DIODES INC /DEL/
Form S-3
August 25, 2005

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As filed with the Securities and Exchange Commission on August 25, 2005.
Registration No. 333-

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

Form S-3
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933
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 No.)*

3050 East Hillcrest Drive
Westlake Village, California 91362
(805) 446-4800
(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Carl C. Wertz
Chief Financial Officer
3050 East Hillcrest Drive
Westlake Village, California 91362
(805) 446-4800
(Name, address, including zip code, and telephone number, including area code, of agent for service)
Copies to:

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Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. o

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. o

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered(1)	Proposed maximum offering price per share(2)	Proposed maximum aggregate offering price(2)	Amount of registration fee
Common Stock, par value $0.66^{2}/3$ per share	2,875,000 shares	$35.18	$101,142,500	$11,904.47

(1) Includes 375,000 shares of common stock that the underwriters have the option to purchase solely to cover over-allotments, if any.

(2) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c) under the Securities Act of 1933, based on the average of the high and low prices of the Registrant s common stock as reported on the Nasdaq National Market on August 19, 2005.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, or until this Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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The information in this preliminary prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities and we are not soliciting offers to buy these securities in any jurisdiction where the offer or sale is not permitted.

PRELIMINARY PROSPECTUS SUBJECT TO COMPLETION August 25, 2005

2,500,000 Shares
Common Stock

We are offering 1,750,000 shares of our common stock and the selling stockholder named in this prospectus is offering 750,000 shares of our common stock. We will not receive any proceeds from the sale of any shares of our common stock by the selling stockholder.

Our common stock is listed on the Nasdaq National Market under the symbol DIOD. On August 24, 2005, the last sale price of our common stock as reported on the Nasdaq National Market was $37.00 per share.

Investing in our common stock involves a high degree of risk. Before buying any shares, you should carefully read the discussion of material risks of investing in our common stock under Risk factors beginning on page 7 of this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Share	**Total**
Public offering price	$	$
Underwriting discounts and commissions	$	$
Proceeds, before expenses, to us	$	$
Proceeds, before expenses, to the selling stockholder	$	$

The underwriters may also purchase up to an additional 375,000 shares of our common stock from us at the public offering price, less the underwriting discounts and commissions payable by us to cover over-allotments, if any, within 30 days from the date of this prospectus. If the underwriters exercise the option in full, the total underwriting discounts and commissions payable by us will be $, and the total proceeds, before expenses, to us will be $.

The underwriters are offering the common stock as set forth under Underwriting. Delivery of the shares of common stock will be made on or about , 2005.

UBS Investment Bank

A.G. Edwards **C.E. Unterberg, Towbin** **Raymond James**
WR Hambrecht + Co

The date of this prospectus is , 2005.

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You should rely only on the information contained in this prospectus. We have not, and the selling stockholder and the underwriters have not, authorized anyone to provide you with additional information or information different from that contained in this prospectus. We and the selling stockholder are offering to sell, and seeking offers to buy, shares of our common stock only in jurisdictions where those offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of our common stock.

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Prospectus summary

This summary highlights selected information contained elsewhere in this prospectus. This summary may not contain all the information that you should consider before investing in our common stock. You should carefully read the entire prospectus, including Risk factors and our historical consolidated financial statements and related notes, before making an investment decision.

Unless the context otherwise requires, the words Diodes , we , us and our refer to Diodes Incorporated and its subsidiaries.

OUR BUSINESS

We are a global supplier of discrete semiconductor products. We design, manufacture and market discrete semiconductors focused on diverse end-use applications in the consumer electronics, computing, industrial, communications and automotive sectors. Discrete 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 discrete semiconductors provides us with a meaningful competitive advantage relative to broadline semiconductor companies that provide a wider range of semiconductor products.

Our portfolio of discrete semiconductors addresses the design needs of many advanced electronic devices, particularly 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 discrete semiconductors for applications with critical need to minimize product size while maximizing power and overall performance, and at a lower cost than alternative solutions. Our product portfolio includes over 4,000 products, and we shipped over 7.5 billion units in 2004 and over 4.5 billion units in the six months ended June 30, 2005.

We serve over 150 direct customers worldwide, which consist of original equipment manufacturers, or OEMs, and electronic manufacturing services, or EMS, providers. Additionally, we have 17 distributor customers worldwide, through which we indirectly serve over 10,000 customers. Our customers include: (1) industry leading OEMs in a broad range of industries such as Bose Corporation, Honeywell International, Inc., LG Electronics, Inc., Logitech, Inc., Motorola, Inc., Quanta Computer, Inc., Sagem Communication, Samsung Electronics Co., Ltd. and Thompson, Inc.; (2) leading EMS providers such as Celestica, Inc., Flextronics International, Ltd., Hon Hai Precision Industry Co., Ltd., Inventec Corporation, Jabil Circuit, Inc., Sanmina-SCI Corporation and Solectron Corporation who build end-market products incorporating our discrete semiconductors for companies such as Apple Computer, Inc., Cisco Systems, Inc., Dell, Inc., EMC Corporation, Intel Corporation, Microsoft Corporation and Roche Diagnostics; and (3) leading distributors, such as Arrow Electronics, Inc., Avnet, Inc., Future Electronics and Yosun Industrial Corp. For 2004 and for the six months ended June 30, 2005, our OEM and EMS customers together accounted for 66.3% and 69.0%, respectively, of our net sales.

We are headquartered in Westlake Village, California, near Los Angeles. Our manufacturing facilities are located in Shanghai, China; our wafer fabrication facility is in Kansas City, Missouri; and our sales and marketing and logistical centers are located in Taipei, Taiwan; Shanghai and Shenzhen, China; and Hong Kong. We also have regional sales offices in Derbyshire, England; Toulouse, France; Frankfurt, Germany; and various cities in the United States. From 1998 to 2004, our net sales grew from $60.1 million to $185.7 million, representing a compound annual growth rate of 20.7%. According to Gartner, Inc., worldwide sales of discrete semiconductors grew from $12.8 billion in 1998 to $15.8 billion in 2004. This represents a compound annual growth rate of 3.7%.

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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 three 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.

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 discrete semiconductor solutions provides our customers with products of equivalent functionality with fewer individual parts, and at lower overall cost, than alternative products. For example, one of our leading diode array products integrates eight discrete elements into a single highly-miniaturized package that provides four times the functionality with less than 20% of the space requirements of the previous solution. This combination of integration, functionality and miniaturization makes our products well suited for high-volume consumer applications such as digital audio players, notebook computers and digital cameras.

Broad customer base and diverse end markets. Our customers include leading OEMs such as Bose Corporation, Honeywell International, Inc., LG Electronics, Inc., Logitech, Inc., Motorola, Inc., Quanta Computer, Inc., Sagem Communication, Samsung Electronics Co., Ltd. and Thompson, Inc., as well as leading EMS providers such as Celestica, Inc., Flextronics International, Ltd., Hon Hai Precision Industry Co., Ltd., Inventec Corporation, Jabil Circuit, Inc., Sanmina-SCI Corporation and Solectron Corporation. Overall, we serve over 150 direct customers and over 10,000 additional customers through our distributors, including leading distributors such as Arrow Electronics, Inc., Avnet, Inc., Future Electronics and Yosun Industrial Corp. Our products are ultimately used in end products in a large number of markets served by our broad base of customers, which we believe makes us less dependent on either specific customers or specific end-use applications.

Customer-focused product development. Close collaboration with our customers and a high degree of customer service are essential elements of our business. We believe focusing on dependable delivery of discrete 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 semiconductor marketplace. We believe our close relationships with our OEM and EMS customers have provided us with deep 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.

Management continuity and experience. We believe that the continuity of our management team is a critical competitive strength. The five members of our senior management team have an average of over 12 years of service at Diodes and the length of their service with us has created significant institutional insight into our markets, our customers and our operations. 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 30 years of relevant industry experience. Dr. Lu began his career at Texas Instruments 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, Carl Wertz, has been employed by us since 1993 and has over 20 years of financial experience in manufacturing and distribution industries. Joseph Liu, our Senior Vice President, Operations, joined us in 1990 and has over 30 years

of relevant industry experience having started his career in 1971 at Texas Instruments. Similarly, Mark King, our Senior Vice President of Sales and Marketing has been employed by us since 1991, as has Steven Ho, our Vice President of Asia Sales.

OUR STRATEGY

Our strategy is to continue to enhance our position as a global supplier of discrete semiconductor products. The principal elements of this strategy include the following:

- continue rapidly introducing innovative discrete semiconductor products;
- expand our available market opportunities;
- maintain intense customer focus;
- enhance cost competitiveness; and
- pursue selective strategic acquisitions.

OUR RELATIONSHIP WITH LITE-ON SEMICONDUCTOR AND THE LITE-ON GROUP

Lite-On Semiconductor Corporation, or Lite-On Semiconductor, is our principal stockholder, our largest customer and one of our largest suppliers. As of August 15, 2005, Lite-On Semiconductor owned 4,601,458 shares of our common stock (31.5% of our total outstanding common stock) and will own 3,851,458 shares of our common stock after the completion of this offering (23.5% of our total outstanding common stock assuming the underwriters over-allotment option is not exercised). Lite-On Semiconductor is a Taiwanese-based provider of image-sensing products used in applications such as copiers, scanners and fax machines, and it also provides discrete semiconductor products. The Lite-On Group is an affiliation of several electronics companies, including Lite-On Semiconductor.

We have had a relationship with Lite-On Semiconductor since 1990. For 2004 and the six months ended June 30, 2005, Lite-On Semiconductor accounted for 9.9% and 9.6%, respectively, of our net sales. Other members of The Lite-On Group accounted for an additional 3.3% and 5.1%, respectively, of our net sales in the same periods. In addition, for 2004 and the six months ended June 30, 2005, 17.2% and 14.6%, respectively, of our net sales were derived from the sale of discrete semiconductor products purchased from Lite-On Semiconductor and subsequently sold by us.

Several of our directors and executive officers are current or former directors of Lite-On Semiconductor or other members of The Lite-On Group. Please refer to Certain relationships and related party transactions and Principal and selling stockholders for additional information.

OUR CORPORATE INFORMATION

We were incorporated in California in 1959 and reincorporated in Delaware in 1969. Our principal executive office is located at 3050 E. Hillcrest Drive, Westlake Village, CA 91362, and our telephone number at that office is (805) 446-4800. Our website is located at *www.diodes.com.* Information contained on or accessible through our website is not part of this prospectus.

In 1998, we established an assembly, test and packaging facility in Shanghai, China, which we refer to in this prospectus as Diodes-China. In 2000, we acquired FabTech Inc., a wafer fabrication facility in Kansas City, Missouri, which we refer to as FabTech. In 2002 and 2004, respectively, we established a sales and marketing facility in Hong Kong and a second assembly, test and packaging facility in Shanghai, which we refer to as Diodes-Hong Kong and Diodes-Shanghai, respectively. Our sales and marketing office in Taiwan is referred to as Diodes-Taiwan.

You should carefully consider the information contained in the Risk factors section of this prospectus before you decide to purchase our common stock.

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The offering

Common stock offered by us	1,750,000 shares
Common stock offered by the selling stockholder	750,000 shares
Common stock to be outstanding after this offering(1)	16,322,044 shares
Use of proceeds after expenses	We estimate that the net proceeds to us from this offering will be approximately $ million, or approximately $ million if the underwriters exercise their overallotment option in full. We intend to use the net proceeds of this offering for working capital and other general corporate purposes, including acquisitions. We will not receive any of the proceeds from the sale of shares of common stock offered by the selling stockholder. See Use of Proceeds.
Nasdaq National Market symbol	DIOD

The number of shares of common stock to be outstanding immediately after the closing of this offering is based on 14,572,044 shares of our common stock outstanding as of June 30, 2005 and includes 1,750,000 shares of common stock offered by us in this offering. Except as otherwise noted in this prospectus, the number of shares of our common stock outstanding excludes:

- 2,409,922 shares of common stock issuable after the completion of this offering upon the exercise of outstanding stock options under our stock incentive plans at a weighted average exercise price of $11.78 per share;
- 571,462 shares of common stock available for future grants under our stock incentive plans; and
- 1,613,508 shares of common stock held by us as treasury stock.

Unless otherwise indicated, all amounts assume the underwriters over-allotment option is not exercised.

(1) As of June 30, 2005, we had 16,185,122 shares issued of which (a) 14,572,044 shares were outstanding and (b) 1,613,508 were held as treasury stock, which were issued but not outstanding.

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Summary historical consolidated financial data

The following table presents our summary historical consolidated financial data for the years ended, December 31, 2000, 2001, 2002, 2003 and 2004. Our consolidated statements of income data for the years ended December 31, 2002, 2003 and 2004 have been derived from our audited consolidated financial statements included elsewhere in this prospectus. Our consolidated statements of income data for the years ended December 31, 2000 and 2001 have been derived from our audited consolidated financial statements not included in this prospectus. Our consolidated balance sheet data as of June 30, 2005 and our consolidated statement of income for each of the six-month periods ended June 30, 2004 and 2005 have been derived from our unaudited consolidated financial statements included elsewhere in this prospectus and which, in our opinion, have been prepared on the same basis as our audited consolidated financial statements and include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of our results of operations and financial position for these periods. These historical results are not necessarily indicative of results to be expected for any future period. You should read this information together with Selected historical consolidated financial data, Management s discussion and analysis of financial condition and results of operations and our consolidated financial statements and related notes included elsewhere in this prospectus.

	Year ended December 31,					Six months ended June 30	
	2000	2001	2002	2003	2004	2004	2005
						(unaudited)	
			(in thousands, except per share data)				
Consolidated statement of income data:							
Net sales	$ 118,462	$ 93,210	$ 115,821	$ 136,905	$ 185,703	$ 88,442	$ 99,198
Cost of goods sold	81,035	79,031	89,111	100,377	124,968	60,664	65,105
Gross profit	37,427	14,179	26,710	36,528	60,735	27,778	34,093
Operating expenses							
Selling, general and administrative	18,814	13,711	16,228	19,586	23,503	11,908	13,888
Research and development	141	592	1,472	2,049	3,422	1,562	1,750
Loss (gain) on sale of fixed assets		8	43	1,037	14	15	(105)
Total operating expenses	18,955	14,311	17,743	22,672	26,939	13,485	15,533
Income (loss) from operations	18,472	(132)	8,967	13,856	33,796	14,293	18,560
Interest expense, net	940	2,074	1,183	860	637	327	234
Other income (expense)	501	785	67	(5)	(418)	(124)	(21)
Income (loss) before taxes and minority interest	18,033	(1,421)	7,851	12,991	32,741	13,842	18,305
	(2,496)	1,769	(1,729)	(2,460)	(6,514)	(2,543)	(2,903)

Income tax benefit (provision)							
Minority interest in earnings of joint venture	(642)	(224)	(320)	(436)	(676)	(319)	(497)
Net income	$ 14,895	$ 124	$ 5,802	$ 10,095	$ 25,551	$ 10,980	$ 14,905
Earnings per share(1):							
Basic	$ 1.23	$ 0.01	$ 0.47	$ 0.79	$ 1.91	$ 0.83	$ 1.04
Diluted	$ 1.08	$ 0.01	$ 0.44	$ 0.70	$ 1.65	$ 0.72	$ 0.93
Number of shares used in computation(1):							
Basic	12,107	12,216	12,277	12,731	13,404	13,181	14,319
Diluted	13,833	13,322	13,297	14,406	15,471	15,306	16,071
Consolidated statement of cash flows data:							
Cash flow from operating activities	10,208	14,938	19,990	18,821	29,300	13,781	24,138
Cash (used in) investing activities	(21,389)	(8,477)	(6,774)	(15,289)	(26,133)	(10,245)	(6,845)
Cash flow from (used in) financing activities	12,100	(2,485)	(13,995)	1,862	2,163	(1,890)	(3,477)
Other data:							
EBITDA(2)	$ 22,334	$ 9,099	$ 18,461	$ 24,488	$ 45,875	$ 19,995	$ 25,855

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(1) Adjusted for the effect of 3-for-2 stock splits in July 2000 and November 2003.

(2) EBITDA represents earnings before net interest expense, income tax provision, depreciation and amortization. Our management believes EBITDA is useful to investors because it is frequently used by securities analysts, investors and other interested parties in evaluating companies in our industry. In addition, our management believes that EBITDA is useful in evaluating our operating performance compared to that of other companies in our industry because the calculation of EBITDA generally eliminates the effects of financing and income taxes and the accounting effects of capital spending, which items may vary for different companies for reasons unrelated to overall operating performance. As a result, our management uses EBITDA as a measure to evaluate the performance of our business. However, EBITDA is not a recognized measurement under generally accepted accounting principles, or GAAP, and when analyzing our operating performance, investors should use EBITDA in addition to, and not as an alternative for, income from operations and net income, each as determined in accordance with GAAP. Because not all companies use identical calculations, our presentation of EBITDA may not be comparable to similarly titled measures of other companies. Furthermore, EBITDA is not intended to be a measure of free cash flow for our management s discretionary use, as it does not consider certain cash requirements such as a tax and debt service payments.

		Year ended December 31,					Six months ended June 30,	
Reconciliation of net income to EBITDA:		**2000**	**2001**	**2002**	**2003**	**2004**	**2004**	**2005**
							(unaudited)	
		(in thousands)						
Net income		$ 14,895	$ 124	$ 5,802	$ 10,095	$ 25,551	$ 10,980	$ 14,905
plus:								
	Interest expense, net	940	2,074	1,183	860	637	327	234
	Income tax provision (benefit)	2,496	(1,769)	1,729	2,460	6,514	2,543	2,903
	Depreciation and amortization	5,003	8,670	9,747	11,073	13,173	6,145	7,813
EBITDA		$ 23,334	$ 9,099	$ 18,461	$ 24,488	$ 45,875	$ 19,995	$ 25,855

The following table presents a summary of our balance sheet as of June 30, 2005:

on an actual basis; and

on an as adjusted basis to give effect to the issuance of 1,750,000 shares of common stock in this offering.

	As of June 30, 2005	
Consolidated balance sheet data:	**Actual**	**As adjusted**

	(unaudited, in thousands)		
Cash	$	33,014	
Working capital		66,451	
Total assets		186,380	
Long-term debt, including current portion		10,768	10,768
Total liabilities		53,387	53,387
Total stockholders equity		132,993	

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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 prospectus before you decide to buy our common stock. Our business, financial condition or operating results may suffer if any of the following risks is 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

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. For example, beginning in the fourth quarter of 2000 and continuing into 2003, the semiconductor industry experienced 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 discrete semiconductors may experience renewed, 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 exclusively in the discrete semiconductor segment of the broader semiconductor market and, as a result, cyclical fluctuations may affect this segment to a greater extent than they do the broader semiconductor market. This may cause us to experience greater fluctuations in our results of operations than compared to some of our broadline 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 discrete semiconductor segment of 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 broadline semiconductor manufacturers who often have a wider range of product types and technologies than we do, since we focus on discrete semiconductor products. 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, International Rectifier Corporation, ON Semiconductor Corporation, Philips Electronics N.V., Rohm Electronics

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Risk Factors

USA LLC, 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 2004 and the six months ended June 30, 2005, Lite-On Semiconductor, our largest stockholder, our largest customer and the selling stockholder in this offering, accounted for 9.9% and 9.6%, respectively, of our net sales. Lite-On Semiconductor is also our largest supplier, providing us with discrete semiconductor products for subsequent sale by us which represented approximately 17.2% and 14.6%, respectively, of our net sales, in 2004 and the six months ended June 30, 2005. The loss of Lite-On Semiconductor as either a customer or a supplier, or any significant reduction in either the amount of product 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 facility is located in Kansas City, Missouri, 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 annual decreases in average selling prices for our products of 2.4% in 2002, 1.1% in 2003, and 3.1% in 2004. At times, average selling prices for some of our standard discrete semiconductors have been below our costs. 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.

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Risk Factors

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.

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 semiconductor products. Our failure to develop new technologies, or anticipate or react to changes in existing technologies, either within or outside of the discrete 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 technology 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 the discrete segment of the broader semiconductor industry, this may have a greater effect on us than it would if we were a broadline 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.

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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. 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,

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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, 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, in fiscal year 2000, we acquired FabTech, Inc., a wafer fabrication company, in order to have our own wafer manufacturing capabilities. While we do not currently have any agreements in place, or any active negotiations underway, with respect to any acquisition, 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

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affect our ability to integrate or realize any anticipated benefits from acquisitions that we may make include those associated with:

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

We are subject to many environmental laws and regulations that could 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 where our wafer fabrication facility is located, and in China where our assembly test and packaging facilities are located. 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 property, 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 share. 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. Although we conduct environmental due diligence on properties that we operate, our diligence may not have revealed all environmental conditions on those properties. Discovery of additional contamination for which we are responsible, the enactment of new

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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 personal computer might be sold by the computer maker for several hundred dollars. Although we maintain rigorous quality control systems, we shipped over 7.5 billion individual semiconductor devices in 2004 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 product 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, or that we will 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 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 this region 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 semiconductor market 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

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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 our are 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. 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 therefore some of our products inventory may become obsolete.

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 is 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 rely heavily on our internal electronic information and communications systems, and any system outage could adversely affect our business and results of operations.

All of our operations, other than FabTech, operate on a single technology platform. To manage our international operations efficiently and effectively, we rely heavily on our Enterprise Resource Planning 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. Difficulties in upgrading or expanding our Enterprise Resource Planning 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 are subject to interest rate risk which could have an adverse effect on our cost of working capital and interest expenses.

We have credit facilities with U.S. and Asian financial institutions, 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 June 30, 2005, our outstanding interest-bearing debt was $9.6 million. An increase of 1.0% in interest rates would increase our annual interest rate expense by approximately $96,000.

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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. In connection with their audit of our financial statements for 2004, our independent registered public accounting firm identified one significant deficiency in our internal controls, as well as several other deficiencies including a need for additional accounting personnel. 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 and it could harm our financial condition and results of operations and result in loss of investor confidence and a decline in our stock price.

Terrorist attacks, or threats or occurrences of other terrorist activities whether in the United States or internationally may affect the markets in which our common stock trades, the markets in which we operate and our 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 ports 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 or Kansas City, Missouri, 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 2004 and in the six months ended June 30, 2005, net sales to customers outside the United States represented 71.4% and 74.6%, respectively, of our net sales. There are risks inherent in doing business internationally, including:

- 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;

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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; and

longer customer payment terms.

Any or all of these factors could cause harm to our business.

We have significant operations and assets in China, Taiwan and Hong Kong 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 and Hong Kong. Our ability to operate in China, Taiwan and Hong Kong 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 in China, Taiwan and Hong Kong are subject to the economic and political situation there. We believe that our operations in China, Taiwan and Hong Kong 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 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 to some Asian currencies and, to a lesser extent, the Euro. For example, many of our employees, who are located in China are paid in the Chinese Yuan and, accordingly, an increase in the value of the Yuan compared to the U.S. dollar could increase our operating expenses. 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 and the Hong Kong dollar. The Chinese government has recently

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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. Currently, we do not 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 China, thereby increasing our income tax expense and reducing our net income.

As an incentive for establishing our first Shanghai-based manufacturing subsidiary, which we refer to as Diodes-China, in 1996 and in accordance with the taxation policies of China, Diodes-China, received preferential tax treatment for the years ended December 31, 1996 through 2004 and the six months ended June 30, 2005.

Diodes-China is located in the Songjiang district, where the standard central government tax rate is 24.0%. However, as an incentive for establishing Diodes-China, the earnings of Diodes-China 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 2004. For 2005 and future years, Diodes-China s earnings will continue to be subject to a 12.0% tax rate provided it exports at least 70.0% of its net sales. In addition, due to a $18.5 million permanent re-investment of Diodes-China earnings in 2004, Diodes-China has applied to the Chinese government for additional preferential tax treatment on earnings that are generated by this $18.5 million investment. If approved, those earnings will be exempted from central government income tax for two years, and then subject to a 12.0% tax rate for the following three years.

In addition, the earnings of Diodes-China would ordinarily be subject to a standard local government tax rate of 3.0%. However, as an incentive for establishing Diodes-China the local government waived this tax from 1996 through the first six months of 2005. Management expects this tax to be waived for at least the remainder of 2005, however, the local government can re-impose this tax at any time in its discretion.

In 2004, we established our second Shanghai-based manufacturing facility, Diodes-Shanghai, located in the Songjiang Export Zone of Shanghai, China. In the Songjiang Export Zone, the central government standard tax rate is 15.0%. There is no local government tax. During 2004, Diodes-Shanghai earnings were subject to the standard 15.0% central government tax rate. As an incentive for establishing Diodes-Shanghai, for 2005 and 2006 the earnings of Diodes-Shanghai are exempted from central government income tax, and for the years 2007 through 2009 its earnings will be subject to a 7.5% tax rate. From 2010 onward, provided that Diodes-Shanghai exports over 70.0% of its net sales, its earnings will be subject to a 10.0% tax rate.

We may not be able to continue receiving this preferential tax treatment, 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.

We are currently planning, and may in the future plan, to distribute earnings of our foreign subsidiaries from Asia to the United States. 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.

On October 22, 2004, the American Jobs Creation Act, or AJCA, was signed into law. Among other items, the AJCA establishes a phased repeal of the extraterritorial income exclusion, a new incentive tax deduction for U.S. corporations to repatriate cash from foreign subsidiaries equal to 85% of cash

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dividends received in the year elected that exceeds a base-period amount, and significantly revises the taxation of U.S. companies doing business abroad.

In December 2004, we estimated that we would repatriate a minimum of $8.0 million of cash from our subsidiaries in China and Hong Kong under the AJCA, and recorded a corresponding income tax expense in 2004 of approximately $1.3 million. Under the AJCA guidelines, we are developing a domestic reinvestment plan, covering items such as our U.S. credit agreement repayment, U.S. capital expenditures and U.S. research and development activities, among others, to utilize the $8.0 million dividend repatriation. In addition, we are completing a quantitative analysis of the benefits of the AJCA, the foreign tax credit implications, and state and local tax consequences of a dividend from our foreign subsidiaries to us, to maximize the tax benefits of such a dividend in 2005. In the six months ended June 30, 2005, we accrued $370,000 for U.S. taxes in connection with a potential increase in the planned $8.0 million dividend. We are currently evaluating the benefits of further increasing the dividend, including the additional associated income tax expense.

We are also evaluating the need to provide additional deferred taxes for the future earnings of Diodes-China, Diodes-Shanghai and Diodes-Hong Kong, to the extent such earnings may be appropriated for distribution to us in the United States, and as further investment strategies with respect to foreign earnings are determined. Should our U.S. cash requirements exceed the cash that is available to us from our U.S. operations or under our U.S. credit facilities, cash can be obtained from our foreign subsidiaries. However, the distribution of unappropriated funds to the United States in excess of that which has already been taxed in the United States will require the recording of U.S. federal and state income tax by the U.S. entity receiving such funds, thus reducing our net income in the period any such distribution is made.

RISKS RELATED TO THIS OFFERING AND OUR COMMON STOCK

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

We may experience, substantial variations in net sales 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 computer 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;
- 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.

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We may enter into future acquisitions and take certain actions in connection with such acquisitions which 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 have no current agreements and no active negotiations underway with respect to any acquisitions, 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.
After giving effect to this offering, our directors, executive officers and our affiliate, Lite-On Semiconductor, will beneficially own 32.3% of our outstanding common stock, including options to purchase shares of our common stock that are exercisable within 60 days of August 15, 2005. 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.
After giving effect to this offering, Lite-On Semiconductor, our largest stockholder, will own 23.5% of our common stock. Some of our directors and executive officers may have potential conflicts of interest because of their positions with Lite-On Semiconductor or their ownership of Lite-On Semiconductor common stock. Some of our directors are Lite-On Semiconductor directors and officers, and our non-employee chairman of the board is chairman of the board of Lite-On Semiconductor. Several of our directors and executive officers own Lite-On Semiconductor common stock and hold options to purchase Lite-On Semiconductor common stock. Service on our board of directors and as a director or officer of Lite-On Semiconductor, or ownership of Lite-On Semiconductor 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 us and Lite-On Semiconductor. For example, potential conflicts could arise in connection with decisions involving the common stock issued to Lite-On Semiconductor, or under the other agreements we may enter into with Lite-On Semiconductor. In 2004 and the six months ended June 30, 2005, Lite-On Semiconductor was our largest external supplier of discrete semiconductor products for subsequent sale by us. In 2004 and the six months ended June 30, 2005, approximately 17.2% and 14.6%, respectively, of our net sales were from products manufactured by Lite-On Semiconductor. In addition to being our largest external supplier of finished products in each of these periods, we sold silicon wafers to Lite-On Semiconductor totaling 9.9% and 9.6%, respectively, during such periods, of our net sales, making Lite-On Semiconductor our largest customer.

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

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 1969. We have had several transfer agents over the past 45 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.

We will have broad discretion in how we use the proceeds of this offering, and we may not use these proceeds effectively.

We will have considerable discretion in the application of the net proceeds of this offering, and you will not have the opportunity, as part of your investment decision, to assess whether we will use the proceeds effectively. We currently intend to use the net proceeds for working capital and other general corporate purposes, including acquisitions. We have not finalized yet the amount of net proceeds that we will use specifically for each of these purposes. We may use the net proceeds for corporate purposes that do not yield a significant return or any return at all for our stockholders.

The future sale of our common stock could negatively affect our stock price after this offering.

After this offering, based on the number of outstanding shares as of August 15, 2005, we will have approximately 16,370,683 shares of common stock outstanding. Sales of a substantial number of our shares of common stock in the public market following this offering or the expectation of such sales could cause the market price of our common stock to decline. All the shares sold in this offering will be freely tradeable, except that any shares purchased by our affiliates will remain subject to certain restrictions.

Lite-On Semiconductor, the selling stockholder in this offering, and our largest stockholder, will own 23.5% of our common stock after this offering. Any future sales of our common stock by Lite-On Semiconductor, or a perception among investors that such sales may occur, could negatively affect the price of our common stock.

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Special note regarding forward-looking statements

Many of the statements included in this prospectus 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, or similar phrases or th 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 prospectus. 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. You should, however, review the factors and risks we describe in our annual, quarterly and other reports we will file with the Securities and Exchange Commission, or SEC, after the date of this prospectus. See Where you can find additional information.

Industry data

This prospectus includes statistical data about the semiconductor industry that comes from Gartner, Inc., an independent industry research firm. All semiconductor market data attributed to Gartner are taken from the Forecast: Semiconductor, Worldwide, 2002-2010 (3Q05 Update) report published August 15, 2005, except for: 1998 discrete semiconductor segment data is taken from the Worldwide Semiconductor Market Trends: Discretes, 2003 report published August 7, 2003; and 2000 through 2001 overall semiconductor industry data is taken from the Semiconductor Forecast Worldwide Forecast Database report published August 15, 2005. This type of data represents the estimates of Gartner only and data from Gartner is specifically referenced each time it is used.

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Use of proceeds

We estimate that the net proceeds to us from the sale of 1,750,000 shares of common stock that we are offering will be approximately $ million after the payment of underwriting discounts and commissions and the estimated offering expenses payable by us. If the underwriters exercise their over-allotment option in full, we estimate the net proceeds to us from this offering to be approximately $. We will not receive any of the proceeds from the sale of shares of common stock offered by the selling stockholder.

We intend to use the net proceeds from this offering for working capital and other general corporate purposes, including acquisitions. We have no current agreements or commitments with respect to any acquisition, and we currently are not engaged in negotiations with respect to any acquisition. Accordingly, our management will have broad discretion in applying the net proceeds of this offering.

Pending application of the net proceeds, as described above, we intend to invest the net proceeds of this offering in short-term, investment-grade, interest-bearing securities.

Market price of common stock

Our common stock is listed on the Nasdaq National Market under the symbol DIOD . The following table sets forth the quarterly range of high and low reported sale prices of our common stock on the Nasdaq National Market for the periods indicated:

	Common stock price	
	High	**Low**
Year ended December 31, 2003		
First quarter	$ 8.40	$ 6.25
Second quarter	14.63	7.01
Third quarter	16.60	11.79
Fourth quarter	21.75	13.41
Year ended December 31, 2004		
First quarter	$ 26.96	$ 18.93
Second quarter	25.25	20.15
Third quarter	26.20	16.15
Fourth quarter	29.66	21.50
Year ended December 31, 2005		
First quarter	$ 27.86	$ 19.07
Second quarter	33.85	24.70
Third Quarter (through August 24, 2005)	38.80	30.80

On November 25, 2003, we effected a three-for-two stock split in the form of a 50% stock dividend. The sales prices above prior to such date have been adjusted to reflect the stock split.

On August 24, 2005, the last sale price per share for our common stock as reported on the Nasdaq National Market was $37.00 per share. As of August 15, 2005, there were 595 holders of record of our common stock.

Dividend policy

We have never declared or paid cash dividends on our common stock. We currently intend to retain all available funds and any future earnings for use in the operation and expansion of our business and do not anticipate paying any cash dividends in the near future. Any determination in the future to pay dividends will depend upon our financial condition, capital requirements, operating results and other factors deemed relevant by our board of directors, including any contractual or statutory restrictions on our ability to pay dividends.

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Capitalization

The following table sets forth our cash and capitalization as of June 30, 2005:

on an actual basis; and

on an as adjusted basis to give effect to the issuance of 1,750,000 shares of common stock by us in this offering, resulting in estimated proceeds of $, after deducting underwriting discounts and commissions and the estimated offering expenses payable by us.

You should read this table together with Management s discussion and analysis of financial condition and results of operations, Description of capital stock and our consolidated financial statements and related notes included elsewhere in this prospectus.

	As of June 30, 2005	
	Actual	As adjusted
	(in thousands, except share and per share data, unaudited)	
Cash	$ 33,014	$
Long-term debt, including current portion	$ 10,768	$ 10,768
Stockholders equity:		
Class A convertible preferred stock, par value $1.00 per share, 1,000,000 shares authorized, no shares issued and outstanding, actual and as adjusted		
Common stock, par value $0.66 2/3 per share, 30,000,000 shares authorized, 16,185,552 shares issued, actual; 30,000,000 shares authorized, 17,935,552 shares issued, as adjusted	10,791	
Additional paid-in capital	26,946	
Retained earnings	96,235	96,235
Less: Treasury stock 1,613,508 shares of common stock, at cost	1,782	1,782
Less: Accumulated other comprehensive income	(803)	(803)
Total stockholders equity	132,993	
Total capitalization	$ 176,775	$

The table above excludes:

2,409,922 shares of common stock issuable after the completion of this offering upon the exercise of outstanding stock options under our stock incentive plans at a weighted average exercise price of $11.78 per share; and

571,462 shares of common stock available for future grants under our stock incentive plans.

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Selected historical consolidated financial data

The following table presents our summary historical consolidated financial data for the years ended, December 31, 2000, 2001, 2002, 2003 and 2004. Our consolidated statements of income data for the years ended December 31, 2002, 2003 and 2004 have been derived from our audited consolidated financial statements included elsewhere in this prospectus. Our consolidated statements of income data for the years ended December 31, 2000 and 2001 have been derived from our audited consolidated financial statements not included in this prospectus. Our consolidated balance sheet data as of June 30, 2005 and our consolidated statement of income for each of the six-month periods ended June 30, 2004 and 2005 have been derived from our unaudited consolidated financial statements included elsewhere in this prospectus and which, in our opinion, have been prepared on the same basis as our audited consolidated financial statements and include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of our results of operations and financial position for these periods. These historical results are not necessarily indicative of results to be expected for any future period. You should read this information together with Summary historical consolidated financial data, Management s discussion and analysis of financial condition and results of operations, and our consolidated financial statements and related notes included elsewhere in this prospectus.

	Year ended December 31,					**Six months ended June 30,**	
	2000	**2001**	**2002**	**2003**	**2004**	**2004**	**2005**
	(in thousands, except per share data)					**(unaudited)**	
Consolidated statement of income data:							
Net sales	$ 118,462	$ 93,210	$ 115,821	$ 136,905	$ 185,703	$ 88,442	$ 99,198
Cost of goods sold	81,035	79,031	89,111	100,377	124,968	60,664	65,105
Gross profit	37,427	14,179	26,710	36,528	60,735	27,778	34,093
Operating Expenses							
Selling, general and administrative	18,814	13,711	16,228	19,586	23,503	11,908	13,888
Research and development	141	592	1,472	2,049	3,422	1,562	1,750
Loss (gain) on sale of fixed assets		8	43	1,037	14	15	(105)
Total operating expenses	18,955	14,311	17,743	22,672	26,939	13,485	15,533
Income (loss) from operations	18,472	(132)	8,967	13,856	33,796	14,293	18,560
Interest expense, net	940	2,074	1,183	860	637	327	234
Other income (expense)	501	785	67	(5)	(418)	(124)	(21)
Income (loss) before taxes and minority interest	18,033	(1,421)	7,851	12,991	32,741	13,842	18,305

Income tax benefit (provision)	(2,496)	1,769	(1,729)	(2,460)	(6,514)	(2,543)	(2,903)
Minority interest in earnings of joint venture	(642)	(224)	(320)	(436)	(676)	(319)	(497)
Net income	$ 14,895	$ 124	$ 5,802	$ 10,095	$ 25,551	$ 10,980	$ 14,905
Earnings per share(1):							
Basic	$ 1.23	$ 0.01	$ 0.47	$ 0.79	$ 1.91	$ 0.83	$ 1.04
Diluted	$ 1.08	$ 0.01	$ 0.44	$ 0.70	$ 1.65	$ 0.72	$ 0.93
Number of shares used in computation(1):							
Basic	12,107	12,216	12,277	12,731	13,404	13,181	14,319
Diluted	13,833	13,322	13,297	14,406	15,471	15,306	16,071
Consolidated statement of cash flows data:							
Cash flow from operating activities	10,208	14,938	19,990	18,821	29,300	13,781	24,138
Cash (used in) investing activities	(21,389)	(8,477)	(6,774)	(15,289)	(26,133)	(10,245)	(6,845)
Cash flow from (used in) financing activities	12,100	(2,485)	(13,995)	1,862	2,163	(1,890)	(3,477)
Other data:							
EBITDA(2)	$ 22,334	$ 9,099	$ 18,461	$ 24,488	$ 45,875	$ 19,995	$ 25,855

Footnotes on following page.

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Selected historical consolidated financial data

Footnotes from previous page.

(1) *Adjusted for the effect of 3-for-2 stock splits in July 2000 and November 2003.*

(2) *EBITDA represents earnings before net interest expense, income tax provision, depreciation and amortization. Our management believes EBITDA is useful to investors because it is frequently used by securities analysts, investors and other interested parties in evaluating companies in our industry. In addition, our management believes that EBITDA is useful in evaluating our operating performance compared to that of other companies in our industry because the calculation of EBITDA generally eliminates the effects of financing and income taxes and the accounting effects of capital spending, which items may vary for different companies for reasons unrelated to overall operating performance. As a result, our management uses EBITDA as a measure to evaluate the performance of our business. However, EBITDA is not a recognized measurement under generally accepted accounting principles, or GAAP, and when analyzing our operating performance, investors should use EBITDA in addition to, and not as an alternative for, income from operations and net income, each as determined in accordance with GAAP. Because not all companies use identical calculations, our presentation of EBITDA may not be comparable to similarly titled measures of other companies. Furthermore, EBITDA is not intended to be a measure of free cash flow for our management s discretionary use, as it does not consider certain cash requirements such as a tax and debt service payments.*

	Year ended December 31,					Six months ended June 30,	
Reconciliation of net income to EBITDA:	**2000**	**2001**	**2002**	**2003**	**2004**	**2004**	**2005**
						(unaudited)	
				(in thousands)			
Net income	$ 14,895	$ 124	$ 5,802	$ 10,095	$ 25,551	$ 10,980	$ 14,905
plus:							
Interest expense, net	940	2,074	1,183	860	637	327	234
Income tax provision (benefit)	2,496	(1,769)	1,729	2,460	6,514	2,543	2,903
Depreciation and amortization	5,003	8,670	9,747	11,073	13,173	6,145	7,813
EBITDA	$ 23,334	$ 9,099	$ 18,461	$ 24,488	$ 45,875	$ 19,995	$ 25,855

	As of December 31,					As of June 30,	
Consolidated balance sheet data:	**2000**	**2001**	**2002**	**2003**	**2004**	**2004**	**2005**
						(unaudited)	
				(in thousands)			
Total assets	$ 112,950	$ 103,258	$ 105,010	$ 123,795	$ 167,801	$ 143,033	$ 186,380

Working capital	17,291	19,798	20,830	27,154	49,571	33,083	66,451
Long-term debt, net of current portion	15,997	21,164	12,583	6,750	7,833	5,500	3,877
Stockholders equity	51,253	51,124	57,679	71,450	112,148	86,326	132,993

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Management s discussion and analysis of financial condition and results of operations

The following discussion should be read in conjunction with our consolidated financial statements and accompanying notes included elsewhere in this prospectus. It contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed below and elsewhere in this prospectus, particularly under the heading Risk factors.

OVERVIEW

We are a global supplier of discrete semiconductor products. We design, manufacture and market discrete semiconductors focused on diverse end-use applications in the consumer electronics, computing, industrial, communications and automotive sectors. Discrete 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 discrete semiconductors provides us with a meaningful competitive advantage relative to broadline semiconductor companies that provide a wider range of semiconductor products.

We are headquartered in Westlake Village, California, near Los Angeles. Our manufacturing facilities are located in Shanghai, China; our wafer fabrication facility is in Kansas City, Missouri; and our sales and marketing and logistical centers are located in Taipei, Taiwan; Shanghai and Shenzhen, China; and Hong Kong. We also have regional sales offices in Derbyshire, England; Toulouse, France; Frankfurt, Germany; and various cities in the United States.

In 1998, we began to transform our business from the distribution of discrete semiconductors manufactured by others to the design, manufacture and marketing of discrete semiconductor products using our internal manufacturing capabilities. The key elements of our strategy of transforming our business from a distribution-based model to one primarily based on the design and manufacture of proprietary products are:

- expanding our manufacturing capacity, including establishing integrated state-of-the-art packaging and testing facilities in Asia, in 1998 and 2004, and acquiring a wafer foundry in the United States in 2000;

- expanding our sales and marketing organization in Asia in order to address the shift of manufacturing of electronics products from the United States to Asia;

- establishing our sales and marketing organization in Europe commencing in 2002; and

- expanding the number of our field application engineers to design our products into specific end-user applications.

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

- Since 1998, we have experienced increases in the demand for our products, and substantial pressure from our customers and competitors to reduce the selling price of our products. We expect future increases in net income to result primarily from increases in sales volume and improvements in product mix in order to offset reduced average selling prices of our products.

- In 2004 and the six months ended June 30, 2005, 14.3% and 15.8%, respectively, of our net sales derived from products introduced within the last three years, which we term new products, compared to 12.1% in 2003. New products generally have gross profit margins that are higher

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Management s discussion and analysis of financial condition and results of operations

than the margins of our standard products. We expect net sales derived from new products to increase in absolute terms, although our net sales of new products as a percentage of our net sales will depend on the demand for our standard products, as well as our product mix.

Our gross profit margin was 34.4% in the six months ended June 30, 2005, compared to 32.7% in 2004 and 26.7% in 2003. This improvement in our gross margin was due to improvements in product mix, as well as increases in wafer and packaging yields, reductions in manufacturing costs and increases in capacity utilization. We expect only modest improvements in yields and capacity utilization in the future and, as a result, future gross profit margins will depend primarily on our product mix, as well as on the demand for our product.

As of June 30, 2005, we had invested approximately $83.0 million in our Asian manufacturing facilities. For the six months ended June 30, 2005, we invested approximately $6.0 million in our Asian manufacturing facilities and expect to invest an additional $9.0 to $11.0 million in these facilities for the remainder of 2005. 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.

In the six months ended June 30, 2005, the percentage of our net sales derived from our Asian subsidiaries was 64.7%, compared to 59.1% in 2004 and 55.5% in 2003. We expect our net sales to the Asian market to continue to increase as a percentage of our total net sales for the remainder of 2005 and 2006 as a result of the continuing shift of the manufacture of electronic products from the United States to Asia.

We have increased research and development expenses from $2.0 million, or 1.5% of net sales, in 2003 to $3.4 million, or 1.8% of net sales in 2004. We continue to seek to hire qualified engineers who fit our focus on proprietary discrete processes and packaging technologies. Our goal is to expand research and development expenses to approximately 3.0% of net sales as we bring additional proprietary devices to the market.

In addition, as part of our growth strategy, we may pursue acquisitions of complementary businesses, technologies or product lines.

Financial operations overview

Net sales

We generate a substantial portion of our net sales through the sale of discrete semiconductor products, designed and manufactured by us or third parties. We also generate a portion of our net sales from outsourcing manufacturing capacity to third parties and from the sale of silicon wafers to manufacturers of discrete semiconductor components. We serve customers across diversified industry segments, including the consumer electronics, computer, industrial, communications and automotive markets.

We recognize revenue from product sales when title to and risk of loss of the product have passed to the customer, there is persuasive evidence of an arrangement, the sale price is fixed or determinable and collection of the related receivable is reasonably assured. These criteria are generally met upon shipment to our customers. Net sales is stated net of reserves for pricing adjustments, discounts, rebates and returns.

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

the condition of the economy in general and of the semiconductor industry in particular;

our customers adjustments in their order levels;

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Management s discussion and analysis of financial condition and results of operations

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 discrete 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. Cost of goods sold also includes 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. We expect our selling, general and administrative expenses to increase in absolute dollars as we hire additional personnel and expand our sales, marketing and engineering efforts and information technology infrastructure.

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 associated with our wafer facility in Kansas City, Missouri and our manufacturing facilities in China, as well as our engineers in our U.S. headquarters.

All research and development expenses are expensed as incurred, and we expect our research and development expenses to increase in absolute dollars as we invest in new technologies and product lines.

Interest expense, net

Interest expense consists of interest payable on our outstanding credit facilities and other debt instruments. Interest income consists of interest earned on our cash balances.

Income tax provision

Our global presence requires us to pay income taxes in a number of jurisdictions. In general, earnings in the United States and Taiwan are currently subject to tax rates of 39.0% and 35.0%, respectively. Earnings of Diodes-Hong Kong are currently subject to a 17.5% tax for local sales and/or local source

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Management s discussion and analysis of financial condition and results of operations

sales, all other sales are foreign income tax-free. Earnings at Diodes-Taiwan and Diodes-Hong Kong are also subject to U.S. taxes with respect to those earning 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 these earnings is the 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. federal tax liability for income taxes paid by our foreign subsidiaries.

As an incentive for establishing Diodes-China in 1996, and in accordance with the current taxation policies of China, Diodes-China, received preferential tax treatment for the years ended December 31, 1996 through 2004 and the six months ended June 30, 2005.

Diodes-China is located in Songjiang district, where the standard central government tax rate is 24.0%. However, as an incentive for establishing Diodes-China, the earnings of Diodes-China 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 2004. For 2005 and future years, Diodes-China s earnings will continue to be subject to a 12.0% tax rate provided it exports at least 70.0% of its net sales. In addition, due to a $18.5 million permanent re-investment of Diodes-China earnings in 2004, Diodes-China has applied to the Chinese government for additional preferential tax treatment on earnings that are generated by this $18.5 million investment. If approved, those earnings will be exempted from central government income tax for two years, and then subject to a 12.0% tax rate for the following three years.

In addition, the earnings of Diodes-China would ordinarily be subject to a standard local government tax rate of 3.0%. However, as an incentive for establishing Diodes-China the local government waived this tax from 1996 through the first six months of 2005. Management expects this tax to be waived for at least the remainder of 2005, however, the local government can re-impose this tax at any time in its discretion.

In 2004, we established Diodes-Shanghai located in the Songjiang Export Zone of Shanghai, China. In the Songjiang Export Zone, the central government standard tax rate is 15.0%. There is no local government tax. During 2004, Diodes-Shanghai earnings were subject to the standard 15.0% central government tax rate.

As an incentive for establishing Diodes-Shanghai, for 2005 and 2006, the earnings of Diodes-Shanghai are exempted from central government income tax, and for the years 2007 through 2009 its earnings will be subject to a 7.5% tax rate. From 2010 onward, provided that Diodes-Shanghai exports over 70.0% of its net sales, the earnings will be subject to a 10.0% tax rate. We currently intend to maintain this volume of exports in the future.

On October 22, 2004, the American Jobs Creation Act, or AJCA, was signed into law. Among other items, the AJCA establishes a phased repeal of the extraterritorial income exclusion, a new incentive tax deduction for U.S. corporations to repatriate cash from foreign subsidiaries equal to 85% of cash dividends received in the year elected that exceeds a base-period amount, and significantly revises the taxation of U.S. companies doing business abroad.

In December 2004, we estimated that we would repatriate a minimum of $8.0 million of cash from our subsidiaries in China and Hong Kong under the AJCA, and recorded a corresponding income tax expense in 2004 of approximately $1.3 million. Under the AJCA guidelines, we are developing a domestic reinvestment plan, covering items such as our U.S. credit agreement repayment, U.S. capital expenditures and U.S. research and development activities, among others, to utilize the $8.0 million dividend repatriation. In addition, we are completing a quantitative analysis of the benefits of the AJCA, the foreign tax credit implications, and state and local tax consequences of a dividend from our foreign subsidiaries to us, to maximize the tax benefits of such a dividend in 2005. In the six months ended June 30, 2005, we accrued $370,000 for U.S. taxes in connection with a potential increase in

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Management s discussion and analysis of financial condition and results of operations

the planned $8.0 million dividend to be received from our Asian subsidiaries in accordance with the AJCA. We are currently evaluating the benefits of further increasing the dividend, including the additional associated income tax expense.

We are also evaluating the need to provide additional deferred taxes for the future earnings of Diodes-China, Diodes-Shanghai and Diodes-Hong Kong to the extent such earnings may be appropriated for distribution to us in the United States, and as further investment strategies with respect to foreign earnings are determined. Should our U.S. cash requirements exceed the cash that is available to us from our U.S. operations or under our U.S. credit facilities, cash can be obtained from our foreign subsidiaries. However, the distribution of unappropriated funds to the United States in excess of that which has already been taxed in the United States will require the recording of U.S. federal and state income tax by the U.S. entity receiving such funds, thus reducing our net income in the period any such distribution is made.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in accordance with GAAP requires management to 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, including those related to revenue recognition, allowance for doubtful accounts, inventory reserves and income taxes, among others. Our estimates 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 and 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 collectibility 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.

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 North American 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.

Inventory reserves

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. Based upon this analysis, as well as an inventory aging analysis, we accrue a reserve for obsolete and slow-moving inventory. If future demand or market conditions are different than our

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Management s discussion and analysis of financial condition and results of operations

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. Significant management judgment is required in determining our provision for income taxes, deferred tax assets and liabilities. Management continually evaluates its deferred tax asset as to whether it is likely that the deferred tax assets will be realized. If management ever determined that our deferred tax asset was not likely to be realized, a write-down of the asset would be required and would be reflected as an expense in the accompanying period.

Allowance for doubtful accounts

Management evaluates 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.

Impairment of long-lived assets

As of December 31, 2004, goodwill was $5.1 million ($4.2 million related to the FabTech acquisition, and $881,000 related to Diodes-China). Beginning in fiscal 2002 with the adoption of SFAS No. 142 (Goodwill and Other Intangible Assets), goodwill is no longer amortized, but instead tested for impairment at least annually. As a result of our adoption of SFAS No. 142, we performed the required impairment tests of goodwill annually and has determined that the goodwill is fully recoverable.

We assess the impairment of long-lived assets, including goodwill, on an on-going basis and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Our impairment review process is based upon (1) an income approach from a discounted cash flow analysis, which uses our estimates of revenues, costs and expenses, as well as market growth rates, and (2) a market multiples approach which measures the value of an asset through an analysis of recent sales or offerings or comparable public entities. If ever the carrying value of the goodwill is determined to be less than the fair value of the underlying asset, a write-down of the asset will be required, with the resulting expense charged in the period that the impairment was determined.

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Management s discussion and analysis of financial condition and results of operations

RESULTS OF OPERATIONS

The following table sets forth the items in our consolidated income statements as a percentage of net sales for the periods presented.

	Year ended December 31,			Six months ended June 30,	
Consolidated statements of income data:	**2002**	**2003**	**2004**	**2004**	**2005**
				(unaudited)	
Net sales	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	76.9	73.3	67.3	68.6	65.6
Gross profit	23.1	26.7	32.7	31.4	34.4
Selling, general and administrative expenses	14.0	14.3	12.7	13.5	14.0
Research and development expenses	1.3	1.5	1.8	1.8	1.8
Impairment of fixed assets		0.8			
Gain (loss) on disposal of fixed assets					(0.1)
Income from operations	7.7	10.1	18.2	16.2	18.7
Interest expense, net	(1.0)	(0.6)	(0.3)	(0.4)	(0.2)
Other income (expense)	0.1		(0.2)	(0.1)	
Income before taxes and minority interest	6.8	9.5	17.7	15.7	18.5
Income tax provision	(1.5)	(1.8)	(3.5)	(2.9)	(2.9)
Minority interest in earnings of joint venture	(0.3)	(0.3)	(0.4)	(0.4)	(0.5)
Net income	5.0%	7.4%	13.8%	12.4%	15.0%

Six months ended June 30, 2005 compared to six months ended June 30, 2004

Net sales

Net sales increased approximately $10.8 million, or 12.2%, for the six months ended June 30, 2005, compared to the same period in 2004, due primarily to an approximately 27.8% increase in units sold as a result of increased demand, primarily in Asia. Our average selling prices, for discrete devices decreased approximately 6.9% from the same period in 2004 due primarily to product mix changes. Average selling prices for wafer products decreased approximately 9.9% from the same period last year due primarily to market pricing pressure.

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 six months ended June 30,		Percentage of net sales	
	2005	**2004**	**2005**	**2004**

	(dollars in thousands)			
Taiwan	$ 33,606	$ 23,464	33.9%	26.5%
China	25,535	19,161	25.7	21.7
United States	25,157	25,550	25.4	28.9
Korea	5,225	8,577	5.3	9.7
Singapore	4,494	5,319	4.5	6.0
All others	5,181			