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

FORM 10-K

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

For the fiscal year ended December 31, 2008.

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)

Registrant's telephone number, including area code: (972) 385-2810

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

Title of Eachve Class	Name of Each Exchange on Which Registered
Common Stock, Par Value $0.66 2/3	**The NASDAQ Stock Market LLC**

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

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

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

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

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

The aggregate market value of the 32,014,962 shares of Common Stock held by non-affiliates of the registrant, based on the closing price of $27.64 per share of the Common Stock on the Nasdaq Global Select Market on June 30, 2008, the last business day of the registrant's most recently completed second quarter, was approximately $884,893,536.

The number of shares of the registrant's Common Stock outstanding as of February 23, 2009 was 41,394,965.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A in connection with the 2009 annual meeting of stockholders are incorporated by reference into Part III of this Annual Report. The proxy statement will be filed with the United States Securities and Exchange Commission not later than 120 days after the registrant's fiscal year ended December 31, 2008.

PART I

Item 1. Business

GENERAL

We are 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.

We design, manufacture and market these semiconductors for diverse end-use applications. Semiconductors, which provide electronic signal amplification and switching functions, are basic building-block electronic components that are incorporated into almost every electronic device. We believe that our focus on standard semiconductor products provides us with a meaningful competitive advantage relative to other semiconductor companies that provide a wider range of semiconductor products.

Our product portfolio addresses the design needs of many advanced electronic devices, including high-volume consumer devices such as digital audio players, notebook computers, flat-panel displays, mobile handsets, digital cameras and set-top boxes. We believe that we have particular strength in designing innovative surface-mount semiconductors for applications with a critical need to minimize product size while maximizing power efficiency and overall performance, and at a lower cost than alternative solutions. Our product line includes over 4,000 products, and we shipped approximately 14.5 billion units, 18.1 billion units, and 18.5 billion units in 2006, 2007 and 2008, respectively. From 2003 to 2008, our net sales grew from $136.9 million to $432.8 million, representing a compound annual growth rate of 25.9%. For 2009, we do not expect to sustain our historical growth rate due to current economic conditions. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — *Business Outlook”* in Part II, Item 7 and “Risk Factors — *Global economic weakness and the current financial market uncertainty has had, and is expected to continue to have through at least 2009, a material adverse effect on our business”* in Part I, Item 1A of this Annual Report for additional information.

We serve over 230 direct customers worldwide, which consist of original equipment manufacturers (“OEM”) and electronic manufacturing services (“EMS”) providers. Additionally, we have approximately 70 distributor customers worldwide, through which we indirectly serve over 10,000 customers.

We were incorporated in 1959 in California and reincorporated in Delaware in 1968. We are headquartered in Dallas, Texas. We have two manufacturing facilities located in Shanghai, China, one in Neuhaus, Germany and a joint venture facility in Chengdu, China, and our wafer fabrication facilities are in Kansas City, Missouri and Oldham, England. Our sales, marketing, engineering and logistical centers are located in Westlake Village, California; Taipei, Taiwan; Hong Kong, Shanghai and Shenzhen, China; and Oldham. We have strengthened our product design centers in the United States (“U.S.”), China, England, Germany and Taiwan to position our design engineers to work more closely with our customers and enable us to deliver a stream of innovative solutions in our targeted product categories. We also have regional sales offices and/or representatives in France, Germany, and in various cities in the U.S.

BUSINESS OUTLOOK

For 2009 we expect to see a further slowdown in economic activity and a decrease in global demand for our products, particularly in the consumer, computer and automotive markets. The success of our business depends, among other factors, on the strength of the global economy and the stability of the financial markets, which in turn affect our customers’ demand for our products, the ability of our customers to meet their payment obligations, the likelihood of customers canceling or deferring existing orders and end-user consumers’ demand for items containing our products in the end-markets we serve. We believe the long-term outlook for our business remains generally favorable despite the recent volatility in the equity and credit markets as we continue to execute on the strategy that has proven successful for us over the years. Although the economy creates a more challenging environment for all businesses, we believe that over the long-term we are well positioned for future growth. We will carefully monitor the market conditions and take the appropriate steps necessary to have positive free cash flow. We also remain focused on new product development and design wins in order to create additional revenue sources and to position us for rapid growth when the economy improves. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — *Business Outlook* and *Cost Reduction Initiative”* in Part II, Item 7 of this Annual Report for further information.

FINANCIAL INFORMATION, SEGMENT REPORTING AND GEOGRAPHIC AREAS

For financial reporting purposes, we operate in a single segment, standard semiconductor products, through our various design, manufacturing and distribution facilities. We sell product primarily through our operations in North America, Asia and Europe. We aggregated our products because the products are similar and have similar economic characteristics, and the products are similar in production process and share the same customer type. See Note 20 of "Notes to Consolidated Financial Statements" of this Annual Report for addition information about geographic areas and segment reporting including our net sales, net income and total assets.

OUR INDUSTRY

Semiconductors are critical components used in the manufacture of an increasing variety of electronic products and systems. Since the invention of the transistor in 1948, continuous improvements in semiconductor processes and design technologies have led to smaller, more complex and more reliable devices at a lower cost per function. The availability of low-cost semiconductors, together with increased customer demand for sophisticated electronic systems, has led to the proliferation of semiconductors in diverse end-use applications in the consumer electronics, computing, industrial, communications and automotive sectors. These factors have also led to an increase in the total number of semiconductor components in individual electronic systems and an increase in value of these components as a percentage of the total cost of the electronic systems in which they are incorporated.

OUR COMPETITIVE STRENGTHS

We believe our competitive strengths include the following:

Flexible, scalable and cost-effective manufacturing — Our manufacturing operations are a core element of our success, and we have designed our manufacturing base to allow us to respond quickly to changes in demand trends in the end-markets we serve. For example, we have structured our Shanghai assembly, test and packaging facilities to enable us to rapidly and efficiently add capacity and adjust product mix to meet shifts in customer demand and overall market trends. As a result, for the past several years we have operated our Shanghai facilities at near full capacity, while at the same time significantly expanding that capacity. Additionally, the Shanghai location of our manufacturing operations provides us with access to a highly-skilled workforce at a low overall cost base while enabling us to better serve our leading customers, many of which are located in Asia. Currently, due to the decrease in global demand for our products, our Shanghai facilities are under-loaded. For at least the beginning of 2009, we do not expect to operate our Shanghai facilities near full capacity. Therefore we are taking the opportunity to transfer the production of products acquired in our purchase of Zetex sooner than originally planned thereby reducing our dependence on subcontractor OEMs and maximizing the utilization of our internal capacity.

Integrated packaging expertise — We believe that we have particular expertise in designing and manufacturing innovative and proprietary packaging solutions that integrate multiple separate discrete elements into a single semiconductor product called an array. Our ability to design and manufacture highly integrated semiconductor solutions provides our customers with products of equivalent functionality with fewer individual parts, and at lower overall cost, than alternative products. This combination of integration, functionality and miniaturization makes our products well suited for high-volume consumer devices such as digital audio players, notebook computers, flat-panel displays, mobile handsets, digital cameras and set-top boxes.

Broad customer base and diverse end-markets — Our customers are comprised of leading OEMs as well as leading EMS providers. Overall, we serve over 230 direct customers worldwide and over 10,000 additional customers through our distributors. Our products are ultimately used in end-products in a number of markets served by our broad customer base, which we believe makes us less dependent on either specific customers or specific end-user applications.

Customer focused product development — Effective collaboration with our customers and a high degree of customer service are essential elements of our business. We believe focusing on dependable delivery of semiconductor solutions tailored to specific end-user applications, has fostered deep customer relationships and created a key competitive advantage for us in the highly fragmented discrete and analog semiconductor marketplace. We believe our close relationships with our OEM and EMS customers have provided us with deeper insight into our customers' product needs. This results in differentiation in our product designs and often provides us with insight into additional opportunities for new design wins in our customers' products. See "Risk Factors — *We are and will continue to be under continuous pressure from our customers and competitors to reduce the price of our products, which could adversely affect our growth and profit margins"* in Part I, Item 1A of this Annual Report for additional information.

Management continuity and experience — We believe that the continuity of our management team is a critical competitive strength. Three members of our executive team average over 15 years of service at the Company and the length of their service with us has created significant institutional insight into our markets, our customers and our operations. Additionally, the other eight executive officers have an average of over 25 years experience in the semiconductor industry.

In June 2005, we appointed Dr. Keh-Shew Lu as President and Chief Executive Officer. Dr. Lu has served as a director of Diodes since 2001 and has over 30 years of relevant industry experience. Dr. Lu began his career at Texas Instruments, Inc. ("TI") in 1974 and retired in 2001 as Senior Vice President and General Manager of Worldwide Analog, Mixed-Signal and Logic Products. Our Chief Financial Officer, Secretary and Treasurer, Carl Wertz, has been employed by us since 1993 and has over 20 years of financial experience in manufacturing and distribution industries. Joseph Liu, Senior Vice President of Operations, joined us in 1990 and has over 30 years of relevant industry experience, having started his career in 1971 at TI. Similarly, Mark King, Senior Vice President of Sales and Marketing, has been employed by us since 1991.

Management expansion — In 2006, we hired Richard White, Senior Vice President of Finance, who brought with him over 30 years of senior level finance experience, including 25 years at TI; and Edmund Tang, Vice President of Corporate Administration, with over 30 years of managerial and engineering experience. Also in 2006, Francis Tang, Vice President of Discrete Product Development, was promoted from Global Product Manager.

In 2008, we strengthened our executive management team with the addition of the following management team members: Hans Rohrer, Senior Vice President of Business Development, who brought 30 years of relevant industry experience and joined us as a result of the acquisition of Zetex, at which he was CEO; Colin Greene, Europe President and Vice President of Europe Sales and Marketing, who brought with him over 20 years of relevant industry experience and joined us as a result of the acquisition of Zetex, at which he was COO; and Julie Holland, Vice President of Worldwide Analog Products, who came to us from TI and brought with her over 23 years of relevant industry experience. Also in 2008, we promoted Tung Cheo ("T.J.") Lee to Vice President of Packaging Operations and General Manager of China Operations.

OUR STRATEGY

As discussed in detail in Part II, Item 7 of this Annual Report, the global economic downturn has resulted in a decrease in demand for our products, and we expect the decrease in demand to continue until economic conditions improve. Even as we are experiencing a decrease in product demand, our strategy is to continue to enhance our position as a leading global manufacturer and supplier of high-quality semiconductor products by transferring the production of products acquired in our purchase of Zetex to maximize internal capacity, applying our packaging expertise to the Zetex products and adding other product lines, such as power management products.

The principal elements of our strategy include the following:

Continue to rapidly introduce innovative discrete and analog semiconductor products — We intend to maintain our rapid pace of new product introductions, especially for high-volume, growth applications with short design cycles, such as digital audio players, notebook computers, flat-panel displays, mobile handsets, digital cameras, set-top boxes and other consumer electronics and computing devices. During 2008, we introduced approximately 230 new devices and achieved new design wins at over 100 OEMs. Although a design win from a customer does not necessarily guarantee future sales to that customer, we believe that continued introduction of new and differentiated product solutions is critically important in maintaining and extending our market share in the highly competitive semiconductor marketplace.

Sales of new products (products that have been sold for three years or less) for the years ended December 31, 2006, 2007 and 2008 amounted to 28.2%, 35.1% and 26.9% of total sales, respectively, including the contribution of recent acquisitions. New products generally have gross profit margins that are higher than the margins of our standard products, and we expect net sales derived from new products to increase in absolute terms. New product revenue in 2008 was driven by products in sub-miniature array, QFN, PowerDIâ323, PowerDIâ123, PowerDIâ5, SBRâ and Schottky platforms, in both the discrete and analog product lines. We feel the sales from new products is an important measure given the short life cycles of some of our products. See "Risk Factors — *Our business may be adversely affected by obsolete inventories as a result of changes in demand for our products and change in life cycles of our products"* in Part I, Item 1A of this Annual Report for additional information about product life cycles.

Expand our available market opportunities — We intend to aggressively maximize our opportunities in the standard semiconductor market as well as in related markets where we can apply our semiconductor design and manufacturing expertise. A key element of this is leveraging our highly integrated packaging expertise through our Application Specific Multi-Chip Circuit ("ASMCC") product platform, which consists of standard arrays, function specific arrays and end-equipment specific arrays. We intend to achieve this by:

- Continuing to focus on increasing packaging integration, particularly with our existing standard array and customer-specific array products, in order to achieve products with increased circuit density, reduced component count and lower overall product cost;

- Expanding existing products and developing new products in our function specific array lines, which combine multiple discrete semiconductor components to achieve specific common electronic device functionality at a low cost; and

- Developing new product lines, which we refer to as end-equipment specific arrays, which combine discrete components with logic and/or standard analog circuits to provide system-level solutions for high-volume, high-growth applications.

Maintain intense customer focus — We intend to strengthen and deepen our customer relationships. We believe that continued focus on customer service is important, especially in the current economic environment, and will help to increase our net sales, operating performance and overall market share once economic conditions improve. To accomplish this, we intend to continue to closely collaborate with our customers to design products that meet their specific needs. A critical element of this strategy is to continue to further reduce our design cycle time in order to quickly provide our customers with innovative products. During 2008, we expanded our quality systems team to ensure we deliver high quality products. Additionally, to support our customer-focused strategy, we historically expanded our sales force and field application engineers, particularly in Asia and Europe, during periods of growth. Given the current economic conditions, we have deferred hiring additional employees since the fourth quarter of 2008, when we implemented a hiring freeze. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — *Cost Reduction Initiative"* section of Part II, Item 7 of this Annual Report for additional information about the hiring freeze and other cost reduction initiatives.

PowerDI and SBR are registered trademarks of Diodes Incorporated

Enhance cost competitiveness — A key element of our success is our overall low-cost base. While we believe that our Shanghai manufacturing facilities are among the most efficient in the industry, we will continue to refine our proprietary manufacturing processes and technology to achieve additional cost efficiencies. Historically, we have operated our facilities at high utilization rates and increased product yields, in order to achieve meaningful economies of scale. Given the current economic conditions, our facilities are currently running at abnormally low levels and will remain at abnormally low levels until economic conditions improve.

Pursue selective strategic acquisitions — As part of our strategy to expand our standard semiconductor product offerings and to maximize our market opportunities, we may acquire discrete, analog or mixed-signal technologies, product lines or companies in order to support our ASMCC product platform and enhance our standard and new product offerings.

In November 2006, we purchased the net assets of APD Semiconductor, Inc., a privately held U.S.-based fabless semiconductor company, including its patented and trademarked SBR® (super barrier rectifier) technology. SBR® technology allows for increased power saving with better efficiency and reliability at higher operating temperatures. It will further strengthen our technology leadership in the discrete semiconductor market and expand our product capabilities across important segments of our end-markets.

In June 2008, we completed the acquisition of Zetex, a publicly traded UK semiconductor company and a leading provider of discrete and high performance analog semiconductor products for signal processing and power management. Zetex designs and manufactures a broad range of standard and application focused linear integrated circuits and discrete semiconductor products using a wide variety of wafer processing technologies. Headquartered in Oldham England, Zetex has a wafer fabrication plant in the UK and carries out package development, assembly and test at its facilities in Germany and China and through subcontractors in Asia. Zetex operates sales offices in Munich, Hong Kong and New York and is supported by a global network of distributors and manufacturer's representatives. See Note 2 of "Notes to Consolidated Financial Statements" and "Risk Factors — *Part of our growth strategy involves identifying and acquiring companies with complementary product lines or customers. We may be unable to identify suitable acquisition candidates or consummate desired acquisitions and, if we do make any acquisitions, we may be unable to successfully integrate any acquired companies with our operations"* in Part I, Item 1A of this Annual Report for additional information about our recent acquisitions.

CONVERTIBLE SENIOR NOTES

On October 12, 2006, we issued and sold convertible senior notes with an aggregate principal amount of $230 million due 2026 (the "Notes"), 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 our option, cash and shares of our 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, we will, at our 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 fourth quarter of 2008 and the first quarter of 2009, we repurchased $46.5 million and $9.6 million principal amount of the Notes for approximately $23.2 million and $6.6 million in cash, respectively. Beginning January 1, 2009, we will adopt Financial Accounting Standards Board ("FASB") Staff Position ("FSP") APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)*, that will change how we account for our Notes and significantly increase our non-cash interest expense. See Notes 1 and 10 of "Notes to Consolidated Financial Statements" of this Annual Report for additional information about the Notes, the repurchase and FSP APB 14-1.

OUR PRODUCTS

Our product portfolio includes over 4,000 products that are designed for use in high-volume consumer devices such as digital audio players, notebook computers, flat-panel displays, mobile handsets, digital cameras and set-top boxes. We target and serve end-equipment market segments that we believe have higher growth rates than other end-market segments served by the overall semiconductor industry.

Our broad product line includes:

- Discrete semiconductor products, including performance Schottky rectifiers; performance Schottky diodes; Zener diodes and performance Zener diodes, including tight tolerance and low operating current types; standard, fast, super-fast and ultra-fast recovery rectifiers; bridge rectifiers; switching diodes; small signal bipolar transistors; prebiased transistors; MOSFETs; thyristor surge protection devices; and transient voltage suppressors;
- Complex high-density diode, transistor and mixed technology arrays, in multi-pin ultra-miniature surface-mount packages, including customer specific and function specific arrays;
- Silicon wafers used in manufacturing these products; and
- Analog, including power management devices and Hall effect sensors.

Our semiconductor products are an essential building-block of electronic circuit design and are available in thousands of permutations varying according to voltage, current, power handling capability and switching speed.

Our complex diode and transistor arrays help bridge the gap between discrete semiconductors and integrated circuits. Arrays consist of multiple discrete semiconductor devices housed in a single package. Our discrete surface-mount devices, which are components that can be attached to the surface of a substrate with solder, target end-equipment categories with critical needs to minimize size while maintaining power efficiency and performance.

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

End Markets	2006	2007	2008	End product applications
Consumer Electronics	36%	36%	**32%**	Set-top boxes, game consoles, digital audio players, digital cameras, mobile handsets, flat-panel displays, personal medical devices
Computing	36%	37%	**33%**	Notebooks, flat-panel monitors, motherboards, PDAs, multi-function printers, servers, network interface cards, hard disk drives
Communications	14%	15%	**16%**	Gateways, routers, switches, hubs, fiber optics, DSL, cable and standard modems, networking (wireless, ethernet, power/phone line)
Industrial	12%	10%	**16%**	Ballast lighting, power supplies, DC-DC conversion, security/access systems, motor controls, HVAC
Automotive	2%	2%	**3%**	Comfort controls, audio/video players, GPS navigation, safety, security, satellite radios, engine controls, HID lighting

PRODUCT PACKAGING

Our device packaging technology primarily includes a wide variety of surface-mount packages. Our focus on the development of smaller, more thermally efficient, and increasingly integrated packaging, is a critical component of our product development. We provide a comprehensive offering of miniature and sub-miniature packaging, enabling us to fit components into smaller and more efficient packages, while maintaining the same device functionality and power handling capabilities. Smaller packaging provides a reduction in the height, weight and board space required for our components, and is well suited for battery-powered, hand-held and wireless consumer applications such as digital audio players, notebook computers, flat-panel displays, mobile handsets, digital cameras and set-top boxes.

CUSTOMERS

We serve over 230 direct customers worldwide, which consist of OEMs and EMS providers. Additionally, we have approximately 70 distributor customers worldwide, through which we indirectly serve over 10,000 customers. Our customers include: (i) industry leading OEMs in a broad range of industries, such as Bose Corporation, Honeywell International, Inc., Cisco Systems, Inc., LG Electronics, Inc., Motorola, Inc., Quanta Computer, Inc., Sagem Communication, Delta Electronics, Hella, Ltd., and Samsung Electronics Co., Ltd.; (ii) leading EMS providers, such as Celestica, Inc., Flextronics International, Ltd., Hon Hai Precision Industry Co., Ltd., Inventec Corporation, Jabil Circuit, Inc., and Sanmina-SCI Corporation, who build end-market products incorporating our semiconductors for companies such as Apple Computer, Inc., Dell, Inc., EMC Corporation, Intel Corporation, Microsoft Corporation, Thompson, Inc. and Roche Diagnostics; and (iii) leading distributors such as Arrow Electronics, Inc., Avnet, Inc., Future Electronics, Yosun Industrial Corporation, Zenitron Corporation and Rutronic. For the years of 2006, 2007 and 2008, our OEM and EMS customers together accounted for 54.2%, 61.1% and 56.6%, respectively, of our net sales.

For the years ended December 31, 2006, 2007 and 2008, Lite-On Semiconductor Corporation (LSC), which is also our largest stockholder, (owning approximately 20.2% of our Common Stock as of December 31, 2008), and a member of the Lite-On Group of companies, accounted for approximately 6.5%, 6.2% and 3.5%, respectively, of our net sales. No customer accounted for 10% or more of our net sales in 2006, 2007 and 2008. Also, 13.0%, 11.3% and 9.6% of our net sales were from the subsequent sale of products we purchased from LSC in 2006, 2007 and 2008, respectively. See “Business — *Certain relationships and related party transactions*” for additional information.

We believe that our close relationships with our OEM and EMS customers have provided us with deeper insight into our customers’ product needs than other manufacturers who we believe depend to a greater extent on indirect sales through distributors. In addition to seeking to expand relationships with our existing customers, our strategy is to pursue new customers and diversify our customer base by focusing on leading global consumer electronics companies and their EMS providers and distributors.

We generally warrant that products sold to our customers will, at the time of shipment, be free from defects in workmanship and materials and conform to our approved specifications. Subject to certain exceptions, our standard warranty extends for a period of one year from the date of shipment. Warranty expense has not been significant. Generally, our customers may cancel orders on short notice without incurring a significant penalty.

Many of our customers are based in Asia or have manufacturing facilities in Asia. Net sales by country consists of sales to customers in that country based on the country to which products are billed. For the year ended December 31, 2008, 30.0%, 27.4%, 19.8%, and 22.8% of our net sales were derived from China, Taiwan, the U.S. and all other markets, respectively, compared to 38.9%, 25.6%, 20.3%, and 15.2% in 2007, respectively. We anticipate the percentage of net sales shipped to customers in Asia to increase as the trend towards manufacturing in Asia continues. In addition, as a result of the Zetex acquisition we will begin to add significant revenue in Europe.

SALES AND MARKETING

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

As of December 31, 2008, our direct global sales and marketing organization consisted of approximately 200 employees operating out of 18 offices. We have sales and marketing offices or representatives in Taipei, Taiwan; Shanghai and Shenzhen, China; Hong Kong; Beauzelle, France; and Munich, Germany; and we have 6 regional sales offices in the U.S. As of December 31, 2008, we also had approximately 17 independent sales representative firms marketing our products.

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

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

MANUFACTURING OPERATIONS AND FACILITIES

We operate two manufacturing facilities located in Shanghai, China, one in Neuhaus, Germany and a joint venture facility in Chengdu, China, and our wafer fabrication facilities are in Kansas City, Missouri and Oldham, England. Our facilities in Shanghai perform packaging, assembly and testing functions, our joint venture facility in Chengdu performs packaging functions, our Kansas City facility is a 5-inch and 6-inch wafer foundry and our Oldham facility is a 6-inch wafer foundry. In 2007, we moved our Taiwan analog probe and testing operations to our Shanghai facilities.

For the years ended at December 31, 2007 and 2008, we had invested approximately $41.2 million and $30.0 million, respectively, in plant and state-of-the-art equipment in China ($197.3 million total investment in China from inception). Both of our facilities in China manufacture product for sale by our U.S., Europe and Asia operations, and also sell to external customers. For the years ended at December 31, 2007 and 2008, we had invested approximately $8.6 million and $13.5 million, respectively, in equipment for our wafer foundries, including expenses to shut down the 4-inch line and upgrade our 6-inch line in Oldham.

Silicon wafers are received and inspected in a highly controlled "clean room" environment awaiting the assembly operation. During the first step of assembly, the wafers are sawn with very thin, high speed diamond blades into tiny semiconductor "dice," numbering as many as 170,000 per 5-inch diameter wafer and 240,000 per 6-inch diameter wafer. Dice are then loaded onto a handler, which automatically places the dice, one by one, onto lead frames, which are package specific, where they are bonded to the lead-frame pad. Next, automatic wire bonders make the necessary electrical connections from the die to the leads of the lead-frame, using micro-thin gold wire for the majority of our products, while some products use copper wire instead. Also, some of our high power devices are clip bonded using copper clips or are aluminum bonded using aluminum bond wires. Then our devices are sent through our fully automated assembly machinery that molds the epoxy case around the die and lead-frame to produce the desired semiconductor product or are molded manually. After a trim, form, test, mark and re-test operation for most products, certain parts such as surface mounted devices are placed into special carrier housings and a cover tape seals the parts in place, while other devices are put into other special packaging. The surface mounted devices are then spooled onto reels or placed into other packaging medium and boxed for shipment.

Our manufacturing processes use many raw materials, including silicon wafers, copper lead frames, gold wire and other metals, molding compounds and various chemicals and gases. As part of our cost reduction initiatives as discussed in detail in "Management's Discussion and Analysis of Financial Condition and Results of Operations — *Cost Reduction Initiative"* in Part II, Item 7 of this Annual Report, we are continuously evaluating our raw material costs in order to reduce our gold consumption while protecting and maintaining product performance. We have no material agreements with any of our suppliers that impose minimum or continuing supply obligations. From time to time, suppliers may extend lead times, limit supplies or increase prices due to capacity constraints or other factors. Although we believe that supplies of the raw materials we use are currently and will continue to be available, shortages could occur in various essential materials due to interruption of supply or increased demand in the industry. See "Risk Factors — *We depend on third-party suppliers for timely deliveries of raw materials, parts and equipment, as well as finished products from other manufacturers, and our results of operations could be adversely affected if we are unable to obtain adequate supplies in a timely manner"* in Part I, Item 1A of this Annual Report.

Our corporate headquarters are located in a leased facility in Dallas, Texas. We also lease or own properties around the world for use as sales offices, research and development labs, warehouses and logistic centers. The size and/or location of these properties can change from time to time based on our business requirements. In 2008, we purchased land near Dallas, Texas for approximately $4.9 million, which will be the future site of our corporate headquarters. See "Properties" in Part I, Item 2 of this Annual Report for further details about our leased and owned properties.

BACKLOG

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

PATENTS, TRADEMARKS AND LICENSES

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

Our initial product patent portfolio was primarily composed of discrete technologies. Then, in the late 1990s, our engineers in Shanghai began to research and develop packaging technologies, which produced several important breakthrough and patents, such as the PowerDIâ series of packaging technology to foster our growth in the semiconductor industry.

We subsequently acquired Anachip Corp. in early 2006, a fables semiconductor company, which initiated our presence in the analog standard product market.

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

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

Currently, our licensing of patents to other companies is not material. We do, however, license certain product technology from other companies, but we do not consider any of the licensed technology to be material in terms of royalties. We believe the duration and other terms of the licenses are appropriate for our current needs. See "Risk Factors — *We may be subject to claims of infringement of third-party intellectual property rights or demands that we license third-party technology, which could result in significant expense and reduction in our intellectual property rights"* in Part I, Item 1A of this Annual Report.

COMPETITION

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

ENGINEERING AND RESEARCH AND DEVELOPMENT

Our engineering and research and development groups consist of applications, technical marketing, and product development engineers who assist in determining the direction of our future product lines. Their primary function is to work closely with market-leading customers to further refine, expand and improve our product range within our product types and packages. In addition, customer requirements and acceptance of new package types are assessed and new, higher-density and more energy-efficient packages are developed to satisfy customers' needs. Working with customers to integrate multiple types of technologies within the same package, our applications engineers strive to reduce the required number of components and, thus, circuit board size requirements of a device, while increasing the functionality of the component technology.

Product engineers work directly with our semiconductor wafer design and process engineers who develop die designs needed for products that precisely match our customers' requirements. Direct contact with our manufacturing facilities allows the manufacturing of products that are in line with current technical requirements. We have the capability to capture the customers' electrical and packaging requirements through their product development engineers, and then transfer those requirements to our research and development and engineering department, so that the customers' requirements can be translated, designed, and manufactured with full control, even to the elemental silicon level.

For the years ended December 31, 2006, 2007 and 2008, Company-sponsored investment in research and development activities was $8.3 million, $13.5 million and $22.5 million, respectively. As a percentage of net sales, research and development expense was 2.4%, 3.4% and 5.2% for 2006, 2007 and 2008, respectively. The increase in 2008 was mainly due to research and development activities associated with the acquisition of Zetex. Given the current economic conditions, we anticipate research and development expense to remain relatively flat in absolute dollars, but to increase as a percentage of net sales due to the lower expected net sales.

EMPLOYEES

As of December 31, 2008, we employed a total of 3,067 employees, of which 2,215 of our employees were in Asia, 269 were in the United States and 583 were in Europe. None of our employees in Asia or the United States are subject to a collective bargaining agreement but a majority of our employees in Europe are covered by local labor agreements. We consider our relations with our employees to be satisfactory. See "Risk Factors — *We may fail to attract or retain the qualified technical, sales, marketing and management personnel required to operate our business successfully"* in Part I, Item 1A of this Annual Report.

Due to the current economic conditions, we have reduced our number of employees during the first quarter of 2009. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -*Cost reduction initiative"* in Part II, Item 7 of this Annual Report for additional information.

ENVIRONMENTAL MATTERS

We are subject to a variety of U.S. Federal, state, local and foreign governmental laws, rules and regulations related to the use, storage, handling, discharge or disposal of certain toxic, volatile or otherwise hazardous chemicals used in our manufacturing process both in the U.S. and England where our wafer fabrication facilities are located, and in China and Germany where our assembly, test and packaging facilities are located. Any of these regulations could require us to acquire equipment or to incur substantial other costs to comply with environmental regulations or remediate problems. For the years ended December 31, 2006, 2007 and 2008, our capital expenditures for environmental controls have not been material. As of December 31, 2008, there were no known environmental claims or recorded liabilities. See "Risk Factors — *We are subject to many environmental laws and regulations that could affect our operations or result in significant expenses"* in Part I, Item 1A of this Annual Report.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

We conduct business with one related party company, Lite-On Semiconductor Corporation and its subsidiaries and affiliates ("LSC"). LSC is our largest stockholder, owning approximately 20.2% of our outstanding Common Stock as of December 31, 2008, and is a member of the Lite-On Group of companies. C.H. Chen, our former President and Chief Executive Officer, and Vice Chairman of our Board of Directors, is also Vice Chairman of LSC. M.K. Lu, a member of our Board of Directors until May 2007, was President of LSC. In addition, Raymond Soong, the Chairman of our Board of Directors, is Chairman of LSC, and is the Chairman of Lite-On Technology Corporation, a significant shareholder of LSC.

We also conduct business with one significant company, Keylink International (B.V.I) Inc., and its subsidiaries and affiliates ("Keylink"). Keylink is our 5% joint venture partner in our Shanghai manufacturing facilities.

The Audit Committee of our Board of Directors reviews all related party transactions for potential conflict of interest situations on an ongoing basis, in accordance with such procedures as the Audit Committee may adopt from time to time. We believe that all related party transactions are on terms no less favorable to us than would be obtained from unaffiliated third parties.

We sold silicon wafers to LSC totaling 6.5%, 6.2% and 3.5% of total sales for the years ended December 31, 2006, 2007 and 2008, respectively, making LSC our largest customer. Also for the years ended December 31, 2006, 2007 and 2008, 13.0%, 11.3% and 9.6%, respectively, of our net sales were from discrete semiconductor products purchased from LSC for subsequent sale by us, making LSC our largest outside supplier. We also rent warehouse space in Hong Kong from a member of the Lite-On Group, which also provides us with warehousing services at that location. For 2006, 2007 and 2008, we reimbursed this entity in aggregate amounts of $0.5 million, $0.5 million and $0.7 million, respectively, for these services. We believe that such transactions are on terms no less favorable to us than could be obtained from unaffiliated third parties. See "Risk Factors — *We receive a significant portion of our net sales from a single customer. In addition, this customer is also our largest external supplier and is a related party. The loss of this customer or supplier could harm our business and results of operations"* in Part I, Item 1A of this Annual Report.

We sell product to, and purchase inventory from, companies owned by Keylink. We sold silicon wafers to companies owned by Keylink totaling 0.4%, 0.6% and 0.8% of total sales for the years ended December 31, 2006, 2007 and 2008, respectively. Also for the years ended December 31, 2006, 2007 and 2008, 2.3%, 1.5% and 1.3%, respectively, of our net sales were from discrete semiconductor products purchased from companies owned by Keylink. In addition, we lease our Shanghai manufacturing facilities from, and subcontract a portion of their manufacturing process (metal plating and environmental services) to, Keylink, and also pay a consulting fee to a Keylink affiliated company. The aggregate amounts for these services for the years ended December 31, 2006, 2007 and 2008 were $7.9 million, $9.4 million and $10.5 million, respectively. We believe such transactions are on terms no less favorable to us than could be obtained from unaffiliated third parties.

When we acquired Anachip Corp., we inherited a wafer purchase agreement between Anachip Corp. and LSC, pursuant to which LSC would sell to Anachip Corp., according to Anachip Corp.'s requirements, during the three year period ending on December 31, 2008. Anachip Corp. purchased the wafers on terms (including purchase price, delivery schedule, and payment terms) no less favorable to Anachip Corp. than those terms on which Anachip Corp. purchased such wafers from LSC at the time of the acquisition; provided, however, that the purchase price would be the lower of the current price or the most favorable customer pricing. If the price of raw wafers increased by more than 20% within any six-month period, Anachip Corp. and LSC would renegotiate in good faith the price of wafers to reflect the cost increase. Although this contract was not renewed, Anachip Corp. continues to purchase wafers from LSC.

During 2008, LSC sold 0.3 million shares, reducing its holdings of our Common Stock to 8.4 million shares (20.2% of our outstanding Common Stock as of December 31, 2008). We did not receive any of the proceeds from their sale of our Common Stock

SEASONALITY

Historically, our net sales have been affected by the cyclical nature of the semiconductor industry and the seasonal trends of related end markets, specifically in the consumer and computing markets.

AVAILABLE INFORMATION

Our website address is http://www.diodes.com. We make available, free of charge through our website, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy statements, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission (the "SEC").

Our filings may also be read and copied at the SEC's Public Reference Room at 100 F Street NE, Room 1580 Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The address of that website is www.sec.gov.

Our website also provides investors access to current and complete financial and corporate governance information including our Code of Business Conduct, as well as SEC filings, press releases, and stock quotes.

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

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

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

Item 1A. **Risk Factors**

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

RISKS RELATED TO OUR BUSINESS

Global economic weakness and the current financial market uncertainty has had, and is expected to continue to have through at least 2009, a material adverse effect on our business.

The current global economic weakness, including the potential for a significant and prolonged global economic recession, has led to lower consumer discretionary spending and demand for items that incorporate our products in the consumer electronics, computing, industrial, communications and the automotive sectors. The decline in end-user demand has in turn affected our customers' demand for our products, the ability of our customers to meet their payment obligations, and the likelihood of customers canceling or deferring existing orders. Our revenues and operating results have been, and may continue to be, negatively affected by such actions. The current global economic weakness and financial market uncertainty may last longer than we anticipated or have a greater adverse effect on our business, including our revenues and operating results, than we anticipated.

In the current difficult market conditions, our fixed costs combined with lower revenues have negatively impacted our results.

The semiconductor industry is characterized by high fixed costs. Notwithstanding our utilization of third-party manufacturing capacity, most of our production requirements are met by our own manufacturing facilities. In difficult economic environments like the one we are currently experiencing, we are generally faced with a decline in the utilization rates of our manufacturing facilities due to decreases in product demand. During such periods, our fabrication plants do not operate at full capacity and the costs associated with this excess capacity are expensed immediately and not capitalized into inventory. By the end of 2008, our utilization rate declined to abnormally low production levels compared to the end of 2007, which resulted in lower gross margins. The market conditions in the future may continue to adversely affect our utilization rates and consequently our future gross margins, and this, in turn, could have a material negative impact on our business, financial condition and results of operations.

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

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

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

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

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

We receive a significant portion of our net sales from a single customer. In addition, this customer is also our largest external supplier and is a related party. The loss of this customer or supplier could harm our business and results of operations.

In 2007 and 2008, LSC, our largest stockholder and one of our largest customers, accounted for 6.2% and 3.5%, respectively, of our net sales. LSC is also our largest supplier, providing us with discrete semiconductor products for subsequent sale by us, which represented approximately 11.3% and 9.6%, respectively, of our net sales, in 2007 and 2008. The loss of LSC as either a customer or a supplier, or any significant reductions in either the amount of products it supplies to us, or the volume of orders it places with us, could materially harm our business and results of operations.

Delays in initiation of production at new facilities, implementing new production techniques or resolving problems associated with technical equipment malfunctions could adversely affect our manufacturing efficiencies.

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

Our wafer fabrication facilities are located in Kansas City, Missouri, and Oldham, England, while our facilities in Shanghai, China provide assembly, test and packaging capabilities. Any disruption of operations at these facilities could have a material adverse effect on our business, financial condition and results of operations.

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

Prices for our products tend to decrease over their life cycle. There is substantial and continuing pressure from customers to reduce the total cost of purchasing our products. To remain competitive and retain our customers and gain new ones, we must continue to reduce our costs through product and manufacturing improvements. We must also strive to minimize our customers' shipping and inventory financing costs and to meet their other goals for rationalization of supply and production. We experienced an increase in average selling prices ("ASP") for our products of 12.1% in 2006, a decrease of 6.8% in 2007 and an increase of 5.6% in 2008 (due primarily to higher ASPs for Zetex products). At times, we may be required to sell our products at ASP's below our manufacturing cost or purchase price in order to remain competitive. Our growth and the profit margins of our products will suffer if we cannot effectively continue to reduce our costs and keep our product prices competitive.

Our customers require our products to undergo a lengthy and expensive qualification process without any assurance of product sales

Prior to purchasing our products, our customers require that our products undergo an extensive qualification process, which involves rigorous reliability testing. This qualification process may continue for six months or longer. However, qualification of a product by a customer does not ensure any sales of the product to that customer. Even after successful qualification and sales of a product to a customer, a subsequent revision to the device, changes in the device's manufacturing process or the selection of a new supplier by us may require a new qualification process, which may result in delays and in us holding excess or obsolete inventory. After our products are qualified, it can take an additional six months or more before the customer commences volume production of components or devices that incorporate our products.

Despite these uncertainties, we devote substantial resources, including design, engineering, sales, marketing and management efforts, toward qualifying our products with customers in anticipation of sales. If we are unsuccessful or delayed in qualifying any of our products with a customer, such failure or delay would preclude or delay sales of such product to the customer, which may impede our growth and cause our business to suffer.

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

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

Production at our manufacturing facilities could be disrupted for a variety of reasons, which could prevent us from producing enough of our products to maintain our sales and satisfy our customers' demands.

A disruption in production at our manufacturing facilities could have a material adverse effect on our business. Disruptions could occur for many reasons, including fire, natural disasters, weather, unplanned maintenance or other manufacturing problems, disease, strikes, transportation interruption, government regulation or terrorism. Alternative facilities with sufficient capacity or capabilities may not be available, may cost substantially more or may take a significant time to start production, each of which could negatively affect our business and financial performance. If one of our key manufacturing facilities is unable to produce our products for an extended period of time, our sales may be reduced by the shortfall caused by the disruption, and we may not be able to meet our customers' needs, which could cause them to seek other suppliers. Such disruptions could have an adverse effect on our results of operations in future reporting periods.

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 could result in a decrease in net sales and loss of market share.

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

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

We may be adversely affected by any disruption in our information technology systems.

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

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

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

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 and reduction in our intellectual property rights.

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

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

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

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

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

If we do not succeed in continuing to vertically integrate our business, we will not realize the cost and other efficiencies we anticipate and our ability to compete, profit margins and results of operations may suffer.

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

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

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

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

A significant part of our growth strategy involves acquiring companies with complementary product lines, customers or other capabilities. For example, (i) in fiscal year 2000, we acquired Diodes FabTech Inc., a wafer fabrication company, in order to have our own wafer manufacturing capabilities, (ii) in January 2006, we acquired Anachip Corp. as an entry into standard logic markets, (iii) in November 2006, we acquired the net operating assets of APD Semiconductor and (iv) in June 2008, we acquired Zetex plc. While we do not currently have any agreements or commitments in place with respect to any material acquisitions, we are in various stages of preliminary discussions, and we intend to continue to expand and diversify our operations by making further acquisitions. However, we may be unsuccessful in identifying suitable acquisition candidates, or we may be unable to consummate a desired acquisition. To the extent we do make acquisitions, if we are unsuccessful in integrating these companies or their operations or product lines with our operations, or if integration is more difficult than anticipated, we may experience disruptions that could have a material adverse effect on our business, financial condition and results of operations. In addition, we may not realize all of the benefits we anticipate from any such acquisitions. Some of the risks that may affect our ability to integrate or realize any anticipated benefits from acquisitions that we may make include those associated with:

- unexpected losses of key employees or customers of the acquired company;
- bringing the acquired company’s standards, processes, procedures and controls into conformance with our operations;

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

See Part I, Item 3 of this Annual Report for additional information regarding our current legal proceedings.

We are subject to many environmental laws and regulations that could affect our operations or result in significant expenses.

We are subject to a variety of U.S. Federal, state, local and foreign governmental laws, rules and regulations related to the use, storage, handling, discharge or disposal of certain toxic, volatile or otherwise hazardous chemicals used in our manufacturing process both in the United States and England where our wafer fabrication facilities are located, in China and Germany where our assembly, test and packaging facilities are located, and in Taiwan (where our analog products were produced through 2007). Some of these regulations in the United States include the Federal Clean Water Act, Clean Air Act, Resource Conservation and Recovery Act, Comprehensive Environmental Response, Compensation, and Liability Act and similar state statutes and regulations. Any of these regulations could require us to acquire equipment or to incur substantial other expenses to comply with environmental regulations. If we were to incur such additional expenses, our product costs could significantly increase, materially affecting our business, financial condition and results of operations. Any failure to comply with present or future environmental laws, rules and regulations could result in fines, suspension of production or cessation of operations, any of which could have a material adverse effect on our business, financial condition and results of operations. Our operations affected by such requirements include, among others: the disposal of wastewater containing residues from our manufacturing operations through publicly operated treatment works or sewer systems, and which may be subject to volume and chemical discharge limits and may also require discharge permits; and the use, storage and disposal of materials that may be classified as toxic or hazardous. Any of these may result in, or may have resulted in, environmental conditions for which we could be liable.

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

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

Our products are typically sold at prices that are significantly lower than the cost of the equipment or other goods in which they are incorporated. For example, our products that are incorporated into a personal computer may be sold for several cents, whereas the computer maker might sell the personal computer for several hundred dollars. Although we maintain rigorous quality control systems, we shipped approximately 14.5 billion, 18.1 billion and 18.5 billion individual semiconductor devices in years ended at December 31, 2006, 2007 and 2008, respectively, to customers around the world, and in the ordinary course of our business, we receive warranty claims for some of these products that are defective, or that do not perform to published specifications. Since a defect or failure in our products could give rise to failures in the end products that incorporate them (and consequential claims for damages against our customers from their customers), we may face claims for damages that are disproportionate to the revenues and profits we receive from the products involved. In addition, our ability to reduce such liabilities may be limited by the laws or the customary business practices of the countries where we do business. Even in cases where we do not believe we have legal liability for such claims, we may choose to pay for them to retain a customer's business or goodwill or to settle claims to avoid protracted litigation. Our results of operations and business could be adversely affected as a result of a significant quality or performance issue in our products, if we are required or choose to pay for the damages that result. Although we currently have product liability insurance, we may not have sufficient insurance coverage, and we may not have sufficient resources, to satisfy all possible product liability claims. In addition, any perception that our products are defective would likely result in reduced sales of our products, loss of customers and harm to our business and reputation.

We may fail to attract or retain the qualified technical, sales, marketing and management personnel required to operate our business successfully.

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

We may not be able to maintain our growth or achieve future growth and such growth may place a strain on our management and on our systems and resources.

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

Our business may be adversely affected by obsolete inventories as a result of changes in demand for our products and change in life cycles of our products.

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

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

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

We are subject to interest rate risk that could have an adverse effect on our cost of working capital and interest expenses.

We have credit facilities with financial institutions in Asia and Europe, as well as other debt instruments, with interest rates equal to LIBOR or similar indices plus a negotiated margin. A rise in interest rates could have an adverse impact upon our cost of working capital and our interest expense. As of December 31, 2008, our outstanding interest-bearing debt was $402.0 million, including $183.5 million senior convertible notes with a fixed rate of 2.25% and $212.7 million under our “no net cost loan.” An increase of 1.0% in interest rates would increase our annual interest rate expense by approximately $0.1 million due to the fact that any increase in interest expense related to our “no net cost loan” will be offset by interest earned on our ARS portfolio.

We had a significant amount of debt following the offering of convertible notes. Our substantial indebtedness could adversely affect our business, financial condition and results of operations and our ability to meet our payment obligations under the notes and or other debt.

Following the offering of senior convertible notes in October 2006 (“Notes”), we had a significant amount of debt and substantial debt service requirements. As of December 31, 2008, we had $402.0 million of outstanding debt, including $183.5 million Notes with a fixed rate of 2.25% and $212.7 million under our “no net cost loan” with UBS. In addition, $46.5 million is available for future borrowings under our credit facilities in Asia and Europe, and we are permitted under the terms of our debt agreements to incur substantial additional debt.

This level of debt could have significant consequences on our future operations, including:

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

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

In addition, on each of October 1, 2011, 2016 and 2021, Notes holders may require us to purchase all or part of the Notes at 100% of the principal amount at which time we may not have the available funds necessary to purchase the Notes.

Our Auction Rate Securities (“ARS”) are currently illiquid and we cancelled our bank credit facility in the U.S.; therefore, we must rely solely upon existing cash reserves, available foreign credit facilities and funds from existing operations to finance future operations.

We have $320.6 million of par value ARS that became illiquid during the first quarter of 2008 due to the failure of the Dutch auction process. We reached a settlement with UBS AG in the fourth quarter of 2008, which allows us to put the ARS back to UBS AG at any time from June 30, 2010 to July 2, 2012 at par value. As part of the settlement, we entered into a “no net cost loan” that allows us to borrow up to 75% of the market value of the ARS portfolio, as determined by UBS AG. As of December 31, 2008, we have drawn $213 million, which was 75% of the market value upon time of the draw. Although we are not required to repay the loan, we are unable to draw additional funds until the ARS’s market value, as determined by UBS AG, exceeds 75% or until June 30, 2010 when we can put the ARS back to UBS AG.

On February 6, 2009, we paid in full the outstanding balance of approximately $2.5 million on our revolving credit commitment with Union Bank and terminated the Amended and Restated Credit Agreement that governed the revolving credit commitment. On February 11, 2009, we paid in full the outstanding balance of approximately $1.8 million on our Union Bank term loan facility and terminated the Covenant Agreement that governed that facility, which was scheduled to mature on August 29, 2010.

As of December 31, 2008, our Asia and Europe subsidiaries have available lines of credit of up to an aggregate of $49.4 million, with several financial institutions. These lines of credit, except for one Taiwanese credit facility, are collateralized by each subsidiary’s premises, are unsecured, uncommitted and, in some instances, must be repaid on demand. Loans under these lines of credit bear interest at LIBOR or similar indices plus a specified margin. At December 31, 2008, $6.1 million was outstanding on these lines of credit, and the average interest rates ranged from 2.0% to 2.8%.

UBS AG may not honor its part of the settlement agreement with us to purchase our entire ARS portfolio at any time beginning from June 30, 2010 to July 2, 2012 at par value.

ARS are generally long-term debt instruments that are intended to provide liquidity through a Dutch auction process that resets the applicable interest rate at pre-determined calendar intervals. These auctions historically allowed existing investors to rollover their holdings and continue to own their respective securities or liquidate their holdings by selling their securities at par value. Since mid-February 2008, there have been more sellers than buyers at each scheduled interest rate auction date and parties desiring to sell their securities have been unable to do so.

On October 29, 2008, we reached an agreement with UBS AG in regard to our ARS portfolio, which gives us the right to sell, which we refer to as the "option to put," the $320.6 million ARS portfolio back to UBS AG at any time beginning from June 30, 2010 to July 2, 2012 at par value. If UBS AG does not have the financial resources to repurchase our $320.6 million ARS portfolio, we may be required to hold the ARS until maturity, which would negatively impact our liquidity and working capital, and may require us to reclassify and reduce the fair market value of our ARS and our "put" option. The ARS portfolio includes securities with maturity dates ranging from 19 to 39 years.

UBS BANK USA ("UBS Bank") may demand full or partial repayment of our "no net cost loan" with the UBS Bank at any time at UBS Bank's sole option and without cause, and UBS Financial Services Inc. may be unable to provide us any alternative financing on substantially same terms and conditions as those of the" no net cost loan."

On October 29, 2008, we entered into an ARS settlement with UBS AG to provide liquidity for our $320.6 million ARS portfolio. One of the terms of the ARS settlement is that we may accept an offer of a so-called "no net cost" loan from UBS Bank for up to 75% of the market value, as determined by UBS Bank, of our ARS that we pledged as collateral to UBS Bank. However, the "no net cost loan" is a demand loan, and UBS Bank may demand full or partial repayment of the loan at any time at UBS Bank's sole option and without cause. Although the ARS settlement arrangement provides that UBS Financial Services Inc. would (i) support us with alternative financing on substantially same terms and conditions as those of the "no net cost loan," or (ii) have on of the UBS Entities repurchase our ARS portfolio at par, it is possible that UBS Financial Services Inc. would be unable to provide us such alternative financing, particularly under the present and potentially prolonged condition of global economic recession and financial market turmoil. Currently, although we do not expect that UBS Bank would demand full or partial repayment of our outstanding "no net cost loan," we are unable to provide any assurance that UBS Bank would not do so, and, in case such demand of repayment is made, we are also unable to provide any assurance that UBS Financial Services Inc. would be able to fully satisfy its obligation to provide us with alternative financing on substantially same terms and conditions as those of the "no net cost loan" or that a UBS Entity would repurchase our ARS portfolio at par.

The value of our benefit plan assets and liabilities is based on estimates and assumptions, which may prove inaccurate.

Certain of the Company's employees in the United Kingdom, Germany and Taiwan participate in Company sponsored defined benefit plan. The defined benefit plan is closed to new entrants and is frozen with respect to future benefit accruals. The retirement benefit is based on the final average compensation and service of each eligible employee. The Company accounts for these benefit plans in accordance with SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans (an amendment of FASB Statements No. 87, 88, 106 and 132R)*, which requires the Company to make actuarial assumptions that are used to calculate the earning value of the related assets, where applicable, and liabilities and the amount of expenses to be recorded in the Company's consolidated financial statements. Assumptions include the expected return on plan assets, discount rates, and mortality rates. While we believe the underlying assumptions, under the projected unit credit method are appropriate, the carrying value of the related assets and liabilities and the actual amount of expenses recorded in the consolidated financial statements could differ materially from the assumptions used.

Due to the recent and ongoing fluctuations in the United Kingdom's equity markets and bond markets, changes in actuarial assumptions for our defined benefit plan could increase the volatility of the plan's asset value, require us to increase cash contributions to the plan and have a negative impact on our results of operations and profitability.

The asset value of the Company's defined benefit plan (the "plan") has been volatile in recent months due primarily to wide fluctuations in the United Kingdom's equity markets and bond markets. The plan assets consist primarily of high quality corporate bonds and stocks traded on the London Stock Exchange and are determined from time to time based on their fair value, requiring the Company to utilize certain actuarial assumptions for the plan's fair value determination.

As of December 31, 2008, the benefit obligation of the plan was approximately U.S. $83.3 million and total assets in such plan were approximately U.S. $71.3 million. Therefore, the plan was underfunded by approximately U.S. $12.0 million. The difference between plan obligations and assets, or the funded status of the plan, is a significant factor in determining the net periodic benefit costs of the plan and the ongoing funding requirements of the plan.

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

There are risks associated with our acquisition of Zetex.

The acquisition of Zetex is accompanied by the risks commonly encountered in acquisitions of companies. These risks include, among other things, higher than anticipated acquisition costs and expenses, the difficulty and expense of integrating the operations and personnel of the companies, the difficulty of bringing Zetex's standards, procedures and controls into conformance with our operations, the ability to coordinate our new products and process development with Zetex, the ability to hire additional management and other critical personnel to better manage Zetex, the ability to increase the scope, geographic diversity and complexity of our operations with the addition of Zetex, difficulties in consolidating facilities and transferring processes and know-how with Zetex, difficulties in reducing costs of Zetex business, prolonged diversion of our management's attention from the management of our business to matters related to Zetex, the ability to clearly define our present and future strategies with the addition of Zetex and the loss of key employees and customers as a result of changes in management.

In addition, geographic distances may make the integration of Zetex slower and more challenging. We may ultimately not be successful in overcoming these risks or any other problems encountered in connection with the acquisition of Zetex.

Our acquisition may cause large one-time expenses as well as create goodwill and other intangible assets that may result in significant asset impairment charges in the future. We have made preliminary estimates and assumptions in order to determine purchase price allocation and estimate the fair value of acquired assets and liabilities of Zetex. If our estimates or assumptions used to value acquired assets and liabilities of Zetex are not accurate, we may be exposed to gains or losses that may be material to our results of operations and profitability.

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

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

Our management certification and auditor attestation regarding the effectiveness of our internal control over financial reporting as of December 31, 2008 excluded the operations of Zetex. If we are not able to integrate Zetex operations into our internal control over financial reporting, our internal control over financial reporting may not be effective.

Section 404 of the Sarbanes-Oxley Act ("SOX 404") requires us to furnish a management certification and auditor attestation regarding the effectiveness of our internal control over financial reporting. As a public company, we are required to report, among other things, control deficiencies that constitute a "material weakness" or changes in internal control that materially affect, or are reasonably likely to materially affect, internal control over financial reporting. A "material weakness" is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the registrant's annual or interim financial statements will not be prevented or detected on a timely basis.

Complying with SOX 404 is time consuming and costly. Prior to the acquisition, Zetex was a United Kingdom based, publicly traded company, listed on the London Stock Exchange and was not required to comply with SOX 404. The integration of Zetex operations into our internal control over financial reporting will require additional time and resources from our management and other personnel and may increase our compliance costs. The majority of Zetex operations are in the United Kingdom and in Germany. Such geographic distance between Zetex and our United States' headquarters may make the integration process of Zetex slower and more difficult. Therefore, our management certification and auditor attestation regarding the effectiveness of our internal control over financial reporting as of December 31, 2008 excluded the operations of Zetex.

Failure to comply with SOX 404, including a delay in or failure to successfully integrate Zetex operations into our internal control over financial reporting, or the report by us of a material weakness may cause investors to lose confidence in our consolidated financial statements, and the trading price of our Common Stock may decline. If we fail to remedy any material weakness, our financial statements may be inaccurate, our access to the capital markets may be restricted and the trading price of our Common Stock may decline.

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

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

RISKS RELATED TO OUR INTERNATIONAL OPERATIONS

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

We expect net sales from foreign markets to continue to represent a significant portion of our total net sales. In addition, the majority of our manufacturing facilities are located overseas in China. In 2006, 2007 and 2008, net sales to customers outside the United States represented 77.8%, 79.7% and 80.2%, respectively, of our net sales. There are risks inherent in doing business internationally, and any or all of the following factors could cause harm to our business:

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

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

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

Changes in the political environment or government policies in those jurisdictions could result in revisions to laws or regulations or their interpretation and enforcement, increased taxation, restrictions on imports, import duties or currency revaluations. In addition, a significant destabilization of relations between or among China, Taiwan or Hong Kong and the United States could result in restrictions or prohibitions on our operations or the sale of our products or the forfeiture of our assets in these jurisdictions. There can be no certainty as to the application of the laws and regulations of these jurisdictions in particular instances. Enforcement of existing laws or agreements may be sporadic and implementation and interpretation of laws inconsistent. Moreover, there is a high degree of fragmentation among regulatory authorities, resulting in uncertainties as to which authorities have jurisdiction over particular parties or transactions. The possibility of political conflict between these countries or with the United States could have an adverse impact upon our ability to transact business in these jurisdictions and to generate profits.

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

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

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

We face exposure to adverse movements in foreign currency exchange rates, primarily Asian currencies, the Euro and the British Pound Sterling. In addition, we sell our products in various currencies and, accordingly, a decline in the value of any such currency against the U.S. dollar, which is our primary functional currency, could create a decrease in our net sales. Our foreign currency risk may change over time as the level of activity in foreign markets grows and could have an adverse impact upon our financial results. These currencies are principally the Chinese Yuan, the Taiwanese dollar, the Japanese Yen, the Euro, the Hong Kong dollar and the British Pound Sterling. The Chinese government has taken action to permit the Yuan to U.S. dollar exchange rate to fluctuate, which may exacerbate our exposure to foreign currency risk and harm our results of operations. We do not usually employ hedging techniques designed to mitigate foreign currency exposures and, therefore, we could experience currency losses as these currencies fluctuate against the U.S. dollar.

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

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

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

With the establishment of our holding companies in 2007, we now intend to permanently reinvest overseas all earnings from foreign subsidiaries. Accordingly, the $3.3 million deferred tax liability was reversed during 2007 and U.S. taxes are no longer being recorded on undistributed foreign earnings.

As of December 31, 2008, accumulated and undistributed earnings of our subsidiaries in China were approximately $106.4 million, which we considered as a permanent investment.

As of December 31, 2008, we have undistributed earnings from non-U.S. operations of approximately $144 million. Additional Federal and state income taxes of approximately $41 million would be required should such earnings be repatriated to the U.S. parent.

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

RISKS RELATED TO OUR COMMON STOCK

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

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

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

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

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

As part of our growth strategy, we expect to review acquisition prospects that would implement our vertical integration strategy or offer other growth opportunities. While we do not currently have any agreements or commitments in place with respect to any material acquisitions, we are in various stages of preliminary discussions, and we may acquire businesses, products or technologies in the future. In the event of future acquisitions, we could:

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

Such actions by us could harm our results from operations and adversely affect the price of our Common Stock.

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

Our directors, executive officers and our affiliate, LSC, beneficially own approximately 36.7% of our outstanding Common Stock, including options to purchase shares of our Common Stock that are exercisable within 60 days of December 31, 2008. These stockholders, acting together, will be able to influence significantly all matters requiring stockholder approval, including the election of directors and significant corporate transactions such as mergers or other business combinations. This control may delay, deter or prevent a third party from acquiring or merging with us, which could adversely affect the market price of our Common Stock.

LSC, our largest stockholder, owns approximately 20.2% (approximately 8.4 million shares) of our Common Stock. Some of our directors and executive officers may have potential conflicts of interest because of their positions with LSC or their ownership of LSC common stock. Some of our directors are LSC directors and officers, and our non-employee Chairman of our Board of Directors is Chairman of the board of LSC. Several of our directors and executive officers own LSC common stock and hold options to purchase LSC common stock. Service on our Board of Directors and as a director or officer of LSC, or ownership of LSC common stock by our directors and executive officers, could create, or appear to create, actual or potential conflicts of interest when directors and officers are faced with decisions that could have different implications for LSC and us. For example, potential conflicts could arise in connection with decisions involving the Common Stock owned by LSC, or under the other agreements we may enter into with LSC. LSC was our largest external supplier of discrete semiconductor products for subsequent sale by us. In 2007 and 2008, approximately 11.3% and 9.6%, respectively, of our net sales were from products manufactured by LSC. In addition to being our largest external supplier of finished products in each of these periods, we sold silicon wafers to LSC totaling 6.2% and 3.5%, respectively, of our net sales during such periods, making LSC our largest customer.

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

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

We were formed in 1959 under the laws of California and reincorporated in Delaware in 1968. We have had several transfer agents over the past 50 years. In addition, our early corporate records, including our stock ledger, are incomplete. As a result, we may have difficulty in assessing and defending against claims relating to rights to our Common Stock purporting to arise during periods for which our records are incomplete.

Conversion of our convertible senior notes will dilute the ownership interest of existing stockholders, including holders who had previously converted their notes.

To the extent we issue Common Stock upon conversion of the notes, the conversion of some or all of the notes will dilute the ownership interests of existing stockholders, including holders who have received Common Stock upon prior conversion of the notes. Any sales in the public market of the Common Stock issuable upon such conversion could adversely affect prevailing market prices of our Common Stock. In addition, the existence of the notes may encourage short selling by market participants because the conversion of the notes could depress the price of our Common Stock.

The repurchase rights and the increased conversion rate triggered by a make-whole fundamental change could discourage a potential acquirer.

If a “fundamental change” in accordance with the terms of the senior convertible notes were to occur, the holders of the notes have the right to require us to repurchase the notes. A fundamental change would include a change in control of the Company. In addition, if a make-whole fundamental change were to occur, which may include an acquisition of the Company, the conversion rate for the senior convertible notes will increase. The repurchase rights in our senior convertible notes triggered by a fundamental change and the increased conversion rate triggered by a make-whole fundamental change could discourage a potential acquirer.

Anti-takeover effects of certain provisions of Delaware law and our Certificate of Incorporation and Bylaws.

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

Section 203 of Delaware General Corporation Law

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

(i) either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder is approved by the corporation’s board of directors prior to the date the interested stockholder becomes an interested stockholder;

(ii) the interested stockholder acquired at least 85.0% of the voting stock of the corporation (other than stock held by directors who are also officers or be certain employee stock plans) in the transaction in which the stockholder became an interested stockholder; or

(iii) the business combination is approved by a majority of the board of directors and by the affirmative vote of 66.66% of the outstanding voting stock that is not owned by the interested stockholder.

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

Certificate of Incorporation and Bylaw Provisions

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

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

Our primary physical properties at December 31, 2008, were as follows:

Primary use	Location	Lease expiration	Sq.Ft.
Headquarters/R&D center	Dallas, Texas	February 2012	8,000
Distribution/Logistics center	Westlake Village, California	December 2009	31,000
Sales office/R&D center	San Jose, California	January 2010	4,000
Regional sales office	Amherst, New Hampshire	Monthly	< 1,000
Regional sales office	Lemont, Illinois	Monthly	< 1,000
Regional sales office	Fountain Valley, California	Monthly	< 1,000
Regional sales office	Brookline, New Hampshire	Monthly	< 1,000
Regional sales office	Great River, New York	December 2013	2,000
Regional sales office	Beauzelle, France	February 2012	< 1,000
Regional sales office	Shanghai, China	October 2009	4,000
Regional sales office	Shenzhen, China	April 2012	5,000
Regional sales office	Kwai Fong, Hong Kong	Monthly	4,200
Regional sales office	Munich, Germany	July 2011	10,581
Warehouse/Logistics center	Kowloon Bay, Hong Kong	March 2011	10,000
R&D/Design center	Hsinchu, Taiwan	Monthly	31,000
Manufacturing facility/Logistics	Shanghai, China	February 2012	145,000
Manufacturing facility/Logistics	Shanghai, China	March 2012	112,000
Manufacturing facility	Lee's Summit, Missouri	June 2013	70,000
Manufacturing facility	Oldham, England	Owned	156,020
Manufacturing facility	Neuhaus, Germany	Owned	52,506
Warehouses	Taipei, Taiwan	Owned	12,000
Sales offices	Taipei, Taiwan	Owned	11,000
Administrative offices	Taipei, Taiwan	Owned	24,000

In 2008, we purchased land near Dallas, Texas for approximately $4.9 million, which will be the future site of our corporate headquarters. We believe our current facilities are adequate for the foreseeable future.

Item 3. Legal Proceedings

We are currently a party to a legal proceeding described below. While we presently believe that the ultimate outcome of the proceeding will not have a material adverse effect on our financial position, cash flows or overall results of operations, litigation is subject to inherent uncertainties, and unfavorable rulings could occur. An unfavorable ruling could include monetary damages or an injunction prohibiting us from selling one or more products. Were an unfavorable ruling to occur, there exists the possibility of a material adverse impact on our business or results of operations for the period in which the ruling occurs or future periods.

Integrated Discrete Devices, LLC. v. Diodes Incorporated, C.A. No. 08-888 (GMS) (D. Del.)

On November 25, 2008, Integrated Discrete Devices, LLC ("IDD") filed a complaint for patent infringement against the Company in the United States District Court for the District of Delaware (the "Court") under the patent laws of the United States, 35 U.S.C. §§ 100 *et seq*., alleging that the Company has been and is infringing, actively inducing others to infringe, or contributing to the infringement of IDD's United States Patent No. 5,825,079 (the "'079 patent") by making, using, selling, offering to sell, or importing diode products embodying the patented invention, including, but not limited to, its Super Barrier Rectifier (or SBR ®) diodes. IDD's complaint further alleges that the Company has been and is infringing the '079 patent with knowledge of the patent, and thus the Company's infringement is willful and that the Company will continue to infringe the '079 patent unless and until it is enjoined by the Court. IDD's complaint further alleges that the Company has caused and will continue to cause IDD irreparable injury and damage by infringing the '079 patent and that IDD will suffer further irreparable injury unless and until the Company is enjoined from infringing the '079 patent. IDD's complaint seeks that the Court enter infringement judgment against the Company on the '079 patent and enter an order permanently enjoining the Company from infringing the '079 patent. IDD also seeks unspecified damages together with pre-judgment and post-judgment interest and costs, treble damages, additional damage, an injunction, attorneys' fees, expenses and costs as well as other relief.

On December 19, 2008, both parties stipulated to a one-month filing time extension for the Company to consider and respond to the allegations raised in IDD's complaint. The Court approved the filing time extension stipulation by both parties on the same day.

On January 23, 2009, the Company filed an answer and counterclaims to IDD's complaint. The Company believes that it has meritorious defenses against IDD's claims, and intends to defend the lawsuit vigorously.

From time to time, the Company is involved in various routine legal proceedings incidental to the conduct of its business. Management does not believe that any of these legal proceedings will have a material adverse impact on the business, financial condition or results of operations of the Company.

Item 4. Submission of Matters to a Vote of Security Holders

No matter was submitted by us to a vote of security holders during the fourth quarter of 2008.

PART II

Item 5. <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>

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

Calendar Quarter Ended	Closing Sales Price of Common Stock	
	High	Low
First quarter (through February 23, 2009)	$ 8.32	$ 5.59
Fourth quarter 2008	17.13	3.44
Third quarter 2008	28.26	17.31
Second quarter 2008	30.93	22.55
First quarter 2008	29.71	20.22
Fourth quarter 2007	34.71	27.40
Third quarter 2007	32.84	26.31
Second quarter 2007	27.85	23.06
First quarter 2007	26.94	21.89

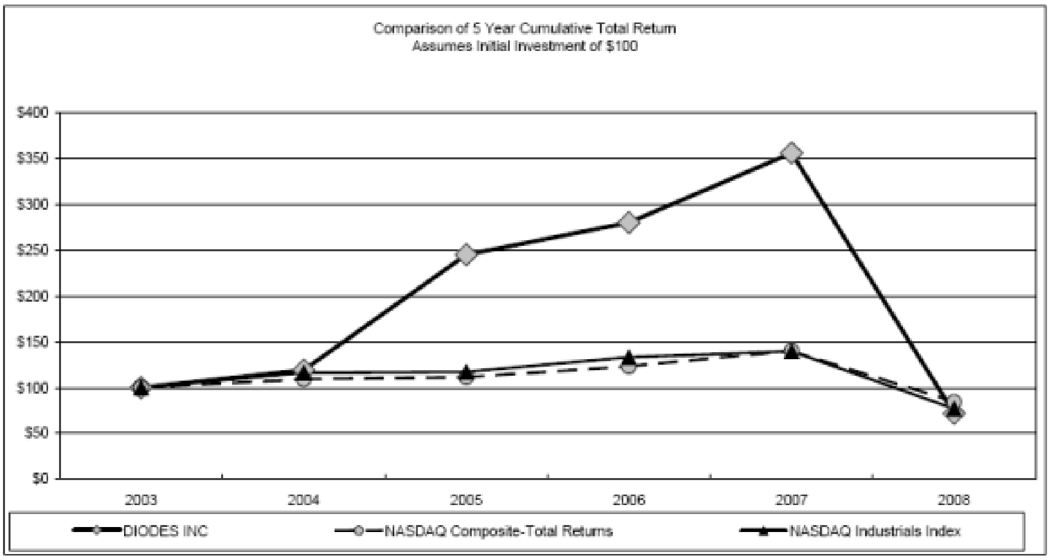
On February 23, 2009, the closing sales price of our Common Stock as reported by NasdaqGS was $6.77, and there were approximately 500 holders of record of our Common Stock.

We have never declared or paid cash dividends on our Common Stock, and currently do not intend to pay dividends in the foreseeable future as we intend to retain any earnings for use in our business. The payment of dividends is within the discretion of our Board of Directors, and will depend upon, among other things, our earnings, financial condition, capital requirements, and general business conditions. There have been no stock repurchases in our history.

Performance Graph

Set forth below is a line graph comparing the yearly percentage change in the cumulative total stockholder return of our Common Stock against the cumulative total return of the Nasdaq Composite and the Nasdaq Industrial Index for the five calendar years ending December 31, 2008. The graph is not necessarily indicative of future price performance.

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



5 YEAR CUMULATIVE TOTAL RETURN SUMMARY

		2003	2004	2005	2006	2007	2008
DIODES INC	Return %		19.08	105.79	14.28	27.13	-79.85
	Cum	$ 100.00	119.08	245.05	280.04	356.01	71.75
NASDAQ Composite-Total Returns	Return %		9.16	2.12	10.39	13.87	-39.96
	Cum	$ 100.00	109.16	111.47	123.05	140.12	84.12
NASDAQ Industrials Index	Return %		16.27	0.75	13.57	4.88	-44.84
	Cum	$ 100.00	116.27	117.14	133.04	139.53	76.96

Source: Data provided by Zacks Investment Research, Inc., copyright 2009. Used with permission. All rights reserved.

The graph assumes $100 invested on December 31, 2003 in our Common Stock, the stock of the companies in the Nasdaq Composite Index and the Nasdaq Industrial Index, and that all dividends received within a quarter, if any, were reinvested in that quarter.

Item 6. Selected Financial Data

The following selected consolidated financial data for the fiscal years ended December 31, 2004 through 2008 is qualified in its entirety by, and should be read in conjunction with, the other information and consolidated financial statements, including the notes thereto, appearing elsewhere herein. Certain amounts as presented in the accompanying consolidated financial statements have been reclassified to conform to 2008 financial statement presentation. These reclassifications had no impact on previously reported net income or stockholders' equity.

(In thousands, except per share data)	Years ended December 31,				
Income Statement Data	2004	2005	2006	2007	**2008**
Net sales	$ 185,703	$ 214,765	$ 343,308	$ 401,159	**$ 432,785**
Gross profit	60,735	74,377	113,892	130,379	**132,528**
Selling, general and administrative	23,517	30,183	47,817	55,127	**68,373**
Research and development	3,422	3,713	8,237	12,955	**21,882**
Amortization of acquisition-related intangible assets	—	—	360	836	**3,706**
In-process research and development	—	—	—	—	**7,865**
Restructuring charge	—	—	—	1,061	**4,089**
Total operating expenses	26,939	33,896	56,414	69,979	**105,915**
Income from operations	33,796	40,481	57,478	60,400	**26,613**
Interest income	28	819	6,699	18,117	**11,991**
Interest expense	(665)	(598)	(1,844)	(6,831)	**(9,348)**
Other income (expense)	(418)	406	(1,212)	(225)	**16,594**
Income before taxes and minority interest	32,741	41,108	61,121	71,461	**45,850**
Income tax provision	6,514	6,685	11,689	9,428	**4,585**
Minority interest in earnings of consolidated subsidiaries	(676)	(1,094)	(1,289)	(2,376)	**(2,290)**
Net income	25,551	33,329	48,143	59,657	**38,975**
Earnings per share: (1)					
Basic	$ 0.85	$ 0.96	$ 1.25	$ 1.51	**$ 0.96**
Diluted	$ 0.73	$ 0.86	$ 1.16	$ 1.41	**$ 0.91**
Number of shares used in computation (1)					
Basic	30,160	34,752	38,443	39,601	**40,709**
Diluted	34,811	38,842	41,502	42,331	**42,638**

	As of December 31,				
Balance Sheet Data	2004	2005	2006	2007	**2008**
Total assets	$ 167,801	$ 289,515	$ 622,139	$ 706,365	**$ 894,143**
Working capital	49,571	146,651	395,354	451,801	**209,832**
Long-term debt, net of current portion	7,833	4,865	237,115	235,815	**400,646**
Stockholders' equity	112,148	225,474	294,167	369,598	**372,327**

(1) Adjusted for the effect of 3-for-2 stock splits in December 2005 and July 2007.

2006 data included $5.3 million, or $0.10 per diluted share, of non-cash, net of tax effect stock option compensation expense as per SFAS No. 123R.

2007 data included $4.3 million, or $0.07 per diluted share, of non-cash, net of tax effect stock option compensation expense as per SFAS No. 123R.

2008 data included $2.9 million, or $0.07 per diluted share, of non-cash, net of tax effect stock option compensation expense as per SFAS No. 123R.

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

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

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

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

Highlights For the Year Ended December 31, 2008

- We completed the acquisition of Zetex plc ("Zetex") in June;
- Revenue for 2008 increased 8% over 2007 to $432.8 million, including seven months of Zetex revenues;
- Gross profit for 2008 increased 2% or $2.1 million over 2007 to $132.5 million;
- In connection with the acquisition of Zetex, we entered into a margin loan for $165 million secured by our auction rate securities ("ARS") portfolio, which was replaced on November 4, 2008 with a "no net cost loan" from UBS BANK USA ("UBS Bank");
- On October 29, 2008, we entered into a settlement agreement with UBS AG and its affiliates ("UBS AG") that will allow us to sell our ARS portfolio to UBS AG at par value at any time during the period of June 30, 2010 through July 2, 2012; and
- During the fourth quarter of 2008, we repurchased $46.5 million of our $230 million 2.25% Convertible Senior Notes due 2026 for approximately $23.2 million in cash resulting in a $22.8 million pre-tax gain.

Business Outlook

For 2009 we expect to see a further slowdown in global economic activity and a decrease in global demand for our products, in particular in the consumer, computer and automotive markets. The success of our business depends, among other factors, on the strength of the global economy and the stability of the financial markets, which in term affect our customers' demand for our products, the ability of our customers to meet their payment obligations, the likelihood of customers canceling or deferring existing orders and end-user consumers' demand for items containing our products in the end-markets we serve. We believe the long-term outlook for our business remains generally favorable despite the recent volatility in the equity and credit markets as we continue to execute on the strategy that has proven successful for us over the years. Although the economy creates a more challenging environment for all businesses, we believe that over the long-term we are well positioned for future growth. We are confident that our acquisition of Zetex will continue to add significant value to our business as we further capitalize on the cross-selling opportunities and diversification benefits that the transaction offers our Company. See "Risk Factors — *Global economic weakness and the current financial market uncertainty has had, and is expected to continue to have through at least 2009, a material adverse effect on our business.*" in Part I, Item 1A of this Annual Report.

Cost Reduction Initiative

Looking forward, we expect the weakness and uncertainty in the economy to continue into the coming quarters, and therefore we have taken, or intend to take, the following steps to optimize our cost structure:

- Shut down of Zetex 4 inch wafer fabrication line in Oldham, England;
- Consolidate our wafer output lines;

- Currently, our Shanghai facilities are under-loaded, therefore, we are transferring the production of products acquired in our purchase of Zetex into our Shanghai packaging facilities sooner than originally planned and thereby reducing our dependence on subcontractors and maximizing the utilization of our internal capacity;
- As part of our manufacturing strategy, we plan to reduce inventory and will continue to evaluate our raw material costs in order to reduce our gold consumption while protecting and maintaining product performance;
- Reduce capital expenditures from our previous 10 to 12 percent model to less than 2% until such time that the market recovers and additional manufacturing capacity is needed;
- Restructure our product development organization and consolidate the acquired Zetex design teams;
- Headcount reductions across the entire organization, primarily at our wafer fabrication facilities in Kansas City and Oldham;
- Temporary site shut-downs and mandatory time off; and
- Implement a hiring and compensation freeze, and from an overall expense perspective, implement strict controls over discretionary spending in order to conserve cash.

Overview

We are currently experiencing a global decrease in demand for our products and expect the decrease in demand to continue until economic conditions improve. Even as we are experiencing a decrease in product demand, our strategy is to continue to enhance our position as a leading global manufacturer and supplier of high-quality semiconductor products, and to continue to add other product lines, such as power management products, using our packaging technology capability.

As described in “Business — Our Strategy” in Part I, Item 1 of this Annual Report, the principal elements of our strategy include the following:

- *Continue to rapidly introduce innovative discrete and analog semiconductor products;*
- *Expand our available market opportunities;*
- *Maintain intense customer focus;*
- *Enhance cost competitiveness; and*
- *Pursue selective strategic acquisitions.*

In implementing this strategy, the following factors have affected, and, we believe, will continue to affect, our results of operations:

- The current economic downturn has resulted in a decrease in demand for our products, which we expect to continue until economic conditions improve. As a result, for 2009, we do not expect to sustain our historical growth rate. In addition, our net sales for 2008 reflect the impact of the overall weakening economy, in particular on key targeted end-equipment in the consumer and computing markets, as well as our foundry and subcontracting business, which showed greater weakness than our core revenue drivers.
- We have experienced substantial pressure from our customers and competitors to reduce the selling price of our products. See “Risk Factors — *We are and will continue to be under continuous pressure from our customers and competitors to reduce the price of our products, which could adversely affect our growth and profit margins”* in Part I, Item 1A of this Annual Report. Although we do not expect to sustain our historical growth rate in 2009, we expect any future improvements in net income to result primarily from increases in sales volume and improvements in product mix, which will continue to improve the average selling prices of our products.
- Sales of new products (products that have been sold for three years or less) for the years ended December 31, 2006, 2007 and 2008 amounted to 28.2%, 35.1% and 26.9% of total sales, respectively, including the contribution of recent acquisitions. New products generally have gross profit margins that are higher than the margins of our standard products. We believe the sales from new products is an important measure given the short life cycles of some of our products. See “Risk Factors — *Our business may be adversely affected by obsolete inventories as a result of changes in demand for our products and change in life cycles of our products”* in Part I, Item 1A of this Annual Report for additional information about product life cycles.
- Our gross profit margin was 30.6% in 2008, compared to 32.5% in 2007 and 33.2% in 2006. Our gross profit margin decrease in 2008 was affected by lower capacity utilization at our manufacturing operations primarily due to current economic conditions along with the one time non-cash expense of $5.4 million incurred during the third quarter of 2008 for the increase in inventory for reasonable profit allowance in accordance with Financial Accounting Standards Board (“FASB”) Statement of Financial Accounting Standards (“SFAS”) No. 141, *Business Combinations* and depreciation expense of fixed assets in connection with the Zetex acquisition. In 2007, we completed the move of our analog product from Taiwan to our Shanghai manufacturing facilities to increase the gross margin on this product line. Future gross profit margins will depend primarily on our utilization, product mix, cost savings, and the demand

for our products. We expect gross profit margins to continue to remain under significant pressure until economic conditions improve.

- For 2008, the percentage of our net sales derived from our Asian subsidiaries was 74.2%, compared to 75.4% in 2007 and 71.9% in 2006. We expect our net sales to the Asian market to increase as a percentage of our total net sales as a result of our customers' continuing to shift their manufacturing of electronic products to Asia.
- As a result of the Zetex acquisition we have added significant revenue in Europe. As such, Europe accounted for approximately 15.6% of our revenues in 2008.
- As of December 31, 2008, we had invested approximately $197.3 million in our manufacturing facilities in China. During 2008, we invested approximately $30.0 million in these manufacturing facilities, and we expect to continue to invest in our manufacturing facilities, although the amount to be invested will depend on product demand and new product developments.
- For 2008, our capital expenditures were approximately 12.3% of annual revenue. Given the current economic conditions and our efforts to reduce costs, we expect capital expenditures to be less than 2% of revenue for 2009 or until economic conditions improve and additional manufacturing capacity is needed.
- We increased our investment in research and development from $13.5 million in 2007 to $22.5 million in 2008, primarily as a result of the Zetex acquisition. In 2008, research and development expenses were approximately 5.2% of net sales. Although research and development increased in 2008, we expect the investment to decrease for 2009 as we are planning to restructure our product development organization and consolidate our design teams and to reduce costs, but to increase as a percentage of net sales due to the lower expected net sales.

Convertible Senior Notes

On October 12, 2006, we issued and sold convertible senior notes with an aggregate principal amount of $230 million due 2026 ("Notes"), 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 our option, cash and shares of our 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, we will, at our 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 fourth quarter of 2008 and the first quarter of 2009, we repurchased $46.5 million and $9.6 million principle amount of the Notes for approximately $23.2 million and $6.6 million in cash, respectively. Beginning January 1, 2009, we will adopt FASB Staff Position ("FSP") APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement),* that will change how we account for our Notes and will significantly increase our non-cash interest expense. See *"Recently Issued Accounting Pronouncements"* below for additional information about FSP APB 14-1 and Note 10 of "Notes to Consolidated Financial Statements" of this Annual Report for addition information the Notes and the repurchase.

Recent Acquisitions

On November 3, 2006, we completed the purchase of the assets of APD Semiconductor Inc., a privately held U.S.-based fabless semiconductor company. APD's main product focus is its patented and trademarked SBR® (super barrier rectifier) technology. The purchase price of the acquisition was $8.4 million in addition to a potential earn-out provision with respect to pre-defined covered products. The APD acquisition further strengthens our technology leadership in the standard semiconductor market and expand our product capabilities across important segments of our end-markets.

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 Zetex ordinary share, valuing the fully diluted share capital of Zetex at approximately U.S.$176.3 million (based on a USD:GBP exchange rate of 1.9778), excluding acquisition costs, fees and expenses. In addition, in order to finance the acquisition, the Company entered into a loan agreement for $165 million that was later replaced with a "no net cost loan." See *"Debt instruments"* below for additional information about the "no net cost loan." We believe 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.

See Note 2 of "Notes to Consolidated Financial Statements" and "Risk Factors — *Part of our growth strategy involves identifying and acquiring companies with complementary product lines or customers. We may be unable to identify suitable acquisition candidates or consummate desired acquisitions and, if we do make any acquisitions, we may be unable to successfully integrate any acquired companies with our operations*" in Part I, Item 1A of this Annual Report for additional information about our recent acquisitions.

Description of Sales and Expenses

Net sales

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

- The condition of the economy in general and of the semiconductor industry in particular, in which we are currently experiencing a global decrease in demand for our products,
- Our customers' adjustments in their order levels,
- Changes in our pricing policies or the pricing policies of our competitors or suppliers,
- The termination of key supplier relationships,
- The rate of introduction to, and acceptance of new products by, our customers,
- Our ability to compete effectively with our current and future competitors,
- Our ability to enter into and renew key corporate and strategic relationships with our customers, vendors and strategic alliances,
- Changes in foreign currency exchange rates,
- A major disruption of our information technology infrastructure, and
- Unforeseen catastrophic events, such as armed conflict, terrorism, fires, typhoons and earthquakes.

Cost of goods sold

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

Selling, general and administrative expenses

Selling, general and administrative expenses relate primarily to compensation and associated expenses for personnel in general management, sales and marketing, information technology, engineering, human resources, procurement, planning and finance, and sales commissions, as well as outside legal, accounting and consulting expenses, and other operating expenses. Given the current economic conditions, we expect our selling, general and administrative expenses to decrease in absolute dollars for reasons described above in "*Cost Reduction Initiative*" and expect the decrease to continue until conditions improve.

Research and development expenses

Research and development expenses consist of compensation and associated costs of employees engaged in research and development projects, as well as materials and equipment used for these projects. Research and development expenses are primarily associated with our wafer facilities in Kansas City, Missouri and Oldham, England and our facilities in China and Taiwan, as well as with our engineers in the U.S. All research and development expenses are expensed as incurred. We expect our research and development expenses to decrease in absolute dollars given the current economic conditions and our plans to reduce expenses for reasons described above in "*Cost Reduction Initiative*" until economic conditions improve.

Amortization of acquisition related intangible assets

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

In-process research and development

In-process research and development (“IPR&D”) expenses consist of immediately expensed IPR&D, which had not yet reached technological feasibility and had no alternative future use as of the acquisition date in accordance with SFAS No. 141.

Restructuring charge

Restructuring charge consists of charges to reduce our cost structure to enhance operating effectiveness and improve profitability in accordance with SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities.*

Interest income / expense

Interest income consists of interest earned on our cash and investment balances. Interest expense consists of interest payable on our outstanding credit facilities and other debt instruments including the convertible senior notes. We expect our non-cash interest expense to increase significantly in 2009 when we adopt FSP APB 14-1. See “*Recently Issued Accounting Pronouncements*” below for further details on FSP APB 14-1.

Income tax provision

Our global presence requires us to pay income taxes in a number of jurisdictions. In general, earnings in the U.S. and Taiwan are currently subject to tax rates of 39.0% and 25.0%, respectively. In addition, Taiwan earnings are subject to an additional 10% retained earnings tax should the Taiwan earnings not be distributed. As an incentive for the formation of Anachip Corp., its earnings are subject to a five-year tax holiday (subject to certain qualifications of Taiwanese tax law). Earnings in Hong Kong are subject to a 16.5% tax for local sales or local source sales; all other Hong Kong sales are not subject to foreign income taxes. Earnings in Taiwan and Hong Kong are also subject to U.S. taxes with respect to those earnings that are derived from product manufactured by our China subsidiaries and sold to customers outside of Taiwan and Hong Kong, respectively. The U.S. tax rate on this Subpart F income is computed as the difference between the foreign effective tax rates and the U.S. tax rate. In accordance with U.S. tax law, we receive credit against our U.S. tax liability for income taxes paid by our foreign subsidiaries.

In addition, the earnings of Shanghai Kai Hong Technology Co., Ltd., which is located in the Songjiang Export Zone of Shanghai, China, were subject to a 12.5% tax rate. The earnings of Shanghai Kai Hong Electronic Co., Ltd. became subject to the standard local government tax rate of 25% for 2008.

On June 9, 2008, the Company completed the acquisition of all the outstanding ordinary capital stock of Zetex. Earnings in the United Kingdom are currently subject to a tax rate of 28% and its earnings in Hong Kong are subject to a 16.5% tax rate. In addition, earnings in Germany are subject to a 30% tax rate.

See Note 15 of “Notes to Consolidated Financial Statements” for additional information regarding income taxes.

Results of Operations

The following table sets forth, for the periods indicated, the percentage that certain items in the statement of income bear to net sales and the percentage dollar increase (decrease) of such items from period to period. All per share amounts have been adjusted to reflect the three-for-two stock splits in December 2005 and July 2007.

	Percent of Net sales Year Ended December 31,					Percentage Dollar Increase (Decrease) Year Ended December 31,			
	2004	2005	2006	2007	**2008**	04 to '05	05 to '06	06 to '07	**07 to '08**
Net sales	100%	100%	100%	100%	**100%**	15.6%	59.9%	16.9%	**7.9%**
Cost of goods sold	(67.3)	(65.4)	(66.8)	(67.5)	**(69.4)**	12.3	63.4	18.0	**10.9**
Gross profit	32.7	34.6	33.2	32.5	**30.6**	22.5	53.1	14.5	**1.6**
Operating expenses (1)	(14.5)	(15.8)	(16.4)	(17.4)	**(24.5)**	25.8	63.6	22.2	**17.9**
Income from operations	18.2	18.8	16.7	15.1	**6.1**	19.8	42.0	5.1	**(55.9)**
Interest income	—	0.4	2.0	4.5	**2.8**	2825.0	717.9	170.4	**(33.8)**
Interest expense	(0.6)	(0.3)	0.1	(1.7)	**(2.2)**	(10.1)	208.4	270.4	**36.9**
Other income (expense)	—	(0.2)	0.2	(0.1)	**3.8**	197.1	398.5	81.4	**74.8**
Income before taxes and minority interest	17.6	18.7	19.0	17.8	**10.6**	25.6	48.7	16.9	**(35.8)**
Income tax provision	3.5	3.1	3.4	2.4	**1.1**	2.6	74.9	(19.3)	**(51.4)**
Minority interest	(0.4)	(0.5)	(0.4)	(0.6)	**(0.5)**	61.8	17.8	84.3	**(3.6)**
Net income	13.7	15.0	15.2	14.9	**9.0**	30.4	44.4	23.9	**(34.7)**

(1) Operating expenses consists of selling, general and administrative, research and development, amortization of acquisition related intangible assets, in-process research and development and restructuring charges.

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

Year 2008 Compared to Year 2007

	2007	2008
Net sales	$401,159	**$432,785**

Net sales for 2008 increased $31.6 million to $432.8 million from $401.2 million for 2007. The 7.9% increase was due primarily to a 2.2% increase in units sold and a 5.6% increase in average selling prices ("ASP"). The revenue increase was attributable to sales increases in all industry segments mainly due to the Zetex acquisition, partially offset by an overall weakening of global demand due to the global economic downturn, as well as our foundry and subcontracting businesses, which showed greater weakness than our core revenue drivers. Significant price pressure and an unfavorable commodity-based product mix also negatively affected sales in 2008.

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

	Net sales for the year ended December 31		Percentage of net sales	
	2007	**2008**	2007	**2008**
China	$ 156,183	**$ 130,045**	38.9%	**30.0%**
Taiwan	102,562	**118,577**	25.6%	**27.4%**
United States	81,408	**85,906**	20.3%	**19.8%**
Korea	17,563	**21,901**	4.4%	**5.1%**
Germany	5,111	**17,021**	1.3%	**3.9%**
Singapore	9,854	**14,852**	2.5%	**3.4%**
England	7,710	**12,821**	1.8%	**3.1%**
All Others	20,768	**31,662**	5.2%	**7.3%**
Total	$ 401,159	**$ 432,785**	100%	**100%**

	2007	2008
Cost of goods sold	$270,780	$**300,257**
Gross profit	$130,379	$**132,528**
Gross profit margin	32.5%	**30.6%**

Cost of goods sold increased $29.5 million, or 10.9%, for 2008 compared to $270.8 million for 2007. As a percent of sales, cost of goods sold increased from 67.5% for 2007 to 69.4% for 2008. Our average unit cost ("AUP") for discrete devices decreased approximately 1.8% from 2007, AUPs for analog products decreased approximately 11.8%, and AUPs for wafer products increased approximately 11.8%. The increase in cost of goods sold and the percentage of sales increase were negatively affected by the one time non-cash expense of $5.4 million incurred during the third quarter of 2008 for the increase of inventory for reasonable profit allowance and depreciation expense related to fixed assets in connection with the Zetex acquisition along with lower capacity utilization in our manufacturing operations due primarily to market conditions. As per SFAS 123R, included in cost of goods sold for 2007 and 2008 were $0.3 million and $0.1 million, respectively, of non-cash, share-based compensation expenses associated with our manufacturing facilities.

Gross profit for 2008 increased 14.5% to $132.5 million from $130.4 million for 2007. Gross profit margin as a percentage of net sales was 30.6% for 2008, compared to 32.5% for 2007. The decreased gross margin was primarily due to the increase of inventory for reasonable profit allowance and depreciation expense of fixed assets in connection with the Zetex acquisition and lower capacity utilization in our manufacturing operations.

	2007	2008
Selling, general and administrative ("SG&A")	$55,127	**$68,373**

SG&A for 2008 increased approximately $13.2 million, or 24.0%, to $68.4 million, compared to $55.1 million for 2007, due primarily to additional SG&A expenses related to the Zetex operations. The following expense categories increased, mainly due to additional Zetex SG&A expenses: (i) $5.0 million increase in wages and related benefits, including share-based compensation, (ii) $3.6 million increase in facility expense, depreciation, supplies and other operating expenses, (iii) $3.6 million increase in communication, professional expense and travel expense, and (iv) $1.3 million increase in marketing and selling expense. SG&A, as a percentage of net sales, was 15.8% in 2008, compared to 13.7% in 2007. As per SFAS No. 123R, included in SG&A for 2007 and 2008 were $4.8 million and $3.6 million, respectively, of non-cash, share-based compensation expenses.

	2007	**2008**
Research and development ("R&D")	$12,955	$**21,882**

R&D for 2008 increased $8.9 million to $21.9 million, or 5.1% of net sales, from $13.0 million, or 3.2% of net sales, for 2007. The increase was due primarily to additional R&D expenses related to the Zetex operations. The following expense categories increased, mainly due to additional Zetex R&D expenses: (i) $5.3 million increase in wages and related benefits and (ii) $3.7 million increase in operating expenses, depreciation, building maintenance and operating expense. As per SFAS No. 123R, included in R&D for 2007 and 2008 were $0.5 million and $0.3 million, respectively, of non-cash, share-based compensation expenses.

	2007	**2008**
Amortization of acquisition-related intangible assets	$836	$**3,706**

Amortization of acquisition related intangibles for 2008 increased $2.9 million to $3.7 million from $0.8 million for 2007. The increase was due primarily to approximately $2.6 million of non-cash amortization expense associated with the preliminary identification of intangible assets in connection with the acquisition of Zetex. The 2008 charge related to seven months of amortization expense and we estimate this charge to be approximately $1.3 million per quarter for 2009 based on preliminary projections.

	2007	**2008**
In-process research and development ("IPR&D")	$—	$**7,865**

During the third quarter of fiscal 2008, per SFAS No. 141, we recorded an approximately $7.9 million one-time, non-cash expense associated with the preliminary identification of acquired intangible IPR&D in connection with the acquisition of Zetex, which had not yet reached technological feasibility and had no alternative future use as of the Zetex acquisition date.

	2007	**2008**
Restructuring charge	$1,061	$**4,089**

In the years ended December 31, 2007 and 2008, we recorded approximately $1.1 million and $4.1 million in restructuring charges, respectively. We have recorded various restructuring charges to reduce our cost structure to enhance operating effectiveness and improve future profitability. These restructuring activities impacted several functional areas of our operations in different locations and were undertaken to meet specific business objectives in light of the facts and circumstances at the time of each restructuring event. For 2008, these charges included costs to reduce the headcount in our UK operations along with additional headcount reductions in our worldwide workforce. For 2007, these charges include costs related to the consolidation of our analog wafer probe and final test operations from Hsinchu, Taiwan to our manufacturing facilities in Shanghai, China, which primarily consisted of termination and severance costs, and impairment of fixed assets.

	2007	**2008**
Interest income	$18,117	$**11,991**

Interest income for 2008 was $12.0 million, compared to $18.1 million for 2007, due primarily to a decrease in interest income earned on our ARS. Interest income for 2008 on our ARS has been impacted by the continued turmoil in the credit markets.

	2007	**2008**
Interest expense	$ 6,831	$ 9,348

Interest expense for 2008 was $9.3 million, compared to $6.8 million for 2007. The $2.5 million increase is due primarily to interest expense related to the $165 million loan used to finance the June 2008 Zetex acquisition. Interest expense related to the 2.25% convertible senior notes was approximately $5.2 million in both 2008 and 2007. Beginning January 1, 2009, we are required to adopt FSP APB 14-1, which will require us to separately account for a liability and equity component of the convertible senior notes. The liability portion of the notes will reflect an estimated 8.5% non-convertible borrowing rate. We therefore expect to record an additional pre-tax, non-cash interest expense of approximately $8 to 9 million for 2009.

	2007	**2008**
Other income (expense)	$ (225)	**$ 16,594**

Other income for 2008 was $16.6 million, compared to other expense of $0.2 million for 2007. The $16.8 million increase was due primarily to a $22.8 gain from extinguishments of debt (in the fourth quarter of 2008, we repurchased $46.5 million of our $230 million 2.25% Convertible Senior Notes for approximately $23.2 million in cash, which reduces our convertible debt to $183.5 million) and $0.9 million foreign currency transaction gains due primarily to favorable Taiwan currency and China currency exchange rate changes during the year, offset by approximately $1.5 million of loss from forward contract hedging related to hedging the Zetex acquisition purchase price, and $5.4 million foreign currency transaction losses due primarily to strengthening of the U.S. dollar versus the British Pound negatively affecting foreign currency hedges entered into by Zetex prior to our acquisition.

	2007	**2008**
Income tax provision	$ 9,428	**$ 4,585**

We recognized income tax expense of $4.6 million for 2008, resulting in an effective tax rate of 10.0%, as compared to 13.2% for 2007. Our lower effective tax rate compared with the same period last year was the result of income tax refunds in China and the favorable settlement of income tax audits in Taiwan, partially offset by the purchase accounting adjustments from the Zetex acquisition and the repatriation of earnings from our Hong Kong subsidiary. For 2009, we anticipate our full-year effective tax rate to be in the mid-teen range as we continue to take advantage of available strategies to optimize our tax rate across the jurisdictions in which we operate.

	2007	**2008**
Minority interest in consolidated subsidiaries	$ 2,376	**$ 2,290**

Minority interest in consolidated subsidiaries primarily represented the minority investor's share of the earnings of our China and Taiwan subsidiaries for the year. The joint venture investments were eliminated in the consolidations of our financial statements, and the activities of our China and Taiwan subsidiaries were included therein. As of December 31, 2007 and 2008, we had 95% controlling interests in Shanghai Kai Hong Electronic Co., Ltd. and Shanghai Kai Hong Technology Co., Ltd., and a 99.8% controlling interest in Anachip Corp.

	2007	**2008**
Net income	$ 59,657	**$ 38,975**

Net income decreased 34.7% to $39.0 million (or $0.96 basic earnings per share and $0.91 diluted earnings per share) for 2008, compared to $59.7 million (or $1.51 basic earnings per share and $1.41 diluted earnings per share) for 2007, due primarily to increasing pressure on ASP and lower gross profit margin, deteriorating global economy and approximately $14.7 million in purchase price adjustments related to the Zetex acquisition.

Year 2007 Compared to Year 2006

	2006	2007
Net sales	$ 343,308	**$ 401,159**

Net sales for 2007 increased $57.9 million to $401.2 million from $343.3 million for 2006. The 16.9% increase was due primarily to a 25.4% increase in units sold, offset by a 6.8% decrease in ASP. The decrease in ASP was due to the price pressure on our product lines. The following table sets forth the geographic breakdown of our net sales for the periods indicated based on the country to which the product is shipped:

	Net sales for the year ended December 31		**Percentage of net sales**	
	2006	**2007**	**2006**	**2007**
China	$118,303	$156,183	34.5%	38.9%
Taiwan	96,401	102,562	28.1%	25.6%
United States	76,357	81,408	22.2%	20.3%
All Others	52,247	61,006	15.2%	15.2%
Total	**$343,308**	**$401,159**	**100%**	**100%**

	2006	**2007**
Cost of goods sold	$ 229,416	**$ 270,780**
Gross profit	$ 113,892	**$130,379**
Gross profit margin	33.2%	**32.5%**

Cost of goods sold increased $41.4 million, or 18.0%, for 2007 compared to $229.4 million for 2006. As a percent of sales, cost of goods sold increased from 66.8% for 2006 to 67.5% for 2007. Our AUP for discrete devices decreased approximately 2.4% from 2006, AUPs for analog products decreased approximately 12.8%, and AUPs for wafer products decreased approximately 1.6%. As per SFAS No. 123R, included in cost of goods sold for 2006 and 2007 were $0.5 million and $0.3 million, respectively, of non-cash, stock option compensation expenses related to our manufacturing facilities.

Gross profit for 2007 increased 14.5% to $130.4 million from $113.9 million for 2006. Gross margin as a percentage of net sales was 32.5% for 2007, compared to 33.2% for 2006. The decreased gross margin was primarily due to product mix changes.

	2006	**2007**
SG&A	$ 47,817	**$ 55,127**

SG&A expenses for 2007 increased approximately $7.3 million, or 15.3%, to $55.1 million, compared to $47.8 million for 2006, due primarily to (i) an approximately $1.6 million increase associated with non-cash, share-based compensation expense related to options and share grants, (ii) $4.2 million higher sales commissions, wages and marketing expenses associated with the increased marketing and operating activities, and (iii) $0.8 million increase in audit expenses associated with Sarbanes-Oxley Act compliance. SG&A, as a percentage of net sales, was 13.7% in 2007, compared to 13.9% in 2006.

	2006	2007
R&D	$ 8,237	**$ 12,955**

R&D expenses for 2007 increased $4.7 million to $13.0 million, or 3.2% of net sales, from $8.2 million, or 2.4% of net sales, for 2006. R&D expenses are primarily related to new product development at the silicon wafer level and at the packaging level.

	2006	2007
Restructuring charge	$ —	$ **1,061**

For 2007, we recorded approximately $1.1 million in restructuring charges related to the consolidated of our analog wafer probe and final test operations from Hsinchu, Taiwan to our manufacturing facilities in Shanghai, China, which primarily consisted of termination and severance costs and impairment of fixed assets.

	2006	2007
Interest income	$ 6,699	**$ 18,117**

Interest income for 2007 was $18.1 million, compared to $6.7 million for 2006, due primarily to interest income earned on short-term investment securities purchased with the proceeds from the $230 million convertible bonds.

	2006	2007
Interest expense	$ 1,884	**$ 6,831**

Interest expense for 2007 was $6.8 million, compared to $1.8 million for 2006, due primarily to $4.1 million increase in interest expense related to the 2.25% convertible bonds ($5.2 million in 2007, compared to $1.1 million in 2006), and to a lesser extent, $1.1 million increase in amortization related convertible bonds issuance costs relating to the full year 2007 amortization expense.

	2006	2007
Other expense	$ (1,212)	**$ (225)**

Other expense for 2007 was $0.2 million, compared to $1.2 million for 2006. The $1.0 million decrease in other expense was due primarily to $1.1 million one time adjustment for currency exchange losses in the third quarter of 2006 and $0.1 million decrease in currency exchange loss in 2007.

	2006	2007
Income tax provision	$ 11,689	**$ 9,428**

We recognized income tax expense of $9.4 million for 2007, resulting in an effective tax rate of 13.2%, as compared to 19.1% for 2006. Our lower effective tax rate compared with the same period last year was the result of lower income in the U.S and higher income in low-taxed foreign jurisdictions, as well as a decrease in the amount of estimated repatriation of earnings of our foreign subsidiaries, partially offset by the increased income tax rate at one of our China subsidiaries (Shanghai Kai Hong Technology Co., Ltd. is subject to a range of 7.5% to 12.5% preferential tax rate from 2007 through 2009, compared to a 0% tax rate in 2006).

	2006	2007
Minority interest in consolidated subsidiaries	$ 1,289	**$ 2,376**

Minority interest in consolidated subsidiaries primarily represented the minority investor's share of the earnings of our China and Taiwan subsidiaries for the year. The joint venture investments were eliminated in the consolidations of our financial statements, and the activities of our China and Taiwan subsidiaries were included therein. As of December 31, 2006 and 2007, we had 95% controlling interests in Shanghai Kai Hong Electronic Co., Ltd. and Shanghai Kai Hong Technology Co., Ltd., and a 99.8% controlling interest in Anachip Corp.

	2006	**2007**
Net income	$ 48,143	**$ 59,657**

Net income increased 23.9% to $59.7 million (or $1.51 basic earnings per share and $1.41 diluted earnings per share) for 2007, compared to $48.1 million (or $1.25 basic earnings per share and $1.16 diluted earnings per share) for 2006, due primarily to increased revenue, higher net interest income from short-term investments and a lower effective tax rate.

Financial Condition

Liquidity and Capital Resources

Due to the weakness of the global economy and recent changes to our organizational structure to maximize efficiencies and reduce costs, we have engaged in an in-depth review of our cash requirements, current cash balances, future cash availability and our borrowing costs. As part of this review, we have sought to reduce our interest expense by taking the following steps:

- In January 2009, we borrowed an additional $1.7 million against our "no net cost loan" facility with UBS BANK USA, bringing the total outstanding balance to $213 million. See below for additional information about our "no net cost loan" facility.
- Due to the lower interest rate earned on cash balances by one of our foreign subsidiaries and higher interest rate charged to borrow cash in the U.S., we transferred approximately $5 million from that foreign subsidiary into our U.S. bank account during the first quarter of 2009.
- In February 2009, we paid in full the outstanding balance on our revolving credit commitment and our term loan facility and terminated our Amended and Restated Credit Agreement and Covenant Agreement with Union Bank. We have no current plans to replace these credit facilities; however, should future business needs arise and the credit markets permit, we may seek to obtain additional credit facilities.

Our primary sources of liquidity are cash, funds from operations and borrowings under our credit facilities. Our primary liquidity requirements have been to meet our inventory and capital expenditure needs. For 2006, 2007 and 2008, our working capital was $395.4 million, $451.8 million, and $208.4 million, respectively. Our working capital decreased in 2008 mainly due to the re-classification of our ARS portfolio from current assets to long-term assets as a result of the their lack of liquidity. We expect cash generated by our U.S. and international operations, together with existing cash, cash equivalents, and available credit facilities to be sufficient to cover cash needs for working capital and capital expenditures for at least the next 12 months. Cash and cash equivalents, the conversion of other working-capital items and borrowings are expected to be sufficient to fund on-going operations.

On October 12, 2006, we issued and sold convertible senior notes with an aggregate principal amount of $230 million due 2026 ("Notes"), 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. In connection with the issuance of the Notes, we incurred approximately $6.2 million of issuance costs, which primarily consisted of investment banker fees, legal and accounting fees. These costs are classified within other assets and are being amortized as a component of interest expense using the straight-line method over the life of the Notes from issuance through October 12, 2011. During the fourth quarter of 2008 and the first quarter of 2009, we repurchased $46.5 million and $9.6 million principal amount of the Notes for approximately $23.2 million and $6.6 million in cash, respectively. See Note 10 of "Notes to Consolidated Financial Statements" of this Annual Report for additional information about the Notes and the repurchase.

In 2006, 2007 and 2008, our capital expenditures were $45.1 million, $54.2 million and $53.4 million, respectively. Our capital expenditures for these periods were primarily related to manufacturing expansion in our facilities in China and, to a lesser extent, our wafer fabrication facility in the U.S., and an office building in Taiwan. Capital expenditures for 2008 were approximately 12.3% of revenue. Until economic conditions improve, we expect capital expenditures to be approximately 2% of revenue for 2009.

As of December 31, 2008, we had $320.6 million invested in ARS, which are classified as long-term, trading securities. With the liquidity issues experienced in the global credit and capital markets, our ARS have experienced multiple failed auctions. While we continue to earn and receive interest on these investments at the maximum contractual rate, the estimated fair values of these ARS no longer approximates par value.

On October 29, 2008, we reached a settlement with UBS AG and affiliates ("UBS AG"), in regard to our ARS portfolio, which gives us the option to "put" the $320.6 million ARS portfolio back to UBS AG at any time from June 30, 2010 through July 2, 2012 at par value in exchange for cash. Upon entering into this settlement, we elected the fair value option and recorded the "put" right at its fair value and a related gain. In addition, we transferred our ARS portfolio from an available-for-sale category to a trading category of investments. Upon transferring the ARS portfolio to a trading category, all of the previously unrealized holding losses included in comprehensive income were recognized in earnings. As a result of categorizing the ARS as trading investments and the election of the fair value option for the "put" right, all future changes in fair value for both of these financial instruments will be recognized in earnings and are expected to offset, thereby creating accounting symmetry at inception of the settlement and during each period until we exercise our "put" option. See Note 4 of "Notes to Consolidated Financial Statements" and "Risk Factors — *Our Auction Rate Securities ("ARS") are currently illiquid and we cancelled our bank credit facility in the U.S.; therefore, we must rely solely upon existing cash reserves, available foreign credit facilities and funds from existing operations to finance future operations"* in Part I, Item 1A of this Annual Report for additional information about our settlement with UBS AG.

On March 31, 2008, in connection with the acquisition of Zetex, we entered into a $165 million margin loan with UBS Financial Services, Inc., which accrued interest and was secured by our ARS portfolio.

On November 4, 2008, we accepted an offer of a "no net cost loan," which replaced the margin loan, from UBS BANK USA ("UBS Bank"), an affiliate of UBS AG and is collateralized by our ARS portfolio. The "no net cost loan" allows us to draw up to 75% of the stated value of our ARS portfolio, as determined by the UBS Bank, and is subject to collateral maintenance requirements. Under the "no net cost loan," the interest rate we pay on the "no net cost loan" will not exceed the interest rate earned on the pledged ARS portfolio. Subsequent to the agreement, we drew up to the 75% stated value limit, or $213 million of our ARS portfolio, as determined by UBS Bank.

As of December 31, 2008, the balance of the "no net cost loan" was $213 million and classified as long-term debt. Since we have drawn up to the 75% limit and the stated value of the ARS has decreased, we cannot draw additional funds from the "no net cost loan" until 75% of the stated value of the ARS exceeds $213 million, at which time we can draw additional funds. Although we cannot currently draw additional funds, we are not required to repay any part of the "no net cost loan" that exceeds 75% of the stated value of the ARS portfolio. See Note 10 of "Notes to Consolidated Financial Statements" of this Annual Report for additional information about our "no net cost loan."

Discussion of Cash Flows

Cash and short-term investments have increased from $339.9 million at December 31, 2006, to $379.7 million at December 31, 2007, then decreased to $103.5 million at December 31, 2008. The increase from 2006 to 2007 was primarily due to the short-term investments purchased with proceeds from the $230 million Convertible Senior Notes. The decrease during 2008 was mainly due to the reclassification of our ARS portfolio from short-term to long-term investments.

	Year Ended December 31,					
	2006	**2007**	**Change**	**2007**	**2008**	**Change**
Net cash provided by operating activities	$ 72,081	$ 90,771	$ 18,690	$ 90,771	**$ 57,171**	$ (33,600)
Net cash used by investing activities	(325,695)	(88,363)	237,332	(88,363)	**(203,501)**	(115,138)
Net cash provided by financing activities	228,989	4,674	(224,315)	4,674	**196,868**	192,194
Effect of exchange rates on cash and cash equivalents	225	209	(16)	209	**(3,221)**	(3,430)
Net increase (decrease) in cash and cash equivalents	$ (24,400)	$ 7,291	$ 31,691	$ 7,291	**$ 47,317**	$ 40,026

Operating Activities

Net cash provided by operating activities during 2008 was $57.2 million, resulting primarily from $39.0 million of net income in this period, $41.6 million of depreciation and amortization and a $24.9 million reduction in accounts receivables, partially offset by $22.8 million of gain from extinguishment of debt. Net cash provided by operating activities was $90.8 million for 2007 and $72.1 million for 2006.

Net cash provided by operations decreased by $33.6 million from 2007 to 2008. This decrease resulted primarily from a $20.7 million decrease in net income (from $59.7 million in 2007 to $39.0 million in 2008), a $12.7 million decrease in net working capital, partially offset by a $22.4 million increase in depreciation and amortization expense. We continue to closely monitor our credit terms with our customers, while at times providing extended terms, primarily required by our customers in Asia and Europe.

Net cash provided by operations increased by $18.7 million from 2006 to 2007. This increase resulted primarily from a $11.5 million increase in net income (from $48.1 million in 2006 to $59.7 million in 2007), a $1.6 million increase in non-cash, share-based compensation expense, and a $7.3 million increase in depreciation and amortization expense, partially offset by a $1.5 million change in net working capital.

Investing Activities

Net cash used by investing activities for 2008 was $203.5 million, resulting primarily from $153.2 million in acquisitions, net of cash acquired and $53.2 million in capital expenditures.

Net cash used by investing activities for 2007 was $88.4 million, resulting primarily from $56.1 million in capital expenditures and $32.5 million in purchase of securities.

Net cash used by investing activities for 2006 was $325.7 million, resulting primarily from $250.7 million in purchase of securities, $45.7 million in capital expenditures and $29.4 million in acquisitions, net of cash acquired.

Financing Activities

Net cash provided by financing activities for 2008 was $196.9 million, resulting primarily from the proceeds of long-term debt of $212.7 million from the no net cost loan, partially offset by $24.5 million in repayments of long-term debt.

Net cash provided by financing activities for 2007 was $4.7 million, resulting primarily from $7.6 million from stock option exercises in 2007 and repayments of long-term debt, partially offset by $2.8 million in repayments of long-term debt.

Net cash provided by financing activities for 2006 was $229.0 million, resulting primarily from proceeds of long-term debt of $228.6 million from the convertible senior notes offering.

Debt instruments

On March 28, 2008, we entered into a fourth amendment to our U.S. credit agreement with Union Bank of California, N.A. (“Union Bank”) (“Fourth Amended Credit Agreement” or “Revolving Credit Agreement”). Under the Fourth Amended Credit Agreement the Company had available a revolving credit commitment of up to $22.5 million (increased from $20.0 million), including a $5.0 million letter of credit sub-facility and a term loan facility of $5.0 million. As of December 31, 2008, there were no amounts outstanding under the revolving credit commitment and approximately $1.7 million was outstanding under the term loan.

On February 6, 2009, we paid in full the outstanding balance of approximately $2.5 million on our revolving credit commitment with Union Bank and terminated the Amended and Restated Credit Agreement that governed the revolving credit commitment. On February 11, 2009, we paid in full the outstanding balance of approximately $1.5 million on our Union Bank term loan facility and terminated the Covenant Agreement that governed that facility, which was scheduled to mature on August 29, 2010.

On March 31, 2008, we obtained from UBS a letter of credit in favor of Diodes FabTech Inc., in an aggregate amount of $165 million (the “Letter of Credit”). In connection with the acquisition of Zetex, we drew $165 million on the Letter of Credit, which accrued interest and was secured by our ARS portfolio.

On November 4, 2008, we accepted an offer of “no net cost loan,” which replaced the Letter of Credit, from UBS Bank and is collateralized by our ARS portfolio. The “no net cost loan” allows us to draw up to 75% of the stated value of our ARS portfolio, as determined by UBS Bank. Under the “no net cost loan,” the interest rate we pay on the “no net cost loan” will not exceed the interest rate earned on the pledged ARS portfolio. As of December 31, 2008, the balance of the “no net cost loan” was $213 million and it was classified as long-term debt. See *“Liquidity and Capital Resources”* above and see Note 10 of “Notes to Consolidated Financial Statements” in this Annual Report for additional information about our “no net cost loan.”

As of December 31, 2008, our Asia and Europe subsidiaries have available lines of credit of up to an aggregate of $49.4 million, with several financial institutions. These lines of credit, except for one Taiwanese credit facility, are collateralized by each subsidiary’s premises, are unsecured, uncommitted and, in some instances, may be repayable on demand. Loans under these lines of credit bear interest at LIBOR or similar indices plus a specified margin. At December 31, 2008, $6.1 million was outstanding on these lines of credit, and the interest rates ranged from 2.0% to 2.8%.

In October, 2006, we 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. Interest will accrue on the Notes from and including October 12, 2006 or from and including the last date in respect of which interest has been paid or provided for, as the case may be, to, but excluding, the next interest payment date or maturity date, as the case may be. Commencing with the six-month period beginning October 1, 2011, and for each six-month period thereafter, we will, on the interest payment date for such interest period, pay contingent interest to the holders of the Notes under certain circumstances and in amounts described in the indenture. For U.S. Federal income tax purposes, we treat, and each holder of the Notes agreed under the indenture to treat, the Notes as contingent payment debt instruments governed by special tax rules and to be bound by our application of those rules to the Notes.

During the fourth quarter of 2008 and the first quarter of 2009, we repurchased $46.5 million and $9.6 million principal amount of the Notes for approximately $23.2 million and $6.6 million in cash, respectively. Beginning January 1, 2009, we will adopt FSP APB 14-1, which will change how we account for our Notes and will significantly increase our non-cash interest expense. See *“Recently Issued Accounting Pronouncements”* below for additional information about FSP APB 14-1 and see Note 10 of “Notes to Consolidated Financial Statements” in this Annual Report for additional information about the Notes and the repurchase.

We may from time to time seek to repurchase our outstanding debt in the open market, in privately negotiated transactions or otherwise. Such repurchases, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

Off-Balance Sheet Arrangements

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

Contractual Obligations

The following table represents our contractual obligations as of December 31, 2008:

	Payments due by period (in thousands)				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt (1)	**$ 401,985**	$ 1,339	$ 1,371	$ 730	$ 398,545
Capital leases	**2,557**	448	654	655	800
Operating leases	**19,709**	5,506	7,711	6,366	126
Defined benefit obligations	**11,984**	—	—	—	11,984
Purchase obligations	**5,478**	5,478	—	—	—
Total obligations	**$ 441,713**	**$ 12,771**	**$ 9,736**	**$ 7,751**	**$ 411,455**

(1) On each of October 1, 2011, October 1, 2016 and October 1, 2021, holders of our Convertible Senior Notes may require the Company to purchase all or a portion of their Notes at a purchase price in cash equal to 100% of the principal amount of the Notes to be purchased, plus any accrued and unpaid interest to, but excluding, the purchase date.

Per FASB interpretation ("FIN") No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"), liabilities are not included in the above contractual obligations as we can not make reasonable estimates of the amount and period in which those tax liabilities would be paid. See *"Accounting for income taxes"* below and Note 15 of "Notes to Consolidated Financial Statements" of this Annual Report for additional information regarding FIN 48.

Critical Accounting Policies and Estimates

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

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

Revenue recognition

We recognize revenue when there is persuasive evidence that an arrangement exists, when delivery has occurred, when our price to the buyer is fixed or determinable and when collectability of the receivable is reasonably assured. These elements are met when title to the products is passed to the buyers, which is generally when our product is shipped to our customers.

We reduce revenue in the period of sale for estimates of product returns, distributor price adjustments and other allowances, the majority of which are related to our U.S. operations. Our reserve estimates are based upon historical data as well as projections of revenues, distributor inventories, price adjustments, average selling prices and market conditions. Actual returns and adjustments could be significantly different from our estimates and provisions, resulting in an adjustment to revenues.

Inventories

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

Accounting for income taxes

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

We are involved in various tax matters, some of whose outcome is uncertain. For purposes of evaluating whether or not a tax position is uncertain (i) we presume the tax position will be examined by the relevant taxing authority that has full knowledge of all relevant information, (ii) technical merits of a tax position are derived from authorities such as legislation and statutes, legislative intent, regulations, rulings and case law and their applicability to the facts and circumstances of the tax position, and (iii) each tax position is evaluated without consideration of the possibility of offset or aggregation with other tax positions taken. A tax benefit from an uncertain position may be recognized only if it is “more likely than not” that the position is sustainable, based on its technical merits, and the tax benefit of a qualifying position is the largest amount of tax benefits that is greater than 50% likely of being realized upon ultimate settlement with a taxing authority having full knowledge of all relevant information.

We adopted the provisions of FIN 48, effective January 1, 2007. As a result of the implementation of FIN 48, we recorded an approximate $2.0 million increase in the liability for unrecognized tax benefits, primarily related to our foreign subsidiaries, which was accounted for as a reduction to the January 1, 2007 retained earnings balance.

Allowance for doubtful accounts

We evaluate the collectability of our accounts receivable based upon a combination of factors, including the current business environment and historical experience. If we are aware of a customer's inability to meet its financial obligations to us, we record an allowance to reduce the receivable to the amount we reasonably believe we will be able to collect from the customer. For all other customers, we record an allowance based upon the amount of time the receivables are past due. If actual accounts receivable collections differ from these estimates, an adjustment to the allowance may be necessary with a resulting effect on operating expense.

Goodwill and long-lived assets

Goodwill is the cost of an acquisition less the fair value of the net assets of the acquired business. As of December 31, 2008, goodwill was $46.5 million. We account for goodwill in accordance with SFAS No. 142 *Goodwill and Other Intangible Assets*, for which goodwill is tested for impairment at least annually and between annual tests if indicators of potential impairment exist. In 2008, we changed the timing of our annual goodwill impairment testing from December 31 to October 1 to allow us to complete the testing in advance of our year-end closing. The fair value of the reporting units was calculated using the income approach and the market approach. Under the income approach, the fair value of the reporting units was calculated by estimating the present value of associated future cash flows. Under the market approach, the fair value was calculated using the guideline public company method and the mergers and acquisitions method. We determined that the fair value of the reporting units exceeds the carrying value of units, thus indicating that the goodwill was not impaired as of the testing date.

We assess the impairment of certain long-lived assets at least annually and whenever events or changes in circumstances indicate that the carrying value may not be recoverable in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets.* We assess the recoverability of our long-lived and intangible assets by determining whether the unamortized balances can be recovered through undiscounted future net cash flows of the related assets. If such asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair market value using a discounted cash flow analysis.

Share-based compensation

We account for share-based compensation in accordance with SFAS No. 123R, *Share-Based Payments*. We use the Black-Scholes-Merton model, consistent with prior period valuations under SFAS No. 123, *Accounting for Stock-Based Compensation*, to determine the fair value of stock options on the date of grant. Restricted stock grants are measured based on the fair market value of the underlying stock on the date of grant.

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

Fair value measurements

On January 1, 2008, we adopted the methods of fair value as described in SFAS No. 157, *Fair Value Measurements*, to value our ARS portfolio. SFAS No. 157, among other things, defines fair value, establishes a consistent framework for measuring fair value and expands disclosures for each major asset and liability category measured at fair value on either a recurring or nonrecurring basis. SFAS No. 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is market-based measurement that should be determined based on the assumptions that market participants would use in pricing an assets or liability. SFAS No. 157 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as following:

Level 1 — Observable inputs such as quoted prices inactive market.

Level 2 — Inputs other than the quoted prices in active markets that are observable either directly or indirectly.

Level 3 — Unobservable inputs in which there is little or no market data, which requires the reporting entity to develop its own assumptions.

Due to lack of observable market quotes on our ARS portfolio and "put" option, we utilized a valuation model that relies exclusively on Level 3 inputs including those that are based on factors that reflect assumptions market participants would use in pricing, including, among others: relevant future market conditions including those that are based on the expected cash flow streams, the underlying financial condition and credit quality of the issuer and bond insurer, the percent of the Federal Family Education Loan Program ("FFELP") guaranty, and the maturity of the securities, as well as the market activity of similar securities. The valuation of our ARS investment portfolio is subject to uncertainties that are difficult to predict. Factors that may impact our valuation include changes to credit rating of the securities as well as to the underlying assets supporting those securities, rates of default of the underlying assets, underlying collateral value, discount rates, counterpart risk and ongoing strength and quality of market credit and liquidity.

Defined benefit plan

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

Asset retirement obligations

We recognize assets retirement obligations ("ARO's") when incurred, with the initial measurement at fair value. These liabilities are accreted to full value over time through charges to income. In addition, asset retirement costs are capitalized as part of the related asset's carrying value and are depreciated over the assets respective useful life. Our ARO's consist primarily of estimated costs to return leased property to its original condition. The liabilities of $0.3 million for ARO's are included in our consolidated balance sheet as other long-term liabilities.

Investment in joint venture

Investment in joint ventures over which we have the ability to exercise significant influence and that, in general, are at least 20 percent owned are stated at cost plus equity in undistributed net income (loss) of the joint venture. These investments are evaluated for impairment in accordance with the requirements of Accounting Principles Board Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*. An impairment loss would be recorded whenever a decline in the value of an equity investment below its carrying amount is determined to be other than temporary. In judging "other than temporary," we would consider the length of time and extent to which the fair value of the investment has been less than the carrying amount of the investment, the near-term and longer-term operating and financial prospects of the investee, and our long-term intent of retaining the investment in the investee. The value of our investment in joint venture of $0.6 million is included in our consolidated balance sheet as other assets.

Contingencies

From time to time, we are involved in a variety of legal matters that arise in the normal course of business. Based on information available, we evaluate the likelihood of potential outcomes. In accordance with SFAS No 5, *Accounting for Contingencies*, we record the appropriate liability when the amount is deemed probable and reasonably estimable. In addition, we do not accrue for estimated legal fees and other directly related costs as they are expensed as incurred.

Recently Issued Accounting Pronouncements

In November 2008, the FASB ratified the EITF consensus on EITF Issue No. 08-7, *Accounting for Defensive Intangible Assets.* This pronouncement clarifies the accounting for certain separately identifiable intangible assets which an acquirer does not intend to actively use but intends to hold to prevent its competitors from obtaining access to them. EITF Issue No. 08-7 requires an acquirer in a business combination to account for a defensive intangible asset as a separate unit of accounting which should be amortized to expense over the period the asset diminishes in value. EITF Issue No. 08-7 is effective for financial statements issued for fiscal years beginning after December 15, 2008. Early adoption is prohibited. We are currently evaluating the future impacts and required disclosures of this pronouncement.

In November 2008, the FASB ratified the EITF consensus on EITF Issue No. 08-6, *Equity Method Investment Accounting Considerations.* This pronouncement clarifies the accounting for certain transactions and impairment considerations involving equity method investments. EITF Issue No. 08-6 is effective for financial statements issued for fiscal years beginning after December 15, 2008. Early adoption is prohibited. We are currently evaluating the future impacts and required disclosures of this pronouncement.

In June 2008, the FASB ratified the EITF consensus on EITF Issue No. 07-5, *Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock.* This pronouncement clarifies the determination of whether an instrument (or an embedded feature) is indexed to an entity's own stock, which would qualify as a scope exception in paragraph 11(a) of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. EITF Issue No. 07-05 is effective for financial statements issued for fiscal years beginning after December 15, 2008. Early adoption is prohibited. We are currently evaluating the future impacts and required disclosures of this pronouncement.

In June 2008, the FASB issued FASB Staff Position ("FSP") EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities.* This pronouncement provides that unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share ("EPS") pursuant to the two-class method. FSP EITF 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008. Upon adoption, a company is required to retrospectively adjust its EPS data (including any amounts related to interim periods, summaries of earnings and selected financial data) to conform with the provisions of FSP EITF 03-6-1. We are currently evaluating the future impacts and required disclosures of this pronouncement.

In May 2008, the FASB issued FSP APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement).* 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. Previous guidance provided for accounting of this type of convertible debt instruments entirely as debt. FSP APB 14-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008. We have considered the future impacts and required disclosures of this pronouncement and believe it will result in material adjustments in accounting for our originally issued $230 million convertible senior notes issued in October 2006. Furthermore, all adjustments are required to be made retrospectively as of the date of issuance of the convertible senior notes and therefore, will be treated as if convertible senior notes have always been accounted for in accordance with this pronouncement. This retrospective treatment will require us to restate the amounts included in previously issued financial statements in future filings. Preliminarily, when we restate our consolidated statements of income for the years 2007 and 2008, we expect to increase our non-cash interest expense and decrease its deferred tax expense by approximately $10 million and approximately $4 million for each year, respectively. Also, our $22.8 million pre-tax gain on extinguishment of debt and deferred tax expense for 2008 will be reduced by approximately $7 million (non-cash) and approximately $3 million, respectively. In addition, when we restate our December 31, 2008 balance sheet we expect to reduce our long-term debt from $183.5 million to approximately $147 million. The deferred tax liability associated with the convertible debt instrument will also decrease by approximately $15 million. For 2009, we expect to record an additional non-cash interest expense of approximately $8 to $9 million. This amount is less than in 2007 and 2008 due to the extinguishment of $46.5 million and $9.6 million par value convertible senior notes in December 2008 and January 2009, respectively.

In February 2008, the FASB issued FSP FAS 157-2, *Effective Date of FASB Statement No. 157.* This pronouncement delays the effective date of SFAS No. 157, *Fair Value Measurements*, for all non-financial assets and non-financial liabilities, except those recognized or disclosed at fair value in the financial statements on a recurring basis, until January 1, 2009. We are currently evaluating the future impacts and required disclosures of this pronouncement.

In December 2008, the FASB issued 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. We are currently evaluating the future impacts and required disclosures of this pronouncement.

In April 2008, the FASB issued FSP FAS 142-3, *Determination of the Useful Life of Intangible Asset*. This pronouncement amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets*. The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141R, *Business Combinations*, and other accounting principles generally accepted in the U.S. FSP FAS 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. The guidance for determining the useful life of a recognized intangible asset in this FSP shall be applied prospectively to intangible assets acquired after the effective date. The disclosure requirements shall be applied prospectively to all intangible assets recognized as of, and subsequent to, the effective date. We are currently evaluating the future impacts and required disclosures of adopting this pronouncement.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities — an Amendment of SFAS No. 133*. This pronouncement requires that objectives for using derivatives instruments be disclosed in terms of underlying risk and accounting designation. The fair value of derivative instruments and their gains and losses will need to be presented in tabular format in order to present a more complete picture of the effects of using derivative instruments. SFAS No. 161 is effective for financial statements issued for fiscal years beginning after November 15, 2008. We are currently evaluating the future impacts and required disclosures of adopting this pronouncement.

In December 2007, the FASB issued SFAS No. 141R, *Business Combinations*, which changes how business acquisitions are accounted. This pronouncement requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction and establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed in a business combination. Among the more significant changes in the accounting for acquisitions are the following: i) Transaction costs will generally be expensed. Certain such costs are presently treated as costs of the acquisition; ii) IPR&D will be accounted for as an asset, with the cost recognized as the research and development is realized or abandoned. IPR&D is presently expensed at the time of the acquisition; iii) Contingencies, including contingent consideration, will generally be recorded at fair value with subsequent adjustments recognized in operations. Contingent consideration is presently accounted for as an adjustment of purchase price; and iv) Decreases in valuation allowances on acquired deferred tax assets will be recognized in operations. Such changes previously were considered to be subsequent changes in consideration and were recorded as adjustments to goodwill. SFAS No. 141R is effective for business combinations and adjustments to an acquired entity's deferred tax asset and liability balances occurring after December 31, 2008. Early adoption is prohibited. We are currently evaluating the future impacts and required disclosures of this pronouncement.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51*. This pronouncement establishes 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 standard indicate, among other things, that NCIs (previously referred to as minority interests) be treated as a separate component of equity, not as a liability; that 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 that losses of a partially owned consolidated subsidiary be allocated to the NCIs even when such allocation might result in a deficit balance. This standard also requires changes to certain presentation and disclosure requirements. SFAS No. 160 is effective for financial statements issued beginning January 1, 2009. 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. After adoption, noncontrolling interests ($7.2 million and $9.5 million as of December 31, 2007 and 2008, respectively) will be classified as stockholders' equity, a change from its current classification between liabilities and stockholders' equity. We are currently evaluating the future impacts and required disclosures of this pronouncement.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency Risk. We face exposure to adverse movements in foreign currency exchange rates, primarily in Asia and Europe. Our foreign currency risk may change over time as the level of activity in foreign markets grows and could have a material adverse impact upon our financial results. Certain of our assets, including certain bank accounts and accounts receivable, and liabilities exist in non-U.S. dollar denominated currencies, which are sensitive to foreign currency exchange fluctuations. These currencies are principally the Chinese Yuan, the Taiwanese dollar and the British Pound Sterling and, to a lesser extent, the Japanese Yen, the Euro and the Hong Kong dollar.

Historically, because of the relatively small size and nature of each individual currency exposure, we did not regularly employ hedging techniques designed to mitigate foreign currency exposures. During the second quarter of 2008, with the acquisition of Zetex, we adopted forward exchange contracts, designated as foreign-currency cash flow hedges, to reduce the potentially adverse effects of foreign-currency exchange rate fluctuations that occur in the normal course of business. We use forward exchange contracts to hedge, thereby attempting to reduce our overall exposure to the effects of currency fluctuations on cash flows. We do not permit speculation in financial instruments for profit on the exchange rate price fluctuation, trading in currencies for which there are no underlying exposures, or entering into trades for any currency to intentionally increase the underlying exposure. As part of our overall strategy to manage the level of exposure to the risk of foreign currency exchange rate fluctuations, primarily to changes in the value of the Euro and the British Pound Sterling, we hedge a portion of our foreign currency exposures anticipated over the ensuing twelve-months to two-year periods. In doing so, we use foreign currency exchange contracts that generally have maturities of three months to two years to provide continuing coverage throughout the hedging period. As of December 31, 2008, we have forward contracts, primarily relating to the operations acquired from Zetex, of approximately $18 million that mature monthly over the next twelve months. Currently we do not intend to enter into additional forward contracts.

If the Chinese Yuan, the Taiwanese dollar, the Euro and the British Pound Sterling were to strengthen or weaken by 1.0% against the U.S. dollar, we would experience currency gain of approximately $0.2 million and currency loss of approximately $0.2 million, respectively. In the future, we may enter into hedging arrangements designed to mitigate foreign currency fluctuations. The Chinese government has begun to permit the Chinese Yuan to float more freely compared to other world currencies. Should the Chinese government allow a significant Chinese Yuan appreciation, and we do not take appropriate means to offset this exposure, the effect could have a material adverse impact upon our financial results.

During the second quarter of 2008, with the acquisition of Zetex, we adopted a contributory defined benefit plan that covers certain employees in the United Kingdom and Germany. The defined benefit plan is closed to new entrants and frozen with respect to future benefit accruals. The retirement benefit is based on the final average compensation and service of each eligible employee. On the acquisition date, we determined the fair value of the defined benefit plan assets and utilize an annual measurement date of December 31. At subsequent measurement dates, defined benefit plan assets will be determined based on fair value. Defined benefit plan assets consist primarily of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability. The net pension and supplemental retirement benefit obligations and the related periodic costs are based on, among other things, assumptions of the discount rate, estimated return on plan assets and mortality rates. These obligations and related periodic costs are measured using actuarial techniques and assumptions. The projected unit credit method is the actuarial cost method used to compute the pension liabilities and related expenses. As of December 31, 2008, the plan is underfunded and a liability of $12 million is reflected in our consolidated financial statements as noncurrent liabilities. The amount recognized in accumulated other comprehensive income was a net loss of $4.7 million and the weighted-average discount rate assumption used to determine benefit obligations as of December 31, 2008 was 6.4%. The asset value of the defined benefit plan has been volatile in recent months due primarily to wide fluctuations in the United Kingdom's equity markets and bond markets. See "Risk Factors — *Due to the recent and ongoing fluctuations in the United Kingdom's equity markets and bond markets, changes in actuarial assumptions for our Company's defined benefit plan could increase the volatility of the plan's asset value, require us to increase cash contributions to the plan and could have a negative impact on our results of operations and profitability.*" in Part I, Item 1A of this Annual Report for further information.

Interest Rate Risk. We have credit facilities with financial institutions in Asia and Europe as well as other debt instruments with interest rates equal to LIBOR or similar indices plus a negotiated margin. On February 6, 2009, we terminated our credit facilities with Union Bank. A rise in interest rates could have an adverse impact upon our cost of working capital and our interest expense. As a matter of policy, we do not enter into derivative transactions for speculative purposes. As of December 31, 2008, our outstanding debt under our interest-bearing credit agreements was $402.0 million, including $183.5 million convertible notes with a fixed interest rate of 2.25% and $212.7 million under our "no net cost loan." Based on an increase or decrease in interest rates by 1.0% for the year, our annual interest rate expense would increase or decrease by approximately $0.1million due to the fact that any increase in interest expense related to our "no net cost loan" will be offset by interest earned on our ARS portfolio.

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

Liquidity Risk. As of December 31, 2008, we had $320.6 million invested in ARS, which are instruments that historically provided liquidity through a Dutch auction process that resets the applicable interest rate at pre-determined calendar intervals. These mechanisms historically have allowed existing investors to roll over their holdings and continue to own the respective securities or to liquidate their holdings by selling their securities at par value.

On October 29, 2008, we reached a settlement with UBS AG and affiliates ("UBS AG"), in regard to our ARS portfolio, which gives us the option to "put" the $320.6 million ARS portfolio back to UBS AG at any time from June 30, 2010 through July 2, 2012 at par value in exchange for cash. Upon entering into this settlement, we elected the fair value option and recorded the "put" right at its fair value and a related gain. In addition, we transferred our ARS portfolio from an available-for-sale category to a trading category of investments. Upon transferring the ARS portfolio to a trading category, all of the previously unrealized holding losses included in comprehensive income were recognized in earnings. As a result of categorizing the ARS as trading investments and the election of the fair value option for the "put" right, all future changes in fair value for both of these financial instruments will be recognized in earnings and are expected to offset, thereby creating accounting symmetry at inception of the settlement and during each period until we exercise our "put" option. See Note 4 of "Notes to Consolidated Financial Statements" and "Risk Factors — *Our Auction Rate Securities ("ARS") are currently illiquid and we cancelled our bank credit facility in the U.S.; therefore, we must rely solely upon existing cash reserves, available foreign credit facilities and funds from existing operations to finance future operations"* in Part I, Item 1A of this Annual Report for additional information about our settlement with UBS AG.

Inflation Risk. Inflation did not have a material effect on net sales or net income in fiscal year 2008. During the third and fourth quarter of 2008, we were affected by the recent global economic weakness and financial market uncertainty, which have negatively affected our net sales and operating results. The success of our business depends, among other factors, on the strength of the global economy and the stability of the financial markets, which in turn affect our customers' demand for our products, the ability of our customers to meet their payment obligations, the likelihood of customers canceling or deferring existing orders and end-user consumers' demand for items containing our products in the end-markets we serve.

Item 8. Financial Statements and Supplementary Data

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

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

Not Applicable.

Item 9A. **Controls and Procedures**

Disclosure Controls and Procedures

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

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

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

Management's Annual Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of, the Company's Chief Executive Officer and the Chief Financial Officer and implemented by the Company's Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America.

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

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

Under the supervision and with the participation from management, including our Chief Executive Officer and the Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework and criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). This evaluation included review of the documentation of controls, testing of operating effectiveness of controls and a conclusion on this evaluation. Based on this evaluation, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2008. As permitted by the rules of the SEC, we have excluded Zetex from our annual assessment of the effectiveness of internal control over financial reporting for the year ending December 31, 2008, the year of acquisition. As of December 31, 2008, Zetex's financial statements constitute approximately 16.8% of our consolidated assets and constituted approximately 15.6% of our consolidated revenue for the year ended December 31, 2008.

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

Changes in Controls over Financial Reporting

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

On June 9, 2008, we acquired Zetex, which constitutes approximately 16.8% of our consolidated assets as of December 31, 2008 and constituted approximately 15.6% of our consolidated revenue for the year ended December 31, 2008.

As permitted by the rules of the SEC, we have excluded Zetex from our annual assessment of the effectiveness of internal control over financial reporting for the year ending December 31, 2008, the year of acquisition. Management continues to evaluate Zetex's internal controls over financial reporting. See "Risk Factors — *Our management certification and auditor attestation regarding the effectiveness of our internal control over financial reporting as of December 31, 2008 excluded the operations of Zetex. If we are not able to integrate Zetex operations into our internal control over financial reporting, our internal control over financial reporting may not be effective.*" in Part I, Item 1A of this Annual Report for additional information.

Item 9B. **Other Information**

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information concerning the directors, executive officers and corporate governance of the Company is incorporated herein by reference from the section entitled "Proposal One — Election of Directors" contained in the definitive proxy statement of the Company to be filed pursuant to Regulation 14A within 120 days after the Company's fiscal year end of December 31, 2008, for its annual stockholders' meeting for 2009 (the "Proxy Statement").

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

Item 11. Executive Compensation

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

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

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

Item 13. Certain Relationships, Related Transactions and Director Independence

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

Item 14. Principal Accountant Fees and Services

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

PART IV

Item 15. <u>Exhibits and Financial Statement Schedules</u>

(a) **Financial Statements and Schedules**

(1) Financial statements:

(2) Schedules:

None

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

(b) **Exhibits**

The exhibits listed on the Index to Exhibits at page 119 are filed as exhibits or incorporated by reference to this Annual Report.

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

Not Applicable.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Diodes Incorporated and Subsidiaries

We have audited the accompanying consolidated balance sheets of Diodes Incorporated and Subsidiaries (the "Company") as of December 31, 2007 and 2008 and the related consolidated statements of income, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2008. We also have audited the Company's internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

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

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

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Diodes Incorporated and Subsidiaries as of December 31, 2007 and 2008, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, Diodes Incorporated and Subsidiaries, maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

As discussed in Note 1 to the consolidated financial statements, effective January 1, 2008, the Company adopted Statement of Financial Accounting Standards (FASB) No. 157, *Fair Value Measurements*. As discussed in Note 1 to the consolidated financial statements, effective January 1, 2007, the Company adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes — an interpretation of FASB No. 109*.

As described in Management's Annual Report on Internal Control over Financial Reporting appearing under Item 9A, management has excluded from its assessment of internal control over financial reporting as of December 31, 2008, certain elements of the internal control over financial reporting of Zetex Plc ("Zetex"), because Zetex was acquired by the Company in a purchase business combination during 2008. Subsequent to the acquisition, certain elements of the acquired business's internal control over financial reporting and related processes were integrated into the Company's existing systems and internal control over financial reporting. Those controls that were not integrated have been excluded from management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2008.

We have also excluded these elements of the internal control over financial reporting of the acquired business from our audit of the Company’s internal control over financial reporting. The excluded elements represent controls over accounts of approximately 16.8% of the Company’s consolidated assets as of December 31, 2008, and 15.6% of consolidated revenue for the year then ended.

/s/ Moss Adams LLP

Los Angeles, California
February 25, 2009

DIODES INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(Amounts in thousands)

December 31,	2007	2008
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 56,179	**$ 103,496**
Short-term investments	323,472	—
Accounts receivable, net	89,578	**74,574**
Inventories	53,031	**99,118**
Deferred income taxes, current	5,173	**3,994**
Prepaid expenses and other	10,576	**15,578**
Total current assets	538,009	**296,760**
LONG-TERM INVESTMENT SECURITIES	—	**320,625**
PROPERTY, PLANT AND EQUIPMENT, net	123,407	**174,667**
DEFERRED INCOME TAXES, non-current	3,241	**2,745**
OTHER ASSETS		
Intangible assets, net	9,643	**35,928**
Goodwill	25,135	**56,791**
Other	6,930	**6,627**
Total assets	$ 706,365	**$ 894,143**

DIODES INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (Continued)

(Amounts in thousands, except share data)

December 31,	2007	2008
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Lines of credit	$ —	$ **6,098**
Accounts payable	55,145	**47,561**
Accrued liabilities	27,841	**31,195**
Income tax payable	1,732	**358**
Current portion of long-term debt	1,345	**1,339**
Current portion of capital lease obligations	145	**377**
Total current liabilities	86,208	**86,928**
LONG-TERM DEBT, net of current portion		
2.25% convertible senior notes due 2026	230,000	**183,500**
Long-term borrowings	5,815	**217,146**
CAPITAL LEASE OBLIGATIONS, net of current portion	1,331	**1,854**
OTHER LONG-TERM LIABILITIES	6,249	**22,935**
Total liabilities	329,603	**512,363**
MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES	7,164	**9,453**
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Preferred stock — par value $1.00 per share; 1,000,000 shares authorized;		
Common stock — par value $0.66 2/3 per share; 70,000,000 shares authorized; 40,172,491 and 41,378,816 issued and outstanding at December 31, 2007 and December 31, 2008, respectively	26,782	**27,586**
Additional paid-in capital	121,412	**133,701**
Retained earnings	220,504	**259,479**
Accumulated other comprehensive gain (loss)	900	**(48,439)**
Total stockholders' equity	369,598	**372,327**
Total liabilities and stockholders' equity	$ 706,365	**$ 894,143**

DIODES INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

(Amounts in thousands, except per share data)

Years ended December 31,	2006	2007	2008
NET SALES	$ 343,308	$ 401,159	**$ 432,785**
COST OF GOODS SOLD	229,416	270,780	**300,257**
Gross profit	113,892	130,379	**132,528**
OPERATING EXPENSES			
Selling, general and administrative	47,817	55,127	**68,373**
Research and development	8,237	12,955	**21,882**
Amortization of acquisition related intangible assets	360	836	**3,706**
In-process research and development	—	—	**7,865**
Restructuring charge	—	1,061	**4,089**
Total operating expenses	56,414	69,979	**105,915**
Income from operations	57,478	60,400	**26,613**
OTHER INCOME (EXPENSES)			
Interest income	6,699	18,117	**11,991**
Interest expense	(1,844)	(6,831)	**(9,348)**
Other	(1,212)	(225)	**16,594**
Total other income (expenses)	3,643	11,061	**19,237**
Income before income taxes and minority interest	61,121	71,461	**45,850**
INCOME TAX PROVISION	11,689	9,428	**4,585**
Income before minority interest	49,432	62,033	**41,265**
Minority interest in earnings of consolidated subsidiaries	(1,289)	(2,376)	**(2,290)**
NET INCOME	$ 48,143	$ 59,657	**$ 38,975**
EARNINGS PER SHARE			
Basic	$ 1.25	$ 1.51	**$ 0.96**
Diluted	$ 1.16	$ 1.41	**$ 0.91**
Number of shares used in computation			
Basic	38,443	39,601	**40,709**
Diluted	41,502	42,331	**42,638**

DIODES INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Amounts in thousands)
Years ended December 31, 2006, 2007 and 2008

	Common stock		Additional paid-in capital	Retained earnings	Accumulated other comprehensive gain (loss)	Total
	Shares	Amount				
BALANCE,						
December 31, 2005	37,887	$ 25,259	$ 86,245	$ 114,659	$ (688)	$ 225,474
Comprehensive income, net of tax:						
Net income	—	—	—	48,143	—	48,143
Translation adjustments	—	—	—		1,296	1,296
Total comprehensive income						49,439
Common stock issued for share-based plans	1,055	704	3,624	—	—	4,327
Excess tax benefits	—	—	6,655	—	—	6,655
Share-based compensation	—	—	8,272	—	—	8,272
BALANCE,						
December 31, 2006	38,942	$ 25,962	$ 104,795	$ 162,802	$ 608	$ 294,167
Comprehensive income, net of tax:						
Net income	—	—	—	59,657		59,657
Translation adjustment	—	—	—	—	292	292
Total comprehensive income						59,949
Common stock issued for share-based plans	1,231	820	6,753	—	—	7,573
Share-based compensation	—	—	9,864	—	—	9,864
Liability for unrecognized tax benefits	—	—	—	(1,955)	—	(1,955)
BALANCE,						
December 31, 2007	40,172	$ 26,782	$ 121,412	$ 220,504	$ 900	$ 369,598
Comprehensive income, net of tax:						
Net income	—	—	—	38,975	—	38,975
Translation adjustments	—	—	—	—	(40,106)	(40,106)
Unrealized loss on defined benefit plan, net of tax	—	—	—	—	(4,722)	(4,722)
Foreign currency loss on forward contracts, net of tax	—	—	—	—	(4,511)	(4,511)
Total comprehensive loss						(10,364)
Common stock issued for share-based plans	1,206	804	2,153	—	—	2,957
Share-based compensation	—	—	10,136	—	—	10,136
December 31, 2008	**41,379**	**$ 27,586**	**$ 133,701**	**$ 259,479**	**$ (48,439)**	**$ 372,327**

DIODES INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

Years ended December 31,	2006	2007	2008
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 48,143	$ 59,657	**$ 38,975**
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	20,443	26,245	**37,941**
Amortization of intangibles	360	836	**3,706**
Purchased in-process research and development	—	—	**7,865**
Amortization of convertible bond issuance costs	262	1,252	**1,222**
Minority interest earnings	1,289	2,377	**2,289**
Share-based compensation	8,272	9,864	**10,136**
Loss (gain) on disposal of property, plant and equipment	152	(16)	**(34)**
Gain from extinguishment of debt	—	—	**(22,791)**
Adjustment to share-based and other expenses	1,071	—	—
Changes in operating assets:			
Accounts receivable	(11,320)	(11,874)	**24,880**
Inventories	(16,283)	(4,662)	**(20,336)**
Prepaid expenses and other current assets	(2,792)	(3,667)	**(3,657)**
Deferred income taxes	929	1,664	**(3,794)**
Changes in operating liabilities:			
Accounts payable	14,534	2,996	**(11,239)**
Accrued liabilities	4,957	4,608	**(4,792)**
Other liabilities	101	3,192	**(508)**
Income taxes payable	1,963	(1,701)	**(2,692)**
Net cash provided by operating activities	72,081	90,771	**57,171**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions, net of cash acquired	(29,433)	—	**(153,158)**
Acquired intangibles	—	—	**—**
Purchases of available-for-sale securities	(260,485)	(75,514)	**(4,435)**
Proceeds from sale of available-for-sale securities	9,825	43,050	**7,282**
Purchases of property, plant and equipment	(45,656)	(56,101)	**(53,246)**
Proceeds from sales of property, plant and equipment	54	202	**56**
Net cash used by investing activities	(325,695)	(88,363)	**(203,501)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Advance (repayments) on lines of credit	(5,758)	—	**6,098**
Net proceeds from the issuance of common stock	4,327	7,573	**2,957**
Excess tax benefits	6,655	—	**—**
Proceeds from long-term debt	228,569	—	**212,711**
Repayments of long-term debt	(4,666)	(2,758)	**(24,546)**
Repayments of capital lease obligations	(138)	(141)	**(352)**
Net cash provided by financing activities	228,989	4,674	**196,868**
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	225	209	**(3,221)**
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(24,400)	7,291	**47,317**
CASH AND CASH EQUIVALENTS, beginning of year	73,288	48,888	**56,179**
CASH AND CASH EQUIVALENTS, end of year	$ 48,888	$ 56,179	**$ 103,496**

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

(Amounts in thousands)

Years ended December 31,	2006	2007	2008
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash paid during the year for:			
Interest	$ 1,771	$ 7,595	**$ 8,982**
Income taxes	$ 3,377	$ 6,921	**$ 7,290**
Non-cash activities:			
Tax benefit related to stock options credited to additional paid-in capital	$ 6,655	$ —	**$ —**
Property, plant and equipment purchased on accounts payable	$ 878	$ 1,733	**$ (2,333)**
Acquisition:			
Fair value of assets acquired	$ 56,896	$ —	**$ 169,959**
Liabilities assumed	(17,737)	—	**(41,367)**
Cash acquired	(3,888)	—	**24,566**
Cash paid for the acquisition	$ 35,271	$ —	**$ 153,158**

(Amounts in thousands except per share data)

NOTE 1 — SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of operations — Diodes Incorporated and its subsidiaries (collectively, the "Company") manufacture and distribute high-quality application specific standard semiconductor products to manufacturers in the communications, computing, consumer electronics, industrial, and automotive markets. The Company's products include diodes, rectifiers, transistors, MOSFETs, protection devices, functional specific arrays, power management devices including DC-DC switching and linear voltage regulators, amplifiers and comparators, Hall effect sensors, and silicon wafers. The products are sold primarily throughout North America, Asia and Europe.

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

During 2007, the Company undertook an internal restructuring whereby its foreign subsidiaries were structured under its newly formed, wholly owned Netherlands holding company, Diodes International B.V. In addition, Shanghai Kai Hong Electronic Co., Ltd. and Shanghai Kai Hong Technology Co., Ltd. were structured under Diodes Hong Kong Holding Company Limited., a newly formed, wholly owned subsidiary of Diodes International B.V. The primary purpose of this internal restructuring was for treasury management and tax planning functions.

In connection with the Company's acquisition of Zetex plc ("Zetex") in June 2008, the Company formed Diodes Holdings UK Limited and Diodes Investment Company, which are the holding companies for Diodes Zetex Limited and its subsidiaries. See Note 2 for further information regarding the Company's acquisition of Zetex.

The consolidated financial statements include the parent company, Diodes Incorporated, and the following:

Holding companies	
Diodes International B.V.	100% owned
Diodes Hong Kong Holding Company Limited	100% owned
Diodes Holdings UK Limited	100% owned (2008)
Diodes Investment Company	100% owned (2008)

Subsidiaries	
Diodes Taiwan Inc.	100% owned
Diodes Hong Kong Limited	100% owned
Anachip Corp.	99.8% owned
Shanghai Kai Hong Electronic Co., Ltd.	95% owned
Shanghai Kai Hong Technology Co., Ltd.	95% owned
Diodes FabTech Inc.	100% owned
Diodes United Kingdom Limited	100% owned
Diodes Korea Inc.	100% owned
Diodes Germany GmbH	100% owned
Diodes France SARL	100% owned (2008)
Diodes Zetex Limited	100% owned (2008)

All significant intercompany balances and transactions have been eliminated.

Revenue recognition — Revenue is recognized when there is persuasive evidence that an arrangement exists, when delivery has occurred, when the price to the buyer is fixed or determinable, and when collectability of the receivable is reasonably assured. These elements are met when title to the products is passed to the buyers, which is generally when product is shipped to the customers. Revenue is reduced in the period of sale for estimates of product returns and other allowances including distributor adjustments, which were approximately $2.0 million and $3.6 million in 2007 and 2008, respectively.

NOTE 1 — SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Short-term and long-term investments — Historically, the Company's short-term investments consisted primarily of auction rate securities ("ARS"), which were classified as available-for-sale. The ARS were recorded at fair value, and unrealized holding gains and losses were recorded, net of tax, as a separate component of accumulated other comprehensive income. Due to the failure of the Dutch auction process in the first quarter of 2008, the ARS were reclassified as long-term investments as of March 31, 2008. On October 29, 2008, the Company entered into a settlement with UBS AG and affiliates ("UBS AG"), and changed the classification of its ARS from available-for-sale securities to trading securities. As trading securities, the ARS are recorded at fair value and gains and losses will be recognized in the consolidated statements of income.

In addition, the Company elected the fair value option for the "put" option that allows the Company to "put" its ARS portfolio back to UBS AG at anytime during June 30, 2010 and July 2, 2012 at par value and recorded an asset and a gain in the consolidated statements of income for the fair value of the "put" option. Since the Company elected to transfer its ARS portfolio from available-for-sale securities to trading securities and it made the fair value election for the "put" option, all future fair value changes for both will be included in the consolidated statements of income, thereby creating accounting symmetry at both inception of the settlement and until the Company exercises its "put" option.

See Notes 4 and 5 for further information regarding the Company's ARS and "put" option.

Allowance for doubtful accounts — The Company evaluates the collectability of its accounts receivable based upon a combination of factors, including the current business environment and historical experience. If the Company is aware of a customer's inability to meet its financial obligations, it records an allowance to reduce the receivable to the amount it reasonably believes will be collected from the customer. For all other customers, the Company records an allowance based upon the amount of time the receivables are past due. If actual accounts receivable collections differ from these estimates, an adjustment to the allowance may be necessary with a resulting effect on operating expense. Accounts receivable are presented net of a valuation allowance indicated in the following table:

	Balance at beginning of period	Additions charged to costs & expenses	Deductions & currency changes	Balance at end of period
Year ended December 31,				
2006	$534	$263	$ 180	$ 617
2007	$617	$ 1	$ 153	$ 465
2008	**$465**	**$758**	**$(101)**	**$1,324**

NOTE 1 — SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories — Inventories are stated at the lower of cost or market value. Cost is determined principally by the first-in, first-out method. Cost includes materials, labor, and manufacturing overhead related to the purchase and production of inventories. Any write-down of inventory to the lower of cost or market at the close of a fiscal period creates a new cost basis that subsequently would not be marked up based on changes in underlying facts and circumstances. On an on-going basis, both finished goods inventory and raw material inventory are evaluated for obsolescence and estimated utility. This evaluation includes analysis of sales levels, sales projections, and purchases by item, as well as raw material usage related to the Company's manufacturing facilities. If the Company's review indicates a reduction in utility below carrying value, it reduces inventory to a new cost basis. The Company applied Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 151, *Inventory Costs*, to its December 31, 2008 inventory due to abnormally low production levels. As a result, approximately $1.1 million of fixed costs related to excess manufacturing capacity were expensed in the fourth quarter of 2008 and not capitalized into inventory.

Property, plant and equipment — Purchased property, plant and equipment is recorded at historical cost and acquired property, plant and equipment is recorded at fair value on the date of acquisition. Property, plant and equipment is depreciated using straight-line methods over the estimated useful lives, which range from 20 to 55 years for buildings and 3 to 10 years for machinery and equipment. The estimated lives of leasehold improvements range from 3 to 5 years, and are amortized over the shorter of the remaining lease term or their estimated useful lives. See Note 7 for further information regarding the Company's property, plant and equipment.

Goodwill and other intangible assets — Goodwill is the cost of an acquisition less the fair value of the net assets of the acquired business. Goodwill is tested for impairment on an annual basis and between annual tests if indicators of potential impairment exist, using a fair-value-based approach. In 2008, the Company changed the timing of its annual goodwill impairment testing from December 31 to October 1 to allow the Company to complete its testing in advance of its year-end closing. No impairment of goodwill has been identified during any of the periods presented. All of the Company's intangible assets are subject to amortization and amortized on a straight-line basis over their estimated period of benefit. The Company periodically evaluates the recoverability of these intangible assets and takes into account events or circumstances that warrant revised estimates of useful lives or that indicate that impairment exists. The goodwill and intangible assets relating to the acquisition of Zetex are preliminary and the final amounts and determinable lives are subject to change upon the completion of the Company's valuation. No impairments of intangible assets have been identified during any of the periods presented. The weighted average amortization period for intangible assets is approximately 8.3 years. See Notes 8 and 9 for further information regarding goodwill and other intangible assets.

Debt issuance costs — Debt issuance costs of $6.2 million related to the convertible bond were capitalized and are amortized over 5 years using the straight-line method. Upon prepayment of debt, the related unamortized debt issuance costs are charged to expense. Amortization of debt issuance costs is included in interest expense while the unamortized balance is included in other assets. Unamortized debt issuance costs were $2.8 million at December 31, 2008.

NOTE 1 — SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of long-lived assets — Certain of the Company's long-lived assets are reviewed at least annually as to whether their carrying values have become impaired in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. The Company considers assets to be impaired if the carrying value exceeds the undiscounted projected cash flows from operations. If impairment exists, the assets are written down to fair value or to the projected discounted cash flows from related operations. As of December 31, 2008, the Company expects the remaining carrying value of assets to be recoverable.

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

FASB interpretation ("FIN") No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"), prescribes a comprehensive model for how companies should recognize, measure, present, and disclose in their financial statements uncertain tax positions taken or expected to be taken on a tax return. Under FIN 48, tax positions shall initially be recognized in the financial statements when it is more likely than not the position will be sustained upon examination by the tax authorities. Such tax positions shall initially and subsequently be measured as the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement with the tax authority assuming full knowledge of the position and all relevant facts. The Company adopted FIN 48 in 2007 and the cumulative effects of adopting FIN 48 were recorded as an adjustment to retained earnings as of the beginning of the period of adoption. See Note 15 for further information relating to income taxes.

Research and development costs — Research and development costs are expensed as incurred.

Shipping and handling costs — Shipping and handling costs for products shipped to customers, which are included in selling, general and administrative expenses, were $1.7 million, $2.4 million and $2.4 million for the years ended December 31, 2006, 2007 and 2008.

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

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

Valuation of financial instruments — The carrying value of the Company's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable, working capital line of credit, and long-term debt approximate fair value due to their current market conditions, maturity dates and other factors. Long-term investments, including trading securities and the "put" option related to the Company's ARS portfolio, are recorded at their estimated fair values with changes in fair value reflected in the consolidated statements of income.

Derivative financial instruments — The Company uses derivative instruments to manage some of its exposures to foreign currency risks. In connection with the acquisition of Zetex, the Company adopted forward exchange contracts, designated as foreign-currency cash flow hedges, to reduce the potentially adverse effects of foreign-currency exchange rate fluctuations that occur from sales denominated in currencies other than the British Pound which is the functional currency of Zetex. Ineffective portions of changed in the fair value of the cash flow hedges are recognized in earnings. In addition, if a cash flow hedge should be discontinued because it is probable the original transaction will not occur, the net unrealized gain or loss will be recognized in earnings. Hedge ineffectiveness, determined in accordance with SFAS No. 133 *Accounting for Derivative Instruments and Hedging Activities*, had no material impact on earnings in 2008.

NOTE 1 — SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of estimates — The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America ("GAAP") requires that management make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The level of uncertainty in estimates and assumptions increases with the length of time until the underlying transactions are completed. Actual results may differ from these estimates in amounts that may be material to the consolidated financial statements and accompanying notes.

Earnings per share — Earnings per share are based upon the weighted average number of shares of common stock and common stock equivalents outstanding, including those related to share-based compensation and convertible bonds. Earnings per share are computed using the "treasury stock method" under SFAS No. 128, *Earnings Per Share*. The convertible bonds include a net share settlement feature which requires us to redeem the par amount of the bond in cash and any remaining value, assuming the bond is in-the-money, in incremental shares, cash, or a combination thereof. The net-share settled convertible, as structured, is defined in Emerging Issues Task Force ("EITF") Issue No. 90-19, *Convertible Bonds with Issuer Option to Settle for Cash upon Conversion*, instrument C, which allows us to use the treasury stock method of calculating diluted earnings per share. The incremental value of the shares will be determined based on the average price of the Company's common stock over the reporting period. There are no shares in the earnings per share calculation for the years ended December 31, 2006, 2007 and 2008 related to the convertible notes as the average stock price did not exceed the conversion price and, therefore, there is no conversion spread.

For the years ended December 31, 2006, 2007 and 2008, options and share grants outstanding for 0.2 million shares, 0.6 million shares and 1.1 million shares, respectively, of common stock have been excluded from the computation of diluted earnings per share because their effect was anti-dilutive.

	Year Ended December 31,		
	2006	2007	**2008**
Net income for earnings per share computation	$ 48,143	$ 59,657	**$ 38,975**
Basic			
Weighted average number of common shares outstanding during the year	38,443	39,601	**40,709**
Basic earnings per share	$ 1.25	$ 1.51	**$ 0.96**
Diluted			
Weighted average number of common shares outstanding used in calculating basic earnings per share	38,443	39,601	**40,709**
Add: incremental shares upon stock option exercise and non-vested stock awards	3,059	2,730	**1,929**
Weighted average number of common shares outstanding used in calculating diluted earnings per share	41,502	42,331	**42,638**
Diluted earnings per share	$ 1.16	$ 1.41	**$ 0.91**

NOTE 1 — SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based compensation — The Company accounts for share-based compensation in accordance with SFAS No. 123R, *Share-Based Payment.* The Company uses the Black-Scholes model, consistent with prior period valuations under SFAS No. 123, *Accounting for Stock-Based Compensation* to determine the fair value of stock options on the date of grant. Restricted stock grants measured based on the fair market value of the underlying stock on the date of grant.

The Company recognizes compensation expense for stock options on a straight-line basis for all stock issued after January 1, 2006. For stock options issued prior to January 2006, the Company continues to recognize compensation expense for stock options using the modified prospective method.

The Company recognizes compensation expense for restricted stock grants on a straight-line basis over the requisite service period. In addition to the recognition of compensation expense, non-vested restricted stock grants are included in the diluted shares outstanding calculation.

Functional currencies and foreign currency translation — The functional currency for most of the Company's international operations is the U.S. dollar. However, some of its subsidiaries functional currency is their local currency, as the Company believes it is the appropriate currency for them to use. The Company believes the New Taiwan ("NT") dollar as the functional currency at Diodes Taiwan Inc. and Anachip Corp. and the British Pound ("GBP") as the functional currency at Diodes Zetex Limited most appropriately reflects the current economic facts and circumstances of their operations. Assets and liabilities denominated in foreign currencies are translated at the exchange rate on the balance sheet date. Income and expense accounts denominated in foreign currencies are translated at the average exchange rate during the period presented. Resulting translation adjustments are recorded as a separate component of accumulated other comprehensive income or loss within stockholders' equity in the consolidated balance sheets.

The Company uses the U.S. dollar as the functional currency in Diodes Hong Kong Limited, Shanghai Kai Hong Electronic Co., Ltd. and Shanghai Kai Hong Technology Co., Ltd. as substantially all monetary transactions are made in U.S. dollars, and other significant economic facts and circumstances currently support that position. As these factors may change in the future, the Company periodically assesses its position with respect to the functional currency of its foreign subsidiaries. Included in net income are foreign exchange losses of $1.8 million, $0.6 million and $6.7 million for the years ended December 31, 2006, 2007 and 2008, respectively.

Defined benefit plan — The Company maintains pension plans covering certain of its employees in the United Kingdom ("U.K.") and Germany. For financial reporting purposes, the net pension and supplemental retirement benefit obligations and the related periodic pension costs are calculated based upon, among other things, assumptions of the discount rate for plan obligations, estimated return on pension plan assets and mortality rates. These obligations and related periodic costs are measured using actuarial techniques and assumptions. The projected unit credit method is the actuarial cost method used to compute the pension liabilities and related expenses. See Note 16 for further information regarding the Company's pension plans.

Asset retirement obligations — In accordance with SFAS No. 143, *Accounting for Asset Retirement Obligations*, the Company recognizes assets retirement obligations ("ARO's") when incurred, with the initial measurement at fair value. These liabilities are accreted to full value over time through charges to income. In addition, asset retirement costs are capitalized as part of the related asset's carrying value and are depreciated over the assets respective useful life. The Company's ARO's consist primarily of estimated costs to return leased property to its original condition. The liabilities of $0.3 million for AROs's are included in the Company's consolidated balance sheet as other long-term liabilities.

NOTE 1 — SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment in joint venture — Investment in joint ventures over which the Company has the ability to exercise significant influence and that, in general, are at least 20 percent owned are stated at cost plus equity in undistributed net income (loss) of the joint venture. These investments are evaluated for impairment in accordance with the requirements of APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*. An impairment loss would be recorded whenever a decline in the value of an equity investment below its carrying amount is determined to be other than temporary. In judging "other than temporary," the Company would consider the length of time and extent to which the fair value of the investment has been less than the carrying amount of the investment, the near-term and longer-term operating and financial prospects of the investee, and the Company's longer-term intent of retaining the investment in the investee. The value of the Company's investment in joint venture of $0.6 million is included in the Company's consolidated balance sheet as other assets.

Contingencies — From time to time, the Company is involved in a variety of legal matters that arise in the normal course of business. Based on information available, the Company evaluates the likelihood of potential outcomes. In accordance with SFAS No. 5, *Accounting for Contingencies*, the Company records the appropriate liability when the amount is deemed probable and reasonably estimable. In addition, the Company does not accrue for estimated legal fees and other directly related costs as they are expensed as incurred.

Comprehensive income (loss) — GAAP generally requires that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities are reported as separate components of the equity section of the consolidated balance sheet, such items, along with net income, are components of comprehensive income or loss. The components of other comprehensive income or loss include foreign currency translation adjustments, unrealized gain or loss on defined benefit plan, foreign currency loss on forward contracts and other items. Accumulated other comprehensive gain or (loss) was $0.6 million, $0.9 million and $(48.4) million at December 31, 2006, 2007 and 2008, respectively.

Total Comprehensive Income (Loss)

	Twelve Months Ended December 31,		
	2006	2007	**2008**
Net income	$ 48,143	$ 59,657	**$ 38,975**
Translation adjustment	1,296	292	**(40,106)**
Unrealized loss on defined benefit plan, net of tax	—	—	**(4,722)**
Foreign currency loss on forward contracts, net of tax	—	—	**(4,511)**
Comprehensive income (loss)	$ 49,439	$ 59,949	**$ (10,364)**

NOTE 1 — SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassifications — Certain amounts from prior periods have been reclassified to conform to the current years' presentation. These reclassifications had no effect on previously reported results of operations or retained earnings.

Recently issued accounting pronouncements — In November 2008, the FASB ratified the EITF consensus on EITF Issue No. 08-7, *Accounting for Defensive Intangible Assets.* This pronouncement clarifies the accounting for certain separately identifiable intangible assets which an acquirer does not intend to actively use but intends to hold to prevent its competitors from obtaining access to them. EITF Issue No. 08-7 requires an acquirer in a business combination to account for a defensive intangible asset as a separate unit of accounting which should be amortized to expense over the period the asset diminishes in value. EITF Issue No. 08-7 is effective for financial statements issued for fiscal years beginning after December 15, 2008. Early adoption is prohibited. The Company is currently evaluating the future impacts and required disclosures of this pronouncement.

In November 2008, the FASB ratified the EITF consensus on EITF Issue No. 08-6, *Equity Method Investment Accounting Considerations.* This pronouncement clarifies the accounting for certain transactions and impairment considerations involving equity method investments. EITF Issue No. 08-6 is effective for financial statements issued for fiscal years beginning after December 15, 2008. Early adoption is prohibited. The Company is currently evaluating the future impacts and required disclosures of this pronouncement.

In June 2008, the FASB ratified the EITF consensus on EITF Issue No. 07-5, *Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock.* This pronouncement clarifies the determination of whether an instrument (or an embedded feature) is indexed to an entity's own stock, which would qualify as a scope exception in paragraph 11(a) of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. EITF Issue No. 07-05 is effective for financial statements issued for fiscal years beginning after December 15, 2008. Early adoption is prohibited. The Company is currently evaluating the future impacts and required disclosures of this pronouncement.

In June 2008, the FASB issued FASB Staff Position ("FSP") EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities.* This pronouncement provides that unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share ("EPS") pursuant to the two-class method. FSP EITF 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008. Upon adoption, a company is required to retrospectively adjust its EPS data (including any amounts related to interim periods, summaries of earnings and selected financial data) to conform with the provisions of FSP EITF 03-6-1. The Company is currently evaluating the future impacts and required disclosures of this pronouncement.

NOTE 1 — SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

In May 2008, the FASB issued FSP APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement).* 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. Previous guidance provided for accounting of this type of convertible debt instruments entirely as debt. FSP APB 14-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008. The Company has considered the future impacts and required disclosures of this pronouncement and believes that it will result in material adjustments in accounting for its originally issued $230 million convertible senior notes issued in October 2006. Furthermore, all adjustments are required to be made retrospectively as of the date of issuance of the convertible senior notes and therefore, will be treated as if convertible senior notes have always been accounted for in accordance with this pronouncement. This retrospective treatment will require the Company to restate the amounts included in previously issued financial statements in future filings. Preliminarily, when the Company restates its consolidated statements of income for the years 2007 and 2008, it expects to increase its non-cash interest expense and decrease its deferred tax expense by approximately $10 million and approximately $4 million for each year, respectively. Also, the Company's $22.8 million pre-tax gain on extinguishment of debt and deferred tax expense for 2008 will be reduced by approximately $7 million (non-cash) and approximately $3 million, respectively. In addition, when the Company restates its December 31, 2008 balance sheet it expects to reduce its long-term debt from $183.5 million to approximately $147 million. The deferred tax liability associated with the convertible debt instrument will also decrease by approximately $15 million. For 2009, the Company expects to record an additional non-cash interest expense of approximately $8 to $9 million. This amount is less than in 2007 and 2008 due to the extinguishment of $46.5 million and $9.6 million par value convertible senior notes in December 2008 and January 2009, respectively.

In February 2008, the FASB issued FSP FAS 157-2, *Effective Date of FASB Statement No. 157.* This pronouncement delays the effective date of SFAS No. 157, *Fair Value Measurements*, for all non-financial assets and non-financial liabilities, except those recognized or disclosed at fair value in the financial statements on a recurring basis, until January 1, 2009. The Company is currently evaluating the future impacts and required disclosures of this pronouncement.

In December 2008, the FASB issued 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 2008, the FASB issued FSP FAS 142-3, *Determination of the Useful Life of Intangible Asset*. This pronouncement amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets*. The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141R, *Business Combinations*, and other accounting principles generally accepted in the U.S. FSP FAS 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. The guidance for determining the useful life of a recognized intangible asset in this FSP shall be applied prospectively to intangible assets acquired after the effective date. The disclosure requirements shall be applied prospectively to all intangible assets recognized as of, and subsequent to, the effective date. The Company is currently evaluating the future impacts and required disclosures of adopting this pronouncement.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities — an Amendment of SFAS No. 133*. This pronouncement requires that objectives for using derivatives instruments be disclosed in terms of underlying risk and accounting designation. The fair value of derivative instruments and their gains and losses will need to be presented in tabular format in order to present a more complete picture of the effects of using derivative instruments. SFAS No. 161 is effective for financial statements issued for fiscal years beginning after November 15, 2008. The Company is currently evaluating the future impacts and required disclosures of adopting this pronouncement.

NOTE 1 — SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

In December 2007, the FASB issued SFAS No. 141R, *Business Combinations*, which changes how business acquisitions are accounted. This pronouncement requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction and establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed in a business combination. Among the more significant changes in the accounting for acquisitions are the following: i) Transaction costs will generally be expensed. Certain such costs are presently treated as costs of the acquisition; ii) In-process research and development ("IPR&D") will be accounted for as an asset, with the cost recognized as the research and development is realized or abandoned. IPR&D is presently expensed at the time of the acquisition; iii) Contingencies, including contingent consideration, will generally be recorded at fair value with subsequent adjustments recognized in operations. Contingent consideration is presently accounted for as an adjustment of purchase price; and iv) Decreases in valuation allowances on acquired deferred tax assets will be recognized in operations. Such changes previously were considered to be subsequent changes in consideration and were recorded as adjustments to goodwill. SFAS No. 141R is effective for business combinations and adjustments to an acquired entity's deferred tax asset and liability balances occurring after December 31, 2008. Early adoption is prohibited. The Company is currently evaluating the future impacts and required disclosures of this pronouncement.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51*. This pronouncement establishes 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 standard indicate, among other things, that NCIs (previously referred to as minority interests) be treated as a separate component of equity, not as a liability; that 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 that losses of a partially owned consolidated subsidiary be allocated to the NCIs even when such allocation might result in a deficit balance. This standard also requires changes to certain presentation and disclosure requirements. SFAS No. 160 is effective for financial statements issued beginning January 1, 2009. 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. After adoption, non-controlling interests ($7.2 million and $9.5 million as of December 31, 2007 and 2008, respectively) will be classified as stockholders' equity, a change from its current classification between liabilities and stockholders' equity. The Company is currently evaluating the future impacts and required disclosures of this pronouncement.

NOTE 2 — BUSINESS ACQUISITIONS

APD acquisition — In November, 2006, the Company purchased the net assets of APD Semiconductor, a privately held U.S.-based fabless discrete semiconductor company. The assets related to the business of manufacturing, marketing, selling and distribution of discrete semiconductor products. The initial purchase price of the acquisition was $8.4 million in addition to a $0.4 million earn-out provision with respect to pre-defined covered products.

As of December 31, 2008, the contingency of earn-out provision has been resolved and $0.4 million of consideration has been recorded as additional cost of acquisition. The excess amount of initially recognized liability exceeding the consideration payable has been adjusted and assigned to intangible assets acquired.

The following table summarizes management's revised fair values of the assets acquired and liabilities assumed at the date of acquisition.

	Total Allocation
Assets acquired	
Accounts receivable	$ 299
Inventory	922
Fixed assets	125
Patents	7,801
Liabilities assumed	
Accounts payable	(339)
Accrued liabilities	(400)
Net assets acquired	$ 8,408

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:

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

NOTE 2 — BUSINESS ACQUISITIONS (Continued)

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 credit line ("no net cost loan"), which replaced the margin loan. See Note 10 — *Bank Credit Agreements and Long-Term Debt* for further details.

The results of operations of the Zetex acquisition have been included in the consolidated financial statements from 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 its 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 is expected to be completed by the end of the first 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:

	Previously disclosed as of September 30, 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	52,291	(48)	52,243
Deferred tax assets	10,276	(10,276)	—
Other long-term assets	136	—	136
Trademarks and other intangible assets	47,440	834	48,274
Goodwill	27,637	10,162	37,799
Total assets acquired	$ 191,579	$ 672	$ 192,251
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	1,259	672	1,931
Other liabilities	3,846	—	3,846
Total liabilities assumed	38,841	672	39,513
Total net assets acquired, net of cash acquired	$ 152,738	$ —	$ 152,738

NOTE 2 — BUSINESS ACQUISITIONS (Continued)

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 as all the acquired work-in-process and finished goods inventory has been sold.

As of December 31, 2008, the Company has preliminarily identified $48.3 million of identifiable intangible assets separate from goodwill. Acquired intangible 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 accordance with SFAS No. 141, to research and development. The remaining acquired intangible assets, including developed technology, customer relationships and trade names, are being amortized over an average of 7.9 years. Preliminarily, the Company is amortizing all of the identified intangible assets separate from goodwill under estimated useful lives and will adjust the lives accordingly, including any as indefinite life intangible assets upon completion of its final determination of the allocation of the purchase price. For the year ended December 31, 2008, approximately $10.7 million has been recorded as amortization expense associated with the identified intangible assets, including $7.9 million for IPR&D. 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, subject to final determination. In addition, the Company expects goodwill to be deductible for tax purposes. See Note 8 for further details about the acquired intangibles.

The following unaudited pro forma consolidated results of operations for the years ended December 31, 2007 and 2008 have been prepared as if the acquisition of Zetex had occurred at January 1, 2007 and January 1, 2008, respectively, for each year (*unaudited*):

	Twelve Months Ended December 31,	
	2007	2008
Net revenues	$530,934	$483,026
Net income	$ 65,659	$ 26,742
Net income per common share—Basic	$ 1.66	$ 0.66
Net income per common share—Diluted	$ 1.55	$ 0.63

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. Upon completion of the valuation, the Company intends to make adjustments for these items in future pro forma disclosures for Zetex. 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.

NOTE 3 — FOREIGN CURRENCY HEDGING

As a multinational Company, sales transactions are denominated in a variety of currencies. In connection with the acquisition of Zetex, the Company adopted forward exchange contracts, designated as foreign-currency cash flow hedges, to reduce the potentially adverse effects of foreign-currency exchange rate fluctuations that occur from sales denominated in currencies other than the British Pound which is the functional currency of Zetex. The Company uses these forward exchange contracts to hedge, thereby attempting to reduce the Company's overall exposure to the effects of currency fluctuations on cash flows. The Company does not permit speculation in financial instruments for profit on the exchange rate price fluctuation, trading in currencies for which there are no underlying exposures, or entering into trades for any currency to intentionally increase the underlying exposure.

These forward exchange contracts are recognized on the balance sheet at their fair value. Unrealized gain positions are recorded as assets and unrealized loss positions are recorded as liabilities. Changes in the fair values of the outstanding forward exchange contracts that are highly effective are recorded in other comprehensive income until the forward exchange contracts are settled. Changes in the fair values of the forward exchange contracts assessed as not effective as hedging instruments are recognized in earnings in the current period. Results of ineffective hedges are recorded as expense in the consolidated condensed statements of operations in the period in which they are determined to be ineffective.

The Company assesses both at the inception of the hedge and on an ongoing basis, whether the derivatives that are used in hedging transactions have been highly effective in offsetting changes in the cash flows of hedged items and whether those forward exchange contracts are expected to remain highly effective in future periods. For all periods presented, there were no gains or losses excluded from the assessment of effectiveness. Additionally, for all periods presented, there was no significant impact on results of operations from discontinued cash flow hedges as a result of forecasted transactions that did not occur.

As of December 31, 2008, the Company had forward contracts, primarily relating to the Diodes Zetex Limited operations, of approximately $18 million that mature monthly over the next 12 months. For the year ended December 31, 2008, the Company had net foreign exchange hedge-related transaction losses of $1.5 million related to hedging the Zetex acquisition purchase price and deferred net unrealized losses on outstanding forward exchange contracts recorded as other comprehensive gain of $4.5 million (net of tax). The Company estimates the entire balance of these deferred net unrealized losses will be reclassified into earnings within the next 12 months.

NOTE 4 — FAIR VALUE MEASUREMENTS

On January 1, 2008, the Company adopted the methods of fair value as described in SFAS No. 157 to value the financial assets and liabilities. SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact and (iv) willing to transact.

SFAS No. 157 requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement costs). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, SFAS No. 157 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

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

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

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

Historically, the fair value of the Company's auction rate securities ("ARS") has approximated par value due to the frequent resets through the auction process. While the Company continues to earn interest on investments at the maximum contractual rate, these investments are not currently trading and therefore, do not currently have a readily determinable market value. Accordingly, the estimated fair value of the ARS no longer approximates par value.

Due to lack of observable market quotes on the Company's $320.6 million ARS portfolio, the fair value measurements have been estimated using Level 3 inputs. The fair value was based on factors that reflect assumptions market participants would use in pricing, including, among others: relevant future market conditions including those that are based on the expected cash flow streams, the underlying financial condition and credit quality of the issuer and bond insurer, the percent of the Federal Family Education Loan Program ("FFELP") guaranty, and the maturity of the securities, as well as the market activity of similar securities. The valuation of the Company's ARS investment portfolio is subject to uncertainties that are difficult to predict and the future actual market prices may differ materially. See Note 5 for more information regarding the Company's ARS portfolio.

NOTE 4 — FAIR VALUE MEASUREMENTS (Continued)

On October 29, 2008, the Company reached a settlement with UBS AG and affiliates ("UBS AG"), in regard to its ARS portfolio, which gives the Company the option to "put" the ARS portfolio back to UBS AG at anytime during June 30, 2010 and July 2, 2012 at par value. The "put" option does not meet the definition of a derivative as the terms of the "put" option do not provide for net settlement as the Company must tender the ARS portfolio to receive the settlement and the ARS portfolio is not readily convertible to cash. Upon settlement, the Company elected the fair value option under SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, for the "put" option. Upon initial recognition of the "put" option, the Company recorded an asset and a gain for the fair value of the "put" option. Until the Company exercises its "put" option, it will adjust the fair value on a quarterly basis with corresponding changes in fair value to be reported in the consolidated statements of income.

Given that the "put" option is a free standing instrument and the rights are not transferable, the existence of the "put" option does not affect the separate determination of the fair value of the ARS portfolio since the price a market participant would be willing to pay for the ARS portfolio would not include the "put" option. Therefore, the "put" option cannot be considered in determining the value of the ARS portfolio and the Company will continue to determine the fair value of the ARS portfolio without consideration of the "put" option.

Upon settlement with UBS AG, the Company transferred its ARS portfolio from an available-for-sale securities category to trading securities category in accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. Although SFAS No 115 states that transfers into trading securities should be rare, the Company believes that the unprecedented failure of the ARS market and its settlement with UBS AG meets the conditions for such a rare transfer. When the Company made the transfer, all of the previously recorded unrealized losses in comprehensive income were included in the consolidated statement of income.

Since the Company elected to transfer its ARS portfolio from available-for-sale securities category to trading securities category and the Company made the fair value election for the "put" option, all future fair value changes for both will be included in the consolidated statements of income, thereby creating accounting symmetry at both inception of the settlement and until the Company exercises its "put" option. See Notes 5 and 10 for further details in regard to the Company's settlement with UBS AG.

Financial assets and liabilities carried at fair value as of December 31, 2008 are classified in the following table:

Description	Level 1: Quoted Prices in Active Markets for Identical Assets	Level 2: Significant Other Observable Inputs	Level 3: Significant Unobservable	Total
Long-term — trading securities	$ —	$ —	$ 288,530	$ 288,530
Long-term — put option	—	—	32,095	32,095
Total	$ —	$ —	$ 320,625	$ 320,625

NOTE 4 — FAIR VALUE MEASUREMENTS (Continued)

The following is a reconciliation of the beginning and ending balances for assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the period ended December 31, 2008:

	Level 3: Significant Unobservable Inputs
Beginning balance as of January 1, 2008	$ —
Transfers to Level 3	320,700
Unrealized loss from trading securities	(32,095)
Unrealized gain from put option	32,095
Purchases, issuances, and settlements	(75)
Ending balance as of December 31, 2008	**$ 320,625**

Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Financial assets and financial liabilities measured at fair value on a non-recurring basis were not significant at December 31, 2008.

Certain non-financial assets and non-financial liabilities measured at fair value on a recurring and non-recurring basis include goodwill, other intangible assets and other non-financial long-lived assets. As previously stated above, SFAS No. 157 will be applicable to these fair value measurements beginning January 1, 2009.

NOTE 5 — SHORT-TERM AND LONG-TERM INVESTMENTS

Short term and long-term investments are as follows:

As of December 31, 2008	Cost Basis	Realized Gains	Realized Losses	Fair Value
Long-term investments				
Long-term — trading securities	$320,625	$ —	$ (32,095)	**$288,530**
Long-term — put option	—	32,095	—	**32,095**
Total long-term investments	$320,625	$ 32,095	$ (32,095)	**$320,625**

As of December 31, 2007	Cost Basis	Unrealized Gains	Unrealized Losses	Fair Value
Short-term investments				
Available-for-sale investment in auction rate securities	$320,700	$ —	$ —	**$320,700**
Money market mutual funds	2,772	—	—	**2,772**
Total short-term investments	$323,472	$ —	$ —	**$323,472**

As of December 31, 2008, the Company had $320.6 million invested in ARS, which are instruments that provided liquidity through a Dutch auction process that resets the applicable interest rate at pre-determined calendar intervals. These mechanisms historically have allowed existing investors to roll over their holdings and continue to own the respective securities or to liquidate their holdings by selling their securities at par value.

Historically, the Company invested in ARS for short periods of time as part of its cash management program. However, the recent uncertainties in the credit markets and the failure of the auctions for the Company's ARS have prevented the Company and other investors from liquidating holdings of ARS. An auction failure, which is not a default in the underlying debt instrument, occurs when the amount of securities submitted for sale exceeds the amount of purchase orders, resulting in the Company continuing to hold these securities. Because of the inability to determine when the investments in ARS would settle, as of March 31, 2008, the Company reclassified the entire ARS balance from short-term investment to long-term investment on the Company's consolidated balance sheet.

On October 29, 2008, the Company reached a settlement with UBS AG. As part of the settlement, the Company transferred its ARS portfolio from available-for-sale securities category to trading securities category in accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. Although SFAS No. 115 states that transfers into trading securities should be rare, the Company believes that the unprecedented failure of the ARS market and its settlement with UBS AG meets the conditions for such a rare transfer. When the Company made the transfer all of the previously recorded unrealized losses in comprehensive income, it transferred $22.7 million to the consolidated statement of income.

In connection with the settlement with UBS AG the Company was given the option to "put" the ARS portfolio back to UBS AG at anytime during June 30, 2010 and July 2, 2012 at par value. The "put" option is a free standing instrument and the rights are not transferable. Upon settlement, we elected the fair value option for the "put" option and recorded an asset and a gain for the fair value of the "put" option. As of December 31, 2008, the fair value of the "put" option was $32.1 million. 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. See Note 4 for further information regarding fair value measurements of the Company's put option.

Since the Company transferred its ARS portfolio from available-for-sale securities category to trading securities category and the Company made the fair value election for the "put" option, all future fair value changes for both will be included in the consolidated statements of income, thereby creating accounting symmetry at both inception of the settlement and until the Company exercises its "put" option.

The Company continues to earn interest on its ARS at a weighted average rate of approximately 2.1% of as December 31, 2008, which it is currently collecting. The weighted average maximum contractual default rate is 17.3%.

NOTE 5 — SHORT-TERM AND LONG-TERM INVESTMENTS (Continued)

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 security.

As of December 31, 2008, 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 FFELP. We continue to believe that the credit quality of these securities are high based on this guarantee. The following table shows a natural grouping of the FFELP guaranteed securities, as well as the percentage of the ARS portfolio guaranteed by FFELP.

% 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%**

As of December 31, 2008, 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 11.2% of par value, or $32.1 million loss. See Note 4 for further information regarding fair value measurements of the Company's ARS portfolio.

NOTE 6 — INVENTORIES

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

	2007	2008
Finished goods	$ 21,245	**$ 46,992**
Work-in-progress	11,868	**23,436**
Raw materials	19,918	**28,690**
	$ 53,031	**$ 99,118**

NOTE 7 — PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at December 31 were:

	2007	2008
Buildings and leasehold improvements	$ 9,287	**$ 32,915**
Construction in-progress	8,968	**13,746**
Machinery and equipment	196,559	**248,260**
	214,814	**294,921**
Less: Accumulated depreciation and amortization	(96,060)	**(134,118)**
	118,754	**160,803**
Land	4,653	**13,864**
	$ 123,407	**$ 174,667**

Depreciation and amortization of property, plant and equipment was $20.4 million, $26.2 million and $37.9 million for the years ended December 31, 2006, 2007 and 2008, respectively.

NOTE 8 — INTANGIBLE ASSETS

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

As of December 31, 2008

Intangible Assets	Useful life	Gross Carrying Amount	Accumulated Amortization	Currency exchange and other	**Net**
Amortized Intangible Assets:					
Patents, trademarks and trade names	5-15 years	$14,006	$(2,217)	$ (206)	**$11,583**
Software license	3 years	1,212	(823)	(104)	**285**
Developed product technology	2-10 years	29,248	(2,115)	(7,574)	**19,559**
Customer relationships	12 years	6,521	(284)	(1,736)	**4,501**
Total amortized intangible assets:		**$50,987**	**$(5,439)**	**$(9,620)**	**$35,928**

As of December 31, 2007

Intangible Assets	Useful life	Gross Carrying Amount	Accumulated Amortization	Currency exchange and other	Net
Amortized Intangible Assets:					
Patents, trademarks and trade names	5-15 years	$10,831	$(1,194)	$6	$9,643
Total amortized intangible assets:		$10,831	$(1,194)	$6	$9,643

Amortization expense related to intangible assets subject to amortization was $0.4, $0.8 million and 3.7 million for the years ended December 31, 2006, 2007 and 2008, respectively.

Amortization of intangible assets through 2013 is as follows:

Years	
2009	$4,368
2010	4,319
2011	4,253
2012	4,216
2013	3,512

NOTE 9 — GOODWILL

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

	2007				2008		
	Balance, Jan 1	Acquisitions/ purchase accounting adjustments	Currency exchange and other	Balance, Dec 31	Acquisitions/ purchase accounting adjustments	Currency exchange and other	**Balance, Dec 31**
Shanghai Kai Hong Electronic Co., Ltd.	$ 881	$ —	$ —	$ 881	$ —	$ —	**$ 881**
Diodes FabTech Inc.	4,209	—	—	4,209	—	—	**4,209**
Anachip Corp.	19,940	—	105	20,045	—	(226)	**19,819**
Diodes Zetex Limited	—	—	—	—	37,799	(5,917)	**31,882**
Total	$25,030	$ —	$105	$25,135	$37,799	$(6,143)	**$56,791**

NOTE 10 — BANK CREDIT AGREEMENTS AND LONG-TERM DEBT

Credit facilities — The Company maintains credit facilities with several financial institutions through its entities in the U.S. and Asia totaling $49.4 million. The credit unused and available under the various facilities as of December 31, 2008, was $39.3 million (net of $6.1 million short-term loan below and $4.0 million credit used for import and export guarantee), as follows:

2008 Credit Facilities	Terms	Outstanding at December 31, 2007	Outstanding at December 31, 2008
$ 30,000	Unsecured, interest at LIBOR plus margin, due quarterly	$ —	$ —
19,448	Unsecured, variable interest plus margin due monthly	—	**6,098**
$ 49,448		$ —	**$ 6,098**

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

	2007	2008
Convertible bond with aggregate principal amount $230 million of convertible senior notes due 2026. The notes mature October 1, 2026. Interest, at 2.25%, is payable semi-annually in arrears on April 1 and October 1 of each year, beginning 2007.	$ 230,000	**$ 183,500**
Notes payable to Taiwan bank, principal amount of TWD 158 million, variable interest (approximately 3.3% as of December 31, 2008), of which TWD 132 million matures on July 6, 2021, and TWD 26 million matures July 6, 2013, secured by land and building.	4,480	**4,103**
No net cost loan from UBS Bank, secured by Company’s ARS portfolio, and has no maturity date. Under the “no net cost loan,” the interest rate the Company pays on the loan will not exceed the interest rate received on the pledged ARS portfolio.	—	**212,711**
Note payable to U.S. bank, collateralized by all assets, due in aggregate monthly principal payments of $83,000 plus interest (approximately 3.2% at December 31, 2008). This note was paid in full in February 2009.	2,680	**1,671**
	237,160	**401,985**
Less: Current portion	(1,345)	**(1,339)**
Long-term debt, net of current portion	$ 235,815	**$ 400,646**

NOTE 10 — BANK CREDIT AGREEMENTS AND LONG-TERM DEBT (Continued)

The annual contractual maturities of long-term debt at December 31, 2008 are as follows:

2009	$ 2,006
2010	346
2011	358
2012	370
2013	361
Thereafter	398,544
Total long-term debt	**$ 401,985**

Convertible bond — On October 12, 2006, the Company issued and sold convertible senior notes with an aggregate principal amount of $230 million due 2026 (the "Notes"), which pays 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. Interest will accrue on the Notes from and including October 12, 2006 or from and including the last date in respect of which interest has been paid or provided for, as the case may be, to, but excluding, the next interest payment date or maturity date, as the case may be. Commencing with the six-month period beginning October 1, 2011, and for each six-month period thereafter, the Company will, on the interest payment date for such interest period, pay contingent interest to the holders of the Notes under certain circumstances and in amounts described in the indenture. For U.S. Federal income tax purposes, the Company will treat, and each holder of the Notes will agree under the indenture to treat, the Notes as contingent payment debt instruments governed by special tax rules and to be bound by the Company's application of those rules to the Notes.

On each of October 1, 2011, October 1, 2016 and October 1, 2021, holders may require the Company to purchase all or a portion of their Notes at a purchase price in cash equal to 100% of the principal amount of the Notes to be purchased, plus any accrued and unpaid interest to, but excluding, the purchase date.

Note holders may require the Company to repurchase all or a portion of its Notes upon a fundamental change, as described in the prospectus, at a repurchase price in cash equal to 100% of the principal amount of the Notes to be repurchased, plus any accrued and unpaid interest to, but excluding, the fundamental change repurchase date. Future minimum interest payments related to the Notes as of December 31, 2008 are $4.1 million for each year from 2009 through 2012. Future minimum payments related to the Notes as of December 31, 2008 for 2013 and thereafter include $56.8 million in interest and $183.5 million in principal for a total of $240.3 million.

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 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.

Note holders may convert their Notes prior to stated maturity only under the following circumstances: (i) during any calendar quarter after the calendar quarter ending December 31, 2006, if the closing sale price of the Company's common stock for each of 20 or more trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter exceeds 120% of the conversion price in effect on the last trading day of the immediately preceding calendar quarter; (ii) during the five consecutive business days immediately after any five consecutive trading day period (the Company refers to this five consecutive trading day period as the "note measurement period") in which the average trading price per $1,000 principal amount of Notes was equal to or less than 98% of the average conversion value of the Notes during the note measurement period; (iii) upon the occurrence of specified corporate transactions; (iv) if the Company calls the Notes for redemption; and (v) at any time from, and including, September 1, 2011 to, and including, October 1, 2011 and at any time on or after October 1, 2024. Upon conversion, holders will receive cash, or at the Company's option, cash and shares of the Company's common stock based on the conversion payment terms described in the Note. The conversion obligation is based on the sum of the "daily settlement amounts" described in the prospectus for the 20 consecutive trading days that begin on, and include, the second trading day after the day the Notes are tendered for conversion.

NOTE 10 — BANK CREDIT AGREEMENTS AND LONG-TERM DEBT (Continued)

On or after October 1, 2011, the Company may, from time to time, at its option, redeem the Notes, in whole or in part, for cash, at a redemption price equal to 100% of the principal amount of the Notes the Company redeems, plus any accrued and unpaid interest to, but excluding, the redemption date.

The Company has evaluated the terms of the call feature, redemption feature, and the conversion feature under applicable accounting literature, including SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and EITF 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock*, and concluded that none of these features should be separately accounted for as derivatives.

In connection with the issuance of the Notes, the Company incurred approximately $6.2 million of issuance costs, which primarily consisted of investment banker fees, legal and accounting fees. These costs are classified within Other Assets and are amortized as a component of interest expense using the straight-line method from issuance through October 12, 2011.

During November 2008, the Company repurchased $46.5 million of it Notes for approximately $23.2 million in cash resulting in a pre-tax gain of approximately $22.6 million. Beginning January 1, 2009, we will adopt FSP APB 14-1, see Note 1 for further details.

No Net Cost Loan

In connection with the acquisition of Zetex (see Note 2), the Company entered into a $165 million interest-bearing margin loan with UBS Financial Services, Inc., secured by the Company's ARS portfolio.

On November 4, 2008, the Company accepted an offer of "no net cost loan," which replaced the margin loan, from UBS BANK USA ("UBS Bank"), an affiliate of UBS AG and is collateralized by the Company's ARS portfolio. Under the "no net cost loan," USB Bank will not make an advance against the ARS collateral in amounts equal to the fair market or par value of the ARS collateral unless the Company arranges for another person or entity to provide additional collateral or assurances on terms and conditions satisfactory to the UBS Bank. In addition, UBS Bank may demand full or partial payment or terminate and cancel the "no net cost loan," at its sole option and without cause, at any time. However, If at any time UBS Bank exercises its right of demand under certain sections of the Credit Line Agreement, UBS Financial Services, Inc. shall provide as soon as reasonably possible, alternative financing on substantially the same terms and conditions as those under the Credit Line Agreement and UBS Bank agrees that the Credit Line Agreement shall remain in full force and effect until such time as such alternative financing has been established. If alternative financing cannot be established, then one of the UBS Entities will purchase the pledged ARS at par. Furthermore, if the Company elects to sell any ARS that are pledged as collateral under the Credit Line Agreement with UBS Bank to a purchaser other than UBS Bank, UBS Bank intends to exercise its right to demand repayment of the "no net cost loan" relating to the ARS sold by the Company.

The "no net cost loan" allows the Company to draw up to 75% of the stated value of its ARS portfolio, as determined by the UBS Bank and are subject to collateral maintenance requirements. Under the "no net cost loan," the interest rate the Company pays on the "no net cost loan" will not exceed the interest rate earned on the pledged ARS portfolio. Subsequent to the agreement, the Company drew up to the 75% stated value limit, or $213 million, of its ARS portfolio, as determined by UBS.

As of December 31, 2008, the balance of the "no net cost loan" was $213 million and classified as long-term debt. Since the Company has drawn up to the 75% limit and the stated value of the ARS has decreased, it cannot draw additional funds from the "no net cost loan" until 75% of the stated value of the ARS exceeds $213 million at which time the Company can draw additional funds. Although the Company currently cannot draw additional funds, the Credit Line Agreement does not require the Company to repay any part of the "no net cost loan" that exceeds 75% of the stated value of the ARS portfolio.

NOTE 11 — CAPITAL LEASE OBLIGATIONS

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

For years ending December 31,

2009	$ 448
2010	326
2011	327
2012	328
Thereafter	1,128
	2,557
Less: Interest	(326)
Present value of minimum lease payments	2,231
Less: Current portion	(377)
Long-term portion	$ 1,854

At December 31, 2008, property under capital leases had a cost of $2.7 million, and the related accumulated depreciation was $1.1 million. Depreciation of assets held under capital lease is included in depreciation expense.

NOTE 12 — ACCRUED LIABILITIES

Accrued liabilities at December 31 were:

	2007	**2008**
Compensation and payroll taxes	$ 10,517	**$ 8,001**
Accrued expenses	4,558	**6,243**
Accrued restructuring charges	—	**3,708**
Accrued pricing adjustments	2,015	**3,604**
Equipment purchases	4,462	**2,129**
Accrued professional services	831	**1,100**
Accrued interest	1,294	**1,061**
Other	4,164	**5,349**
	$ 27,841	**$ 31,195**

NOTE 13 — STOCKHOLDERS' EQUITY

On July 10, 2007, the Company declared a three-for-two stock split in the form of a 50% stock dividend payable on July 30, 2007 to stockholders of record on July 20, 2007. Under the terms of this stock dividend, the Company's stockholders received one additional share for every two shares held on the record date. The dividend was paid in authorized but unissued shares of common stock. Fractional shares created by the stock dividend were paid in cash based upon the closing price of the Company's common stock on the record date. The par value of the Company's common stock is not affected by the dividend and remains at $0.66 2/3 per share. The outstanding shares stated on the statement of stockholders' equity, the balance sheet and the consolidated condensed statement of income and disclosures have been adjusted to reflect the effects of the stock split.

As of December 31, 2008, the Company had approximately 41.4 million outstanding common shares. During 2008, shares outstanding increased by approximately 1.2 million shares, due to approximately 0.5 million shares issued in conjunction with stock option exercises and 0.7 million shares issued in conjunction with vested restricted stock units.

Additional paid-in capital increased approximately $12.3 million in the year ended December 31, 2008, primarily due to $4.0 million in stock option expense, $6.1 million in share grant expense, and $2.2 million in conjunction with stock option exercises.

The Company adopted the provisions of FIN 48 effective January 1, 2007. As a result of the implementation of FIN 48, during the first quarter of 2007, the Company increased its liability for unrecognized tax benefits by approximately $2.0 million, primarily related to its foreign subsidiaries, which was accounted for as a reduction to the January 1, 2007 retained earnings balance.

NOTE 14 — RESTRUCTURING COSTS

In the year ended December 31, 2007, the Company recorded approximately $1.1 million in restructuring costs related to the consolidation of its analog wafer probe and final test operations from Hsinchu, Taiwan to its manufacturing facilities in Shanghai, China. The expense primarily consisted of approximately $0.8 million in termination and severance costs and approximately $0.3 million in impairment of fixed assets and other. The restructuring has been completed as of December 31, 2007.

In the year ended December 31, 2008, the Company recorded approximately $4.1 million in restructuring costs mainly relating to the reduction of its European workforce at its UK operations in Oldham of which accounted for $3.0 million and to a lesser extent workforce reductions at its manufacturing operations in China. The expense primarily consisted of termination and severance costs. The restructuring began in the fourth quarter of 2008 and is expected to be completed by the end of the first quarter of 2009.

NOTE 15 — INCOME TAXES

The components of the income tax provision are as follows:

	2006	2007	2008
Current tax provision			
Federal	$ —	$ —	**$ —**
Foreign	6,555	5,668	**9,748**
State	641	230	**14**
	7,196	5,898	**9,762**
Deferred tax provision			
Federal	4,708	2,345	**1,608**
Foreign	(215)	—	**(5,992)**
	4,493	2,345	**(4,384)**
Liability for unrecognized tax benefits	—	1,185	**(793)**
Total income tax provision	$ 11,689	$ 9,428	**$ 4,585**

Reconciliation between the effective tax rate and the statutory tax rates for the years ended December 31, 2006, 2007, and 2008 is as follows:

	2006		2007		**2008**	
	Amount	Percent of pretax earnings	Amount	Percent of pretax earnings	**Amount**	**Percent of pretax earnings**
Federal tax	$ 21,392	35.0	$ 25,011	35.0	**$ 16,048**	**35.0**
State income taxes, net of federal tax benefit	2,506	4.1	231	0.3	**240**	**0.5**
Foreign income taxed at lower tax rates	(16,993)	(27.8)	(21,063)	(29.5)	**(16,908)**	**(36.9)**
Subpart F income	2,614	4.3	1,185	1.7	**495**	**1.1**
U.S. tax on undistributed foreign earnings	2,270	3.7	(3,339)	(4.7)	**—**	**—**
Valuation allowance — foreign tax credit carryforwards	—	—	5,044	7.1	**550**	**1.2**
Liability for unrecognized tax benefits	—	—	1,185	1.7	**(412)**	**(0.9)**
Foreign dividends, net of foreign tax credits	—	—	—	—	**1,514**	**3.3**
Non-deductible in process research and development	—	—	—	—	**2,753**	**6.0**
Other	(100)	(0.2)	1,174	1.6	**305**	**0.7**
Income tax provision	$ 11,689	19.1	$ 9,428	13.2	**$ 4,585**	**10.0**

NOTE 15 — INCOME TAXES (Continued)

The Company's global presence requires it to pay income taxes in a number of jurisdictions. For the year ended December 31, 2006, the Company reported domestic and foreign pre-tax income of $6.1 million and $55.0 million, respectively. For the year ended December 31, 2007, the Company reported domestic and foreign pre-tax income/(loss) of $(2.5) million and $74.5 million, respectively. For the year ended December 31, 2008, the Company reported domestic and foreign pre-tax income/(loss) of $(1.6) million and $47.5 million, respectively, including $14.3 million of deductions relating to purchase accounting adjustments from the Zetex acquisition for IPR&D, inventory adjustment for reasonable profit allowance and amortization of acquisition-related intangible assets.

In general, earnings in the U.S. and Taiwan are currently subject to tax rates of 39.0% and 25.0%, respectively. In addition, Taiwan earnings are subject to an additional 10% retained earnings tax should the Taiwan earnings not be distributed. Earnings in Hong Kong are subject to a 16.5% tax for local sales or local source sales; all other Hong Kong sales are not subject to foreign income taxes. Earnings in Taiwan and Hong Kong are also subject to U.S. taxes with respect to those earnings that are derived from product manufactured by the Company's China subsidiaries and sold to customers outside of Taiwan and Hong Kong, respectively. The U.S. tax rate on this Subpart F income is computed as the difference between the foreign effective tax rates and the U.S. tax rate. In accordance with U.S. tax law, the Company receives credit against its U.S. Federal tax liability for income taxes paid by its foreign subsidiaries.

As an incentive for the formation of Anachip Corp., its earnings are subject to a five-year tax holiday (subject to certain qualifications of Taiwanese tax law). In the third quarter of 2006, the Company elected to begin this five-year tax holiday as of January 1, 2006. Beginning 2011, Anachip Corp.'s earnings will be subject to statutory Taiwan income tax.

Prior to 2008, earnings in the Songjiang district of China were subject to a standard central government tax rate of 24.0%. However, as an incentive for establishing Shanghai Kai Hong Electronic Co., Ltd., its earnings were subject to a 0% tax rate by the central government from 1996 through 2000, and to a 12.0% tax rate from 2001 through 2007. For 2009, the Company expects a tax rate of 25%. In addition, due to a $15 million permanent re-investment of Shanghai Kai Hong Electronic Co., Ltd.'s earnings in 2004, it has received additional preferential tax treatment (earnings will be exempted from central government income tax for two years, and then subject to tax rates in the range of 12.0% to 12.5% for the following three years) on earnings that are generated by this permanent re-investment.

In addition, the earnings of Shanghai Kai Hong Electronic Co., Ltd. would ordinarily be subject to a standard local government tax rate of 3.0% through 2007. However, as an incentive for establishing Shanghai Kai Hong Electronic Co., Ltd., the local government waived this tax from 1996 through 2007.

In 2004, the Company established its second Shanghai-based manufacturing facility, Shanghai Kai Hong Technology Co., Ltd., located in the Songjiang Export Zone of Shanghai, China. In the Songjiang Export Zone, the central government standard tax rate is 15.0%, and there is no local government tax. As an incentive for establishing Shanghai Kai Hong Technology Co., Ltd., its 2005 and 2006 earnings were exempted from central government income tax and the 2007 and 2008 earnings were subject to a 7.5% and 12.5% tax rate, respectively. For 2009, the Company expects a tax rate of 12.5%.

It is unclear to what extent the Company's China subsidiaries will continue to receive preferential tax treatment. The recent China government income tax reform terminates some existing tax incentives for foreign enterprises doing business in China. For example, the central government tax rate in China increased to 25% beginning in 2008; however, the Company believes Shanghai Kai Hong Electronic Co., Ltd may qualify for a "high technology" preferential tax treatment that would reduce the tax rate to 15% and Shanghai Kai Hong Technology Co., Ltd. may also qualify for a transitional tax rate of 9%.

The impact of the tax holidays decreased the Company's tax expense by approximately $11.2 million, $11.2 million and $6.6 million for the years ended December 31, 2006, 2007 and 2008, respectively. The benefit of the tax holiday on basic and diluted earnings per share for the year ended December 30, 2006 was approximately $0.28 and $0.26, respectively. The benefit of the tax holiday on basic and diluted earnings per share for the year ended December 30, 2007 was approximately $0.17 and $0.16, respectively. The benefit of the tax holiday on both basic and diluted earnings per share for the year ended December 31, 2008 was approximately $0.16.

In June 2008, the Company completed the acquisition of all the outstanding ordinary capital stock of Zetex. Zetex's earnings in the United Kingdom are currently subject to a tax rate of 28% and its earnings in Hong Kong are subject to a 16.5% tax rate. In addition, Zetex's earnings in Germany are subject to a 30% tax rate.

NOTE 15 — INCOME TAXES (Continued)

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 tax year ended 2005. With respect to state and local jurisdictions and countries outside of the U.S., with limited exceptions, the Company is no longer subject to income tax audits for years before 2002. 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* ("FIN48") reserve for any adjustments that may result from future tax audits. The Company recognizes accrued interest and penalties, if any, related to unrecognized tax benefits in income tax expense.

The Company adopted the provisions of FIN48 effective January 1, 2007. As a result of the implementation of FIN48, the Company increased its liability for unrecognized tax benefits, primarily related to its foreign subsidiaries, by approximately $2.0 million during the first quarter of 2007, which was accounted for as a reduction to the January 1, 2007 balance of retained earnings. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	2007	**2008**
Balance at January 1,	$ 3,200	**$ 4,122**
Additions based on tax positions related to the current year	1,185	**1,035**
Reductions for prior years tax positions	(263)	**(1,451)**
Balance at December 31,	**$ 4,122**	**$ 3,706**

NOTE 15 — INCOME TAXES (Continued)

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.

At December 31, 2007 and 2008, the Company's deferred tax assets and liabilities are comprised of the following items:

	2007	**2008**
Deferred tax assets, current		
Inventory cost	$ 1,229	**$ 1,534**
Accrued expenses and accounts receivable	1,085	**785**
Net operating loss carryforwards and other	1,200	**—**
Share based compensation and others	1,659	**1,675**
Total deferred tax assets, current	$ 5,173	**$ 3,994**
Deferred tax assets, non-current		
Plant, equipment and intangible assets	$ 544	**$ 1,313**
Foreign tax credit	7,976	**8,560**
Research and development tax credit	1,868	**2,790**
Net operating loss carryforwards	1,887	**1,707**
Share based compensation and others	4,078	**7,984**
	16,353	**22,354**
Valuation allowance	(5,043)	**(5,593)**
Total deferred tax assets, non-current	11,310	**16,761**
Deferred tax liabilities, non-current		
Step up in basis — acquisition	(2,284)	**(4,602)**
Convertible debt interest	(5,785)	**(9,417)**
Total deferred tax liabilities, non-current	(8,069)	**(14,019)**
Net deferred tax assets, non-current	$ 3,241	**$ 2,742**

NOTE 15 — INCOME TAXES (Continued)

Funds repatriated from foreign subsidiaries to the U.S. may be subject to federal and state income taxes. As of January 1, 2007, the Company had accrued $3.3 million for U.S. taxes on future dividends from its foreign subsidiaries. With the establishment of the holding companies in 2007, as of December 31, 2008, the Company intends to permanently reinvest overseas all of its earnings from its foreign subsidiaries. Accordingly, the $3.3 million liability was reversed during 2007, and U.S. taxes are no longer being recorded on undistributed foreign earnings. 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 recorded valuation allowances of $5.0 million and $0.6 million during the years ended December 31, 2007 and 2008, respectively.

As of December 31, 2008, the Company has undistributed earnings from its non-U.S. operations of approximately $144 million (including approximately $23 million of restricted earnings which are not available for dividends). Additional federal and state income taxes of approximately $41 million would be required should such earnings be repatriated to the U.S.

For the year ended December 31, 2006, the Company recorded tax benefits related to the exercise of non-qualified stock options and the disqualified disposition of incentive stock options, which were recorded as a credit to additional paid-in capital in the amount of $6.7 million. No tax benefit was recorded for the years ended December 31, 2007 and 2008.

At December 31, 2008, the Company had federal and state net operating loss (NOL) carryforwards of approximately $42.0 million and $40.0 million, respectively, available to offset future regular and alternative minimum taxable income. The federal NOL carryforwards will begin to expire in 2017 and the state NOL carryforwards will begin to expire in 2013. Furthermore, the tax benefits of approximately $28.2 million of NOLs related to stock option exercises in 2007 and 2008 will be credited to additional paid-in capital when realized.

At December 31, 2008, the Company had federal and state tax credit carryforwards available to offset future regular income and partially offset alternative minimum taxable income of approximately $10.7 million and $0.6 million, respectively. The federal credit carryforwards will begin to expire in 2009 and the state credit carryforwards will begin to expire in 2020.

NOTE 16 — EMPLOYEE BENEFIT PLANS

Defined Benefit Plan

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

For the year ended December 31, 2008, net period benefit costs associated with the defined benefit in accordance with SFAS No. 158, *Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans* (an amendment of FASB Statements No. 87, 88, 106 and 132R), were approximately $0.6 million. All unrecognized actuarial gains and losses, prior service costs and accumulated other comprehensive income are eliminated and the balance sheet liability is set equal to the funded status of the defined benefit plan at acquisition date.

The following table summarizes the net periodic benefit costs of the Company’s plans for the year ended December 31, 2008:

	Defined Benefit Plan
Components of net periodic benefit cost:	
Service Cost	$ 204
Interest cost	4,186
Expected return on plan assets	(3,812)
Net periodic benefit cost	$ 578

NOTE 16 — EMPLOYEE BENEFIT PLANS (Continued)

The following tables set forth the benefit obligation, the fair value of plan assets, and the funded status as of December 31, 2008:

	Defined Benefit Plan
Change in benefit obligation:	
Beginning balance	$ —
Acquisition	121,842
Service cost	204
Interest cost	4,185
Actuarial loss (gain)	(9,087)
Benefits paid	(1,837)
Currency changes	(32,039)
Benefit obligation at December 31, 2008	$ 83,268
Change in plan assets:	
Fair value of plan assets at date of acquisition	$ 111,664
Actual return on plan assets	(10,264)
Benefits paid	(1,837)
Currency changes	(28,279)
Fair value of plan assets at December 31, 2008	$ 71,284
Funded status at December 31, 2008	$ (11,984)

Based on an actuarial study performed as of December 31, 2008, the plan is under-funded by $12 million and the liability is reflected in the Company's consolidated balance sheets as a noncurrent liability. The amount recognized in accumulated other comprehensive loss was $4.7 million and the weighted-average discount rate assumption used to determine benefit obligations as of December 31, 2008 was 6.4%.

The following weighted-average assumptions were used to determine net periodic benefit costs for the year ended December 31, 2008:

Discount rate	6.6%
Expected long-term return on plan assets	6.7%

The following weighted-average assumption was used to determine the benefit obligations for the year ended December 31, 2008:

Discount rate	6.4%

NOTE 16 — EMPLOYEE BENEFIT PLANS (Continued)

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

Asset category	Expected long-term return	Assets allocation
Equity securities	7.8%	51.5%
Debt securities	5.2%	48.3%
Other	2.0%	0.2%
Total	6.5%	100%

Benefit plan payments are primarily made from funded benefit plan trusts and current assets. The following summarizes the expected future benefit payments, including future benefit accrual, as of December 31, 2008:

Year	
2009	$ 2,502
2010	2,789
2011	3,134
2012	3,379
2013	3,508
2014-2018	$21,294

The Company did not make contributions to the defined benefit plan during 2008. The Company adopted a payment plan that Zetex had in place with the trustees of the defined benefit plan, in which the Company will pay approximately £1.0 million GBP (approximately $1.6 million based on a USD:GBP exchange rate of 1.6:1) every March from 2009 through 2012.

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

NOTE 16 — EMPLOYEE BENEFIT PLANS (Continued)

401(k) Savings Plan

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

As stipulated by the regulations of the People's Republic of China, the Company maintains a retirement plan pursuant to the local municipal government for the employees in China. The Company is required to make contributions to the retirement plan at a rate of 22.5% of the employee's eligible payroll. Pursuant to the Taiwan Labor Standard Law and Factory Law, the Company maintains a retirement plan for the employees in Taiwan. The Company makes contributions at a rate of 6% of the employee's eligible payroll.

For the years ended December 31, 2006, 2007 and 2008, total amounts expensed under these plans were approximately $2.6 million, $2.9 million and $2.0 million, respectively.

Deferred Compensation Plan

The Company maintains a Non-Qualified Deferred Compensation Plan (the "Deferred Compensation Plan") for executive officers, key employees and members of the Board of Directors (the "Board"). The Deferred Compensation Plan allows eligible participants to defer the receipt of eligible compensation, including equity awards, until designated future dates. The Company offsets its obligations under the Deferred Compensation Plan by investing in the actual underlying investments. These investments are classified as trading securities and are carried at fair value. At December 31, 2008, these investments totaled approximately $2.0 million. All gains and losses in these investments are equally offset by corresponding gains and losses in the deferred compensation plan liabilities.

Share-Based Plan

The Company maintains share-based compensation plans for its Board of Directors ("Directors"), officers and key employees, which provide for stock options and stock awards under its 1993 ISO Plan, 1993 NQO Plan, 1969 Incentive Bonus Plan, and 2001 Omnibus Equity Incentive Plan.

NOTE 17 — SHARE-BASED COMPENSATION

Stock Options — Through March 31, 2006, substantially all stock options granted vest in equal annual installments over a three-year period and expire ten years after the grant date. Beginning April 1, 2006, substantially all stock options granted vest in equal annual installments over a four-year period and expire ten years after the grant date.

Beginning in fiscal year 2006, the Company adopted SFAS No. 123R, *Share-Based Payments* ("SFAS 123R"), on a modified prospective transition method to account for its employee stock options. Under the modified prospective transition method, fair value of new and previously granted but unvested stock options are recognized as compensation expense in the income statement, and prior period results are not restated, and thus do not include the additional compensation expense. In the year ended December 31, 2006, operating income decreased by $6.5 million, net income decreased by $5.4 million (net of tax benefits recognized $1.1 million), and diluted earnings per share were reduced by approximately $0.10. In the year ended December 31, 2007, operating income decreased by $5.6 million, net income decreased by $4.3 million (net of tax benefits recognized $1.3 million), and diluted earnings per share were reduced by approximately $0.07. In the year ended December 31, 2008, operating income decreased by $4.0 million, net income decreased by $2.9 million (net of tax benefits recognized $1.1 million), and diluted earnings per share were reduced by approximately $0.07. For the years ended December 31, 2006, 2007 and 2008, share-based compensation expense associated with the Company's stock options are as follows:

	2006	2007	**2008**
Selling, general and administrative expense	$ 5,394	$ 4,824	**$ 3,594**
Research and development expense	603	463	**330**
Cost of goods sold	469	273	**112**
Total stock option expense	$ 6,466	$ 5,560	**$ 4,036**

NOTE 17 — SHARE-BASED COMPENSATION (Continued)

Share-based compensation expense for stock options granted during 2006, 2007 and 2008 were calculated on the date of grant using the following weighted-average forfeiture rates, and the Black-Scholes option-pricing model using the following weighted-average assumptions:

	2006	**2007**	**2008**
Expected volatility	54.34%	54.52%	**55.30%**
Expected term (years)	5.88	6.63	**6.94**
Risk free interest rate	3%	4.91%	**4.08%**
Forfeiture rate	2.56%	2.50%	**2.50%**
Dividend yield	N/A	N/A	N/A

Expected volatility — The Company estimates expected volatility using historical volatility. Public trading volume on options in the Company's stock is not material. As a result, the Company determined that utilizing an implied volatility factor would not be appropriate. The Company calculates historical volatility for the period that is commensurate with the option's expected term assumption. For 2008, the expected volatility for officers and Directors is 55.30%, while the expected volatility for all other employees is 49.49%.

Expected term — The Company has evaluated expected term based on history and exercise patterns across its demographic population. The Company believes that this historical data is the best estimate of the expected term of a new option. For 2008, the expected term for officers and Directors is 6.94 years, while the expected term for all other employees is 4.66 years.

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

Forfeiture rate — The amount of stock-based compensation recognized during a period is based on the value of the portion of the awards that are ultimately expected to vest as SFAS 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The term "forfeitures" is distinguished from "cancellations" or "expirations" and represents only the unvested portion of the surrendered option. The Company has applied an annual forfeiture rate of 2.56%, 2.50%, and 2.50% to all unvested options as of December 31, 2006, 2007, and 2008, respectively. This analysis will be re-evaluated at least annually, and the forfeiture rate will be adjusted as necessary.

Dividend yield — The Company historically has not paid a cash dividend; therefore this input is not applicable.

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

For the years ended December 31, 2006, 2007 and 2008, the Company granted stock options to purchase 0.4 million, 0.3 million and 0.2 million shares of its common stock, respectively, which vest in equal annual installments over a three or four-year period and expire ten years from the date of grant. The weighted-average grant-date fair value of options granted during 2006, 2007 and 2008 was $13.0, $14.7, and $16.7, respectively. The total cash received from these option exercises was $4.3 million, $7.6 million and $3.0 million during 2006, 2007 and 2008, respectively.

At December 31, 2008, un-amortized compensation expense related to unvested options, net of estimated forfeitures, was approximately $7.0 million. The weighted average period over which share-based compensation expense related to these options will be recognized is 2.6 years.

NOTE 17 — SHARE-BASED COMPENSATION (Continued)

A summary of the Company's stock option plans as of December 31 is as follows:

Stock options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding at December 31, 2006	6,139	$ 6.97	6.74	$84,277
Granted	365	23.05		
Exercised	(1,055)	4.14		23,164
Forfeited or expired	(81)	16.03		
Outstanding at December 31, 2006	5,368	8.49	6.36	81,396
Exercisable at December 31, 2006	3,910	5.97	5.57	69,161
Outstanding at January 1, 2007	5,368	8.49		
Granted	265	24.96		
Exercised	(1,260)	6.04		26,722
Forfeited or expired	(105)	19.53		
Outstanding at December 31, 2007	4,268	10.06	5.95	85,393
Exercisable at December 31, 2007	3,411	7.55	5.36	76,814
Outstanding at January 1, 2008	4,268	10.06		
Granted	241	27.95		
Exercised	(540)	5.48		8,775
Forfeited or expired	(74)	20.67		
Outstanding at December 31, 2008	**3,895**	**$11.61**	**5.35**	**$ 2,327**
Exercisable at December 31, 2008	**3,342**	**$ 9.28**	**4.81**	**$ 2,327**

As of December 31, 2008, approximately 3.3 million of the 3.9 million outstanding stock options were exercisable. The following table summarizes information about stock options outstanding at December 31, 2008:

Plan	Range of exercise prices	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price
1993 NQQ	$ 1.33-7.09	398	1.31	$ 5.37
1993 ISO	1.33-7.09	188	2.21	4.88
2001 Plan	2.53-28.45	3,309	6.00	12.74
Plan Totals	$ 1.33-28.45	3,895	5.35	$ 11.61

NOTE 17 — SHARE-BASED COMPENSATION (Continued)

The following summarizes information about stock options exercisable at December 31, 2008:

Plan	Range of exercise prices	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price
1993 NQQ	$ 1.33-7.09	398	1.31	$ 5.37
1993 ISO	1.33-7.09	188	2.21	4.88
2001 Plan	2.53-28.45	2,756	5.49	10.14
Total	$ 1.33-28.45	3,342	4.81	$ 9.28

Share Grants — Restricted stock awards and restricted stock units generally vest in equal annual installments over a four-year period. For the years ended December 31, 2006, 2007 and 2008, share-based compensation expense associated with the Company's share grants are as follows:

	2006	2007	**2008**
Selling, general and administrative expense	$ 1,558	$ 3,743	**$ 5,116**
Research and development expense	121	351	**653**
Cost of goods sold	127	210	**331**
Total share grant expense	$ 1,806	$ 4,304	**$ 6,100**

NOTE 17 — SHARE-BASED COMPENSATION (Continued)

A summary of the Company's non-vested share grants in 2006, 2007 and 2008 are presented below:

Restricted Stock Grants	Shares	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value
Nonvested at January 1, 2006	495	$11.53	
Granted	364	23.26	
Forfeited	(7)	23.31	
Nonvested at December 31, 2006	852	$16.45	$20,141
Nonvested at January 1, 2007	852	$16.45	
Granted	297	26.00	
Vested	(84)	23.19	
Forfeited	(47)	23.73	
Nonvested at December 31, 2007	1,018	$18.34	$30,602
Nonvested at January 1, 2008	1,018	$18.34	
Granted	283	26.47	
Vested	(391)	16.29	$ 9,649
Forfeited	(64)	26.23	
Nonvested at December 31, 2008	**846**	**$21.41**	**$ 5,125**

For each of the years ended December 31 of 2006, 2007 and 2008, there were $1.8, $4.3 million and $6.1 million of total recognized share-based compensation expense related to restricted stock arrangements granted under the plans. The total of unrecognized share-based compensation expense as of December 31 of 2006, 2007 and 2008 was $10.2 million, $12.9 million and $13.9 million, respectively. This cost is expected to be recognized over a weighted average period of 2.1 years.

NOTE 18 — RELATED PARTY TRANSACTIONS

The Company conducts business with one related party company, Lite-On Semiconductor Corporation, and its subsidiaries and affiliates ("LSC"). LSC is the Company's largest stockholder and owns 20.2% of the Company's outstanding Common Stock as of December 31, 2008. C.H. Chen, the Company's former President and Chief Executive Officer, and current Vice Chairman of the Board of Directors, is also Vice Chairman of LSC. M.K. Lu, a member of the Board of Directors until May 2007, served as President of LSC until May 2007, while Raymond Soong, the Chairman of the Board of Directors, is the Chairman of LSC as well as Chairman of Lite-On Technology Corporation, a significant shareholder of LSC. L.P. Hsu, a member of the Board of Directors since May 2007 serves as a consultant to LSC. The Company considers its relationship with LSC, a member of the Lite-On Group of companies, to be mutually beneficial and the Company plans to continue its strategic alliance together as it has since 1991.

The Company also conducts business with one significant company, Keylink International (B.V.I.) Inc. and its subsidiaries and affiliates ("Keylink"). Keylink is the Company's 5% joint venture partner in Shanghai Kai Hong Electronic Co., Ltd. and Shanghai Kai Hong Technology Co., Ltd.

The Audit Committee of the Board of Directors conducts an appropriate review of all related party transactions for potential conflict of interest situations on an ongoing basis, all in accordance with such procedures as the Audit Committee may adopt from time to time. The Company believes that related party transactions are on terms no less favorable than would be obtained from unaffiliated third parties.

Lite-On Semiconductor Corporation (LSC) — The Company sold silicon wafers to LSC totaling 6.5%, 6.2% and 3.5% of total sales for the years ended December 31, 2006, 2007 and 2008, respectively, making LSC the Company's largest customer. Also for the years ended December 31, 2006, 2007 and 2008, 13.0%, 11.3% and 9.6%, respectively, of the Company's net sales were from discrete semiconductor products purchased from LSC for subsequent sale, making LSC the Company's largest outside supplier. The Company also rents warehouse space in Hong Kong from a member of the Lite-On Group, which also provides the Company with warehousing services at that location. For 2006, 2007 and 2008, the Company reimbursed this entity in aggregate amounts of $0.5 million, $0.5 million and $0.7 million, respectively, for these items. The Company believes such transactions are on terms no less favorable than could be obtained from unaffiliated third parties.

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

	2006	2007	**2008**
Net sales	$22,374	$24,809	**$15,279**
Purchases	$48,778	$49,224	**$48,964**

NOTE 18 — RELATED PARTY TRANSACTIONS (Continued)

Keylink International (B.V.I.) Inc. (Keylink) — The Company sells product to, and purchases inventory from, companies owned by its 5% Shanghai Kai Hong Electronic Co., Ltd. and Shanghai Kai Hong Technology Co., Ltd. minority shareholder. The Company sold silicon wafers to companies owned by Keylink totaling 0.4%, 0.6% and 0.8% of total sales for the years ended December 31, 2006, 2007 and 2008, respectively. Also for the years ended December 31, 2006, 2007 and 2008, 2.3%, 1.5% and 1.3%, respectively of the Company's net sales were from discrete semiconductor products purchased from companies owned by Keylink. In addition, Shanghai Kai Hong Electronic Co., Ltd. and Shanghai Kai Hong Technology Co., Ltd. lease their manufacturing facilities from, and subcontract a portion of their manufacturing process (metal plating and environmental services) to, Keylink. The Company also paid a consulting fee to Keylink. The aggregate amounts for these services for the years ended December 31, 2006, 2007 and 2008 were $7.9 million, $9.4 million and $10.5 million, respectively. The Company believes such transactions are on terms no less favorable than could be obtained from unaffiliated third parties.

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

	2006	2007	**2008**
Net sales	$1,481	$2,586	**$3,486**
Purchases	$5,973	$6,005	**$6,555**

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

	2007	**2008**
Accounts receivable		
LSC	$ 3,526	$ 2,920
Keylink	1,879	2,413
	$ 5,405	$ 5,333
Accounts payable		
LSC	$ 8,906	$ 6,133
Keylink	4,229	3,662
	$ 13,135	$ 9,795

NOTE 19 — SEGMENT INFORMATION AND ENTERPRISE-WIDE DISCLOSURES

An operating segment is defined as a component of an enterprise about which separate financial information is available that is evaluated regularly by the chief decision maker, or decision-making group, in deciding how to allocate resources and in assessing performance. The Company's chief decision-making group consists of the President and Chief Executive Officer, Chief Financial Officer, Senior Vice President of Operations, Senior Vice President of Sales and Marketing and Senior Vice President of Finance. For financial reporting purposes, the Company operates in a single segment, standard semiconductor products, through its various manufacturing and distribution facilities. The Company aggregates its products 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 operations include the domestic operations (Diodes Incorporated and Diodes FabTech Inc.) located in the United States, Asian operations (Diodes Taiwan Inc., located in Taipei, Taiwan, and Anachip Corp. located in Hsinchu, Taiwan, Shanghai Kai Hong Electronic Co., Ltd and Shanghai Kai Hong Technology Co., Ltd both located in Shanghai, China, and Diodes Hong Kong Limited located in Hong Kong, China) and European operation (Diodes Zetex Limited located in Oldham, England). Prior to the acquisition of Zetex plc (Zetex), in June 2008, European operations were consolidated into the domestic (North America), which accounted for approximately 3.3% and 4.2% of total sales for the years ended December 31, 2006 and 2007, respectively.

2008	**Asia**	**North America**	**Europe**	**Consolidated**
Total Sales	$ 346,023	$ 113,620	$ 28,328	$ **487,971**
Inter-company sales	(25,056)	(27,153)	(2,977)	**(55,186)**
Net sales	$ 320,967	$ 86,467	$ 25,351	$ **432,785**
Property, plant and equipment	$ 105,957	$ 31,213	$ 37,497	$ **174,667**
Assets	$ 333,639	$ 409,921	$ 150,583	$ **894,143**

2007	Asia	North America	Europe (1)	Consolidated
Total Sales	$ 514,195	$ 122,274	$ —	$ 636,469
Inter-company sales	(211,913)	(23,397)	—	(235,310)
Net sales	$ 302,282	$ 98,877	$	$ 401,159
Property, plant and equipment	$ 103,220	$ 20,187	$ —	$ 123,407
Assets	$ 240,196	$ 466,169	$ —	$ 706,365

2006	Asia	North America	Europe (1)	Consolidated
Total Sales	$ 405,002	$ 117,867	$ —	$ 522,869
Inter-company sales	(158,131)	(21,430)	—	(179,561)
Net sales	$ 246,871	$ 96,437	$	$ 343,308
Property, plant and equipment	$ 82,021	$ 13,448	$ —	$ 95,469
Assets	$ 241,979	$ 380,160	$ —	$ 622,139

(1) For the years December 31, 2006 and 2007, European operations are consolidated into domestic (North America) operations.

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

NOTE 19 — SEGMENT INFORMATION AND ENTERPRISE-WIDE DISCLOSURES (Continued)

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

2008	**Revenue**	**% of Total Revenue**
China	$ 130,045	**30.0%**
Taiwan	118,577	**27.4%**
United States	85,906	**19.8%**
Korea	21,901	**5.1%**
Germany	17,021	**3.9%**
Singapore	14,852	**3.4%**
England	12,821	**3.1%**
All Others	$ 31,662	**7.3%**
Total	**$ 432,785**	**100%**

2007	Revenue	% of Total Revenue
China	$ 156,183	38.9%
Taiwan	102,562	25.6%
United States	81,408	20.3%
Korea	17,563	4.4%
Singapore	9,854	2.5%
England	7,710	1.8%
Germany	5,111	1.3%
All Others	$ 20,768	5.2%
Total	$ 401,159	100%

2006	Revenue	% of Total Revenue
China	$ 118,303	34.5%
Taiwan	96,401	28.1%
United States	76,357	22.2%
All Others	$ 52,247	15.2%
Total	$ 343,308	100%

Major customers — The Company sold silicon wafers to LSC totaling 6.5%, 6.2% and 3.5% of total sales for the years ended December 31, 2006, 2007 and 2008, respectively, making LSC one of the Company's largest customer. No customer accounted for 10% or greater of the Company's total net sales in 2006, 2007, and 2008.

NOTE 20 — COMMITMENTS

Operating leases — The Company leases offices, manufacturing plants and warehouses under operating lease agreements expiring through December 2012. Rental expense amounted to approximately $4.0 million, $4.3 million and $5.8 million for the years ended December 31, 2006, 2007, and 2008, respectively.

Future minimum lease payments under non-cancelable operating leases at December 31, 2008 are:

2009	$ 5,506
2010	3,984
2011	3,727
2012	3,455
2013 and thereafter	3,037
	$ 19,709

Purchase commitments — The Company has entered into non-cancelable purchase contracts for capital expenditures, primarily for manufacturing equipment in China, for approximately $5.2 million at December 31, 2008.

NOTE 21 — SELECTED QUARTERLY FINANCIAL DATA (Unaudited)

	Quarter Ended			
	March 31	**June 30**	**Sept. 30 (1)**	**Dec. 31**
Fiscal 2008				
Net sales	**$95,580**	**$116,018**	**$134,047**	**$87,141**
Gross profit	**31,916**	**39,618**	**38,118**	**22,876**
Net income (loss)	**14,203**	**13,108**	**(2,946)**	**14,611**
Earnings (loss) per share				
Basic	**$ 0.35**	**$ 0.32**	**$ (0.07)**	**$ 0.36**
Diluted	**0.33**	**0.31**	**(0.07)**	**0.35**

	Quarter Ended			
	March 31	June 30	Sept. 30	Dec. 31
Fiscal 2007				
Net sales	$92,020	$96,283	$105,264	$107,591
Gross profit	29,524	30,678	34,152	36,024
Net income	13,009	12,249	16,101	18,298
Earnings per share				
Basic	$ 0.33	$ 0.31	$ 0.40	$ 0.46
Diluted	0.31	0.29	0.38	0.43

	Quarter Ended			
	March 31	June 30	Sept. 30	Dec. 31
Fiscal 2006				
Net sales	$73,589	$82,712	$92,575	$94,432
Gross profit	24,214	27,433	30,696	31,549
Net income	9,312	11,385	12,770	14,675
Earnings per share				
Basic	$ 0.25	$ 0.30	$ 0.33	$ 0.38
Diluted	0.23	0.27	0.30	0.35

(1) Net income for the three months ended September 30, 2008 was effected by purchase price accounting adjustments in connection with the acquisition of Zetex, mainly due to one time non-cash expenses related to acquired intangible IPR&D and inventory adjustment for reasonable profit allowance.

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

NOTE 22 — SUBSEQUENT EVENTS

During January, 2009, the Company repurchased $9.6 million of its Notes for approximately $6.6 million in cash. This transaction will be accounted for under FSP APB 14-1. See Note 1 for further details in regard to the Company's adoption of FSP APB 14-1.

On February 6, 2009, the Company paid in full the outstanding balance of approximately $2.5 million on its revolving credit commitment with Union Bank of California, N.A. ("Union Bank") and terminated the Amended and Restated Credit Agreement. On February 11, 2009, the Company paid in full the outstanding balance of approximately $1.5 million on its Union Bank term loan facility and terminated the Covenant Agreement.

SIGNATURES

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

DIODES INCORPORATED (Registrant)

By: /s/ Keh-Shew Lu — February 26, 2009
KEH-SHEW LU
President and Chief Executive Officer
(Principal Executive Officer)

By: /s/ Carl C. Wertz — February 26, 2009
CARL C. WERTZ
Chief Financial Officer, Treasurer, and Secretary
(Principal Financial and Accounting Officer)

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on February 26, 2009.

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

/s/ Carl C. Wertz
CARL C. WERTZ
Chief Financial Officer, Treasurer, and Secretary
(Principal Financial and Accounting Officer)

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

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

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

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

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

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

/s/ Shing Mao
SHING MAO
Director

INDEX TO EXHIBITS

Number	Description	Form	Date of First Filing	Exhibit Number	Filed Herewith
2.1	Stock Purchase Agreement dated as of December 20, 2005, by and among DII Taiwan Corporation Ltd., Anachip Corporation, Lite-On Semiconductor Corporation, Shin Sheng Investment Limited and Sun Shining Investment Corp.	8-K	December 21, 2005	2.1	
2.2	Asset Purchase Agreement dated as of October 18, 2006, by and among DII Taiwan Corporation Ltd., APD Semiconductor, Inc. and Certain Shareholders Thereof, and entered into by the parties on October 19, 2006	8-K	October 24, 2006	2.1	
2.3	Amendment to the Asset Purchase Agreement, dated October 18, 2006, by and among Diodes Incorporated, DII Taiwan Corporation Ltd., APD Semiconductor, Inc. and APD Semiconductor (Asia) Inc., and entered into by the parties on October 19, 2006	8-K	October 24, 2006	2.2	
2.4	Second Amendment to Asset Purchase Agreement dated as of October 31, 2006, by and among Diodes Incorporated, DII Taiwan Corporation Ltd., APD Semiconductor, Inc. and APD Semiconductor (Asia) Inc.	8-K	November 7, 2006	2.1	
3.1	Certificate of Incorporation, as amended.	S-3	September 8, 2005	3.1	
3.2	Amended By-laws of the Company dated July 19, 2007	8-K	July 23, 2007	3.1	
4.1	Form of Certificate for Common Stock, par value $0.66 2/3 per share	S-3	August 25, 2005	4.1	
4.2	Form of Convertible Senior Notes due 2026	S-3	October 4, 2006	4.1	
4.3	Form of Indenture for the Convertible Senior Notes due 2026	S-3	October 4, 2006	4.3	
10.1*	Company’s 401(k) Plan — Adoption Agreement	10-K	March 31, 1995		
10.2*	Company’s 401(k) Plan — Basic Plan Documentation #03	10-K	March 31, 1995		
10.3*	Company’s Incentive Bonus Plan	S-8	May 9, 1994		
10.4*	Company’s 1993 Non-Qualified Stock Option Plan	S-8	May 9, 1994		
10.5*	Company’s 1993 Incentive Stock Option Plan	10-K	March 31, 1995		
10.6	KaiHong Compensation Trade Agreement for SOT-23 Product	10-Q/A	October 27, 1995	10.2	
10.7	KaiHong Compensation Trade Agreement for MELF Product	10-Q/A	October 27, 1995	10.3	
10.8	Lite-On Power Semiconductor Corporation Distributorship Agreement	10-Q	July 27, 1995	10.4	
10.9	Loan Agreement between the Company and FabTech Incorporated	10-K	April 1, 1996	10.16	
10.10	KaiHong Joint Venture Agreement between the Company and Mrs. J.H. Xing	10-K	April 1, 1996	10.17	
10.11	Quality Assurance Consulting Agreement between LPSC and Shanghai KaiHong Electronic Company, Ltd.	10-Q	August 14, 1996	10.18	
10.12	Guaranty Agreement between the Company and Shanghai KaiHong Electronic Co., Ltd.	10-K	March 26, 1997	10.21	
10.13	Guaranty Agreement between the Company and Xing International, Inc.	10-K	March 26, 1997	10.22	
10.14	Bank Guaranty for Shanghai KaiHong Electronic Co., LTD	10-Q	August 14,1998	10.25	
10.15	Consulting Agreement between the Company and J.Y. Xing	10-Q	November 13,1998	10.26	

Number	Description	Form	Date of First Filing	Exhibit Number	Filed Herewith
10.16	Diodes-Taiwan Relationship Agreement for FabTech Wafer Sales	10-Q	August 11, 1999	10.28	
10.17	Volume Purchase Agreement dated as of October 25, 2000, between FabTech, Inc. and Lite-On Power Semiconductor Corporation	8-K	December 18, 2000	10.31	
10.18	Diodes Incorporated Building Lease — Third Amendment	10-Q	November 2, 2001	10.36	
10.19*	2001 Omnibus Equity Incentive Plan	DEF14A	April 27, 2001	B	
10.20	Sale and Leaseback Agreement between the Company and Shanghai Ding Hong Company, Ltd.	10-Q	May 15, 2002	10.46	
10.21	Lease Agreement between the Company and Shanghai Ding Hong Company, Ltd.	10-Q	May 15, 2002	10.47	
10.22	Lease Agreement for Plant #2 between the Company and Shanghai Ding Hong Electronic Equipment Limited	10-Q	August 9, 2004	10.52	
10.23	$5 Million Term Note with Union Bank	10-Q	August 9, 2004	10.53	
10.24	First Amendment To Amended And Restated Credit Agreement	10-Q	August 9, 2004	10.54	
10.25	Covenant Agreement between Union Bank and FabTech, Inc.	10-Q	August 9, 2004	10.55	
10.26	Amendment to The Sale and Lease Agreement dated as January 31, 2002 with Shanghai Ding Hong Electronic Co., Ltd.	10-Q	August 9, 2004	10.56	
10.27	Lease Agreement between Diodes Shanghai and Shanghai Yuan Hao Electronic Co., Ltd.	10-Q	August 9, 2004	10.57	
10.28	Supplementary to the Lease agreement dated as September 30, 2003 with Shanghai Ding Hong Electronic Co., Ltd.	10-Q	August 9, 2004	10.58	
10.29	Second Amendment to Amended and Restated Credit Agreement dated as of August 29, 2005, between Diodes Incorporated and Union Bank of California, N.A.	8-K	September 2, 2005	10.59	
10.30	Covenant Agreement dated as of August 29, 2005, between FabTech, Inc. and Union Bank of California, N.A.	8-K	September 2, 2005	10.60	
10.31	Revolving Note dated as of August 29, 2005, of Diodes Incorporated payable to Union Bank of California, N.A.	8-K	September 2, 2005	10.61	
10.32	Term Note dated as of August 29, 2005, of FabTech, Inc. payable to Union Bank of California, N.A.	8-K	September 2, 2005	10.62	
10.33	Security Agreement dated as of February 27, 2003, between the Company and Union Bank of California, N.A.	8-K	September 2, 2005	10.63	
10.34	Security Agreement dated as of February 27, 2003, between FabTech, Inc. and Union Bank of California, N.A.	8-K	September 2, 2005	10.64	
10.35	Continuing Guaranty dated as of December 1, 2000, between the Company and Union Bank of California, N.A.	8-K	September 2, 2005	10.65	
10.36	Continuing Guaranty dated as of December 1, 2000, between FabTech, Inc. and Union Bank of California, N.A.	8-K	September 2, 2005	10.66	
10.37*	Employment agreement between Diodes Incorporated and Dr. Keh-Shew Lu dated August 29, 2005	8-K	September 2, 2005	10.1	
10.38*	Employment agreement between Diodes Incorporated and Mark King, dated August 29, 2005.	8-K	September 2, 2005	10.2	
10.39*	Employment agreement between Diodes Incorporated and Joseph Liu, dated August 29, 2005.	8-K	September 2, 2005	10.3	
10.40*	Employment agreement between Diodes Incorporated and Carl Wertz,	8-K	September 2, 2005	10.4	

dated August 29, 2005.

INDEX TO EXHIBITS (continued)

Number	Description	Form	Date of First Filing	Exhibit Number	Filed Herewith
10.41*	Form of Indemnification Agreement between Diodes and its directors and executive officers.	8-K	September 2, 2005	10.5	
10.42	Wafer purchase Agreement dated January 10, 2006 between Diodes Incorporated Taiwan Co., Ltd and Lite-on Semiconductor Corporation	8-K	January 12, 2006	2.1	
10.43	Supplementary to the Lease Agreement dated on September 5, 2004 with Shanghai Ding Hong Electronic Co., Ltd.	10-Q	May 10, 2006	10.14	
10.44	Supplementary to the Lease Agreement dated on June 28, 2004 with Shanghai Yuan Hao Electronic Co., Ltd.	10-Q	May 10, 2006	10.15	
10.45	Agreement on Application, Construction and Transfer of Power Facilities, dated as of March 15, 2006, between the Company and Shanghai Yahong Electronic Co., Ltd	10-Q	May 10, 2006	10.16	
10.46*	Amendment of 1993 Non-Qualified Stock Option Plan, the 1993 Incentive Stock Option Plan and the 2001 Equity Incentive Plan of the Company dated as of September 22, 2006	8-K	September 26, 2006	10.2	
10.47	Amended and Restated Lease Agreement dated as of September 1, 2006, between Diodes FabTech, Inc. with Townsend Summit, LLC	8-K	October 11, 2006	10.1	
10.48	Agreement on purchase of office building located in Taiwan dated April 14, 2006, between Diodes Taiwan and First International Computer, Inc.	8-K	October 11, 2006	10.2	
10.49*	Deferred Compensation Plan effective January 1, 2007	8-K	January 8, 2007	99.1	
10.50	A Supplement dated January 1, 2007 to the Lease Agreement on Disposal of Waste and Scraps between Diodes Shanghai and Shanghai Yuan Hao Electronic Co., Ltd.	10-K	February 29, 2008	10.50	
10.51	A Supplement dated January 1, 2007 to the Lease Agreement on Disposal of Waste and Scraps between Diodes China and Shanghai Ding Hong Electronic Co., Ltd	10-K	February 29, 2008	10.51	
10.52	Plating Process Agreement made and entered into among Diodes China, Diodes Shanghai, Shanghai Ding Hong Electronic Co., Ltd. and Shanghai Micro-Surface Co., Ltd.	10-K	February 29, 2008	10.52	
10.53	Supplementary Agreement dated December 31, 2007 to the Lease Agreement dated June, 28, 2004 for Leasing Diodes Shanghai New Building's Fourth and Fifth Floor between Diodes Shanghai and Shanghai Yuan Hao Electronic Co., Ltd.	10-K	February 29, 2008	10.53	
10.54	Accommodation Building Fourth and Fifth Floor Lease Agreement dated December 31, 2007 between Diodes Shanghai and Shanghai Ding Hong Electronic Co., Ltd.	10-K	February 29, 2008	10.54	
10.55	Consulting Agreement between the Company and Mr. M.K. Lu.	10-K	February 29, 2008	10.55	
10.56	Foreign Exchange Agreement dated as of April 3, 2008, between Union Bank of California, N.A. and Diodes FabTech, Inc.	8-K	April 4, 2008	99.2	
10.57	Escrow Agreement dated as of April 3, 2008, among Diodes FabTech, Inc., UBS Limited and Union Bank of California, N.A.	8-K	April 4, 2008	99.4	
10.58	Irrevocable Standby Letter of Credit dated as of March 31, 2008, issued by UBS Financial Services Inc. (incorporated by reference to Exhibit 99.1 to Form 8-K filed with the Commission on April 4, 2008).	10-Q	May 12, 2008	10.1	
10.59	Fourth Amendment to Amended and Restated Credit Agreement dated as of March 28, 2008, between Diodes Incorporated and Union Bank of California, N.A. (incorporated by reference to Exhibit 99.3 to Form 8-K filed with the Commission on April 4, 2008).	10-Q	May 12, 2008	10.2	

INDEX TO EXHIBITS (continued)

Number	Description	Form	Date of First Filing	Exhibit Number	Filed Herewith
10.60	Continuing Guaranty Agreement dated April 3, 2008, between Diodes Incorporated and Union Bank of California N.A. (incorporated by reference to Exhibit 99.5 to Form 8-K filed with the Commission on April 4, 2008).	10-Q	May 12, 2008	10.3	
10.61	Guaranty Agreement dated March 28, 2008, between Diodes Incorporated and UBS Financial Services, Inc. (incorporated by reference to Exhibit 99.6 to Form 8-K filed with the Commission on April 4, 2008).	10-Q	May 12, 2008	10.4	
10.62	Addendum to Guaranty Agreement dated March 28, 2008, between Diodes Incorporated and UBS Financial Services, Inc. (incorporated by reference to Exhibit 99.7 to Form 8-K filed with the Commission on April 4, 2008).	10-Q	May 12, 2008	10.5	
10.63	Client’s Agreement dated March 28, 2008, between Diodes Incorporated and UBS Financial Services, Inc. (incorporated by reference to Exhibit 99.8 to Form 8-K filed with the Commission on April 4, 2008).	10-Q	May 12, 2008	10.6	
10.64	Addendum to Client’s Agreement dated March 28, 2008, between Diodes Incorporated and UBS Financial Services, Inc. (incorporated by reference to Exhibit 99.9 to Form 8-K filed with the Commission on April 4, 2008).	10-Q	May 12, 2008	10.7	
10.65	Terms and Conditions For Irrevocable Standby Letter of Credit dated March 28, 2008, between Diodes Incorporated and UBS Financial Services, Inc. (incorporated by reference to Exhibit 99.10 to Form 8-K filed with the Commission on April 4, 2008).	10-Q	May 12, 2008	10.8	
10.66	Addendum to Terms and Conditions For Irrevocable Standby Letter of Credit dated March 28, 2008, between Diodes Incorporated and UBS Financial Services, Inc.	10-Q	May 12, 2008	10.9	
10.67	Implementation Deed dated April 2008, between Diodes Incorporated and Zetex plc.	10-Q	May 12, 2008	10.10	
10.68	Revolving note dated as of March 28, 2008, of Diodes Incorporated payable to Union Bank of California, N.A.	10-Q	May 12, 2008	10.11	
10.69	Contract for the Purchase and Sale of Real Estate dated May 6, 2008, between Diodes Incorporated and West Plano Land Company, LP.	10-Q	August 11, 2008	10.1	
10.70	Service Agreement between Diodes Zetex Limited and Colin Keith Greene, dated June 30, 2008.	10-Q	August 11, 2008	10.2	
10.71	Side Letter to the Service Agreement between Diodes Zetex Limited and Hans Rohrer, dated July 11, 2008.	10-Q	August 11, 2008	10.3	
10.72	Amendment to the Addendum to Client’s Agreement and Terms and Conditions for Irrevocable Standby Letter of Credit, dated June 9, 2008, between Diodes Incorporated and UBS Financial Services, Inc.	8-K	June 13, 2008	99.1	
10.73	Fourth Floor of the Accommodation Building Lease Agreement dated January 1, 2008, between Shanghai Kai Hong Technology Co., Ltd. and Shanghai Ding Hong Electronic Co., Ltd.	10-Q	August 11, 2008	10.5	
10.74	Factory Building Lease Agreement dated March 1, 2008 between Shanghai Kai Hong Technology Co., Ltd. and Shanghai Yuan Hao Electronic Co. Ltd.	10-Q	August 11, 2008	10.6	

INDEX TO EXHIBITS (continued)

Number	Description	Form	Date of First Filing	Exhibit Number	Filed Herewith
10.75	Second Amendment to Addendum to Client's Agreement and Terms and Conditions For Irrevocable Standby Letter of Credit dated October 2, 2008, between Diodes Incorporated and UBS Financial Services, Inc.	8-K	October 10, 2008	99.1	
10.76	Acceptance Form, Offering Letter and Current Rate and Dividend Information on UBS' Offer Relating to Auction Rate Securities Settlement with Diodes Incorporated dated as of October 8, 2008, issued by UBS Financial Services Inc.	8-K	November 4, 2008	99.1	
10.77	Credit Line Account Application and Agreement for Organization and Businesses dated as of November 4, 2008, between Diodes Incorporated and UBS Bank USA.	8-K	November 4, 2008	99.2	
10.78	Addendum to Credit Line Account Application and Agreement dated as of November 4, 2008, between Diodes Incorporated and UBS Bank USA.	8-K	November 4, 2008	99.3	
10.79	Union Bank Credit Line Maturity Date Extension	10-Q	November 7, 2008	10.1	
10.80	Supplemental Agreement to the Factory Building Lease Agreement dated as of August 11, 2008 between Shanghai Kai Hong Technology Electronic Co., Ltd. and Shanghai Yuan Hao Electronic Co., Ltd.	10-Q	November 7, 2008	10.2	
10.81	DSH #2 Building Lease Agreement dated as of August 11, 2008 between Shanghai Kai Hong Technology Electronic Co., Ltd. and Shanghai Yuan Howe Electronics Co., Ltd.	10-Q	November 7, 2008	10.3	
10.82	Letter agreement dated as of November 17, 2008 extending the maturity date of the Company's revolving line of credit as stated in the Amended and Restated Credit Agreement dated as of March 28, 2008, between Diodes Incorporated and Union Bank of California, N.A.	8-K	January 23, 2009	99.2	
10.83	Distributorship Agreement dated November 1, 2008 between Shanghai Kai Hong Technology Co., Ltd. and Shanghai Keylink Logistic Co., Ltd.	10-K	February 26, 2009	10.83	X
10.84	Lease Facility Safety Management Agreement dated December 31, 2008 between Shanghai Kai Hong Technology Co., Ltd. and Shanghai Yuan Howe Electronic Co., Ltd.	10-K	February 26, 2009	10.84	X
10.85	Abbreviated Standard Form of Agreement Between Owner and Architech dated August 25, 2008 between Corgan Associates, Inc. and Diodes Incorporated.	10-K	February 26, 2009	10.85	X
10.86	1969 Incentive Bonus Plan, amended December 22, 2008.	10-K	February 26, 2009	10.86	X
10.87	Diodes Incorporated 2001 Omnibus Equity Incentive Plan, amended December 22, 2008.	10-K	February 26, 2009	10.87	X
10.88	Diodes Incorporated Deferred Compensation Plan Effective January 1, 2007, amended December 22, 2008.	10-K	February 26, 2009	10.88	X
14	Code of Ethics for Chief Executive Officer and Senior Financial Officers**.				
18.1	Preferability letter from independent accountants regarding change in accounting principle.	10-Q	November 7, 2008	18.1	

INDEX TO EXHIBITS (continued)

Number	Description	Form	Date of First Filing	Exhibit Number	Filed Herewith
21	Subsidiaries of the Registrant				X
23.1	Consent of Independent Registered Public Accounting Firm				X
31.1	Certification Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				X
31.2	Certification Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				X
32.1	Certification Pursuant to 18 U.S.C. adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				X
32.2	Certification Pursuant to 18 U.S.C. adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				X

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

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

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

DISTRIBUTORSHIP AGREEMENT

THIS DISTRIBUTORSHIP AGREEMENT ("Agreement") is made this first day of November, 2008 ("Effective Date") between Shanghai Kai Hong Technology Co., Ltd. ("DSH"), a corporation formed under the laws of the People's Republic of China and Shanghai Keylink Logistic Co., Ltd. (the "Distributor"), a corporation formed under the laws of the People's Republic of China. Each may be referred to as a party ("Party"), or both may be collectively known as parties ("Parties").

WHEREAS, DSH, a subsidiary of Diodes Incorporated, is engaged in manufacturing semiconductor products in the People's Republic of China; and

WHEREAS, DSH desires to appoint Distributor and Distributor desires to be appointed by DSH as a distributor of certain of DSH's manufactured semiconductor products in the territory set forth in this Agreement on the terms and conditions set forth below.

NOW, THEREFORE, in consideration of the premises and mutual covenants contained herein and for other good and valuable consideration, the receipt and sufficiency of which is hereby mutually acknowledged, the Parties hereby agrees to the following terms and conditions:

1. DEFINITION.

The term "Products" ("Products") means a complete line of manufactured semiconductor products bearing the trademark or logo of Diodes Incorporated or its affiliates ("Diodes") and listed in the Diodes' catalog including, but not limited to, semiconductor diodes, rectifier bridges, modules, special assemblies and associated products.

2. NON-EXCLUSIVE DISTRIBUTOR.

The Distributor is hereby appointed to act as DSH' non-exclusive distributor for the sales of Products in the People's Republic of China ("PRC"). Upon Parties' execution of this Agreement, the Distributor shall become an authorized non-exclusive Products distributor in PRC in which the Distributor has an office.

This Agreement shall permit the Distributor to represent and distribute Products only through its full time employees. Under no instance shall this authorization be construed to include any other independent representatives appointed by the Distributor.

3. GENERAL OBLIGATIONS.

Both Parties intend to fulfill certain obligations, at each Party's respective sole expense, to each other.

A. DSH' obligations are as follows:

DSH may make available to the Distributor

a) price and data books,

b) sales plans, and

c) aids and other technical and commercial assistance as deemed necessary by DSH.

DSH may assist the Distributor in the promotion of the Products in order to build consumer and industry acceptance.

B. Distributor's obligations are as follows:

The Distributor agrees to

a) exercise its best efforts to sell Products;

b) assure prompt handling of any inquiries, orders and shipments;

c) give attention to customer complaints;

d) service all Products covered by this Agreement; and

e) provide any other services as deemed necessary by DSH to fulfill this Agreement.

In addition, the Distributor shall NOT

a) misrepresent the quality and value of Products to customers;

b) change, modify or reprint any Products except as expressly approved by DSH in writing;

c) re-label any products from other sources to DSH's or its affiliates' brand without DSH' permission;

d) make any representation, guarantee or warranty on behalf of DSH; and

e) initiate any actions related to DSH without prior authorization from DSH.

4. PRODUCTS PRICING DISCOUNTS.

Upon the Effective Date of the Agreement, DSH shall give the Distributor pricing discounts for the Products DSH sold to the Distributor in accordance with the Exhibit 1, attached hereto and incorporated herein this Agreement. The Products pricing discounts as stated in Exhibit 1 shall be valid for one year and shall be renegotiated every year.

5. PAYMENT TERMS.

Distributor shall provide monthly invoice to DSH, and Distributor, upon DSH receiving and verifying Distributor's invoice, shall make the invoice payment in full within net one hundred and fifty (150) calendar days to a bank account designated by DSH.

6. INDEPENDENT CONTRACTORS.

It is expressly understood and agreed that the relationship of DSH and the Distributor established by this Agreement is that of independent contracts, and nothing contained in this Agreement shall be construed to (i) give either Party the power to direct and control the day-to-day activities of the other, or (ii) constitute the Parties as partners, joint venturers, co-owners, franchisor/franchisee or otherwise as participants in a joint undertaking. Distributor will not have, and will not represent that it has, any authority to bind DSH, to assume or create any obligation on behalf of DSH, or to make any warranties or representations on behalf of DSH or in DSH's name. The Distributor shall not have the authority to make any commitments whatsoever on behalf of DSH.

7. TRADEMARKS.

In advertising and sale of the Products, Distributor may utilize Diodes, DSH or its affiliates' regular trade names, logos, copyrights, symbols and trademarks ("Marks").

The Distributor cannot make permit alteration or removal of any tags, labels or other identifying Marks placed by DSH on its Products and cannot use Marks or the name "Diodes Incorporated" or abbreviations thereof in Distributor's corporate titles or in any way that might result in confusion as to DSH, Diodes and the Distributor being separate and distinct entities. Distributor agrees to provide written notification to DSH with regard to Diodes' or DSH's trademarks when the Distributor's purchase is made from a source other than DSH or its affiliates.

8. QUOTATIONS.

Except as to clerical error, any quotations delivered by DSH or its affiliates to the Distributor are valid for a period of thirty (30) calendar days from the date of issuance, unless otherwise specifically noted in writing by DSH on the written quotation.

The prices shown on any quotations do not include sales, excise or any other government charges that have been paid by DSH to federal, state or local authority. Any such taxes or charges imposed upon the sale or shipment of the Products under this Agreement will be added to the prices shown on quotations. Distributor agrees to reimburse DSH for each such tax or charge or provide DSH with an acceptable exemption certificate.

9. COUNTRY OF ORIGIN COMPLIANCE.

Laws and rulings of the United States, United Kingdom, European Union, Taiwan, PRC and other related countries may require Products or Products' containers to be appropriately marked to indicate the country of origin to the ultimate purchasers. DSH will supply Distributor with Products and/or containers, which bear appropriate country of origin markings. The Distributor agrees to comply with marking procedures and practices as advised by DSH. The Distributor agrees to indemnify DSH against any additional marking duties or penalties that may be assessed for any failure of the Distributor to advise purchasers of the country of origin of the Products.

10. RENEWING THE AGREEMENT.

This Agreement shall be effective for the period of one year, beginning on November 1, 2008 and ending on October 31, 2009. This Agreement shall be automatically renewed on a yearly basis for each successive calendar year unless either one of the Parties decides not to renew this Agreement. In such case, the terminating Party must notify the other Party in a formal written notice at least sixty (60) calendar days prior to the anniversary date of the Effective Date of this Agreement in any given calendar year.

11. TERMINATION-WAIVER OF DAMAGES.

A. If either Party is or becomes insolvent or admits in writing its inability to pay its debts as they become due, or makes an assignment for the benefit of creditors, or if there are initiated by or against either Party proceedings in bankruptcy or under insolvency laws or for reorganization, receivership or dissolution, or if either Party ceases to conduct its operations in the normal course of business, or if either Party shall have a substantial change in ownership or management, the other Party shall have the right to terminate his Agreement without notice. The right of termination, as provided herein, is absolute.

B. Both DSH and Distributor have considered the possibility of expenditures necessary in preparing for performance of this Agreement and the possible losses and damages incident to each in the event of termination of this Agreement at any time, even though, DSH or any other distributors may thereafter complete a transaction initiated by the Distributor.

12. ACTIONS UPON TERMINATION.

A. Unfilled orders — Upon termination of this Agreement, DSH may, at its option, cancel any or all unfilled orders.

B. Promotion — Upon termination of this Agreement, Distributor agrees to discontinue immediately all activities as a distributor including, without limitation, all advertising of or reference to Products, except for selling remaining Products in its inventory.

13. ASSIGNMENT.

This Agreement may not be transferred or assigned in any form by the Distributor without DSH' written consent and duly executed by an authorized DSH representative.

14. GOVERNING LAW.

It is expressly agreed that the validity and construction of this Agreement and performance hereunder shall be governed by the laws of PRC and the local laws of the city of Shanghai. without regard to the conflict of law provisions. The Distributor hereby consents to the exclusive jurisdiction and venue of courts in PRC and in Shanghai for all disputes arising out of or relating to this Agreement.

15. WAIVER.

The failure of either Party to enforce any of the provisions of this Agreement, or any right with respect thereto, or to exercise any option herein provided, shall in no way be construed to be a waiver of provisions, rights or options, or in any way to affect the validity of this Agreement. The exercise by either Party of any of its rights or options hereunder pursuant to the terms and conditions or covenants herein shall not preclude or prejudice such Party from thereafter exercising the same or any right it may have under this Agreement, irrespective of any previous action or proceeding taken by such Party hereunder.

16. INTELLECTUAL PROPERTY.

DSH agrees to hold Distributor harmless from all liability for any infringement of patent or other industrial property rights of third parties resulting from the sale and distribution of Products or services.

17. WARRANTY POLICY.

The sole warranty on the Products shall be DSH’s standard limited warranty. The warranty period shall begin with Distributor’s shipment to its customer, and the warranty shall extend directly to Distributor’s customer as if it had purchased the Products from DSH.

Distributor shall have no right to expand or in any way increase the scope of this warranty when it sells the Products to end users/purchasers. DSH’s warranty shall be in lieu of all other warranties expressed of implied. DSH disclaims and the Distributor waives all other conditions, representations and warranties, express or implied by statute, usage, custom of the trade or otherwise, including without limitation, the implied warranties of merchantability and fitness for a particular purpose.

18. LIABILITY POLICY.

Except as specified in this Agreement, in no event, shall DSH be liable for any direct, indirect, punitive, incidental, special, consequential damages, or any damages whatsoever arising from, connected with or relating to this Agreement, whether or not such damages are foreseeable and whether or not DSH has been advised of the possibility of such damages, including, but not limited to loss of profits or revenue, loss of goodwill, attorneys’ fees, damage to business or business relations, loss of the use of equipment, whether under negligence, strict liability, enterprise liability or other product liability theories.

19. INDEMNIFICATION.

DSH or its affiliates shall not be held liable for any acts, omissions or representation by Distributor or for any actions or claims of any nature whatsoever asserted against Distributor. Distributor shall indemnify and hold DSH and its affiliates harmless from and against any and all judgments, damages, expenses, costs (including, but not limited to, attorneys’ fees, court costs and litigation expenses), and losses of any kind incurred by DSH or its affiliates which arise out of or are related, directly or indirectly, to any acts, omissions or representations of Distributor.

20. NOTICE.

Any notice provision as called for in this Agreement will be satisfied by the registered letter or the certified mail addressed to the other Party at its address as set forth in this Agreement.

21. ARBITRATION.

Any dispute between DSH and Distributor hereto regarding the subject matter hereof shall first be settled by binding arbitration under the rules of the PRC and the city of Shanghai.

DSH and Distributor must first attempt to settle any claim or controversy arising out of this Agreement through consultation and negotiation in good faith and spirit of mutual cooperation. The use of any dispute resolution procedure will not be construed under the doctrines of laches, waiver, or estoppel to adversely affect the rights of either Party. Nothing herein prevents either Party from resorting directly to judicial proceedings if the dispute is with respect to interim relief from the court and is necessary to prevent serious and irreparable injury to a Party or others.

22. EXCUSABLE DELAY.

In no event shall DSH be responsible for failure to fill any of its obligations under this Agreement when due to: fires, floods, riots, strikes, freight embargoes or transportation delays; shortage of labor; inability to secure fuel, material supplies, or power at current prices or on account of shortages thereof; acts of God or of the public enemy; any existing or future laws or acts of the federal or of any state government (including specifically but not exclusively any orders, rules or regulations issued by an official or agency of any such government) affecting the conduct of the affected Party’s business with which the affected Party in its discretion and judgment and discretion deems it advisable to comply as a legal duty or to any cause beyond that Party’s reasonable control.

23. CONFIDENTIAL INFORMATION.

Each Party will receive and maintain in confidence all proprietary information, trade secrets or other know-how belonging to the other (including but not limited to knowledge of manufacturing or technical processes, financial and system data, and customer information) provided that any such information, trade secrets or know-how is expressly designated as being confidential, except and to the extent that disclosure is required by law, regulation or court order, or enters into the public domain through no fault of the Party obligated to maintain such confidentiality.

All confidential information shall be held in confidence by both Parties for three (3) years after receipt.

24. OTHER STATEMENTS.

All headings and captions employed herein are for convenience of reference only and shall not be considered in the construction or interpretation of any provision of this Agreement.

25. FOREIGN CORRUPT PRACTICES ACT.

Distributor acknowledges that DSH is a corporation with substantial presence and affiliation in the United States and, as such, is subject to the provisions of the Foreign Corrupt Practices Act of 1977 of the United States of America, 15 U.S.C. §§ 78dd-1, et seq., which prohibits the making of corrupt payments (the "FCPA"). Under the FCPA, it is unlawful to pay or to offer to pay anything of value to foreign government officials, or employees, or political parties or candidates, or to persons or entities who will offer or give such payments to any of the foregoing in violation of their official duty or in order to obtain or retain business or to secure an improper commercial advantage. Distributor further acknowledges that it is familiar with the provisions of the FCPA and hereby agrees that it shall take or permit no action which will either constitute a violation under, or cause DSH or its affiliates to be in violation of, the provisions of the FCPA.

26. COMPLETE AGREEMENT.

This Agreement is intended as the complete, final and exclusive statement of the agreement between DSH and the Distributor. This Agreement states the entire obligation of DSH and supersedes any and all prior written or oral agreements, representations and understandings of the Parties relating to the subject matter of the Agreement hereof. This Agreement shall not be amended or modified excepted by written instrument duly executed by the authorized representatives of the Parties. No course of dealing or usage of trade by and between the Parties shall be deemed to cause or constitute any amendment or modification of the terms and conditions hereof.

If any terms and conditions herein is determined to be void, invalid, unenforceable or illegal, then the invalid or unenforceable paragraph provision shall be deemed superseded by a valid, enforceable paragraph provision that most closely matches the intent of the original paragraph provision and the remainder of the terms and conditions shall remain in full force and effect.

The Parties to this Agreement shall perform their respective obligations under this Agreement in good faith and shall use their commercial best efforts to fulfill such obligations to their mutual benefit.

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed by their duly authorized representative identified below.

Shanghai Kai Hong Technology Co., Ltd.

By ______________________________

Authorized Representative
Plant No.1, Lane 18, SanZhuang Road,
Songjiang Export Zone, Shanghai,
People's Republic of China

Shanghai Keylink Logistic Co., Ltd.

By ______________________________

Authorized Representative
Plant No. 1— 18, Floor #2
Lane 18, SanZhuang Road,
Songjiang Export Zone, Shanghai
People's Republic of China

Lease Facility Safety Management Agreement

Lease Facility Safety Management Agreement

Party A (Lessor):	Shanghai Yuan Howe Electronic Co., Ltd. Legal Address: No.8 of 18 Lane San Zhuang Road, Songiiang Export Proceeding Zone, Shanghai
Party B (Lessee):	Shanghai Kai Hong Technology Electronic Co., Ltd., Legal Address: No.1 of 18 Lane San Zhuang Road, Songiiang Export Proceeding Zone, Shanghai
Location where the Agreement will be performed (address):	Buildings of new factory in No.2 of 18 Lane San Zhuang Road, Songiiang Export Proceeding Zone, Shanghai

This Lease Facility Safety Management Agreement (the "Agreement") was made by and between Party A and Party B based on the "DSH #2 Building Lease Agreement", pursuant to the "Opinions concerning Strengthening the Safety Management of Production, Firefighting and Special Equipments in Rental Plants and Location in Shanghai Municipality" (Hu Fu Ban Fa [2004] No.34, hereinafter referred to as "Safety Management Opinions"), combining related laws and regulations for safe production, and in accordance with principles of fairness, willingness and faithfulness.

This Agreement is based on mutual negotiation and understanding concerning Party B's legally leased facility:

I. Party A shall provide written certificates, such as property right certificate, which proves the validity of its buildings.

II. Party B shall provide such valid certificates as Business License for Enterprise, Business License for Individual Business, Organization Code Certificate, Identification card of legal representative and other related permission certificates. Party A shall check related certificates and make copies for recording.

III. The location leased by Party A, after being confirmed by the parties, shall satisfy the safe production requirements for the business and operation of Party B, where the location fails to meet the aforementioned requirements, it shall be corrected by (Party A) (Party B), Party B may carry out the business and operation only when the location meets the safe production requirements.

IV. Party B shall be in charge of the safety management of its own business and operation and shall comply with related laws and regulations of the People's Republic of China ("PRC") and Shanghai for production safety based on the guideline of Safety the Primacy and Precaution the Essential to well manage the production safety.

1. To establish the safe production management institute and responsibility system for production safety as well as regulations on management safety according to laws. To specify the safety production personnel either party-time or full-time and shall formulate corresponding emergency plan based on the actual business and operation.

2. To ensure the necessary input for the production safety, and to eliminate potential safety hazards timely.

3. To carry out safety education training for the workers in accordance with laws, and shall engage personnel with related

qualification to do certain works that shall be done with related certificate required by the state or Shanghai municipality.

4. To establish feasible safe production systems and operation procedures, and put them up on prominent spot.

5. To maintain regular and daily safety check so as to prevent accidents such as death and injury, fire or other accidents.

6. To make use of electricity safely, to protect flood and typhoon, toxicosis and theft. To well maintain electricity facilities. Connecting wiring without authorization shall be strictly forbidden. To equip and maintain fire extinguishers according to requirements so as to ensure the clearness of emergency passageway.

7. The “Three in One” is strictly forbidden. To accommodate personnel in the rental plants or locations, without written approvals issued by government and other competent authorities, is also strictly forbidden.

8. In relation to safety permission, no business and operation shall be carried out only till obtaining related safe production permission.

9. In relation to special equipments, these equipments shall not be put into production and business only after obtaining related test certificates.

10. To strengthen labor management and take on related work insurance for the workers.

11. The fitness of the leased facilities and locations as well as the installment of equipments shall be subject to related technical criterion and the requirements of firefighting, without damaging the construction of buildings. Where the usage of the leased facility needs to be changed, related formalities shall be handled timely. In terms of the leased facility that shall be examined and tested before being put into use pursuant to regulations of the PRC and Shanghai municipality, it shall be handled with according to related regulations thereof.

12. In case of a safety accident, the lessee shall report such accident to the lessor and the government as well as safety management department of Shanghai municipality and organize to carry out salvage to prevent the expansion of such accident; in addition, the scene shall be protected.

13. To accept Party A’s reasonable management and coordination for the safety of product production.

14. In the course of the lease, the parties shall, based on the agreements in “Safety Management Opinions”, ensure the normal usability and safety condition of the leased facilities. When Party A carries out the lease facility-check, Party B shall cooperate accordingly. Where Party A may detect the potential safety hazards in the production of Party B, it may be entitled to inform Party B in writing and require Party B to correct.

15. Where Party B carries out the production and business of dangerous chemicals, it shall obtain the production permission certificate and business permission certificate of dangerous chemicals as well as safe production training certificates of workers, which shall be submit to Party A for record.

16. Leasing facilities or locations inside the inner circle of Shanghai for the production of dangerous chemicals shall be forbidden.

17. Any impedance, closure or improper use of the exit passageway and emergency outlet shall be forbidden.

18. Any use of production technology, equipment and dangerous substance that has been officially eliminated by the PRC and Shanghai municipality, and any manufacturing, installing or modifying of special equipment illegally or making use of special equipments illegally are strictly forbidden.

V. In case Party B may fall into any of the following circumstances, Party A shall be entitled to terminate the DSH #2 Building Lease Agreement immediately:

1. Violating related laws and regulations of the PRC and Shanghai municipality, illegal production or business.

2. Failing to report or organizing immediate rescue in the event of death or injury accidents.

VI. Party A is responsible for the comprehensive management of the production safety in the location. Party A shall establish comprehensive system for the safety of the leased location and appoint safety management personnel either part-time or full-time to strengthen the safety management in the leased location. Where Party A may detect the potential safety hazards in the process of daily safety comprehensive management, Party A shall provide Party B with correct opinions and report to the government and safety production management department of the Shanghai municipality.

VII. This Agreement shall be retroactively effective from October 31, 2008 until the termination date of this Agreement.

VIII. This Agreement shall be made in duplicate, with each party retaining one copy.

Party A Shanghai Yuan Howe Electronic Co., Ltd.: (stamp)

Party B Shanghai Kai Hong Technology Electronic Co., Ltd.: (stamp)

Representative of Party A:

Representative of Party B:

Site of signing: No.1 of 18 Lane San Zhuang Road, Song Jiang Export Proceeding Zone, Shanghai

Date of signing:

AIA® Document B151™ — 1997

Abbreviated Standard Form of Agreement Between Owner and Architect

AGREEMENT made as of the Twenty-Fifty day of August in the year Two-Thousand and Eight
(In words, indicate day, month and year)

BETWEEN the Architect's client identified as the Owner:
(Name, address and other information)

Diodes, Inc.
15660 Dallas Parkway, Suite 850
Dallas, Texas 75248

and the Architect:
(Name, address and other information)

Corgan Associates, Inc.
401 North Houston Street
Dallas, Texas 75202

For the following Project:
(Include detailed description of Project)

Project consists of providing overall preliminary site master planning for an approximate 15 acre development property, base architectural, structural, interior design, landscape architecture, MEP and LEED documentation services for a new 70,000 sf LEED certified corporate headquarters built upon a one level structured parking and loading zone located at the intersection of Legacy Drive and Communications Boulevard in Plano, Texas.

The Owner and Architect agree as follows.

ADDITIONS AND DELETIONS: The author of this document has added information needed for its completion. The author may also have revised the text of the original AIA standard form. An *Additions and Deletions Report* that notes added information as well as revisions to the standard form text is available from the author and should be reviewed.

This document has important legal consequences. Consultation with an attorney is encouraged with respect to its completion or modification.

ARTICLE 1 ARCHITECT'S RESPONSIBILITIES

§ 1.1 The services performed by the Architect, Architect's employees and Architect's consultants shall be as enumerated in Articles 2, 3 and 12.

§ 1.2 The Architect's services shall be performed as expeditiously as is consistent with professional skill and care and the orderly progress of the Project. The Architect shall submit for the Owner's approval a schedule for the performance of the Architect's services which may be adjusted as the Project proceeds. This schedule shall include allowances for periods of time required for the Owner's review and for approval of submissions by authorities having jurisdiction over the Project. Time limits established by this schedule approved by the Owner shall not, except for reasonable cause, be exceeded by the Architect or Owner.

§ 1.3 The Architect shall designate a representative authorized to act on behalf of the Architect with respect to the Project.

§ 1.4 The services covered by this Agreement are subject to the time limitations contained in Section 11.5.1.

ARTICLE 2 SCOPE OF ARCHITECT'S BASIC SERVICES

§ 2.1 DEFINITION

The Architect's Basic Services consist of those described in Sections 2.2 through 2.6 and any other services identified in Article 12 as part of Basic Services, and include normal structural, mechanical and electrical engineering services.

§ 2.2 SCHEMATIC DESIGN PHASE

§ 2.2.1 The Architect shall review the program furnished by the Owner to ascertain the requirements of the Project and shall arrive at a mutual understanding of such requirements with the Owner.

§ 2.2.2 The Architect shall provide a preliminary evaluation of the Owner's program, schedule and construction budget requirements, each in terms of the other, subject to the limitations set forth in Section 5.2.1.

§ 2.2.3 The Architect shall review with the Owner alternative approaches to design and construction of the Project.

§ 2.2.4 Based on the mutually agreed-upon program, schedule and construction budget requirements, the Architect shall prepare, for approval by the Owner, Schematic Design Documents consisting of drawings and other documents illustrating the scale and relationship of Project components.

§ 2.2.5 The Architect shall submit to the Owner a preliminary estimate of Construction Cost based on current area, volume or similar conceptual estimating techniques.

§ 2.3 DESIGN DEVELOPMENT PHASE

§ 2.3.1 Based on the approved Schematic Design Documents and any adjustments authorized by the Owner in the program, schedule or construction budget, the Architect shall prepare, for approval by the Owner, Design Development Documents consisting of drawings and other documents to fix and describe the size and character of the Project as to architectural, structural, mechanical and electrical systems, materials and such other elements as may be appropriate.

§ 2.3.2 The Architect shall advise the Owner of any adjustments to the preliminary estimate of Construction Cost.

§ 2.4 CONSTRUCTION DOCUMENTS PHASE

§ 2.4.1 Based on the approved Design Development Documents and any further adjustments in the scope or quality of the Project or in the construction budget authorized by the Owner, the Architect shall prepare, for approval by the Owner, Construction Documents consisting of Drawings and Specifications setting forth in detail the requirements for the construction of the Project.

§ 2.4.2 The Architect shall prepare, with the approval of the owner of the necessary bidding information, bidding forms, the Conditions of the Contract, and the form of Agreement between the Owner and Contractor.

§ 2.4.3 The Architect shall advise the Owner of any adjustments to previous preliminary estimates of Construction Cost indicated by changes in requirements or general market conditions.

§ 2.4.4 The Architect shall assist the Owner in connection with the Owner's responsibility for filing documents required for the approval of governmental authorities having jurisdiction over the Project and incorporate design requirements there from into the construction documents.

§ 2.5 BIDDING OR NEGOTIATION PHASE

The Architect, following the Owner's approval of the Construction Documents and of the latest preliminary estimate of Construction Cost, shall assist the Owner in obtaining bids or negotiated proposals and assist in awarding and preparing contracts for construction.

§ 2.6 CONSTRUCTION PHASE—ADMINISTRATION OF THE CONSTRUCTION CONTRACT

§ 2.6.1 The Architect's responsibility to provide Basic Services for the Construction Phase under this Agreement commences with the award of the initial Contract for Construction and terminates at the laterof the issuance to the Owner of the final Certificate for Payment or 90 days after the date of Substantial Completion of the Work.

§ 2.6.2 The Architect shall provide administration of the Contract for Construction as set forth below and in the edition of AIA Document A201, General Conditions of the Contract for Construction, current as of the date of this Agreement, unless otherwise provided in this Agreement. Modifications made to the General Conditions, when adopted as part of the Contract Documents, shall be enforceable under this Agreement only to the extent that they are consistent with this Agreement or approved in writing by the Architect.

§ 2.6.3 Duties, responsibilities and limitations of authority of the Architect under this Section 2.6 shall not be restricted, modified or extended without written agreement of the Owner and Architect with consent of the Contractor, which consent will not be unreasonably withheld.

§ 2.6.4 The Architect shall be a representative of and shall advise and consult with the Owner during the administration of the Contract for Construction. The Architect shall have authority to act on behalf of the Owner only to the extent provided in this Agreement unless otherwise modified by written amendment.

§ 2.6.5 The Architect, as a representative of the Owner, shall visit the site at intervals appropriate to the stage of the Contractor's operations, or as otherwise agreed by the Owner and the Architect in Article 12, (1) to become generally familiar with and to keep the Owner informed about the progress and quality of the portion of the Work completed, (2) to endeavor to guard the Owner against defects and deficiencies in the Work, and (3) to determine in general if the Work is being performed in a manner indicating that the Work, when fully completed, will be in accordance with the Contract Documents. However, the Architect shall not be required to make exhaustive or continuous on-site inspections to check the quality or quantity of the Work and the Architect shall not be a guarantor of the Contractor's performance. The Architect shall neither have control over or charge of, nor be responsible for, the construction means, methods, techniques, sequences or procedures, or for safety precautions and programs in connection with the Work, since these are solely the Contractor's rights and responsibilities under the Contract Documents.

§ 2.6.6 The Architect shall report to the Owner known deviations from the Contract Documents and from the most recent construction schedule submitted by the Contractor and make recommendations for rejected work. However, the Architect shall not be responsible for the Contractor's failure to perform the Work in accordance with the requirements of the Contract Documents. The Architect shall be responsible for the Architect's willful acts, negligent acts or omissions, but shall not have control over or charge of and shall not be responsible for acts or omissions of the Contractor, Subcontractors, or their agents or employees, or of any other persons or entities performing portions of the Work.

§ 2.6.7 The Architect shall at all times have access to the Work wherever it is in preparation or progress.

§ 2.6.8 Except as otherwise provided in this Agreement or when direct communications have been specially authorized, the Owner shall endeavor to communicate with the Contractor through the Architect about matters arising out of or relating to the Contract Documents. Communications by and with the Architect's consultants shall be through the Architect.

§ 2.6.9 CERTIFICATES FOR PAYMENT

§ 2.6.9.1 The Architect shall review and certify the amounts due the Contractor and shall issue certificates in such amounts.

§ 2.6.9.2 The Architect's certification for payment shall constitute a representation to the Owner, based on the Architect's evaluation of the Work as provided in Section 2.6.5 and on the data comprising the Contractor's Application for Payment, that the Work has progressed to the point indicated and that, to the best of the Architect's knowledge, information and belief, the quality of the Work is in accordance with the Contract Documents. The foregoing representations are subject (1) to an evaluation of the Work for conformance with the Contract Documents upon Substantial Completion, (2) to results of subsequent tests and inspections, (3) to correction of minor deviations from the Contract Documents prior to completion, and (4) to specific qualifications expressed by the Architect.

§ 2.6.9.3 The issuance of a Certificate for Payment shall not be a representation that the Architect has (1) made exhaustive or continuous on-site inspections to check the quality or quantity of the Work, (2) reviewed construction means, methods, techniques, sequences or procedures, (3) reviewed copies of requisitions received from Subcontractors and material suppliers and other data requested by the Owner to substantiate the Contractor's right to payment, or (4) ascertained how or for what purpose the Contractor has used money previously paid on account of the Contract Sum.

§ 2.6.10 The Architect shall have authority to reject Work that does not conform to the Contract Documents. Whenever the Architect considers it necessary or advisable, the Architect shall have authority to require inspection or testing of the Work in accordance with the provisions of the Contract Documents, whether or not such Work is fabricated, installed or completed. However, neither this authority of the Architect nor a decision made in good faith either to exercise or not to exercise such authority shall give rise to a duty or responsibility of the Architect to the Contractor, Subcontractors, material and equipment suppliers, their agents or employees or other persons or entities performing portions of the Work.

§ 2.6.11 The Architect shall review and approve or take other appropriate action upon the Contractor's submittals such as Shop Drawings, Product Data and Samples, but only for the limited purpose of checking for conformance with information given and the design concept expressed in the Contract Documents. The Architect's action shall be taken with such reasonable promptness as to cause no unreasonable delay in the Work or in the activities of the Owner, Contractor or separate contractors, while allowing sufficient time in the Architect's professional judgment to permit adequate review. Review of such submittals is not conducted for the purpose of determining the accuracy and completeness of other details such as dimensions and quantities, or for substantiating instructions for installation or performance of equipment or systems, all of which remain the responsibility of the Contractor as required by the Contract Documents. The Architect's review shall not constitute approval of safety precautions or, of any construction means, methods, techniques, sequences or procedures. The Architect's approval of a specific item shall not indicate approval of an assembly of which the item is a component.

§ 2.6.12 If professional design services or certifications by a design professional related to systems, materials or equipment are specifically required of the Contractor by the Contract Documents, the Architect shall specify appropriate performance and design criteria that such services must satisfy. Shop Drawings and other submittals related to the Work designed or certified by the design professional retained by the Contractor shall bear such professional's written approval when submitted to the Architect. The Architect shall be entitled to rely upon the adequacy, accuracy and completeness of the services, certifications or approvals performed by such design professionals.

§ 2.6.13 The Architect shall prepare Change Orders and Construction Change Directives, with supporting documentation and data if deemed necessary by the Architect as provided in Sections 3.1.1 and 3.3.3, for the Owner's approval and execution in accordance with the Contract Documents, and may authorize minor changes in the Work not involving an adjustment in the Contract Sum or an extension of the Contract Time which are consistent with the intent of the Contract Documents.

§ 2.6.14 The Architect shall conduct inspections to determine the date or dates of Substantial Completion and the date of final completion, shall receive from the Contractor and forward to the Owner, for the Owner's review and records, written warranties and related documents required by the Contract Documents and assembled by the Contractor, and shall issue a final Certificate for Payment based upon a final inspection indicating the Work complies with the requirements of the Contract Documents.

User Notes:

§ 2.6.15 The Architect shall interpret and decide matters concerning performance of the Owner and Contractor under, and requirements of, the Contract Documents on written request of either the Owner or Contractor. The Architect's response to such requests shall be made in writing within any time limits agreed upon or otherwise with reasonable promptness.

§ 2.6.16 Interpretations and decisions of the Architect shall be consistent with the intent of and reasonably inferable from the Contract Documents and shall be in writing or in the form of drawings. When making such interpretations and initial decisions, the Architect shall endeavor to secure faithful performance by both Owner and Contractor, shall not show partiality to either, and shall not be liable for results of interpretations or decisions so rendered in good faith.

§ 2.6.17 The Architect shall render initial decisions on claims, disputes or other matters in question between the Owner and Contractor as provided in the Contract Documents. However, the Architect's decisions on matters relating to aesthetic effect shall be final if consistent with the intent expressed in the Contract Documents.

§ 2.6.18 The Architect's decisions on claims, disputes or other matters in question between the Owner and Contractor, except for those relating to aesthetic effect as provided in Section 2.6.17, shall be subject to mediation and arbitration as provided in this Agreement and in the Contract Documents.

ARTICLE 3 ADDITIONAL SERVICES

§ 3.1 GENERAL

§ 3.1.1 The services described in this Article 3 are not included in Basic Services unless so identified in Article 12, and they shall be paid for by the Owner as provided in this Agreement, in addition to the compensation for Basic Services. The services described under Sections 3.2 and 3.4 shall only be provided if authorized or confirmed in writing by the Owner. If services described under Contingent Additional Services in Section 3.3 are required due to circumstances beyond the Architect's control, the Architect shall notify the Owner prior to commencing such services. If the Owner deems that such services described under Section 3.3 are not required, the Owner shall give prompt written notice to the Architect. If the Owner indicates in writing that all or part of such Contingent Additional Services are not required, the Architect shall have no obligation to provide those services.

§ 3.2 PROJECT REPRESENTATION BEYOND BASIC SERVICES

§ 3.2.1 If more extensive representation at the site than is described in Section 2.6.5 is required, the Architect shall provide one or more Project Representatives to assist in carrying out such additional on-site responsibilities.

§ 3.2.2 Project Representatives shall be selected, employed and directed by the Architect, and the Architect shall be compensated therefor as agreed by the Owner and Architect. The duties, responsibilities and limitations of authority of Project Representatives shall be as described in the edition of AIA Document B352 current as of the date of this Agreement, unless otherwise agreed.

§ 3.2.3 Through the presence at the site of such Project Representatives, the Architect shall endeavor to provide further protection for the Owner against defects and deficiencies in the Work, but the furnishing of such project representation shall not modify the rights, responsibilities or obligations of the Architect as described elsewhere in this Agreement.

§ 3.3 CONTINGENT ADDITIONAL SERVICES

§ 3.3.1 Making revisions in drawings, specifications or other documents when such revisions are:

- **.1** inconsistent with approvals or instructions previously given by the Owner, including revisions made necessary by adjustments in the Owner's program or Project budget;
- **.3** due to changes required as a result of the Owner's failure to render decisions in a timely manner or

§ 3.3.2 Providing services required because of significant changes in the Project including, but not limited to, size, quality, complexity, the Owner's schedule, or the method of bidding or negotiating and contracting for construction, except for services required under Section 5.2.5.

§ 3.3.4 Providing services in connection with evaluating substitutions proposed by the Contractor and making subsequent revisions to Drawings, Specifications and other documentation resulting therefrom.

§ 3.3.5 Providing consultation concerning replacement of Work damaged by fire or other cause during construction, and furnishing services required in connection with the replacement of such Work.

§ 3.3.6 Providing services made necessary by the default of the Contractor, by major defects or deficiencies in the Work of the Contractor, or by failure of performance of either the Owner or Contractor under the Contract for Construction.

§ 3.3.7 Providing services in evaluating an extensive number of claims submitted by the Contractor or others in connection with the Work.

§ 3.3.8 Providing services in connection with a public hearing, a dispute resolution proceeding or a legal proceeding except where the Architect is party thereto.

§ 3.4 OPTIONAL ADDITIONAL SERVICES

§ 3.4.1 Providing analyses of the Owner's needs and programming the requirements of the Project.

§ 3.4.2 Providing financial feasibility or other special studies.

§ 3.4.3 Providing planning surveys, site evaluations or comparative studies of prospective sites.

§ 3.4.4 Providing special surveys, environmental studies and submissions required for approvals of governmental authorities or others having jurisdiction over the Project.

§ 3.4.5 Providing services relative to future facilities, systems and equipment other than masterplanning services described in the base scope of work.

§ 3.4.6 Providing services to investigate existing conditions or facilities or to make measured drawings thereof.

§ 3.4.7 Providing services to verify the accuracy of drawings or other information furnished by the Owner.

§ 3.4.8 Providing coordination of construction performed by separate contractors or by the Owner's own forces and coordination of services required in connection with construction performed and equipment supplied by the Owner.

§ 3.4.9 Providing services in connection with the work of a construction manager or separate consultants retained by the Owner.

§ 3.4.10 Providing detailed estimates of Construction Cost.

§ 3.4.11 Providing detailed quantity surveys or inventories of material, equipment and labor.

§ 3.4.12 Providing analyses of owning and operating costs.

§ 3.4.13 Providing interior design and other similar services required for or in connection with the selection, procurement or installation of furniture, furnishings and related equipment.

§ 3.4.14 Providing services for planning tenant or rental spaces.

§ 3.4.15 Making investigations, inventories of materials or equipment, or valuations and detailed appraisals of existing facilities.

§ 3.4.16 Preparing a set of reproducible record drawings showing significant changes in the Work made during construction based on marked-up prints, drawings and other data furnished by the Contractor to the Architect.

§ 3.4.17 Providing assistance in the utilization of equipment or systems such as testing, adjusting and balancing, preparation of operation and maintenance manuals, training personnel for operation and maintenance, and consultation during operation.

§ 3.4.18 Providing services after issuance to the Owner of the final Certificate for Payment, or in the absence of a final Certificate for Payment, more than 90 days after the date of Substantial Completion of the Work.

§ 3.4.19 Providing services of consultants for other than architectural landscape, interior design, structural, mechanical and electrical engineering portions of the Project provided as a part of Basic Services.

§ 3.4.20 Providing any other services not otherwise included in this Agreement or not customarily furnished in accordance with generally accepted architectural practice.

ARTICLE 4 OWNER'S RESPONSIBILITIES

§ 4.1 The Owner shall provide full information in a timely manner regarding requirements for and limitations on the Project, including a written program which shall set forth the Owner's objectives, schedule, constraints and criteria, including space requirements and relationships, flexibility, expandability, special equipment, systems and site requirements. The Owner shall furnish to the Architect, within 15 days after receipt of a written request, information necessary and relevant for the Architect to evaluate, give notice of or enforce lien rights.

§ 4.2 The Owner shall establish and periodically update an overall budget for the Project, including the Construction Cost, the Owner's other costs and reasonable contingencies related to all of these costs.

§ 4.3 The Owner shall designate a representative authorized to act on the Owner's behalf with respect to the Project. The Owner or such designated representative shall render decisions in a timely manner pertaining to documents submitted by the Architect in order to avoid unreasonable delay in the orderly and sequential progress of the Architect's services.

§ 4.4 The Owner shall furnish surveys to describe physical characteristics, legal limitations and utility locations for the site of the Project, and a written legal description of the site. The surveys and legal information shall include, as applicable, grades and lines of streets, alleys, pavements and adjoining property and structures; adjacent drainage; rights-of-way, restrictions, easements, encroachments, zoning, deed restrictions, boundaries and contours of the site; locations, dimensions and necessary data with respect to existing buildings, other improvements and trees; and information concerning available utility services and lines, both public and private, above and below grade, including inverts and depths. All the information on the survey shall be referenced to a Project benchmark.

§ 4.5 The Owner shall furnish the services of geotechnical engineers when such services are requested by the Architect. Such services may include but are not limited to test borings, test pits, determinations of soil bearing values, percolation tests, evaluations of hazardous materials, ground corrosion tests and resistivity tests, including necessary operations for anticipating subsoil conditions, with reports and appropriate recommendations.

§ 4.6 The Owner shall furnish the services of consultants other than those designated in Section 4.5 when such services are requested by the Architect and are reasonably required by the scope of the Project.

§ 4.7 The Owner shall furnish structural, mechanical, and chemical tests; tests for air and water pollution; tests for hazardous materials; and other laboratory and environmental tests, inspections and reports required by law or the Contract Documents.

§ 4.8 The Owner shall furnish all legal, accounting and insurance services that may be necessary at any time for the Project to meet the Owner's needs and interests. Such services shall include auditing services the Owner may require to verify the Contractor's Applications for Payment or to ascertain how or for what purposes the Contractor has used the money paid by or on behalf of the Owner.

§ 4.9 The services, information, surveys and reports required by Sections 4.4 through 4.8 shall be furnished at the Owner's expense, and the Architect shall be entitled to rely upon the accuracy and completeness thereof.

§ 4.10 The Owner shall provide prompt written notice to the Architect if the Owner becomes aware of any fault or defect in the Project, including any errors, omissions or inconsistencies in the Architect's Instruments of Service.

ARTICLE 5 CONSTRUCTION COST

§ 5.1 DEFINITION

§ 5.1.1 The Construction Cost shall be the total cost or, to the extent the Project is not completed, the estimated cost to the Owner of all elements of the Project designed or specified by the Architect.

§ 5.1.2 The Construction Cost shall include the cost at current market rates of labor and materials furnished by the Owner and equipment designed, specified, selected or specially provided for by the Architect, including the costs of management or supervision of construction or installation provided by a separate construction manager or contractor, plus a reasonable allowance for their overhead and profit. In addition, a reasonable allowance for contingencies shall be included for market conditions at the time of bidding and for changes in the Work.

§ 5.1.3 Construction Cost does not include the compensation of the Architect and the Architect's consultants, the costs of the land, rights-of-way and financing or other costs that are the responsibility of the Owner as provided in Article 4.

§ 5.2 RESPONSIBILITY FOR CONSTRUCTION COST

§ 5.2.1 Evaluations of the Owner's Project budget, the preliminary estimate of Construction Cost and detailed estimates of Construction Cost, if any, prepared by the Architect, represent the Architect's judgment as a design professional familiar with the construction industry. It is recognized, however, that neither the Architect nor the Owner has control over the cost of labor, materials or equipment, over the Contractor's methods of determining bid prices, or over competitive bidding, market or negotiating conditions. Accordingly, the Architect cannot and does not warrant or represent that bids or negotiated prices will not vary from the Owner's Project budget or from any estimate of Construction Cost or evaluation prepared or agreed to by the Architect.

§ 5.2.2 No fixed limit of Construction Cost shall be established as a condition of this Agreement by the furnishing, proposal or establishment of a Project budget, unless such fixed limit has been agreed upon in writing and signed by the parties hereto. If such a fixed limit has been established, the Architect shall be permitted to include contingencies for design, bidding and price escalation, to determine what materials, equipment, component systems and types of construction are to be included in the Contract Documents, to make reasonable adjustments in the scope of the Project and to include in the Contract Documents alternate bids as may be necessary to adjust the Construction Cost to the fixed limit. Fixed limits, if any, shall be increased in the amount of an increase in the Contract Sum occurring after execution of the Contract for Construction.

§ 5.2.3 If the Bidding or Negotiation Phase has not commenced within 90 days after the Architect submits the Construction Documents to the Owner, any Project budget or fixed limit of Construction Cost shall be adjusted to reflect changes in the general level of prices in the construction industry.

§ 5.2.4 If a fixed limit of Construction Cost (adjusted as provided in Section 5.2.3) is exceeded by the lowest bona fide bid or negotiated proposal, the Owner shall:

.1 give written approval of an increase in such fixed limit;

.2 authorize rebidding or renegotiating of the Project within a reasonable time;

.3 terminate in accordance with Section 8.5; or

.4 cooperate in revising the Project scope and quality as required to reduce the Construction Cost.

§ 5.2.5 If the Owner chooses to proceed under Section 5.2.4.4, the Architect, without additional compensation, shall modify the documents for which the Architect is responsible under this Agreement as necessary to comply with the fixed limit, if established as a condition of this Agreement. The modification of such documents without cost to the Owner shall be the limit of the Architect's responsibility under this Section 5.2.5. The Architect shall be entitled to compensation in accordance with this Agreement for all services performed whether or not the Construction Phase is commenced.

ARTICLE 6 USE OF ARCHITECT'S INSTRUMENTS OF SERVICE

§ 6.1 Drawings, specifications and other documents, including those in electronic form, prepared by the Architect and the Architect's consultants are Instruments of Service for use solely with respect to this Project. The Architect and the Architect's consultants shall be deemed the authors and owners of their respective Instruments of Service and shall retain all common law, statutory and other reserved rights, including copyrights.

§ 6.2 Upon execution of this Agreement, the Architect grants to the Owner a nonexclusive license to reproduce the Architect's Instruments of Service solely for purposes of constructing, using and maintaining the Project, provided that the Owner shall comply with all obligations, including prompt payment of all sums when due, under this Agreement. The Architect shall obtain similar nonexclusive licenses from the Architect's consultants consistent with this Agreement. Any termination of this Agreement prior to completion of the Project shall terminate this license.

§ 6.3 Except for the licenses granted in Section 6.2, no other license or right shall be deemed granted or implied under this Agreement. The Owner shall not assign, delegate, sublicense, pledge or otherwise transfer any license granted herein to another party without the prior written agreement of the Architect. However, the Owner shall be permitted to authorize the Contractor, Subcontractors, Sub-subcontractors and material or equipment suppliers to reproduce applicable portions of the Instruments of Service appropriate to and for use in their execution of the Work by license granted in Section 6.2. Submission or distribution of Instruments of Service to meet official regulatory requirements or for similar purposes in connection with the Project is not to be construed as publication in derogation of the reserved rights of the Architect and the Architect's consultants. The Owner shall not use the Instruments of Service for future additions or alterations to this Project or for other projects, unless the Owner obtains the prior written agreement of the Architect and the Architect's consultants. Any unauthorized use of the Instruments of Service shall be at the Owner's sole risk and without liability to the Architect and the Architect's consultants.

§ 6.4

§ 6.5 The Architect shall provide, if requested by the Owner or Owner's contractor, copies of the Instruments of Service in electronic form, called Drawing Files, to third parties. (Background Uses). The Owner acknowledges that the use of the Drawing Files by the Owner's contractors will save Owner considerable time and expense in the coordination and management of the Project, which represents good and valuable consideration for the following release and indemnification agreement. THEREFORE, FOR AND IN CONSIDERATION OF THE ARCHITECT'S AGREEMENT TO PROVIDE THIS SERVICE TO DELIVER THE DRAWING FILES AS DESCRIBED IN THIS PARAGRAPH, THE OWNER AGREES TO INDEMNIFY, DEFEND, AND HOLD HARMLESS THE ARCHITECT AND ITS CONSULTANTS, CALLED THE INDEMNITIES, FROM ANY AND ALL CLAIMS, DEMANDS, CAUSES OF ACTION, SUITS, LIABILITIES, LOSSES, DAMAGES, COSTS, EXPENSES, EXPERT WITNESS FEES AND REASONABLE ATTORNEY'S FEES AND DEFENSE COSTS, ARISING FROM OR IN ANY WAY CONNECTED WITH THE USE, MODIFICATION, OR INTERPRETATION OF THE DRAWING FILES PROVIDED BY THE INDEMNITIES FOR THE PROJECT PURSUANT TO THIS PARAGRAPH ON A COMPARATIVE FAULT BASIS WITH REGARD TO THE REFERENCE USES, AND WITH REGARD TO THE BACKGROUND USES WHETHER OR NOT CAUSED IN WHOLE OR IN PART BY THE SOLE OR COMPARATIVE NEGLIGENCE, STRICT LIABILITY OR OTHER FAULT OF ANY INDEMNITEE. THE OWNER ACKNOWLEDGES THAT THIS SERVICE SHALL NOT CONSTITUTE A SALE OF GOODS; AND, THE ARCHITECT MAKES NO WARRANTY OF MERCHANTABILITY OR FITNESS FOR ANY PURPOSE IN CONNECTION WITH THE SERVICES OF PROVIDING THE DRAWING FILES, OR THAT THE DRAWING FILES WILL BE USABLE OR ACCURATE WHICH WARRANTIES AND REPRESENTATIONS ARE EXPRESSLY DISCLAIMED. THE OWNER ACKNOWLEDGES THAT THIS INDEMNITY AGREEMENT IS CONSPICUOUS AND THE INDEMNIFICATION APPLIES TO THE USE OF THE DRAWING FILES FOR THIS PROJECT, ADDITIONS TO THIS PROJECT, OR COMPLETION OF THIS PROJECT BY OTHERS.

ARTICLE 7 DISPUTE RESOLUTION

§ 7.1 MEDIATION

§ 7.1.1 Any claim, dispute or other matter in question arising out of or related to this Agreement shall be subject to mediation as a condition precedent to the institution of legal or equitable proceedings by either party. If such matter relates to or is the subject of a lien arising out of the Architect's services, the Architect may proceed in accordance with applicable law to comply with the lien notice or filing deadlines prior to resolution of the matter by mediation.

§ 7.1.2 The Owner and Architect shall endeavor to resolve claims, disputes and other matters in question between them by mediation which, unless the parties mutually agree otherwise, shall be in accordance with the Construction Industry Mediation Rules of the American Arbitration Association currently in effect. Request for mediation shall be given in writing with the other party to this Agreement. Mediation shall proceed in advance of legal or equitable proceedings, which shall be stayed pending mediation for a period of 60 days from the date of notice, unless stayed for a longer period by agreement of the parties or court order. The Owner and the Architect further agree to include a similar mediation provision in all agreements with independent contractors and consultants retained for the Project and to require all independent contractors and consultants also to include a similar mediation provision in all agreements with subcontractors, subconsultants, suppliers or fabricators so retained, thereby providing for mediation as the primary method for dispute resolution between the parties to those agreements.

§ 7.1.3 The parties shall share the mediator's fee and any filing fees equally. The mediation shall be held in the place where the Project is located, unless another location is mutually agreed upon. Agreements reached in mediation shall be enforceable as settlement agreements in any court having jurisdiction thereof.

§ 7.2

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§ 7.3 CLAIMS FOR CONSEQUENTIAL DAMAGES

The Architect and Owner waive consequential damages for claims, disputes or other matters in question arising out of or relating to this Agreement. This mutual waiver is applicable, without limitation, to all consequential damages due to either party's termination in accordance with Article 8.

ARTICLE 8 TERMINATION OR SUSPENSION

§ 8.1 If the Owner fails to make payments to the Architect in accordance with this Agreement, such failure shall be considered substantial nonperformance and cause for termination or, at the Architect's option, cause for suspension of performance of services under this Agreement. If the Architect elects to suspend services, prior to suspension of services, the Architect shall give fourteen days' written notice to the Owner. In the event of a suspension of services, the Architect shall have no liability to the Owner for delay or damage caused the Owner because of such suspension of services and if the suspension was not caused by the willful or negligent omissions of the Architect. Before resuming services, the Architect shall be paid all sums due prior to suspension and any expenses incurred in the interruption and resumption of the Architect's services. The Architect's fees for the remaining services and the time schedules shall be equitably adjusted.

§ 8.2 If the Project is suspended by the Owner for more than 30 consecutive days, the Architect shall be compensated for services performed prior to notice of such suspension. When the Project is resumed and if the suspension was not caused by the willful acts or negligent omissions of the Archtiect, the Architect shall be compensated for expenses incurred in the interruption and resumption of the Architect's services. The Architect's fees for the remaining services and the time schedules shall be equitably adjusted.

§ 8.3 If the Project is suspended or the Architect's services are suspended for more than 90 consecutive days, the Architect may terminate this Agreement by giving not less than seven days' written notice.

§ 8.4 This Agreement may be terminated by either party upon not less than seven days' written notice should the other party fail substantially to perform in accordance with the terms of this Agreement through no fault of the party initiating the termination.

§ 8.5 This Agreement may be terminated by the Owner upon not less than seven days' written notice to the Architect for the Owner's convenience and without cause.

§ 8.6 In the event of termination not the fault of the Architect, the Architect shall be compensated for services performed prior to termination, together with Reimbursable Expenses then due and all Termination Expenses as defined in Section 8.7.

§ 8.7 Termination Expenses are in addition to compensation for the services of the Agreement and include expenses directly attributable to termination for which the Architect is not otherwise compensated.

ARTICLE 9 MISCELLANEOUS PROVISIONS

§ 9.1 This Agreement shall be governed by the law of the principal place of business of the Architect, unless otherwise provided in Article 12.

§ 9.2 Terms in this Agreement shall have the same meaning as those in the edition of AIA Document A201, General Conditions of the Contract for Construction, current as of the date of this Agreement.

§ 9.3 Causes of action between the parties to this Agreement pertaining to acts or failures to act shall be deemed to have accrued and the applicable statutes of limitations shall commence to run not later than either the date of Substantial Completion for acts or failures to act occurring prior to Substantial Completion or the date of issuance of the final Certificate for Payment for acts or failures to act occurring after Substantial Completion. In no event shall such statutes of limitations commence to run any later than the date when the Architect's services are substantially completed.

§ 9.4 To the extent damages are covered by property insurance during construction, the Owner and Architect waive all rights against each other and against the contractors, consultants, agents and employees of the other for damages, except such rights as they may have to the proceeds of such insurance as set forth in the edition of AIA Document A201, General Conditions of the Contract for Construction, current as of the date of this Agreement. The Owner or the Architect, as appropriate, shall require of the contractors, consultants, agents and employees of any of them similar waivers in favor of the other parties enumerated herein.

§ 9.5 The Owner and Architect, respectively, bind themselves, their partners, successors, assigns and legal representatives to the other party to this Agreement and to the partners, successors, assigns and legal representatives of such other party with respect to all covenants of this Agreement. Neither the Owner nor the Architect shall assign this Agreement without the written consent of the other, except that the Owner may assign this Agreement to an institutional lender providing financing for the Project. In such event, the lender shall assume the Owner's rights and obligations under this Agreement. The Architect shall execute all consents reasonably required to facilitate such assignment.

§ 9.6 This Agreement represents the entire and integrated agreement between the Owner and the Architect and supersedes all prior negotiations, representations or agreements, either written or oral. This Agreement may be amended only by written instrument signed by both Owner and Architect.

§ 9.7 Nothing contained in this Agreement shall create a contractual relationship with or a cause of action in favor of a third party against either the Owner or Architect.

§ 9.8 Unless otherwise provided in this Agreement, the Architect and Architect's consultants shall have no responsibility for the discovery, presence, handling, removal or disposal of or exposure of persons to hazardous materials or toxic substances in any form at the Project site. Owner agrees to indemnify, defend, and hold Architect harmless from all claims, expenses, and damage arising from or related to, hazardous materials including asbestos-containing materials that are or may be found to exist in the project. With regard to new materials specified by Architect, it is understood that the Architect is relying upon information furnished by others including manufacturers, suppliers, and government agencies with regard to the use of such specified materials.

§ 9.9 The Architect shall have the right to include photographic or artistic representations of the design of the Project among the Architect's promotional and professional materials. The Architect shall be given reasonable access to the completed Project to make such representations. However, the Architect's materials shall not include the Owner's confidential or proprietary information if the Owner has previously advised the Architect in writing of the specific information considered by the Owner to be confidential or proprietary. The Owner shall provide professional credit for the Architect in the Owner's promotional materials for the Project.

§ 9.10 If the Owner requests the Architect to execute certificates, the proposed language of such certificates shall be submitted to the Architect for review at least 14 days prior to the requested dates of execution. The Architect shall not be required to execute certificates that would require knowledge, services or responsibilities beyond the scope of this Agreement.

ARTICLE 10 PAYMENTS TO THE ARCHITECT

§ 10.1 DIRECT PERSONNEL EXPENSE

Direct Personnel Expense is defined as the direct salaries of the Architect's personnel engaged on the Project and the portion of the cost of their mandatory and customary contributions and benefits related thereto, such as employment taxes and other statutory employee benefits, insurance, sick leave, holidays, vacations, employee retirement plans and similar contributions.

§ 10.2 REIMBURSABLE EXPENSES

§ 10.2.1 Reimbursable Expenses are in addition to compensation for Basic and Additional Services and include expenses incurred by the Architect and Architect's employees and consultants directly related to the Project unless such expenses are necessary to correct willful or negligent errors and omissions, as identified in the following Clauses:

.1 transportation in connection with the Project, authorized out-of-town travel and subsistence, and electronic communications;

.2 fees paid for securing approval of authorities having jurisdiction over the Project;

.3 reproductions, plots, standard form documents, postage, handling and delivery of Instruments of Service;

.

.5 renderings exclusive of elevations or site plans, models and mock-ups requested by the Owner;

.6 expense of professional liability insurance dedicated exclusively to this Project or the expense of additional insurance coverage or limits requested by the Owner in excess of that normally carried by the Architect and the Architect's consultants;

.7 reimbursable expenses as designated in Article 12;

.8 other similar direct Project-related expenditures.

§ 10.3 PAYMENTS ON ACCOUNT OF BASIC SERVICES

§ 10.3.1 An initial payment as set forth in Section 11.1 is the minimum payment under this Agreement.

§ 10.3.2 Subsequent payments for Basic Services shall be made monthly and, where applicable, shall be in proportion to services performed within each phase of service, on the basis set forth in Section 11.2.2.

§ 10.3.3 If and to the extent that the time initially established in Section 11.5.1 of this Agreement is exceeded or extended through no fault of the Architect, compensation for any services rendered during the additional period of time shall be computed in the manner set forth in Section 11.3.2.

§ 10.3.4 When compensation is based on a percentage of Construction Cost and any portions of the Project are deleted or otherwise not constructed, compensation for those portions of the Project shall be payable to the extent services are performed on those portions, in accordance with the schedule set forth in Section 11.2.2, based on (1) the lowest bona fide bid or negotiated proposal, or (2) if no such bid or proposal is received, the most recent preliminary estimate of Construction Cost or detailed estimate of Construction Cost for such portions of the Project.

§ 10.4 PAYMENTS ON ACCOUNT OF ADDITIONAL SERVICES

Payments on account of the Architect's Additional Services and for Reimbursable Expenses shall be made monthly upon presentation of the Architect's statement of services rendered or expenses incurred.

§ 10.5 PAYMENTS WITHHELD

No deductions shall be made from the Architect's compensation on account of penalty, liquidated damages or other sums withheld from payments to contractors, or on account of the cost of changes in the Work other than those for which the Architect has been adjudged or has agreed to be liable.

§ 10.6 ARCHITECT'S ACCOUNTING RECORDS

Records of Reimbursable Expenses and expenses pertaining to Additional Services and services performed on the basis of hourly rates or a multiple of Direct Personnel Expense shall be available to the Owner or the Owner's authorized representative at mutually convenient times.

ARTICLE 11 BASIS OF COMPENSATION

The Owner shall compensate the Architect as follows:

§ 11.1 An Initial Payment of zero ($0.00) shall be made upon execution of this Agreement and credited to the Owner's account at final payment.

§ 11.2 BASIC COMPENSATION

§ 11.2.1 For Basic Services, as described in Article 2, and any other services included in Article 12 as part of Basic Services, Basic Compensation shall be computed as follows:

(Insert basis of compensation, including stipulated sums, multiples or percentages, and identify phases to which particular methods of compensation apply, if necessary.)

Stipulated sum as defined below:

Building — 75,000 sf	
*Master Planning	$ 9,000
*Architectural Core & Shell	$275,250
*Architectural Interior Design	$164,250
* Landscape Architecture	$ 20,250
* Structural Engineering	$ 36,750
* MEP/FP Engineering	$ 96,000

Allowances	
*Signage	$ 6,000
*Acoustic	$ 3,000
*Lighting	$ 4,500
*Water Features	TBD

Structured Parking — 88.200 sf	Add Service 1
*Architectural	$79,380 ($0.90 psf)
*Structural	$26,460 ($0.30 psf)
*MEP/FP	$8,820 ($0.10 psf)

§ 11.2.2 Where compensation is based on a stipulated sum or percentage of Construction Cost, progress payments for Basic Services in each phase shall total the following percentages of the total Basic Compensation payable:

(Insert additional phases as appropriate.)

Schematic Design Phase:	Fifteen	percent	(15%)
Design Development Phase:	Twenty	percent	(20%)
Construction Documents Phase:	Forty	percent	(40%)
Bidding or Negotiation Phase:	Five	percent	(5%)
Construction Phase:	Twenty	percent	(20%)
Total Basic Compensation	one hundred	percent	(100.00%)

§ 11.3 COMPENSATION FOR ADDITIONAL SERVICES

§ 11.3.1 For Project Representation Beyond Basic Services, as described in Section 3.2, compensation shall be computed as follows:

Project representation beyond basic services as described in Section 3.2 shall be billed at the current billing rates listed in Section 11.3.2 below.

§ 11.3.2 For Additional Services of the Architect, as described in Articles 3 and 12, other than (1) Additional Project Representation, as described in Section 3.2, and (2) services included in Article 12 as part of Basic Services, but excluding services of consultants, compensation shall be computed as follows:

(Insert basis of compensation, including rates and multiples of Direct Personnel Expense for Principals and employees, and identify Principals and classify employees, if required. Identify specific services to which particular methods of compensation apply, if necessary.)

Managing Principal		$ 275.00
Principal		$ 230.00
Design Director		$ 230.00
Vice President		$ 195.00
Associate		$ 170.00
Project Manager	$ 125.00	$ 170.00
Senior Architect	$ 115.00	$ 155.00

Project Architect	$ 95.00	$ 145.00
Project Architectural Staff	$ 75.00	$ 130.00
Architect	$ 90.00	$ 110.00
Architectural Staff	$ 70.00	$ 110.00
Architectural Intern	$ 60.00	90.00
Student Architectural Intern	$ 50.00	$ 70.00
ID Project Manager	$ 115.00	$ 155.00
Senior Interior Designer	$ 95.00	$ 120.00
Project Interior Designer	$ 85.00	$ 115.00
Project Interior Design Staff	$ 70.00	$ 100.00
Interior Designer	$ 75.00	$ 95.00
Interior Design Staff	$ 65.00	$ 90.00
Interior Design Intern	$ 60.00	$ 75.00
Student Interior Design	$ 45.00	$ 60.00
Construction Administrator	$ 110.00	$ 120.00
Specifications Writer	$ 110.00	
Computer Systems	$ 90.00	$ 120.00
Graphic Designer	$ 65.00	$ 115.00
Specialist	$ 55.00	$ 65.00
Administrative Support	$ 65.00	$ 85.00

§ 11.3.3 For Additional Services of Consultants, including additional structural, mechanical and electrical engineering services and those provided under Section 3.4.19 or identified in Article 12 as part of Additional Services, a multiple of one and one-tenth (1.10) times the amounts billed to the Architect for such services. The Architect shall be entitled to include in his Additional Services proposal reasonable compensation for his time to coordinate and supplement the services provided by said consultants.

(Identify specific types of consultants in Article 12, if required.)

§ 11.4 REIMBURSABLE EXPENSES

For Reimbursable Expenses, as described in Section 10.2, and any other items included in Article 12 as Reimbursable Expenses, a multiple of one and one-tenth (1.10) times the expenses incurred by the Architect, the Architect's employees and consultants directly related to the Project. The Owner agrees that no backup for the Reimbursable Expenses shall be required to be attached to the invoices for such expenses unless any line item expense exceeds $250.00. In the event the Owner requests backup for Reimbursable Expenses less than $250.00, the Owner agrees to a multiple of (   ) times expenses incurred by the Architect, the Architect's Employees, and Consultants directly related to the project.

§ 11.5 ADDITIONAL PROVISIONS

§ 11.5.1 If the Basic Services covered by this Agreement have not been completed within fifteen (15) months of the date hereof, through no fault of the Architect, extension of the Architect's services beyond that time shall be compensated as provided in Sections 10.3.3 and 11.3.2.

§ 11.5.2 Payments are due and payable thirty (30) days from the date of the Architect's invoice. Amounts unpaid ninety (90) days after the invoice date shall bear interest at the rate entered below, or in the absence thereof at the legal rate prevailing from time to time at the principal place of business of the Architect.

(Insert rate of interest agreed upon.)

Ten Percent (10%) per annum, but in no event higher than the highest rate allowed by law.

(Usury laws and requirements under the Federal Truth in Lending Act, similar state and local consumer credit laws and other regulations at the Owner's and Architect's principal places of business, the location of the Project and elsewhere may affect the validity of this provision. Specific legal advice should be obtained with respect to deletions or modifications, and also regarding requirements such as written disclosures or waivers.)

§ 11.5.3 The rates and multiples set forth for Additional Services shall be adjusted in accordance with the normal salary review practices of the Architect.

ARTICLE 12 OTHER CONDITIONS OR SERVICES

(Insert descriptions of other services, identify Additional Services included within Basic Compensation and modifications to the payment and compensation terms included in this Agreement.)

12.1 STANDARD OF CARE

In providing services under this Agreement, the Standard of Care for the Architect will be to perform in a manner consistent with that degree of care and skill ordinarily exercised by members of the same profession currently practicing under similar circumstances.

Any language, term, or condition of this Agreement to the contrary notwithstanding, THE ARCHITECT MAKES NO EXPRESS OR IMPLIED WARRANTIES, INCLUDING WARRANTIES OF MERCHANTABILITY OR FITNESS FOR ANY PURPOSE, REGARDING THE ARCHTECT'S SERVICES, WHICH WARRANTIES ARE EXPRESSLY DISCLAIMED.

12.2 RESPONSIBILITY FOR PRODUCT SUITABILITY

With regard to new equipment, materials, and products (herein called products) required by the Architect's construction documents, it is understood the Architect is relying on stated and implied representations made by manufacturers, suppliers and installers of such products as being suitably fit for their intended purposes. The Architect is not responsible for the product's failure to perform consistent with those representations.

12.3 NO FIDUCIARY RESPONSIBILITY OF THE ARCHITECT TO THE OWNER

The provisions of this agreement constitute the complete responsibilities and define the relationship of the Owner and Architect; moreover, nothing herein establishes a fiduciary responsibility of the Architect to the Owner.

12.4 RESPONSIBILITY FOR CONSTRUCTION COST

For projects on which a General Contractor or Construction Manager is responsible to furnish pricing during the design and subsequent phases of the project, the Architect shall have the right to rely on cost information furnished by the General Contractor or Construction Manager. The Architect shall assist the Owner in the Owner's review of the Contractor's or Construction Manager's pricing, but does not accept responsibility for the accuracy of the Contractor's or Construction Manager's estimates or other pricing work in so doing. Architect reserves the right to request additional compensation on a case by case basis.

12.5 DESIGN CONTINGENCY

The Owner understands and acknowledges that although the Instruments of Service shall be prepared within the Standard of Care stated in paragraph 12.1 of this Agreement, the Contractor may require additional information from the Architect to clarify and coordinate the design intent shown in the Construction Documents that result in increases in the Construction Cost.

12.6 LIABILITY APPORTIONED TO COMPENSATION

TO THE FULLEST EXTENT PERMITTED BY LAW, AND NOT WITHSTANDING ANY OTHER PROVISION OF THIS AGREEMENT, THE TOTAL LIABILITY, IN THE AGGREGATE, OF THE ARCHITECT AND THE ARCHITECT'S OFFICERS, DIRECTORS, PARTNERS, EMPLOYEES AND SUBCONSULTANTS, AND ANY OF THEM, TO THE OWNER AND ANYONE CLAIMING BY OR THROUGH THE OWNER, FOR ANY AND ALL CLAIMS, LOSSES, COSTS OR DAMAGES, INCLUDING ATTORNEY'S FEES AND COSTS AND EXPERT-WITNESS FEES AND COSTS OF ANY NATURE WHATSOEVER, OR CLAIMS EXPENSES RESULTING FROM OR IN ANY WAY RELATED TO AN INDIVIDUAL PROJECT OR THE AGREEMENT FROM ANY CAUSE OR CAUSES SHALL NOT EXCEED THE TOTAL COMPENSATION RECEIVED BY THE ARCHITECT UNDER THIS AGREEMENT, FOR THIS PROJECT. IT IS INTENDED THAT THIS LIMITATION APPLY TO ANY AND ALL LIABILITY OR CAUSE OF ACTION, HOWEVER ALLEGED OR ARISING, UNLESS OTHERWISE PROHIBITED BY LAW.

12.7 STATEMENT OF JURISDICTION

The Texas Board of Architectural Examiners has jurisdiction over complaints regarding the professional practices of persons registered as architects or interior designers in Texas. The Board may be contacted: P.O. Box 12337, Austin, Texas 78711-2337 or 333 Guadalupe, Suite 2-350, Austin, Texas 78701-3942, Phone: 512-305-9000; or www.tbae.state.tx.us.

12.8 REIMBURSABLE EXPENSES

It is mutually agreed that the following flat-rate charges will apply as in-house project expenses:

Photocopies	$0.50/Copy (BW) $1.00 (Color 8.5x11), $2.00 (Color 11X17)
Blueline Reproduction	$5.00/Sheet
Mileage to Job Site	$0.50.5/Mile
CAD Graphics Plotting for Design	Approximately $15/Sheet for black and white; Approximately $40/Sheet for color
Reviews & Presentations (not for Construction Drawings)	(The exact charge will vary with sheet size and be based on Corgan Associates, Inc.'s prevailing standard rates)

Sales Taxes will be charged in accordance with state law.

Architects $40,000 reimbursable allowance is a not to exceed lump sum, with the understanding there will be not additional exposure to Owner and Architect will capture all savings in full.

12.9 VALUE ENGINEERING

In the event that the Architect is asked to participate in a value engineering process, including utilizing substitution requests made by the Owner, Contractor, Owners Consultants, or others, the Owner acknowledges this entails certain inherit risks. These include, but are not limited to reduced performance, increased life-cycle costs and coordination impacts pertaining to other elements of the project, unforeseen code implications, unanticipated schedule implications, and diminished overall value as a result of the proposing parties having a vested interest in such recommendations. If the Owner chooses to accept and/or directs the architect to make revisions to the construction documents to include value engineering recommendations and/or material substitution proposals made by others, that in the Architects opinion are not in the best interests of the project, the Owner agrees to accept these risks in order to achieve the perceived benefits of reduced construction cost. Furthermore, the Owner shall release, indemnify, defend and hold harmless the Architect and its consultants from and against all claims, actions, causes of action, damage, loss of liability, cost or expense including but not limited to Attorney fees arising out of or related to such revisions to the construction documents.

This Agreement entered into as of the day and year first written above.

OWNER	**ARCHITECT**
(Signature)	*(Signature)*
Rick White, Sr. Vice-President, Finance	Matt Mooney, Principal
(Printed name and title)	*(Printed name and title)*

1969 Incentive Bonus Plan
(Amended December 22, 2008)

From time to time in past years the Board of Directors has approved cash bonuses for certain key employees whose services in such years contributed significantly to the Company's performance. Such cash bonuses were approved and paid to the employee only if in the opinion of the Board of Directors, the condition of the Company permitted and the profits of the Company exceeded projections or estimates made at the outset of the Company's fiscal year. It is not proposed that the INCENTIVE BONUS PLAN (the "Plan") will change in nay respect for future years the basis upon which the Board of Directors has in past years awarded cash bonuses and the Board's prior practices shall continue to apply.

The principal feature of the Plan is that it gives to the Board of Directors the election as to whether to pay the bonus, if awarded, in cash or in shares of common stock of the Company. The decision as to which form a bonus shall take rests in the sole and absolute discretion of the Board of Directors at the time of the award and the individual employee has no participation, directly or indirectly, in such decision. Nothing contained in the Plan itself commits or binds the Company to pay bonuses, and if the Board of Directors decides to award bonuses, to pay such bonuses in the form of cash or stock, or to elect the same form of award with respect to each employee participating. As a condition to receive any bonus payment approved by the Board of Directors, the employee must remain in full time employment of the Company through the date of payment. The Board of Directors has tentatively set aside 50,000 shares of the common stock of the Company for use in connection with the Plan. This allocation, however, is subject to the other business needs of the Company and the number of shares set aside may be adjusted if experience under the Plan indicates that all such shares need not be applied to the Plan.

Each employee who may be eligible to participate in any bonus award by the Company must by separate letter agreement consent to the terms of the Plan and, among other things, acknowledge that the Company is not committed or bound to pay bonuses, and acquiesce in the terms (as explained below) of the Plan.

The Plan provides that unless and until the Board of Directors decides otherwise, if the Board of Directors fixes a cash equivalency or dollar value or amount to such bonus and determines (1) to pay the employees a bonus, and (2) to pay such bonus in the form of shares of the common stock of the Company, then the number of shares to be awarded to the employee may be determined by dividing the dollar amount of the bonus by the fair market value of one share of the common stock on the date of grant. The Board of Directors may elect not to establish the bonus in terms of a dollar amount and in lieu thereof fix a number of shares of common stock to awarded to the employee. The fair market value of the shares of stock shall be determined by the Board of Directors and shall be equal to the closing price of one share of common stock on the trading day the award is granted by the Board of Directors.

The Plan further provides that the Board of Directors may impose such restrictions as it may decide upon the sale, assignment, transfer or discounting of the shares of stock awarded to the employee. It is proposed that, if the Board awards a bonus in stock, then the employee shall be limited in his right to sell or otherwise transfer such stock for a minimum period of three (3) years after the award and that thereafter fifty percent (50%) of the stock shall be released to him in each of the next two successive years. The Board of Directors, however, is given the authority to release the restrictions sooner if the employee proves to the Board's satisfaction that, unless released, an extreme hardship shall be worked upon him. In addition, in accepting the stock award, the employee must agree to remain in the full time employment of the Company during the period until the stock is released to him. If the employee voluntarily leaves the employ of the Company or is terminated for good cause, he forfeits any stock not released to him.

If the employee dies with a right to stock, or stock has been previously released to him, then his estate succeeds to his rights except that the requirement for continued employment does not apply and the shares of stock are immediately released to the estate. The company is not compelled to deliver any shares of stock unless it is satisfied that it may do so in full compliance with the Federal and State securities regulatory laws. The employee is granted the right to have any shares previously awarded and released to him registered under the Securities Act of 1933 and the California Securities Act of 1968 provided that such registration is permissible under such act by the Company, if the Company for other reasons is registering shares of the same class of stock.

Management is of the opinion that no consents or approvals by any Federal or State tax or securities regulatory agencies or department are required prior to the establishment of the Plan and that the same may become effective upon the approval of the shareholders. Certain consents or approvals may be required prior to actual award of shares and where necessary such consents or approvals will be obtained.

DIODES INCORPORATED
2001 OMNIBUS EQUITY INCENTIVE PLAN
(As Amended December 22, 2008)

Diodes Incorporated, a Delaware corporation (the “Company”), by action of its Board of Directors, hereby adopt the Diodes Incorporated 2001 Omnibus Equity Incentive Plan (the “Plan”) with the following provisions:

1. **Purpose** The purpose of the Plan is to promote and advance the interests of the Company and its stockholders by enabling the Company and its Subsidiaries to attract, retain and motivate officers, directors, employees and independent contractors by providing for performance-based benefits, and to strengthen the mutuality of interests between such persons and the Company’s stockholders. The Plan is designed to meet this intent by offering performance-based stock and cash incentives and other equity-based incentive awards, thereby providing a proprietary interest in pursuing the long-term growth, profitability and financial success of the Company.

2. **Definitions** For purposes of this Plan, the following terms shall have the meanings set forth below:

“Affiliate” shall mean any parent or subsidiary (as defined in Sections 424(e) and (f) of the Code) of the Company.

“Award” means an award or grant made to a Participant under Sections 6 through 10, inclusive, of the Plan.

“Board” means the Board of Directors of the Company.

“Change in Control” means the occurrence of any one (or more) of the following events:

(i) Any person, including a group as defined in Section 13(d)(3) of the Exchange Act, becomes the beneficial owner of stock of the Company with respect to which twenty-five percent (25%) or more of the total number of votes for the election of the Board may be cast;

(ii) As a result of, or in connection with, any cash tender offer, exchange offer, merger or other business combination, sale of assets or contested election, or combination of the foregoing, persons who were directors of the Company just prior to such event shall cease to constitute a majority of the Board;

(iii) The stockholders of the Company shall approve an agreement providing either for a transaction in which the Company will cease to be an independent publicly owned corporation or for a sale or other disposition of all or substantially all the assets of the Company; or

(iv) A tender offer or exchange offer is made for the shares of the Common Stock (other than one made by the Company) and the shares of the Common Stock are acquired thereunder.

Notwithstanding the foregoing, the formation of a holding company for the Company in which the stockholdings of the holding company after its formation are substantially the same as for the Company prior to the holding company formation does not constitute a Change in Control for purposes of this Plan.

“Code” means the Internal Revenue Code of 1986, as amended and in effect from time to time, or any successor thereto, together with rules, regulations and authoritative interpretations promulgated thereunder.

“Committee” means the committee of the Board that is provided for in Section 3 of the Plan.

“Common Stock” means the common stock of the Company or any security of the Company issued in substitution, exchange or lieu thereof.

“Company” means Diodes Incorporated, a Delaware corporation.

"Consultant" means any natural person who performs bona fide services for the Company or an Affiliate as a consultant or advisor, excluding Employees and Non-Employee Directors.

"Date of Grant" means the date the Committee (or the Board, as the case may be) takes formal action designating that a Participant shall receive an Award, notwithstanding the date the Participant accepts the Award, the date the Company and the Participant enter into a written agreement with respect to the Award, or any other date.

"Disability" means total and permanent disability as defined in Section 22(e)(3) of the Code.

"Employee" means any individual who is a common-law employee of the Company or an Affiliate.

"Exchange Act" means the Securities Exchange Act of 1934, as amended and in effect from time to time, or any successor thereto.

"Fair Market Value" means on any given date, the closing price for the Common Stock on such date, or, if the Common Stock was not traded on such date, on the next preceding day on which the Common Stock was traded, determined in accordance with the following rules:

(i) If the Common Stock is admitted to trading or listing on a national securities exchange registered under the Exchange Act, the closing price for any day shall be the last reported sale price, or in the case no such reported sale takes place on such date, the average of the last reported bid and ask prices, in either case on the principal national securities exchange on which the Common Stock is admitted to trading or listed;

(ii) If not listed or admitted to trading on any national securities exchange, the last sale price of the Common Stock on the National Association of Securities Dealers Automated Quotation National Market System ("NMS") or, in the case no such reported sale takes place, the average of the closing bid and ask prices on such date;

(iii) If not quoted on the NMS, the average of the closing bid and ask prices of the Common Stock on the National Association of Securities Dealers Automated Quotation System ("NASDAQ") or any comparable system; or

(iv) If the Common Stock is not listed on NASDAQ or any comparable system, the closing bid and ask prices as furnished by any member of the National Association of Securities Dealers, Inc., selected from time to time by the Committee for that purpose.

"Incentive Stock Option" means any Stock Option granted pursuant to the provisions of Section 6 of the Plan that is intended to be and is specifically designated as an "incentive stock option" within the meaning of Section 422 of the Code.

"Non-Employee Director" means a non-Employee member of the Board.

"Non-Qualified Stock Option" means any Stock Option granted pursuant to the provisions of Section 6 of the Plan that is not an Incentive Stock Option.

"Optioned Stock" means the shares of Common Stock that are subject to a Stock Option.

"Participant" means an Employee, Non-Employee Director, or Consultant of the Company or a Subsidiary who is granted an Award under the Plan.

"Performance Award" means an Award granted pursuant to the provisions of Section 9 of the Plan, the vesting of which is contingent on the attainment of specified performance criteria.

"Performance Share Grant" means an Award of units representing shares of Common Stock granted pursuant to the provisions of Section 9 of the Plan.

"Performance Unit Grant" means an Award of monetary units granted pursuant to the provisions of Section 9 of the Plan.

"Plan" means this Diodes Incorporated 2001 Omnibus Equity Incentive Plan, as set forth herein and as it may be hereafter amended and from time to time in effect.

"Qualified Note" means a recourse note, with a fixed market rate of interest, that may, at the discretion of the Committee, be secured by the Optioned Stock or otherwise.

"Restricted Award" means an Award granted pursuant to the provisions of Section 8 of the Plan.

"Restricted Stock Grant" means an Award of shares of Common Stock granted pursuant to the provisions of Section 8 of the Plan.

"Restricted Unit Grant" means an Award of units representing shares of Common Stock granted pursuant to the provisions of Section 8 of the Plan.

"Service" means the performance of services for the Company (or any Affiliate) by an Employee, Non-Employee Director, or Consultant, as determined by the Committee in its sole discretion. Service shall not be considered interrupted in the case of (i) any leave of absence approved by the Company or (ii) transfers between locations of the Company or between the Company and any Affiliate, or any successor. A leave of absence approved by the Company shall include sick leave, military leave, or any other personal leave approved by an authorized representative of the Company. For purposes of Incentive Stock Options, no such leave may exceed 90 days, unless reemployment upon expiration of such leave is guaranteed by statute or contract, including Company policies. If reemployment upon expiration of a leave of absence approved by the Company is not so guaranteed, on the 91st day of such leave any Incentive Stock Option held by the Optionee shall cease to be treated as an Incentive Stock Option and shall be treated for tax purposes as a Non-Qualified Stock Option.

"Stock Appreciation Right" means an Award to benefit from the appreciation of Common Stock granted pursuant to the provisions of Section 7 of the Plan.

"Stock Option" means an Award to purchase shares of Common Stock granted pursuant to the provisions of Section 6 of the Plan.

"Subsidiary" means any corporation or entity which is a subsidiary of the Company within the meaning of Section 424(f) of the Code.

"Ten Percent Stockholder" means a person who owns stock (after taking into account the constructive ownership rules of Section 424(d) of the Code) possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company (or any Affiliate).

"Termination Date" means the date on which a Participant's Service terminates, as determined by the Committee in its sole discretion.

3. Administration.

(a) The Plan shall be administered by a committee appointed by the Board. The Committee shall be comprised solely of not less than two persons who are "outside directors" within the meaning of Section 162(m)(4)(C) of the Code and "non-employee directors" within the meaning of Rule 16b-3 of the Exchange Act. Members of the Committee shall serve at the pleasure of the Board and the Board may from time to time remove members from, or add members to, the Committee. No person who is not an "outside director" within the meaning of Section 162(m)(4)(C) of the Code and a "non-employee director" within the meaning of Rule 16b-3 of the Exchange Act may serve on the Committee. Appointment to the Committee of any person who is not an "outside director" and a "non-employee director" shall automatically be null and void, and any person on the Committee who ceases to be an "outside director" and a "non-employee director" shall automatically and without further action cease to be a member of the Committee.

(b) A majority of the members of the Committee shall constitute a quorum for the transaction of business. Action approved in writing by a majority of the members of the Committee then serving shall be as effective as if the action had been taken by unanimous vote at a meeting duly called and held.

(c) The Committee is authorized to construe and interpret the Plan, to promulgate, amend, and rescind rules and procedures relating to the implementation of the Plan, and to make all other determinations necessary or advisable for the administration of the Plan. Any determination, decision, or action of the Committee in connection with the construction, interpretation, administration, or application of the Plan shall be binding upon all Participants and any person claiming under or through any Participant. Although the Committee is anticipated to make certain Awards that constitute “performance-based compensation” within the meaning of Section 162(m)(4)(C) of the Code, the Committee is also expressly authorized to make Awards that do not constitute “performance-based compensation” within the meaning of that provision. By way of example, and not by way of limitation, the Committee, in its sole and absolute discretion, may issue an Award that is not based on a performance goal, as set forth in (i) below, but is based solely on continued service to the Company.

(d) The Committee may employ or retain persons other than members of the Committee to assist the Committee to carry out its responsibilities under such conditions and limitations as it may prescribe, except that the Committee may not delegate its authority with regard to selection for participation of and the granting of Awards to persons subject to Section 16 of the Exchange Act or with regard to any of its duties under Section 162(m) of the Code necessary for awards under this Plan to qualify as “performance-based compensation” for purposes of Section 162(m)(4)(C) of the Code.

(e) The Committee is expressly authorized to make such modifications to the Plan as are necessary to effectuate the intent of the Plan as a result of any changes in the income tax, accounting, or securities law treatment of Participants and the Plan.

(f) The Company shall effect the granting of Awards under the Plan in accordance with the determinations made by the Committee, by execution of instruments in writing in such form as approved by the Committee.

(g) The Committee may not increase an Award once granted, although it may grant additional Awards to the same Participant.

(h) The Committee shall keep the Board informed as to its actions and make available to the Board its books and records. Although the Committee has the authority to establish and administer the Plan, the Board reserves the right at any time to abolish the Committee and administer the Plan itself.

(i) In the case of an Award that is intended to qualify as “performance-based compensation” for purposes of Code Section 162(m)(4)(C), the Committee shall establish in writing at the time of making the Award the business criterion or criteria that must be satisfied for payment pursuant to the Award and the amount payable upon satisfaction of those standards. Those standards are also referred to herein as performance goals. Such criterion or criteria shall be established prior to the Participant rendering the services to which they relate and while the outcome is substantially uncertain or at such other time permitted under Treasury Regulations Section 1.162-27(e)(2). In carrying out these duties, the Committee shall use objective written standards for establishing both the performance goal and the amount of compensation such that a third party with knowledge of the relevant facts would be able to determine whether and to what extent the goal has been satisfied and the amount of compensation payable. The Committee shall provide a copy of the document setting forth such standards to the affected Participant and shall retain such written material in its permanent books and records.

(j) In the case of remuneration that is intended to qualify as “performance-based compensation” for purposes of Code Section 162(m)(4)(C), other than Performance Awards granted pursuant to Section 9 of the Plan, the Committee and the Board shall disclose to the stockholders of the Company the material terms under which such remuneration is to be paid under the Plan, and shall seek approval of the stockholders by a majority vote in a separate stockholder vote before payment of such remuneration. For these purposes, the material terms include the individuals (or class of individuals) eligible to receive such compensation, a description of the business criterion or criteria on which the performance goal is based, either the maximum amount of the compensation to be paid thereunder or the formula used to calculate the amount of compensation if the performance goal is attained, and such other terms as required under Code Section 162(m)(4)(C) and the Treasury Regulations thereunder determined from time to time. The foregoing actions shall be undertaken in conformity with the rules of Code Section 162(m)(4)(C)(ii) and Treasury Regulations promulgated thereunder. Such remuneration shall not be payable under this Plan in the absence of such an approving stockholder vote. In the case of remuneration that is not intended to qualify as performance-based compensation under Code Section 162(m)(4)(C), the Committee and the Board shall make such disclosures to and seek such approval from the stockholders of the Company as they reasonably determine are required by law.

(k) To the extent required under Code Section 162(m)(4)(C), before any payment of remuneration under this Plan, the Committee must certify in writing that the performance goals and any other material terms of the Award were in fact satisfied. Such certification shall be kept with the permanent books and records of the Committee, and the Committee shall provide the affected Participant with a copy of such certification.

(l) The Committee shall use its good faith best efforts to comply with the requirements of Section 162(m)(4)(C) of the Code for Awards that are intended to qualify under that section as “performance-based compensation,” but shall have no liability to the Company or any recipient in the event one or more Awards do not so qualify.

4. Duration of and Common Stock Subject to the Plan.

(a) **Term.** The Plan shall become effective as of June 11, 2001, the date of its adoption by the Board, subject to ratification by the stockholders of the Company within twelve (12) months after the effective date. In the event that the stockholders of the Company do not ratify the Plan within twelve (12) months after the effective date, any Awards granted pursuant to the Plan shall be rescinded automatically. Unless sooner terminated by the Board, the Plan shall continue until June 11, 2011, one day prior to the tenth (10th) anniversary of the Plan’s effective date, when it shall terminate and no Awards may be granted under the Plan thereafter. The termination of the Plan shall not affect the Awards that are outstanding on the termination date.

(b) **Shares of Common Stock Subject to the Plan.** The maximum total number of shares of Common Stock with respect to which aggregate stock Awards may be granted under the Plan shall be five million eight hundred eighty-three thousand two hundred seventeen (5,883,217). Notwithstanding the foregoing, the maximum number of shares of Common Stock which may be issued pursuant to Incentive Stock Options under this Plan may not exceed five million eight hundred eighty-three thousand two hundred seventeen (5,883,217).

(i) All of the amounts stated in this Paragraph (b) are subject to adjustment as provided in Section 15 below.

(ii) For the purpose of computing the total number of shares of Common Stock available for Awards under the Plan, there shall be counted against the foregoing limitations the number of shares of Common Stock subject to issuance upon exercise or used for payment or settlement of Awards, subject to clauses (iv), (v) and (vi) of this Paragraph (b).

(iii) If any Awards are forfeited, terminated, expire unexercised, settled or paid in cash in lieu of stock or exchanged for other Awards, the shares of Common Stock which were theretofore subject to such Awards shall again be available for Awards under the Plan to the extent of such forfeiture or expiration of such Awards.

(iv) Each share of Common Stock subject to issuance under any award, other than options or Stock Appreciation Rights, shall be counted against the foregoing limitations as 1.52 shares.

(v) To the extent a Stock Appreciation Right is settled for shares of Common Stock, the number of shares used for determining the benefit under such Stock Appreciation Right, to the extent exercised, shall be counted against the foregoing limitations, regardless of the number of shares used to settle the Stock Appreciation Right upon such exercise.

(vi) To the extent a Stock Option is exercised on a cashless basis, the number of shares of Common Stock issued upon such exercise, plus the number of shares of Common Stock retained by the Company, shall be counted against the foregoing limitations.

(c) **Source of Common Stock.** Common Stock which may be issued under the Plan may be either authorized and unissued stock or issued stock which have been reacquired by the Company. No fractional shares of Common Stock shall be issued under the Plan.

5. Eligibility Incentive Stock Options may only be granted to Employees of the Company or a Subsidiary. Employees, Non-Employee Directors, and Consultants of the Company or a Subsidiary are eligible to receive Non-Qualified Stock Options, Stock Appreciation Rights, Restricted Awards, Performance Awards and other Awards under the Plan.

6. Stock Options Stock options granted under the Plan may be in the form of Incentive Stock Options or Non-Qualified Stock Options (collectively referred to as “Stock Options”). Stock Options shall be subject to the terms and conditions set forth below. Each written Stock Option agreement shall contain such additional terms and conditions, not inconsistent with the express provisions of the Plan, as the Committee shall deem desirable.

(a) **Grant**. Stock Options shall be granted under the Plan on such terms and conditions not inconsistent with the provisions of the Plan and pursuant to written agreements with the Participant in such form as the Committee may from time to time approve in its sole and absolute discretion. The terms of individual Stock Option agreements need not be identical. Each Stock Option agreement shall state specifically whether it is intended to be an Incentive Stock Option agreement or a Non-Qualified Stock Option agreement. Stock Options may be granted alone or in addition to other Awards under the Plan. No person may be granted (in any calendar year) options to purchase more than one-hundred thousand (100,000) shares of Common Stock (subject to adjustment pursuant to Section 15 below). The foregoing sentence is an annual limitation on grants and not a cumulative limitation.

(b) **Exercise Price**. Except as otherwise provided for in Paragraph (f) below, the exercise price per share of Common Stock purchasable under a Stock Option shall be determined by the Committee at the time of grant; provided, however, that the exercise price per share may not be less than one hundred percent (100%) of the Fair Market Value of the Common Stock on the Date of Grant of such Stock Option.

(c) **Option Term**. The term of each Stock Option shall be fixed by the Committee. However, the term of any Stock Option shall not exceed ten (10) years after the Date of Grant of such Stock Option.

(d) **Exercisability**. A Stock Option shall be exercisable at such time or times and subject to such terms and conditions as shall be determined by the Committee at the Date of Grant and set forth in the written Stock Option agreement. A written Stock Option agreement may, if permitted pursuant to its terms, become exercisable in full upon the occurrence of events selected by the Committee that are beyond the control of the Participant (including, but not limited to, a Change in Control).

(e) **Method of Exercise**. A Stock Option may be exercised, in whole or in part, by giving written notice of exercise to the Committee specifying the number of shares of Common Stock to be purchased. Such notice shall be accompanied by payment in full of the exercise price (i) in cash or (ii) if acceptable to the Committee, in shares of Common Stock or a Qualified Note. The Committee may also permit Participants, either on a selective or aggregate basis, to simultaneously exercise Stock Options and sell the shares of Common Stock thereby acquired, pursuant to a brokerage or similar arrangement, approved in advance by the Committee, and use the proceeds from such sale as payment of part or all of the exercise price of such shares; provided, however, that such payment of the exercise price would not cause the Company to recognize compensation expense for financial reporting purposes. The Committee may also permit a cashless exercise, subject to any conditions or limitations that the Committee may establish.

(f) **Special Rules for Incentive Stock Options**. The terms specified below shall be applicable to all Incentive Stock Options. Stock Options which are specifically designated as Non-Qualified Stock Options when issued under the Plan shall not be subject to the terms of this Paragraph.

(i) Ten Percent Stockholder. If any Employee to whom an Incentive Stock Option is granted is a Ten Percent Stockholder, then the exercise price of the Incentive Stock Option shall not be less than one hundred and ten percent (110%) of the Fair Market Value of the Common Stock on the Date of Grant of such Incentive Stock Option, and the term of the Incentive Stock Option shall not exceed five (5) years measured from the Date of Grant of such option.

(ii) Dollar Limitation. In the case of an Incentive Stock Option, the aggregate Fair Market Value of the Optioned Stock (determined as of the Date of Grant of each Stock Option) with respect to Stock Options granted to any Employee under the Plan (or any other option plan of the Company or any Affiliate) that may for the first time become exercisable as Incentive Stock Options during any one calendar year shall not exceed the sum of one hundred thousand dollars ($100,000). To the extent the Employee holds two or more such Stock Options which become exercisable for the first time in the same calendar year, the foregoing limitation on the exercisability of such Stock Options as Incentive Stock Options shall be applied on the basis of the order in which such Stock Options are granted. Any Stock Options in excess of such limitation shall automatically be treated as Non-Qualified Stock Options.

(g) Without the approval of the stockholders of the Company, Stock Options and Stock Appreciation Rights granted under the Plan will not be repriced, replaced or regranted through cancellation, or by lowering the exercise price of a previously granted Award.

7. Stock Appreciation Rights The grant of Stock Appreciation Rights under the Plan shall be subject to the following terms and conditions. Furthermore, the Stock Appreciation Rights shall contain such additional terms and conditions, not inconsistent with the express terms of the Plan, as the Committee shall deem desirable. The terms of each Stock Appreciation Right granted shall be set forth in a written agreement between the Company and the Participant receiving such grant. The terms of such agreements need not be identical.

(a) **Stock Appreciation Rights.** A Stock Appreciation Right is an Award determined by the Committee entitling a Participant to receive an amount equal to the excess of the Fair Market Value of a share of Common Stock on a fixed date, which shall be the date concluding a measuring period set by the Committee upon granting the Stock Appreciation Right, over the Fair Market Value of a share of Common Stock on the Date of Grant of the Stock Appreciation Right, multiplied by the number of shares of Common Stock subject to the Stock Appreciation Right. No Stock Appreciation Rights granted in any calendar year to any person may be measured by an amount of shares of Common Stock in excess of one hundred thousand (100,000) shares, subject to adjustment under Section 15 below. The foregoing sentence is an annual limitation on grants and not a cumulative limitation.

(b) **Grant.** A Stock Appreciation Right may be granted in addition to or completely independent of any other Award under the Plan. Upon grant of a Stock Appreciation Right, the Committee shall select and inform the Participant regarding the number of shares of Common Stock subject to the Stock Appreciation Right and the date that constitutes the close of the measuring period.

(c) **Measuring Period.** A Stock Appreciation Right shall accrue in value from the Date of Grant over a time period established by the Committee. In the written Stock Appreciation Right agreement, the Committee may also provide (but is not required to provide) that a Stock Appreciation Right shall be automatically payable on one or more specified dates prior to the normal end of the measuring period upon the occurrence of events selected by the Committee (including, but not limited to, a Change in Control) that are beyond the control of the Participant. The Committee may provide (but is not required to provide) in the Stock Appreciation Right agreement that in the case of a cash payment such acceleration in payment shall also be subject to discounting of the payment to reasonably reflect the time value of money using any reasonable discount rate selected by the Committee in accordance with Treasury Regulations under Code Section 162(m).

(d) **Form of Payment.** Payment pursuant to a Stock Appreciation Right may be made (i) in cash, (ii) in shares of Common Stock, or (iii) in any combination of the above, as the Committee shall determine in its sole and absolute discretion. The Committee may elect to make this determination either at the time the Stock Appreciation Right is granted, at the time of payment or at any time in between such dates. However, any

Stock Appreciation Right paid upon or subsequent to the occurrence of a Change in Control shall be paid in cash.

8. Restricted Awards Restricted Awards granted under the Plan may be in the form of either Restricted Stock Grants or Restricted Unit Grants. Restricted Awards shall be subject to the following terms and conditions. Furthermore, the Restricted Awards shall be pursuant to a written agreement executed both by the Company and the Participant, which agreement shall contain such additional terms and conditions, not inconsistent with the express provisions of the Plan, as the Committee shall deem desirable in its sole and absolute discretion. The terms of such written agreements need not be identical.

(a) **Restricted Stock Grants.** A Restricted Stock Grant is an Award of shares of Common Stock transferred to a Participant subject to such terms and conditions as the Committee deems appropriate, as set forth in Paragraph (d) below.

(b) **Restricted Unit Grants.** A Restricted Unit Grant is an Award of units (with each unit having a value equivalent to one share of Common Stock) granted to a Participant subject to such terms and conditions as the Committee deems appropriate, including, without limitation, the requirement that the Participant forfeit all or a portion of such units upon termination of Service for specified reasons within a specified period of time, and restrictions on the sale, assignment, transfer or other disposition of such units.

(c) **Grants of Awards.** Restricted Awards may be granted under the Plan in such form and on such terms and conditions as the Committee may from time to time approve. Restricted Awards may be granted alone or in addition to other Awards under the Plan. Subject to the terms of the Plan, the Committee shall determine the number of Restricted Awards to be granted to a Participant and the Committee may impose different terms and conditions (including performance goals) on any particular Restricted Award made to any Participant. Each Participant receiving a Restricted Stock Grant shall be issued a stock certificate in respect of such shares of Common Stock. Such certificate shall be registered in the name of such Participant, shall be accompanied by a stock power duly executed by such Participant, and shall bear an appropriate legend referring to the terms, conditions and restrictions applicable to such Award. The certificate evidencing the shares shall be held in custody by the Company until the restrictions imposed thereon shall have lapsed or been removed. No person may be granted (in any calendar year) Restricted Awards that are intended to constitute "performance-based compensation" within the meaning of Section 162(m)(4)(C) of the Code, totaling or measured by more than one-hundred thousand (100,000) shares of Common Stock (subject to adjustment pursuant to Section 15 below). The foregoing sentence is an annual limitation on grants and not a cumulative limitation.

(d) **Restriction Period.** Restricted Awards shall provide that in order for a Participant to vest in such Awards, the Participant must continuously provide Services, subject to relief for specified reasons, for such period as the Committee may designate at the time of the Award ("Restriction Period"). If the Committee so provides in the written agreement with the Participant, a Restricted Award may also be subject to satisfaction of such performance goals as are set forth in such agreement. During the Restriction Period, a Participant may not sell, assign, transfer, pledge, encumber, or otherwise dispose of shares of Common Stock received under a Restricted Stock Grant. The Committee, in its sole discretion, may provide for the lapse of restrictions during the Restriction Period upon the occurrence of events selected by the Committee that are beyond the control of the Participant (including, but not limited to, a Change in Control). The Committee may provide (but is not required to provide) in the written agreement with the recipient that in the case of a cash payment such acceleration in payment shall also be subject to discounting of the payment to reasonably reflect the time value of money using any reasonable discount rate selected by the Committee in accordance with Treasury Regulations under Code Section 162(m). Upon expiration of the applicable Restriction Period (or lapse of restrictions during the Restriction Period where the restrictions lapse in installments or by action of the Committee), the Participant shall be entitled to receive his or her Restricted Award or portion thereof, as the case may be.

(e) **Payment of Awards.** A Participant who receives a Restricted Stock Grant shall be paid solely by release of the restricted stock at the termination of the Restriction Period (whether in one payment, in installments or otherwise). A Participant shall be entitled to receive payment for a Restricted Unit Grant (or portion thereof) in an amount equal to the aggregate Fair Market Value of the shares of Common Stock covered by such Award upon the expiration of the applicable Restriction Period. Payment in settlement of a Restricted

Unit Grant shall be made as soon as practicable but in no event later than sixty (60) days following the conclusion of the specified Restriction Period (i) in cash, (ii) in shares of Common Stock, or (iii) in any combination of the above, as the Committee shall determine in its sole and absolute discretion. The Committee may elect to make this determination either at the time the Award is granted, at the time of payment or at any time in between such dates.

(f) **Rights as a Stockholder.** A Participant shall have, with respect to the shares of Common Stock received under a Restricted Stock Grant, all of the rights of a stockholder of the Company, including the right to vote the stock, and the right to receive any cash dividends. Such cash dividends shall be withheld, however, until their release upon lapse of the restrictions under the Restricted Award. Stock dividends issued with respect to the shares covered by a Restricted Stock Grant shall be treated as additional shares under the Restricted Stock Grant and shall be subject to the same restrictions and other terms and conditions that apply to shares under the Restricted Stock Grant with respect to which the dividends are issued.

9. Performance Awards Performance Awards granted under the Plan may be in the form of either Performance Share Grants or Performance Unit Grants. Performance Awards shall be subject to the terms and conditions set forth below. Furthermore, the Performance Awards shall be subject to written agreements, which shall contain such additional terms and conditions, not inconsistent with the express provisions of the Plan, as the Committee shall deem desirable in its sole and absolute discretion. Such agreements need not be identical.

(a) **Performance Share Grants.** A Performance Share Grant is an Award of units (with each unit equivalent in value to one share of Common Stock) granted to a Participant subject to such terms and conditions as the Committee deems appropriate, including, without limitation, the requirement that the Participant forfeit such units (or a portion of such units) in the event certain performance criteria are not met within a designated period of time.

(b) **Performance Unit Grants.** A Performance Unit Grant is an Award of units (with each unit representing such monetary amount as designated by the Committee) granted to a Participant subject to such terms and conditions as the Committee deems appropriate, including, without limitation, the requirement that the Participant forfeit such units (or a portion of such units) in the event certain performance criteria are not met within a designated period of time.

(c) **Grants of Awards.** Performance Awards shall be granted under the Plan pursuant to written agreements with the Participant in such form as the Committee may from time to time approve. Performance Awards may be granted alone or in addition to other Awards under the Plan. Subject to the terms of the Plan, the Committee shall determine the number of Performance Awards to be granted to a Participant and the Committee may impose different terms and conditions on any particular Performance Award made to any Participant. No Performance Share Grants granted in any calendar year to any one person may be measured by more than one-hundred thousand (100,000) shares of Common Stock (subject to adjustment pursuant to Section 15 below). The maximum amount payable for any calendar year pursuant to a Performance Unit Grant shall not exceed $4,000,000. The preceding two sentences are annual limitation on grants and a not cumulative limitation.

(d) **Performance Goals and Performance Periods.** Performance Awards shall provide that, in order for a Participant to vest in such Awards, the Company must achieve certain performance goals (“Performance Goals”) over a designated performance period selected by the Committee (“Performance Period”). The Performance Goals and Performance Period shall be established by the Committee, in its sole and absolute discretion. The Committee shall establish Performance Goals for each Performance Period before the commencement of the Performance Period and while the outcome is substantially uncertain or at such other time permitted under Treasury Regulations Section 1.162-27(e)(2). The Committee shall also establish a schedule or schedules for such Performance Period setting forth the portion of the Performance Award which will be earned or forfeited based on the degree of achievement of the Performance Goals actually achieved or exceeded. In setting Performance Goals, the Committee may use any one or more of the following performance criteria, applied to either the Company as a whole or to a business unit, Affiliate, or business segment, either individually, alternatively, or in any combination, and measured either annually or cumulatively over a period of years, on an absolute basis or relative to a pre-established target, to previous years’ results or to a designated comparison group, in each case as specified by the Committee in the

Award: (i) cash flow, (ii) earnings (including gross margin, earnings before interest and taxes, earnings before taxes, and net earnings), (iii) earnings per share, (iv) growth in earnings or earnings per share, (v) stock price, (vi) return on equity or average shareholders' equity, (vii) total shareholder return, (viii) return on capital, (ix) return on assets or net assets, (x) return on investment, (xi) revenue, (xii) income or net income, (xiii) operating income or net operating income, (xiv) operating profit or net operating profit, (xv) operating margin, (xvi) return on operating revenue, (xvii) market share, (xviii) contract awards or backlog, (xix) overhead or other expense reduction, (xx) growth in shareholder value relative to the moving average of the S&P 500 Index or a peer group index, (xxi) credit rating, (xxii) strategic plan development and implementation, (xxiii) improvement in workforce diversity, (xxiv) EBITDA, and (xxv) any other similar criteria.

(e) **Payment of Awards.** In the case of a Performance Share Grant, the Participant shall be entitled to receive payment for each unit earned in an amount equal to the aggregate Fair Market Value of the shares of Common Stock covered by such Award as of the end of the Performance Period. In the case of a Performance Unit Grant, the Participant shall be entitled to receive payment for each unit earned in an amount equal to the dollar value of each unit times the number of units earned. The Committee, pursuant to the written agreement with the Participant, may make such Performance Awards payable in whole or in part upon the occurrence of events selected by the Committee that are beyond the control of the Participant (including, but not limited to, a Change in Control). The Committee may provide (but is not required to provide) in the written agreement with the recipient that, in the case of a cash payment, acceleration in payment of a Performance Award shall also be subject to discounting to reasonably reflect the time value of money using any reasonable discount rate selected by the Committee in accordance with Treasury Regulations under Code Section 162(m). Payment in settlement of a Performance Award shall be made as soon as practicable but in no event later than sixty (60) days following the conclusion of the Performance Period (i) in cash, (ii) in shares of Common Stock, or (iii) in any combination of the above, as the Committee may determine in its sole and absolute discretion. The Committee may elect to make this determination either at the time the Award is granted, at the time of payment, or at any time in between such dates.

10. Other Stock-Based and Combination Awards.

(a) The Committee may grant other Awards under the Plan pursuant to which Common Stock is or may in the future be acquired, or Awards denominated in stock units, including ones valued using measures other than market value. Such other stock-based grants may be granted either alone or in addition to any other type of Award granted under the Plan. To the extent that an Award is intended to constitute "performance-based compensation" within the meaning of Section 162(m)(4)(C) of the Code, such Award shall be subject to Paragraph (d) of Section 9 of the Plan. No stock-based Award granted in any calendar year to any one person, to the extent such Award is intended to satisfy the requirements for "performance-based compensation" under Section 162(m) of the Code, may be denominated by more than one-hundred thousand (100,000) shares of Common Stock.

(b) The Committee may also grant Awards under the Plan in combination with other Awards or in exchange of Awards, or in combination with or as alternatives to grants or rights under any other employee plan of the Company, including the plan of any acquired entity.

(c) Subject to the provisions of the Plan, the Committee shall have authority to determine the individuals to whom and the time or times at which the Awards shall be made, the number of shares of Common Stock to be granted or covered pursuant to such Awards, and any and all other conditions and/or terms of the Awards.

11. Deferral Elections. The Committee may permit a Participant to elect to defer his or her receipt of the payment of cash or the delivery of shares of Common Stock that would otherwise be due to such Participant by virtue of the exercise, earn out or vesting of an Award made under the Plan. If any such election is permitted, the Committee shall establish rules and procedures for such payment deferrals, including the possible (a) payment or crediting of reasonable interest on such deferred amounts credited in cash, and (b) the payment or crediting of dividend equivalents in respect of deferrals credited in units of Common Stock. The Company and the Committee shall not be responsible to any person in the event that the payment deferral does not result in deferral of income for tax purposes. Notwithstanding any part of the foregoing to the contrary, it is the Company's intent that all Awards granted under this Plan, and any payment deferral permitted under this Plan, shall not cause an imposition of the additional taxes provided for in Section 409A(a)(1)(B) of the Code.

12. Dividend Equivalents Awards of Stock Options, Stock Appreciation Rights, Restricted Unit Grants, Performance Share Grants, and other stock-based Awards may, in the sole and absolute discretion of the Committee, earn dividend equivalents. In respect of any such Award which is outstanding on a dividend record date for Common Stock, the Participant may be credited with an amount equal to the amount of cash or stock dividends that would have been paid on the shares of Common Stock covered by such Award had such shares been issued and outstanding on such dividend record date. The Committee shall establish such rules and procedures governing the crediting of dividend equivalents, including the timing, form of payment, and payment contingencies of such dividend equivalents, as it deems appropriate or necessary.

13. Termination of Service The terms and conditions under which an Award may be exercised after a Participant's termination of Service shall be determined by the Committee and reflected in the written agreement with the Participant concerning the Award.

14. Non-Transferability of Awards No Award under the Plan, and no rights or interest therein, shall be assignable or transferable by a Participant except by will or the laws of descent and distribution. Subject to the foregoing, during the lifetime of a Participant, Awards are exercisable only by, and payments in settlement of Awards will be payable only to, the Participant or his or her legal representative if the Participant is Disabled.

15. Adjustments Upon Changes in Capitalization, Etc.

(a) The existence of the Plan and the Awards granted hereunder shall not affect or restrict in any way the right or power of the Board or the stockholders of the Company to make or authorize any adjustment, recapitalization, reorganization or other change in the Company's capital structure or its business, any merger or consolidation of the Company, any issue of bonds, debentures, preferred or prior preference stocks ahead of or affecting the Common Stock or the rights thereof, the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding.

(b) (i) The maximum aggregate total number of shares of Common Stock for which Awards in respect thereof may be granted, the number and kind of Shares covered by each outstanding Award, the maximum number of shares of Common Stock that may be sold or awarded to any Participant, and the price per share (but not the total price) subject to each outstanding Award shall be proportionally adjusted to prevent dilution or enlargement of rights under the Plan for any change in the outstanding Common Stock subject to the Plan, or subject to any Award, resulting from any stock splits, combination or exchange of shares of Common Stock, consolidation, spin-off or recapitalization of shares of Common Stock or any capital adjustment or transaction similar to the foregoing or any distribution to holders of Common Stock other than regular cash dividends. (ii) The Committee shall make such adjustment in such manner as it may deem equitable and appropriate, subject to compliance with applicable laws. Any determination, substitution or adjustment made by the Committee under this Section shall be conclusive and binding on all persons. Except as expressly provided herein, neither the Company's issuance of shares of stock of any class or securities convertible into shares of stock of any class, nor the conversion of any convertible securities of the Company, shall be treated as a transaction requiring any substitution or adjustment under this Section.

(c) The Committee may also make such adjustments in the number of shares covered by, and the price or other value of any outstanding Awards in the event of a spin-off or other distribution (other than normal cash dividends) of Company assets to stockholders.

16. Change in Control.

(a) Except as otherwise provided for in Paragraph (b) below, in the event of a Change in Control, and except as otherwise provided in Award agreements:

(i) All Stock Options and Stock Appreciation Rights then outstanding shall become fully exercisable as of the date of the Change in Control (and shall terminate at such time as specified in the Award agreement);

(ii) All restrictions and conditions of all Restricted Stock Grants and Restricted Unit Grants then outstanding shall be deemed satisfied as of the date of the Change in Control; and

(iii) All Performance Share Grants and Performance Unit Grants shall be deemed to have been fully earned as of the date of the Change in Control.

Any payment in settlement of Stock Appreciation Rights in (i) or Awards discussed in (ii) and (iii) above, shall be made on the date of the Change in Control; provided, however, that if making such payments would result in the imposition of taxes under Code Section 409A, then the payments shall instead be made on the originally schedules date(s) set forth in the Award Agreements.

(b) In the event that any payment under this Plan (alone or in conjunction with other payments) would otherwise constitute an "excess parachute payment" under Section 280G of the Code (in the sole judgment of the Committee), such payment shall be reduced or eliminated to the extent the Committee determines necessary to avoid deduction disallowance under Section 280G of the Code or the imposition of excise tax under Section 4999 of the Code. The Committee may consult with a Participant regarding the application of Section 280G and/or Section 4999 to payments otherwise due to such Participant under the Plan, but the judgment of the Committee as to applicability of those provisions, the degree to which a payment must be reduced to avoid those provisions, and which Awards shall be reduced, is final.

17. Amendment and Termination.

Without further approval of the stockholders, the Board may at any time terminate the Plan, or may amend it from time to time in such respects as the Board may deem advisable. However, the Board may not, without approval of the stockholders, make any amendment which would (a) increase the aggregate number of shares of Common Stock which may be issued under the Plan (except for adjustments pursuant to Section 15 above), (b) materially modify the requirements as to eligibility for participation in the Plan, or (c) materially increase the benefits accruing to Participants under the Plan. Notwithstanding the above, the Board may amend the Plan to take into account changes in applicable securities laws, federal income tax laws and other applicable laws. Further, should the provisions of Rule 16b-3, or any successor rule, under the Exchange Act be amended, the Board may amend the Plan in accordance with any modifications to that rule without the need for stockholder approval. Notwithstanding the foregoing, the Plan may not be amended more than once every six months other than to comply with the changes in the Code.

18. Miscellaneous Matters.

(a) **Tax Withholding.**

(i) The Company's obligation to deliver Common Stock and/or pay any amount under the Plan shall be subject to the satisfaction of all applicable federal, state, local, and foreign tax withholding requirements.

(ii) The Committee may, in its discretion, provide the Participants or their successors with the right to use previously vested Common Stock in satisfaction of all or part of the taxes incurred by such Participants in connection with the Plan; provided, however, that this form of payment shall be limited to the withholding amount calculated using the minimum statutory rates. Such right may be provided to any such holder in either or both of the following formats.

1. Stock Withholding: The election to have the Company withhold, from the Common Stock otherwise issuable under the Plan, a portion of the Common Stock with an aggregate Fair Market Value equal to the taxes calculated using the minimum statutory rates.

2. Stock Delivery: The election to deliver to the Company, at the time the taxes are required to be withheld, one or more shares of Common Stock previously acquired by the Participant or his or her successor with an aggregate Fair Market Value equal to the taxes calculated using the minimum statutory rates.

(b) **Not an Employment or Service Contract.** Neither the adoption of the Plan nor the granting of any Award shall confer upon any Participant any right to continue in the Service of the Company or an Affiliate, as the case may be, nor shall it interfere in any way with the right of the Company or an Affiliate to terminate the Services of any of its Employees, Non-Employee Directors, or Consultants at any time, with or without cause.

(c) **Unfunded Plan.** The Plan shall be unfunded and the Company shall not be required to segregate any assets that may at any time be represented by Awards under the Plan. Any liability of the Company to any person with respect to any Award under the Plan shall be based solely upon any written contractual obligations that may be effected pursuant to the Plan. No such obligation of the Company shall be deemed to be secured by any pledge of, or other encumbrance on, any property of the Company.

(d) **Annulment of Awards.** The grant of any Award under the Plan payable in cash is provisional until cash is paid in settlement thereof. The grant of any Award payable in Common Stock is provisional until the Participant becomes entitled to the certificate in settlement thereof. Payment under any Awards granted pursuant to the Plan is wholly contingent upon stockholder approval of the Plan. Where approval for an Award sought pursuant to Section 162(m)(4)(C)(ii) is not granted by the Company's stockholders, the Award shall be annulled automatically. In the event the Service of a Participant is terminated for cause (as defined below), any Award which is provisional shall be annulled as of the date of such termination for cause. For purposes of the Plan, the term "terminated for cause" means any discharge because of personal dishonesty, willful misconduct, breach of fiduciary duty involving personal profit, continuing intentional or habitual failure to perform stated duties, violation of any law (other than minor traffic violations or similar misdemeanor offenses not involving moral turpitude), or material breach of any provision of an employment or independent contractor agreement with the Company.

(e) **Other Company Benefit and Compensation Programs.** Payments and other benefits received by a Participant under an Award made pursuant to the Plan shall not be deemed a part of a Participant's regular, recurring compensation for purposes of the termination indemnity or severance pay law of any state. Furthermore, such benefits shall not be included in, nor have any effect on, the determination of benefits under any other employee benefit plan or similar arrangement provided by the Company or a Subsidiary unless expressly so provided by such other plan or arrangement, or except where the Committee expressly determines that inclusion of an Award or portion of an Award should be included. Awards under the Plan may be made in combination with or in addition to, or as alternatives to, grants, awards or payments under any other Company or Subsidiary plans. The Company or any Subsidiary may adopt such other compensation programs and additional compensation arrangements (in addition to this Plan) as it deems necessary to attract, retain, and motivate officers, directors, employees or independent contractors for their service with the Company and its Subsidiaries.

(f) **Securities Law Restrictions.** No shares of Common Stock shall be issued under the Plan unless counsel for the Company shall be satisfied that such issuance will be in compliance with applicable federal and state securities laws. Certificates for shares of Common Stock delivered under the Plan may be subject to such stock-transfer orders and other restrictions as the Committee may deem advisable under the rules, regulations, and other requirements of the Securities and Exchange Commission, any stock exchange upon which the Common Stock is then listed, and any applicable federal or state securities law. The Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.

(g) **Award Agreement.** Each Participant receiving an Award under the Plan shall enter into a written agreement with the Company in a form specified by the Committee agreeing to the terms and conditions of the Award and such related matters as the Committee shall, in its sole and absolute discretion, determine.

(h) **Costs of Plan.** The costs and expenses of administering the Plan shall be borne by the Company.

(i) **Governing Law.** The Plan and all actions taken thereunder shall be governed by and construed in accordance with the laws of the State of Delaware.

(j) **Code Section 409A.** Notwithstanding anything in the Plan to the contrary, the Plan and Awards granted hereunder are intended to comply with the requirements of Code Section 409A and shall be interpreted in a manner consistent with such intention. If, upon a Participant's separation from service within the meaning of Code Section 409A, the Participant is then a "specified employee" (as defined in Code Section 409A), the Company shall defer payment of "nonqualified deferred compensation" subject to Code Section 409A payable as a result of and within six (6) months following such separation from service under this Plan and/or applicable Award Agreement until the earlier of (i) ten (10) days after the Company receives notification of the Participant's death, or (ii) the first business day of the seventh month following the Participant's separation from service. Any such delayed payments shall be made without interest.

EXHIBIT 10.88

Specimen Draft
For Use of Counsel Only

DIODES INCORPORATED
DEFERRED COMPENSATION PLAN
EFFECTIVE JANUARY 1, 2007

AS AMENDED AND RESTATED
DECEMBER 22, 2008

Diodes Incorporated Deferred Compensation Plan

Diodes Incorporated Deferred Compensation Plan

Article I
Establishment and Purpose

Diodes Incorporated (the “Company”) hereby adopts the Diodes Incorporated Deferred Compensation Plan (the “Plan”). This Plan is effective for Deferrals and Company Contributions on and after the Plan’s Effective Date.

The purpose of the Plan is to attract and retain key employees by providing each Participant with an opportunity to defer receipt of a portion of their salary, bonus, and other specified compensation. The Plan is not intended to meet the qualification requirements of Code Section 401(a), but is intended to meet the requirements of Code Section 409A. The Plan is intended to be an unfunded arrangement for eligible employees who are part of a select group of management or highly compensated employees of the Company within the meaning of Sections 201(2), 301(a)(3) and 401(a)(1) of ERISA.

Article II
Definitions

2.1 Account. Account means a bookkeeping account maintained by the Plan Administrator to record the Company’s payment obligation to a Participant as determined under the terms of the Plan. The Plan Administrator may maintain an Account to record the total obligation to a Participant and component Accounts to reflect amounts payable at different times and in different forms pursuant to the terms of a Participant’s Deferral Election. Reference to an Account means any such Account established by the Plan Administrator, as the context requires. Accounts are intended to constitute unfunded obligations of the Company within the meaning of Sections 201(2), 301(a)(3) and 401(a)(1) of ERISA.

2.2 Account Balance. Account Balance means, with respect to any Account, the total amount of the Company’s payment obligation from such Account as of the most recent Valuation Date.

2.3 Affiliate. Affiliate means a corporation, trade or business that, together with the Company, is treated as a single employer under Code Section 414(b) or (c).

2.4 Beneficiary. Beneficiary means a natural person, estate, or trust designated by a Participant to receive payments to which a Beneficiary is entitled in accordance with provisions of the Plan. The Participant’s spouse, if living, otherwise the Participant’s estate, shall be the Beneficiary if:

(i) the Participant has not designated a natural person or trust as Beneficiary, or

(ii) all designated Beneficiaries have predeceased the Participant.

A former spouse shall have no interest under the Plan, as Beneficiary or otherwise, unless (i) the Participant designates such person as a Beneficiary after dissolution of the marriage or (ii) such interest is ordered under a domestic relations order described in Section 8.10.

2.5 Business Day. A Business Day is each day on which the New York Stock Exchange is open for business.

2.6 Change in Control. Change in Control occurs on the date on which there is (i) a change in the ownership of the Company, (ii) a change in the effective control of the Company or (iii) a change in the ownership of a substantial portion of the Company’s assets. For purposes of this Section, a change in ownership of the Company occurs on the date on which any one person or more than one person acting as a group acquires ownership of stock of the Company that, together with stock held by such person or group constitutes more than 50% of the total fair market value or total voting power of the stock of the Company. A change in the effective control of the Company occurs on the date on which either (i) a person or more than one person acting as a group acquires ownership of stock of the Company possessing 35% or more of the total voting power of the stock of the Company or (ii) a majority of members of the Company’s Board of Directors is replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of the members of the Company’s Board of Directors prior to the date of the appointment or election. A change in the ownership of a substantial portion of assets occurs on the date on which any one person or more than one person acting as a group acquires assets from the Company that have a total gross fair market value equal to or more than 40% of the total gross fair market value of all of the assets of the Company immediately prior to such acquisition or acquisitions.

Reference to the Company under this Section 2.6 also shall mean Affiliates for whom a Participant is exclusively providing substantially all of the services he is providing at the time of a Change in Control affecting such Affiliate.

The determination as to the occurrence of a Change in Control shall be based on objective facts and in accordance with the requirements of Code Section 409A.

2.7 Claimant. Claimant means a Participant or Beneficiary filing a claim under Article XII of this Plan.

2.8 Code. Code means the Internal Revenue Code of 1986, as amended from time to time.

2.9 Code Section 409A. Code Section 409A means section 409A of the Code, and regulations and other guidance issued by the Treasury Department and Internal Revenue Service thereunder.

2.10 Committee. Committee means the individuals selected by the Compensation Committee of the Board of Directors of the Company or the Chief Executive Officer of the Company to administer the Plan.

2.11 Company. Company means Diodes Incorporated.

2.12 Company Contribution. Company Contribution means a credit by the Company to a Participant's Account(s) in accordance with the provisions of Article VI of the Plan. Company Contributions are credited at the sole discretion of the Company and the fact that a Company Contribution is credited in one year shall not obligate the Company to continue to make such Company Contribution in subsequent years.

2.13 Company Stock. Company Stock means phantom shares of common stock issued by Company.

2.14 Compensation. Compensation means a Participant's base salary, bonus, commission, and such other cash or equity-based compensation (if any) approved by the Committee as Compensation that may be deferred under this Plan. Compensation shall not include any compensation that has been previously deferred under this Plan or any other arrangement subject to Code Section 409A.

2.15 Death Benefit. Death Benefit means payment to a Participant's Beneficiary(ies) of all remaining unpaid Account Balances as provided in Section 8.4 of the Plan.

2.16 Deferral. Deferral means the credits to a Participant's Accounts attributable to deferrals of Compensation described in Treas. Reg. Section 1.409A-1(b)(1) and Earnings on such amounts as provided in Treas. Reg. Section 1.409A-1(b)(2), except where the context of the Plan clearly indicates otherwise.

2.17 Deferral Election. Deferral Election means an agreement between a Participant and the Company specifying any or all of the following: (i) the amount of each component of Compensation subject to the Deferral Election; (ii) the investment allocation described in Section 7.2; and (iii) the Payment Schedule. The Plan Administrator may permit different deferral amounts for each component of Compensation and may establish a minimum or maximum deferral amount for each such component. Unless otherwise specified by the Plan Administrator in the Deferral Election agreement, Participants may defer up to 80% of their base salary and up to 100% of other types of Compensation for a Plan Year.

To the extent permissible under Code Section 409A, the Plan Administrator may reduce a Participant's Deferral Election as necessary to permit sufficient non-deferred Compensation from which the Company may satisfy a Participant's obligations regarding welfare plans and from which to satisfy tax withholding obligations, and/or to conform the Deferral Election and the Plan to applicable law.

2.18 Disability. Disability means that a Participant (i) is unable to engage in any substantial gainful activity by reason of any medically-determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve months, or (ii) is, by reason of any medically-determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve months, receiving income replacement benefits for a period of not less than three months under an accident and health plan covering employees of the Company. The determination of the existence of a

Disability shall be made by the Plan Administrator in accordance with Code Section 409A.

2.19 Disability Benefit. Disability Benefit means a payment by the Company to a Participant of all remaining unpaid Account Balances in a single lump sum in the event of such Participant's Disability.

2.20 Earnings. Earnings means an adjustment to the value of an Account in accordance with Article VII.

2.21 Effective Date. Effective Date means January 1, 2007.

2.22 Eligible Employee. Eligible Employee means a member of a "select group of management or highly compensated employees" of the Company within the meaning of Sections 201(2), 301(a)(3) and 401(a)(1) of ERISA, as determined by the Committee from time to time in its sole discretion.

2.23 Employee. Employee means an employee of the Company.

2.24 ERISA. ERISA means the Employee Retirement Income Security Act of 1974, as amended from time to time.

2.25 Fiscal Year Compensation. Fiscal Year Compensation means Compensation earned during one or more consecutive fiscal years of the Company, all of which is paid after the last day of such fiscal year or years.

2.26 Participant. Participant means an Eligible Employee who has received notification of his or her eligibility to defer Compensation under the Plan under Section 3.1 and any other person with an Account Balance greater than zero, regardless of whether such individual continues to be an Eligible Employee of the Company. A Participant's continued participation in the Plan shall be governed by Section 3.2 and Section 3.3 of the Plan.

2.27 Payment Schedule. Payment Schedule means the date as of which payment under the Plan will commence and the form in which such payment will be made.

(a) ***Retirement Benefit***. Except in the case of a Specified Employee, payment of a Participant's Retirement Benefit will be made (or will commence) on the first business day of the month following the month in which a Participant Retires. Payment will be made in a single lump sum unless the Participant specifies an alternative form of payment in his first Deferral Election (filed prior to earning any Company Contribution or obtaining a legally binding right to Company Contributions to his or her Retirement/Termination Account). A Participant may also specify an alternative form of payment under Section 5.1. Alternative forms of payment include (i) a lump sum payment between 0% and 100% of the Account Balance and (ii) any remaining Account Balance payable in a series of substantially equal annual installments from two to fifteen years. For purposes of

Article V, (i) each lump sum payment and (ii) each series of substantially equal installment payments elected by the Participant will be treated as a single form of payment. If a lump sum equal to less than 100% of the Retirement/Termination Account is paid, the payment commencement date for the installment form of payment will be the first anniversary of the payment of the lump sum.

(b) ***Termination Benefit.*** Except in the case of a Specified Employee, payment of a Participant's Termination Benefit will be made on the first business day of the month following the month in which a Participant incurs a Separation from Service that entitles such Participant to a Termination Benefit. Payment will be made in a single lump sum.

(c) ***Specified Date Payments.*** Payment from a Participant's Specified Date Account will be made (or will commence) as of the first day of the month or year specified under the elections described in Section 4.4, as modified under Section 5.1. Unless a Participant specifies an alternative form of payment under Sections 4.4 and 5.1, payment will be made in a single lump sum. Alternative forms of payment include a series of substantially equal annual installments payable over two to five years. For purposes of Article V, a series of installment payments will be treated as a single form of payment. The time and form of payment upon an earlier Separation from Service, death, Disability is specified in Section 4.4(b).

(d) ***Death Benefit.*** Payment to a Participant's Beneficiary(ies) in the event of death shall be paid in a single lump sum. Payment will be made as of the first day of the first month following the Participant's death.

(e) ***Disability Benefit.*** Payment due to Disability will be made in a single lump sum as of the first day of the first month following the Participant's Disability.

2.28 Performance-Based Compensation. Performance-Based Compensation means Compensation where the amount of, or entitlement to, the Compensation is contingent on the satisfaction of pre-established organizational or individual performance criteria relating to a performance period of at least twelve consecutive months in which the Participant performs services for the Company. Organizational or individual performance criteria are considered pre-established if established in writing by not later than ninety (90) days after the commencement of the period of service to which the criteria relate, provided that the outcome is substantially uncertain at the time the criteria are established. Performance-Based Compensation may include payments based on performance criteria that are not approved by the Board of Directors or by the stockholders of the Company. Performance-Based Compensation does not include any amount or portion of any amount that will be paid either regardless of performance, or based upon a level of performance that is substantially certain to be met at the time the criteria is established. Performance criteria may be subjective but must relate to the performance of the Participant, a group of Employees that includes the Participant or a business unit (which may include the Company) for which the Participant provides services. The determination that any subjective performance criteria have been met shall not be made by the Participant or by a family member of the Participant, or by a person under the supervision of the Participant or a Participant's family members where any amount of the compensation of such person is controlled in whole or in part by the Participant or such family member. Compensation based on Company Stock may constitute Performance-Based Compensation if it is based solely on an increase in the value of such stock after the date of grant or award. The determination of whether Compensation qualifies as "Performance-Based Compensation" will be made in accordance with Treas. Reg. Section 1.409A-1(e) and subsequent guidance.

2.29 Plan. Plan means the "Diodes Incorporated Deferred Compensation Plan" as documented herein and as may be amended from time to time hereafter.

2.30 Plan Administrator. Plan Administrator means the Committee, or such individuals appointed by the Committee, acting pursuant to the powers and authority granted under Section 9.1 of the Plan.

2.31 Plan Year. Plan Year means January 1 through December 31.

2.32 Retire/Retirement. Retire and Retirement means a voluntary Separation from Service on or after the earlier of: (i) attaining age 60 with at least 20 Years of Service, or (ii) attaining age 65.

2.33 Retirement Benefit. Retirement Benefit shall mean a payment from a Participant's Retirement/Termination Account to such Participant due to such Participant's Retirement. Payment of a Retirement Benefit will be made as provided in Section 8.1(a) of the Plan.

2.34 Retirement/Termination Account. Retirement/Termination Account means an Account established by the Plan Administrator to record the amount payable to a Participant due to his or her Separation from Service.

2.35 Separation from Service. An Employee incurs a Separation from Service upon termination of employment with the Company and all Affiliates. The occurrence of a Separation from Service is determined by the Plan Administrator under the facts and circumstances and in accordance with Code Section 409A.

A Participant's absence from work due to military leave, sick leave, or other *bona fide* leave of absence (such as temporary employment by the government) shall not constitute a Separation from Service if the period of such leave does not exceed six months or such longer period as is provided either by statute or by contract. If the period of leave exceeds six months and the Participant's right to reemployment after such extended leave is not provided either by statute or by contract, the Participant shall be deemed to have incurred a Separation from Service on the first day immediately following such six-month period.

An Employee not described under the preceding leave of absence provisions is deemed to have incurred a Separation from Service if he or she provides services to the Company or an Affiliate at an annual rate that is less than 20% of the services rendered, on average, during the immediately preceding three full calendar years of employment (or the actual period of employment, if less than three years).

2.36 Specified Date Account. A Specified Date Account means an Account established pursuant to Section 4.4 that will be paid (or that will commence to be paid) at a future date as specified in the Participant's Deferral Election. Unless otherwise determined by the Plan Administrator, a Participant may maintain no more than five Specified Date Accounts. A Specified Date Account may be identified in enrollment materials as an "In-Service Account".

2.37 Specified Employee. Specified Employee means a "key employee" (as defined in Code Section 416(i) without regard to Code Section 416(i)(5)), at any time during the 12-month period ending on a Specified Employee identification date, of the Company or an Affiliate any stock of which is actively traded on an established securities market or otherwise, or as defined in Treas. Regulation 1.409A-1(i).

The Plan Administrator will identify Specified Employees. The determination of which Employees are Specified Employees will be determined as of the 12-month period ending each December 31, and will become effective on and after the following April 1.

2.38 Substantial Risk of Forfeiture. Substantial Risk of Forfeiture shall have the meaning specified in Treas. Reg. Section 1.409A-1(d).

2.39 Termination Benefit. Termination Benefit means a payment from a Participant's Retirement/Termination Account due to such Participant's Separation from Service other than Retirement or death. Payment of a Termination Benefit will be paid as provided in Section 8.1(b).

2.40 Unforeseeable Emergency. An Unforeseeable Emergency is a severe financial hardship of the Participant or Beneficiary resulting from an illness or accident of the Participant or Beneficiary, the Participant's or Beneficiary's spouse, or the Participant's or Beneficiary's dependent (as defined in Code section 152, without regard to Code Section 152 (b)(1), (b)(2) and (d)(1)(B)); loss of the Participant's or Beneficiary's property due to casualty (including the need to rebuild a home following damage to a home not otherwise covered by insurance, for example, as a result of a natural disaster); or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant or Beneficiary. For example, the imminent foreclosure of or eviction from the Participant's or Beneficiary's primary residence may constitute an Unforeseeable Emergency. In addition, the need to pay for medical expenses, including non-refundable deductibles, as well as for the costs of prescription drug medication, may constitute an Unforeseeable Emergency. Finally, the need to pay for the funeral expenses of a spouse or a dependent (as defined in Code section 152, without regard to Code Section 152 (b)(1), (b)(2) and (d)(1)(B)) may also constitute an Unforeseeable Emergency. Except as otherwise provided in this section, the purchase of a home and the payment of college tuition are not Unforeseeable Emergencies. Whether a Participant or Beneficiary is faced with an Unforeseeable Emergency permitting a distribution under section 8.5 of the Plan is to be determined by the Plan Administrator based on the relevant facts and circumstances of each case, but, in any case, a distribution on account of Unforeseeable Emergency may not be made to the extent that such emergency is or may be reimbursed through insurance or otherwise, by liquidation of the Participant's assets, to the extent the liquidation of such assets would not cause severe financial hardship, or by cessation of Deferrals under this Plan.

2.41 Valuation Date. Valuation Date shall mean each Business Day.

2.42 Year of Service. A Year of Service shall mean each 12-month period of continuous service with the Company.

Article III
Eligibility and Participation

3.1 Eligibility and Participation. An Eligible Employee becomes eligible to file a Deferral Election upon receipt of notification of eligibility from the Plan Administrator. Such Eligible Employee becomes a Participant upon the earlier to occur of (i) a credit of Company Contributions under Article VI or (ii) filing his or her initial Deferral Election in accordance with Article IV.

3.2 Duration. A Participant shall be eligible to defer Compensation and receive allocations of Company Contributions, subject to the terms of the Plan, for as long as such Participant is an Eligible Employee. A Participant who is no longer an Eligible Employee but continues to be employed by the Company may not defer Compensation under the Plan but may otherwise exercise all of the rights of a Participant under the Plan with respect to his or her Account(s). On and after a Separation from Service, a Participant shall remain a Participant as long as his or her Account Balance is greater than zero and during such time may continue to make allocation elections as provided in Section 7.2. An individual shall cease being a Participant in the Plan when all benefits under the Plan to which he or she is entitled have been paid.

3.3 Revocation of Future Participation. Notwithstanding the provisions of Section 3.2, the Committee may, in its discretion, revoke a Participant's eligibility to make future Deferrals under this Plan. Such revocation will not affect in any manner a Participant's Account Balance or other terms of this Plan.

Article IV
Deferral Elections

4.1 Deferral Elections, Generally.

(a) An Eligible Employee shall submit a Deferral Election during the enrollment periods established by the Plan Administrator and in the manner specified by the Plan Administrator, but in any event, in accordance with Section 4.2. A Deferral Election that is not timely filed with respect to a service period or component of Compensation shall be considered void and shall have no effect with respect to such service period or Compensation.

(b) Each Deferral Election will specify the amount of Deferrals and the allocation of Deferrals to the Participant's Accounts. A Participant may specify in his or her initial Deferral Election the Payment Schedule for the Retirement/Termination Account. A Participant may specify in the Deferral Election that establishes a Specified Date Account the Payment Schedule for such Account in the manner set forth in Section 4.4. If the time and form is not specified in a Deferral Election, the time and form of payment shall be the time and form specified in Section 2.27.

4.2 Timing Requirements for Deferral Elections.

(a) *First Year of Eligibility***.** Upon notification of his or her eligible status under Section 3.1, and subject to this paragraph (a), an Eligible Employee has up to 30 days to submit a Deferral Election with respect to Compensation paid for services to be performed after the election during such year. The Deferral Election described in this paragraph becomes irrevocable on the first day following such 30th day. An Eligible Employee may file a Deferral Election under this Section 4.2(a) only if he or she does not participate in any other "account balance plan" as defined in Treas. Reg. Section 1.409A-1(c)(2)(i)(A) maintained by the Company or an Affiliate, other than as permitted in Treas. Reg. Section 1.409A-1(c)(2)(ii).

A Deferral Election filed under this Section 4.2(a) applies to Compensation paid for services to be performed after the deferral Election is made. For Compensation that is earned based upon a specified performance period (e.g. over a calendar year or fiscal year), where a Deferral Election is made in the first year of eligibility but after the beginning of the service period, unless the Compensation may be timely deferred under this Section 4.2(c), (e), or (g), the election will be deemed to apply to Compensation paid for services performed subsequent to the election if the election applies to the portion of the Compensation equal to the total amount of the Compensation for the service period multiplied by the ratio of the number of days remaining in the performance period after the Deferral Election becomes irrevocable over the total number of days in the performance period.

(b) *Prior Year Deferrals***.** Participants may defer Compensation by filing a Deferral Election no later than December 31 of the year prior to the year in which such Compensation is earned. A Deferral Election described in this paragraph shall become irrevocable with respect to such Compensation as of January 1 of the year in which such Compensation is earned.

(c) *Performance-Based Compensation.* A Deferral Election may be filed with respect to Performance-Based Compensation, provided that:

(i) the Participant performs services continuously from a date no later than the date upon which the performance criteria for such Performance-Based Compensation are established through a date no earlier than the date upon which the Participant submits a Deferral Election;

(ii) the Deferral Election is submitted no later than the date that is six months before the end of the performance period during which such Performance-Based Compensation is earned; and

(iii) in no event may an election to defer Performance-Based Compensation be made after such Performance-Based Compensation has become substantially certain to be paid or readily ascertainable.

A Deferral Election becomes irrevocable with respect to Performance-Based Compensation as of the day immediately following the date described in paragraph (c)(ii).

(d) *Commissions.* For purposes of determining Compensation that may be deferred under Sections 4.2(a) or (b), commissions are considered to be earned in the year a customer remits payment to the Company or an Affiliate.

(e) *Deferral Election with Respect to Fiscal Year Compensation.* A Participant may defer Fiscal Year Compensation by filing a Deferral Election prior to the first day of the fiscal year or years in which such Fiscal Year Compensation is earned. The Deferral Election described in this paragraph becomes irrevocable on the first day of the fiscal year or years to which it applies.

(f) *Short-Term Deferrals.* Compensation that meets the definition of a "short-term deferral" described in Treas. Reg. Section 1.409A-1(b)(4) may be deferred under a Deferral Election filed not later than twelve months prior to the date on which the Substantial Risk of Forfeiture lapses. The Payment Schedule for such Deferral must specify a commencement date no earlier than five years after the forfeiture restriction lapses.

(g) *Deferral Election With Respect to Certain Forfeitable Rights.* With respect to a legally binding right to a payment in a subsequent year that is subject to a forfeiture condition requiring the Participant's continued services for a period of at least twelve months from the date the Participant obtains the legally binding right, an election to defer such Compensation may be made on or before the 30th day after the Participant obtains the legally binding right to the Compensation, provided that the election is made at least twelve months in advance of the earliest date at which the forfeiture condition could lapse. The Deferral Election described in this paragraph becomes irrevocable after such 30th day.

4.3 "Evergreen" Deferral Elections. The Plan Administrator, in its discretion, may provide in the Deferral Election that such Deferral Election will continue in effect for each subsequent year or performance period. Such "evergreen" Deferral Elections will become effective with respect to an item of Compensation on the date such election becomes irrevocable under Section 4.2. An evergreen Deferral Election may be terminated or modified prospectively with respect to Compensation for which such election remains revocable under Section 4.2. A Participant whose Deferral Election is suspended due to an Unforeseeable Emergency will be required to file a new Deferral Election under this Article IV in order to continue making Deferrals under the Plan.

4.4 Specified Date Elections. A Participant's Deferral Election may establish a Specified Date Account by specifying the Payment Schedule for Deferrals and Earnings credited to such Account.

(a) ***Allocation of Deferrals.*** A Deferral Election may allocate Deferrals to one or more Specified Date Accounts. The Plan Administrator may, in its discretion, establish a minimum deferral period (for example, the third Plan Year following the year Compensation subject to the Deferral Election is earned).

(b) ***Effect of Earlier Separation from Service, Death, Disability.*** In the event of a Separation from Service, death, or Disability, the unpaid balance of a Specified Date Account will be paid in accordance with the Payment Schedule for the earlier event. Notwithstanding the foregoing, the Plan Administrator may allow a Participant to elect not to receive payment upon Separation from Service, but to receive the Specified Date Accounts as of the specified date. Such election must be made (i) on the Deferral Election form that establishes a Specified Date Account or (ii) in a subsequent election under Article V. Such election, once made, is irrevocable as to such Account.

4.5 Deductions from Pay. The Plan Administrator has the authority to determine the payroll practices under which any component of Compensation subject to a Deferral Election will be deducted from a Participant's Compensation.

Article V
Modifications to Payment Schedules

5.1 Participant's Right to Modify. Subject to Section 5.2, a Participant may modify the Payment Schedule with respect to an Account, provided such modification complies with the requirements of Sections 5.1(a) and (b).

(a) ***Time of Election.*** The date on which a modification election is submitted to the Plan Administrator must be at least twelve months prior to the date on which payment commences under the Payment Schedule in effect prior to modification, and the date payments commence under the modified Payment Schedule must occur no earlier than five years after the date payment would have commenced under the Payment Schedule in effect prior to the effective date of the modification election. Under no circumstances may a modification election result in an acceleration of payments in violation of Code Section 409A.

(b) ***Effective Date***. A modification election described in Section 5.1(a) is irrevocable upon receipt by the Plan Administrator and becomes effective on the date that is twelve months after the date the modification is filed with the Plan Administrator

(c) ***Effect on Accounts.*** An election to modify a Payment Schedule is specific to the Specified Date or Retirement/Termination Account to which it applies, and shall not be construed to affect the Payment Schedules of any other Accounts.

(d) ***Effect of Modification Election Upon Death or Disability.*** A modification to the form of payment from any Account that would also change the form of payment upon the Participant's death or Disability will be effective at the time specified in Section 5.1(b) above. Payment will be made in accordance with Section 2.27, without regard to the five-year requirement specified in Section 5.1(a).

5.2 Modifications Authorized Under Notice 2007-86. Notwithstanding any provision of this Plan to the contrary, during calendar year 2008, a Participant may modify a Payment Schedule of any Account without regard to the requirements of Section 5.1(a) and (b); provided, however, that any modification election purporting to modify an Account with a Payment Schedule commencing during 2008 or which would cause the commencement date of the Payment Schedule for an Account to be accelerated into 2008 shall be null and void to the extent such election is inconsistent with the requirements of Code Section 409A and regulations. The Plan Administrator has the authority to prescribe the time and manner under which such modifications may be made; provided, however, the modifications permitted under this Section 5.3 must be consummated on or before December 31. 2008.

Article VI
Company Contributions

6.1 Discretionary Company Contributions. The Company may, from time to time in its sole and absolute discretion, credit Company Contributions to any Participant in any amount determined by the Company. Such contributions will be credited to a Participant's Retirement/Termination Account.

6.2 Vesting. Company Contributions described in Section 6.1, above, and the Earnings thereon, shall vest in accordance with the vesting schedule(s) established by the Committee at the time that the Company Contribution is made. All Company Contributions shall become 100% vested upon the occurrence of the earliest of: (i) the death of the Participant; (ii) the Disability of the Participant, (iii) Retirement of the Participant, or (iv) a Change in Control. The Company may, at any time, in its sole discretion, increase a Participant's vested interest in a Company Contribution. The portion of a Participant's Accounts that remains unvested upon his or her Separation from Service after the application of the terms of this Section 6.2 shall be forfeited.

Article VII
Valuation of Account Balances; Investments

7.1 Valuation. Deferrals shall be credited to appropriate Accounts on the date such Compensation would have been paid to the Participant absent the Deferral Election. Company Contributions shall be credited in accordance with the provisions of Article VI, as determined by the Plan Administrator. Valuation of Accounts shall be performed under procedures approved by the Plan Administrator.

7.2 Earnings Credit. Each Account will be credited with Earnings on each Business Day, based upon the Participant's investment allocation among a menu of investment options selected in advance by the Plan Administrator, in accordance with the provisions of this Section 7.2 ("investment allocation").

(a) ***Investment Options.*** Investment options will consist of actual investments, which may include stocks, bonds, mutual fund shares, Company Stock and other investments. The Committee, in its sole discretion, shall be permitted to add or remove investment funds from the Plan menu from time to time provided that any such additions or removals of investment funds shall not be effective with respect to any period prior to the effective date of such change.

(b) ***Investment Allocations.*** A Participant's investment allocation constitutes a deemed, not actual, investment among the investment options comprising the investment menu. At no time shall a Participant have any real or beneficial ownership in any investment option included in the investment menu, nor shall the Company or any trustee acting on its behalf have any obligation to purchase actual securities as a result of a Participant's investment allocation. A Participant's investment allocation shall be used solely for purposes of adjusting the value of a Participant's Account Balances.

A Participant's Deferral Election shall specify the investment allocation for Deferrals. Deferrals may be allocated among the investment options in increments of 1%. The Participant's investment allocation will become effective on the same Business Day or, in the case of investment allocations received after a time specified by the Plan Administrator, the next Business Day. The investment allocation specified in such Deferral Election will remain in effect until the Participant modifies the investment allocation in accordance with procedures adopted by the Plan Administrator.

Participants also may re-allocate current Account Balances among the investment options in increments of 1% by filing a new investment allocation at the time and in the form specified by the Plan Administrator. The Participant's investment allocation will become effective on the same Business Day or, in the case of investment allocations received after a time specified by the Plan Administrator, the next Business Day. The investment allocation shall apply prospectively to the Account or Accounts identified in the allocation.

(c) ***Unallocated Deferrals and Accounts.*** If any portion of a Deferral or Account Balance has not been allocated to an investment option, such portion shall be invested in an investment option, the primary objective of which is the preservation of capital, as determined by the Committee.

(d) ***Company Stock.*** The Committee may include Company Stock as one of the investment options described in Section 7.2(a). The Committee may, in its sole discretion, limit the investment allocation of Company Contributions to Company Stock. The Committee may also require Deferrals consisting of equity-based Compensation be allocated to Company Stock.

(1) Diversification. A Participant may not re-allocate an investment in Company Stock into another investment option. The portion of an Account that is invested in Company Stock will be paid under Article VIII in the form of whole shares of Company Stock.

(2) Effect on Installment Payments. If an Account is to be paid in installments, the Plan Administrator will determine the portion of each payment that will be paid in the form of Company Stock.

(3) Dividend Equivalents. Dividend equivalents with respect to Company Stock will be credited to the applicable Accounts in the form of additional shares or units of Company Stock.

Article VIII
Distribution and Withdrawals

8.1 Separation Payments. Payments will be made to a Participant upon a Separation from Service as follows:

(a) ***Retirement Benefit.*** A Retirement Benefit will be paid to Participants who incur a Separation from Service that qualifies as a Retirement. The amount of the Retirement Benefit payment will be based on the vested Retirement/Termination Account Balance and will be paid in accordance with the Payment Schedule in effect for such benefit and the provisions of Section 8.7.

(b) ***Termination Benefit.*** In the event that a Participant experiences a Separation from Service that does not qualify as a Retirement, the Termination Benefit will be paid to such Participant. The amount of the Termination Benefit will be based on the vested Retirement/Termination Account Balance and will be paid in accordance with the Payment Schedule in effect for the Termination Benefit and the provisions of Section 8.7.

(c) ***Specified Employees.*** If, upon a Participant's Separation from Service, the Participant is then a "specified employee" (as defined in Code Section 409A), then to the extent necessary to comply with Code Section 409A and avoid the imposition of taxes under Code Section 409A, the commencement date of a Payment Schedule shall be delayed until the earlier of (i) ten (10) days after the Plan Administrator receives notification of the Participant's death or (ii) the first business day of the seventh month following the Participant's Separation from Service. Any such delayed payment(s) shall be made without interest. Any subsequent installment payment s shall be paid on the dates(s) specified in the Participant's Payment Schedule.

8.2 Specified Date Accounts. Subject to Section 4.4(b), the vested Account Balance of each Specified Date Account will be paid in accordance with the Payment Schedule in effect for such Account and the provisions of Section 8.7.

8.3 Disability Benefit. Upon the Plan Administrator's determination that a Participant is Disabled, the Company shall pay all unpaid Account Balances as a Disability Benefit in accordance with the Disability Benefit Payment Schedule and the provisions of Section 8.7.

8.4 Death Benefit. In the event of the Participant's death prior to receiving all payments from his or her Accounts, the Participant's remaining Account Balances will be paid to the Participant's Beneficiaries in accordance with the Death Benefit Payment Schedule and the provisions of Section 8.7.

8.5 Unforeseeable Emergency. A Participant may submit a written request to the Plan Administrator to receive a distribution from his or her vested Account Balance(s) if the Participant experiences an Unforeseeable Emergency. Distributions of amounts in the event of an Unforeseeable Emergency are limited to the extent reasonably needed to satisfy the emergency need which cannot be met from other sources. The amount of such distribution shall be subtracted first from the vested portion of the Participant's Retirement/Termination Account until depleted and then from the vested Specified Date Accounts, beginning with the Specified Date Account with the latest payment commencement date. For purposes of the preceding sentence, any minimum deferral requirement specified in the Plan or Section 5.1 shall not apply.

8.6 Change in Control. A Participant who incurs a Separation from Service within twenty four (24) months following the date of a Change in Control shall receive payment of his or her vested Accounts in a single lump sum. Payment will be made as of the later of the date specified for a Termination Benefit under Section 2.27 or the date applicable to Specified Employees under Section 8.1(c).

8.7 Valuation and Payment. Payment amounts will be based on the valuation of the applicable Account Balance as of the Valuation Date specified by the Plan Administrator in its discretion.

Payment is treated as made upon the payment commencement date under the applicable Payment Schedule if the payment is made on or after such date in the same calendar year or, if later, by the 15^{th} day of the third calendar month following the date specified under the arrangement. If a calculation of the amount of the payment is not administratively practical due to events beyond the control of the Participant, a Beneficiary or the Participant's estate, the payment will be treated as made upon the date specified under the Payment Schedule if the payment is made during the first calendar year in which the payment becomes administratively practicable.

8.8 Installments; Declining Balance Calculation. If a Payment Schedule specifies installment payments, annual payments will be made beginning as of the payment commencement date for such installments and shall continue on each anniversary thereof until the number of installment payments specified in the Payment Schedule has been paid. The amount of each installment payment shall be determined by dividing (a) by (b):

(a) equals the Account Balance as of the Valuation Date and

(b) equals the remaining number of installment payments.

8.9 "De Minimis Account" Balance. Any provision in this Plan to the contrary notwithstanding, payment to a Participant or Beneficiary will be made in a single lump sum, provided (i) the payment results in the termination and liquidation of the entirety of the Participant's interest under the Plan, including all similar arrangements, methods, programs or other arrangements with respect to which deferrals of compensation are treated as having been deferred under a single nonqualified deferred compensation plan under Treas. Reg. Section 1.409A-1(c)(2), and (ii) the payment is not greater than the applicable dollar amount under Code Section 402(g)(1)(B).

8.10 Domestic Relations Order. Notwithstanding any benefit, Payment Schedule or other provision of this Plan regarding the time and form of payment, the Plan Administrator may pay all or a portion of a Participant's Accounts to an "alternate payee" as specified under the terms of a domestic relations order (defined in Code Section 414(p)(1)(B)). If a time or form of payment is not specified in such order, payment will be made to such alternate payee(s) in a single lump sum as soon as is administratively practical following the Plan Administrator's determination that the order meets the requirements of this Section 8.10.

8.11 Payments to Avoid Nonallocation Year Under Section 409(p). Notwithstanding any benefit, Payment Schedule or other provision of this Plan regarding the time and form of payment, payment will be made to prevent the occurrence of a nonallocation year (within the meaning of Section 409(p)(3) of the Code in the plan year of an employee stock ownership plan next following the current plan year, provided that the amount paid may not exceed 125 percent of the minimum amount of payment necessary to avoid the occurrence of a nonallocation year).

8.12 Payment of Employment Taxes. The Plan Administrator may permit payment of (i) Federal Insurance Contributions Act (FICA) tax imposed on Deferrals and Company Contributions (ii) any related federal, state, local and foreign tax law withholding obligations arising in connection with payment of the FICA Amount (as defined under Treasury regulations), and (iii) to pay the additional income tax at the source on wages attributable to the pyramiding of wages and taxes as a result of payments under (i) and (ii). The total amount of the payment under this Section shall not exceed the FICA Amount and the income tax withholding related to the FICA Amount.

8.13 Conflicts of Interest. The Plan Administrator may permit such acceleration of the time or schedule of a payment under the Plan, or a payment may be made under the Plan (i) to the extent necessary for any Federal officer or employee in the executive branch to comply with an ethics agreement with the Federal government, or (ii) to the extent necessary to avoid the violation of an applicable Federal, state, local or foreign ethics law or conflicts of interest law (including where such payment is reasonably necessary to permit the service provider to participate in activities in the normal course of his or her position in which the service provider would otherwise not be able to participate under an applicable rule).

8.14 Permissible Payment Delays. The Company will delay any payment to a Participant upon the Company's reasonable anticipation of one or more of the following:

(a) The Company's income tax deduction with respect to such payment would be limited or eliminated by application of Code Section 162(m); provided that such payment will be made either at the earliest date on which the Company reasonably anticipates that the deduction will not be so limited or eliminated or the calendar year in which the Participant incurs a Separation from Service; or

(b) Making such payment would violate federal securities laws or other applicable law; provided that payment will be made at the earliest date which the Company anticipates that the making of the payment will not cause such violation, and subject to such other requirements as are specified under Code Section 409A.

Article IX
Administration

9.1 Plan Administration. This Plan shall be administered by the Plan Administrator which shall have discretionary authority to make, amend, interpret and enforce all appropriate rules and regulations for the administration of this Plan and to utilize its discretion to decide or resolve any and all questions, including but not limited to eligibility for benefits and interpretations of this Plan and its terms, as may arise in connection with the Plan. Claims for benefits shall be filed with the Plan Administrator and resolved in accordance with the claims procedures in Article XII.

9.2 Administration Upon Change in Control. Upon a Change in Control, the Committee, as constituted immediately prior to such Change in Control, shall continue to act as the Plan Administrator. The individual who was the Chief Executive Officer of the Company (or if such person is unable or unwilling to act, the next highest ranking officer) prior to the Change in Control shall have the authority (but shall not be obligated) to appoint an independent third party to act as the Plan Administrator in lieu of the Committee.

Upon such Change in Control, the Company may not remove the Plan Administrator, unless 2/3rds of the members of the Board of Directors of the Company and a majority of Participants and Beneficiaries with Account Balances consent to the removal and replacement Plan Administrator. Notwithstanding the foregoing, neither the Committee members nor the officer described above shall have authority to direct investment of trust assets under any rabbi trust described in Section 11.2.

The Company shall, with respect to the Plan Administrator identified under this Section, (i) pay all reasonable expenses and fees of the Plan Administrator, (ii) indemnify the Plan Administrator (including individual Committee members) against any costs, expenses and liabilities including, without limitation, attorneys' fees and expenses arising in connection with the performance of the Plan Administrator hereunder, except with respect to matters resulting from the Plan Administrator's gross negligence or willful misconduct and (iii) supply full and timely information to the Plan Administrator on all matters related to the Plan, any rabbi trust, Participants, Beneficiaries and Accounts as the Plan Administrator may reasonably require.

9.3 Withholding. The Company shall have the right to withhold from any payment due under the Plan (or any amount deferred into the Plan) any taxes required by law to be withheld in respect of such payment (or Deferral).

9.4 Indemnification. The Company shall indemnify and hold harmless each employee, officer, director, agent or organization, to whom or to which it delegated duties, responsibilities, and authority under the Plan or otherwise with respect to administration of the Plan, including, without limitation, the Plan Administrator, the Committee and their agents, against all claims, liabilities, fines and penalties, and all expenses reasonably incurred by or imposed upon him or it (including but not limited to reasonable attorney fees) which arise as a result of his or its actions or failure to act in connection with the operation and administration of the Plan to the extent lawfully allowable and to the extent that such claim, liability, fine, penalty, or expense is not paid for by liability insurance purchased or paid for by the Company. Notwithstanding the foregoing, the Company shall not indemnify any person or organization if his or its actions or failure to act are due to gross negligence or willful misconduct or for any such amount incurred through any settlement or compromise of any action unless the Company consents in writing to such settlement or compromise.

9.5 Delegation of Authority. In the administration of this Plan, the Plan Administrator may, from time to time, employ agents and delegate to them such administrative duties as it sees fit, and may from time to time consult with legal counsel who shall be legal counsel to the Company.

9.6 Binding Decisions or Actions. The decision or action of the Plan Administrator in respect of any question arising out of or in connection with the administration, interpretation and application of the Plan and the rules and regulations thereunder shall be final and conclusive and binding upon all persons having any interest in the Plan.

Article X
Amendment and Termination

10.1 Amendment and Termination. The Company may at any time and from time to time amend the Plan or may terminate the Plan as provided in this Section 10.1.

(a) ***Amendments.*** The Company, by action taken by its Board of Directors, may amend or restate the Plan at any time, provided that any such amendment or restatement shall not reduce the vested Account Balances of any Participant accrued as of the date of any such amendment or restatement (as if the Participant had incurred a voluntary Separation from Service on such date) or reduce any rights of a Participant under the Plan or other Plan features with respect to Deferrals made prior to the date of any such amendment or restatement without the consent of the Participant. The Board of Directors may delegate to the Plan Administrator the authority to amend the Plan without the consent of the Board of Directors for the purpose of (i) conforming the Plan to the requirements of law, (ii) to facilitate administration, (iii) to clarify provisions based on the Plan Administrator's interpretation of the document and (iv) to make such other amendments as the Board of Directors may authorize.

(b) ***Termination.*** The Company, by action taken by its Board of Directors , may terminate the Plan and pay Participants and Beneficiaries their Account Balances in a single lump sum at any time under the following conditions:

(1) Company's Discretion. The Company may terminate the Plan in its discretion, provided that (i) the termination and liquidation does not occur proximate to a downturn in the financial health of the Company; (ii) the Company terminates and liquidates all agreements, methods, programs and other arrangements sponsored by the Company that would be aggregated with any terminated and liquidated agreements, methods, programs and other arrangements under Treas. Reg. Section 1.409A-1(c) if the same Participant had deferrals of compensation under all of the agreements, methods, programs and other arrangements that are terminated and liquidated; (iii) no payments in liquidation of the Plan are

made within 12 months of the date the Company takes all necessary action to irrevocably terminate and liquidate the Plan other than payments that would be payable under the terms of the Plan if the action to terminate and liquidate the Plan had not occurred; (iv) all payments are made within 24 months of the date the Company takes all necessary action to irrevocably terminate and liquidate the Plan; and (v) the Company does not adopt a new plan that would be aggregated with any terminated and liquidated plan under Treas. Reg. Section l.409A-1(c) if the same Participant participated in both plans, at any time within three (3) years following the date the Company takes all necessary action to irrevocably terminate and liquidate the Plan.

(2) Change in Control. The Company may terminate the Plan within the thirty (30) days preceding or the twelve months following a Change in Control (as defined in Treas. Reg. Section 1.409A-3(i)(5)). For purposes of this paragraph, a Change in Control shall be defined as provided in Treas. Reg. Section 1.409A-3(i)(5). The Plan is considered terminated under this paragraph only if all substantially similar arrangements are terminated, and all participants under such arrangements are required to receive all amounts of compensation deferred under the terminated arrangements within twelve months of the termination of such arrangements.

(3) Dissolution; Bankruptcy Court Order. The Company may terminate the Plan within 12 months of a corporate dissolution taxed under Code Section 331, or with the approval of a bankruptcy court pursuant to 11 U.S.C. Section 503(b)(1)(A), provided that the vested Account Balances are included in Participants' gross incomes in the latest of (i) the calendar year in which the Plan terminates; (ii) the calendar year in which the amount is no longer subject to a substantial risk of forfeiture, or (iii) the first calendar year in which the payment is administratively practicable.

10.2 Accounts Taxable Under Code Section 409A. The Plan is intended to constitute a plan of deferred compensation that meets the requirements for deferral of income taxation under Code Section 409A. The Plan Administrator, pursuant to its authority to interpret the Plan, may sever from the Plan or any Deferral Election any provision or exercise of a right that otherwise would result in a violation of Code Section 409A. If, after application of the preceding sentence, the Plan Administrator determines that a Participant's Accounts are taxable or if such Participant receives a notice of deficiency from the Internal Revenue Service due to a violation of Code Section 409A, such Participant will receive payment from his or her Accounts in a single lump sum. The amount of the payment shall not exceed the lesser of (i) the Participant's Account Balance or (ii) an amount equal to the amount of income included in taxable income as a result of such violation. Payment under this Section 10.2 shall be applied against the Participant's Accounts and shall constitute fulfillment of the Company's payment obligation to such Participant under the Plan to the extent of any such payments.

Article XI
Informal Funding

11.1 General Assets. Obligations established under the terms of the Plan may be satisfied from the general funds of the Company, an Affiliate, or a trust described in Section 11.2. No Participant, spouse or Beneficiary shall have any right, title or interest whatever in assets of the Company or an Affiliate. Nothing contained in this Plan, and no action taken pursuant to its provisions, shall create or be construed to create a trust of any kind, or a fiduciary relationship, between the Company or its Affiliates and any Employee, spouse, or Beneficiary. To the extent that any person acquires a right to receive payments from the Company hereunder, such rights are no greater than the right of an unsecured general creditor of the Company.

11.2 Rabbi Trust. The Company or an Affiliate may, at its sole discretion, establish a grantor trust, commonly known as a rabbi trust, as a vehicle for accumulating assets to pay benefits under the Plan. Payments under the Plan may be paid from the general assets of the Company or from the assets of any such rabbi trust. Payment from any such source shall reduce the Company's obligation to the Participant or Beneficiary under the Plan.

If a rabbi trust is in existence upon the occurrence of a "change in control", as defined in such trust, the Company shall, upon such change in control, and on each anniversary of the change in control, contribute in cash or liquid securities such amounts as are necessary so that the value of rabbi trust assets immediately after making the contributions equals or exceeds 125 percent of the total value of all Account Balances.

Article XII
Claims

12.1 Filing a Claim. Any controversy or claim arising out of or relating to the Plan shall be filed in writing with the Plan Administrator which shall make all determinations concerning such claim. Any claim filed with the Plan Administrator and any decision by the Plan Administrator denying such claim shall be in writing and shall be delivered to the Participant or Beneficiary filing the claim (the "Claimant").

12.2 In General. Notice of a denial of benefits (other than Disability benefits) will be provided within ninety (90) days of the Plan Administrator's receipt of the Claimant's claim for benefits. If the Plan Administrator determines that it needs additional time to review the claim, the Plan Administrator will provide the Claimant with a notice of the extension before the end of the initial ninety (90) day period. The extension will not be more than ninety (90) days from the end of the initial ninety (90) day period and the notice of extension will explain the special circumstances that require the extension and the date by which the Plan Administrator expects to make a decision.

12.3 Disability Benefits. Notice of denial of Disability benefits will be provided within forty-five (45) days of the Plan Administrator's receipt of the Claimant's claim for Disability benefits. If the Plan Administrator determines that it needs additional time to review the Disability claim, the Plan Administrator will provide the Claimant with a notice of the extension before the end of the initial forty-five (45) day period. If the Plan Administrator determines that a decision cannot be made within the first extension period due to matters beyond the control of the Plan Administrator, the time period for making a determination may be further extended for an additional thirty (30) days. If such an additional extension is necessary, the Plan Administrator shall notify the Claimant prior to the expiration of the initial thirty (30) day extension. Any notice of extension shall indicate the circumstances necessitating the extension of time, the date by which the Plan Administrator expects to furnish a notice of decision, the specific standards on which such entitlement to a benefit is based, the unresolved issues that prevent a decision on the claim and any additional information needed to resolve those issues. A Claimant will be provided a minimum of forty-five (45) days to submit any necessary additional information to the Plan Administrator. In the event that a thirty (30) day extension is necessary due to a Claimant's failure to submit information necessary to decide a claim, the period for furnishing a notice of decision shall be tolled from the date on which the notice of the extension is sent to the Claimant until the earlier of the date the Claimant responds to the request for additional information or the response deadline.

12.4 Contents of Notice. If a claim for benefits is completely or partially denied, notice of such denial shall be in writing and shall set forth the reasons for denial in plain language. The notice shall (i) cite the pertinent provisions of the Plan document and (ii) explain, where appropriate, how the Claimant can perfect the claim, including a description of any additional material or information necessary to complete the claim and why such material or information is necessary. The claim denial also shall include an explanation of the claims review procedures and the time limits applicable to such procedures, including a statement of the Claimant's right to bring a civil action under Section 502(a) of ERISA following an adverse decision on review. In the case of a complete or partial denial of a Disability benefit claim, the notice shall provide a statement that the Plan Administrator will provide to the Claimant, upon request and free of charge, a copy of any internal rule, guideline, protocol, or other similar criterion that was relied upon in making the decision.

12.5 Appeal of Denied Claims. A Claimant whose claim has been completely or partially denied shall be entitled to appeal the claim denial by filing a written appeal with a committee designated to hear such appeals (the "Appeals Committee"). A Claimant who timely requests a review of the denied claim (or his or her authorized representative) may review, upon request and free of charge, copies of all documents, records and other information relevant to the denial and may submit written comments, documents, records and other information relevant to the claim to the Appeals Committee. All written comments, documents, records, and other information shall be considered "relevant" if the information (i) was relied upon in making a benefits determination,(ii) was submitted, considered or generated in the course of making a benefits decision regardless of whether it was relied upon to make the decision, or (iii) demonstrates compliance with administrative processes and safeguards established for making benefit decisions. The

Appeals Committee may, in its sole discretion and if it deems appropriate or necessary, decide to hold a hearing with respect to the claim appeal.

(a) ***In General.*** Appeal of a denied benefits claim (other than a Disability benefits claim) must be filed in writing with the Appeals Committee no later than sixty (60) days after receipt of the written notification of such claim denial. The Appeals Committee shall make its decision regarding the merits of the denied claim within sixty (60) days following receipt of the appeal (or within one hundred and twenty (120) days after such receipt, in a case where there are special circumstances requiring extension of time for reviewing the appealed claim). If an extension of time for reviewing the appeal is required because of special circumstances, written notice of the extension shall be furnished to the Claimant prior to the commencement of the extension. The notice will indicate the special circumstances requiring the extension of time and the date by which the Appeals Committee expects to render the determination on review. The review will take into account comments, documents, records and other information submitted by the Claimant relating to the claim without regard to whether such information was submitted or considered in the initial benefit determination.

(b) ***Disability Benefits.*** Appeal of a denied Disability benefits claim must be filed in writing with the Committee no later than one hundred eighty (180) days after receipt of the written notification of such claim denial. The review shall be conducted by the Appeals Committee (exclusive of the person who made the initial adverse decision or such person's subordinate). In reviewing the appeal, the Appeals Committee shall (i) not afford deference to the initial denial of the claim, (ii) consult a medical professional who has appropriate training and experience in the field of medicine relating to the Claimant's disability and who was neither consulted as part of the initial denial nor is the subordinate of such individual and (iii) identify the medical or vocational experts whose advice was obtained with respect to the initial benefit denial, without regard to whether the advice was relied upon in making the decision. The Appeals Committee shall make its decision regarding the merits of the denied claim within forty-five (45) days following receipt of the appeal (or within ninety (90) days after such receipt, in a case where there are special circumstances requiring extension of time for reviewing the appealed claim). If an extension of time for reviewing the appeal is required because of special circumstances, written notice of the extension shall be furnished to the Claimant prior to the commencement of the extension. The notice will indicate the special circumstances requiring the extension of time and the date by which the Appeals Committee expects to render the determination on review. Following its review of any additional information submitted by the Claimant, the Appeals Committee shall render a decision on its review of the denied claim.

(c) ***Contents of Notice.*** If a benefits claim is completely or partially denied on review, notice of such denial shall be in writing and shall set forth the reasons for denial in plain language.

(1) The decision on review shall set forth (i) the specific reason or reasons for the denial, (ii) specific references to the pertinent Plan provisions on which the denial is based, (iii) a statement that the Claimant is entitled to receive, upon request and free of charge, reasonable access to and copies of all documents, records, or other information relevant (as defined above) to the Claimant's claim, and (iv) a statement describing any voluntary appeal procedures offered by the plan and a statement of the Claimant's right to bring an action under Section 502(a) of ERISA.

(2) For the denial of a Disability benefit, the notice will also include a statement that the Appeals Committee will provide, upon request and free of charge, (i) any internal rule, guideline, protocol or other similar criterion relied upon in making the decision, (ii) any medical opinion relied upon to make the decision and (iii) the required statement under Section 2560.503-1(j)(5)(iii) of the Department of Labor regulations.

(d) ***Claims Appeals Upon Change in Control.*** Upon a Change in Control, the Appeals Committee, as constituted immediately prior to such Change in Control, shall continue to act as the Appeals Committee. Upon such Change in Control, the Company may not remove any member of the Appeals Committee, but may replace resigning members if 2/3rds of the members of the Board of Directors of the Company and a majority of Participants and Beneficiaries with Account Balances consent to the replacement.

The Appeals Committee shall have the exclusive authority at the appeals stage to interpret the terms of the Plan and resolve appeals under the Claims Procedure.

The Company shall, with respect to the Plan Administrator identified under this Section, (i) pay all reasonable expenses and fees of the Appeals Committee, (ii) indemnify the Appeals Committee (including individual committee members) against any costs, expenses and liabilities including, without limitation, attorneys' fees and expenses arising in connection with the performance of the Appeals Committee hereunder, except with respect to matters resulting from the Appeals Committee's gross negligence or willful misconduct and (iii) supply full and timely information to the Appeals Committee on all matters related to the Plan, any rabbi trust, Participants, Beneficiaries and Accounts as the Appeals Committee may reasonably require.

12.6 Legal Action. A Claimant may not bring any legal action, including commencement of any arbitration, relating to a claim for benefits under the Plan unless and until the Claimant has followed the claims procedures under the Plan and exhausted his or her administrative remedies under such claims procedures.

If a Participant or Beneficiary prevails in a legal proceeding brought under the Plan to enforce the rights of such Participant or any other similarly situated Participant or

Beneficiary, in whole or in part, the Company shall reimburse such Participant or Beneficiary for all legal costs, expenses, attorneys' fees and such other liabilities incurred as a result of such proceedings. If the legal proceeding is brought in connection with a Change in Control, or a "change in control" as defined in a rabbi trust described in Section 11.2, the Participant or Beneficiary may file a claim directly with the trustee for reimbursement of such costs, expenses and fees. For purposes of the preceding sentence, the amount of the claim shall be treated as if it were an addition to the Participant's or Beneficiary's Account Balance and will be included in determining the Company's trust funding obligation under Section 11.2.

12.7 Discretion of Committee. All interpretations, determinations and decisions of the Appeals Committee with respect to any claim shall be made in its sole discretion, and shall be final and conclusive.

12.8 Arbitration.

(a) ***Prior to Change in Control.*** If, prior to a Change in Control, any claim or controversy between the Company and a Participant or Beneficiary is not resolved through the claims procedure set forth in Article XII, such claim shall be submitted to and resolved exclusively by expedited binding arbitration by a single arbitrator. Arbitration shall be conducted in accordance with the following procedures:

i. The complaining party shall promptly send written notice to the other party identifying the matter in dispute and the proposed remedy. Following the giving of such notice, the parties shall meet and attempt in good faith to resolve the matter. In the event the parties are unable to resolve the matter within twenty one (21) days, the parties shall meet and attempt in good faith to select a single arbitrator acceptable to both parties. If a single arbitrator is not selected by mutual consent within ten (10) Business Days following the giving of the written notice of dispute, an arbitrator shall be selected from a list of nine persons each of whom shall be an attorney who is either engaged in the active practice of law or recognized arbitrator and who, in either event, is experienced in serving as an arbitrator in disputes between employers and employees, which list shall be provided by the main office of either JAMS, the American Arbitration Associate ("AAA") or the Federal Mediation and Conciliation Service. If, within three Business Days of the parties' receipt of such list, the parties are unable to agree on an arbitrator from the list, then the parties shall each strike names alternatively from the list, with the first to strike being determined by the flip of a coin. After each party has had four strikes, the remaining name on the list shall be the arbitrator. If such person is unable to serve for any reason, the parties shall repeat this process until an arbitrator is selected.

ii. Unless the parties agree otherwise, within sixty (60) days of the selection of the arbitrator, a hearing shall be conducted before such arbitrator at a time and a place agreed upon by the parties. In the event the parties are unable to agree upon the time or place of the arbitration, the time and place shall be designated by the arbitrator after consultation with the parties. Within thirty (30) days of the conclusion of the arbitration hearing, the arbitrator shall issue an award, accompanied by a written decision explaining the basis for the arbitrator's award.

iii. In any arbitration hereunder, the Company shall pay all administrative fees of the arbitration and all fees of the arbitrator, except that the Participant or Beneficiary may, if he/she/it wishes, pay up to one-half of those amounts. Each party shall pay its own attorneys' fees, costs, and expenses, unless the arbitrator orders otherwise. The prevailing party in such arbitration, as determined by the arbitrator, and in any enforcement or other court proceedings, shall be entitled, to the extent permitted by law, to reimbursement from the other party for all of the prevailing party's costs (including but not limited to the arbitrator's compensation), expenses, and attorneys' fees. The arbitrator shall have no authority to add to or to modify this Plan, shall apply all applicable law, and shall have no lesser and no greater remedial authority than would a court of law resolving the same claim or controversy. The arbitrator shall have no authority to add to or to modify this Plan, shall apply all applicable law, and shall have no lesser and no greater remedial authority than would a court of law resolving the same claim or controversy. The arbitrator shall, upon an appropriate motion, dismiss any claim without an evidentiary hearing if the party bringing the motion establishes that it would be entitled to summary judgment if the matter had been pursued in court litigation.

The parties shall be entitled to discovery as follows: Each party may take no more than three depositions. Company may depose the Participant or Beneficiary plus two other witnesses, and Participant or Beneficiary may depose the Company, pursuant to Rule 30(b)(6) of the Federal Rules of Civil Procedure, plus two other witnesses. Each party may make such reasonable document discovery requests as are allowed in the discretion of the arbitrator.

iv. The decision of the arbitrator shall be final, binding, and non-appealable, and may be enforced as a final judgment in any court of competent jurisdiction.

v. This arbitration provision of the Plan shall extend to claims against any parent, subsidiary, or affiliate of each party, and, when acting within such capacity, any officer, director, shareholder, Participant, Beneficiary, or agent of any party, or of any of the above, and shall apply as well to claims arising out of state and federal statutes and local ordinances as well as to claims arising under the common law or under this Plan.

vi. Notwithstanding the foregoing, and unless otherwise agreed between the parties, either party may apply to a court for provisional relief, including a temporary restraining order or preliminary injunction, on the ground that the arbitration award to which the applicant may be entitled may be rendered ineffectual without provisional relief.

vii. Any arbitration hereunder shall be conducted in accordance with the Federal Arbitration Act: provided, however, that, in the event of any inconsistency between the rules and procedures of the Act and the terms of this Plan, the terms of this Plan shall prevail.

viii. If any of the provisions of this Section 12.8 are determined to be unlawful or otherwise unenforceable, in the whole part, such determination shall not affect the validity of the remainder of this Section 12.8, and this Section 12.8 shall be reformed to the extent necessary to carry out its provisions to the greatest extent possible and to insure that the resolution of all conflicts between the parties, including those arising out of statutory claims, shall be resolved by neutral, binding arbitration. If a court should find that the provisions of this Section 12.8 are not absolutely binding, then the parties intend any arbitration decision and award to be fully admissible in evidence in any subsequent action, given great weight by any finder of fact and treated as determinative to the maximum extent permitted by law.

ix. The parties do not agree to arbitrate any putative class action or any other representative action. The parties agree to arbitrate only the claims(s) of a single Participant or Beneficiary.

(b) ***Upon Change in Control.*** If, upon the occurrence of a Change in Control, any dispute, controversy or claim arises between a Participant or Beneficiary and the Company out of or relating to or concerning the provisions of the Plan, such dispute, controversy or claim shall be finally settled by a court of competent jurisdiction which, notwithstanding any other provision of the Plan, shall apply a de novo standard of review to any determination made by the Company, the Board or the Appeals Committee.

Article XIII
General Conditions

13.1 Anti-assignment Rule. No interest of any Participant, spouse or Beneficiary under this Plan and no benefit payable hereunder shall be assigned as security for a loan, and any such purported assignment shall be null, void and of no effect, nor shall any such interest or any such benefit be subject in any manner, either voluntarily or involuntarily, to anticipation, sale, transfer, assignment or encumbrance by or through any Participant, spouse or Beneficiary.

13.2 No Legal or Equitable Rights or Interest. No Participant or other person shall have any legal or equitable rights or interest in this Plan that are not expressly granted in this Plan. Participation in this Plan does not give any person any right to be retained in the service of the Company or any of its subsidiaries or affiliated companies. The right and power of the Company to dismiss or discharge an Employee is expressly reserved. Notwithstanding the provisions of Section 10.2, the Company makes no representations or warranties as to the tax consequences to a Participant or a Participant's beneficiaries resulting from a deferral of income pursuant to the Plan.

13.3 No Employment Contract. Nothing contained herein shall be construed to constitute a contract of employment between an Employee and the Company or any of its subsidiaries or affiliated companies.

13.4 Notice. Any notice or filing required or permitted to be delivered to the Plan Administrator under this Plan shall be delivered in writing, in person, or through such electronic means as is established by the Plan Administrator. Notice shall be deemed given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark on the receipt for registration or certification. Written transmission shall be sent by certified mail to:

Diodes Incorporated
Attn: Director of Human Resources
3050 East Hillcrest
Westlake Village, Ca 91362

Any notice or filing required or permitted to be given to a Participant under this Plan shall be sufficient if in writing or hand-delivered, or sent by mail to the last known address of the Participant.

13.5 Headings. The headings of Sections are included solely for convenience of reference, and if there is any conflict between such headings and the text of this Plan, the text shall control.

13.6 Invalid or Unenforceable Provisions. If any provision of this Plan shall be held invalid or unenforceable, such invalidity or unenforceability shall not affect any other provisions hereof and the Plan Administrator may elect in its sole discretion to construe such invalid or unenforceable provisions in a manner that conforms to applicable law or as if such provisions, to the extent invalid or unenforceable, had not been included.

13.7 Governing Law. To the extent not preempted by ERISA, the laws of the State of California shall govern the construction and administration of the Plan.

IN WITNESS WHEREOF, the undersigned executed this Plan as of the _____th day of __________, 2006 to be effective as of the Effective Date.

Diodes Incorporated

By: ____ (Print Name)

Its: ____ (Title)

____ (Signature)

AMENDMENT
TO THE DIODES INCORPORATED
DEFERRED COMPENSATION PLAN

This Amendment to the Diodes Incorporated Deferred Compensation Plan (the “Plan”) is adopted coincident with the adoption of the Plan. The purpose of the Amendment is to permit Directors of the Company to defer compensation paid for services as Directors.

The provisions of the Plan shall remain in effect, except as modified below with respect to Deferrals by Directors. This Amendment shall not be construed as modifying the Plan with respect to any other Participant, Beneficiary or Eligible Employee as defined in the Plan document.

(1) “Compensation” shall mean Directors’ fees, which may include annual fees, meeting fees and such other Compensation as is paid to the Directors for services performed in such capacity.

(2) “Director” means a member of the Board of Directors of the Company.

(3) “Eligible Employee” shall mean a Director of the Company’s Board of Directors.

(4) “Separation Payments” under the “Payment Schedule” definition shall mean (a) a single lump sum or (b) substantially equal installment payments paid over a period of two (2) to fifteen (15) years.

(5) “Separation from Service” shall mean the first day in which the Director is no longer performing services for the Company in the capacity of a Director or other independent contractor, either due to resignation or removal.

(6) Section 3.1 is modified to read as follows: “A Director becomes an Eligible Employee upon commencement of services as a Director.”

(7) Section 3.2 is modified to read as follows: “A Director shall remain a Participant eligible to defer Compensation until such time as he or she incurs a Separation from Service.”

(8) Directors are eligible for benefits described in Sections 8.1 (Separation from Service), 8.2 (Specified Date Accounts), 8.4 (death) 8.6 (Change in Control) and 8.10 (Domestic Relations Orders).

Except as modified above, the rights of Directors shall be the same as all other Participants, except where the context would indicate otherwise.

Exhibit 21

SUBSIDIARIES OF THE REGISTRANT

Subsidiary Name	Location
Diodes Taiwan Incorporated	Taiwan
Shanghai Kai Hong Electronics Co., Ltd.	China
Diodes FabTech Incorporated	Missouri
Diodes Hong Kong Limited	Hong Kong
Shanghai Kai Hong Technology Co., Ltd.	China
Anachip Corporation	Taiwan
Diodes International B.V.	Netherlands
Diodes Hong Kong Holding Company Limited	Hong Kong
Diodes Germany GmbH	Germany*
Diodes United Kingdom Limited	United Kingdom*
Diodes Korea Incorporated	Korea
Diodes France SARL	France
Diodes Zetex Hong Kong Limited	Hong Kong
Diodes Investment Company	Delaware
Diodes Holding UK Limited	United Kingdom
Diodes Zetex Semiconductors Limited	United Kingdom
Diodes Zetex Neuhaus GmbH	Germany
Diodes Zetex GmbH	Germany
Zetex Inc.	New York
Diodes Zetex (Asia) Limited	Hong Kong
Diodes Zetex UK Limited	China
Diodes Zetex Limited	Hong Kong
Diodes Zetex Asia Pacific Limited	Hong Kong*
Diodex Zetex Asia Pacific Ventures Limited	Hong Kong*
Diodes Chinatex Limited	Hong Kong*
Diodes Zetex Procurement AP Limited	Hong Kong*
Diodes Torus Network Products Limited	United Kingdom*
Diodes Knaves Beech Securities Limited	United Kingdom*
Diodes Seal Semiconductors Limited	United Kingdom*
Diodes Fast Analog Solutions Limited	United Kingdom*
Diodes Zetex Investment Limited	United Kingdom*
Telemetrix Share Scheme Trustees Limited	United Kingdom*
Diodes Telemetrix Investments Limited	United Kingdom*
Diodes Telemetrix Securities Limited	United Kingdom*
Diodes Westward Technology Limited	United Kingdom*

* Dormant subsidiary

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements of Diodes Incorporated and subsidiaries (the "Company") of our report dated February 25, 2009, relating to the consolidated financial statements (which report expresses an unqualified opinion and includes an explanatory paragraph regarding the Company's adoption of Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* and Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109)* and the effectiveness of the Company's internal control over financial reporting included in this Annual Report (Form 10-K) for the year ended December 31, 2008.

- Registration Statement on Form S-8 (No. 333-78716) pertaining to the Incentive Bonus Plan and 1993 Non-Qualified Stock Option Plan of Diodes Incorporated;
- Registration Statements on Form S-8 (Nos. 333-106775 and 333-124809) pertaining to the 2001 Omnibus Equity Incentive Plan of Diodes Incorporated; and
- Registration Statement on Form S-3 (No. 333-137803) pertaining to convertible senior notes and common stock issuable by Diodes Incorporated.

/s/ Moss Adams LLP

Los Angeles, California
February 25, 2009

Exhibit 31.1

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

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

1. I have reviewed this Annual Report on Form 10-K of Diodes Incorporated;

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

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

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

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

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

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

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

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

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

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

/s/ Keh-Shew Lu
Keh-Shew Lu
Chief Executive Officer
Date: February 26, 2009

Exhibit 31.2

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, **Carl C. Wertz**, certify that:

1. I have reviewed this Annual Report on Form 10-K of Diodes Incorporated;

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

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

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

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

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

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

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

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

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

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

/s/ Carl C. Wertz
Carl C. Wertz
Chief Financial Officer
Date: February 26, 2009

Exhibit 32.1

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

The undersigned hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to his knowledge, the Annual Report on Form 10-K for the twelve-month period ended December 31, 2008 of Diodes Incorporated (the “Company”) fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in such periodic report fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for, the periods presented in such report.

Very truly yours,

/s/ Keh-Shew Lu

Keh-Shew Lu
Chief Executive Officer
Date: February 26, 2009

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

Exhibit 32.2

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

The undersigned hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to his knowledge, the Annual Report on Form 10-K for the twelve-month period ended December 31, 2008 of Diodes Incorporated (the “Company”) fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in such periodic report fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for, the periods presented in such report.

Very truly yours,

/s/ Carl C. Wertz

Carl C. Wertz
Chief Financial Officer
Date: February 26, 2009

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