research and development (IPR&D), which had not yet reached technological feasibility and had no alternative future use as of the date of acquisition in the amount of $7.9 million was expensed immediately in 2008, in accordance with SFAS No. 141, to research and development expense. IPR&D consists of: (i) power management, which includes power management chips that meet the requirements of a broad range of portable electronic equipment that demands a balance of efficiency, functionality, and size; (ii) lighting, which includes light-emitting diode (LED) drivers that are developed for a range of applications including white LEDs for display backlighting, safety and security lighting, camera flash, architectural lighting, and automotive lighting. The technology maintains illumination while limiting battery power consumption; and (iii) other, which includes items such as audio, which includes class D amplifiers that efficiently deliver high quality audio. The risk adjusted discount rate used to determine the fair value of power management, lighting and other was 26%, 28% and 28%, respectively.

For the three months ended March 31, 2009, approximately $0.9 million has been recorded as amortization expense associated with the identified intangible assets. Amortization expense associated with these identified intangible assets will approximate between $1.8 million and $3.6 million per year over the next 5 to 10 years. In addition, the Company expects goodwill to be deductible for tax purposes.

The following unaudited pro forma consolidated results of operations for the quarter ended March 31, 2008 have been prepared as if the acquisition of Zetex had occurred at January 1, 2008 (*in thousands, except per share data*):

	Three Months Ended March 31, 2008
Net sales	$ 118,486
Net income	$ 12,781
Net income per common share Basic	$ 0.32
Net income per common share Diluted	$ 0.30

Table of Contents

The unaudited pro forma consolidated results of operations do not purport to be indicative of the results that would have been obtained if the above acquisition had actually occurred as of the dates indicated or of those results that may be obtained in the future. The unaudited pro forma consolidated results of operations do not include the final adjustments to net income to give the final effects to depreciation of property, plant and equipment acquired and amortization of intangible assets acquired as the Company working to complete its valuation of the assets and liabilities acquired and is unable to determine what those final effects would be. These unaudited pro forma consolidated results of operations were derived, in part, from the historical consolidated financial statements of Zetex and other available information and assumptions believed to be reasonable under the circumstances.

Table of Contents

NOTE N Convertible Senior Notes

On October 12, 2006, the Company issued and sold convertible senior notes with an aggregate principal amount of $230 million due 2026, which pay 2.25% interest per annum on the principal amount of the Notes, payable semi-annually in arrears on April 1 and October 1 of each year, beginning on April 1, 2007.

The Notes will be convertible into cash or, at the Company s option, cash and/or shares of the Company s Common Stock based on an initial conversion rate, subject to adjustment, of 25.6419 shares (split adjusted) per $1,000 principal amount of Notes, which represents an initial conversion price of $39.00 per share (split adjusted), in certain circumstances. In addition, following a make-whole fundamental change that occurs prior to October 1, 2011, the Company will, at its option, increase the conversion rate for a holder who elects to convert its Notes in connection with such make-whole fundamental change, in certain circumstances.

During the first quarter of 2009, we repurchased $9.6 million principal amount of the Notes for approximately $6.6 million in cash.

Effective January 1, 2009, the Company adopted FSP ABP 14-1. This pronouncement clarifies that convertible debt instruments that may be settled in cash upon conversion are not addressed by paragraph 12 of Accounting Principles Board Opinion No. 14. FSP APB 14-1 also specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity s nonconvertible debt borrowing rate. Previous guidance provided for accounting of this type of convertible debt instruments entirely as debt. All adjustments are required to be made retrospectively as of the date of issuance of the Notes and therefore, will be treated as if the Notes have always been accounted for in accordance with this pronouncement. See Note B for this retrospective treatment and the impacts of previously issued financial statements.

In determining liability and the equity components, the Company determined the expected life of the Notes to be five years as that is the earliest date in which the Notes can be put back to the Company at par value. As of March 31, 2009, 30 months remain over which the discount of the liability will be amortized. As of March 31, 2009, the liability and equity components are as follows *(in thousands)*: