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

Amendment No. 1
to
Form S-3
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

DIODES INCORPORATED

(Exact name of registrant as specified in its charter)

Delaware
*(State or other jurisdiction of
incorporation or organization)*

95-2039518
*(I.R.S. Employer
Identification 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
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(Name, address, including zip code, and telephone number, including area code, of agent for service)

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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.

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.

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.

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.

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

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.

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

September 8, 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 September 7, 2005, the last sale price of our common stock as reported on the Nasdaq National Market was \$37.92 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.

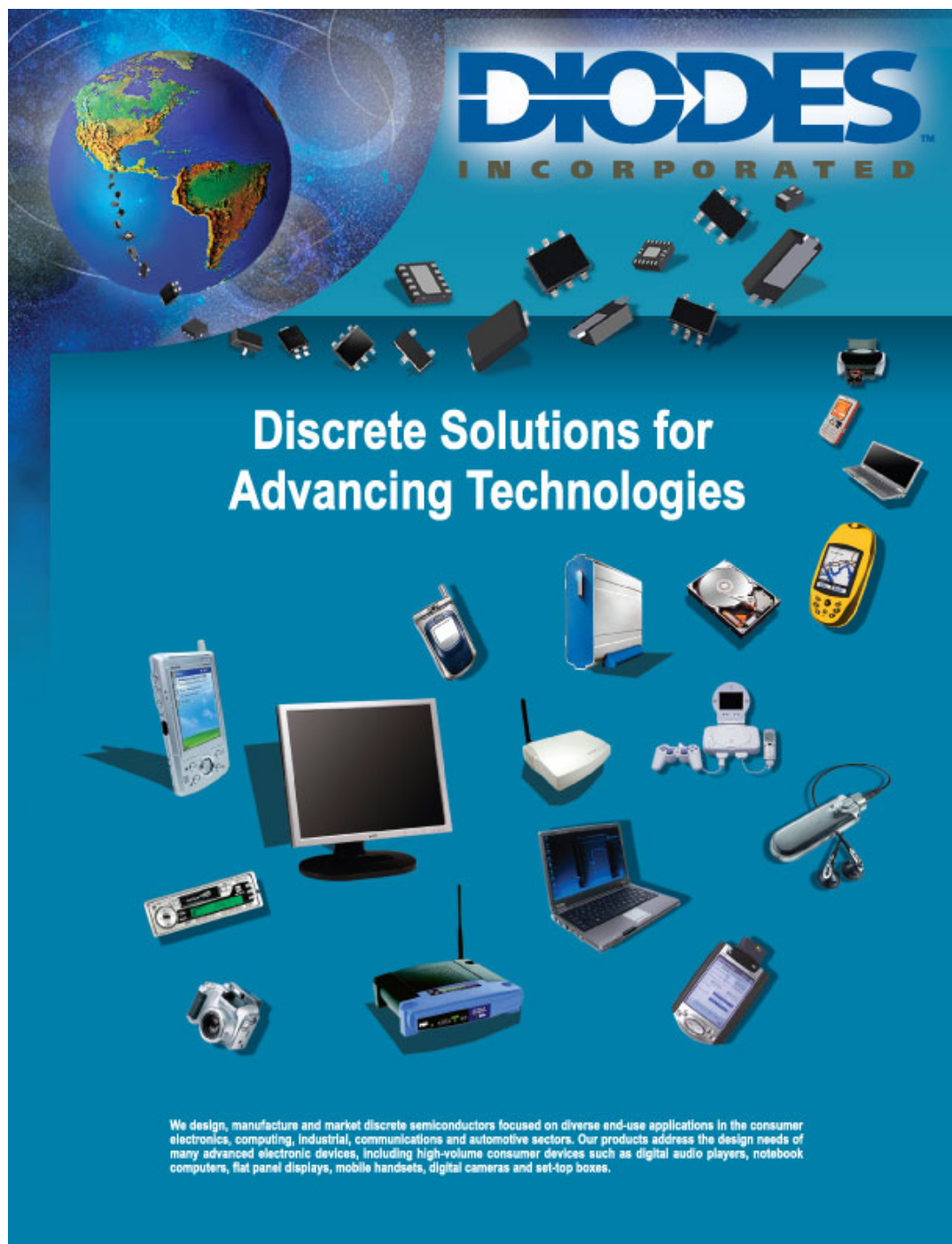
	Per Share	Total
Public offering price	\$	\$
Underwriting discounts and commissions	\$	\$
Proceeds, before expenses, to us	\$	\$
Proceeds, before expenses, to the selling stockholder	\$	\$

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.



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, including high-volume consumer devices such as digital audio players, notebook computers, flat panel displays, mobile handsets, digital cameras and set-top boxes. We believe that we have particular strength in designing innovative surface-mount 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 or representatives 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%.

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.

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) 16,370,683 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 14,620,683 shares of our common stock outstanding as of August 15, 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:

- 2,829,723 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 \$15.64 per share;
- 208,542 shares of common stock issuable upon vesting of outstanding restricted stock awards;
- 103,022 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 August 15, 2005, we had 16,234,191 shares issued of which (a) 14,620,683 shares were outstanding and (b) 1,613,508 were held as treasury stock, which were issued but not outstanding.

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, and for the six months ended June 30, 2004 and 2005. 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
	(in thousands, except per share data)					(unaudited)	
Consolidated statement of income data:							
Net sales	\$ 116,079	\$ 93,210	\$ 115,821	\$ 136,905	\$ 185,703	\$ 88,442	\$ 99,198
Cost of goods sold	78,652	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
Impairment of fixed assets	—	—	—	1,000	—	—	—
Loss (gain) on sale of fixed assets	—	8	43	37	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)	\$ 23,334	\$ 9,099	\$ 18,461	\$ 24,488	\$ 45,875	\$ 19,995	\$ 25,855

Footnotes on following page.

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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.

Consolidated balance sheet data:	As of June 30, 2005	
	Actual	As adjusted
	(unaudited, in thousands)	
Cash and cash equivalents	\$ 33,014	
Working capital	66,451	
Total assets	186,380	
Current portion of long-term debt	6,891	6,891
Long-term debt, net of current portion	3,877	3,877
Total liabilities	53,387	53,387
Total stockholders' equity	132,993	

(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.

Reconciliation of net income to EBITDA:	Year ended December 31,					Six months ended		
	2000	2001	2002	2003	2004	2004	2005	
	(in thousands)						(unaudited)	
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	<u>\$ 23,334</u>	<u>\$ 9,099</u>	<u>\$ 18,461</u>	<u>\$ 24,488</u>	<u>\$ 45,875</u>	<u>\$ 19,995</u>	<u>\$ 25,855</u>	

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

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.

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.

Risk factors

We may be subject to claims of infringement of third-party intellectual property rights or demands that we license third-party technology, which could result in significant expense and reduction in our intellectual property rights.

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,

Risk factors

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, 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

Risk factors

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 properties, as well as for damages to property or natural resources and for personal injury arising out of such contamination. Such liability may also be joint and several, meaning that we could be held responsible for more than our share of the liability involved, or even the entire 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

Risk factors

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 products could give rise to failures in the end products that incorporate them (and consequential claims for damages against our customers from their customers), we may face claims for damages that are disproportionate to the revenues and profits we receive from the products involved. In addition, our ability to reduce such liabilities may be limited by the laws or the customary business practices of the countries where we do business. Even in cases where we do not believe we have legal liability for such claims, we may choose to pay for them to retain a customer's business or goodwill or to settle claims to avoid protracted litigation. Our results of operations and business could be adversely affected as a result of a significant quality or performance issue in our products, if we are required or choose to pay for the damages that result. Although we currently have product liability insurance, we may not have sufficient insurance coverage, and we may not have sufficient resources, to satisfy all possible product liability claims. In addition, any perception that our products are defective would likely result in reduced sales of our products, loss of customers and harm to our business and reputation.

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

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

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

Our ability to successfully grow our business within the discrete 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

Risk factors

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 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 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.

Risk factors

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;

Risk factors

- 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

Risk factors

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 85.0% of cash

Risk factors

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 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.

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 computing and communications market and our other end markets;
- the timing of our and our competitors' new product introductions;
- product obsolescence;
- the scheduling, rescheduling and cancellation of large orders by our customers;
- the cyclical nature of demand for our customers' products;
- our ability to develop new process technologies and achieve volume production at our fabrication facilities;
- changes in manufacturing yields;
- 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.

Risk factors

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 our Board of Directors 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, of our net sales during such periods, making Lite-On Semiconductor our largest customer.

Risk factors

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.

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

You should not unduly rely on these forward-looking statements, which speak only as of the date of this 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.

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 ending December 31, 2005		
First quarter	\$ 27.86	\$ 19.07
Second quarter	33.85	24.70
Third quarter (through September 7, 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 sale prices above prior to such date have been adjusted to reflect the stock split.

On September 7, 2005, the last sale price per share for our common stock as reported on the Nasdaq National Market was \$37.92 per share. As of August 15, 2005, there were 593 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.

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 and cash equivalents	\$ 33,014	\$ _____
Long-term debt, including current portion	\$ 10,768	\$ 10,768
Stockholders’ equity:		
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;
- 208,542 shares of common stock issuable upon vesting of outstanding restricted stock awards; and
- 571,462 shares of common stock available for future grants under our stock incentive plans.

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, and for the six months ended June 30, 2004 and 2005. 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)						
Consolidated statement of income data:							
Net sales	\$ 116,079	\$ 93,210	\$ 115,821	\$ 136,905	\$ 185,703	\$ 88,442	\$ 99,198
Cost of goods sold	78,652	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
Impairment of fixed assets	—	—	—	1,000	—	—	—
Loss (gain) on sale of fixed assets	—	8	43	37	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)	\$ 23,334	\$ 9,099	\$ 18,461	\$ 24,488	\$ 45,875	\$ 19,995	\$ 25,855

Footnotes on following page.

Selected historical consolidated financial data

Consolidated balance sheet data:	As of December 31,					As of June 30,	
	2000	2001	2002	2003	2004	2004	2005
	(in thousands)					(unaudited)	
Cash and cash equivalents	\$ 4,476	\$ 8,103	\$ 7,284	\$ 12,847	\$ 18,970	\$ 14,586	\$ 33,014
Working capital	17,291	19,798	20,830	27,154	49,571	33,083	66,451
Total assets	112,950	103,258	105,010	123,795	167,801	143,033	186,380
Current portion of long-term debt	14,860	8,333	5,833	5,833	3,514	4,167	6,891
Long-term debt, net of current portion	15,997	21,164	12,583	6,750	7,833	5,500	3,877
Total liabilities	61,697	52,134	47,331	52,345	55,653	56,707	53,387
Total stockholders' equity	51,253	51,124	57,679	71,450	112,148	86,326	132,993

(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 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.

Reconciliation of net income to EBITDA:	Year ended December 31,					Six months ended June 30,	
	2000	2001	2002	2003	2004	2004	2005
	(in thousands)					(unaudited)	
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

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 or representatives 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

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, computing, 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;

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

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 earnings that are derived from product manufactured by our China subsidiaries and sold to customers outside of Taiwan and Hong Kong, respectively. The U.S. tax rate on these earnings is computed as the difference between the foreign effective tax rates and the U.S. tax rate. In accordance with U.S. tax law, we receive credit against our U.S. 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 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 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 85.0% 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

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

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 have 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.

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.

Consolidated statements of income data:	Year ended December 31,			Six months ended June 30,	
	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 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	
	2004	2005	2004	2005
	(dollars in thousands)			
Taiwan	\$ 23,464	\$ 33,606	26.5%	33.9%
China	19,161	25,535	21.7	25.7
United States	25,550	25,157	28.9	25.4
Korea	8,577	5,225	9.7	5.3
Singapore	5,319	4,494	6.0	4.5
All others	6,371	5,181	7.2	5.2
Total	\$ 88,442	\$ 99,198	100.0%	100.0%

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

Cost of goods sold

Cost of goods sold increased approximately \$4.4 million, or 7.3%, for the six months ended June 30, 2005, compared to the same period in 2004. As a percent of net sales, cost of goods sold decreased to 65.6% for the six months ended June 30, 2005 from 68.6% for the same period in 2004. Our average unit cost for discrete devices decreased approximately 8.5% in the six months ended June 30, 2005 from the same period in 2004. Average unit cost for wafer products decreased approximately 6.2% in the six months ended June 30, 2005 from the same period in 2004. This decrease was due primarily to improved manufacturing efficiencies.

Gross profit

Gross profit for the six months ended June 30, 2005 increased approximately \$6.3 million, or 22.7%, compared to the same period in 2004. Of the \$6.3 million increase, approximately \$3.4 million was due to the 12.1% increase in net sales, while \$2.9 million was due to the increase in gross margin percentage to 34.4% from 31.4%. The higher gross margin percentage was due primarily to improved product sales mix, increased capacity utilization and manufacturing efficiencies, partially offset by pricing pressure on our wafer products.

Selling, general and administrative expenses

Selling, general and administrative expenses for the six months ended June 30, 2005 increased approximately \$2.0 million, or 16.6%, compared to the same period in 2004, due primarily to (1) audit and legal expenses associated with Sarbanes-Oxley Act compliance, (2) a \$358,000 expense relating to share inducement grants made to Dr. Keh-Shew Lu, our President and Chief Executive Officer, and C.H. Chen, our Vice Chairman, (3) higher sales commissions, wages and marketing expenses associated with increased sales and (4) consulting expenses associated with the upgrade to our Enterprise Resource Planning system.

Selling, general and administrative expenses, as a percentage of net sales, was 14.0% for the six months ended June 30, 2005, compared to 13.5% in the same period in 2004.

Research and development expenses

Research and development expenses for the six months ended June 30, 2005 increased 12.0% to \$1.8 million from \$1.6 million in the same period in 2004, although as a percentage of net sales they remained unchanged at 1.8%. Research and development expenses were primarily related to increasing our manufacturing and packaging capability.

Gain on sale of fixed assets

Gain on sale of fixed assets of \$105,000 for the six months ended June 30, 2005 was due primarily to a gain on the termination of two capital leases in China.

Interest expense, net

Net interest expense for the six months ended June 30, 2005 decreased approximately \$93,000, or 28.4%, compared to the same period in 2004, due primarily to a reduction in our total debt from \$17.5 million at June 30, 2004 to \$10.8 million at June 30, 2005. Our interest expense has been primarily the result of borrowings to finance the FabTech acquisition in 2000, as well as our ongoing investment in, and expansion of, our Diodes-China and Diodes-Shanghai manufacturing facilities.

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

Other expense

Other expense for the six months ended June 30, 2005 decreased \$103,000, compared to the same period in 2004, due primarily to lower currency exchange losses in Taiwan as well as the expiration of management incentive agreements associated with the FabTech acquisition.

Income tax provision

We recognized income tax expense of \$2.9 million for the six months ended June 30, 2005, resulting in an effective tax rate of 15.9%, as compared to 18.4% for the same period in 2004, due primarily to an increase in profits earned in lower tax rate jurisdictions. For the six months ended June 30, 2005, we accrued an additional \$370,000 for taxes on an increase of a planned \$8.0 million dividend to be paid to us by our Asian subsidiaries in accordance with the provisions of the AJCA. We are evaluating the benefits of further increasing this dividend and the additional income tax expense associated with such increase.

Minority interest in joint venture earnings

Minority interest in joint venture earnings represents the minority investor's share of the income of Diodes-China and Diodes-Shanghai for the relevant period. We established Diodes-Shanghai in 2004. The increase in these subsidiaries' income for the six months ended June 30, 2005 is primarily the result of increased sales, and manufacturing efficiencies. As of June 30, 2005, we had a 95.0% controlling interest in each of these subsidiaries.

Net income

We generated net income of \$14.9 million (or \$1.04 basic earnings per share and \$0.93 diluted earnings per share) for the six months ended June 30, 2005, as compared to \$11.0 million (or \$0.83 basic earnings per share and \$0.72 diluted earnings per share) for the same period in 2004. This 35.7% increase in net income is due primarily to the 12.2% net sales increase to an average gross profit margin of 34.4% for the six months ended June 30, 2005, compared to an average gross profit margin of 31.4% in the same period in 2004.

Year ended December 31, 2004 compared to year ended December 31, 2003

Net sales

Net sales for 2004 increased \$48.8 million to \$185.7 million, from \$136.9 million for 2003. The 35.6% increase was due primarily to an approximately 40.0% increase in units sold as a result of increased demand for our products, as well as an improved product mix, offset in part by a 9.1% decrease in average selling prices for wafers.

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

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:

Country	Net sales year ended December 31,		Percentage of net sales	
	2003	2004	2003	2004
	(dollars in thousands)			
United States	\$ 41,593	\$ 53,204	30.4%	28.7%
Taiwan	38,087	50,716	27.8	27.3
China	25,908	44,311	18.9	23.9
Korea	14,455	16,447	10.6	8.9
Singapore	9,032	9,407	6.6	5.1
All others	7,830	11,618	5.7	6.1
Total	<u>\$ 136,905</u>	<u>\$ 185,703</u>	<u>100.0%</u>	<u>100.0%</u>

Cost of goods sold

Cost of goods sold increased \$24.6 million, or 24.5%, for 2004 compared to 2003 as a result of the increase in net sales. As a percent of net sales, however, cost of goods sold decreased to 67.3% for 2004 from 73.3% for 2003. Our average unit cost for discrete devices decreased approximately 6.5% from 2003, and average unit cost for wafer products decreased approximately 12.1%. These cost decreases were due primarily to improved manufacturing efficiencies.

Gross profit

Gross profit for 2004 increased 66.3% to \$60.7 million from \$36.5 million for 2003. Of the \$24.2 million increase, \$13.0 million was due to an increase in gross profit margin from 26.7% in 2003 to 32.7% in 2004, while \$11.2 million was due to the 35.6% increase in net sales. Gross profit increases in Asia were the primary contributor to the overall gross profit increase in 2004. Gross profit margin increased due to enhanced capacity utilization, continuing manufacturing efficiencies, relatively stable pricing, and a product mix that continued to shift toward higher-value performance discrete semiconductor devices and arrays.

Selling, general and administrative expenses

For 2004, selling, general and administrative expenses increased \$3.9 million to \$23.5 million from \$19.6 million for 2003. The 19.9% increase in selling, general and administrative expenses was due primarily to higher sales commissions, incentives, marketing and royalty expenses associated with the 35.6% increase in net sales for the year, and higher wage and benefits expenses. Also contributing to the increased selling, general and administrative expenses were higher corporate and administrative expenses, including legal and accounting fees associated with Sarbanes-Oxley Act compliance. However, as a percentage of sales, selling, general and administrative expenses decreased to 12.7% for 2004 from 14.3% in 2003.

Research and development expenses

Research and development expenses increased to \$3.4 million, or 1.8% of net sales, in 2004 from \$2.0 million, or 1.5% of sales, in 2003. Research and development expenses were primarily related to new product development relating to silicon wafers, and, to a lesser extent, to packaging. We continue

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

to seek to hire qualified engineers who fit our focus on next-generation discrete processes and packaging technologies.

Interest expense, net

Net interest expense for 2004 decreased \$223,000 to \$637,000 from \$860,000 in 2003, due primarily to a decrease in the use of our credit facilities, as well as to lower interest rates. In 2004, we repaid \$3.6 million of debt outstanding under our credit facilities, reducing the balances outstanding from \$21.1 million at December 31, 2003 to \$17.5 million at December 31, 2004.

Other expense

Other expense for 2004 increased \$413,000 compared to 2003, primarily due to approximately \$400,000 in currency exchange losses related to the weakened U.S. dollar, primarily versus the Taiwan dollar, recorded in the fourth quarter of 2004.

Income tax provision

Our effective tax rate in 2004 was 19.9%, compared to 18.9% for 2003. We recorded a provision for income taxes in the amount of \$6.5 million for 2004, compared to \$2.5 million for 2003. Included in the tax provision for 2004 is \$1.3 million in deferred taxes recorded in the fourth quarter for the \$8.0 million planned dividend distribution from our Asian subsidiaries in 2005 under the AJCA, offset by a \$1.2 million foreign investment tax refund (net of U.S. taxes), and approximately \$500,000 research and development tax credit.

Minority interest in joint venture earnings

The minority interest in joint venture earnings represents the minority investor's share of income of Diodes-China and Diodes-Shanghai for the relevant period. We established Diodes-Shanghai in 2004. The increase in these subsidiaries' income for 2004 is primarily the result of increased sales of higher margin products. As of December 31, 2004, we had a 95.0% controlling interest in each of these subsidiaries.

Net income

We generated net income of \$25.6 million (or \$1.91 basic earnings per share and \$1.65 diluted earnings per share) in 2004, as compared to \$10.1 million (or \$0.79 basic earnings per share and \$0.70 diluted earnings per share) for 2003. This 153.5% increase is due primarily to the 35.6% net sales increase to an average gross profit margin of 32.7% in 2004, compared to an average gross profit margin of 26.7% in 2003.

Year ended December 31, 2003 compared to year ended December 31, 2002

Net sales

Net sales for 2003 increased \$21.1 million to \$136.9 million from \$115.8 million for 2002. This 18.2% increase was due primarily to a 19.5% increase in units sold, resulting from increased demand for our products, as well as an improved product mix, offset in part by a 7.2% decrease in average selling prices for wafers.

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

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:

Country	Net sales year ended December 31,		Percentage of net sales	
	2002	2003	2002	2003
	(dollars in thousands)			
United States	\$ 40,125	\$ 41,593	34.6%	30.4%
Taiwan	25,507	38,087	22.0	27.8
China	23,467	25,908	20.3	18.9
Korea	5,255	14,455	4.5	10.6
Singapore	9,496	9,032	8.2	6.6
All others	11,971	7,830	10.4	5.7
Total	<u>\$ 115,821</u>	<u>\$ 136,905</u>	<u>100.0%</u>	<u>100.0%</u>

Cost of goods sold

Cost of goods sold increased \$11.3 million, or 12.7%, for 2003 compared to 2002. However, as a percent of net sales, cost of goods sold decreased to 73.3% for 2003 from 76.9% for 2002. Our average unit price for discrete semiconductor devices increased approximately 3.6% from 2002, due primarily to a product mix shift, while average unit cost for wafer products decreased approximately 11.2%, due primarily to improved manufacturing efficiencies.

Gross profit

Gross profit for 2003 increased 36.8% to \$36.5 million, from \$26.7 million for 2002. Of the \$9.8 million increase, \$5.0 million was due to the increase in gross profit margin from 23.1% in 2002 to 26.7% in 2003, while \$4.9 million was due to the 18.2% increase in net sales. Gross profit increases in Asia were the primary contributors to the gross profit increase in 2003. Gross profit margin for 2003 increased due to increased capacity utilization, continuing manufacturing efficiencies, relatively stable pricing, and a product mix that continued to shift towards higher-margin performance discrete semiconductor devices and arrays.

Selling, general and administrative expenses

For 2003, selling, general and administrative expenses increased 20.7% to \$19.6 million, from \$16.2 million for 2002. The \$3.4 million increase in selling, general and administrative expenses was due primarily to higher sales commissions associated with the 18.2% increase in sales, and higher wage and benefits expenses. Also contributing to the increased selling, general and administrative expenses were higher corporate and administrative expenses, including legal and accounting fees associated with Sarbanes-Oxley Act compliance. Selling, general and administrative expenses, as a percentage of sales, increased to 14.3% for 2003 from 14.0% in 2002.

Research and development expenses

Research and development expenses increased to \$2.0 million, or 1.5% of sales, in 2003 from \$1.5 million, or 1.3% of net sales, in 2002. Research and development expenses are primarily related to new product development relating to silicon wafers, and, to a lesser extent, to packaging.

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

Impairment of fixed assets and loss on disposal of fixed assets

In 2003, operating profit margins were negatively affected by a \$1.0 million reserve for fixed asset impairment, primarily as a result of the re-engineering of our wafer production lines. During the year, we took advantage of opportunities to purchase more efficient equipment at discounts. As a result, we retired non-depreciated equipment.

Interest expense, net

Net interest expense for 2003 decreased \$323,000 to \$860,000 from \$1.2 million in 2002, due primarily to a decrease in the use of our credit facilities, as well as to lower interest rates. In 2003, we repaid \$5.8 million of debt outstanding under our credit facilities, reducing the balances outstanding from \$12.6 million at December 31, 2002 to \$6.8 million at December 31, 2003.

Other expense

Other expense for 2003 was \$5,000, compared to other income of \$67,000 in 2002, primarily due to the discontinuance of income FabTech was receiving from a third party's use of its testing facilities in 2002, a decrease in high-technology grant income received at Diodes-China in 2003, and currency exchange losses primarily in Asia in 2003, partly offset by a severance payment in accordance with the terms of a separation agreement in 2002, as well as the reduction in the expense recorded for the management incentive agreement at FabTech in 2003.

Income tax provision

Our effective tax rate for 2003 was 18.9%, compared to 22.0% for 2002, due primarily to a higher proportion of income earned by our Asian subsidiaries, some of which are in jurisdictions that have lower effective tax rates than the United States. We benefited from our Diodes-Hong Kong subsidiary, established in 2002, not only due to its lower tax rates, but also as another entry point into the Asia market. We recorded a provision for income taxes in the amount of \$2.5 million for the year 2003, compared to \$1.7 million for 2002. Included in the tax provision for 2003 is \$840,000 in deferred taxes recorded for a portion of the 2003 earnings of Diodes-China, and \$200,000 for a portion of the 2003 earnings of Diodes-Hong Kong.

Minority interest in joint venture earnings

The minority interest in joint venture represents the minority investor's share of Diodes-China's income for the relevant period. The increase in Diodes-China's earnings for 2003 is primarily the result of increased sales. As of December 31, 2003, we had a 95.0% controlling interest in this subsidiary.

Net income

We generated net income of \$10.1 million (or \$0.79 basic earnings per share and \$0.70 diluted earnings per share) in 2003, compared to \$5.8 million (or \$0.47 basic earnings per share and \$0.44 diluted earnings per share) for 2002. This 74.0% increase is due primarily to the 18.2% sales increase to an average gross profit margin of 26.7% in 2003, compared to an average gross profit margin of 23.1% in 2002.

Management's discussion and analysis of financial condition and results of operations
QUARTERLY RESULTS OF OPERATIONS

The following table represents unaudited statement of operations data for our most recent ten fiscal quarters. You should read the following table in conjunction with our consolidated financial statements and related notes included elsewhere in this prospectus. The results of operations of any quarter are not necessarily indicative of the results that may be expected for any future period.

	Three months ended									
	Mar 31, 2003	Jun 30, 2003	Sep 30, 2003	Dec 31, 2003	Mar 31, 2004	Jun 30, 2004	Sep 30, 2004	Dec 31, 2004	Mar 31, 2005	Jun 30, 2005
	(in thousands, except per share data)									
Net sales	\$ 29,446	\$ 33,316	\$ 34,941	\$ 39,202	\$ 41,435	\$ 47,017	\$ 49,353	\$ 47,898	\$ 48,600	\$ 50,598
Cost of goods sold	21,985	24,970	25,779	27,643	28,685	31,989	32,607	31,687	32,004	33,101
Gross profit	7,461	8,346	9,162	11,559	12,750	15,028	16,746	16,211	16,596	17,497
Operating expenses:										
Selling, general and administrative expenses	4,233	4,777	5,089	5,487	5,476	6,417	6,171	5,439	6,692	7,196
Research and development expenses	346	400	612	691	763	815	942	902	900	850
Impairment of fixed assets	—	—	300	700	—	—	—	—	—	—
Loss (gain) on sale of fixed assets	(88)	32	—	93	23	(8)	(1)	—	(105)	—
Total operating expenses	4,491	5,209	6,001	6,971	6,262	7,224	7,112	6,341	7,487	8,046
Income from operations	2,970	3,137	3,161	4,588	6,488	7,804	9,634	9,870	9,109	9,451
Interest expense, net	244	218	209	189	182	145	160	150	154	79
Other income (expense)	(89)	(7)	126	(35)	(147)	24	91	(386)	(34)	12
Income before taxes and minority interest	2,637	2,912	3,078	4,364	6,159	7,683	9,565	9,334	8,921	9,384
Income tax benefit (provision)	(617)	(651)	(416)	(776)	(1,160)	(1,383)	(2,134)	(1,837)	(1,442)	(1,461)
Minority interest in joint venture earnings	(97)	(89)	(99)	(151)	(143)	(177)	(189)	(167)	(239)	(258)
Net income	<u>\$ 1,923</u>	<u>\$ 2,172</u>	<u>\$ 2,563</u>	<u>\$ 3,437</u>	<u>\$ 4,856</u>	<u>\$ 6,123</u>	<u>\$ 7,242</u>	<u>\$ 7,330</u>	<u>\$ 7,240</u>	<u>\$ 7,665</u>
Earnings per share(1):										
Basic	\$ 0.15	\$ 0.17	\$ 0.20	\$ 0.27	\$ 0.37	\$ 0.46	\$ 0.54	\$ 0.53	\$ 0.51	\$ 0.53
Diluted	\$ 0.14	\$ 0.15	\$ 0.18	\$ 0.23	\$ 0.32	\$ 0.40	\$ 0.47	\$ 0.47	\$ 0.46	\$ 0.47
Number of shares used in computation(1):										
Basic	12,472	12,678	12,813	12,954	13,097	13,265	13,356	13,897	14,218	14,419
Diluted	13,727	14,268	14,546	14,932	15,286	15,330	15,367	15,708	15,683	16,210

(1) Adjusted for the effect of a 3-for-2 stock split in November 2003.

Liquidity and capital resources

Our primary sources of liquidity are cash, funds from operations and borrowings under our credit facilities. Our primary liquidity requirements have been to meet our inventory and capital expenditure needs.

In 2002, 2003 and 2004, our capital expenditures were \$6.8 million, \$15.6 million and \$26.2 million, respectively. In the six months ended June 30, 2005, our capital expenditures were \$6.8 million. Our capital expenditures for these periods were primarily related to manufacturing expansion in our facilities in China and, to a lesser extent, our wafer fabrication facility in the United States. The increased amount of capital expenditures from 2002 through 2004 is primarily attributable to increasing capacity at our facilities to meet demand for our products, including the establishment of our Diodes-Shanghai facilities in 2004. In 2005, we expect our capital expenditures to be approximately \$15.0 to \$18.0 million as a result of the slower market growth compared to 2004.

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In addition, as part of our growth strategy, we may pursue acquisitions of complementary businesses, technology or product lines, which may require additional capital and require us to seek additional financing. Such additional funds or financing may not be available on terms acceptable to us, or at all.

We expect that our working capital, available borrowings under our credit facilities and the net proceeds we receive from this offering will be sufficient to meet our capital commitments and fund our operational needs for at least the next 18 to 24 months.

Discussion of cash flows

Cash has increased from \$7.3 million at December 31, 2002, to \$12.8 million at December 31, 2003, to \$19.0 million at December 31, 2004, to \$33.0 million at June 30, 2005.

Operating activities

Net cash provided by operating activities for the six months ended June 30, 2005 was \$24.1 million, resulting primarily from \$14.9 million of net income in this period. Net cash provided by operating activities was \$29.3 million for 2004, \$18.8 million for 2003 and \$20.0 million for 2002. Net cash provided by operations increased by \$10.5 million from 2003 to 2004. This increase resulted primarily from a \$15.5 million increase in our net income (from \$10.1 million in 2003 to \$25.6 million in 2004), partially offset by increases in inventories and accounts receivable, resulting from slower inventory turns due to our customers negotiating higher inventory requirements and longer payment terms. We continue to closely monitor our credit terms with our customers, while at times providing extended terms required by our customers in Asia and Europe. Net cash provided by operating activities decreased by \$1.2 million from 2002 to 2003. This decrease was primarily the result of an increase in inventories and accounts receivable, partially offset by a \$4.3 million increase in net income.

Investing activities

Net cash used by investing activities for the six months ended June 30, 2005 was \$6.8 million resulting from capital expenditures. Net cash used by investing activities was \$26.1 million for 2004, \$15.3 million for 2003 and \$6.8 million for 2002. Net cash used for investing activities in those periods primarily related to manufacturing expansion in our facilities in China and, to a lesser extent, our wafer fabrication facility in the United States.

Financing activities

Net cash used by financing activities for the six months ended June 30, 2005 was \$3.5 million, resulting from \$6.7 million repaid under our debt instruments during this period, offset by \$3.0 million received in connection with the exercise of stock options. Net cash provided by financing activities was \$2.2 million for 2004 and \$1.9 million for 2003, and net cash used by financing activities in 2002 was \$14.0 million. Net cash provided by financing activities for 2004 was primarily due to \$5.6 million received in connection with the exercise of stock options, partially offset by \$4.8 million repaid under our debt instruments. Net cash provided by financing activities for 2003 was primarily due to \$2.0 million received in connection with the exercise of stock options. Net cash used for financing activities for 2002 was primarily due to \$14.6 million repaid under our debt instruments.

Debt instruments

On August 29, 2005, we amended our U.S. credit arrangements with Union Bank of California, N.A, or Union Bank. Under the second amendment to our amended and restated credit agreement, we now have available a revolving credit commitment of up to \$20.0 million (an increase from \$7.5 million at

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

June 30, 2005), including a \$5.0 million letter of credit sub-facility. In connection with this amendment, one of our subsidiaries, FabTech, also amended and restated a term note and related agreement with respect to an existing term loan arrangement, which we refer to as the FabTech term loan. After giving effect to this amendment, the principal amount outstanding under the FabTech term loan was increased to \$5.0 million.

The revolving credit commitment expires on August 29, 2008. The FabTech term loan, which amortizes monthly, matures on August 29, 2010. As of June 30, 2005, we had no amounts outstanding under our revolving credit facility, and there was \$4.1 million outstanding under the previous FabTech term loan. Loans to Diodes Incorporated under our credit facility are guaranteed by FabTech. The FabTech term loan is guaranteed by Diodes Incorporated.

All loans under the credit facility and the FabTech term loan are collateralized by all of Diodes Incorporated's and FabTech's accounts, instruments, chattel paper, documents, general intangibles, inventory, equipment, furniture and fixtures, pursuant to security agreements entered into by Diodes Incorporated and FabTech in connection with these credit arrangements.

Both amounts borrowed under the revolving credit facility and the FabTech term loan bear interest at LIBOR plus 1.15%. At June 30, 2005, the effective rate under both the credit agreement and previous FabTech term loan was LIBOR plus 1.625%, or 4.765%.

The purpose of the revolving credit facility is to provide cash for domestic working capital purposes, and to fund permitted acquisitions.

The credit agreement contains covenants that require us to maintain a leverage ratio not greater than 2.25 to 1.0, an interest expense coverage ratio of not less than 2.0 to 1.0 and a current ratio of not less than 1.0 to 1.0. It also requires us to achieve a net profit after taxes, as of the last day of each fiscal quarter, for the two consecutive fiscal quarters ending on that date of not less than \$1. The credit agreement permits us to pay dividends to our stockholders to the extent that any such dividends declared or paid in any fiscal year do not exceed an amount equal to 50.0% of our net profit after taxes for such fiscal year. However, it limits our ability to dispose of assets, incur additional indebtedness, engage in a liquidation or merger, acquisition, partnership or other combination (except permitted acquisitions). The credit agreement also contains customary representations, warranties, affirmative and negative covenants and events of default.

The agreements governing the FabTech term loan do not contain any financial or negative covenants. However, they provide that a default under our credit agreement will cause a cross-default under the FabTech term loan.

As of June 30, 2005, FabTech also owed \$2.5 million under a note in favor of Lite-On Semiconductor, which debt was incurred in connection with our acquisition of FabTech from Lite-On Semiconductor in 2000. This note matures on June 30, 2006 and amortizes monthly. The obligations under this note are subordinated to the obligations under our U.S. credit agreement with Union Bank of California, N.A. This note bears interest at a rate of LIBOR plus 2.0% (effective rate of 5.14% at June 30, 2005).

Diodes-China and Diodes-Taiwan have available lines of credit of up to an aggregate of \$26.5 million, with a number of Chinese and Taiwanese financial institutions. These lines of credit are unsecured, uncommitted and in some instances may be repayable on demand. Loans under these lines of credit bear interest at LIBOR or similar indices plus a specified margin (our average effective rate under these lines of credit at June 30, 2005 was 4.285%).

As of June 30, 2005, Diodes-China owed \$1.2 million under a note to one of our customers, which debt was incurred in connection with our investing in manufacturing equipment. This note, which is

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unsecured and interest-free, is repaid by us in quarterly price concession installments, with any remaining balance due in July 2008.

OFF-BALANCE SHEET ARRANGEMENTS

We do not have any transactions, arrangements and other relationships with unconsolidated entities that will affect our liquidity or capital resources. We have no special purpose entities that provided off-balance sheet financing, liquidity or market or credit risk support, nor do we engage in leasing, hedging (except for the interest rate swap agreement, which expired in November 30, 2004), or research and development services, that could expose us to liability that is not reflected on the face of our financial statements.

CONTRACTUAL OBLIGATIONS

The following table represents our contractual obligations as of December 31, 2004:

	Total	Payments due by period			
		Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
					(in thousands)
Long-term debt	\$ 11,347	\$ 3,514	\$ 7,250	\$ 583	\$ —
Capital leases	2,777	230	460	460	1,627
Operating leases	13,498	3,461	6,420	3,617	—
Purchase obligations	2,927	2,927	—	—	—
Total obligations	\$ 30,549	\$ 10,132	\$ 14,130	\$ 4,660	\$ 1,627

There have been no material changes to our contractual obligations as of June 30, 2005, as compared to December 31, 2004.

Inflation did not have a material effect on net sales or net income in 2002 through the second quarter of 2005. A significant increase in inflation could affect future performance.

QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK**Foreign currency risk**

We face exposure to adverse movements in foreign currency exchange rates, primarily in Asia. 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. Certain of our assets, including certain bank accounts and accounts receivable, and liabilities exist in non-U.S. dollar denominated currencies, which are sensitive to foreign currency exchange fluctuations. These currencies are principally the Chinese Yuan and the Taiwanese dollar and, to a lesser extent, the Japanese Yen, the Euro and the Hong Kong dollar. Because of the relatively small size and nature of each individual currency exposure, we do not employ hedging techniques designed to mitigate foreign currency exposures. Therefore, we could experience currency gains and losses. If the Chinese Yuan and the Taiwanese dollar were to strengthen or weaken by 1.0% against the U.S. dollar, we would experience currency gains or losses of approximately \$150,000 and \$60,000, respectively. In the future, we may enter into hedging arrangements designed to mitigate foreign currency fluctuations.

In July 2005, the Chinese government allowed the Chinese Yuan to float and be traded freely, although it is only permitted to float within a 0.3% band against the Chinese central bank rate set for the U.S. dollar. Should the Chinese government allow a significant Chinese Yuan appreciation, and we

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do not take appropriate means to offset this exposure, the effect could have an adverse impact upon our financial results.

Interest rate risk

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. In July 2001, we entered into an interest rate swap agreement to hedge our exposure to variability in expected future cash flows resulting from interest rate risk related to a portion of our long-term debt. The interest rate under the swap agreement was fixed at 6.8% and was based on the notional amount of U.S. \$2.3 million as of December 31, 2003. At November 30, 2004 the interest rate swap agreement on our long-term debt expired. The swap contract was inversely correlated to the related hedged long-term debt and was therefore considered an effective cash flow hedge of the underlying long-term debt. The level of effectiveness of the hedge was measured by the changes in the market value of the hedged long-term debt resulting from fluctuation in interest rates. As a matter of policy, we do not enter into derivative transactions for trading or speculative purposes. As of June 30, 2005, our outstanding debt under our interest-bearing credit agreements was \$9.6 million. Based on an increase or decrease in interest rates by 1.0% for the year, our annual interest rate expense would increase or decrease by approximately \$96,000.

Political risk

We have a significant portion of our assets in mainland China and Taiwan. The possibility of political conflict between the two countries or with the United States could have an adverse impact upon our ability to transact business through these important business segments and to generate profits.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS AND PROPOSED ACCOUNTING CHANGES

In December 2004, the Financial Accounting Standards Board, or FASB, issued SFAS No. 123(R). This new standard requires companies to adopt the fair value methodology of valuing stock-based compensation and recognizing that valuation in the financial statements from the date of grant. Accordingly, the adoption of SFAS No. 123(R)'s fair value method will have a significant impact on our results of operations, although it will have no impact on our overall financial position. The impact of adoption of SFAS No. 123(R) cannot be predicted at this time because it will partially depend on levels of share-based payments granted in the future. However, had we adopted SFAS No. 123(R) in prior periods, the impact of that standard would have approximated the impact of SFAS No. 123 as shown in the Stock-based Compensation table contained in note 1 of our financial statements included elsewhere in this prospectus. SFAS No. 123(R) also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. We are currently evaluating several option valuation models in order to calculate the required compensation expense. We have elected to adopt the provisions of SFAS No. 123(R) on a modified prospective application method with no restatement of any prior periods. SFAS No. 123(R) is effective for us as of the beginning of the fiscal year ending December 31, 2006.

In December 2004, the FASB also issued SFAS No. 151, Inventory Costs, an amendment of ARB No. 43, Chapter 4, which will become effective for the Company beginning January 1, 2006. This standard clarifies that abnormal amounts of idle facility expense, freight, handling costs and wasted material should be expensed as incurred and not included in overhead. In addition, this standard requires that the allocation of fixed production overhead costs to inventory be based on the normal capacity of the production facilities. We are currently evaluating the potential impact of this standard

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on our financial position and results of operations, but we do not believe the impact of the change will be material.

On October 22, 2004, the American Jobs Creation Act of 2004 was passed, which raised a number of issues with respect to accounting for income taxes. In response, on December 21, 2004, the FASB issued two FASB Staff Positions, or FSP, FSP 109-1— Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004 and FSP 109-2— Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004, which became effective for us upon issuance.

The AJCA provides a deduction for income from qualified domestic production activities, to be phased in from 2005 through 2010, which is intended to replace the existing extra-territorial income exclusion for foreign sales. In FSP 109-1, the FASB decided the deduction for qualified domestic production activities should be accounted for as a special deduction under SFAS No. 109, rather than as a rate reduction. Accordingly, any benefit from the deduction will be reported in the period in which the deduction is claimed on the tax return. No adjustment to deferred taxes at December 31, 2004 was required.

The AJCA also creates a temporary incentive for U.S. corporations to repatriate accumulated income earned abroad by providing an 85.0% dividends received deduction for certain dividends from controlled foreign corporations. The deduction is subject to a number of limitations and uncertainty remains as to how to interpret numerous provisions in the AJCA. FSP 109-2 addresses when to reflect in the financial statements the effects of the one-time tax benefit on the repatriation of foreign earnings. Under SFAS No. 109, companies are normally required to reflect the effect of new tax law changes in the period of enactment. FSP 109-2 provides companies additional time to determine the amount of earnings, if any, that they intend to repatriate under the AJCA's provisions. See Note 8 of our financial statements included elsewhere in this prospectus for more discussion of the impact of the AJCA, including the impact on our repatriation of foreign earnings.

In November 2004, the Emerging Issues Task Force, or EITF, reached a consensus on EITF Issue No. 03-13, Applying the Conditions in Paragraph 42 of FASB Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, in Determining Whether to Report Discontinued Operations. The consensus provides guidance in determining: (1) which cash flows should be taken into consideration when assessing whether the cash flows of the disposal component have been or will be eliminated from the ongoing operations of the entity, (2) the types of involvement ongoing between the disposal component and the entity disposing of the component that constitute continuing involvement in the operations of the disposal component, and (3) the appropriate (re)assessment period for purposes of assessing whether the criteria in paragraph 42 have been met. The consensus was ratified by the FASB at their November 30, 2004 meeting and should be applied to a component of an enterprise that is either disposed of or classified as held for sale in fiscal periods beginning after December 15, 2004. We do not anticipate a material impact on our financial statements from the adoption of this consensus.

In September 2004, the EITF reached a consensus on EITF Issue No. 04-10, Applying Paragraph 19 of FAS 131 in determining whether to aggregate operating segments that do not meet the quantitative thresholds. The consensus states that operating segments that do not meet the quantitative thresholds can be aggregated only if aggregation is consistent with the objective and basic principles of SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, the segments have similar economic characteristics, and the segments share a majority of the aggregation criteria (a)-(e) listed in paragraph 17 of SFAS No. 131. The effective date of the consensus in this Issue is for

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fiscal years ending after October 13, 2004. The ratification of this Issue did not have an impact on our financial reporting.

In March 2004, the EITF reached a consensus on the remaining portions of EITF 03-01, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments with an effective date of June 15, 2004. EITF 03-01 provides new disclosure requirements for other-than-temporary impairments on debt and equity investments. Investors are required to disclose quantitative information about: (1) the aggregate amount of unrealized losses, and (2) the aggregate related fair values of investments with unrealized losses, segregated into time periods during which the investment has been in an unrealized loss position of less than 12 months and greater than 12 months. In addition, investors are required to disclose the qualitative information that supports their conclusion that the impairments noted in the qualitative disclosure are not other-than temporary. We determined that EITF 03-01 would not have a material impact on our financial statements.

In December 2003, the FASB issued FASB Interpretation No. 46R, or FIN 46R, Consolidation of Variable Interest Entities, a revision to Interpretation No. 46. FIN 46R clarifies the application of consolidation accounting for certain entities that do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties or in which equity investors do not have the characteristics of a controlling financial interest; these entities are referred to as "variable interest entities." Variable interest entities within the scope of FIN 46R are required to be consolidated by their primary beneficiary. The primary beneficiary of a variable interest entity is determined to be the party that absorbs a majority of the entity's expected losses, receives a majority of its expected returns, or both. FIN 46R also requires disclosure of significant variable interests in variable interest entities for which a company is not the primary beneficiary. We have assessed Diodes-Shanghai under the provisions of FIN 46R and have concluded that our investment in Diodes-Shanghai does not meet the criteria for consolidation under the standard. However Diodes-Shanghai is consolidated under other applicable accounting literature. We will periodically review our investment in Diodes-Shanghai to insure that we comply with the guidelines prescribed by FIN 46R.

On June 7, 2005, the FASB issued Statement No. 154, Accounting Changes and Error Corrections, a replacement of Accounting Principles Board Opinion No. 20, Accounting Changes, and FASB Statement No. 3, Reporting Accounting Changes in Interim Financial Statements. Statement 154 requires retrospective application to prior periods' financial statements of a voluntary change in accounting principle unless it is impracticable. Opinion 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. Statement 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

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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.

Our portfolio of discrete semiconductors addresses the design needs of many advanced electronic devices including high-volume consumer devices such as digital audio players, notebook computers, flat panel displays, mobile handsets, digital cameras and set-top boxes. We believe that we have particular strength in designing innovative surface-mount discrete semiconductors for applications with critical need to minimize product size while maximizing power efficiency 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.

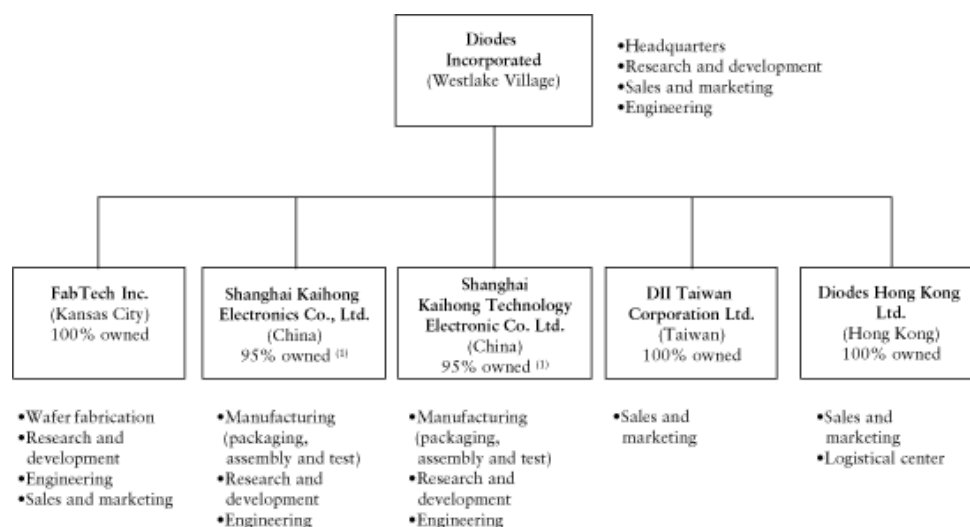
We serve over 150 direct customers worldwide, which consist of OEMs and EMS providers. Additionally, we have 17 distributor customers worldwide, through which we indirectly serve over 10,000 customers. Our customers include: (1) industry leading OEMs, in a broad range of industries, such as Bose Corporation, 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. For the year ended December 31, 2004 and for the six months ended June 30, 2005, Lite-On Semiconductor, which is also our largest stockholder, accounted for approximately 9.9% and 9.6%, respectively, of our net sales. Lite-On Semiconductor owned 31.5% of our common stock as of August 15, 2005 and will own 23.5% of our common stock after completion of this offering. Additionally, other members of The Lite-On Group accounted for 3.3% and 5.1% of our net sales, respectively, in the same periods. In 2004 and the six months ended June 30, 2005, 17.2% and 14.6%, respectively, of our net sales were from the subsequent sale of products we purchased from Lite-On Semiconductor.

We are headquartered in Westlake Village, California, near Los Angeles. Our manufacturing facilities are located in Shanghai, China; and 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 or representatives 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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The diagram below shows the entities through which we conduct our business and the principal services provided by each entity.



(1) 5% owned by Keylink International.

OUR INDUSTRY

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

Semiconductors vary significantly depending upon the specific function or application of the end product in which the semiconductor is embedded. The semiconductor industry is comprised of three broad segments:

- Logic devices which process data and range from complex semiconductors such as microprocessors to digital signal processors to application-specific and standard logic products. According to Gartner the combined microcomponent, logic and application-specific segments represent approximately 57.7% of total industry sales in 2004.
- Memory devices, which store data. According to Gartner, the memory devices segment represents 21.9% of total industry sales in 2004.
- Analog and discrete devices which interface with real world signals such as light and heat, or process electronic signals and control electronic power. According to Gartner, the combined analog

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integrated circuits, discrete, optical and non-optical sensors segments represent approximately 20.4% of total industry sales in 2004.

Semiconductors are further classified within these categories as either standard components or application-specific semiconductors. Standard components can be used in a broad range of applications, while application-specific semiconductors are designed to perform specific application functions. Our products generally fit within the category of discrete devices, which are standard components primarily performing a single function.

According to Gartner, worldwide semiconductor market sales were approximately \$219.9 billion in 2004, including sales in the total addressable discrete devices market of approximately \$15.8 billion.

According to Gartner, in 2004, total industry sales and sales in the discrete devices market increased 23.4% and 17.5%, respectively. From 2000 to 2001, total industry sales declined 31.2% from \$223.0 billion to \$153.5 billion before increasing 1.4% to \$155.6 billion in 2002. The year 2001 was the worst single year downturn in industry history and was driven both by reduced volumes and reduced average selling prices resulting primarily from an inventory overbuild and excess semiconductor manufacturing capacity. After 2002, semiconductor industry revenues rebounded 14.5% to \$178.2 billion in 2003 and 23.4% to \$219.9 billion in 2004.

The following table sets forth the total semiconductor industry consumption from 2003 through 2007 and contains projections for 2005 through 2007 from Gartner as of August 2005.

	Historical		Projected		CAGR(3) '03-'07E	
	2003	2004	2005E	2006E		
	(in billions)					
Logic(1)	\$ 108.4	\$ 126.9	\$ 137.1	\$ 149.6	\$ 162.5	10.7%
Analog(2)	22.8	29.0	32.5	35.1	38.1	13.7
Discrete	13.5	15.8	16.5	17.4	19.1	9.1
Memory	33.5	48.0	49.2	52.4	45.5	8.0
Total	\$ 178.2	\$ 219.9	\$ 235.4	\$ 254.4	\$ 265.2	10.5%

(1) Logic includes the following Gartner segments: microcomponent, logic and application-specific.

(2) Analog includes the following Gartner segments: analog integrated circuits, optical and non-optical sensors.

(3) CAGR represents compound annual growth rate.

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

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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 the 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 deeper insight into our customers' product needs. This results in differentiation in our product designs and often provides us with insight into additional opportunities for new design wins in our customers' products.
- **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.** We intend to maintain our rapid pace of new discrete product introductions, especially for high-volume, growth applications with short design cycles, such as digital audio players, notebook computers, flat panel displays, mobile handsets, digital cameras, set-top boxes and other consumer electronics and

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computing devices. During the six months ended June 30, 2005, we introduced 122 new devices in 13 different product families and achieved new design wins with over 100 OEMs. We believe that continued introduction of new and differentiated product solutions is critically important in maintaining and extending our market share in the highly competitive discrete semiconductor marketplace.

- **Expand our available market opportunities.** We intend to aggressively maximize our opportunities in the discrete semiconductor market as well as in related markets where we can apply our semiconductor design and manufacturing expertise. A key element of this is leveraging our highly integrated packaging expertise through our Application Specific Multi-Chip Circuit, or ASMCC, product platform, which consists of standard arrays, function specific arrays and end-equipment specific arrays. We intend to achieve this by:
 - Continuing to focus on increasing packaging integration, particularly with our existing standard array and customer-specific array products, in order to achieve products with increased circuit density, reduced component count and lower overall product cost;
 - Expanding existing products and developing new products in our function specific array lines, which combine multiple discrete semiconductor components to achieve specific common electronic device functionality at a low cost; and
 - Developing new product lines, that we refer to as end-equipment specific arrays, which combine discrete components with logic and/or standard analog circuits to provide system-level solutions for high-volume, high-growth applications.
- **Maintain intense customer focus.** We intend to strengthen and deepen our customer relationships. We believe that continued focus on customer service will increase our net sales, operating performance and overall market share. To accomplish this, we intend to continue to closely collaborate with our customers to design products that meet their specific needs. A critical element of this strategy is to continue to further reduce our design cycle time in order to quickly provide our customers with innovative products. Additionally, to support our customer focused strategy, we are continuing to expand our sales force and field application engineers personnel, particularly in Asia and Europe.
- **Enhance cost competitiveness.** A key element of our success is our overall low-cost base. While we believe that our Shanghai manufacturing facilities are among the most efficient in the industry, we will continue to refine our proprietary manufacturing processes and technology to achieve additional cost efficiencies. Additionally, we intend to continue to operate our facilities at high utilization rates and to increase product yields in order to achieve meaningful economies of scale.
- **Pursue selective strategic acquisitions.** As part of our strategy to expand our discrete semiconductor product offerings and to maximize our market opportunities, we may acquire discrete analog or mixed-signal technologies, product lines or companies in order to support our ASMCC product platform and enhance our standard and new product offerings.

OUR PRODUCTS

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

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Our broad product line includes:

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

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

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

The following table lists the end markets and some of the applications in which our products are used:

End markets	Approximate percentage of our net sales for the six months ended June 30, 2005	End product applications
Computing	36%	Notebooks, flat panel monitors, motherboards, PDAs, multi-function printers, servers, network interface cards, hard disk drives
Consumer Electronics	34%	Set-top boxes, game consoles, digital audio players, digital cameras, mobile handset, flat panel display, personal medical devices
Industrial	18%	Ballast lighting, power supplies, DC-DC conversion, security/access systems, motor controls, HVAC
Communications	8%	Gateways, routers, switches, hubs, fiber optics, DSL, cable and standard modems, networking (wireless, ethernet, power/phone line)
Automotive	4%	Comfort controls, audio/video players, GPS navigation, safety, security, satellite radios, engine control, HID lighting

PRODUCT PACKAGING

Our device packaging technology includes a wide variety of surface mount and leaded types. Our focus on the development of smaller, more thermally efficient, and increasingly integrated packaging, is an important component of our product development. We provide a comprehensive offering of miniature and sub-miniature packaging, enabling us to fit discrete components into smaller and more efficient packages, while maintaining the same device functionality and power handling capabilities. Smaller packaging provides a reduction in the height and weight of, and in the board space required for, our components and is well suited for battery-powered, hand-held and wireless consumer applications such

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as digital audio players, notebook computers, flat panel displays, mobile handsets, digital cameras and set-top boxes.

CUSTOMERS

We serve over 150 direct customers worldwide, which consist of OEMs and 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.

In 2002, 2003, 2004 and the six months ended June 30, 2005, Lite-On Semiconductor accounted for 13.7%, 10.5%, 9.9% and 9.6% of our net sales, respectively. Lite-On Semiconductor was the only customer that accounted for 10% or more of our net sales in each of 2002 and 2003. No customer accounted for 10% or more of our net sales in 2004 or in the six months ended June 30, 2005. In addition, companies affiliated with Lite-On Semiconductor, which we refer to collectively as The Lite-On Group, accounted for 1.5%, 2.5%, 3.3% and 5.1%, respectively, of our net sales in 2002, 2003, 2004 and the six months ended June 30, 2005. We believe each member of The Lite On Group makes independent purchasing decisions. Lite-On Semiconductor is also our largest stockholder, holding 31.5% of our common stock as of August 15, 2005.

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

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

Many of our customers are based in Asia. Net sales by country consists of sales to customers assigned to that country based on the country to which the product is shipped. For the six months ended June 30, 2005, 33.9%, 25.7%, 25.4% and 15.0% of our net sales were derived from Taiwan, China, the United States and all other markets, respectively, compared to 27.3%, 23.9%, 28.6% and 20.2%, respectively for 2004.

SALES AND MARKETING

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

Business

As of June 30, 2005, our direct global sales and marketing organization consisted of over 80 employees operating out of 14 offices. We have sales and marketing offices or representatives in Taipei, Taiwan; Shanghai and Shenzhen, China; Hong Kong; Derbyshire, England; Toulouse, France; Frankfurt, Germany; and we have five regional sales offices in the United States. As of June 30, 2005, we also had 25 independent sales representative firms marketing our products.

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

To support our global customer-base, particularly in Asia and Europe, our website is language-selectable into English, Chinese, Japanese, Korean and German, giving us an effective marketing tool for these important markets. With its extensive online product catalog with advanced search capabilities, our website facilitates quick and easy product selection. Our website provides easy access to our worldwide sales contacts and customer support, and incorporates a distributor-inventory check to provide component inventory availability and a small order desk for overnight sample fulfillment. Our website also provides access to investor financial information and our corporate governance information.

MANUFACTURING OPERATIONS AND FACILITIES

We operate three manufacturing facilities, two of which are located in Shanghai, China. The third is located in Kansas City, Missouri. Our facilities in Shanghai perform packaging, assembly and testing functions, and our Kansas City facility is a 5-inch wafer foundry.

As of June 30, 2005, we had invested approximately \$83.0 million in plant and state-of-the-art equipment in China. Both of our Chinese factories manufacture product for sale by our U.S. and Asian operations, and also sell to external customers as well. Silicon wafers are received and inspected in a highly controlled “clean room” environment awaiting the assembly operation. At the first step of assembly, the wafers are sawn with very thin, high speed diamond blades into tiny semiconductor “dice”, numbering as many as 200,000 per 5-inch diameter wafer. Dice are then loaded onto a handler, which automatically places the dice, one by one, onto lead frames, which are package specific, where they are bonded to the lead frame pad. Next, automatic wire bonders make the necessary electrical connections from the die to the leads of the lead frame, using micro-thin gold wire. Our fully automated assembly machinery then molds the epoxy case around the die and lead frame to produce the desired semiconductor product. After a trim, form, test, mark and re-test operation, the parts are placed into special carrier housings and a cover tape seals the parts in place. The taped parts are then spooled onto reels and boxed for shipment.

Our manufacturing processes use many raw materials, including silicon wafers, copper lead frames, gold wire and other metals, mold compound, ceramic packages and various chemicals and gases. We have no material agreements with any of our suppliers that impose minimum or continuing supply obligations. From time to time, suppliers may extend lead times, limit supplies or increase prices due to capacity constraints or other factors. Although we believe that supplies of the raw materials we use are currently and will continue to be available, shortages could occur in various essential materials due to interruption of supply or increased demand in the industry.

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Business

In the United States, our corporate headquarters are located in a leased facility in Westlake Village, California, approximately 30 miles from Los Angeles. We also lease or own properties around the world for use as sales offices, research and development labs, warehouses, logistic centers and trading offices. The size and/or location of these properties change from time to time based on business requirements.

Our properties are as follows:

Location	Use	Approximate size (sq. ft.)
Westlake Village, CA	Global headquarters	30,900
Manufacturing:		
Shanghai, China (Plant 1)	Manufacturing (packaging, assembly and test), research and development, engineering	145,300
Shanghai, China (Plant 2)	Manufacturing (packaging, assembly and test) research and development, engineering	74,300
Kansas City, MO	Wafer fabrication (5"), research and development, engineering, sales and marketing	70,000
Others:		
Taipei, Taiwan	Warehouse	9,000
Taipei, Taiwan	Sales and administrative offices	7,000
Shanghai, China	Regional offices	*
Shenzhen, China	Regional offices	*
Kowloon, Hong Kong	Sales, warehousing and logistics office	*
Toulouse, France	Regional sales office	*
Amherst, NH	Regional sales office	*
Lemont, IL	Regional sales office	*
Fountain Valley, CA	Regional sales office	*
Brookline, NH	Regional sales office	*

* *Less than 1,000 square feet.*

We lease all of our facilities other than our facilities in Taipei, Taiwan, which are owned by us.

BACKLOG

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

PATENTS AND TRADEMARKS

Although patents and trademarks have not been material to our business to date, they may become more significant in the future, particularly as they relate to packaging technologies.

COMPETITION

Numerous semiconductor manufacturers and distributors serve the discrete semiconductor components market, making competition intense. Some of our larger competitors include Fairchild Semiconductor Corporation, Infineon Technologies A.G., International Rectifier Corporation, ON Semiconductor Corporation, Philips Electronics N.V., Rohm Electronics USA, LLC, Toshiba Corporation and Vishay Intertechnology, Inc., many of which have greater financial, marketing, distribution and other resources than us. Accordingly, in response to market conditions, we from time to time may reposition product lines or decrease prices, which may affect our sales of, and profit margins on, such product lines. The price and quality of the product, and our ability to design products and deliver customer service in keeping with the customers' needs, determine the competitiveness of our products. We believe that our focus on discrete semiconductors and our flexibility and ability to quickly adapt to customer needs affords us competitive advantages. Nevertheless, we expect that competition with larger and better-funded rivals will continue to be a challenge.

ENGINEERING AND RESEARCH AND DEVELOPMENT

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

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

For the years ended December 31, 2002, 2003 and 2004, research and development expense was \$1.5 million, \$2.0 million and \$3.4 million, respectively. As a percentage of net sales, research and development expense was 1.3%, 1.5% and 1.8% for 2002, 2003 and 2004, respectively. We anticipate research and development in absolute dollars and as a percentage of net sales to increase as we further develop proprietary technology.

Business

EMPLOYEES

As of June 30, 2005, we employed a total of 1,428 employees, of which 1,133 of our employees were in Asia, 291 were in the United States and four were in Europe. None of our employees is subject to a collective bargaining agreement. We consider our relations with our employees to be good.

LEGAL PROCEEDINGS

From time to time we are involved in legal proceedings and litigation incidental to the normal conduct of our business. We are not currently a party to any litigation or other legal proceedings that we believe would have a material adverse effect on our business or financial condition.

Management

EXECUTIVE OFFICERS AND DIRECTORS

The following table sets forth certain information concerning each of our executive officers and directors:

Name	Age	Position(s)
Dr. Keh-Shew Lu(1)	58	President, Chief Executive Officer and Director
Joseph Liu	63	Senior Vice President, Operations
Mark A. King	47	Senior Vice President, Sales and Marketing
Carl C. Wertz	51	Chief Financial Officer, Secretary and Treasurer
Steven Ho	50	Vice President, Asia Sales
Raymond Soong	63	Chairman of the Board of Directors
C.H. Chen(1)(2)(3)	62	Vice Chairman of the Board of Directors
Michael R. Giordano(1)(2)(4)	58	Director
M.K. Lu	57	Director
Dr. Shing Mao(3)(4)	70	Director
John M. Stich(1)(2)(3)(4)	63	Director

(1) *Member of our Strategic Planning Committee.*

(2) *Member of our Compensation and Stock Options Committee.*

(3) *Member of our Nominating Committee.*

(4) *Member of our Audit Committee.*

Dr. Keh-Shew Lu was appointed as our President and Chief Executive Officer in June 2005. Dr. Lu has been one of our directors since 2001. From 1974 to 2001, Dr. Lu was employed by Texas Instruments, Inc. He retired in 2001 as Senior Vice President and General Manager of Worldwide Analog, Mixed-Signal and Logic Products, a position he had held since 1998. Dr. Lu holds a Bachelor's degree in engineering from the National Cheng Kung University in Taiwan, and a doctorate degree in electrical engineering from Texas Tech University. Dr. Lu is also a director of two publicly held companies in Taiwan: Lite-On Technology Corporation and Windbond Electronics Corporation. Dr. Lu is Chairman of our Strategic Planning Committee.

Joseph Liu joined us in 1990 and has served as our Senior Vice President, Operations, since 2000. Mr. Liu previously served as our Vice President, Operations from 1994 to 1998 and Chief Financial Officer, Secretary and Treasurer from 1990 to 1998. Mr. Liu was also our Vice-President, Administration from 1990 to 1994.

Mark A. King joined us in 1991 and was appointed our Senior Vice President, Sales and Marketing in August 2005. Prior to that, he served as our Vice President, Sales and Marketing. He served as Vice President, Sales from April 1991 to April 1998. Before joining us, Mr. King served for nine years in various sales management positions at Lite-On, Inc., a California corporation located in Milpitas, California, and a manufacturer of optoelectronic products.

Carl C. Wertz joined us in 1993 and was appointed our Chief Financial Officer, Secretary and Treasurer in 1998. Mr. Wertz served as our Controller from 1993 to 1998. Before joining us, Mr. Wertz served in various financial management and accounting positions, most recently as Controller of Westco Products, a manufacturer and distributor of food products. Mr. Wertz is a licensed CPA.

Management

Steven Ho joined us in 1991 and was appointed as our Vice President of Asia Sales in August 2005.

Raymond Soong has been one of our directors since 1990. Mr. Soong has been the Chairman of the board of Silitek Corporation, or Silitek, since 1990 and has been Chairman of the boards of Lite-On Semiconductor and Lite-On Technology Corporation since 1992. In October 2002, Silitek and Taiwan Lite-On merged with Lite-On Technology Corporation. Mr. Soong is a graduate of the National Taipei Institute of Technology's Electronic Engineering Department.

C.H. Chen has been one of our directors since 2000. Mr. Chen served as our President and Chief Executive Officer from March 2000 until June 2005. From 1969 to 1990, Mr. Chen was employed by Texas Instruments, Inc. Mr. Chen is currently the Vice Chairman of Lite-On Semiconductor. He is also Chairman of our Nominating Committee.

Michael R. Giordano has been one of our directors since 1990. Mr. Giordano joined UBS Financial Services, Inc. as a Senior Vice President-Investment Consulting when UBS acquired PaineWebber, Inc in 2000. PaineWebber, Inc. acquired his previous employer, Kidder Peabody and Co., Inc., with whom he was employed since 1979. Mr. Giordano received his Bachelor of Science degree in Aerospace Engineering from California State Polytechnic University and his Masters degree in Business Administration from the University of Utah. Mr. Giordano is Chairman of our Audit Committee and our Compensation and Stock Options Committee.

M.K. Lu has been one of our directors since 1995. Mr. Lu is currently President of Lite-On Semiconductor, a position he was re-appointed to in March 2000. In November 1998, Mr. Lu formed Actron Technology Corporation, and is Chairman and Chief Executive Officer of Actron, a manufacturer of diodes for the automotive market. Mr. Lu earned his Bachelor's degree in Electrical Engineering at Tatung University of Technology and is a Business Administration graduate of the National Chengchi University.

Dr. Shing Mao has been one of our directors since 1995. Dr. Mao served as Chairman of the board of Lite-On, Inc., a California corporation located in Milpitas, California, and a wholly owned subsidiary of Taiwan Lite-On, from 1988 to 2000. Dr. Mao has been a director of Dyna Investment Co., Ltd. of Taiwan, a venture capital company since 1989. Dr. Mao was a director of Lite-On Semiconductor from 1989 to 2000. Dr. Mao earned his doctorate degree in electrical engineering at Stanford University in 1963.

John M. Stich has been one of our directors since 2000. Mr. Stich is the President and Chief Executive Officer of The Asian Network; a consulting company that specializes in assisting high-technology companies to expand their business in Asia, a position he has held since 2000. Mr. Stich has been active in leading various industry associations, including serving as Governor for the American Chamber of Commerce in Japan and in Hong Kong, as Chairman of the Semiconductor Industry Association (Japan Chapter), and as President of the Japan America Society of Dallas/ Fort Worth. In addition, Mr. Stich is a director of Stonestreet One, Inc., a leading provider of solutions based on short-range wireless technologies.

BOARD OF DIRECTORS

Our bylaws provide that the number of directors shall be determined from time to time by our Board of Directors, but may not be less than five nor more than seventeen. Currently, our Board of Directors has fixed the number of directors at seven. Our bylaws further provide for the election of each director at each annual meeting of stockholders.

COMMITTEES OF THE BOARD OF DIRECTORS

Our Board of Directors has a standing Audit Committee, a Compensation and Stock Options Committee, a Nominating Committee and a Strategic Planning Committee, each of which consists of two or more directors who serve at the discretion of the Board of Directors. The members of each Committee are as follows:

Audit Committee

The Audit Committee consists of Messrs. Giordano, Mao and Stich, with Mr. Giordano as the Chairman. This committee makes recommendations to the Board of Directors regarding the engagement of our independent registered public accounting firm, reviews the plan, scope and results of the audit, reviews with management our policies and procedures with respect to internal accounting and financial controls and reviews changes in accounting policy and the scope of the non-audit services which may be performed by our independent registered public accounting firm. The Audit Committee also monitors policies to prohibit unethical, questionable or illegal activities by our employees. The Board of Directors has determined that each member of the Audit Committee is “independent,” as that term is defined under the rules of Nasdaq and the SEC, and is able to read and understand fundamental financial statements, and that Mr. Giordano qualifies as an “audit committee financial expert” as defined under the rules of the SEC.

Compensation and Stock Options Committee

The Compensation and Stock Options Committee consists of Messrs. Chen, Giordano and Stich, with Mr. Giordano as the Chairman. This committee makes recommendations to the Board of Directors regarding compensation, benefits and incentive arrangements for the Chief Executive Officer and other officers and key employees of Diodes. The Compensation and Stock Options Committee also administers our 1993 Incentive Stock Option Plan, the 1993 Non-Qualified Stock Option Plan, our Incentive Bonus Stock Plan, our 401(k) profit sharing plan, and the 2001 Omnibus Equity Incentive Plan. The Board of Directors has determined that each member of the Compensation and Stock Options Committee is “independent” as that term is defined under the rules of Nasdaq and the SEC, except for Mr. Chen who was our President and Chief Executive Officer from March 2000 until June 2005. This committee is not intended to qualify as a fully independent compensation committee under the Nasdaq rules. As required by the rules of Nasdaq, the compensation of our Chief Executive Officer and other executive officers is determined, or recommended to our Board of Directors for determination, by a majority of the independent directors.

Nominating Committee

The Nominating Committee consists of Messrs. Chen, Mao and Stich, with Mr. Chen as the Chairman. The principal purposes of this committee are to help ensure that our Board of Directors (i) identifies individuals qualified to become members of the Board of Directors, consistent with criteria approved by the Board of Directors, and (ii) selects the director nominees for the next annual meeting of stockholders. The Board of Directors has determined that each member of the Nominating Committee is “independent,” as that term is defined under the rules of Nasdaq and the SEC, except for Mr. Chen who was our President and Chief Executive Officer from March 2000 to June 2005. In addition, Messrs. Lu and Soong attend meetings of this committee, at the invitation of the committee, in a non-voting capacity. This committee is not intended to qualify as a fully independent nominating committee under the Nasdaq rules. As required by the rules of Nasdaq, director nominees are either selected, or recommended for selection by the Board of Directors, by a majority of the independent directors.

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Strategic Planning Committee

The Strategic Planning Committee consists of Messrs. Chen, Giordano, Lu, Mao and Stich. This committee focuses on our new product development, marketing, and research and development.

DIRECTOR COMPENSATION

Each non-employee director of Diodes receives \$1,500 for each meeting of our Board of Directors or committee meeting attended in person, and \$750 for each meeting in which such director participates by telephone. In addition, non-qualified stock options are granted annually to both employee and non-employee directors. The exercise price of each option is no less than the fair market value of the common stock on the date of grant, and the option vests in equal annual installments over a three-year period commencing on the first anniversary of the date of grant. For 2005, the Chairman of our Board of Directors received an option to purchase 49,500 shares of our common stock. The Vice-Chairman of our Board of Directors received an option to purchase 37,500 shares of our common stock and all other directors each received an option to purchase 7,000 shares of our common stock. In addition, the Audit Committee members receive annually an option to purchase 4,500 shares of our common stock, with the Audit Committee Chairman receiving an additional option to purchase 3,000 shares, and all other committee members receive annually an option to purchase 1,500 shares of our common stock, with the committee Chairman receiving an additional 1,500-share stock option grant. Our Board of Directors may modify such compensation in the future.

LIMITATION ON LIABILITY AND INDEMNIFICATION OF DIRECTORS AND OFFICERS

Our certificate of incorporation contains provisions that limit the liability of our directors for monetary damages to the fullest extent permitted by Delaware law. Consequently, our directors will not be personally liable to us or our stockholders for monetary damages for any breach of fiduciary duties as directors, except liability for the following:

- any breach of their duty of loyalty to our company or our stockholders;
- acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law;
- unlawful payments of dividends or unlawful stock repurchases or redemptions as provided in Section 174 of the Delaware General Corporation Law; and
- any transaction from which the director derived an improper personal benefit.

Our bylaws provide that we may indemnify to the fullest extent permitted by law any person who is or was a party or is threatened to be made a party to any action, suit or proceeding, other than an action by or in our right, by reason of the fact that he or she is or was a director, officer, employee or other agent of Diodes or is or was serving at our request as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise. With respect to any action or suit by or in our right to procure a judgment in our favor, our bylaws provide that we may indemnify any such person, except that no indemnification will be provided if such person was adjudged to be liable to us, unless the court determines that despite his or her liability to us, he or she is fairly and reasonably entitled to indemnification. Our bylaws also provide that we may advance expenses incurred by or on behalf of a director, officer, employee or agent in advance of the final disposition of any action or proceeding.

We have obtained insurance policies under which, subject to the limitations of the policies, coverage is provided to our directors and officers against loss arising from claims made by reason of breach of fiduciary duty or other wrongful acts as a director or officer, including claims relating to public

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securities matters, and to us with respect to payments which may be made by us to these officers and directors pursuant to our indemnification obligations or otherwise as a matter of law.

We have entered into indemnification agreements with each of our directors and officers that may require us, among other things, to indemnify our directors and officers against liabilities that may arise by reason of their status or service. These indemnification agreements may also require us to advance all expenses incurred by the directors and officers in investigating or defending any such action, suit or proceeding. We believe that these agreements are necessary to attract and retain qualified individuals to serve as directors and officers.

At present, we are not aware of any pending litigation or proceeding involving any person who is or was a director, officer, employee or other agent of Diodes or who is or was serving at our request as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, for which indemnification is sought, and we are not aware of any threatened litigation that may result in claims for indemnification.

EMPLOYMENT AGREEMENTS

On August 29, 2005, we entered into employment agreements with Messrs. Lu, Liu, King and Wertz, pursuant to which they are entitled to (1) receive an annual base salary (subject to increase from time to time in the discretion of our Board of Directors) of \$300,000, \$208,000, \$177,000, and \$146,000, respectively, (2) participate in any executive bonus plan, (3) receive reimbursement for all reasonable and documented business expenses, (4) paid vacation in accordance with our vacation policy for employees generally, (5) participate in all plans provided to employees in general, (6) receive a life insurance policy in the amount in effect on the date of the agreement, and (7) receive a disability policy in the maximum insurable amount. Employment is at will and may be terminated by either us or the employee at any time. The employee is prohibited from disclosing our trade secrets, engaging in any “competitive activity” (as defined) or soliciting our current or, in some cases, former employees or independent contractors, during his employment and for the two years following the beginning of the leave of absence described below if his employment is terminated without “cause” (as defined), and acknowledges that all tangible items related to us are our exclusive property.

In the event employment is terminated by us without “cause” (as defined), the employee either may (a) commence a one year paid leave of absence or (b) forego such leave of absence and the benefits associated therewith. During the leave of absence, the employee will continue as our full-time employee, entitled to receive the benefits described above (other than the bonus described in clause (2), which will be prorated to the beginning of the leave of absence). During the leave of absence the employee will not be obligated to perform any services for us, but will have all other obligations provided by the agreement. At the end of the leave of absence, neither we nor the employee shall have any further duties under these agreements, except that (1) we will continue to pay to the employee, or his estate, the annual base salary for one year, (2) all stock-based compensation previously granted will continue to vest and shall remain exercisable for the full term thereof, determined without regard to the termination of employment, and (3) the employee will continue to be bound by the trade secrets, noncompetition and non-solicitation provisions of the agreement for one year after the end of the leave of absence. In addition, all stock-based compensation will vest immediately upon a “change in control” (as defined).

In addition, we have entered into an indemnification agreement with each of these employees, as described above under the heading “— Limitation on Liability and Indemnification of Directors and Officers” that may require us to indemnify the employee against liabilities that may arise by reason of his status or service with us.

Certain relationships and related party transactions

We conduct business with two related party companies, Lite-On Semiconductor (and its subsidiaries and affiliates) and Keylink International (formerly Xing International) (and its subsidiaries). Lite-On Semiconductor is our largest stockholder and owned 31.5% of our outstanding common stock as of August 15, 2005. Keylink International is our 5.0% joint venture partner in Diodes-China and Diodes-Shanghai. C.H. Chen, our previous President and Chief Executive Officer, and a member of our Board of Directors, is also Vice Chairman of Lite-On Semiconductor. M.K. Lu, a member of our Board of Directors, is President of Lite-On Semiconductor, while Raymond Soong, our Chairman of our Board of Directors, is the Chairman of Lite-On Technology Corporation, a significant shareholder of Lite-On Semiconductor, as well as Chairman of Lite-On Semiconductor.

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

In 2004, we sold silicon wafers to Lite-On Semiconductor totaling 9.9% (10.5% in 2003 and 13.7% in 2002) of our sales, making Lite-On Semiconductor our largest customer. Also for 2004, 17.2% (17.3% in 2003 and 17.9% in 2002) of our sales were from discrete semiconductor products purchased from Lite-On Semiconductor for subsequent sale by us, making Lite-On Semiconductor our largest outside supplier. For the six months ended June 30, 2005, we sold silicon wafers to Lite-On Semiconductor totaling 9.6% of our sales, and 14.6% of our sales were from discrete semiconductor products purchased from Lite-On Semiconductor for subsequent sale by us. Under a long-standing sales agreement, we are the exclusive North American distributor for certain product lines of Lite-On Semiconductor. In addition, companies affiliated with Lite-On Semiconductor, which we refer to collectively as The Lite-On Group, accounted for 1.5%, 2.5%, 3.3% and 5.1% of our net sales, respectively, in 2002, 2003, 2004 and the six months ended June 30, 2005. We also rent warehouse space in Hong Kong from a member of The Lite-On Group, which also provides us with warehousing services at that location. For 2002, 2003 and 2004 we reimbursed this entity in aggregate amounts of \$59,000, \$112,000 and \$190,000, respectively, for these items. Such transactions are on terms no less favorable to us than could be obtained from unaffiliated third parties. The Audit Committee of the Board of Directors has approved the arrangements we have with these related party transactions.

In December 2000, we acquired a wafer foundry, FabTech, Inc., from Lite-On Semiconductor. As part of the purchase price, Lite-On Semiconductor received a subordinated, interest-bearing note receivable in a principal amount of \$13.5 million, of which approximately \$3.8 million and \$2.5 million, respectively, was outstanding as of December 31, 2004 and June 30, 2005. In May 2002, we renegotiated the terms of the note to extend the payment period from two years to four years, and, as a result, monthly payments of approximately \$208,000 plus interest began in July 2002. In connection with the acquisition, Lite-On Semiconductor entered into a volume purchase agreement to purchase wafers from FabTech. In addition, in accordance with the terms of the acquisition, we also entered into several management incentive agreements with members of FabTech's management. The agreements provided members of FabTech's management with guaranteed annual payments as well as contingent bonuses based on the annual profitability of FabTech, subject to a maximum annual amount. Any portion of the guaranteed and contingent liability paid by FabTech was reimbursed by Lite-On Semiconductor. 2004 was the final year of the management incentive agreements, with final payment made on March 31, 2005. Lite-On Semiconductor reimbursed us in the amount of \$375,000 for each of 2002, 2003 and 2004, in respect of contingent bonuses paid by us under these management incentive agreements.

Certain relationships and related party transactions

In 2004, we sold silicon wafers to companies owned by Keylink International totaling 0.9% (1.1% in 2003 and 1.6% in 2002) of our sales. Also for 2004, 3.5% (4.6% in 2003 and 5.6% in 2002) of our sales were from discrete semiconductor products purchased from companies owned by Keylink International. For the six months ended June 30, 2005, we sold silicon wafers to companies owned by Keylink International totaling 1.1% of our sales, and 3.0% of our sales were from discrete semiconductor products purchased from companies owned by Keylink International. In addition, Diodes-China and Diodes-Shanghai lease their manufacturing facilities from, and subcontract a portion of their manufacturing process (metal plating and environmental services) to, Keylink International. We also pay a consulting fee to Keylink International. In 2002, 2003 and 2004, we paid Keylink International an aggregate of \$2.8 million, \$3.8 million and \$5.2 million, respectively, with respect to these items. We believe such transactions are on terms no less favorable to us than could be obtained from unaffiliated third parties. The Audit Committee of the Board of Directors has approved the contracts associated with these related party transactions.

In October 2002, Silitek and Taiwan Lite-On merged with Lite-On Technology Corporation, a publicly traded company on the Taiwan Stock Exchange. Prior to this merger, Silitek was affiliated through common ownership and control with Taiwan Lite-On, and both companies were members of The Lite-On Group and publicly traded on the Taiwan Stock Exchange.

Raymond Soong, who became a director and our Chairman of our Board of Directors effective March 1993, is also the Chairman of the boards of Lite-On Technology Corporation and Lite-On Semiconductor, Raymond Soong is also the founder of The Lite-On Group.

C.H. Chen, who has been one of our directors since 2000 and who also served as our President and Chief Executive Officer from March 2000 until June 2005, is also Chairman of the board of AnaChip Electronic Corp., and Vice Chairman of the board of Dynacard Microelectronic Corp., both Lite-On Group companies.

Dr. Shing Mao, who is one of our directors, retired in 2000 as Chairman of the board of Lite-On Milpitas, a wholly-owned subsidiary of Taiwan Lite-On which merged with Lite-On Technology Corporation in 2002. Dr. Mao was also a director of Lite-On Semiconductor from 1989 to 2000.

M.K. Lu, who has been one of our directors, since 1995, is also President of Lite-On Semiconductor and Chief Executive Officer and Chairman of the board of Actron Technology Corporation, both Lite-On Group companies. From 1983 to 1990, Mr. Lu was General Manager/ Vice President of Silitek.

Michael Giordano, one of our directors, is Senior Vice President-Investment Consulting at UBS Financial Services Inc. Along with his son, James Giordano, Michael Giordano has, from time to time, assisted our directors, executive officers, and employees in stock option exercises and subsequent stock sales of our common stock, and has provided them investment management services. Mr. Giordano is also the pension consultant for our 401(k) plan, which is managed by UBS Fiduciary Trust. In addition, Mr. Giordano has, from time to time, provided investment management services for directors and officers of The Lite-On Group. All such services have been provided by UBS Financial Services Inc. at customary rates and terms.

John M. Stich, one of our directors, is also President and Chief Executive Officer of The Asian Network. In 2000 and 2001, Mr. Stich had received fees as a marketing consultant to us. In 2001, Mr. Stich ceased performing marketing consulting services for us.

During 2002 Dr. Keh-Shew Lu, our President and Chief Executive Officer, received fees as an engineering consultant to us. In 2003, Dr. Lu ceased performing engineering consulting services for us.

Certain relationships and related party transactions

Mark A. King, our Senior Vice President of Sales and Marketing, has an approximate \$100,000 investment in one of our computer software vendors (a privately-held company). Mr. King's investment was made subsequent to our purchase of the software (which is used for sales quotation and channel management) and has been approved by our Board of Directors. Fees paid to this software vendor in 2004, including annual software maintenance and consulting fees, were approximately \$105,000.

Principal and selling stockholders

The following table sets forth the beneficial ownership of common stock as of August 15, 2005 by (1) each person known to us to be the beneficial owner of more than 5.0% of the outstanding shares of common stock (other than depositories), (2) each of our executive officers and directors and (3) all directors and executive officers as a group.

Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. A person is also considered to beneficially own shares that such person has the right to acquire within 60 days after August 15, 2005. Unless otherwise indicated in a footnote, each individual or group possesses sole voting and investment power with respect to the shares indicated as beneficially owned. The percentage of beneficial ownership is based on 14,620,683 shares of common stock outstanding as of August 15, 2005 and 16,370,683 shares of common stock outstanding after completion of this offering. A total of 750,000 shares of our common stock are being offered for sale by the selling stockholder, Lite-On Semiconductor. We will not receive any of the proceeds from the sale of common stock by the selling stockholder. The table assumes no exercise of the underwriters' over-allotment option. If the underwriters' over-allotment option is exercised in full, we will sell up to an aggregate of 375,000 additional shares of common stock, and up to 16,745,683 shares of common stock will be outstanding after the completion of this offering.

Name and address of beneficial owner(1)	Number of shares beneficially owned prior to offering(2)	Number of shares to be sold in this offering	Number of shares beneficially owned after the offering(2)	Percent of outstanding shares beneficially owned(3)	
				Before offering	After offering
Lite-On Semiconductor Corporation(4)	4,601,458	750,000	3,851,458	31.5%	23.5%
Munder Capital Management	803,288	—	803,288	5.5	4.9
Raymond Soong(5)	269,100	—	269,100	1.8	1.6
C.H. Chen(5)	232,500	—	232,500	1.6	1.4
Michael R. Giordano(5)(6)	118,187	—	118,187	*	*
M.K. Lu(5)	23,000	—	23,000	*	*
Dr. Shing Mao(5)	54,000	—	54,000	*	*
John M. Stich(5)(7)	36,500	—	36,500	*	*
Dr. Keh-Shew Lu(5)	229,000	—	229,000	1.6	1.4
Joseph Liu(5)	300,000	—	300,000	2.0	1.8
Mark A. King(5)	81,000	—	81,000	*	*
Carl C. Wertz(5)	144,281	—	144,281	1.0	*
Steven Ho(5)	50,375	—	50,375	*	*
All directors and executive officers as a group (11 persons)(8)	1,537,943	—	1,537,943	9.7	8.7

* Less than 1.0%.

(1) The address of Lite-On Semiconductor is 9F. No. 233-2, Pao-Chiao Road, Hsin-Tien, Taipei-hsien 23115, Taiwan, R.O.C. The address of Munder Capital Management is 480 Pierce Street Birmingham, MI 48009-6063. The address of each of our directors and executive officers is 3050 East Hillcrest Drive, Westlake Village, California 91362.

Footnotes continued on following page.

Principal and selling stockholders

- (2) *The named stockholder has sole voting power and investment power with respect to the shares listed, except as indicated and subject to community property laws where applicable.*
- (3) *Under Rule 13d-3 of the Securities Exchange Act of 1934, or the Exchange Act, certain shares may be deemed to be beneficially owned by more than one person (if, for example, a person shares the power to vote or the power to dispose of the shares). In addition, under Rule 13d-3(d)(1) of the Exchange Act, shares which the person (or group) has the right to acquire within 60 days after August 15, 2005 are deemed to be outstanding in calculating the beneficial ownership and the percentage ownership of the person (or group) but are not deemed to be outstanding as to any other person or group. As a result, the percentage of outstanding shares of any person as shown in this table does not necessarily reflect the person's actual ownership of voting power with respect to the number of shares of common stock actually outstanding at August 15, 2005.*
- (4) *Lite-On Semiconductor is a public company listed on the Taiwan Stock Exchange Corporation and a member of The Lite-On Group.*
- (5) *Includes the following shares of common stock that the named individual has the right to acquire within 60 days after August 15, 2005 by the exercise of vested stock options:*

Named individual	Shares subject to options
Raymond Soong	236,250
C.H. Chen	232,500
Michael R. Giordano	100,500
M.K. Lu	23,000
Dr. Shing Mao	45,000
John M. Stich	35,000
Dr. Keh-Shew Lu	49,000
Joseph Liu	267,500
Mark A. King	81,000
Carl C. Wertz	139,500
Steven Ho	39,500

- (6) *Includes 2,250 shares of common stock held in the name of UBS Fiduciary Trust for the investment retirement account of Mr. Giordano.*
- (7) *Includes 1,500 shares of common stock held in the name of Stich Family Holdings LP.*
- (8) *Includes 1,208,750 shares that the directors and executive officers have the right to acquire within 60 days after August 15, 2005, by the exercise of vested stock options but excludes an additional 608,500 shares that the directors and executive officers will have the right to acquire upon the exercise of stock options which will become exercisable in installments more than 60 days after August 15, 2005.*
-

Description of capital stock

The following is a summary of the rights of our common stock and preferred stock and related provisions of our certificate of incorporation and bylaws. Pursuant to our certificate of incorporation, our authorized capital stock consists of 31,000,000 shares, of which:

- 30,000,000 shares are designated as common stock, each with a par value of \$0.66²/₃; and
- 1,000,000 shares are designated as preferred stock, each with a par value of \$1.00.

COMMON STOCK

Each holder of common stock is entitled to one vote for each share held of record on each matter submitted to a vote of stockholders. Our stockholders currently may cumulate their votes for the election of directors. Subject to preferences which may be granted to the holders of preferred stock, each holder of common stock is entitled to share ratably in distributions to stockholders and to receive ratably such dividends as may be declared by our Board of Directors out of funds legally available, subject to any preferential dividend rights of any outstanding preferred stock. In the event of our liquidation, dissolution or winding up, each common stockholder is entitled to share ratably in all our assets remaining after payment of liabilities and the liquidation preference of any shares of preferred stock that are outstanding at that time. Holders of common stock have no conversion, preemptive or other rights to subscribe for additional shares, and there are no redemption rights or sinking fund provisions applicable to the common stock. The rights, preferences and privileges of holders of common stock are subject to, and may be adversely affected by, the rights of holders of shares of any series of preferred stock, which we may designate and issue in the future without further stockholder approval.

PREFERRED STOCK

Our Board of Directors is authorized to issue, without further stockholder approval, shares of preferred stock in one or more series, and may fix or alter the relative, participating, optional or other rights, preferences, privileges and restrictions, including the voting rights, redemption provisions (including sinking fund provisions), dividend rights, dividend rates, liquidation preferences and conversion rights, and the description of and number of shares constituting any wholly unissued series of preferred stock. Our Board of Directors, without further stockholder approval, can issue preferred stock with voting and conversion rights that could adversely affect the voting power of the holders of common stock, including the loss of voting control to the holder of preferred stock issued in the future. No shares of preferred stock presently are outstanding. The issuance of preferred stock in certain circumstances may delay, defer or prevent our change in control without further action by our stockholders, may discourage bids for the common stock at a premium over the market price of the common stock and may adversely affect the market price, and the voting and other rights of the holders, of common stock.

ANTI-TAKEOVER EFFECTS OF CERTAIN PROVISIONS OF DELAWARE LAW AND OUR CERTIFICATE OF INCORPORATION AND BY-LAWS

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

Description of capital stock

Section 203 of Delaware General Corporation Law

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

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

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

TRANSFER AGENT

The transfer agent and registrar for our common stock is Continental Stock Transfer and Trust Company.

LISTING

Our common stock is listed on the Nasdaq National Market under the symbol “DIOD.”

Material U.S. tax consequences to non-U.S. holders

The following is a summary of the material U.S. federal income tax consequences of the ownership and disposition of our common stock to non-U.S. holders (as described below), but does not purport to be a complete analysis of all the potential tax considerations relating thereto. This discussion does not address tax consequences of the purchase, ownership or disposition of our common stock to holders of our common stock other than those holders who acquired their beneficial ownership in the common stock in this offering. This summary is based upon the provisions of the Code, Treasury regulations promulgated thereunder, administrative rulings and judicial decisions, all as of the date hereof. These authorities may be changed, possibly retroactively, so as to result in U.S. federal income tax consequences different from those set forth below. We have not sought any ruling from the Internal Revenue Service, or IRS, with respect to the statements made and the conclusions reached in the following summary, and there can be no assurance that the IRS will agree with such statements and conclusions.

This summary also does not address estate tax considerations or the tax considerations arising under the laws of any foreign, state, local or other tax jurisdiction. In addition, except where noted, this discussion addresses only those holders who hold the common stock as capital assets and does not address tax considerations applicable to an investor's particular circumstances or to investors that may be subject to special tax rules, including, without limitation:

- banks, insurance companies or other financial institutions;
- persons subject to the alternative minimum tax;
- tax-exempt organizations or government entities;
- brokers or dealers in securities or currencies;
- traders in securities that elect to use a mark-to-market method of accounting for their securities holdings;
- certain former citizens or long-term residents of the United States;
- certain foreign entities that are owned by U.S. persons, including "controlled foreign corporations" and "passive foreign investment companies;"
- persons who hold our common stock as a position in a hedging transaction, "straddle," "conversion transaction" or other risk reduction transaction;
- persons deemed to sell our common stock under the constructive sale provisions of the Code; or
- partnerships or entities taxable as partnerships.

If a partnership holds our common stock, the tax treatment of a partner generally will depend on the status of the partner and upon the activities of the partnership. Accordingly, partnerships which hold our common stock and partners in such partnerships should consult their tax advisors.

YOU ARE URGED TO CONSULT YOUR TAX ADVISOR WITH RESPECT TO THE APPLICATION OF THE UNITED STATES FEDERAL INCOME TAX LAWS TO YOUR PARTICULAR SITUATION, AS WELL AS ANY TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF OUR COMMON STOCK ARISING UNDER THE UNITED STATES FEDERAL ESTATE OR GIFT TAX RULES OR UNDER THE LAWS OF ANY STATE, LOCAL, FOREIGN OR OTHER TAXING JURISDICTION OR UNDER ANY APPLICABLE TAX TREATY.

Material U.S. tax consequences to non-U.S. holders

NON-UNITED STATES HOLDER DEFINED

For purposes of this discussion, you are a non-U.S. holder if you are a holder that, for U.S. federal income tax purposes, is not a U.S. person or a partnership. For purposes of this discussion, you are a U.S. person if you are:

- an individual citizen or resident of the United States;
- a corporation or other entity taxable as a corporation created or organized in the United States or under the laws of the United States, any state or the District of Columbia;
- an estate whose income is subject to U.S. federal income tax regardless of its source; or
- a trust (i) whose administration is subject to the primary supervision of a U.S. court and which has one or more U.S. persons who have the authority to control all substantial decisions of the trust or (ii) which has made an election to be treated as a U.S. person.

DISTRIBUTIONS

We have not made any distributions on our common stock, and we do not plan to make any distributions for the foreseeable future. However, if we do make distributions on our common stock, those payments will constitute dividends for U.S. tax purposes to the extent paid from our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. To the extent those distributions exceed our current and accumulated earnings and profits, they will constitute a return of capital and will first reduce your basis in our common stock, but not below zero, and then will be treated as gain from the sale of stock.

Subject to the discussion below under “Income or Gain Effectively Connected with a United States Trade of Business,” any dividend paid to you generally will be subject to U.S. withholding tax either at a rate of 30.0% of the gross amount of the dividend or such lower rate as may be specified by an applicable tax treaty. In order to receive a reduced treaty rate, you must provide us with an IRS Form W-8BEN or other appropriate version of IRS Form W-8 certifying qualification for the reduced rate. If a non-U.S. holder holds the common stock through a foreign intermediary, a reduced rate of withholding may be obtained if the foreign intermediary provides a properly executed IRS Form W-8IMY, stating that such holder of the common stock is holding the common stock on behalf of non-U.S. holders and attaching properly executed IRS Form W-8BENs of such non-U.S. holders (unless such intermediary is a qualified intermediary) to the Form W-8IMY. In all situations, the applicable form must be delivered pursuant to applicable procedures and must be promptly transmitted to the U.S. paying/withholding agent.

If you are eligible for a reduced rate of withholding tax pursuant to a tax treaty, you may obtain a refund of any excess amounts currently withheld if you file an appropriate claim for refund with the IRS.

GAIN ON DISPOSITION OF COMMON STOCK

You generally will not be required to pay U.S. federal income tax on any gain realized upon the sale or other disposition of our common stock unless:

- the gain is effectively connected with your conduct of a U.S. trade or business (and if a tax treaty applies, such gain is attributable to your permanent establishment in the United States) (in either case, see the discussion below under “Income or Gain Effectively Connected with a United States Trade or Business”);

Material U.S. tax consequences to non-U.S. holders

- you are an individual who holds our common stock as a capital asset (generally, an asset held for investment purposes) and who is present in the United States for a period or periods aggregating 183 days or more during the calendar year in which the sale or disposition occurs and certain other conditions are met; or
- our common stock constitutes a U.S. real property interest by reason of our status as a “U.S. real property holding corporation” for U.S. federal income tax purposes at any time within the shorter of the five-year period preceding the disposition or your holding period for our common stock.

Unless an applicable treaty provides otherwise, if you are an individual non-U.S. holder described in the second bullet above, you will be required to pay a flat 30.0% tax on the gain derived from the sale, which gain may be offset by U.S. source capital losses (even though you are not considered a resident of the United States). We believe we are not and do not anticipate becoming a “U.S. real property holding corporation.”

INCOME OR GAIN EFFECTIVELY CONNECTED WITH A UNITED STATES TRADE OR BUSINESS

If you are engaged in a trade or business in the United States and if dividends on or gain realized on the sale or other disposition of the common stock are effectively connected with your conduct of such trade or business (and, if an applicable tax treaty requires, are attributable to a U.S. permanent establishment maintained by you in the United States), you will generally be subject to U.S. federal income tax on such dividends or gain on a net income basis in the same manner as if you were a U.S. taxpayer, although you will be exempt from U.S. withholding tax if you deliver, pursuant to applicable procedures, a properly executed IRS Form W-8ECI to the U.S. paying/ withholding agent. In addition, if you are a foreign corporation, you may be subject to a branch profits tax equal to 30.0% (or such lower rate provided by an applicable U.S. income tax treaty) of a portion of your effectively connected earnings and profits for the taxable year.

BACKUP WITHHOLDING AND INFORMATION REPORTING

Generally, we must report annually to the IRS the amount of dividends paid to you, your name and address, and the amount of tax withheld, if any. A similar report is sent to you. Pursuant to tax treaties or other agreements, the IRS may make its reports available to tax authorities in your country of residence.

Payments of dividends or of proceeds on the dispositions of stock made to you may be subject to information reporting and backup withholding unless you establish an exemption, for example by properly certifying your non-United States status on an IRS Form W-8BEN or another appropriate version of IRS Form W-8. Notwithstanding the foregoing, backup withholding and information reporting may apply if either we or our paying agent has actual knowledge, or reason to know, that you are a U.S. person.

Backup withholding is currently imposed at a rate of 28.0%; however, it is not an additional tax. Rather, the U.S. income tax liability of persons subject to backup withholding will be reduced by the amount of tax withheld. If withholding results in an overpayment of taxes, a refund or credit may be obtained, provided that the required information is furnished to the IRS.

Underwriting

We and the selling stockholder are offering shares of our common stock described in this prospectus through the underwriters named below. We will not receive any of the proceeds of the common stock sold by the selling stockholder. UBS Securities LLC, A.G. Edwards & Sons, Inc., C.E. Unterberg, Towbin, LLC, Raymond James & Associates, Inc. and WR Hambrecht + Co, LLC are the representatives of the underwriters. UBS Securities LLC is the sole book-running manager of this offering. We and the selling stockholder have entered into an underwriting agreement with the representatives. Subject to the terms and conditions of the underwriting agreement, each underwriter has severally agreed to purchase the number of shares of common stock listed next to its name in the following table.

Underwriters	Number of shares
UBS Securities LLC	
A.G. Edwards & Sons, Inc.	
C.E. Unterberg, Towbin, LLC	
Raymond James & Associates, Inc.	
WR Hambrecht + Co, LLC	
Total	2,500,000

The underwriting agreement provides that the underwriters must buy all of the shares if they buy any of them. However, the underwriters are not required to take or pay for the shares covered by the underwriters' over-allotment option described below.

The common stock offered is subject to a number of conditions, including:

- receipt and acceptance of the common stock by the underwriters; and
- the underwriters' right to reject orders in whole or in part.

In connection with this offering, certain of the underwriters or securities dealers may distribute prospectuses electronically.

OVER-ALLOTMENT OPTION

We have granted the underwriters an option to buy up to an aggregate of 375,000 additional shares of our common stock. The underwriters may exercise this option solely for the purpose of covering over-allotments, if any, made in connection with this offering. The underwriters have 30 days from the date of this prospectus to exercise this option. If the underwriters exercise this option in whole or in part, they will each purchase approximately in proportion to the amounts specified in the table above.

COMMISSIONS AND DISCOUNTS

Shares sold by the underwriters to the public will initially be offered at the offering price set forth on the cover of this prospectus. Any shares sold by the underwriters to securities dealers may be sold at a discount of up to \$ _____ per share from the offering price. Any of these securities dealers may resell any shares purchased from the underwriters to other brokers or dealers at a discount of up to \$ _____ per share from the offering price. If all the shares are not sold at the offering price, the representatives may change the offering price and the other selling terms. Sales of shares made outside of the United States may be made by affiliates of the underwriters. Upon execution of the underwriting agreement, the underwriters will be obligated to purchase the shares at the prices and upon the terms

Underwriting

stated therein and, as a result, will thereafter bear any risk associated with changing the offering price to the public or other selling terms. The representatives of the underwriters have informed us that they do not expect to sell more than an aggregate of _____ shares of common stock to accounts over which such representatives exercise discretionary authority.

The selling stockholder will pay the underwriting discounts and commissions applicable to the shares that it sells. The following table shows the per share and total underwriting discounts and commissions we and the selling stockholder will pay to the underwriters. These amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase up to an additional 375,000 shares from us.

Underwriters	No exercise	Full exercise
Per share	\$ _____	\$ _____
Total	\$ _____	\$ _____

We estimate that the total expenses of this offering payable by us, not including underwriting discounts and commissions, will be approximately \$820,000. The underwriters have agreed to reimburse us up to an aggregate of \$150,000 in connection with expenses incurred by us relating to this offering.

NO SALES OF SIMILAR SECURITIES

We, each of our directors and executive officers and the selling stockholder have entered into lock-up agreements with the underwriters. Under these agreements, subject to certain exceptions specified below, we and each of these persons may not, without the prior written consent of UBS Securities LLC, sell, offer to sell, contract or agree to sell, hypothecate, hedge, pledge, grant any option to purchase or otherwise dispose of or agree to dispose of, directly or indirectly, any of our common stock, any securities convertible into or exercisable or exchangeable for our common stock or other rights to purchase our common stock. These restrictions will be in effect for a period of 90 days (180 days in the case of the selling stockholder) after the date of this prospectus. These lock-up agreements are subject to such stockholders' rights to transfer their shares of common stock as a bona fide gift or to a trust for the benefit of an immediate family member or to an affiliate, provided that such donee or transferee agrees in writing to be bound by the terms of the lock-up agreement. In addition, the lock-up agreement signed by our director, Mr. Giordano, will permit the sale of shares under his current 10b5-1 plan. At any time and without public notice, UBS Securities LLC may, in its sole discretion, release some or all of the affected securities from these lock-up agreements although it currently has no plans to do so. In addition, we may grant options to purchase shares of common stock under our stock incentive plan and issue shares of common stock upon the exercise of outstanding options.

The applicable lock-up period may be extended for up to 18 additional days under certain circumstances where we announce or pre-announce earnings or material news or a material event within approximately 16 days prior to, or approximately 16 days after, the termination of the lock up period.

We and the selling stockholder have agreed to indemnify the underwriters against certain liabilities, including certain liabilities under the Securities Act. If we are unable to provide this indemnification, we have agreed to contribute to payments the underwriters may be required to make in respect of those liabilities.

NASDAQ NATIONAL MARKET QUOTATION

Our common stock is listed on the Nasdaq National Market under the symbol "DIOD."

Underwriting

PRICE STABILIZATION, SHORT POSITIONS

In connection with this offering, the underwriters may engage in activities that stabilize, maintain or otherwise affect the price of our common stock, including:

- stabilizing transactions;
- short sales;
- purchases to cover positions created by short sales;
- imposition of penalty bids; and
- syndicate covering transactions.

Stabilizing transactions consist of bids or purchases made for the purpose of preventing or retarding a decline in the market price of our common stock while this offering is in progress. These transactions may also include making short sales of our common stock, which involve the sale by the underwriters of a greater number of shares of common stock than they are required to purchase in this offering and purchasing shares of common stock on the open market to cover positions created by short sales. Short sales may be “covered short sales,” which are short positions in an amount not greater than the underwriters’ over-allotment option referred to above, or may be “naked short sales,” which are short positions in excess of that amount.

The underwriters may close out any covered short position by either exercising their over-allotment option, in whole or in part, or by purchasing shares in the open market. In making this determination, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the over-allotment option.

Naked short sales are sales of common stock in excess of shares of common stock subject to the over-allotment option. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the common stock in the open market that could adversely affect investors who purchased in this offering.

The underwriters also may impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased shares sold by or for the account of that underwriter in stabilizing or short covering transactions.

As a result of these activities, the price of our common stock may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued by the underwriters at any time. The underwriters may carry out these transactions on the Nasdaq National Market, in the over-the-counter market or otherwise.

AFFILIATIONS

The underwriters and their affiliates may provide from time to time certain commercial banking, financial advisory, investment banking and other services for us which they will be entitled to receive separate fees. The underwriters and their affiliates may from time to time in the future engage in transactions with us and perform services for us in the ordinary course of their business. One of our directors, Mr. Giordano, is an employee of UBS Financial Services Inc., an affiliate of UBS Securities, LLC, one of the underwriters. In that capacity, Mr. Giordano is the pension consultant for our 401(k) plan. In addition, Mr. Giordano has from time to time provided assistance to our directors, executive officers and employees in connection with stock option exercises and subsequent sales of our common stock, and has provided them with investment management services.

Notice to investors

EUROPEAN ECONOMIC AREA

With respect to each Member State of the European Economic Area which has implemented Directive 2003/71/EC, including any applicable implementing measures, or the Prospectus Directive, from and including the date on which the Prospectus Directive is implemented in that Member State, the offering of our common stock in this offering is only being made:

- (1) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;
- (2) to any legal entity which has two or more of (a) an average of at least 250 employees during the last financial year; (b) a total balance sheet of more than €43,000,000 and (c) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or
- (3) in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

UNITED KINGDOM

Without limitation to the other restrictions referred to herein, this prospectus is directed only at (1) persons outside the United Kingdom, (2) persons having professional experience in matters relating to investments who fall within the definition of “investment professionals” in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005; or (3) high net worth bodies corporate, unincorporated associations and partnerships and trustees of high value trusts as described in Article 49(2) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005. Without limitation to the other restrictions referred to herein, any investment or investment activity to which this prospectus relates is available only to, and will be engaged in only with, such persons, and persons within the United Kingdom who receive this communication (other than persons who fall within (2) or (3) above) should not rely or act upon this communication.

FRANCE

The shares of our common stock may only be offered or sold to qualified investors and/or to a restricted number of investors in the Republic of France in accordance with Article L.41 1-2 of the French Code Monétaire et Financier (“Monetary and Financial Code”) and with the Decree no. 98-880 dated 1 October 1998 (the “Decree”); neither this prospectus, which has not been submitted to the Autorité des marchés financiers (the “AMF”), nor any information contained therein or any offering material relating to the shares, may be distributed or caused to be distributed to the public in France.

You are informed that:

- (1) this prospectus has not been submitted to the clearance procedures of the AMF;
- (2) in compliance with the Decree, if you subscribe for shares of our common stock, you will be acting for your own account;
- (3) the direct and indirect distribution by you to the public of your shares shall only be made in compliance with Articles L.411-1, L.411-2, L.412-1, and L.621-8 of the Monetary and Financial Code; and

Notice to investors

- (4) where the exemption for placements within a “restricted circle of investors” is relied on and the number of such investors exceeds 100, you must declare that you have personal links, either of a professional or family nature, with any of the underwriters.

ITALY

The offering of the shares of our common stock has not been registered pursuant to the Italian securities legislation and, accordingly, our common stock may not be offered or sold in the Republic of Italy in a solicitation to the public.

The shares of our common stock may only be offered, sold and delivered in the Republic of Italy to “Professional investors,” as defined in Article 31.2 of Commissione Nazionale per le Società e la Borsa (“CONSOB”) Regulation No. 11522 of 1st July 1998 (“Regulation No. 11522”), as amended, pursuant to Articles 30.2 and 100 of Legislative Decree No. 58 of 24th February 1998 (“Decree No. 58”), or in circumstances where an express exemption from compliance with the solicitation restrictions provided by Decree No. 58 or CONSOB Regulation No. 11971 of 14th May 1999 applies, provided, however, that any such offer, sale, or delivery of shares or distribution of copies of this prospectus or any other document relating to the shares in the Republic of Italy must be:

- (1) made by investment firms, banks, or financial intermediaries permitted to conduct such activities in the Republic of Italy in accordance with Legislative Decree No. 385 of 1st September 1993 (“Decree No. 385”), Decree No. 58, Regulation No. 11522, and any other applicable laws and regulations; and
- (2) in compliance with any other applicable notification requirement or limitation which may be imposed by CONSOB or the Bank of Italy.

GERMANY

Shares of our common stock may not be offered or sold or publicly promoted or advertised by any underwriter in the Federal Republic of Germany other than in compliance with the provisions of the German Securities Prospectus Act (Wertpapierprospektgesetz—WpPG) of June 22, 2005, as amended, or of any other laws applicable in the Federal Republic of Germany governing the issue, offering and sale of securities.

THE NETHERLANDS

Shares of our common stock may not be offered, sold, transferred or delivered in or from the Netherlands as part of their initial distribution or at any time thereafter, directly or indirectly, other than to banks, pension funds, insurance companies, securities firms, investment institutions, central governments, large international and supranational institutions and other comparable entities, including, among others, treasuries and finance companies of large enterprises, which trade or invest in securities in the course of a profession or trade. Individuals or legal entities who or which do not trade or invest in securities in the course of their profession or trade may not participate in the offering of the shares, and this prospectus or any other offering material relating to the shares may not be considered an offer or the prospect of an offer to sell or exchange the shares.

SWITZERLAND

Shares of our common stock may be offered in Switzerland only on the basis of a nonpublic offering. This prospectus does not constitute an issuance prospectus according to articles 652a or 1156 of the Swiss Federal Code of Obligations or a listing prospectus according to article 32 of the Listing Rules of the Swiss exchange. The shares have not been and will not be approved by any Swiss regulatory authority. In particular, the shares are not and will not be registered with or supervised by the Swiss Federal Banking Commission, and investors may not claim protection under the Swiss Investment Fund Act.

Legal matters

The validity of the common stock offered hereby will be passed upon for us by Sheppard Mullin Richter & Hampton LLP, Los Angeles, California. Certain legal matters in connection with this offering will be passed upon for the underwriters by Simpson Thacher & Bartlett LLP, Palo Alto, California.

Experts

The consolidated financial statements and schedule of Diodes as of December 31, 2003 and 2004 and for each of the three years in the period ended December 31, 2004 included in this prospectus have been audited by Moss Adams LLP, independent registered public accounting firm, as set forth in their report thereon appearing elsewhere herein, and are included in reliance upon such report, given on the authority of such firm as experts in auditing and accounting.

Where you can find additional information

We have filed with the SEC a registration statement on Form S-3, including exhibits, schedules and any amendments with respect to the common stock being offered hereby. This prospectus is a part of that registration statement and includes all of the information which we believe is material to you in considering whether to make an investment in our common stock. We refer you to the registration statement for additional information about us, our common stock and this offering, including the full texts of the exhibits, some of which have been summarized in this prospectus. Statements contained in this prospectus as to the contents of any contract or any other document referred to are not necessarily complete. With respect to each such contract or other document filed as a part of the registration statement, reference is made to the relevant exhibit for a more complete description of the matters involved, and each such statement shall be deemed qualified in its entirety by such reference. The registration statement is available for inspection and copying at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. The public may obtain information about the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site that makes available the registration statement. The address of the SEC's Internet site is www.sec.gov. We are required to file reports and other information with the SEC pursuant to the informational requirements of the Exchange Act.

Incorporation of certain documents by reference

We will "incorporate by reference" information into this prospectus by disclosing important information to you by referring you to another document that is filed separately with the SEC. The information incorporated by reference is deemed to be part of this prospectus, and later information that we file with the SEC will automatically update and supersede that information. This prospectus incorporates by reference the documents set forth below that have been previously filed with the SEC. These documents contain important information about us.

- Our annual report on Form 10-K for the fiscal year ended December 31, 2004 (as amended by the Form 10-K/A (Amendment No. 1)), including the information incorporated therein from the proxy statement for our 2005 annual meeting of stockholders;
- Our quarterly reports on Form 10-Q for the fiscal quarters ended March 31, 2005 and June 30, 2005; and

Incorporation of certain documents by reference

- Our current reports on Form 8-K, filed on May 31, 2005 (except Item 7.01 which is furnished to, but not filed with, the SEC), July 28, 2005, September 2, 2005 and September 7, 2005.

We are also incorporating by reference additional documents that we file with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act, between the date of this prospectus and the termination of the offering of common stock; provided, however, that nothing contained herein shall be deemed to incorporate information furnished to, but not filed with, the SEC.

We will provide without charge to each person, including any beneficial owner, to whom a copy of this prospectus has been delivered, a copy of any and all of these filings. You may make a written request for a copy of these filings by contacting us at:

Diodes Incorporated
3050 E. Hillcrest Drive
Westlake Village, CA 91362
Attn: Carl C. Wertz

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Diodes Incorporated and Subsidiaries

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Diodes Incorporated and Subsidiaries

We have audited the accompanying consolidated balance sheets of Diodes Incorporated and Subsidiaries as of December 31, 2004 and 2003 and the related consolidated statements of income, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Diodes Incorporated and Subsidiaries as of December 31, 2004 and 2003, and the consolidated results of their operations and cash flows for each of the years in the three year period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

/s/ Moss Adams LLP

MOSS ADAMS LLP

Los Angeles, California
January 28, 2005

Diodes Incorporated and Subsidiaries**CONSOLIDATED BALANCE SHEETS**

	December 31,	
	2003	2004
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 12,847,000	\$ 18,970,000
Accounts receivable		
Trade customers	27,010,000	38,682,000
Related parties	3,938,000	5,526,000
	<u>30,948,000</u>	<u>44,208,000</u>
Allowance for doubtful accounts	(375,000)	(432,000)
	30,573,000	43,776,000
Inventories	16,164,000	22,238,000
Deferred income taxes, current	5,547,000	2,453,000
Prepaid expenses and other	2,256,000	4,243,000
Prepaid income taxes	446,000	406,000
Total current assets	67,833,000	92,086,000
PROPERTY, PLANT AND EQUIPMENT, net	47,893,000	60,857,000
DEFERRED INCOME TAXES, non-current	1,816,000	7,970,000
OTHER ASSETS		
Goodwill	5,090,000	5,090,000
Other	1,163,000	1,798,000
Total assets	<u>\$ 123,795,000</u>	<u>\$ 167,801,000</u>

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

Diodes Incorporated and Subsidiaries**CONSOLIDATED BALANCE SHEETS**

	December 31,	
	2003	2004
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Line of credit	\$ 8,488,000	\$ 6,167,000
Accounts payable		
Trade	14,029,000	17,274,000
Related parties	3,453,000	3,936,000
Accrued liabilities	8,715,000	11,459,000
Current portion of long-term debt		
Related party	2,500,000	2,500,000
Others	3,333,000	1,014,000
Current portion of capital lease obligations	161,000	165,000
Total current liabilities	40,679,000	42,515,000
LONG-TERM DEBT, net of current portion		
Related party	3,750,000	1,250,000
Others	3,000,000	6,583,000
CAPITAL LEASE OBLIGATIONS, net of current portion	2,334,000	2,172,000
MINORITY INTEREST IN JOINT VENTURE	2,582,000	3,133,000
STOCKHOLDERS' EQUITY		
Preferred stock—par value \$1.00 per share; 1,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock—par value \$0.66 ² / ₃ per share; 30,000,000 shares authorized; 14,627,284 and 15,763,266 shares issued at 2003 and 2004, respectively	9,752,000	10,509,000
Additional paid-in capital	7,942,000	21,516,000
Retained earnings	55,779,000	81,330,000
	73,473,000	113,355,000
Less:		
Treasury stock—1,613,508 shares of common stock, at cost	1,782,000	1,782,000
Accumulated other comprehensive loss (gain)	241,000	(575,000)
	2,023,000	1,207,000
Total stockholders' equity	71,450,000	112,148,000
Total liabilities and stockholders' equity	\$ 123,795,000	\$ 167,801,000

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

Diodes Incorporated and Subsidiaries**CONSOLIDATED STATEMENTS OF INCOME**

Years ended December 31,

	2002	2003	2004
NET SALES	\$ 115,821,000	\$ 136,905,000	\$ 185,703,000
COST OF GOODS SOLD	89,111,000	100,377,000	124,968,000
Gross profit	26,710,000	36,528,000	60,735,000
OPERATING EXPENSES			
Selling, general and administrative	16,228,000	19,586,000	23,503,000
Research and development	1,472,000	2,049,000	3,422,000
Impairment of fixed assets	—	1,000,000	—
Loss on disposal of fixed assets	43,000	37,000	14,000
Total operating expenses	17,743,000	22,672,000	26,939,000
Income from operations	8,967,000	13,856,000	33,796,000
OTHER INCOME (EXPENSES)			
Interest expense, net	(1,183,000)	(860,000)	(637,000)
Other	67,000	(5,000)	(418,000)
Total other income (expenses)	(1,116,000)	(865,000)	(1,055,000)
Income before income taxes and minority interest	7,851,000	12,991,000	32,741,000
INCOME TAX PROVISION	(1,729,000)	(2,460,000)	(6,514,000)
Income before minority interest	6,122,000	10,531,000	26,227,000
MINORITY INTEREST IN EARNINGS OF JOINT VENTURE	(320,000)	(436,000)	(676,000)
NET INCOME	<u>\$ 5,802,000</u>	<u>\$ 10,095,000</u>	<u>\$ 25,551,000</u>
EARNINGS PER SHARE			
Basic	<u>\$ 0.47</u>	<u>\$ 0.79</u>	<u>\$ 1.91</u>
Diluted	<u>\$ 0.44</u>	<u>\$ 0.70</u>	<u>\$ 1.65</u>
Number of shares used in computation			
Basic	<u>12,276,899</u>	<u>12,730,808</u>	<u>13,404,276</u>
Diluted	<u>13,297,490</u>	<u>14,406,054</u>	<u>15,471,438</u>

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

Diodes Incorporated and Subsidiaries

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years ended December 31, 2002, 2003, and 2004

	Common stock			Common stock in treasury	Additional Paid-In Capital	Retained earnings	Accumulated other comprehensive gain (loss)	Total
	Shares	Shares in Treasury	Amount					
BALANCE,								
December 31, 2001	13,841,496	1,613,508	\$ 9,228,000	\$ (1,782,000)	\$ 4,233,000	\$ 39,882,000	\$ (437,000)	\$ 51,124,000
Comprehensive income, net of tax:								
Net income for the year ended December 31, 2002						5,802,000		5,802,000
Translation adjustments							(40,000)	(40,000)
Change in unrealized loss on derivative instruments, net of tax of \$400							(1,000)	(1,000)
Total comprehensive income								5,761,000
Management fee from LSC					375,000			375,000
Exercise of stock options including \$98,000 income tax benefit	97,650	—	65,000	—	354,000	—	—	419,000
BALANCE,								
December 31, 2002	13,939,146	1,613,508	\$ 9,293,000	\$ (1,782,000)	\$ 4,962,000	\$ 45,684,000	\$ (478,000)	\$ 57,679,000
Comprehensive income, net of tax:								
Net income for the year ended December 31, 2003						10,095,000		10,095,000
Translation adjustments							169,000	169,000
Change in unrealized loss on derivative instruments, net of tax of \$27,000							68,000	68,000
Total comprehensive income								10,332,000
Management fee from LSC					286,000			286,000
Exercise of stock options including \$1,139,000 income tax benefit	688,138	—	459,000	—	2,694,000	—	—	3,153,000
BALANCE,								
December 31, 2003	14,627,284	1,613,508	\$ 9,752,000	\$ (1,782,000)	\$ 7,942,000	\$ 55,779,000	\$ (241,000)	\$ 71,450,000
Comprehensive income, net of tax:								
Net income for the year ended December 31, 2004						25,551,000		25,551,000
Translation adjustments							793,000	793,000
Change in unrealized loss on derivative instruments, net of tax of \$9,000							23,000	23,000
Total comprehensive income								26,367,000
Management fee from LSC					180,000			180,000
Exercise of stock options including \$8,514,000 income tax benefit	1,135,982	—	757,000	—	13,394,000	—	—	14,151,000
BALANCE								
December 31, 2004	<u>15,763,266</u>	<u>1,613,508</u>	<u>\$ 10,509,000</u>	<u>\$ (1,782,000)</u>	<u>\$ 21,516,000</u>	<u>\$ 81,330,000</u>	<u>\$ 575,000</u>	<u>\$ 112,148,000</u>

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

Diodes Incorporated and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31,

	2002	2003	2004
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 5,802,000	\$ 10,095,000	\$ 25,551,000
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	9,747,000	11,073,000	13,173,000
Minority interest earnings	320,000	436,000	676,000
Loss on impairment and disposal of property, plant and equipment	43,000	1,037,000	14,000
Changes in operating assets and liabilities			
Accounts receivable	(4,779,000)	(8,490,000)	(13,203,000)
Inventories	2,139,000	(1,248,000)	(6,074,000)
Prepaid expenses and other	(711,000)	(388,000)	(2,474,000)
Deferred income taxes	646,000	270,000	5,463,000
Accounts payable	3,153,000	5,082,000	3,728,000
Accrued liabilities	3,481,000	—	1,468,000
Income taxes payable	149,000	954,000	978,000
Net cash provided by operating activities	<u>19,990,000</u>	<u>18,821,000</u>	<u>29,300,000</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment	(6,777,000)	(15,646,000)	(26,201,000)
Proceeds from sales of property, plant and equipment	3,000	357,000	68,000
Net cash used by investing activities	<u>(6,774,000)</u>	<u>(15,289,000)</u>	<u>(26,133,000)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Advances (repayments) on line of credit, net	(3,478,000)	5,463,000	(2,321,000)
Net proceeds from the issuance of common stock	321,000	2,014,000	5,628,000
Management incentive reimbursement from LSC	375,000	375,000	375,000
Proceeds from long-term debt	—	—	3,583,000
Repayments of long-term debt	(11,080,000)	(5,833,000)	(4,819,000)
Minority shareholder investment in subsidiary	—	—	175,000
Repayments of capital lease obligations	(133,000)	(157,000)	(158,000)
Dividend to minority shareholder	—	—	(300,000)
Net cash provided (used) by financing activities	<u>(13,995,000)</u>	<u>1,862,000</u>	<u>2,163,000</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS			
	(40,000)	169,000	793,000
INCREASE (DECREASE) IN CASH	<u>(819,000)</u>	<u>5,563,000</u>	<u>6,123,000</u>
CASH, beginning of year	8,103,000	7,284,000	12,847,000
CASH, end of year	<u>\$ 7,284,000</u>	<u>\$ 12,847,000</u>	<u>\$ 18,970,000</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash paid during the year for:			
Interest	<u>\$ 1,229,000</u>	<u>\$ 876,000</u>	<u>\$ 683,000</u>
Income taxes	<u>\$ 965,000</u>	<u>\$ 999,000</u>	<u>\$ 2,504,000</u>
Non-cash activities:			
Tax benefit related to stock options credited to paid-in capital	<u>\$ 98,000</u>	<u>\$ 1,139,000</u>	<u>\$ 8,514,000</u>
Building acquired through capital lease obligation	<u>\$ 2,785,000</u>	<u>\$ —</u>	<u>\$ —</u>

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

Diodes Incorporated and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1—SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of operations—Diodes Incorporated and its subsidiaries manufacture and distribute discrete semiconductor devices to manufacturers in the communications, computing, industrial, consumer electronics and automotive markets. The Company’s products include small-signal transistors and MOSFETs, transient voltage suppressors (TVSs), zeners, Schottkys, diodes, rectifiers, bridges and silicon wafers. The products are sold primarily throughout North America, Asia and Europe.

Principles of consolidation—The consolidated financial statements include the accounts of the parent company, Diodes Incorporated (Diodes-North America), its wholly-owned subsidiaries; Diodes Taiwan Corporation, Ltd. (Diodes-Taiwan), Diodes Hong Kong, Ltd. (Diodes-Hong Kong) and FabTech, Inc. (FabTech or Diodes-FabTech); and its majority (95.0%) owned subsidiaries, Shanghai KaiHong Electronics Co., Ltd. (Diodes-China) and Diodes Shanghai Company, Ltd. (Diodes-Shanghai). All significant intercompany balances and transactions have been eliminated in consolidation.

Revenue recognition—Revenue is recognized 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 to both original equipment manufacturers (OEMs) and electronics component distributors. The Company reduces revenue in the period of sale for estimates of product returns and other allowances.

In 2003, Diodes-China received approximately \$254,000 in high-technology grants as an incentive for further investment from the local Chinese government. The grants were unrestricted and available upon receipt to fund the operations of Diodes-China. The Company recognized this grant income when received and recorded them within “other income” on the accompanying statements of income. No grant income was received in 2004 and management does not expect this type of income in the future.

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

Inventories—Inventories are stated at the lower of cost or market value. Cost is determined principally by the first-in, first-out method. On an on-going basis both finished goods inventory and raw material inventory is evaluated 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, a reserve for obsolete and slow-moving inventory is accrued (see Note 2).

Property, plant and equipment—Property, plant and equipment are depreciated using straight-line and accelerated methods over the estimated useful lives, which range from 20 to 55 years for buildings and 3 to 10 years for machinery and equipment. Leasehold improvements are amortized using the straight-line method over 3 to 5 years (see Note 3).

Goodwill—Beginning in fiscal 2002 with the adoption of Statement of Financial Accounting Standards (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 the Company’s adoption of SFAS No. 142, an independent appraiser hired by the Company, performed the required impairment tests of goodwill as of January 1, 2004 and 2005, and has determined that the goodwill is fully recoverable. No goodwill was acquired or impaired during the years ended December 31, 2002, 2003 and 2004. As of December 31, 2004, goodwill for Diodes-FabTech and Diodes-China was \$4.2 million

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

and \$0.9 million, respectively. Prior to fiscal 2002, goodwill was amortized using the straight-line method over its estimated period of benefit.

Impairment of long-lived assets—Certain long-lived assets of the Company are reviewed at least annually as to whether their carrying values have become impaired in accordance with SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets.” Management considers assets to be impaired if the carrying value exceeds the undiscounted projected cash flows from operations. If impairment exists, the assets are written down to fair value or the projected discounted cash flows from related operations. As of December 31, 2004, the Company expects the remaining carrying value of assets to be recoverable.

Income taxes—Income taxes are accounted for using an asset and liability approach whereby deferred tax assets and liabilities are recorded for differences in the financial reporting bases and tax bases of the Company’s assets and liabilities (see Note 8).

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

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

Use of estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires that management make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ materially from those estimates.

Stock split—On November 25, 2003, the Company effected a three-for-two stock split for shareholders of record as of November 14, 2003 in the form of a 50% stock dividend. All share and per share amounts in the accompanying financial statements and footnotes reflect the effect of this stock split.

Earnings per share—Earnings per share are based upon the weighted average number of shares of common stock and common stock equivalents outstanding, net of common stock held in treasury. Earnings per share is computed using the “treasury stock method” under the Financial Accounting Standards Board (FASB) Statement No. 128.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the years ended December 31, 2002, 2003 and 2004, options outstanding for 824,000 shares, 1,195,000 shares, and 0 shares, respectively, of common stock have been excluded from the computation of diluted earnings per share because their effect was anti-dilutive.

	Year ended December 31		
	2002	2003	2004
Net income for earnings per share computation	\$ 5,802,000	\$ 10,095,000	\$ 25,551,000
Basic			
Weighted average number of common shares outstanding during the year	12,276,899	12,730,808	13,404,276
Basic earnings per share	\$ 0.47	\$ 0.79	\$ 1.91
Diluted			
Weighted average number of common shares outstanding used in calculating basic earnings per share	12,276,899	12,730,808	13,404,276
Add: additional shares issuable upon exercise of stock options	1,020,591	1,675,246	2,067,162
Weighted average number of common shares used in calculating diluted earnings per share	13,297,490	14,406,054	15,471,438
Diluted earnings per share	\$ 0.44	\$ 0.70	\$ 1.65

Stock-based compensation—The Company maintains stock-based compensation plans for its board of directors, officers, and key employees, which provide for non-qualified and incentive stock options. The plans are described more fully in Note 9. With the issuance in mid-December 2004 by FASB of SFAS No. 123(R), “Share-Based Payments,” which is a revision to SFAS No. 123, “Accounting for Stock-Based Compensation,” which was issued in 1995, the Company will begin reporting the fair value of stock-based compensation as an expense in its financial statements beginning in 2006 (see discussion in “Recently Issued Accounting Pronouncements and Proposed Accounting Changes” below). Prior to implementation of this new standard, the Company accounted for those plans under the recognition and measurement principles of APB Opinion No. 25, “Accounting for Stock Issued to Employees,” and related Interpretations. No compensation cost was reflected in net income for stock options, as all options granted under those plans have an exercise price equal to or greater than the market value of the underlying common stock on the date of the grant. As required by SFAS No. 148, “Accounting for Stock-Based Compensation— Transition and Disclosure, an amendment of FASB Statement No. 123,” the following table illustrates the effect on net income and earnings per common

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

share as if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based compensation for each period presented:

	For the years ended December 31,								
	2002	Amounts per share		2003	Amounts per share		2004	Amounts per share	
		Basic	Diluted		Basic	Diluted		Basic	Diluted
Net income	\$ 5,802,000	\$ 0.47	\$ 0.44	\$ 10,095,000	\$ 0.79	\$ 0.70	\$ 25,551,000	\$ 1.91	\$ 1.65
Deduct: stock-based compensation expense determined under fair value method, net of tax	(1,918,000)	(0.15)	(0.15)	(1,397,000)	(0.11)	(0.10)	(1,642,000)	(0.13)	(0.10)
Pro forma net income	\$ 3,884,000	\$ 0.32	\$ 0.29	\$ 8,698,000	\$ 0.68	\$ 0.60	\$ 23,909,000	\$ 1.78	\$ 1.55

The pro forma information recognizes as compensation the value of stock options granted using the Black-Scholes option pricing model which takes into account as of the grant date, the exercise price and expected life of the option, the current price of underlying stock and its expected volatility, expected dividends on the stock, expected forfeitures and the risk-free interest rate for the term of the option. The following is the weighted average of the data used to calculate the estimated fair value:

December 31,	Risk-free interest rate	Expected life	Expected volatility	Expected forfeitures	Expected dividends
2004	3.64%	5.0 years	68.36%	2.64%	0%
2003	3.31%	5.0 years	66.18%	2.77%	0%
2002	4.03%	5.0 years	75.61%	2.77%	0%

The Company's valuations are based upon a single option valuation approach using the Black-Scholes option valuation model. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable and negotiable in a free trading market. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility and expected life of the option. Because the Company's stock options have characteristics significantly different from those of freely traded options, and changes in the subjective input assumptions can materially affect the Company's fair value estimate of those stock options, in the Company's opinion, existing valuations models, including Black-Scholes, are not reliable single measures and may misstate the fair value of the Company's stock options. Because Company stock options do not trade on a secondary exchange, recipients can receive no value nor derive any benefit from holding stock options under these plans without an increase, above the grant price, in the market price of the Company's stock. Such an increase in stock price would benefit all stockholders commensurately.

Derivative financial instrument—The Company used an interest rate swap agreement to hedge its exposure to variability in expected future cash flows resulting from interest rate risk related to a portion of its long-term debt. The interest rate swap agreement applied to 25.0% of the Company's long-term debt and expired November 30, 2004. Market value of the swap as of December 31, 2003 and 2004 is included in "Accumulated Other Comprehensive Loss". The swap contract is inversely correlated to the related hedged long-term debt and was therefore considered an effective cash flow hedge of the underlying long-term debt. The level of effectiveness of the hedge was measured by the changes in the market value of the hedged long-term debt resulting from fluctuation in

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

interest rates. As a matter of policy, the Company does not enter into derivative transactions for trading or speculative purposes.

Functional currencies and foreign currency translation—Through its subsidiaries, the Company maintains operations in Taiwan, Hong Kong and China. The Company believes the New Taiwan (“NT”) dollar as the functional currency at Diodes-Taiwan most appropriately reflects the current economic facts and circumstances of the operations. The Company continues to use the U.S. dollar as the functional currency in Diodes-China, Diodes-Shanghai and Diodes-Hong Kong, as substantially all monetary transactions are made in that currency, and other significant economic facts and circumstances currently support that position. As these factors may change in the future, the Company will periodically assess its position with respect to the functional currency of its foreign subsidiaries. Included in net income are foreign currency exchange losses of approximately \$82,000, \$115,000, and \$424,000 for the years ended December 31, 2002, 2003 and 2004, respectively.

Comprehensive income—Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income. The components of other comprehensive income include foreign currency translation adjustments and changes in the unrealized loss on derivative instruments from swap liability.

Recently issued accounting pronouncements and proposed accounting changes—In November 2004, the Emerging Issues Task Force (EITF) reached a consensus on EITF Issue No. 03-13, “Applying the Conditions in Paragraph 42 of FASB Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, in Determining Whether to Report Discontinued Operations.” The consensus provides guidance in determining: (a) which cash flows should be taken into consideration when assessing whether the cash flows of the disposal component have been or will be eliminated from the ongoing operations of the entity, (b) the types of involvement ongoing between the disposal component and the entity disposing of the component that constitute continuing involvement in the operations of the disposal component, and (c) the appropriate (re)assessment period for purposes of assessing whether the criteria in paragraph 42 have been met. The consensus was ratified by the FASB at their November 30, 2004 meeting and should be applied to a component of an enterprise that is either disposed of or classified as held for sale in fiscal periods beginning after December 15, 2004. The Company does not anticipate a material impact on the financial statements from the adoption of this consensus.

In December 2004, the FASB issued FASB Statement No. 153, *Exchanges of Nonmonetary Assets—An Amendment of APB Opinion No. 29*. The amendments made by Statement No. 153 are based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. Further, the amendments eliminate the narrow exception for nonmonetary exchanges of similar productive assets and replace it with a broader exception for exchanges of nonmonetary assets that do not have “commercial substance.” The provisions in Statement No. 153 are effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Adoption of this standard is not expected have a material impact on the consolidated financial statements.

In September 2004, the EITF reached a consensus on EITF Issue No. 04-10, *Applying Paragraph 19 of FAS 131 in Determining Whether to Aggregate Operating Segments That Do Not Meet the Quantitative Thresholds*. The consensus states that operating segments that do not meet the quantitative thresholds can be aggregated only if aggregation is consistent with the objective and basic principles of SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

segments have similar economic characteristics, and the segments share a majority of the aggregation criteria (a)-(e) listed in paragraph 17 of SFAS No. 131. The effective date of the consensus in this Issue is for fiscal years ending after October 13, 2004. If the Financial Accounting Standards Board (FASB) ratifies EITF Issue No. 04-10, the Company does not anticipate a material impact on the financial statements.

In March 2004, the EITF reached a consensus on the remaining portions of EITF 03-01, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments* with an effective date of June 15, 2004. EITF 03-01 provides new disclosure requirements for other-than-temporary impairments on debt and equity investments. Investors are required to disclose quantitative information about: (i) the aggregate amount of unrealized losses, and (ii) the aggregate related fair values of investments with unrealized losses, segregated into time periods during which the investment has been in an unrealized loss position of less than 12 months and greater than 12 months. In addition, investors are required to disclose the qualitative information that supports their conclusion that the impairments noted in the qualitative disclosure are not other-than temporary. The Company determined that EITF 03-01 would not have a material impact on the financial statements.

In December 2003, the Financial Accounting Standards Board (“FASB”) issued FASB Interpretation No. 46R (“FIN 46R”), *Consolidation of Variable Interest Entities*, a revision to Interpretation No. 46 (“FIN 46”). FIN 46R clarifies the application of consolidation accounting for certain entities that do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties or in which equity investors do not have the characteristics of a controlling financial interest; these entities are referred to as “variable interest entities.” Variable interest entities within the scope of FIN 46R are required to be consolidated by their primary beneficiary. The primary beneficiary of a variable interest entity is determined to be the party that absorbs a majority of the entity’s expected losses, receives a majority of its expected returns, or both. FIN 46R also requires disclosure of significant variable interests in variable interest entities for which a company is not the primary beneficiary. The Company has assessed Diodes-Shanghai under the provisions of FIN 46R and has concluded that its investment in Diodes-Shanghai does not meet the criteria for consolidation under the standard. However, Diodes-Shanghai is consolidated under other applicable accounting literature. The Company will periodically review its investment in Diodes-Shanghai to insure that it complies with the guidelines prescribed by FIN 46R.

In December 2004, the FASB also issued SFAS No. 151, *Inventory Costs, an amendment of ARB No. 43, Chapter 4*, which will become effective for the Company beginning January 1, 2006. This standard clarifies that abnormal amounts of idle facility expense, freight, handling costs and wasted material should be expensed as incurred and not included in overhead. In addition, this standard requires that the allocation of fixed production overhead costs to inventory be based on the normal capacity of the production facilities. The Company is currently evaluating the potential impact of this standard on its financial position and results of operations, but does not believe the impact of the change will be material.

On October 22, 2004, a new tax law was passed, the American Jobs Creation Act of 2004 (the “Jobs Creation Act”), which raised a number of issues with respect to accounting for income taxes. In response, on December 21, 2004, the FASB issued two FASB Staff Positions (FSP), FSP 109-1—*Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004*” and FSP 109-2—*Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004*,” which became effective for the Company upon issuance.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The Jobs Creation Act provides a deduction for income from qualified domestic production activities, to be phased in from 2005 through 2010, which is intended to replace the existing extra-territorial income exclusion for foreign sales. In FSP 109-1, the FASB decided the deduction for qualified domestic production activities should be accounted for as a special deduction under SFAS No. 109, rather than as a rate reduction. Accordingly, any benefit from the deduction will be reported in the period in which the deduction is claimed on the tax return and no adjustment to deferred taxes at December 31, 2004, is required.

The Jobs Creation Act also creates a temporary incentive for U.S. corporations to repatriate accumulated income earned abroad by providing an 85 percent dividends received deduction for certain dividends from controlled foreign corporations. The deduction is subject to a number of limitations and uncertainty remains as to how to interpret numerous provisions in the Act. FSP 109-2 addresses when to reflect in the financial statements the effects of the one-time tax benefit on the repatriation of foreign earnings. Under SFAS No. 109, companies are normally required to reflect the effect of new tax law changes in the period of enactment. FSP 109-2 provides companies additional time to determine the amount of earnings, if any, that they intend to repatriate under the Jobs Creation Act's provisions. See Note 8 for more discussion of the impact of the Jobs Creation Act, including the Company's status on the repatriation of foreign earnings.

In December 2004, the FASB issued SFAS No. 123(R). This new standard requires companies to adopt the fair value methodology of valuing stock-based compensation and recognizing that valuation in the financial statements from the date of grant. Accordingly, the adoption of SFAS No. 123(R)'s fair value method will have a significant impact on the Company's results of operations, although it will have no impact on the Company's overall financial position. The impact of adoption of SFAS No. 123(R) cannot be predicted at this time because it will partially depend on levels of share-based payments granted in the future. However, had the Company adopted SFAS No. 123(R) in prior periods, the impact of that standard would have approximated the impact of SFAS No. 123 as shown in the table above (see discussion in Stock-Based Compensation above). SFAS No. 123(R) also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. The Company is currently evaluating several option valuation models in order to calculate the required compensation expense. The Company has elected to adopt the provisions of SFAS No. 123(R) on a modified prospective application method with no restatement of any prior periods. SFAS No. 123(R) is effective for the Company as of the beginning of the fiscal year ending December 31, 2006.

Reclassifications—Certain prior year amounts as well as unaudited quarterly financial data presented in the accompanying consolidated financial statements have been reclassified to conform to the current year financial statement presentation. These reclassifications had no impact on previously reported net income or stockholders' equity.

Diodes Incorporated and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**NOTE 2—INVENTORIES**

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

	2003	2004
Finished goods	\$ 9,920,000	\$ 13,118,000
Work-in-progress	1,818,000	2,025,000
Raw materials	6,519,000	9,240,000
	<u>18,257,000</u>	<u>24,383,000</u>
Less: reserves	(2,093,000)	(2,145,000)
	<u>\$ 16,164,000</u>	<u>\$ 22,238,000</u>

NOTE 3—PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at December 31 were:

	2003	2004
Buildings and leasehold improvements	\$ 5,894,000	\$ 7,126,000
Construction in-progress	2,810,000	2,989,000
Machinery and equipment	74,171,000	90,151,000
	<u>82,875,000</u>	<u>100,266,000</u>
Less: Accumulated depreciation and amortization	(35,244,000)	(39,671,000)
	<u>47,631,000</u>	<u>60,595,000</u>
Land	262,000	262,000
	<u>\$ 47,893,000</u>	<u>\$ 60,857,000</u>

The Company implemented an Enterprise Resource Planning software system for which approximately \$2,511,000 and \$0 is capitalized within construction in-progress in 2003 and 2004, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 4—BANK CREDIT AGREEMENTS AND LONG-TERM DEBT

Line of credit—The Company maintains credit facilities with several financial institutions through its affiliated entities in the United States and Asia. The credit unused and available under the various facilities as of December 31, 2004, totals \$32.3 million, as follows:

2004 Credit Facility	Terms	Outstanding at December 31,	
		2003	2004
\$ 7,500,000	Revolving, collateralized by all assets, variable interest (prime rate, approximately 5.25% at December 31, 2004) due monthly	\$ 5,782,000	\$ 3,167,000
\$ 5,000,000	Term loan, collateralized by all assets, variable interest (LIBOR + variable margin, approximately 3.80% at December 31, 2004) due monthly	3,333,000	4,597,000
\$ 25,000,000	Unsecured, interest at LIBOR plus margin (approximately 2.30% at December 31, 2004) due quarterly	3,000,000	6,000,000
\$ 8,960,000	Unsecured, variable interest plus margin (approximately 1.70% to 2.30% at December 31, 2003) due monthly	2,706,000	—
\$ 46,460,000		14,821,000	13,764,000
Less: Long-term debt, net of Related Party (included in table below)		(6,333,000)	(7,597,000)
Line of credit		<u>\$ 8,488,000</u>	<u>\$ 6,167,000</u>

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

	2003	2004
Note payable to LSC, a major stockholder of the Company (see Note 10), due in equal monthly installments of \$208,000 plus interest beginning July 31, 2002, through June 30, 2006. The unsecured note bears interest at LIBOR plus 2.00% (approximately 4.10% at December 31, 2004) and is subordinated to the interest of the Company's primary lender.	\$ 6,250,000	\$ 3,750,000
Term note portion of \$25,000,000 China credit facility due in 2006	3,000,000	3,000,000
Note payable to U.S. bank, collateralized by all assets, due in aggregate monthly principal payments of \$278,000 plus interest at 6.80% fixed by hedge contract through November 2004	3,333,000	—
Note payable to U.S. bank, collateralized by all assets, due in aggregate monthly principal payments of \$83,000 plus interest at approximately 3.80% at December 31, 2004	—	4,597,000
	12,583,000	11,347,000
Less: Current portion	(5,833,000)	(3,514,000)
Long-term debt, net of current portion	<u>\$ 6,750,000</u>	<u>\$ 7,833,000</u>

Diodes Incorporated and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The credit facilities contain certain covenants and restrictions, which, among other matters, require the maintenance of certain financial ratios and attainment of certain financial results, and prohibit the payment of dividends.

The aggregate maturities of long-term debt for future years ending December 31 are:

2005	\$	3,514,000
2006		5,250,000
2007		1,000,000
2008		1,000,000
2009		583,000
	\$	<u>11,347,000</u>

In July 2001, the Company entered into an interest rate swap agreement with a bank to hedge its interest exposure. The interest rate under the swap agreement, which expired November 30, 2004, was fixed at 6.80% and based on the notional amount, which was \$2,292,000 at December 31, 2003.

NOTE 5—CAPITAL LEASE OBLIGATIONS

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

For years ending December 31,

2005	\$	230,000
2006		230,000
2007		230,000
2008		230,000
2009		230,000
Thereafter		<u>1,627,000</u>
		2,777,000
Less: Interest		<u>(440,000)</u>
Present value of minimum lease payments		2,337,000
Less: Current portion		<u>(165,000)</u>
Long-term portion	\$	<u>2,172,000</u>

At December 31, 2004, property under capital leases had a cost of \$2,785,000, and the related accumulated depreciation amounted to \$557,000.

Diodes Incorporated and Subsidiaries**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****NOTE 6—ACCRUED LIABILITIES**

Accrued liabilities at December 31 were:

	2003	2004
Employee compensation and payroll taxes	\$ 4,501,000	\$ 5,779,000
Equipment purchases	1,875,000	2,012,000
Taxes payable	—	978,000
Sales commissions	686,000	437,000
Refunds to product distributors	334,000	219,000
Other	1,319,000	2,034,000
	<u>\$ 8,715,000</u>	<u>\$ 11,459,000</u>

NOTE 7—VALUATION OF FINANCIAL INSTRUMENTS

The Company's financial instruments include cash, accounts receivable, accounts payable, working capital line of credit, and long-term debt. The Company estimates the carrying amounts of all financial instruments described above to approximate fair value based upon current market conditions, maturity dates and other factors.

NOTE 8—INCOME TAXES

The components of the income tax provisions are as follows:

	2002	2003	2004
Current tax provision			
U.S. Federal	\$ —	\$ 1,167,000	\$ 4,922,000
Foreign	1,231,000	1,183,000	4,745,000
State	1,000	40,000	461,000
	<u>1,232,000</u>	<u>2,390,000</u>	<u>10,128,000</u>
Deferred tax expense (benefit)	497,000	70,000	(3,614,000)
Total income tax provision	<u>\$ 1,729,000</u>	<u>\$ 2,460,000</u>	<u>\$ 6,514,000</u>

Diodes Incorporated and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Reconciliation between the effective tax rate and the statutory tax rates for the years ended December 31, 2002, 2003, and 2004 are as follows:

	2002		2003		2004	
	Amount	Percent of pretax earnings	Amount	Percent of pretax earnings	Amount	Percent of pretax earnings
U.S. Federal tax	\$ 2,669,000	34.0	\$ 4,417,000	34.0	\$ 11,131,000	34.0
U.S. State franchise tax, net of U.S. Federal benefit	455,000	5.8	753,000	5.8	1,588,000	4.8
Foreign income tax rate difference	(1,409,000)	(18.0)	(2,808,000)	(21.6)	(6,629,000)	(20.2)
Other	14,000	0.2	98,000	0.8	424,000	1.3
Income tax provision (benefit)	<u>\$ 1,729,000</u>	<u>22.0</u>	<u>\$ 2,460,000</u>	<u>19.0</u>	<u>\$ 6,514,000</u>	<u>19.9</u>

In accordance with the current taxation policies of the People's Republic of China (PRC), Diodes-China received preferential tax treatment for the years ended December 31, 1996 through 2004. Earnings were subject to 0% tax rates from 1996 through 2000, and 12.0% from 2001 through 2004. Due to a \$15.0 million permanent re-investment of Diodes-China earnings in 2004, earnings from 2005 through 2007 will continue to be taxed at 12.0% (one half the normal central government tax rate). Also due to the permanent re-investment, the Company recorded a \$1.2 million tax refund (net of U.S. taxes) in the fourth quarter of 2004. Earnings of Diodes-China are also subject to tax of 3.0% by the local taxing authority in Shanghai. The local taxing authority waived this tax from 2001 through 2004, and is expected to waive this tax in 2005, but can re-impose the tax at its discretion. For 2004, Diodes-Shanghai's effective tax rate was 15.0%. As an incentive for the establishment of Diodes-Shanghai, beginning in 2005, earnings will be exempted from income tax for two years. Then, beginning in 2007, earnings will be subject to 50.0% of the standard tax rate of 15.0% for the following three years.

Earnings of Diodes-Taiwan are currently subject to a tax rate of 35.0%, which is comparable to the U.S. Federal tax rate for C corporations. Earnings of Diodes-Hong Kong are currently subject to a 17.5% tax for local sales and/or local source sales, all other sales are foreign income tax-free.

In accordance with United States tax law, the Company receives credit against its U.S. Federal tax liability for corporate taxes paid in Taiwan and China. The repatriation of funds from Taiwan and China to the Company may be subject to Federal and state income taxes.

As of December 31, 2004, accumulated and undistributed earnings of Diodes-China and Diodes-Shanghai are approximately \$44.2 million, including \$25.0 million of restricted earnings (which are not available for dividends). Through March 31, 2002, the Company had not recorded deferred U.S. Federal or state tax liabilities (estimated to be \$8.9 million as of March 31, 2002) on these cumulative earnings since the Company, at that time, considered this investment to be permanent, and had no plans or obligation to distribute all or part of that amount from China to the United States. Beginning in April 2002, the Company began to record deferred taxes on a portion of the China earnings in preparation of a dividend distribution. In the year ended December 31, 2004, the Company received a dividend of approximately \$5.7 million from its Diodes-China subsidiary, for which the tax effect is included in U.S. Federal and state taxable income. As of December 31, 2004, the Company

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

has recorded approximately \$2.0 million in deferred taxes on the cumulative earnings of Diodes-China and Diodes-Shanghai.

The Company is 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 the Company's corporate office in North America, and as further investment strategies with respect to foreign earnings are determined. Should the Company's North American cash requirements exceed the cash that is provided through the domestic credit facilities, cash can be obtained from the Company's foreign subsidiaries. However, the distribution of any unappropriated funds to the U.S. will require the recording of income tax provisions on the U.S. entity, thus reducing net income.

On October 22, 2004, the President of the United States signed the American Jobs Creation Act (AJCA) into law. Originally intended to repeal the extraterritorial income (ETI) exclusion, which had triggered tariffs by the European Union, the AJCA expanded to cover a wide range of business tax issues. Among other items, the AJCA establishes a phased repeal of the ETI, a new incentive tax deduction for U.S. corporations to repatriate cash from foreign subsidiaries at a reduced tax rate (a deduction 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.

At December 31, 2004, the Company made a minimum estimate for repatriating cash from its subsidiaries in China and Hong Kong of \$8.0 million under the AJCA, and recorded an income tax expense of approximately \$1.3 million. Under the guidelines of the AJCA, the Company will develop a required domestic reinvestment plan, covering items such as U.S. bank debt repayment, U.S. capital expenditures and U.S. research and development activities, among others, to cover the \$8.0 million minimum dividend repatriation. In addition, the Company will complete a quantitative analysis of the benefits of the AJCA, the foreign tax credit implications, and state and local tax consequences of a dividend to maximize the tax benefits of a 2005 dividend.

At December 31, 2003 and 2004, the Company's deferred tax assets and liabilities are comprised of the following items:

	2003	2004
Deferred tax assets, current		
Inventory cost	\$ 272,000	\$ 364,000
Accrued expenses and accounts receivable	566,000	702,000
Net operating loss carryforwards, foreign tax credits and other	4,709,000	1,387,000
	<u>\$ 5,547,000</u>	<u>\$ 2,453,000</u>
Deferred tax assets, non-current		
Plant, equipment and intangible assets	\$ (2,380,000)	\$ (2,632,000)
Net operating loss carryforwards, foreign tax credits and other	4,196,000	10,602,000
	<u>\$ 1,816,000</u>	<u>\$ 7,970,000</u>

At December 31, 2004, the Company had U.S. Federal and state net operating loss (NOL) carryforwards of approximately \$17.0 million and \$20.2 million, respectively, available to offset future regular and alternative minimum taxable income. The U.S. Federal NOL carryforwards will begin to expire in 2016 and the state NOL carryforwards will begin to expire in 2006.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

At December 31, 2004, the Company had U.S. Federal and state tax credit carryforwards (primarily relating to foreign tax credits, and to a lesser extent to research and development tax credits) of approximately \$6.6 million and \$0.1 million, respectively, available to offset future regular income and partially offset alternative minimum taxable income. The U.S. Federal credit carryforwards will begin to expire in 2009 and the state credit carryforwards will begin to expire in 2020.

NOTE 9—EMPLOYEE BENEFIT PLANS

Employee Savings and Retirement Plans—The Company maintains a 401(k) profit sharing plan (the Plan) for the benefit of qualified employees at its North American locations. Employees who participate may elect to make salary deferral contributions to the Plan up to 100% of the employees' eligible payroll subject to annual Internal Revenue Code maximum limitations. The Company makes a matching contribution of \$1 for every \$2 contributed by the participant up to 6.0% (3.0% maximum matching) of the participant's eligible payroll. In addition, the Company may make a discretionary contribution to the entire qualified employee pool, in accordance with the Plan.

As stipulated by the regulations of the PRC, the Company maintains a retirement plan pursuant to the local Municipal Government for its employees in China. The Company is required to make contributions to the retirement plan at a rate of 22.5% of the employee's eligible payroll.

Pursuant to the Taiwan Labor Standard Law and Factory Law, the Company maintains a retirement plan for its employees in Taiwan. The Company makes contributions at a rate of 6.0% of the employee's eligible payroll.

For the years ended December 31, 2002, 2003, and 2004, the Company's total contributions to all plans were approximately \$917,000, \$1,241,000, and \$1,428,000, respectively.

Stock Option Plans—The Company maintains stock option plans for directors, officers, and key employees, which provide for non-qualified and incentive stock options. The Compensation and Stock Option Committee of the Board of Directors determines the option price (not to be less than fair market value of the underlying common stock at the date of grant for incentive stock options) at the date of grant. The options generally expire ten years from the date of grant and are exercisable (vested) over the period stated in each option. Approximately 440,600 shares were available for future

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

grants under the plans as of December 31, 2004. A summary of stock option transactions for the plans follows:

	Outstanding options		
	Number	Exercise price per share	
		Range	Weighted average
Balance, December 31, 2001	3,172,641	\$ 0.83-15.94	\$ 5.85
Granted	515,550	5.69-6.38	5.72
Exercised	(97,650)	0.83-5.55	3.28
Canceled	(5,400)	5.55-5.69	5.62
Balance, December 31, 2002	3,585,141	0.83-15.94	5.90
Granted	502,950	10.63-13.04	13.03
Exercised	(688,141)	0.83-15.94	2.93
Canceled	(15,325)	5.55-15.94	7.84
Balance, December 31, 2003	3,384,625	2.22-15.94	7.56
Granted	526,900	18.32-21.85	18.35
Exercised	(1,136,725)	2.22-15.94	4.96
Canceled	(35,600)	5.55-18.32	13.64
Balance, December 31, 2004	<u>2,739,200</u>	<u>\$ 2.22-21.85</u>	<u>\$ 10.63</u>

As of December 31, 2004, approximately 1,737,200 of the 2,739,200 options outstanding were exercisable. The following table summarizes information about stock options outstanding at December 31, 2004:

	Range of exercise prices	Number outstanding	Weighted average remaining contractual life (yrs)	Weighted average exercise price
'93 NQO	\$ 2.67-15.94	631,950	4.6	\$ 9.42
'93 ISO	2.22-15.94	705,400	4.9	7.45
'01 Plan	4.77-21.85	1,401,850	8.6	12.77
Total	<u>\$ 2.22-21.85</u>	<u>2,739,200</u>	<u>6.7</u>	<u>\$ 10.63</u>

The following table summarizes information about stock options exercisable at December 31, 2004:

	Range of exercise prices	Number exercisable	Weighted average exercise price
'93 NQO	\$ 2.67-15.94	630,300	\$ 9.43
'93 ISO	2.22-15.94	668,550	\$ 7.53
'01 Plan	5.55-13.04	438,350	\$ 8.09
Total	<u>\$ 2.22-15.94</u>	<u>1,737,200</u>	<u>\$ 8.36</u>

Stock Bonus Plan—The Company also maintains an incentive stock bonus plan, which reserves shares of stock for issuance to key employees. As of December 31, 2004, there were 279,000 shares available for issuance under this plan. No shares were issued under this incentive bonus plan for years ended December 31, 2002 through 2004.

Diodes Incorporated and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**NOTE 10—RELATED PARTY TRANSACTIONS**

Lite-On Semiconductor Corporation (LSC)—In July 1997, Vishay Intertechnology, Inc. (Vishay) and the Lite-On Group, a Taiwanese consortium, formed a joint venture—Vishay/Lite-On Power Semiconductor Pte., LTD. (Vishay/LPSC)—to acquire Lite-On Power Semiconductor Corp. (LPSC), a then 37.0% shareholder of the Company and a member of the Lite-On Group of the Republic of China. The Lite-On Group is a leading manufacturer of power semiconductors, computer peripherals, and communication products.

In March 2001, Vishay agreed to sell its 65.0% interest in the Vishay/LPSC joint venture to the Lite-On Group, the 35.0% joint venture partner. Because of this transaction, the Lite-On Group, through LPSC, its wholly-owned subsidiary, indirectly owned approximately 37.0% of the Company's common stock. In December 2001, LPSC merged with Dyna Image Corporation of Taipei, Taiwan. Dyna Image is the world's largest manufacturer of Contact Image Sensors (CIS), which are used in fax machines, scanners, and copy machines. The combined company is called Lite-On Semiconductor Corporation (LSC). At December 31, 2004, LSC owned approximately 32.5% of the Company's common stock. The Company considers its relationship with LSC to be mutually beneficial and the Company and LSC plans to continue its strategic alliance as it has since 1991.

The Company also leases warehouse space from LSC for its operations in Hong Kong. Such transactions are on terms no less favorable to the Company than could be obtained from unaffiliated third parties. As required by Nasdaq, the Audit Committee of the Board of Directors has approved the contracts associated with the related party transactions. The Company buys product from, and sell products to, LSC.

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

	2002	2003	2004
Net sales	\$16,147,000	\$14,628,000	\$20,675,000
Purchases	14,292,000	18,667,000	22,368,000

As a result of the acquisition of FabTech from LSC, the Company is indebted to LSC in the amount of \$3,750,000 as of December 31, 2004. Terms of the debt are indicated in Note 4. As per the terms of the acquisition agreement, LSC entered into a volume purchase agreement with FabTech pursuant to which LSC is obligated to purchase from FabTech, and FabTech is obligated to manufacture and sell to LSC, silicon wafers.

As part of the FabTech acquisition, the Company entered into management incentive agreements with several members of FabTech's management. The agreements provide a guaranteed aggregate \$375,000 annual payment as well as contingent bonuses based on the annual profitability of FabTech (subject to a maximum annual amount). Any portion of the guaranteed and contingent liability paid by FabTech is reimbursed by LSC. Guaranteed and maximum contingent bonus payments provided for by the management incentive agreements for the year ended December 31, 2004 (the final year of the agreements) were \$375,000 and \$1.2 million, respectively. Because the profitability targets were not met, no contingent bonus was earned or paid in the years 2002 through 2004.

Other related party—The Company sells product to, and purchases inventory from, companies owned by its 5.0% minority shareholder, Keylink International (formerly Xing International), in Diodes-China and Diodes-Shanghai. In addition, Diodes-China and Diodes-Shanghai each leases its manufacturing facilities from, subcontracts a portion of its manufacturing process (metal plating and environmental services) to, and pays a consulting fee to, its 5.0% minority shareholder. Total amounts for these services for the years ended December 31, 2002, 2003, and 2004 were \$2,699,000, \$3,464,000, and

Diodes Incorporated and Subsidiaries**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

\$4,760,000. Such transactions are on terms no less favorable to the Company than could be obtained from unaffiliated third parties. As required by Nasdaq, the Audit Committee of the Board of Directors has approved the contracts associated with the related party transactions.

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

	2002	2003	2004
Net sales	\$ 1,885,000	\$ 1,484,000	\$ 1,677,000
Purchases	4,394,000	2,961,000	4,789,000

Accounts receivable from, and accounts payable to, related parties were as follows as of December 31:

	2003	2004
Accounts receivable		
LSC	\$ 3,111,000	\$ 4,180,000
Other	827,000	1,346,000
	<u>\$ 3,938,000</u>	<u>\$ 5,526,000</u>
Accounts payable		
LSC	\$ 2,914,000	\$ 3,308,000
Other	539,000	628,000
	<u>\$ 3,453,000</u>	<u>\$ 3,936,000</u>

NOTE 11—GEOGRAPHIC INFORMATION

An operating segment is defined as a component of an enterprise about which separate financial information is available that is evaluated regularly by the chief decision maker, or decision-making group, in deciding how to allocate resources and in assessing performance. The Company's chief decision-making group consists of the President and Chief Executive Officer, Chief Financial Officer, Vice President of Sales and Marketing, and Senior Vice President of Operations. The Company operates in a single segment, discrete semiconductor devices, through its various manufacturing and distribution facilities.

The Company's operations include the domestic operations (Diodes, Inc. and FabTech) located in the United States and the Asian operations (Diodes-Taiwan located in Taipei, Taiwan, Diodes-China and Diodes-Shanghai both located in Shanghai, China, and Diodes-Hong Kong located in Hong Kong, China). European operations are consolidated within the U.S. operations.

Diodes Incorporated and Subsidiaries**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

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

	Asia	U.S.A.	Consolidated
2004			
Total sales	\$ 185,308,000	\$ 92,634,000	\$ 277,942,000
Intercompany sales	<u>(75,527,000)</u>	<u>(16,712,000)</u>	<u>(92,239,000)</u>
Net sales	<u>\$ 109,781,000</u>	<u>\$ 75,922,000</u>	<u>\$ 185,703,000</u>
Assets	<u>\$ 116,729,000</u>	<u>\$ 51,072,000</u>	<u>\$ 167,801,000</u>
Property, plant & equipment, net	48,589,000	12,268,000	60,857,000
2003			
Total sales	\$ 124,412,000	\$ 72,188,000	\$ 196,600,000
Intercompany sales	<u>(48,378,000)</u>	<u>(11,317,000)</u>	<u>(59,695,000)</u>
Net sales	<u>\$ 76,034,000</u>	<u>\$ 60,871,000</u>	<u>\$ 136,905,000</u>
Assets	<u>\$ 82,142,000</u>	<u>\$ 41,653,000</u>	<u>\$ 123,795,000</u>
Property, plant & equipment, net	35,941,000	11,952,000	47,893,000
2002			
Total sales	\$ 95,081,000	\$ 66,338,000	\$ 161,419,000
Intercompany sales	<u>(39,592,000)</u>	<u>(6,006,000)</u>	<u>(45,598,000)</u>
Net sales	<u>\$ 55,489,000</u>	<u>\$ 60,332,000</u>	<u>\$ 115,821,000</u>
Assets	<u>\$ 63,721,000</u>	<u>\$ 41,289,000</u>	<u>\$ 105,010,000</u>
Property, plant & equipment, net	32,313,000	12,380,000	44,693,000

NOTE 12—COMMITMENTS and CONTINGENCIES

Operating leases—The Company leases its offices, manufacturing plants and warehouses under operating lease agreements expiring through December 2009. Rent expense amounted to approximately \$2,711,000, \$2,455,000, and \$2,938,000 for the years ended December 31, 2002, 2003, and 2004, respectively.

Future minimum lease payments under non-cancelable operating leases for years ending December 31 are:

2005	\$ 3,461,000
2006	3,481,000
2007	2,939,000
2008	2,520,000
2009	<u>1,097,000</u>
	<u>\$ 13,498,000</u>

Diodes Incorporated and Subsidiaries**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****NOTE 13—SELECTED QUARTERLY FINANCIAL DATA (Unaudited)**

	Quarter Ended			
	March 31	June 30	Sept. 30	Dec. 31
Fiscal 2004				
Net sales	\$ 41,435,000	\$ 47,017,000	\$ 49,364,000	\$ 47,887,000
Gross profit	12,750,000	15,028,000	16,746,000	16,211,000
Net income	4,856,000	6,123,000	7,242,000	7,330,000
Earnings per share				
Basic	\$ 0.37	\$ 0.46	\$ 0.54	\$ 0.53
Diluted	0.32	0.40	0.47	0.47
Fiscal 2003				
Net sales	\$ 29,446,000	\$ 33,316,000	\$ 34,941,000	\$ 39,202,000
Gross profit	7,461,000	8,346,000	9,162,000	11,559,000
Net income	1,923,000	2,172,000	2,563,000	3,437,000
Earnings per share				
Basic	\$ 0.15	\$ 0.17	\$ 0.20	\$ 0.27
Diluted	\$ 0.14	\$ 0.15	\$ 0.18	\$ 0.23
Fiscal 2002				
Net sales	\$ 26,924,000	\$ 29,946,000	\$ 30,287,000	\$ 28,664,000
Gross profit	4,345,000	7,098,000	7,862,000	7,405,000
Net income	208,000	1,564,000	1,767,000	2,263,000
Earnings per share				
Basic	\$ 0.02	\$ 0.13	\$ 0.14	\$ 0.18
Diluted	0.02	0.12	0.13	0.17

Diodes Incorporated and Subsidiaries**CONSOLIDATED CONDENSED BALANCE SHEET**

	December 31, 2004	June 30, 2005
		(unaudited)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 18,970,000	\$ 33,014,000
Accounts receivable		
Customers	38,682,000	43,782,000
Related parties	5,526,000	4,599,000
	44,208,000	48,381,000
Less: Allowance for doubtful receivables	432,000	464,000
	43,776,000	47,917,000
Inventories	22,238,000	22,304,000
Deferred income taxes, current	2,453,000	2,375,000
Prepaid expenses and other current assets	4,243,000	4,160,000
Prepaid income taxes	406,000	883,000
Total current assets	92,086,000	110,653,000
PROPERTY, PLANT AND EQUIPMENT , at cost, net of accumulated depreciation and amortization	60,857,000	63,005,000
Deferred income taxes, non-current	7,970,000	7,309,000
OTHER ASSETS		
Goodwill	5,090,000	5,090,000
Other	1,798,000	323,000
TOTAL ASSETS	<u>\$ 167,801,000</u>	<u>\$ 186,380,000</u>

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

CONSOLIDATED CONDENSED BALANCE SHEET

	December 31, 2004	June 30, 2005 (unaudited)
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Line of credit	\$ 6,167,000	\$ —
Accounts payable		
Trade	17,274,000	18,374,000
Related parties	3,936,000	6,071,000
Accrued liabilities	11,459,000	12,730,000
Current portion of long-term debt		
Related party	2,500,000	2,500,000
Other	1,014,000	4,391,000
Current portion of capital lease obligations	165,000	136,000
Total current liabilities	<u>42,515,000</u>	<u>44,202,000</u>
LONG-TERM DEBT, net of current portion		
Related party	1,250,000	—
Other	6,583,000	3,877,000
CAPITAL LEASE OBLIGATIONS, net of current portion	2,172,000	1,678,000
MINORITY INTEREST IN JOINT VENTURE	3,133,000	3,630,000
STOCKHOLDERS' EQUITY		
Preferred stock—par value \$1.00 per share; 1,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock—par value \$0.66 ² / ₃ per share; 30,000,000 shares authorized; 15,763,266 and 16,185,552 shares issued at December 31, 2004 and June 30, 2005, respectively	10,509,000	10,791,000
Additional paid-in capital	21,516,000	26,946,000
Retained earnings	81,330,000	96,235,000
	<u>113,355,000</u>	<u>133,972,000</u>
Less:		
Treasury stock—1,613,508 shares of common stock, at cost	1,782,000	1,782,000
Accumulated other comprehensive income	(575,000)	(803,000)
	1,207,000	979,000
Total stockholders' equity	<u>112,148,000</u>	<u>132,993,000</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 167,801,000</u>	<u>\$ 186,380,000</u>

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

Diodes Incorporated and Subsidiaries**CONSOLIDATED CONDENSED STATEMENTS OF INCOME (unaudited)**

	Three months ended June 30,		Six months ended June 30,	
	2004	2005	2004	2005
NET SALES	\$ 47,017,000	\$ 50,598,000	\$ 88,442,000	\$ 99,198,000
COST OF GOODS SOLD	31,989,000	33,101,000	60,664,000	65,105,000
Gross profit	15,028,000	17,497,000	27,778,000	34,093,000
OPERATING EXPENSES				
Selling, general and administrative expenses	6,417,000	7,196,000	11,908,000	13,888,000
Research and development expenses	815,000	850,000	1,562,000	1,750,000
Loss (gain) on sale of fixed assets	(8,000)	—	15,000	(105,000)
Total operating expenses	7,224,000	8,046,000	13,485,000	15,533,000
Income from operations	7,804,000	9,451,000	14,293,000	18,560,000
OTHER INCOME (EXPENSE)				
Interest income	8,000	39,000	10,000	43,000
Interest expense	(153,000)	(118,000)	(337,000)	(277,000)
Other	24,000	12,000	(124,000)	(21,000)
	(121,000)	(67,000)	(451,000)	(255,000)
Income before income taxes and minority interest	7,683,000	9,384,000	13,842,000	18,305,000
INCOME TAX PROVISION	(1,383,000)	(1,461,000)	(2,543,000)	(2,903,000)
Income before minority interest	6,300,000	7,923,000	11,299,000	15,402,000
MINORITY INTEREST IN JOINT VENTURE EARNINGS	(177,000)	(258,000)	(319,000)	(497,000)
NET INCOME	\$ 6,123,000	\$ 7,665,000	\$ 10,980,000	\$ 14,905,000
EARNINGS PER SHARE				
Basic	\$ 0.46	\$ 0.53	\$ 0.83	\$ 1.04
Diluted	\$ 0.40	\$ 0.47	\$ 0.72	\$ 0.93
Number of shares used in computation				
Basic	13,265,146	14,418,819	13,180,992	14,318,916
Diluted	15,329,760	16,209,651	15,306,089	16,071,423

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

Diodes Incorporated and Subsidiaries**CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)**

	Six months ended June 30,	
	2004	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 10,980,000	\$ 14,905,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,145,000	7,813,000
Minority interest earnings	319,000	497,000
Share grant expense	—	358,000
Loss (gain) on sale of property, plant and equipment	15,000	(105,000)
Changes in operating assets:		
Accounts receivable	(6,568,000)	(4,336,000)
Inventories	(3,486,000)	(66,000)
Prepaid expenses and others	(66,000)	1,558,000
Deferred income taxes	334,000	263,000
Changes in operating liabilities:		
Accounts payable	3,889,000	3,235,000
Accrued liabilities	2,219,000	(1,207,000)
Income taxes payable	—	1,223,000
Net cash provided by operating activities	<u>13,781,000</u>	<u>24,138,000</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(10,300,000)	(6,845,000)
Proceeds from sale of property, plant and equipment	55,000	—
Net cash used by investing activities	<u>(10,245,000)</u>	<u>(6,845,000)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of line of credit, net	(827,000)	(6,167,000)
Net proceeds from the issuance of common stock	1,868,000	2,973,000
Repayments of long-term debt, net	(2,916,000)	(579,000)
Repayments of capital lease obligations	(90,000)	(79,000)
Management incentive reimbursement from LSC	375,000	375,000
Dividend to minority shareholder	(300,000)	—
Net cash used by financing activities	<u>(1,890,000)</u>	<u>(3,477,000)</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	93,000	228,000
INCREASE (DECREASE) IN CASH AND EQUIVALENTS	1,739,000	14,044,000
CASH AT BEGINNING OF PERIOD	12,847,000	18,970,000
CASH AT END OF PERIOD	<u>\$ 14,586,000</u>	<u>\$ 33,014,000</u>

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

Diodes Incorporated and Subsidiaries

	<u>Six months ended June 30,</u>	
	<u>2004</u>	<u>2005</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Interest	\$ 343,000	\$ 289,000
Income taxes	\$ 1,592,000	\$ 1,627,000
Non-cash activities:		
Tax benefit of stock options exercised credited to additional paid-in capital	\$ 1,755,000	\$ 2,201,000

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**NOTE 1—BASIS OF PRESENTATION**

The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q. They do not include all information and footnotes necessary for a fair presentation of financial position, and results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America for complete financial statements. These consolidated condensed financial statements should be read in conjunction with the consolidated financial statements and related notes contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2004. In the opinion of management, all adjustments (consisting of normal recurring adjustments and accruals) considered necessary for a fair presentation of the results of operations for the period presented have been included in the interim period. Operating results for the six months ended June 30, 2005 are not necessarily indicative of the results that may be expected for the year ending December 31, 2005. The consolidated financial data at December 31, 2004 is derived from audited financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2004.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

The consolidated financial statements include the accounts of Diodes-North America and its wholly-owned foreign subsidiaries, Diodes Taiwan Corporation, Ltd. ("Diodes-Taiwan"), and Diodes-Hong Kong Ltd. ("Diodes-Hong Kong"), the accounts of Shanghai KaiHong Electronics Co., Ltd. ("Diodes-China") and Diodes Shanghai Co., Ltd. ("Diodes-Shanghai") in which the Company has a 95.0% interest, and the accounts of its wholly-owned United States subsidiary, FabTech Incorporated ("FabTech" or "Diodes-FabTech"). All significant intercompany balances and transactions have been eliminated.

NOTE 2—FUNCTIONAL CURRENCIES, COMPREHENSIVE INCOME/ LOSS AND FOREIGN CURRENCY TRANSLATION

The Company uses the U.S. dollar as the functional currency for Diodes-China, Diodes-Shanghai and Diodes-Hong Kong, and uses the NT ("New Taiwanese") dollar as the functional currency for Diodes-Taiwan. The translation of the balance sheet and statement of income of Diodes-Taiwan from the local currency into the reporting currency (U.S. dollar) resulted in a \$289,000 translation loss adjustment, the effect of which is reflected in the accompanying statement of comprehensive income and on the balance sheet as a separate component of shareholders' equity as of June 30, 2005.

The effect of a \$61,000 currency exchange loss and a \$289,000 translation loss adjustment resulted in a change in accumulated other comprehensive gain of \$228,000 for the six months ended June 30, 2005, and is reflected on the balance sheet as a separate component of shareholders' equity. There were no other components of other comprehensive loss (income) for the six months ended June 30, 2005.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 3—INVENTORIES

Inventories are stated at the lower of cost or market value. Cost is determined principally by the first-in, first-out method.

	December 31, 2004	June 30, 2005
Finished goods	\$ 13,118,000	\$ 13,389,000
Work-in-progress	2,025,000	2,511,000
Raw materials	9,240,000	8,558,000
	24,383,000	24,458,000
Less: Reserves	(2,145,000)	(2,154,000)
Net inventory	<u>\$ 22,238,000</u>	<u>\$ 22,304,000</u>

NOTE 4—INCOME TAXES

In accordance with the current taxation policies of the People's Republic of China ("PRC"), Diodes-China received preferential tax treatment for the years ended December 31, 1996 through 2004. Earnings were subject to 0% tax rates from 1996 through 2000, and 12.0% from 2001 through 2004. Due to a \$15.0 million permanent re-investment of Diodes-China earnings in 2004, earnings from 2005 through 2007 will continue to be taxed at 12.0% (one half the normal central government tax rate). Also due to the permanent re-investment, the Company recorded a \$1.2 million tax refund (net of U.S. taxes) in the fourth quarter of 2004. Earnings of Diodes-China are also subject to tax of 3.0% by the local taxing authority in Shanghai. The local taxing authority waived this tax from 2001 through the first quarter of 2005, and is expected to waive this tax for all of 2005, but can re-impose the tax at its discretion. For 2004, Diodes-Shanghai's effective tax rate was 15.0%. As an incentive for the establishment of Diodes-Shanghai, beginning in 2005, earnings are exempted from income tax for two years. Then, beginning in 2007, earnings will be subject to 50% of the standard tax rate of 15.0% for the following three years.

Earnings of Diodes-Taiwan are currently subject to a tax rate of 35.0%, which is comparable to the U.S. Federal tax rate for C corporations. Earnings of Diodes-Hong Kong are currently subject to a 17.5% tax for local sales and/or local source sales, all other sales are foreign income tax-free.

In accordance with United States tax law, the Company receives credit against its U.S. Federal tax liability for corporate taxes paid in Taiwan and China. The repatriation of funds from Taiwan and China to the Company may be subject to Federal and state income taxes.

As of June 30, 2005, accumulated and undistributed earnings of Diodes-China and Diodes-Shanghai are approximately \$54.2 million, including \$25.0 million of restricted earnings (which are not available for dividends). Through March 31, 2002, the Company had not recorded deferred U.S. Federal or state tax liabilities (estimated to be \$8.9 million as of March 31, 2002) on these cumulative earnings since the Company, at that time, considered this investment to be permanent, and had no plans or obligation to distribute all or part of that amount from China to the United States. Beginning in April 2002, the Company began to record deferred taxes on a portion of the China earnings in preparation of a dividend distribution. In the year ended December 31, 2004, the Company received a dividend of approximately \$5.7 million from its Diodes-China subsidiary, for which the tax effect was included in U.S. Federal and state taxable income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The Company is evaluating the need to provide additional deferred taxes for the future earnings of the Company's foreign subsidiaries to the extent such earnings may be appropriated for distribution to the Company's corporate office in North America, and as further investment strategies with respect to foreign earnings are determined. Should the Company's North American cash requirements exceed the cash that is provided through the domestic credit facilities, cash can be obtained from the Company's foreign subsidiaries. However, the distribution of any unappropriated funds to the U.S. will require the recording of income tax provisions on the U.S. entity, thus reducing net income.

On October 22, 2004, the President of the United States signed the American Jobs Creation Act ("AJCA") into law. Originally intended to repeal the extraterritorial income ("ETI") exclusion, which had triggered tariffs by the European Union, the AJCA was expanded to cover a wide range of business tax issues. Among other items, the AJCA establishes a phased repeal of the ETI, a new incentive tax deduction for U.S. corporations to repatriate cash from foreign subsidiaries at a reduced tax rate (a deduction equal to 85.0% 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, the Company made a minimum estimate for repatriating cash from its subsidiaries in China and Hong Kong of \$8.0 million under the AJCA, and recorded an income tax expense of approximately \$1.3 million. Under the guidelines of the AJCA, the Company continues to develop a required domestic reinvestment plan, covering items such as U.S. bank debt repayment, U.S. capital expenditures and U.S. research and development activities, among others, to cover the \$8.0 million minimum dividend repatriation. In addition, the Company will complete a quantitative analysis of the benefits of the AJCA, the foreign tax credit implications, and state and local tax consequences of a dividend to maximize the tax benefits of a 2005 dividend. In the first six months of 2005, the Company accrued \$370,000 for U.S. taxes on potential increased dividend repatriation in 2005.

NOTE 5—SHARE-BASED COMPENSATION

Stock Options. The Company maintains share-based compensation plans for its Board of Directors (the "Board"), officers, and key employees, which provide for non-qualified and incentive stock options, which are described more fully in Note 9 of the Company's audited financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2004. The Company accounts for these plans under the recognition and measurement principles of Accounting Principals Board ("APB") Opinion No. 25 (*"Accounting for Stock Issued to Employees"*), and related interpretations. No compensation cost was reflected in net income for stock options, as all options granted under those plans have an exercise price equal to or greater than the market value of the underlying common stock on the date of the grant. During the first six months of 2005, the Company granted 94,200 stock options.

As required by Statement of Financial Accounting Standards ("SFAS") No. 148, *"Accounting for Stock-Based Compensation—Transition and Disclosure, an amendment of FASB Statement No. 123,"* the following table illustrates the effect on net income and earnings per common share as if the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based compensation for each period presented:

	For the three months ended June 30 (in 000's except per share data),					
	Amounts per share			Amounts per share		
	2004	Basic	Diluted	2005	Basic	Diluted
Net income	\$ 6,123	\$ 0.46	\$ 0.40	\$ 7,665	\$ 0.53	\$ 0.47
Additional compensation for fair value of stock options, net of tax effect	(316)	(0.02)	(0.02)	(567)	(0.04)	(0.03)
Pro forma net income	<u>\$ 5,807</u>	<u>\$ 0.44</u>	<u>\$ 0.38</u>	<u>\$ 7,098</u>	<u>\$ 0.49</u>	<u>\$ 0.44</u>

	For the six months ended June 30 (in 000's except per share data),					
	Amounts Per Share			Amounts Per Share		
	2004	Basic	Diluted	2005	Basic	Diluted
Net income	\$ 10,980	\$ 0.83	\$ 0.72	\$ 14,905	\$ 1.04	\$ 0.93
Additional compensation for fair value of stock options, net of tax effect	(630)	(0.04)	(0.04)	(1,083)	(0.07)	(0.07)
Pro forma net income	<u>\$ 10,350</u>	<u>\$ 0.79</u>	<u>\$ 0.68</u>	<u>\$ 13,822</u>	<u>\$ 0.97</u>	<u>\$ 0.86</u>

The pro forma information recognizes as compensation the value of stock options granted using the Black-Scholes option pricing model which takes into account as of the grant date, the exercise price and expected life of the option, the current price of underlying stock and its expected volatility, expected dividends on the stock, expected forfeitures and the risk-free interest rate for the term of the option.

The Company's valuations are based upon a single option valuation approach using the Black-Scholes option valuation model. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable and negotiable in a free trading market. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility and expected life of the option. Because the Company's stock options have characteristics significantly different from those of freely traded options, and changes in the subjective input assumptions can materially affect the Company's fair value estimate of those stock options, in the Company's opinion, existing valuations models, including Black-Scholes, are not reliable single measures and may misstate the fair value of the Company's stock options. Because Company stock options do not trade on a secondary exchange, recipients can receive no value nor derive any benefit from holding stock options under these plans without an increase, above the grant price, in the market price of the Company's stock. Such an increase in stock price would benefit all stockholders commensurately.

Share Grants. On May 31, 2005, the Company's Board appointed Dr. Keh-Shew Lu as the President and the Chief Executive Officer of the Company effective as of June 1, 2005. Dr. Lu will receive an inducement grant of 180,000 shares of the Company's Common Stock granted under the Company's Incentive Bonus Plan. On May 31, 2005, C.H. Chen, who had served as the President and the Chief Executive Office of the Company since March 2000, resigned from those positions, and was appointed as the Vice Chairman of the Company's Board, effective as of June 1, 2005. Mr. Chen will receive

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

40,000 shares of the Company's Common Stock granted under the Company's Incentive Bonus Plan. Under the terms of the Incentive Bonus Plan, 50% of the shares will become salable and transferable on the day following the third anniversary of their appointment, and 50% will become salable and transferable on the day following the fourth anniversary of such appointment. If they voluntarily leave the employment of the Company or are terminated for good cause, they will forfeit any stock not yet released to them. The share grants will be recorded each quarter as a non-cash operating expense item. The expense will be calculated using the quarter-end stock price multiplied by the total number of shares (220,000) divided by the 4-year vesting period. In the second quarter of 2005, an expense of \$358,000 was recorded. In addition to the expense, the 220,000 shares are included in the diluted shares outstanding calculation. The combined impact of the share grant reduced Diodes' earnings per share during the second quarter by \$0.02, from \$0.49 to \$0.47.

NOTE 6—Geographic Segments

An operating segment is defined as a component of an enterprise about which separate financial information is available that is evaluated regularly by the chief decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. The Company's chief decision-making group consists of the President and Chief Executive Officer, Chief Financial Officer, Vice President of Sales and Marketing, and Senior Vice President of Operations. The Company operates in a single segment, discrete semiconductor devices, through its various manufacturing and distribution facilities.

Revenues were derived from the following countries (All Others represents countries with less than 10.0% of total revenues each):

Three Months Ended June 30, 2004	Revenue	% of Total Revenue
United States	\$ 13,823,000	29.4
Taiwan	\$ 12,434,000	26.4
China	\$ 10,837,000	23.0
All Others	\$ 9,923,000	21.2
Total	\$ 47,017,000	100.0

Three Months Ended June 30, 2005	Revenue	% of Total Revenue
Taiwan	\$ 17,042,000	33.7
United States	\$ 13,085,000	25.9
China	\$ 12,852,000	25.4
All Others	\$ 7,619,000	15.0
Total	\$ 50,598,000	100.0

Six Months Ended June 30, 2004	Revenue	% of Total Revenue
United States	\$ 25,550,000	28.9
Taiwan	\$ 23,464,000	26.5
China	\$ 19,161,000	21.7
All Others	\$ 20,267,000	22.9
Total	\$ 88,442,000	100.0

Diodes Incorporated and Subsidiaries**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

Six Months Ended June 30, 2005	Revenue	% of Total Revenue
Taiwan	\$ 33,606,000	33.9
China	\$ 25,535,000	25.7
United States	\$ 25,157,000	25.4
All Others	\$ 14,900,000	15.0
Total	\$ 99,198,000	100.0

The Company's operations include the domestic operations (Diodes-North America and Diodes-FabTech) located in the United States, and the Far East operations (Diodes-Taiwan located in Taipei, Taiwan; Diodes-China and Diodes-Shanghai, both located in Shanghai, China; and Diodes-Hong Kong located in Hong Kong, China). For reporting purposes, European operations, which accounted for approximately 2.8% and 2.6% of total sales for the three months and six months ended June 30, 2005, respectively, are consolidated into the domestic (North America) operations.

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

Three Months Ended June 30, 2004	Far East	North America	Consolidated Segments
Total sales	\$ 46,185,000	\$ 24,051,000	\$ 70,236,000
Inter-company sales	(18,733,000)	(4,486,000)	(23,219,000)
Net sales	\$ 27,452,000	\$ 19,565,000	\$ 47,017,000
Property, plant and equipment	\$ 43,617,000	\$ 11,819,000	\$ 55,436,000
Assets	\$ 99,438,000	\$ 43,595,000	\$ 143,033,000

Three Months Ended June 30, 2005	Far East	North America	Consolidated Segments
Total sales	\$ 56,088,000	\$ 21,554,000	\$ 77,642,000
Inter-company sales	(22,815,000)	(4,229,000)	(27,044,000)
Net sales	\$ 33,273,000	\$ 17,325,000	\$ 50,598,000
Property, plant and equipment	\$ 51,582,000	\$ 11,423,000	\$ 63,005,000
Assets	\$ 135,414,000	\$ 50,966,000	\$ 186,380,000

Six Months Ended June 30, 2004	Far East	North America	Consolidated Segments
Total sales	\$ 87,086,000	\$ 45,428,000	\$ 132,514,000
Inter-company sales	(35,695,000)	(8,367,000)	(44,072,000)
Net sales	\$ 51,391,000	\$ 37,061,000	\$ 88,442,000
Property, plant and equipment	\$ 43,617,000	\$ 11,819,000	\$ 55,436,000
Assets	\$ 99,438,000	\$ 43,595,000	\$ 143,033,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Six Months Ended June 30, 2005	Far East	North America	Consolidated Segments
Total sales	\$108,803,000	\$42,924,000	\$151,727,000
Inter-company sales	(44,649,000)	(7,880,000)	(52,529,000)
Net sales	\$ 64,154,000	\$35,044,000	\$ 99,198,000
Property, plant and equipment	\$ 51,582,000	\$11,423,000	\$ 63,005,000
Assets	<u>\$135,414,000</u>	<u>\$50,966,000</u>	<u>\$186,380,000</u>

NOTE 7—Reclassifications

Certain 2004 amounts presented in the accompanying financial statements have been reclassified to conform to 2005 financial statement presentation. These reclassifications had no impact on previously reported net income or stockholders' equity.

DIODESTM

I N C O R P O R A T E D



Diodes-Shanghai Plant 1



Diodes-Shanghai Plant 2



Diodes-Kansas City



Fabrication



Assembly



Testing

Global Headquarters: Westlake Village, California **Manufacturing:** Shanghai; Kansas City **Sales:** Taipei; Shanghai; Shenzhen; Hong Kong; Toulouse; Frankfurt



PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 14. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

The following table sets forth the fees and expenses in connection with the issuance and distribution of the shares of common stock being registered hereby, other than underwriting discounts and commissions. All amounts are estimates except the Securities and Exchange Commission registration fee, the NASD filing fee and the Nasdaq National Market listing fee. The Registrant is paying all of these expenses in connection with the issuance and distribution of the shares.

Securities and Exchange Commission registration fee	\$ 11,904
NASD filing fee	10,500
Nasdaq National Market listing fee	21,250
Accounting fees and expenses	110,000
Legal fees and expenses	500,000
Printing and engraving expenses	60,000
Transfer agent and registrar fees	6,000
Miscellaneous	100,346
Total	<u>\$ 820,000</u>

ITEM 15. INDEMNIFICATION OF DIRECTORS AND OFFICERS**Delaware General Corporate Law**

Section 145 of the Delaware General Corporation Law (the "DGCL") provides that a corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding (other than an action by or in the right of the corporation) by reason of the fact that the person is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by the person in connection with such action, suit or proceeding if the person acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe the person's conduct was unlawful. Section 145 provides further that a corporation may indemnify any such person against expenses (including attorneys' fees) actually and reasonably incurred by the person in connection with the defense or settlement of any action or suit by or in the right of the corporation, if the person acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interests of the corporation and except that no indemnification may be made in respect of any claim, issue or matter as to which such person has been adjudged to be liable to the corporation unless and only to the extent that the Court of Chancery or the court in which such action or suit was brought determines upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper. To the extent that a present or former director or officer of a corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding described in this paragraph, or in defense of any claim, issue or matter therein, such person shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection therewith.

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In addition, Section 102(b)(7) of the DGCL allows a corporation to eliminate or limit the personal liability of a director to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except liability for the following:

- any breach of their duty of loyalty to the corporation or its stockholders;
- acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law;
- unlawful payments of dividends or unlawful stock repurchases or redemptions as provided in Section 174 of the DGCL; or
- any transaction from which the director derived an improper personal benefit.

Section 174 of the DGCL provides, among other things, that a director, who willfully or negligently approves of an unlawful payment of dividends or an unlawful stock purchase or redemption, may be held liable for these actions. A director who was either absent when the unlawful actions were approved or dissented at the time, may avoid liability by causing his or her dissent to these actions to be entered in the books containing the minutes of the meetings of the board of directors at the time the action occurred or immediately after the absent director receives notice of the unlawful acts.

The registrant's certificate of incorporation contains provisions that limit the liability of its directors for monetary damages to the fullest extent permitted by Delaware law.

The registrant's bylaws provide that the registrant shall indemnify to the fullest extent permitted by law any person who is or was a party or is threatened to be made a party to any action, suit or proceeding (other than an action by or in the right of the registrant) by reason of the fact that he or she is or was a director, officer, employee or agent of the registrant or is or was serving at the registrant's request as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise. With respect to any action or suit by the registrant or in the registrant's right to procure a judgment in the registrant's favor, the registrant's bylaws provide that it may indemnify any such person, except that no indemnification will be provided if such person was adjudged to be liable to the registrant, unless the court determines that despite his or her liability to the registrant, he or she is fairly and reasonably entitled to indemnification. The registrant's bylaws also provide that it may advance expenses incurred by or on behalf of a director, officer, employee or agent in advance of the final disposition of any action or proceeding.

Directors' and Officers' Liability Insurance

Section 145 of the DGCL further provides that a corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against any liability asserted against such person and incurred by such person in any such capacity, or arising out of such person's status as such, whether or not the corporation would have the power to indemnify such person against such liability under Section 145.

The registrant's bylaws permit the registrant to secure insurance on behalf of any officer, director, employee or other agent of the registrant and any person serving at the registrant's request as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, for any liability arising out of his or her actions in that capacity, regardless of whether the registrant's bylaws would otherwise permit indemnification.

The registrant has obtained policies of insurance under which, subject to the limitations of such policies, coverage will be provided to the registrant's directors and officers against loss arising from claims made by reason of breach of fiduciary duty or other wrongful acts as a director or officer, including claims relating to public securities matters, and to the registrant with respect to payments

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which may be made by the registrant to these officers and directors pursuant to the registrant's indemnification obligations or otherwise as a matter of law.

Indemnification Agreements

The registrant has entered into indemnification agreements with each of its directors and officers that may require the registrant, among other things, to indemnify its directors and officers against liabilities that may arise by reason of their status or service. These indemnification agreements may also require the registrant to advance all expenses incurred by the directors and officers in investigating or defending any such action, suit or proceeding.

Underwriting Agreement

The Underwriting Agreement provides for indemnification by the underwriters of the officers, directors and controlling persons of the registrant for certain liabilities arising under the Securities Act.

ITEM 16. Exhibits.

Exhibit number	Description of exhibit
1.1	Form of Underwriting Agreement
3.1	Certificate of Incorporation, as amended
4.1*	Form of Certificate for Common Stock, par value \$0.66 ² / ₃ per share
5.1	Opinion of Sheppard, Mullin, Richter & Hampton, LLP
23.1	Consent of Sheppard, Mullin, Richter & Hampton, LLP (included in its opinion filed as Exhibit 5.1)
23.2	Consent of Moss Adams, LLP
24.1*	Power of Attorney (See p. II-5 of Registration Statement on Form S-3 filed on August 25, 2005)
24.2	Power of Attorney for Shing Mao

* Previously filed.

ITEM 17. UNDERTAKINGS.

a. The undersigned registrant hereby undertakes that:

- (1) For purposes of determining any liability under the Securities Act of 1933 (the "Securities Act"), the information omitted from the form of prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this Registration Statement as of the time it was declared effective.
- (2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

b. The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act, each filing of the registrant's annual report pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act") (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Exchange Act) that is incorporated by reference in this Registration Statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

c. Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, executive officers and controlling persons of the registrant pursuant to the foregoing

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provisions, or otherwise, the registrant has been advised that in the opinion of the Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Westlake Village, State of California, on September 8, 2005.

DIODES INCORPORATED

By: /s/ Keh-Shew Lu

Dr. Keh-Shew Lu
President, Chief Executive Officer
and Director (Principal Executive
Officer)

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed below by the following persons in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Keh-Shew Lu</u> Dr. Keh-Shew Lu	President and Chief Executive Officer, and Director (Principal Executive Officer)	September 8, 2005
<u>*</u> Carl C. Wertz	Chief Financial Officer (Principal Financial and Accounting Officer)	September 8, 2005
<u>*</u> Raymond Soong	Director	September 8, 2005
<u>*</u> C.H. Chen	Director	September 8, 2005
<u>*</u> Michael R. Giordano	Director	September 8, 2005
<u>*</u> M.K. Lu	Director	September 8, 2005
<u>/s/ Shing Mao</u> Shing Mao	Director	September 8, 2005
<u>*</u> John M. Stich	Director	September 8, 2005

*By /s/ Keh-Shew Lu
Dr. Keh-Shew Lu
Attorney-in-Fact

EXHIBIT INDEX

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* *Previously filed.*

DIODES INCORPORATED

2,500,000 Shares

Common Stock
(\$0.66²/₃ Par Value)

UNDERWRITING AGREEMENT

September __, 2005

UNDERWRITING AGREEMENT

_____, 2005

UBS Securities LLC
A.G. Edwards & Sons, Inc.
C.E. Unterberg, Towbin, LLC
Raymond James & Associates, Inc.
WR Hambrecht + Co, LLC
as Managing Underwriters
c/o UBS Securities LLC
299 Park Avenue
New York, New York 10171

Ladies and Gentlemen:

Diodes Incorporated, a Delaware corporation (the "Company"), proposes to issue and sell, and Lite-On Semiconductor Corporation (the "Selling Stockholder"), a corporation organized under the laws of the Republic of China (Taiwan) ("Taiwan"), proposes to sell, to the underwriters named in Schedule A annexed hereto for whom UBS Securities LLC ("UBS"), A.G. Edwards & Sons, Inc., C.E. Unterberg, Towbin, LLC, Raymond James & Associates, Inc. and WR Hambrecht + Co, LLC (together, the "Managing Underwriters") are acting as representatives, an aggregate of 2,500,000 shares (the "Firm Shares") of Common Stock, \$0.66²/₃ par value per share (the "Common Stock"), of the Company, of which 1,750,000 shares are to be issued and sold by the Company and 750,000 shares are to be sold by the Selling Stockholder. In addition, solely for the purpose of covering over-allotments, the Company proposes to grant to the Underwriters the option to purchase from the Company up to an additional 375,000 shares of Common Stock (the "Additional Shares"). The Firm Shares and the Additional Shares are hereinafter collectively sometimes referred to as the "Shares." The Shares are described in the Prospectus which is referred to below.

The Company has filed, in accordance with the provisions of the Securities Act of 1933, as amended, and the rules and regulations thereunder (collectively, the "Act"), with the Securities and Exchange Commission (the "Commission") a registration statement on Form S-3 (File No. 333-127833) including a prospectus, relating to the Shares, which incorporates by reference documents which the Company has filed or will file in accordance with the provisions of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder (collectively, the "Exchange Act"). The Company has furnished to you, for use by the Underwriters and by dealers, copies of one or more preliminary prospectuses and the documents incorporated by reference therein (each thereof, including the documents incorporated therein by reference, being herein called a "Preliminary Prospectus") relating to the Shares. Except where the context otherwise requires, the registration statement, as amended when it becomes effective, including all documents filed as a part thereof or incorporated by reference therein, and including

any information contained in a prospectus subsequently filed with the Commission pursuant to Rule 424(b) under the Act and deemed to be part of the registration statement at the time of effectiveness pursuant to Rule 430(A) under the Act and also including any registration statement filed pursuant to Rule 462(b) under the Act, is herein called the "Registration Statement," and the prospectus, including all documents incorporated therein by reference, in the form filed by the Company with the Commission pursuant to Rule 424(b) under the Act on or before the second business day after the date hereof (or such earlier time as may be required under the Act) or, if no such filing is required, the form of final prospectus included in the Registration Statement at the time it became effective, is herein called the "Prospectus." As used herein, "business day" shall mean a day on which the Nasdaq National Market (the "NASDAQ") is open for trading.

The Company, the Selling Stockholder and the Underwriters agree as follows:

1. Sale and Purchase. Upon the basis of the representations and warranties and subject to the terms and conditions herein set forth, the Company agrees to issue and sell, and the Selling Stockholder agrees to sell, severally and not jointly, to the respective Underwriters, and each of the Underwriters, severally and not jointly, agrees to purchase from the Company and the Selling Stockholder, the respective number of Firm Shares (subject to such adjustment as you may determine to avoid fractional shares) which bears the same proportion to the number of Firm Shares to be sold by the Company or by the Selling Stockholder, as the case may be, as the number of Firm Shares set forth opposite the name of such Underwriter in Schedule A attached hereto, subject to adjustment in accordance with Section 10 hereof, in each case at a purchase price of \$_____ per Share. The Company and the Selling Stockholder are each advised by you that the Underwriters intend (i) to make a public offering of their respective portions of the Firm Shares as soon after the effective date of the Registration Statement as in your judgment is advisable and (ii) initially to offer the Firm Shares upon the terms set forth in the Prospectus. You may from time to time increase or decrease the public offering price after the initial public offering to such extent as you may determine.

In addition, the Company hereby grants to the several Underwriters the option to purchase, and upon the basis of the representations and warranties and subject to the terms and conditions herein set forth, the Underwriters shall have the right to purchase, severally and not jointly, from the Company, ratably in accordance with the number of Firm Shares to be purchased by each of them, all or a portion of the Additional Shares as may be necessary to cover over-allotments made in connection with the offering of the Firm Shares, at the same purchase price per share to be paid by the Underwriters to the Company and the Selling Stockholder for the Firm Shares. This option may be exercised by UBS on behalf of the several Underwriters at any time and from time to time on or before the thirtieth day following the date hereof, by written notice to the Company. Such notice shall set forth the aggregate number of Additional Shares as to which the option is being exercised, and the date and time when the Additional Shares are to be delivered (such date and time being herein referred to as the "additional time of purchase"); provided, however, that the additional time of purchase shall not be earlier than the time of purchase (as defined below) nor earlier than the second business day after the date on which the option shall have been exercised nor later than the tenth business day after the date on which the option shall have been exercised. The number of Additional Shares to be sold to each Underwriter shall be the number which bears the same proportion to the

aggregate number of Additional Shares being purchased as the number of Firm Shares set forth opposite the name of such Underwriter on Schedule A hereto bears to the total number of Firm Shares (subject, in each case, to such adjustment as you may determine to eliminate fractional shares), subject to adjustment in accordance with Section 10 hereof. Pursuant to a power of attorney, which shall be reasonably satisfactory to counsel for the Underwriters (the "Power of Attorney"), granted by the Selling Stockholder Keh-Shew Lu and Carl C. Wertz will act as representatives of the Selling Stockholder. The foregoing representatives (the "Representatives of the Selling Stockholder") are authorized, on behalf of the Selling Stockholder, to execute any documents necessary or desirable in connection with the sale of the Shares to be sold hereunder by the Selling Stockholder, to make delivery of the certificates of such Shares, to receive the proceeds of the sale of such Shares, to give receipts for such proceeds, to pay therefrom the expenses to be borne by the Selling Stockholder in connection with the sale and public offering of the Shares, to distribute or cause to be distributed the balance of such proceeds to the Selling Stockholder, to receive notices on behalf of the Selling Stockholder and to take such other action as may be necessary or desirable in connection with the transactions contemplated by this Agreement.

2. Payment and Delivery. Payment of the purchase price for the Firm Shares shall be made to the Company and the Selling Stockholder by Federal Funds wire transfer, against delivery of the certificates for the Firm Shares to you through the facilities of The Depository Trust Company ("DTC") for the respective accounts of the Underwriters. Such payment and delivery shall be made at 10:00 A.M., New York City time, on _____, 2005 (unless another time shall be agreed to by you and the Company and the Representatives of the Selling Stockholder or unless postponed in accordance with the provisions of Section 10 hereof). The time at which such payment and delivery are to be made is hereinafter sometimes called "the time of purchase." Electronic transfer of the Firm Shares shall be made to you at the time of purchase in such names and in such denominations as you shall specify.

Payment of the purchase price for the Additional Shares shall be made at the additional time of purchase in the same manner and at the same office as the payment for the Firm Shares. Electronic transfer of the Additional Shares shall be made to you at the additional time of purchase in such names and in such denominations as you shall specify.

Deliveries of the documents described in Section 8 hereof with respect to the purchase of the Shares shall be made at the offices of Simpson Thacher & Bartlett LLP, Underwriters' counsel at the address of its Palo Alto office, at or prior to 9:00 A.M., New York City time, on the date of the closing of the purchase of the Firm Shares or the Additional Shares, as the case may be.

3. Representations and Warranties of the Company. The Company represents and warrants to and agrees with each of the Underwriters that:

(a) The Registration Statement has been declared effective under the Act; no stop order of the Commission preventing or suspending the use of any Preliminary Prospectus or the effectiveness of the Registration Statement has been issued and no proceedings for such purpose have been instituted or, to the Company's knowledge, are contemplated by the Commission; each Preliminary Prospectus, at the

time of filing thereof, complied in all material respects to the requirements of the Act and the last Preliminary Prospectus distributed in connection with the offering of the Shares did not, as of its date, does not as of the date hereof, and will not at the time of purchase and any additional times of purchase of the Shares, contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; the Registration Statement complied when it became effective, complies and will comply, at the time of purchase and any additional times of purchase, in all material respects with the requirements of the Act and the Prospectus will comply, as of its date and at the time of purchase and any additional times of purchase, in all material respects with the requirements of the Act and any statutes, regulations, contracts or other documents that are required to be described in the Registration Statement or the Prospectus or to be filed as exhibits to the Registration Statement have been and will be so described or filed; the conditions to the use of Form S-3 have been satisfied; the Registration Statement did not when it became effective, does not and will not, at the time of purchase and any additional time of purchase, contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading and the Prospectus will not, as of its date and at the time of purchase and any additional time of purchase, contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; provided, however, that the Company makes no warranty or representation with respect to any statement contained in the Preliminary Prospectus, the Registration Statement or the Prospectus in reliance upon and in conformity with information concerning an Underwriter and furnished in writing by or on behalf of such Underwriter through you or on your behalf to the Company expressly for use in the Preliminary Prospectus, the Registration Statement or the Prospectus; the documents incorporated by reference in the Preliminary Prospectus, the Registration Statement and the Prospectus, at the time they became effective or were filed with the Commission, complied in all material respects with the requirements of the Exchange Act and did not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; and the Company has not distributed and will not distribute any offering material in connection with the offering or sale of the Shares other than the Registration Statement, the Preliminary Prospectus and the Prospectus;

(b) as of the date of this Agreement, the Company has an authorized and outstanding capitalization as set forth under the heading “Actual” in the section of the Registration Statement and the Prospectus entitled “Capitalization” and, as of the time of purchase and the additional time of purchase, as the case may be, the Company shall have an authorized and outstanding capitalization as set forth under the heading “As Adjusted” in the section of the Registration Statement and the Prospectus entitled “Capitalization” (subject, in each case, to the issuance of shares of Common Stock upon exercise of stock options disclosed as outstanding in the Registration Statement and the Prospectus and the grant of employee stock options and other awards under the Company’s existing equity incentive compensation plans described in the Registration Statement and the Prospectus);

all of the issued and outstanding shares of capital stock, including the Common Stock, of the Company have been duly authorized and validly issued and are fully paid and non-assessable, have been issued in compliance with all federal and state securities laws and were not issued in violation of any preemptive right, resale right, right of first refusal or similar right;

(c) since the date on which the Company's predecessor ("Diodes California") was originally incorporated in California, and since the date of the Company's reincorporation as a Delaware corporation, no person has claimed to be a holder of shares of the Company or of Diodes California, or has presented a certificate representing shares of the Company or of Diodes California, which shares the Company or Diodes California, as applicable, had no records of being issued, which shares could not be accounted for by the Company or by Diodes California, as applicable, or which shares could not be reconciled as being part of then stated outstanding share capital of the Company or Diodes California, as applicable, as of the date of such claim or presentation of such certificate;

(d) the Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Delaware, with corporate power and authority to own, lease and operate its properties and conduct its business as described in the Registration Statement and the Prospectus, to execute and deliver this Agreement and to issue, sell and deliver the Shares as contemplated herein;

(e) the Company is duly qualified to do business as a foreign corporation and is in good standing in each jurisdiction where the ownership or leasing of its properties or the conduct of its business requires such qualification, except where the failure to be so qualified and in good standing would not, individually or in the aggregate, have a material adverse effect on the business, properties, financial condition, results of operation or prospects of the Company and the Subsidiaries (as hereinafter defined) taken as a whole (a "Material Adverse Effect");

(f) the Company has no subsidiaries (as defined in the Exchange Act) other than the subsidiaries listed on Schedule B hereto (collectively, the "Subsidiaries"); the Company owns the percentage of the issued and outstanding capital stock specified on Schedule B hereto of each of the Subsidiaries; other than the capital stock of the Subsidiaries, the Company does not own, directly or indirectly, any shares of stock or any other equity or long-term debt securities of any corporation or have any equity interest in any firm, partnership, joint venture, association or other entity; complete and correct copies of the certificates of incorporation and the by-laws (or equivalent constitutive documents) of the Company and the Subsidiaries and all amendments thereto have been delivered to you, and except as set forth in the exhibits to the Registration Statement no changes therein will be made subsequent to the date hereof and prior to the time of purchase of the Shares or, if later, the additional time of purchase of the Shares; each Subsidiary has been duly incorporated or formed and is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation or organization, with corporate power and authority to own, lease and operate its properties and to conduct its business as described in the Registration Statement and the Prospectus; each

Subsidiary is duly qualified to do business as a foreign corporation and is in good standing in each jurisdiction where the ownership or leasing of its properties or the conduct of its business requires such qualification, except where the failure to be so qualified and in good standing would not, individually or in the aggregate, have a Material Adverse Effect; all of the outstanding shares of capital stock of each of the Subsidiaries have been duly authorized and validly issued, are fully paid and non-assessable and the percentages of such shares reflected on Schedule B are owned by the Company subject to no security interest, other encumbrance or adverse claims; and no options, warrants or other rights to purchase, agreements or other obligations to issue or other rights to convert any obligation into shares of capital stock or ownership interests in the Subsidiaries are outstanding;

(g) the Company and each of its Subsidiaries owns or leases all such properties as are necessary to the conduct of its operations as presently conducted;

(h) the Shares have been duly and validly authorized and, when issued and delivered against payment therefor as provided herein, will be duly and validly issued, fully paid and non-assessable and free of statutory and contractual preemptive rights, resale rights, rights of first refusal and similar rights;

(i) the capital stock of the Company, including the Shares, conforms in all material respects to the description thereof contained in the section of the Registration Statement and the Prospectus entitled "Description of capital stock" and the certificates for the Shares are in due and proper form and the holders of the Shares will not be subject to personal liability by reason of being such holders;

(j) this Agreement has been duly authorized, executed and delivered by the Company;

(k) neither the Company nor any of the Subsidiaries is in breach or violation of or in default under (nor has any event occurred which with notice, lapse of time or both would result in any breach of, constitute a default under or give the holder of any indebtedness (or a person acting on such holder's behalf) the right to require the repurchase, redemption or repayment of all or a part of such indebtedness under) its (i) respective certificate of incorporation or by-laws (or equivalent constitutive documents), or (ii) any indenture, mortgage, deed of trust, bank loan or credit agreement or other evidence of indebtedness or (iii) any license, lease, contract or other agreement or instrument to which the Company or any of the Subsidiaries is a party or by which any of them or any of their properties may be bound or affected, except for, in the case of clause (ii) or (iii) above, any breach, violation or default which would not, individually or in the aggregate, have a Material Adverse Effect, and the execution, delivery and performance of this Agreement, the issuance and sale of the Shares and the consummation of the transactions contemplated hereby will not conflict with, result in any breach or violation of or constitute a default under (nor constitute any event which with notice, lapse of time or both would result in any breach of or constitute a default under) the certificate of incorporation or by-laws (or equivalent constitutive documents) of the Company or any of the Subsidiaries, or any indenture, mortgage, deed of trust,

bank loan or credit agreement or other evidence of indebtedness, or any license, lease, contract or other agreement or instrument to which the Company or any of the Subsidiaries is a party or by which any of them or any of their respective properties or assets may be bound or affected, or any federal, state, local or foreign law, regulation or rule or any decree, judgment or order applicable to the Company or any of the Subsidiaries;

(l) no approval, authorization, consent or order of or filing with any federal, state, local or foreign governmental or regulatory commission, board, body, authority or agency is required in connection with the issuance and sale of the Shares or the consummation by the Company of the transactions contemplated hereby other than registration of the Shares under the Act, which has been or will be effected, and any necessary qualification under the securities or blue sky laws of the various jurisdictions in which the Shares are being offered by the Underwriters or under the rules and regulations of the NASD;

(m) except as set forth in the Registration Statement and the Prospectus, (i) no person has the right, contractual or otherwise, to cause the Company to issue or sell to it any shares of Common Stock or shares of any other capital stock or other equity interests of the Company, (ii) no person has any preemptive rights, resale rights, rights of first refusal or other rights to purchase any shares of Common Stock or shares of any other capital stock or other equity interests of the Company, and (iii) no person has the right to act as an underwriter or as a financial advisor to the Company in connection with the offer and sale of the Shares, in the case of each of the foregoing clauses (i), (ii) and (iii), whether as a result of the filing or effectiveness of the Registration Statement or the sale of the Shares as contemplated thereby or otherwise; no person has the right, contractual or otherwise, to cause the Company to register under the Act any shares of Common Stock or shares of any other capital stock or other equity interests of the Company, or to include any such shares or interests in the Registration Statement or the offering contemplated thereby, whether as a result of the filing or effectiveness of the Registration Statement or the sale of the Shares as contemplated thereby or otherwise;

(n) each of the Company and the Subsidiaries has all necessary licenses, authorizations, consents and approvals and has made all necessary filings required under any federal, state, local or foreign law, regulation or rule, and has obtained all necessary authorizations, consents and approvals from other persons, in order to conduct its respective business, except where the failure to do so would not, individually or in the aggregate, have a Material Adverse Effect; neither the Company nor any of the Subsidiaries is in violation of, or in default under, or has received notice of any proceedings relating to revocation or modification of, any such license, authorization, consent or approval or any federal, state, local or foreign law, regulation or rule or any decree, order or judgment applicable to the Company or any of the Subsidiaries, except where such violation, default, revocation or modification would not, individually or in the aggregate, have a Material Adverse Effect;

(o) all legal or governmental proceedings, affiliate transactions, off-balance sheet transactions, contracts, licenses, agreements, leases or documents of a character required to be described in the Registration Statement or the Prospectus or to be filed as an exhibit to the Registration Statement have been so described or filed as required;

(p) there are no actions, suits, claims, investigations or proceedings pending or threatened or, to the Company's knowledge, contemplated to which the Company or any of the Subsidiaries or any of their respective directors or officers in their capacities as such is a party or to which any of their respective properties is subject at law or in equity, before or by any federal, state, local or foreign governmental or regulatory commission, board, body, authority or agency, except any such action, suit, claim, investigation or proceeding which would not result in a judgment, decree or order having, individually or in the aggregate, a Material Adverse Effect or materially adversely affect the consummation of the transactions contemplated hereby;

(q) Moss Adams LLP, whose report on the consolidated financial statements of the Company and the Subsidiaries is filed with the Commission as part of the Registration Statement and the Prospectus, are independent public accountants as required by the Act;

(r) the audited financial statements included in and incorporated by reference into the Registration Statement and the Prospectus, together with the related notes and schedules, present fairly the consolidated financial position of the Company and the Subsidiaries as of the dates indicated and the consolidated results of operations and cash flows of the Company and the Subsidiaries for the periods specified and have been prepared in compliance with the requirements of the Act and in conformity with generally accepted accounting principles applied on a consistent basis during the periods involved; any financial information included in the Registration Statement and the Prospectus not prepared in accordance with United States generally accepted accounting principles complies with the requirements of Regulation G of the Exchange Act; the other financial and statistical data set forth in the Registration Statement and the Prospectus are accurately presented and prepared on a basis consistent with the financial statements and books and records of the Company; there are no financial statements (historical or pro forma) that are required to be included in the Registration Statement and the Prospectus that are not included as required; and the Company and the Subsidiaries do not have any material liabilities or obligations, direct or contingent (including any off-balance sheet obligations), not disclosed in the Registration Statement and the Prospectus;

(s) subsequent to the respective dates as of which information is given in the Registration Statement and the Prospectus, there has not been (i) any material adverse change, or any development involving a prospective material adverse change, in the business, properties, management, financial condition or results of operations of the Company and the Subsidiaries taken as a whole, (ii) any transaction which is material to the Company and the Subsidiaries taken as a whole, (iii) any obligation, direct or contingent (including any off-balance sheet obligations), incurred by the Company or the Subsidiaries, which is material to the Company and the Subsidiaries taken as a whole,

(iv) any change in the capital stock or outstanding indebtedness of the Company or the Subsidiaries or (v) any dividend or distribution of any kind declared, paid or made on the capital stock of the Company;

(t) the Company has obtained for the benefit of the Underwriters the agreement (a "Lock-Up Agreement"), substantially in the form set forth as Exhibit A hereto, of each of its directors and officers listed under the heading "Management" in the Prospectus and the Selling Stockholder;

(u) the Company is not and, after giving effect to the offering and sale of the Shares and the application of the proceeds thereof as described in the Registration Statement and the Prospectus, will not be an "investment company," as such term is defined in the Investment Company Act of 1940, as amended (the "Investment Company Act");

(v) the Company and each of the Subsidiaries has good and marketable title to all property (real and personal) described the Registration Statement and in the Prospectus as being owned by each of them, free and clear of all liens, claims, security interests or other encumbrances, except as described in the Registration Statement and the Prospectus; all the property described in the Registration Statement and the Prospectus as being held under lease by the Company or a Subsidiary is held thereby under valid, subsisting and enforceable leases;

(w) (i) the Company and the Subsidiaries own, or have obtained valid and enforceable licenses for, or other rights to use, the inventions, patent applications, patents, trademarks (both registered and unregistered), tradenames, copyrights, trade secrets and other proprietary information described in the Registration Statement and the Prospectus as being owned or licensed by them or which are necessary for the conduct of their respective businesses, except where the failure to own, license or have such rights would not, individually or in the aggregate, have a Material Adverse Effect (collectively, "Intellectual Property"); (ii) there are no third parties who have or, to the Company's knowledge, will be able to establish rights to any Intellectual Property, except for the ownership rights of the owners of the Intellectual Property which is licensed to the Company; (iii) there is no infringement by third parties of any Intellectual Property; (iv) there is no pending or, to the Company's knowledge, threatened action, suit, proceeding or claim by others challenging the Company's rights in or to any Intellectual Property, and the Company is unaware of any facts which could form a reasonable basis for any such claim; (v) there is no pending or, to the Company's knowledge, threatened action, suit, proceeding or claim by others challenging the validity or scope of any Intellectual Property, and the Company is unaware of any facts which could form a reasonable basis for any such claim; (vi) there is no pending or, to the Company's knowledge, threatened action, suit, proceeding or claim by others that the Company infringes or otherwise violates any patent, trademark, copyright, trade secret or other proprietary rights of others, and the Company is unaware of any facts which could form a reasonable basis for any such claim; (vii) there is no patent or patent application that contains claims that interfere with the issued or pending claims of any of the Intellectual Property; and (viii) there is no prior art that may render any patent application owned by the Company of the

Intellectual Property unpatentable that has not been disclosed to the U.S. Patent and Trademark Office;

(x) neither the Company nor any of the Subsidiaries is engaged in any unfair labor practice; except for matters which would not, individually or in the aggregate, have a Material Adverse Effect, (i) there is (A) no unfair labor practice complaint pending or, to the Company's knowledge, threatened against the Company or any of the Subsidiaries before the National Labor Relations Board, and no grievance or arbitration proceeding arising out of or under collective bargaining agreements is pending or, to the Company's knowledge, threatened, (B) no strike, labor dispute, slowdown or stoppage pending or, to the Company's knowledge, threatened against the Company or any of the Subsidiaries and (C) no union representation dispute currently existing concerning the employees of the Company or any of the Subsidiaries, and (ii) to the Company's knowledge, (A) no union organizing activities are currently taking place concerning the employees of the Company or any of the Subsidiaries and (B) there has been no violation of any federal, state, local or foreign law relating to discrimination in the hiring, promotion or pay of employees, any applicable wage or hour laws or any provision of the Employee Retirement Income Security Act of 1974 ("ERISA") or the rules and regulations promulgated thereunder concerning the employees of the Company or any of the Subsidiaries;

(y) the Company and the Subsidiaries and their properties, assets and operations are in compliance with, and the Company and the Subsidiaries hold all permits, authorizations and approvals required under, Environmental Laws (as defined below), except to the extent that failure to so comply or to hold such permits, authorizations or approvals would not, individually or in the aggregate, have a Material Adverse Effect; there are no past, present or, to the Company's knowledge, reasonably anticipated future events, conditions, circumstances, activities, practices, actions, omissions or plans that could reasonably be expected to give rise to any material costs or liabilities to the Company or the Subsidiaries under, or to interfere with or prevent compliance by the Company or the Subsidiaries with, Environmental Laws; except as would not, individually or in the aggregate, have a Material Adverse Effect, neither the Company nor any of the Subsidiaries (i) is the subject of any investigation, (ii) has received any notice or claim, (iii) is a party to or, to the Company's knowledge, affected by any pending or threatened action, suit or proceeding, (iv) is bound by any judgment, decree or order or (v) has entered into any agreement, in each case relating to any alleged violation of any Environmental Law or any actual or alleged release or threatened release or cleanup at any location of any Hazardous Materials (as defined below) (as used herein, "Environmental Law" means any federal, state, local or foreign law, statute, ordinance, rule, regulation, order, decree, judgment, injunction, permit, license, authorization or other binding requirement, or common law, relating to health, safety or the protection, cleanup or restoration of the environment or natural resources, including those relating to the distribution, processing, generation, treatment, storage, disposal, transportation, other handling or release or threatened release of Hazardous Materials, and "Hazardous Materials" means any material (including, without limitation, pollutants, contaminants, hazardous or toxic substances or wastes) that is regulated by or may give rise to liability under any Environmental Law);

(z) in the ordinary course of its business, the Company and each of the Subsidiaries conducts a periodic review of the effect of the Environmental Laws on its business, operations and properties, in the course of which it identifies and evaluates associated costs and liabilities (including, without limitation, any capital or operating expenditures required for cleanup, closure of properties or compliance with the Environmental Laws or any permit, license or approval, any related constraints on operating activities and any potential liabilities to third parties);

(aa) there are no transfer taxes or other similar fees or charges under U.S. federal law or the laws of any state, or any political subdivision thereof, required to be paid in connection with the execution and delivery of this Agreement or the issuance by the Company or sale by the Company of the Shares;

(bb) all tax returns required to be filed by the Company and each of the Subsidiaries have been filed, and all taxes and other assessments of a similar nature (whether imposed directly or through withholding) including any interest, additions to tax or penalties applicable thereto due or claimed to be due from such entities have been paid, other than those being contested in good faith and for which adequate reserves have been provided on the books and records of the Company and its Subsidiaries;

(cc) the Company and each of the Subsidiaries maintains insurance covering its properties, operations, personnel and businesses as the Company deems adequate; such insurance insures against such losses and risks to an extent which is adequate in accordance with customary industry practice to protect the Company and the Subsidiaries and their businesses; all such insurance is fully in force on the date hereof and will be fully in force at the time of purchase and any additional time of purchase;

(dd) neither the Company nor any of the Subsidiaries has sustained since the date of the last audited financial statements included or incorporated by reference in the Registration Statement and the Prospectus any loss or interference with its respective business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree;

(ee) the Company has not sent or received any communication regarding termination of, or intent not to renew, any of the contracts or agreements referred to or described in, or filed as an exhibit to, the Registration Statement, and no such termination or non-renewal has been threatened by the Company or, to the Company's knowledge, any other party to any such contract or agreement;

(ff) the Company and each of the Subsidiaries makes and keeps accurate books and records and maintains a system of internal accounting controls sufficient to provide reasonable assurance that (i) transactions are executed in accordance with management's general or specific authorization; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles and to maintain accountability for assets; (iii) access to assets is permitted only in accordance with management's general or specific

authorization; and (iv) the recorded accountability for assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences;

(gg) the Company has established and maintains disclosure controls and procedures (as such term is defined in Rule 13a-15 and 15d-15 under the Exchange Act); such disclosure controls and procedures are designed to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to the Company's Chief Executive Officer and its Chief Financial Officer by others within those entities, and such disclosure controls and procedures are effective to perform the functions for which they were established; the Company's independent auditors and the Audit Committee of the Board of Directors have been advised of: (i) any significant deficiencies in the design or operation of internal controls which could adversely affect the Company's ability to record, process, summarize, and report financial data; and (ii) any fraud, whether or not material, that involves management or other employees who have a role in the Company's internal controls; any material weaknesses in internal controls have been identified for the Company's independent auditors; and since the date of the most recent evaluation of such disclosure controls and procedures, there have been no significant changes in internal controls or in other factors that could significantly affect internal controls, including any corrective actions with regard to significant deficiencies and material weaknesses;

(hh) the Company has provided you true, correct, and complete copies of all documentation pertaining to any extension of credit in the form of a personal loan made, directly or indirectly, by the Company to any director or executive officer of the Company, or to any family member or affiliate of any director or executive officer of the Company; and since July 30, 2002, the Company has not, directly or indirectly, including through any subsidiary: (i) extended credit, arranged to extend credit, or renewed any extension of credit, in the form of a personal loan, to or for any director or executive officer of the Company, or to or for any family member or affiliate of any director or executive officer of the Company; or (ii) made any material modification, including any renewal thereof, to any term of any personal loan to any director or executive officer of the Company, or any family member or affiliate of any director or executive officer, which loan was outstanding on July 30, 2002;

(ii) there is and has been no failure on the part of the Company or any of the Company's directors or officers, in their capacities as such, to comply with any provision of the Sarbanes-Oxley Act of 2002, as amended, and the rules and regulations promulgated in connection therewith that are applicable to them or the rules of the NASDAQ that would have a Material Adverse Effect or materially adversely affect the consummation of the transactions contemplated hereby;

(jj) any statistical and market-related data included in the Registration Statement and the Prospectus are based on or derived from sources that the Company believes to be reliable and accurate, and the Company has obtained the written consent to the use of such data from such sources to the extent required;

(kk) neither the Company nor any of the Subsidiaries nor, to the Company's knowledge, any employee or agent of the Company or the Subsidiaries has made any payment of funds of the Company or the Subsidiaries or received or retained any funds in violation of any law, rule or regulation, including, without limitation, the Foreign Corrupt Practices Act of 1977, as amended;

(ll) the operations of the Company and its Subsidiaries are and have been conducted at all times in compliance with applicable financial recordkeeping and reporting requirements of the Currency and Foreign Transactions Reporting Act of 1970, as amended, the money laundering statutes of all jurisdictions, the rules and regulations thereunder and any related or similar rules, regulations or guidelines, issued, administered or enforced by any governmental agency (collectively, the "Money Laundering Laws") and no action, suit or proceeding by or before any court or governmental agency, authority or body or any arbitrator involving the Company or any of its Subsidiaries with respect to the Money Laundering Laws is pending or, to the Company's knowledge, threatened;

(mm) neither the Company nor any of its Subsidiaries nor, to the knowledge of the Company, any director, officer, agent, employee or affiliate of the Company or any of its Subsidiaries is currently subject to any U.S. sanctions administered by the Office of Foreign Assets Control of the U.S. Treasury Department ("OFAC"); and the Company will not directly or indirectly use the proceeds of the offering, or lend, contribute or otherwise make available such proceeds to any subsidiary, joint venture partner or other person or entity, for the purpose of financing the activities of any person currently subject to any U.S. sanctions administered by OFAC;

(nn) neither the Company nor any of the Subsidiaries nor any of their respective directors, officers, affiliates or controlling persons has taken, directly or indirectly, any action designed, or which has constituted or might reasonably be expected to cause or result in, under the Exchange Act or otherwise, the stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Shares;

(oo) to the Company's knowledge, there are no affiliations or associations between any member of the NASD and any of the Company's officers, directors or 5% or greater security-holders, except as set forth in the Registration Statement and the Prospectus;

(pp) neither the Company nor any of its Subsidiaries nor any of its or their properties or assets has any immunity from the jurisdiction of any court or from any legal process (whether through service or notice, attachment prior to judgment, attachment in aid of execution or otherwise) under the laws of the State of Delaware, the State of New York, Taiwan, the People's Republic of China ("China") and Hong Kong;

(qq) no relationship, direct or indirect, exists between or among the Company and the Subsidiaries, on the one hand, and the directors, officers, stockholders, customers or suppliers of the Company or the Subsidiaries, on the other hand, which

would be required to be described in the Prospectus that has not been so described therein; and

(rr) there are no material off-balance sheet arrangements (as defined in Regulation S-K Item 303(a)(4)(ii)) that may have a material current or future effect on the Company's financial condition, changes in financial condition, results of operations, liquidity, capital expenditures or capital resources which are not disclosed or incorporated by reference in the Prospectus.

In addition, any certificate signed by any officer of the Company or any of the Subsidiaries and delivered to the Underwriters or counsel for the Underwriters in connection with the offering of the Shares shall be deemed to be a representation and warranty by the Company or Subsidiary, as the case may be, as to matters covered thereby, to each Underwriter.

4. Representations and Warranties of the Selling Stockholder. The Selling Stockholder represents and warrants to each Underwriter that:

(a) the Selling Stockholder has been duly incorporated and is validly existing as a corporation in good standing under the laws of Taiwan, with corporate power and authority to own, lease and operate its properties and conduct its business in Taiwan;

(b) the Selling Stockholder now is and at the time of delivery of the Shares will be, the lawful owner of the number of Shares to be sold by the Selling Stockholder pursuant to this Agreement and has and, at the time of delivery thereof, will have valid and marketable title to such Shares, and upon delivery of and payment for such Shares, the Underwriters will acquire valid and marketable title to such Shares free and clear of any claim, lien, encumbrance, security interest, community property right, restriction on transfer or other defect in title;

(c) the Selling Stockholder has and at the time of delivery of such Shares will have, full legal right, power and capacity, and any approval required by law (other than those imposed by the Act and the securities or blue sky laws of certain jurisdictions), to sell, assign, transfer and deliver such Shares in the manner provided in this Agreement;

(d) this Agreement, the Power of Attorney, and the Custody Agreement among Continental Stock Transfer & Trust Company, as custodian, and the Selling Stockholder (the "Custody Agreement") have been duly authorized, executed and delivered by the Selling Stockholder and each is a legal, valid and binding agreement of the Selling Stockholder enforceable in accordance with its terms;

(e) when the Registration Statement becomes effective and at all times subsequent thereto through the latest of the time of purchase, additional time of purchase or the termination of the offering of the Shares, the Registration Statement and Prospectus, and any supplements or amendments thereto, in each case as they relate to the Selling Stockholder will not contain an untrue statement of a material fact or omit to state

a material fact required to be stated therein or necessary to make the statements therein not misleading;

(f) the Selling Stockholder has duly and irrevocably authorized the Representatives of the Selling Stockholder, on behalf of the Selling Stockholder, to execute and deliver this Agreement and any other document necessary or desirable in connection with the transactions contemplated thereby and to deliver the Shares to be sold by the Selling Stockholder and receive payment therefor pursuant hereto;

(g) the sale of the Selling Stockholder's Shares pursuant to this Agreement is not prompted by any information concerning the Company which is not set forth in the Prospectus;

(h) the execution, delivery and performance of this Agreement by or on behalf of the Selling Stockholder, the sale of the Shares to be sold by the Selling Stockholder pursuant to this Agreement and the consummation of the transactions contemplated hereby will not conflict with, result in any breach or violation of or constitute a default under (nor constitute any event which with notice, lapse of time or both would result in any breach of or constitute a default under) the organizational documents of the Selling Stockholder, or any indenture, mortgage, deed of trust, bank loan or credit agreement or other evidence of indebtedness, or any license, lease, contract or other agreement or instrument to which the Selling Stockholder is a party or by which the Selling Stockholder or any property or assets of the Selling Stockholder may be bound or affected, or federal, state, local or foreign law, regulation or rule, or any decree, judgment or order applicable to the Selling Stockholder;

(i) neither the Selling Stockholder nor any of its properties or assets has any immunity from the jurisdiction of any court or from any legal process (whether through service or notice, attachment prior to judgment, attachment in and aid of execution or otherwise) under the laws of the State of New York or Taiwan; and

(j) the Selling Stockholder has not taken, directly or indirectly, any action designed to cause or result in, or which has constituted under the Exchange Act or otherwise, the stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Shares.

5. Certain Covenants of the Company. The Company hereby agrees:

(a) to furnish such information as may be required and otherwise to cooperate in qualifying the Shares for offering and sale under the securities or blue sky laws of such states or other jurisdictions as you may designate and to maintain such qualifications in effect so long as you may request for the distribution of the Shares; provided that the Company shall not be required to qualify as a foreign corporation or to consent to the service of process under the laws of any such jurisdiction (except service of process with respect to the offering and sale of the Shares); and to promptly advise you of the receipt by the Company of any notification with respect to the suspension of the

qualification of the Shares for sale in any jurisdiction or the initiation or threatening of any proceeding for such purpose;

(b) to make available to the Underwriters in New York City, as soon as practicable after the Registration Statement becomes effective, and thereafter from time to time to furnish to the Underwriters, as many copies of the Prospectus (or of the Prospectus as amended or supplemented if the Company shall have made any amendments or supplements thereto after the effective date of the Registration Statement) as the Underwriters may request for the purposes contemplated by the Act; in case any Underwriter is required to deliver a prospectus after the nine-month period referred to in Section 10(a)(3) of the Act in connection with the sale of the Shares, the Company will prepare, at its expense, promptly upon request such amendment or amendments to the Registration Statement and the Prospectus as may be necessary to permit compliance with the requirements of Section 10(a)(3) of the Act;

(c) if, at the time this Agreement is executed and delivered, it is necessary for the Registration Statement or any post-effective amendment thereto to be declared effective before the Shares may be sold, the Company will endeavor to cause the Registration Statement or such post-effective amendment to become effective as soon as possible and the Company will advise you promptly and, if requested by you, will confirm such advice in writing, (i) when the Registration Statement and any such post-effective amendment thereto has become effective, and (ii) if Rule 430A under the Act is used, when the Prospectus is filed with the Commission pursuant to Rule 424(b) under the Act (which the Company agrees to file in a timely manner under such Rule);

(d) to advise you promptly, confirming such advice in writing, of any request by the Commission for amendments or supplements to the Registration Statement or the Prospectus or for additional information with respect thereto, or of notice of institution of proceedings for, or the entry of a stop order, suspending the effectiveness of the Registration Statement and, if the Commission should enter a stop order suspending the effectiveness of the Registration Statement, to use its best efforts to obtain the lifting or removal of such order as soon as possible; to advise you promptly of any proposal to amend or supplement the Registration Statement or the Prospectus, including by filing any documents that would be incorporated therein by reference, and to provide you and Underwriters' counsel copies of any such documents for review and comment a reasonable amount of time prior to any proposed filing and to file no such amendment or supplement to which you shall object in writing;

(e) subject to Section 5(d) hereof, to file promptly all reports and any definitive proxy or information statement required to be filed by the Company with the Commission in order to comply with the Exchange Act subsequent to the date of the Prospectus and for so long as the delivery of a prospectus is required in connection with the offering or sale of the Shares; to provide you with a copy of such reports and statements and other documents to be filed by the Company pursuant to Section 13, 14 or 15(d) of the Exchange Act during such period a reasonable amount of time prior to any proposed filing, and to promptly notify you of such filing;

(f) if necessary or appropriate, to file a registration statement pursuant to Rule 462(b) under the Act;

(g) to advise the Underwriters promptly of the happening of any event within the time during which a prospectus relating to the Shares is required to be delivered under the Act which could require the making of any change in the Prospectus then being used so that the Prospectus would not include an untrue statement of material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they are made, not misleading, and, during such time, subject to Section 5(d) hereof, to prepare and furnish, at the Company's expense, to the Underwriters promptly such amendments or supplements to such Prospectus as may be necessary to reflect any such change;

(h) to make generally available to its security holders, and to deliver to you, an earnings statement of the Company (which will satisfy the provisions of Section 11(a) of the Act) covering a period of twelve months beginning after the effective date of the Registration Statement (as defined in Rule 158(c) of the Act) as soon as is reasonably practicable after the termination of such twelve-month period but not later than _____, 2006;

(i) to furnish to its shareholders as soon as practicable after the end of each fiscal year an annual report (including a consolidated balance sheet and statements of income, shareholders' equity and cash flow of the Company and the Subsidiaries for such fiscal year, accompanied by a copy of the certificate or report thereon of nationally recognized independent certified public accountants);

(j) to furnish to you six copies of the Registration Statement, as initially filed with the Commission, and of all amendments thereto (including all exhibits thereto and documents incorporated by reference therein) and sufficient copies of the foregoing (other than exhibits and documents incorporated by reference therein) for distribution of a conformed copy to each of the other Underwriters;

(k) to furnish to you promptly and, upon request, to each of the other Underwriters for a period of five years from the date of this Agreement (i) copies of any reports or other communications which the Company shall send to its stockholders or shall from time to time publish or publicly disseminate, (ii) copies of all annual, quarterly and current reports filed with the Commission on Forms 10-K, 10-Q and 8-K, or such other similar forms as may be designated by the Commission, (iii) copies of documents or reports filed with any national securities exchange on which any class of securities of the Company is listed, and (iv) such other information as you may reasonably request regarding the Company or the Subsidiaries;

(l) to furnish to you as early as practicable prior to the time of purchase and any additional time of purchase, as the case may be, but not later than two business days prior thereto, a copy of the latest available unaudited interim and monthly consolidated financial statements, if any, of the Company and the Subsidiaries which

have been read by the Company's independent certified public accountants, as stated in their letter to be furnished pursuant to Section 8(b) hereof;

(m) to apply the net proceeds from the sale of the Shares in the manner set forth under the caption "Use of Proceeds" in the Prospectus;

(n) to use its best efforts to cause the Common Stock to be approved for quotation on the NASDAQ; and

(o) to maintain a transfer agent and, if necessary under the jurisdiction of incorporation of the Company, a registrar for the Common Stock.

6. Certain Covenants of the Company and the Selling Stockholder. The Company and the Selling Stockholder agree with each Underwriter as follows:

(a) the Company will pay all costs, expenses, fees and taxes (other than any transfer taxes and fees and disbursements of counsel for the Underwriters except as set forth under Section 7 hereof or (iii) or (iv) below) in connection with (i) the preparation and filing of the Registration Statement, each Preliminary Prospectus, the Prospectus, and any amendments or supplements thereto, and the printing and furnishing of copies of each thereof to the Underwriters and to dealers (including costs of mailing and shipment), (ii) the issuance, sale and delivery of the Shares by the Company and the Selling Stockholder, (iii) the producing, word processing and/or printing of this Agreement, any Agreement Among Underwriters, any dealer agreements, any Statements of Information, the Custody Agreement and the Power of Attorney and any closing documents (including compilations thereof) and the reproduction and/or printing and furnishing of copies of each thereof to the Underwriters and (except closing documents) to dealers (including costs of mailing and shipment), (iv) the qualification of the Shares for offering and sale under state or foreign laws and the determination of their eligibility for investment under state law as aforesaid (including the legal fees and filing fees and other disbursements of counsel to the Underwriters) and the printing and furnishing of copies of any blue sky surveys or legal investment surveys to the Underwriters and to dealers, (v) any listing of the Shares on any securities exchange or qualification of the Shares for quotation on NASDAQ and any registration thereof under the Exchange Act, (vi) the filing for review of the public offering of the Shares by the National Association of Securities Dealers, Inc. (the "NASD"), including the legal fees and filing fees and other disbursements of counsel to the Underwriters, (vii) the fees and disbursements of any transfer agent or registrar for the Shares, (viii) the costs and expenses of the Company relating to presentations or meetings undertaken in connection with the marketing of the offering and sale of the Shares to prospective investors and the Underwriters' sales force, expenses associated with the production of roadshow slides and graphics, expenses associated with any Internet roadshow, fees and expenses of any consultants engaged by the Company in connection with roadshow presentations, travel, lodging and other expenses of the officers of the Company and any such consultants, and (viii) the performance of the Company's and the Selling Stockholder's other obligations hereunder; provided, however, that the Underwriters have agreed to reimburse the Company for up to an aggregate of \$150,000 of the Company's expenses relating to the

preparation of the Registration Statement, each Preliminary Prospectus and the Prospectus; and provided, further, however, the Selling Stockholder has agreed to reimburse the Company for a portion of the Company's expenses relating to the foregoing as separately agreed between the Company and the Selling Stockholder; and

(b) the Company will not issue and the Company and the Selling Stockholder will not sell, offer to sell, contract or agree to sell, hypothecate, pledge, grant any option to purchase or otherwise dispose of or agree to dispose of, directly or indirectly, any Common Stock or securities convertible into or exchangeable or exercisable for Common Stock or warrants or other rights to purchase Common Stock or any other securities of the Company that are substantially similar to Common Stock, or in the case of the Company, file or cause to be declared effective a registration statement under the Act relating to the offer and sale of any shares of Common Stock or securities convertible into or exercisable or exchangeable for Common Stock or other rights to purchase Common Stock or any other securities of the Company that are substantially similar to Common Stock for a period of 90 days, or for 180 days in the case of the Selling Stockholder, after the date hereof (such 90-day period or 180-day period, as applicable, the "Lock-Up Period"), without the prior written consent of UBS, except for (i) the registration of the Shares and the sales to the Underwriters pursuant to this Agreement, (ii) issuances of Common Stock by the Company upon the exercise of options disclosed as outstanding in the Registration Statement and the Prospectus, and (iii) the issuance by the Company of employee stock options or other awards not exercisable during the Lock-Up Period pursuant to the Company's existing equity incentive compensation plans described in the Registration Statement and the Prospectus; provided, that,

If:

- (1) during the period that begins on the date that is 15 calendar days plus 3 business days before the last day of the applicable Lock-Up Period and ends on the last day of the applicable Lock-Up Period, the Company issues a earnings release or material news or a material event relating to the Company occurs; or
- (2) prior to the expiration of the applicable Lock-Up Period, the Company announces that it will release earnings results during the 16-day period beginning on the last day of the applicable Lock-Up Period,

the restrictions imposed by this section shall continue to apply until the expiration of the date that is 15 calendar days plus 3 business days after the date on which the issuance of the earnings release or the material news or material event occurs; provided, however, this paragraph will not apply if, within 3 days of the termination of the applicable Lock-Up Period, the Company delivers to UBS a certificate, signed by the Chief Financial Officer or Chief Executive Officer of the Company, certifying on behalf of the Company that the Company's shares of Common Stock are, as of the date of delivery of such certificate, "actively traded securities," as defined in Regulation M, 17 CFR 242.101(c)(1). Such notice shall be delivered in accordance with Section 13 of the Underwriting Agreement;

7. Reimbursement of Underwriters' Expenses. If the Shares are not delivered for any reason other than the termination of this Agreement pursuant to the fifth paragraph of Section 10 hereof or the default by one or more of the Underwriters in its or their respective obligations here-under, the Company shall, in addition to paying the amounts described in Section 6(a) hereof, reimburse the Underwriters for all of their out of pocket expenses, including the fees and disbursements of their counsel.

8. Conditions of Underwriters' Obligations. The several obligations of the Underwriters hereunder are subject to the accuracy of the representations and warranties on the part of the Company and the Selling Stockholder on the date hereof, at the time of purchase and, if applicable, at the additional time of purchase, the performance by the Company and the Selling Stockholder of its obligations hereunder and to the following additional conditions precedent:

(a) The Company shall furnish to you at the time of purchase and, if applicable, at any additional times of purchase, an opinion of Sheppard, Mullin, Richter & Hampton LLP, counsel for the Company, addressed to the Underwriters, and dated the time of purchase or such additional times of purchase, as the case may be, with reproduced copies for each of the other Underwriters and in form and substance satisfactory to Simpson Thacher & Bartlett LLP, counsel for the Underwriters, substantially in the form set forth as Exhibit B hereto;

(b) The Company shall furnish to you at the time of purchase and, if applicable, at any additional times of purchase, an opinion of Blackwell Sanders Peper Martin LLP, special counsel for FabTech Incorporated, addressed to the Underwriters, and dated the time of purchase or such additional times of purchase, as the case may be, with reproduced copies for each of the other Underwriters and in form and substance satisfactory to Simpson Thacher & Bartlett LLP, counsel for the Underwriters, substantially in the form set forth as Exhibit C hereto;

(c) The Company shall furnish to you at the time of purchase and, if applicable, at any additional times of purchase, an opinion of Shanghai Duan & Duan Law Firm, special China counsel for the Company, and for Shanghai KaiHong Electronics Co., Ltd. and Shanghai KaiHong Technology Electronic Co., Ltd., the Subsidiaries organized under the laws of China, addressed to the Underwriters, and dated the time of purchase or such additional times of purchase, as the case may be, with reproduced copies for each of the other Underwriters and in form and substance satisfactory to Simpson Thacher & Bartlett LLP, counsel for the Underwriters, substantially in the form set forth as Exhibit D hereto;

(d) The Company shall furnish to you at the time of purchase and, if applicable, at any additional times of purchase, an opinion of Huang & Partners Law Offices, special Taiwan counsel for the Company and for DII Taiwan Corporation Limited, the Subsidiary organized under the laws of Taiwan, addressed to the Underwriters, and dated the time of purchase or such additional times of purchase, as the case may be, with reproduced copies for each of the other Underwriters and in form and substance satisfactory to Simpson Thacher & Bartlett LLP, counsel for the Underwriters, substantially in the form set forth as Exhibit E hereto;

(e) The Company shall furnish to you at the time of purchase and, if applicable, at any additional times of purchase, an opinion of Patrick K.M. Lam & Co., special Hong Kong counsel for the Company and for Diodes Hong Kong Limited, the Subsidiary organized under the laws of Hong Kong, addressed to the Underwriters, and dated the time of purchase or such additional times of purchase, as the case may be, with reproduced copies for each of the other Underwriters and in form and substance satisfactory to Simpson Thacher & Bartlett LLP, counsel for the Underwriters, substantially in the form set forth as Exhibit F hereto;

(f) The Selling Stockholder shall furnish to you at the time of purchase an opinion of Sheppard, Mullin, Richter & Hampton LLP, U.S. counsel for the Selling Stockholder, addressed to the Underwriters, and dated the time of purchase, with reproduced copies for each of the other Underwriters, and in form and substance satisfactory to Simpson Thacher & Bartlett LLP, counsel for the Underwriters, substantially in the form set forth as Exhibit B hereto;

(g) The Selling Stockholder shall furnish to you at the time of purchase an opinion of Huang & Partners Law Offices, special Taiwan counsel for the Selling Stockholder, addressed to the Underwriters, and dated the time of purchase, with reproduced copies for each of the other Underwriters, and in form and substance satisfactory to Simpson Thacher & Bartlett LLP, counsel for the Underwriters, substantially in the form set forth as Exhibit G hereto;

(h) You shall have received from Moss Adams LLP letters dated, respectively, the date of this Agreement, the time of purchase and, if applicable, the additional time of purchase, and addressed to the Underwriters (with reproduced copies for each of the Underwriters) in the forms heretofore approved by UBS.

(i) You shall have received at the time of purchase and, if applicable, at the additional time of purchase, an opinion of Simpson Thacher & Bartlett LLP, counsel for the Underwriters, dated the time of purchase or the additional time of purchase, as the case may be, such opinion or opinions, addressed to the Underwriters, with respect to the issuance and sale of the Shares, the Registration Statement, the Prospectus and other related matters as the Managing Underwriters may require, and the Company shall have furnished to such counsel such documents as they reasonably request for the purposes of enabling them to pass upon such matters.

(j) No Prospectus or amendment or supplement to the Registration Statement or the Prospectus, including documents deemed to be incorporated by reference therein, shall have been filed to which you object in writing.

(k) The Registration Statement shall become effective not later than 5:30 P.M. New York City time on the date of this Agreement and, if Rule 430A under the Act is used, the Prospectus shall have been filed with the Commission pursuant to Rule 424(b) under the Act at or before 5:30 P.M., New York City time, on the second full business day after the date of this Agreement.

(l) Prior to the time of purchase, and, if applicable, the additional time of purchase, (i) no stop order with respect to the effectiveness of the Registration Statement shall have been issued under the Act or proceedings initiated under Section 8(d) or 8(e) of the Act; (ii) the Registration Statement and all amendments thereto shall not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading; and (iii) the Prospectus and all amendments or supplements thereto shall not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they are made, not misleading.

(m) Between the time of execution of this Agreement and the time of purchase or the additional time of purchase, as the case may be, no material adverse change or any development involving a prospective material adverse change in the business, properties, management, financial condition or results of operations of the Company and the Subsidiaries taken as a whole shall occur or become known.

(n) The Company will, at the time of purchase and, if applicable, at the additional time of purchase, deliver to you a certificate of its Chief Executive Officer and its Chief Financial Officer in the form attached as Exhibit H hereto.

(o) You shall have received signed Lock-up Agreements referred to in Section 3(s) hereof.

(p) The Company and the Selling Stockholder shall have furnished to you such other documents and certificates as to the accuracy and completeness of any statement in the Registration Statement and the Prospectus as of the time of purchase and, if applicable, the additional time of purchase, as you may reasonably request.

(q) The Shares shall have been approved for quotation on NASDAQ, subject only to notice of issuance at or prior to the time of purchase or the additional time of purchase, as the case may be.

(r) The Selling Stockholder will at the time of purchase deliver to you a certificate of the Representatives of the Selling Stockholder to the effect that the representations and the warranties of the Selling Stockholder as set forth in this Agreement are true and correct as of each such date.

9. Effective Date of Agreement; Termination. This Agreement shall become effective (i) if Rule 430A under the Act is not used, when you shall have received notification of the effectiveness of the Registration Statement, or (ii) if Rule 430A under the Act is used, when the parties hereto have executed and delivered this Agreement.

The obligations of the several Underwriters hereunder shall be subject to termination in the absolute discretion of UBS or any group of Underwriters (which may include UBS) which has agreed to purchase in the aggregate at least 50% of the Firm Shares, if (x) since the time of execution of this Agreement or the earlier respective dates as of which information is given in the Registration Statement and the Prospectus, there has been any material adverse

change or any development involving a prospective material adverse change in the business, properties, management, financial condition or results of operation of the Company and the Subsidiaries taken as a whole, which would, in UBS' judgment or in the judgment of such group of Underwriters, make it impracticable or inadvisable to proceed with the public offering or the delivery of the Shares on the terms and in the manner contemplated in the Registration Statement and the Prospectus, or (y) since the date of execution of this Agreement, there shall have occurred: (i) a suspension or material limitation in trading in securities generally on the New York Stock Exchange, the American Stock Exchange or the NASDAQ; (ii) a suspension or material limitation in trading in the Company's securities on the NASDAQ; (iii) a general moratorium on commercial banking activities declared by either federal or New York State authorities or a material disruption in commercial banking or securities settlement or clearance services in the United States; (iv) an outbreak or escalation of hostilities or acts of terrorism involving the United States or a declaration by the United States of a national emergency or war; or (v) any other calamity or crisis or any change in financial, political or economic conditions in the United States or elsewhere, if the effect of any such event specified in clause (iv) or (v) in UBS' judgment or in the judgment of such group of Underwriters makes it impracticable or inadvisable to proceed with the public offering or the delivery of the Shares on the terms and in the manner contemplated in the Registration Statement and the Prospectus, or (z) since the date of execution of this Agreement, there shall have occurred any downgrading, or any notice or announcement shall have been given or made of (i) any intended or potential downgrading or (ii) any watch, review or possible change that does not indicate an affirmation or improvement, in the rating accorded any securities of or guaranteed by the Company or any Subsidiary by any "nationally recognized statistical rating organization," as that term is defined in Rule 436(g)(2) under the Act.

If UBS or any group of Underwriters elects to terminate this Agreement as provided in this Section 9, the Company, the Representatives of the Selling Stockholder and each other Underwriter shall be notified promptly in writing.

If the sale to the Underwriters of the Shares, as contemplated by this Agreement, is not carried out by the Underwriters for any reason permitted under this Agreement or if such sale is not carried out because the Company or the Selling Stockholder, as the case may be, shall be unable to comply with any of the terms of this Agreement, the Company or the Selling Stockholder, as the case may be, shall not be under any obligation or liability under this Agreement (except to the extent provided in Sections 5(n), 7 and 11 hereof), and the Underwriters shall be under no obligation or liability to the Company and the Selling Stockholder under this Agreement (except to the extent provided in Section 9 hereof) or to one another hereunder.

10. Increase in Underwriters' Commitments. Subject to Sections 8 and 9 hereof, if any Underwriter shall default in its obligation to take up and pay for the Firm Shares to be purchased by it hereunder (otherwise than for a failure of a condition set forth in Section 8 hereof or a reason sufficient to justify the termination of this Agreement under the provisions of Section 9 hereof) and if the number of Firm Shares which all Underwriters so defaulting shall have agreed but failed to take up and pay for does not exceed 10% of the total number of Firm Shares, the non-defaulting Underwriters shall take up and pay for (in addition to the aggregate number of Firm Shares they are obligated to purchase pursuant to Section 1 hereof) the number

of Firm Shares agreed to be purchased by all such defaulting Underwriters, as hereinafter provided. Such Shares shall be taken up and paid for by such non-defaulting Underwriters in such amount or amounts as you may designate with the consent of each Underwriter so designated or, in the event no such designation is made, such Shares shall be taken up and paid for by all non-defaulting Underwriters pro rata in proportion to the aggregate number of Firm Shares set opposite the names of such non-defaulting Underwriters in Schedule A.

Without relieving any defaulting Underwriter from its obligations hereunder, the Company and the Selling Stockholder agrees with the non-defaulting Underwriters that it will not sell any Firm Shares hereunder unless all of the Firm Shares are purchased by the Underwriters (or by substituted Underwriters selected by you with the approval of the Company or selected by the Company with your approval).

If a new Underwriter or Underwriters are substituted by the Underwriters or by the Company for a defaulting Underwriter or Underwriters in accordance with the foregoing provision, the Company or you shall have the right to postpone the time of purchase for a period not exceeding five business days in order that any necessary changes in the Registration Statement and the Prospectus and other documents may be effected.

The term Underwriter as used in this Agreement shall refer to and include any Underwriter substituted under this Section 10 with like effect as if such substituted Underwriter had originally been named in Schedule A.

If the aggregate number of Firm Shares which the defaulting Underwriter or Underwriters agreed to purchase exceeds 10% of the total number of Firm Shares which all Underwriters agreed to purchase hereunder, and if neither the non-defaulting Underwriters nor the Company shall make arrangements within the five business day period stated above for the purchase of all the Firm Shares which the defaulting Underwriter or Underwriters agreed to purchase hereunder, this Agreement shall terminate without further act or deed and without any liability on the part of the Company to any non-defaulting Underwriter and without any liability on the part of any non-defaulting Underwriter to the Company. Nothing in this paragraph, and no action taken hereunder, shall relieve any defaulting Underwriter from liability in respect of any default of such Underwriter under this Agreement.

11. Indemnity and Contribution.

(a) The Company and the Selling Stockholder jointly and severally agree to indemnify, defend and hold harmless each Underwriter, its partners, directors and officers, and any person who controls any Underwriter within the meaning of Section 15 of the Act or Section 20 of the Exchange Act, and the successors and assigns of all of the foregoing persons, from and against any loss, damage, expense, liability or claim (including the reasonable cost of investigation) which, jointly or severally, any such Underwriter or any such person may incur under the Act, the Exchange Act, the common law or otherwise, insofar as such loss, damage, expense, liability or claim arises out of or is based upon (i) any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement (or in the Registration Statement as amended by any post-effective amendment thereof by the Company) or in a Prospectus (the term

Prospectus for the purpose of this Section 11 being deemed to include any Preliminary Prospectus, the Prospectus and the Prospectus as amended or supplemented by the Company), or arises out of or is based upon any omission or alleged omission to state a material fact required to be stated in either such Registration Statement or such Prospectus or necessary to make the statements made therein not misleading, except insofar as any such loss, damage, expense, liability or claim arises out of or is based upon any untrue statement or alleged untrue statement of a material fact contained in and in conformity with information concerning such Underwriter furnished in writing by or on behalf of such Underwriter through you to the Company expressly for use in such Registration Statement or such Prospectus or arises out of or is based upon any omission or alleged omission to state a material fact in connection with such information required to be stated in such Registration Statement or such Prospectus or necessary to make such information not misleading, (ii) any untrue statement or alleged untrue statement made by the Company in Section 3 hereof or the failure by the Company to perform when and as required any agreement or covenant contained herein, or (iii) any untrue statement or alleged untrue statement of any material fact contained in any audio or visual materials provided by the Company or based upon written information furnished by or on behalf of the Company including, without limitation, slides, videos, films or tape recordings used in connection with the marketing of the Shares, provided, further, that the Selling Stockholder shall not be responsible for losses, damages, expenses, liabilities or claims, under this paragraph or paragraph (e) below or as a result of any breach of this Agreement, for an amount in excess of the proceeds to be received by the Selling Stockholder (before deducting expenses) from the sale of Shares hereunder. Additionally, the Company shall indemnify, defend and hold harmless the Selling Stockholder to the same extent as the Company is obligated to indemnify, defend and hold harmless the Underwriters pursuant to this Section 11(a), subject to the same limitations as set forth herein.

If any action, suit or proceeding (each, a "Proceeding") is brought against an Underwriter or any such person in respect of which indemnity may be sought against the Company or the Selling Stockholder pursuant to the foregoing paragraph, such Underwriter or such person shall promptly notify the Company and the Representatives of the Selling Stockholder in writing of the institution of such Proceeding and the Company or the Selling Stockholder, as the case may be, shall assume the defense of such Proceeding, including the employment of counsel reasonably satisfactory to such indemnified party and payment of all fees and expenses; provided, however, that the omission to so notify the Company or the Representative of the Selling Stockholder shall not relieve the Company or the Selling Stockholder from any liability which the Company or the Selling Stockholder may have to any Underwriter or any such person or otherwise, except where such omission results in material prejudice to the Company or the Selling Stockholder that affects the rights of the Company or the Selling Stockholder. Such Underwriter or such person shall have the right to employ its or their own counsel in any such case, but the fees and expenses of such counsel shall be at the expense of such Underwriter or of such person unless the employment of such counsel shall have been authorized in writing by the Company or the Selling Stockholder in connection with the defense of such Proceeding or the Company or the Selling Stockholder shall not have, within a reasonable period of time in light of the circumstances, employed counsel to have charge of the defense of such Proceeding or such indemnified party or parties shall have reasonably concluded

that there may be defenses available to it or them which are different from, additional to or in conflict with those available to the Company or the Selling Stockholder (in which case the Company or the Selling Stockholder shall not have the right to direct the defense of such Proceeding on behalf of the indemnified party or parties), in any of which events such fees and expenses shall be borne by the Company or the Selling Stockholder and paid as incurred (it being understood, however, that the Company or the Selling Stockholder shall not be liable for the expenses of more than one separate counsel (in addition to any local counsel) in any one Proceeding or series of related Proceedings in the same jurisdiction representing the indemnified parties who are parties to such Proceeding). The Company or the Selling Stockholder shall not be liable for any settlement of any Proceeding effected without its written consent but if settled with the written consent of the Company or the Selling Stockholder, the Company or the Selling Stockholder agrees to indemnify and hold harmless any Underwriter and any such person from and against any loss or liability by reason of such settlement to the extent otherwise required by this Section 11(a). Notwithstanding the foregoing sentence, if at any time an indemnified party shall have requested an indemnifying party to reimburse the indemnified party for fees and expenses of counsel as contemplated by the second sentence of this paragraph, then the indemnifying party agrees that it shall be liable for any settlement of any Proceeding effected without its written consent if (i) such settlement is entered into more than 60 business days after receipt by such indemnifying party of the aforesaid request, (ii) such indemnifying party shall not have fully reimbursed the indemnified party in accordance with such request prior to the date of such settlement and (iii) such indemnified party shall have given the indemnifying party at least 30 days' prior notice of its intention to settle. No indemnifying party shall, without the prior written consent of the indemnified party, effect any settlement of any pending or threatened Proceeding in respect of which any indemnified party is or could have been a party and indemnity could have been sought hereunder by such indemnified party, unless such settlement includes an unconditional release of such indemnified party from all liability on claims that are the subject matter of such Proceeding and does not include an admission of fault, culpability or a failure to act, by or on behalf of such indemnified party.

(b) Each Underwriter severally agrees to indemnify, defend and hold harmless the Company, its directors and officers, the Selling Stockholder and any person who controls the Company or the Selling Stockholder within the meaning of Section 15 of the Act or Section 20 of the Exchange Act, and the successors and assigns of all of the foregoing persons, from and against any loss, damage, expense, liability or claim (including the reasonable cost of investigation) which, jointly or severally, the Company, the Selling Stockholder or any such person may incur under the Act, the Exchange Act, the common law or otherwise, insofar as such loss, damage, expense, liability or claim arises out of or is based upon any untrue statement or alleged untrue statement of a material fact contained in and in conformity with information concerning such Underwriter furnished in writing by or on behalf of such Underwriter through you to the Company expressly for use in the Registration Statement (or in the Registration Statement as amended by any post-effective amendment thereof by the Company) or in a Prospectus, or arises out of or is based upon any omission or alleged omission to state a material fact in connection with such information required to be stated in such Registration Statement or such Prospectus or necessary to make such information not misleading.

If any Proceeding is brought against the Company, the Selling Stockholder or any such person in respect of which indemnity may be sought against any Underwriter pursuant to the foregoing paragraph, the Company, the Selling Stockholder or such person shall promptly notify such Underwriter in writing of the institution of such Proceeding and such Underwriter shall assume the defense of such Proceeding, including the employment of counsel reasonably satisfactory to such indemnified party and payment of all fees and expenses; provided, however, that the omission to so notify such Underwriter shall not relieve such Underwriter from any liability which such Underwriter may have to the Company, the Selling Stockholder or any such person or otherwise, except to such extent as such Underwriter is materially prejudiced by such omission. The Company, the Selling Stockholder or such person shall have the right to employ its own counsel in any such case, but the fees and expenses of such counsel shall be at the expense of the Company, the Selling Stockholder or such person unless the employment of such counsel shall have been authorized in writing by such Underwriter in connection with the defense of such Proceeding or such Underwriter shall not have, within a reasonable period of time in light of the circumstances, employed counsel to defend such Proceeding or such indemnified party or parties shall have reasonably concluded that there may be defenses available to it or them which are different from or additional to or in conflict with those available to such Underwriter (in which case such Underwriter shall not have the right to direct the defense of such Proceeding on behalf of the indemnified party or parties, but such Underwriter may employ counsel and participate in the defense thereof but the fees and expenses of such counsel shall be at the expense of such Underwriter), in any of which events such fees and expenses shall be borne by such Underwriter and paid as incurred (it being understood, however, that such Underwriter shall not be liable for the expenses of more than one separate counsel (in addition to any local counsel) in any one Proceeding or series of related Proceedings in the same jurisdiction representing the indemnified parties who are parties to such Proceeding). No Underwriter shall be liable for any settlement of any such Proceeding effected without the written consent of such Underwriter but if settled with the written consent of such Underwriter, such Underwriter agrees to indemnify and hold harmless the Company, the Selling Stockholder and any such person from and against any loss or liability by reason of such settlement. Notwithstanding the foregoing sentence, if at any time an indemnified party shall have requested an indemnifying party to reimburse the indemnified party for fees and expenses of counsel as contemplated by the second sentence of this paragraph, then the indemnifying party agrees that it shall be liable for any settlement of any Proceeding effected without its written consent if (i) such settlement is entered into more than 60 business days after receipt by such indemnifying party of the aforesaid request, (ii) such indemnifying party shall not have reimbursed the indemnified party in accordance with such request prior to the date of such settlement and (iii) such indemnified party shall have given the indemnifying party at least 30 days' prior notice of its intention to settle. No indemnifying party shall, without the prior written consent of the indemnified party, effect any settlement of any pending or threatened Proceeding in respect of which any indemnified party is or could have been a party and indemnity could have been sought hereunder by such indemnified party, unless such settlement includes an unconditional release of such indemnified party from all liability on claims that are the subject matter of such Proceeding and does not include an admission of fault, culpability or a failure to act, by or on behalf of such indemnified party.

(c) If the indemnification provided for in this Section 11 is unavailable to an indemnified party under subsections (a) and (b) of this Section 11 or insufficient to hold an indemnified party harmless in respect of any losses, damages, expenses,

liabilities or claims referred to therein, then each applicable indemnifying party shall contribute to the amount paid or payable by such indemnified party as a result of such losses, damages, expenses, liabilities or claims (i) in such proportion as is appropriate to reflect the relative benefits received by the Company on the one hand and the Underwriters on the other hand from the offering of the Shares or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Company and the Selling Stockholder on the one hand and of the Underwriters on the other in connection with the statements or omissions which resulted in such losses, damages, expenses, liabilities or claims, as well as any other relevant equitable considerations. The relative benefits received by the Company and the Selling Stockholder on the one hand and the Underwriters on the other shall be deemed to be in the same respective proportions as the total proceeds from the offering (net of underwriting discounts and commissions but before deducting expenses) received by the Company and the Selling Stockholder and the total underwriting discounts and commissions received by the Underwriters, bear to the aggregate public offering price of the Shares. The relative fault of the Company and the Selling Stockholder on the one hand and of the Underwriters on the other shall be determined by reference to, among other things, whether the untrue statement or alleged untrue statement of a material fact or omission or alleged omission relates to information supplied by the Company and/or the Selling Stockholder or by the Underwriters and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The amount paid or payable by a party as a result of the losses, damages, expenses, liabilities and claims referred to in this subsection shall be deemed to include any legal or other fees or expenses reasonably incurred by such party in connection with investigating, preparing to defend or defending any Proceeding.

(d) The Company, the Selling Stockholder and the Underwriters agree that it would not be just and equitable if contribution pursuant to this Section 11 were determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation that does not take account of the equitable considerations referred to in subsection (c) above. Notwithstanding the provisions of this Section 11, no Underwriter shall be required to contribute any amount in excess of the amount by which the total price at which the Shares underwritten by such Underwriter and distributed to the public were offered to the public exceeds the amount of any damage which such Underwriter has otherwise been required to pay by reason of such untrue statement or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Underwriters' obligations to contribute pursuant to this Section 11 are several in proportion to their respective underwriting commitments and not joint.

(e) The indemnity and contribution agreements contained in this Section 11 and the covenants, warranties and representations of the Company and the Selling Stockholder contained in this Agreement shall remain in full force and effect regardless of any investigation made by or on behalf of any Underwriter, its partners,

directors or officers or any person (including each partner, officer or director of such person) who controls any Underwriter within the meaning of Section 15 of the Act or Section 20 of the Exchange Act, or by or on behalf of the Company, its directors or officers, any Selling Stockholder or any person who controls the Company within the meaning of Section 15 of the Act or Section 20 of the Exchange Act, and shall survive any termination of this Agreement or the issuance and delivery of the Shares. The Company, the Selling Stockholder and each Underwriter agree promptly to notify each other of the commencement of any Proceeding against it and, in the case of the Company or the Selling Stockholder, against any of the Company's or Selling Stockholder's officers or directors, as the case may be, in connection with the issuance and sale of the Shares, or in connection with the Registration Statement or the Prospectus.

12. Information Furnished by the Underwriters. The statements set forth in the last paragraph on the cover page of the Prospectus and the statements set forth in the second, third and last sentences of the first paragraph under the caption "Underwriting—Commissions and Discounts" and the first five paragraphs under the caption "Underwriting—Price Stabilization; Short Positions" in the Prospectus constitute the only information furnished by or on behalf of the Underwriters as such information is referred to in Sections 3 and 11 hereof.

13. Notices. Except as otherwise herein provided, all statements, requests, notices and agreements shall be in writing or by telegram and, if to the Underwriters, shall be sufficient in all respects if delivered or sent to UBS Securities LLC, 299 Park Avenue, New York, N.Y. 10171-0026, Attention: Syndicate Department, with a copy to Simpson Thacher & Bartlett LLP, 3330 Hillview Avenue, Palo Alto CA 94304, Attention William B. Brentani, Esq.; if to the Company, shall be sufficient in all respects if delivered or sent to the Company at the offices of the Company at 3050 E. Hillcrest Drive, Westlake Village, CA 91362, Attention: Carl C. Wertz, Chief Financial Officer; and if to the Selling Stockholder, shall be sufficient in all respects if delivered or sent to the Representatives of the Selling Stockholder at 3050 E. Hillcrest Drive, Westlake Village, CA 91362, Attention: Carl C. Wertz, Chief Financial Officer, and, in each case, with a copy sent to Sheppard, Mullin, Richter & Hampton LLP 333 South Hope Street, 48th Floor, Los Angeles, CA 90071, Attention Peter M. Menard, Esq.

14. Governing Law; Construction. This Agreement and any claim, counterclaim or dispute of any kind or nature whatsoever arising out of or in any way relating to this Agreement ("Claim"), directly or indirectly, shall be governed by, and construed in accordance with, the laws of the State of New York. The Section headings in this Agreement have been inserted as a matter of convenience of reference and are not a part of this Agreement.

15. Submission to Jurisdiction. Except as set forth below, no Claim may be commenced, prosecuted or continued in any court other than the courts of the State of New York located in the City and County of New York or in the United States District Court for the Southern District of New York, which courts shall have jurisdiction over the adjudication of such matters, and each of the Company and the Selling Stockholder consents to the jurisdiction of such courts and personal service with respect thereto. The Company and the Selling Stockholder hereby consent to personal jurisdiction, service and venue in any such court and in any court in which any Claim arising out of or in any way relating to this Agreement is brought by any third party against UBS or any indemnified party. Each of UBS, the Selling Stockholder and the

Company (on its behalf and, to the extent permitted by applicable law, on behalf of its stockholders and affiliates) waives all right to trial by jury in any action, proceeding or counterclaim (whether based upon contract, tort or otherwise) in any way arising out of or relating to this Agreement. The Company and the Selling Stockholder agree that a final judgment in any such action, proceeding or counterclaim brought in any such court shall be conclusive and binding upon the Company and may be enforced in any other courts to the jurisdiction of which the Company is or may be subject, by suit upon such judgment. The Selling Stockholder hereby appoints, without power of revocation, CT Corporation System, at its offices located at 111 Eighth Avenue, New York, New York 1001, as its agent to accept and acknowledge on its behalf service of any and all process which may be served in any action, proceeding or counterclaim in any way relating to or arising out of this Agreement, and it being understood that the designation and appointment of CT Corporation System as its agent shall become effective immediately without any further action on the part of the Selling Stockholder. The Selling Stockholder represents to each Underwriter that it has notified CT Corporation System of such designation and appointment and that CT Corporation System has accepted the same. The Selling Stockholder further agrees that, to the extent permitted by law, proper service of process upon CT Corporation System (or its successors as agent for service of process) and written notice of said service to the Selling Stockholder pursuant to Section 13, shall be deemed in every respect effective service of process upon the Selling Stockholder in any such suit or proceeding. The Selling Stockholder agrees that the failure of any such designee, appointee and agent to give any notice of such service to them shall not impair or affect in any way the validity of such service or any judgment rendered in any action or proceeding based thereon. Nothing herein shall in any way be deemed to limit the ability of the Underwriters and the other persons referred to in Section 11 to serve any such legal process, summons, notices and documents in any other manner permitted by applicable law or to obtain jurisdiction over the Selling Stockholder or bring actions, suits or proceedings against the Selling Stockholder in such other jurisdictions, and in such manner, as may be permitted by applicable law. The Selling Stockholder hereby irrevocably and unconditionally waives, to the fullest extent permitted by law, any objection that they may now or hereafter have to the laying of venue of any of the aforesaid actions, suits or proceedings arising out of or in connection with this Agreement brought in any New York State or U.S. federal court specified in this Section 15 and hereby further irrevocably and unconditionally waives and agrees not to plead or claim in any such court that any such action, suit or proceeding brought in such court has been brought in an inconvenient forum.

16. Parties at Interest. The Agreement herein set forth has been and is made solely for the benefit of the Underwriters, the Selling Stockholder and the Company and to the extent provided in Section 11 hereof the controlling persons, directors and officers referred to in such section, and their respective successors, assigns, heirs, personal representatives and executors and administrators. No other person, partnership, association or corporation (including a purchaser, as such purchaser, from any of the Underwriters) shall acquire or have any right under or by virtue of this Agreement.

17. Counterparts. This Agreement may be signed by the parties in one or more counterparts which together shall constitute one and the same agreement among the parties.

18. Successors and Assigns. This Agreement shall be binding upon the Underwriters, the Selling Stockholder and the Company and their successors and assigns and any

successor or assign of any substantial portion of the Company's, the Selling Stockholder's and any of the Underwriters' respective businesses and/or assets.

19. Miscellaneous. UBS, an indirect, wholly owned subsidiary of UBS AG, is not a bank and is separate from any affiliated bank, including any U.S. branch or agency of UBS AG. Because UBS is a separately incorporated entity, it is solely responsible for its own contractual obligations and commitments, including obligations with respect to sales and purchases of securities. Securities sold, offered or recommended by UBS are not deposits, are not insured by the Federal Deposit Insurance Corporation, are not guaranteed by a branch or agency, and are not otherwise an obligation or responsibility of a branch or agency.

A lending affiliate of UBS may have lending relationships with issuers of securities underwritten or privately placed by UBS. To the extent required under the securities laws, prospectuses and other disclosure documents for securities underwritten or privately placed by UBS will disclose the existence of any such lending relationships and whether the proceeds of the issue will be used to repay debts owed to affiliates of UBS.

The Company and the Selling Stockholder hereby acknowledge that the Underwriters are acting solely as an underwriter in connection with the purchase and sale of the Company's securities. The Company further acknowledges that the Underwriters are acting pursuant to a contractual relationship created solely by this Underwriting Agreement entered into on an arm's length basis and in no event do the parties intend that the Underwriters act or be responsible as a fiduciary to the Company, its management, stockholders, creditors, the Selling Stockholder or any other person in connection with any activity that the Underwriters may undertake or has undertaken in furtherance of the purchase and sale of the Company's securities, either before or after the date hereof. The Underwriters hereby expressly disclaim any fiduciary or similar obligations to the Company and the Selling Stockholder, either in connection with the transactions contemplated by this Underwriting Agreement or any matters leading up to such transactions, and the Company and the Selling Stockholder hereby confirm their understanding and agreement to that effect. The Company, the Selling Stockholder and the Underwriters agree that they are each responsible for making their own independent judgments with respect to any such transactions, and that any opinions or views expressed by the Underwriters to the Company or the Selling Stockholder regarding such transactions, including but not limited to any opinions or views with respect to the price or market for the Company's securities, do not constitute advice or recommendations to the Company or the Selling Stockholder. The Company and the Selling Stockholder hereby waive and release, to the fullest extent permitted by law, any claims that the Company and the Selling Stockholder may have against the Underwriters with respect to any breach or alleged breach of any fiduciary or similar duty to the Company or the Selling Stockholder in connection with the transactions contemplated by this Underwriting Agreement or any matters leading up to such transactions.

If the foregoing correctly sets forth the understanding among the Company, the Selling Stockholder and the Underwriters, please so indicate in the space provided below for the purpose, whereupon this agreement and your acceptance shall constitute a binding agreement among the Company and the Underwriters, severally.

Very truly yours,

DIODES INCORPORATED

By: _____
Title:

LITE-ON SEMICONDUCTOR CORPORATION

By: _____
Attorney-in-Fact

Accepted and agreed to as of the date first above written, on behalf of themselves and the other several Underwriters named in Schedule A

UBS SECURITIES LLC
A.G. EDWARDS & SONS, INC.
C.E. UNTERBERG, TOWBIN, LLC
RAYMOND JAMES & ASSOCIATES, INC.
WR HAMBRECHT + CO, LLC

By: UBS SECURITIES LLC

By: _____
Title:

By: _____
Title:

SCHEDULE A

<u>Underwriter</u>	<u>Number of Firm Shares</u>
UBS SECURITIES LLC	
A.G. Edwards & Sons, Inc.	
C.E. Unterberg, Towbin, LLC	
Raymond James & Associates, Inc.	
WR Hambrecht + Co, LLC	
Total	<u><u>2,500,000</u></u>

S-A

SCHEDULE B

<u>Subsidiaries</u>	<u>Percentage of Common Stock Owned by the Company</u>	<u>Jurisdiction of Incorporation</u>
FabTech Incorporated	100%	Delaware, U.S.A.
Shanghai KaiHong Electronics Company, Limited	95%	People's Republic of China
Shanghai KaiHong Technology Electronic Company, Limited	95%	People's Republic of China
DII Taiwan Corporation Limited	100%	Republic of China (Taiwan)
Diodes — Hong Kong Limited	100%	Hong Kong

S-B

EXHIBIT A

Diodes Incorporated

Common Stock

(\$0.66²/3 Par Value)

_____, 2005

UBS Securities LLC
A.G. Edwards & Sons, Inc.
C.E. Unterberg, Towbin LLC
Raymond James & Associates, Inc.
WR Hambrecht + Co, LLC
As Representatives of the several Underwriters

c/o UBS Securities LLC
299 Park Avenue
New York, New York 10171

Ladies and Gentlemen:

This Lock-Up Letter Agreement is being delivered to you in connection with the proposed Underwriting Agreement (the "Underwriting Agreement") to be entered into by Diodes Incorporated (the "Company"), Lite-On Semiconductor Corporation and you, as Representatives of the several Underwriters named therein, with respect to the public offering (the "Offering") of Common Stock, par value \$0.66²/3 per share, of the Company (the "Common Stock").

In order to induce you to enter into the Underwriting Agreement, the undersigned agrees that for a period of 90¹ days after the date of the final prospectus relating to the Offering the undersigned will not, without the prior written consent of UBS Securities LLC ("UBS"), (i) sell, offer to sell, contract or agree to sell, hypothecate, pledge, grant any option to purchase or otherwise dispose of or agree to dispose of, directly or indirectly, or file (or participate in the filing of) a registration statement with the Securities and Exchange Commission (the "Commission") in respect of, or establish or increase a put equivalent position or liquidate or decrease a call equivalent position within the meaning of Section 16 of the Securities Exchange Act of 1934, as amended, and the rules and regulations of the Commission promulgated thereunder with respect to, any Common Stock of the Company or any securities convertible into or exercisable or exchangeable for Common Stock, or warrants or other rights to purchase Common Stock, (ii) enter into any swap or other arrangement that transfers to another, in whole

¹ 180 days for Lock-Up Letter Agreement entered into by Lite-On Semiconductor Corporation.

or in part, any of the economic consequences of ownership of Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock, or warrants or other rights to purchase Common Stock, whether any such transaction is to be settled by delivery of Common Stock or such other securities, in cash or otherwise, or (iii) publicly announce an intention to effect any transaction specified in clause (i) or (ii). The foregoing sentence shall not apply to the registration of or sale to the Underwriters of any Common Stock pursuant to the Offering and the Underwriting Agreement[, (b) bona fide gifts, provided the recipient thereof agrees in writing with the Underwriters to be bound by the terms of this Lock-Up Letter Agreement and confirm that he, she or it has been in compliance with terms of this Lock-Up Letter Agreement since the date hereof [,]or] (c) dispositions to any trust for the direct or indirect benefit of the undersigned and/or the immediate family of the undersigned, provided that such trust agrees in writing with the Underwriters to be bound by the terms of this Lock-Up Letter Agreement and confirms that it has been in compliance with the terms of this Lock-Up Letter Agreement since the date hereof; , [or (d) any sale or offer pursuant to a plan existing on the date hereof that meets the requirements of Rule 10b5-1(c) promulgated pursuant to the Exchange Act.]]²

In addition, the undersigned hereby waives any rights the undersigned may have to require registration of Common Stock in connection with the filing of a registration statement relating to the Offering. The undersigned further agrees that, for a period of 90¹ days after the date of the final prospectus relating to the Offering, the undersigned will not, without the prior written consent of UBS, make any demand for, or exercise any right with respect to, the registration of Common Stock of the Company or any securities convertible into or exercisable or exchangeable for Common Stock, or warrants or other rights to purchase Common Stock.

If:

- (1) during the period that begins on the date that is 15 calendar days plus 3 business days before the last day of the 90¹-day restricted period and ends on the last day of the 90¹-day restricted period, the Company issues a earnings release or material news or a material event relating to the Company occurs; or
- (2) prior to the expiration of the 90¹-day restricted period, the Company announces that it will release earnings results during the 16-day period beginning on the last day of the 90¹-day period,

the restrictions imposed by this letter shall continue to apply until the expiration of the date that is 15 calendar days plus 3 business days after the date on which the issuance of the earnings release or the material news or material event occurs; provided, however, this paragraph will not apply if, within 3 days of the termination of the 90¹-day restricted period, the Company delivers to UBS a certificate, signed by the Chief Financial Officer or Chief Executive Officer of the Company, certifying on behalf of the Company that the Company's shares of Common Stock are, as of the date of delivery of such certificate, "actively traded securities," as defined in

² Subsections (b) and (c) to be included in Lock-Up Letter Agreements entered into by the Company's directors and officers only. Subsection (d) to be included in Lock-Up Letter Agreement entered into by Michael Giordano only.

Regulation M, 17 CFR 242.101(c)(1). Such notice shall be delivered in accordance with the Underwriting Agreement.

If (i) the Company notifies you in writing that it does not intend to proceed with the Offering, (ii) the registration statement filed with the Securities and Exchange Commission with respect to the Offering is withdrawn or (iii) for any reason the Underwriting Agreement shall be terminated prior to the time of purchase (as defined in the Underwriting Agreement), this Lock-Up Letter Agreement shall be terminated and the undersigned shall be released from its obligations hereunder.

Yours very truly,

By: _____
Name:
Title:

EXHIBIT B

**OPINION OF SHEPPARD, MULLIN, RICHTER & HAMPTON LLP
AS COUNSEL TO THE COMPANY AND THE SELLING STOCKHOLDER**

We have acted as special counsel to Diodes Incorporated, a Delaware corporation (the "Company"), and Lite-On Semiconductor Corporation, a corporation formed under the laws of the Republic of China (Taiwan) (the "Selling Stockholder"), in connection with the offering for sale to the underwriters named in Schedule A to the Underwriting Agreement referred to below (the "Underwriters") of (i) an aggregate of 2,500,000 shares of the Common Stock, \$0.66²/₃ par value per share, of the Company (the "Firm Shares"), of which 1,750,000 shares are to be issued and sold by the Company and 750,000 shares are to be sold by the Selling Stockholder pursuant to that certain Underwriting Agreement, dated as of September ____, 2005, by and among the Company, the Selling Stockholder and the Underwriters (the "Underwriting Agreement") and (ii) up to 375,000 additional shares of the Common Stock of the Company (the "Additional Shares"), all of which would be sold by the Company, pursuant to the Underwriting Agreement, at the Underwriters' option solely to cover over-allotments. This opinion is given to you pursuant to Sections 8(a) and (f) of the Underwriting Agreement. Unless defined herein, capitalized terms have the meanings given them in the Underwriting Agreement.

As to matters of fact, we are relying upon the representations and warranties of all parties contained in the Underwriting Agreement, the Power of Attorney and the Custody Agreement (the "Transaction Documents"), the certificates of certain officers of the Company and the Selling Stockholder (the "Opinion Certificates") and certificates and other communications of government officials, all without independent verification. In addition, we examined originals or copies of documents, corporate records and other writings that we consider relevant for the purposes of this opinion. In such examination, we assumed that the signatures on documents and instruments examined by us are authentic, that each is complete and what it purports to be, that all documents and instruments submitted to us as copies or facsimiles conform with the originals, and that the documents and instruments submitted to us have not been amended or modified since the date submitted.

In our examination of documents, we further assumed (i) that each person or entity entering into such documents (other than the Company in connection with the Underwriting Agreement) had the power, legal competence and capacity to enter into and perform all of such party's obligations thereunder, (ii) the due execution and delivery of such documents by each party thereto (other than the due execution and delivery of the Transaction Documents by the Company and the Selling Stockholder), (iii) the enforceability and binding nature of the obligations of the parties to such documents and (iv) performance on or before the time of purchase and the additional time of purchase, if any, by all parties of their obligations under the Transaction Documents to be performed on or before the time of purchase or the additional time of purchase, if any. We also assumed that there are no extrinsic agreements or understandings among the parties to the Transaction Documents or Contracts (as defined below) that would modify or interpret the terms of the Transaction Documents or Contracts or the respective rights or obligations of the parties thereunder.

As used in this opinion, the expression “to our knowledge” or “known to us” with reference to matters of fact refers to the current actual conscious awareness of the attorneys within the firm who have rendered legal services in connection with the transactions covered by this opinion, or who have been involved in substantive legal representation of the Company since January 1, 2003. Except to the extent expressly set forth herein we have not undertaken any independent investigation to determine the accuracy or completeness of any such statement of fact, and no inference as to the accuracy or completeness of any such statement should be drawn from our representation of the Company or the Selling Stockholder or our rendering of the opinions set forth below.

Based upon and subject to the foregoing and the qualifications and limitations set forth below, and except as set forth in the Prospectus and the Registration Statement, it is our opinion that:

(i) the Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Delaware, with corporate power and authority to own, lease and operate its properties and conduct its business as described in the Registration Statement and the Prospectus, to execute and deliver the Underwriting Agreement and to issue, sell and deliver the Shares as contemplated therein;

(ii) the Company is duly qualified to do business as a foreign corporation and is in good standing in each jurisdiction where the ownership or leasing of its properties or the conduct of its business requires such qualification, except where the failure to be so qualified and in good standing would not, individually or in the aggregate, have a Material Adverse Effect;

(iii) the Underwriting Agreement has been duly authorized, executed and delivered by the Company;

(iv) the Shares to be issued and sold by the Company have been duly authorized and, when delivered to and paid for by the Underwriters in accordance with the terms of the Underwriting Agreement, will be validly issued, fully paid and non-assessable;

(v) the Shares to be sold by the Selling Stockholder have been duly authorized and are validly issued, fully paid and non-assessable;

(vi) the Company has an authorized and, to our knowledge, outstanding capitalization as set forth in the Registration Statement and the Prospectus; to our knowledge, all of the issued and outstanding shares of capital stock of the Company have been duly authorized and are validly issued, fully paid and non-assessable; all of the issued and outstanding shares of capital stock of the Company are free of statutory preemptive rights and, to our knowledge, contractual preemptive rights, resale rights, rights of first refusal and similar rights; the Shares are free of statutory preemptive rights and, to our knowledge, contractual preemptive rights, resale rights, rights of first refusal and similar

rights; the certificates for the Shares are in due and proper form and the holders of the Shares will not be subject to personal liability solely by reason of being such holders;

(vii) to our knowledge, the Company is the holder of record of all the outstanding shares of capital stock of FabTech and, except as set forth in the Registration Statement and the Prospectus, such shares are not subject to any security interest, other encumbrance or adverse claim;

(viii) the capital stock of the Company, including the Shares, conforms in all material respects to the description thereof contained in the Registration Statement and the Prospectus under the heading "Description of capital stock;"

(ix) to our knowledge, there are no contracts or documents of a character required to be described in the Registration Statement or the Prospectus or to be filed as exhibits to the Registration Statement or the Exchange Act Documents (as defined below), that are not so described or filed.

(x) the Registration Statement and the Prospectus (except as to the financial statements and schedules and other financial data or statistical data derived therefrom contained therein, as to which we express no opinion) comply as to form in all material respects with the requirements of the Act; and the conditions to the use of Form S-3 have been satisfied; the documents incorporated by reference in the Registration Statement and the Prospectus, at the time they became effective or were filed with the Commission, complied as to form in all material respects with the requirements of the Exchange Act (except as to the financial statements and schedules and other financial data or statistical data derived therefrom contained therein, as to which we express no opinion);

(xi) the Registration Statement has become effective under the Act and, to our knowledge, no stop order proceedings with respect thereto are pending or threatened under the Act and any required filing of the Prospectus and any supplement thereto pursuant to Rule 424 under the Act has been made in the manner and within the time period required by such Rule 424;

(xii) no approval, authorization, consent or order of or filing with any U.S. federal or state governmental or regulatory commission, board, body, authority or agency is required in connection with the issuance and sale of the Shares by the Company and consummation by the Company of the transactions contemplated by the Underwriting Agreement other than registration of the Shares under the Act (except we express no opinion as to any necessary qualification under the state securities or blue sky laws of the various jurisdictions in which the Shares are being offered by the Underwriters, or under the rules and regulations of the NASD);

(xiii) the execution, delivery and performance of the Underwriting Agreement by the Company, the issuance and sale of the Shares by the Company

and the consummation by the Company of the transactions contemplated thereby do not and will not conflict with, result in any breach or violation of or constitute a default under (nor constitute any event which with notice, lapse of time or both would result in any breach of or constitute a default under) the certificate of incorporation or by-laws of the Company, or any indenture, mortgage, deed of trust, bank loan or credit agreement or other evidence of indebtedness, or any license, lease, contract or other agreement or instrument, filed as an exhibit to the Registration Statement or to the Company's most recent Annual Report on Form 10-K, the Company's Quarterly Reports on Form 10-Q for the quarterly periods ended March 31, 2005 and June 30, 2005 or the Current Reports on Form 8-K of the Company incorporated by reference in the Prospectus (collectively, the "Exchange Act Documents"), to which the Company is a party or by which it or its properties or assets may be bound or affected (the "Contracts"), or any U.S. federal or state law, regulation or rule or, to our knowledge, any decree, judgment or order applicable to the Company or any of its Subsidiaries;

(xiv) to our knowledge, the Company is not in breach or violation of or in default under (nor has any event occurred which with notice, lapse of time, or both would result in any breach of, or constitute a default under or give the holder of any indebtedness (or a person acting on such holder's behalf) the right to require the repurchase, redemption or repayment of all or a part of such indebtedness) under (a) its certificate of incorporation or by-laws, (b) any Contract, or (c) any U.S. federal or state law, regulation or rule or any decree, judgment or order applicable to the Company, except in the case of clause (b), for such breaches, violations or defaults which would not have a Material Adverse Effect;

(xv) to our knowledge, there are no affiliate transactions, off-balance sheet transactions, contracts, licenses, agreements, leases or documents of a character which are required to be described in the Registration Statement or the Prospectus or to be filed as an exhibit to the Registration Statement which have not been so described or filed;

(xvi) to our knowledge, there are no actions, suits, claims, investigations or proceedings pending, threatened or contemplated to which the Company or any of its directors or officers, in such person's capacity as a director or officer, is a party or to which any of its properties is subject at law or in equity, before or by any federal, state, local or foreign governmental or regulatory commission, board, body, authority or agency which are required to be described in the Registration Statement or the Prospectus but are not so described;

(xvii) the Company is not and, after giving effect to the offering and sale of the Shares and the application of the proceeds thereof as described in the Registration Statement and the Prospectus, will not be required to register as an "investment company" as such term is defined in the Investment Company Act;

(xviii) the information in the Registration Statement and the Prospectus under the headings “Description of capital stock” and “Material U.S. tax consequences to non-U.S. holders,” insofar as such statements constitute a summary of documents or matters of law, and those statements in the Registration Statement and the Prospectus that are descriptions of contracts, agreements or other legal documents or of legal proceedings, or refer to statements of law or legal conclusions, are accurate in all material respects and present fairly the information required to be shown;

(xix) no person has the right, pursuant to the terms of any contract, agreement or other instrument described in or filed as an exhibit to the Registration Statement or otherwise known to us, to cause the Company to register under the Act any shares of Common Stock or shares of any other capital stock or other equity interest of the Company, or to include any such shares or interest in the Registration Statement or the offering contemplated thereby, whether as a result of the filing or effectiveness of the Registration Statement or the sale of the Shares as contemplated thereby or otherwise;

(xx) the Underwriting Agreement, the Power of Attorney and the Custody Agreement have been duly executed and delivered by or on behalf of the Selling Stockholder;

(xxi) the Selling Stockholder has obtained any authorization or approval required by U.S. federal or state law (other than those imposed by the Act and the securities or blue sky laws of certain states in the United States), to sell, assign, transfer and deliver the Shares to be sold by the Selling Stockholder in the manner provided in the Underwriting Agreement;

(xxii) upon the payment for and transfer of the Shares to be sold by the Selling Stockholder in accordance with the Underwriting Agreement, the Underwriters will acquire a security entitlement with respect to such Shares and no action based on an adverse claim may be asserted against the Underwriters;

(xxiii) each of the Representatives of the Selling Stockholder has been duly authorized by the Selling Stockholder to execute and deliver on behalf of the Selling Stockholder the Underwriting Agreement and any other document necessary or desirable in connection with the transactions contemplated thereby and to deliver the Shares to be sold by the Selling Stockholder;

(xxiv) to our knowledge, the statements in the Prospectus under the caption “Principal and selling stockholders” insofar as such statements constitute a summary of the matters referred to therein present fairly the information called for with respect to such matters; and

(xxv) under the laws of the State of New York relating to submission to jurisdiction, the Selling Stockholder, pursuant to Section 15 of the Underwriting Agreement, has (i) validly and irrevocably submitted to the personal jurisdiction

of the courts of the State of New York located in the City and County of New York and the United States District Court for the Southern District of New York, in any action arising out of or related to the Underwriting Agreement, (ii) to the fullest extent permitted by law, validly and irrevocably waived any objection to the venue of a proceeding in any such court, and (iii) validly appointed CT Corporation System at its offices located at 111 Eighth Street, New York, New York 10021 as its authorized agent for the purpose described in Section 15 of the Underwriting Agreement; and service of process effected in the manner set forth in Section 15 of the Underwriting Agreement will be effective to confer valid personal jurisdiction over the Selling Stockholder in any such action, provided notice thereof is given promptly to the Selling Stockholder.

In addition, we have participated in conferences with officers and other representatives of the Company, representatives of the independent public accountants of the Company and representatives of the Underwriters at which the contents of the Registration Statement and the Prospectus were discussed and, although we are not passing upon and do not assume any responsibility for the accuracy, completeness or fairness of the statements contained in the Registration Statement or the Prospectus (except as and to the extent stated in enumerated paragraphs (vi), (viii) and (xviii) above), and have not made independent investigation of those statements, on the basis of the foregoing nothing has come to our attention that causes us to believe that the Registration Statement or any amendment thereto (including the Exchange Act Documents), at the time such Registration Statement or amendment became effective, contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading, or that the Prospectus (including the Exchange Act Documents) or any supplement thereto at the date of such Prospectus or such supplement, contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading (it being understood that we express no opinion with respect to the financial statements and related notes and schedules and other financial data or statistical data derived therefrom included or incorporated by reference in or omitted from the Registration Statement or the Prospectus or any supplement or amendment thereto).

In rendering the opinions set forth in paragraphs (i) and (ii) above as to the good standing of the Company and as to qualification by it to do business as a foreign corporation, we relied without independent verification exclusively on the Opinion Certificates and certificates of public officials.

In connection with the opinion in paragraph (vi) above relating to the capitalization of the Company, we draw your attention to (i) the fact that the articles of incorporation of Diodes Incorporated, a California corporation, contained preemptive rights and (ii) the information contained in the Prospectus under the heading "Risk factors — Our early corporate records are incomplete. As a result we may have difficulty assessing and defending against claims relating to rights to our common stock purporting to arise during periods for which our records are incomplete."

In rendering the opinion set forth in paragraph (xi) above relating to the effectiveness of the Registration Statement, we relied exclusively on the oral representation of the Commission obtained on September ___, 2005.

In rendering the opinion set forth in paragraph (xvi) above, please note that we have not conducted a docket search in any jurisdiction with respect to litigation that may be pending against the Company or any of its directors or officers.

In rendering the opinion set forth in paragraph (xxii) above, we have assumed that (i) The Depository Trust Company (“DTC”) is a “securities intermediary” as defined in Section 8-102 of the Uniform Commercial Code as in effect in the State of New York (the “New York UCC”), and the State of New York is the “securities intermediary’s jurisdiction” of DTC for purposes of Section 8-110 of the New York UCC, (ii) the Shares to be sold by the Selling Stockholder are registered in the name of DTC or its nominee, and DTC or another person on behalf of DTC maintains possession of certificates representing those Shares, (iii) DTC indicates by book entries on its books that security entitlements with respect to the Shares to be sold by the Selling Stockholder have been credited to the Underwriters’ securities accounts and (iv) the Underwriters are purchasing the Shares to be sold by the Selling Stockholder without notice of any adverse claim (within the meaning of the New York UCC).

In rendering the opinions set forth in paragraph (xx) and (xxiii), we have relied without independent investigation exclusively on (i) the Power of Attorney and assumed that each of the certifications, representations and warranties made by the Selling Stockholder therein are true and correct as if made on the date hereof and (ii) the legal opinion to you of Huang & Partners Law Offices, special counsel to the Selling Stockholder, to the effect that the Transaction Documents have been duly executed and delivered by or on behalf of the Selling Stockholder and each of the Representatives of the Selling Stockholder has been duly authorized to execute and deliver on behalf of the Selling Stockholder the Transaction Documents.

In addition to the foregoing, the opinions expressed above are subject to the following limitations, exceptions, qualifications and assumptions:

1. We assumed that no party to the Underwriting Agreement will in the future take any discretionary action (including a decision not to act permitted by the Underwriting Agreement) that would cause the performance of the Underwriting Agreement to violate any applicable law, statute, rule or regulation; constitute a violation or breach of or default under any of the Contracts; or require an order, consent, permit or approval to be obtained from any government authority.

2. We express no opinion as to compliance with any federal or state antitrust statutes, rules or regulations, including without limitation the Hart-Scott-Rodino Antitrust Improvements Act of 1976.

3. We express no opinion as to whether the members of the Board of Directors of the Company have complied with their fiduciary duties in connection with the authorization and performance of the Transaction Documents, and the transactions contemplated thereby.

4. We express no opinion as to matters governed by any laws other than the laws of the State of New York, the corporate law of the State of Delaware or the federal law of the United States of America. We express no opinion as to the laws of any other jurisdiction nor as to the statutes, administrative decisions, rules, regulations or requirements of any county, municipality, subdivision or local authority of any jurisdiction. We express no opinion as to whether the laws of any jurisdiction are applicable to the Transaction Documents or the transactions contemplated thereby.

5. We express no opinion as to matters governed by federal and state laws and regulations governing: usury; broker-dealers, investment companies (except as set forth in paragraph (xvi)), and investment advisers; insurance; labor, employment (including, but not limited to, the Americans with Disabilities Act) and pension and employee benefits; antitrust and unfair competition; escheat; health and safety, environmental protection and hazardous substances; taxation (except as set forth in paragraph (xviii) above); or patents, copyrights, trademarks, trade names and other intellectual property rights.

This opinion is rendered as of the date first written above solely for your benefit in connection with the Underwriting Agreement and may not be relied on by you for any other purpose, or relied upon by, or furnished to, any other person without our prior written consent in each instance. Our opinion is expressly limited to the matters set forth above and we render no opinion, whether by implication or otherwise, as to any other matters relating to the Company or the Selling Stockholder. We assume no obligation to inform you of any facts, circumstances, events or changes in the law that may hereafter be brought to our attention that may alter, affect or modify the opinions expressed herein.

EXHIBIT C

**OPINION OF BLACKWELL SANDERS PEPER MARTIN LLP
SPECIAL COUNSEL TO FABTECH**

We have acted as counsel for FabTech Incorporated, a Delaware corporation (the “Client”) in connection with the transactions (collectively, the “Transaction”) contemplated under that certain Underwriting Agreement dated as of September __, 2005 (the “Underwriting Agreement”) among Diodes Incorporated (“Diodes”), and Lite-On Semiconductor Corporation as selling stockholder, and UBS Securities LLC, A.G. Edwards & Sons, Inc., C.E. Unterberg, Towbin, LLC, Raymond James & Associates, Inc. and WR Hambrecht + Co, LLC, as representatives of the Underwriters named in Schedule A to the Underwriting Agreement. All capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Underwriting Agreement.

Section 1. In rendering this opinion we have examined the following documents:

1. The Underwriting Agreement;
2. The Registration Statement;
3. The Prospectus; and
4. The certificate dated September __, 2005 of the Client (the “Client Certificate”) attached hereto;

The documents identified in Items 1-3 are referred to herein as the “Transaction Documents.”

In rendering the following opinions, as to factual matters that affect our opinions, we have, with your approval, relied on (and assumed the accuracy of) certificates, statements and other representations of the Client and others including certificates of public officials (the “Public Documents”). We have also reviewed the organizational documents of the Client, including its Certificate of Incorporation and Bylaws.

Section 2. Based on the foregoing and in reliance thereon and on the assumptions and subject to the qualifications and limitations set forth in this opinion, we are of the opinion that:

2.1. The Client is a corporation organized, validly existing and in good standing under the laws of the State of Delaware with corporate power and authority to own, lease and operate its properties and to conduct its business, as they are described in the Registration Statement and Prospectus.

2.2. The Client is qualified to do business as a foreign corporation and is in good standing in each jurisdiction where the ownership or leasing of its property or the conduct of its business, as described in the Registration Statement and Prospectus, requires such

qualification except where the failure to so qualify would not, individually or in the aggregate, have a Material Adverse Effect.

2.3. To our knowledge, there is no action, suit, litigation, proceeding, inquiry or investigation at law or in equity or by or before any judicial or administrative court, public agency, body or other entity, pending or, threatened against or affecting the Client; or property or assets of the Client, which are required to be described in the Registration Statement or Prospectus, but are not so described.

2.4 The execution, delivery and performance of the Underwriting Agreement by Diodes, the issuance and sale of the Shares by Diodes and the consummation by Diodes of the transactions contemplated thereby do not and will not conflict with, result in any breach or violation of or constitute a default under (nor constitute any event which with notice, lapse of time or both would result in any breach of or constitute a default under) the Certificate of Incorporation or By-laws of the Client, or any indenture, mortgage, deed of trust, bank loan or credit agreement or other evidence of indebtedness, or any license, lease, contract or other agreement or instrument filed as an exhibit to the Registration Statement or Diodes' most recent Annual Report on Form 10-K, Diodes' Quarterly Reports on Form 10-Q for the quarters ended March 31, 2005 and June 30, 2005 or other current Reports on Form 8-K of Diodes incorporated by reference in the Prospectus, to which the Client is a party or by which it or any of its properties or assets may be bound or affected which have been identified in the Client Certificate or any decree, judgment or order applicable to the Client which has been identified in the Client Certificate.

2.5. All of the outstanding shares of capital stock of the Client have been duly authorized and validly issued, are fully paid and non-assessable and, except as otherwise stated in the Registration Statement and the Prospectus, are owned by Diodes, and to our knowledge, no options, warrants or other rights to purchase, agreements or other obligations to issue or other rights to convert any obligation into shares of capital stock or ownership interests in the Client are outstanding;

Section 3. Our opinions are based on the assumptions (upon which we have relied with your consent) and subject to the qualifications and limitations, set forth in this letter, including the following:

3.1. We express no opinion as to any laws other than the federal laws of the United States, the laws of the state of Missouri and the General Corporation Law of the State of Delaware. We express no opinion as to the effect on the transaction of local law which shall include charters, ordinances, administrative opinions and rules and regulations of cities, counties, towns, municipalities and special political subdivisions (whether created or enabled through legislative action at the federal, state or regional level).

3.2. With respect to the opinion in Paragraph 2.5, our investigation has been limited solely to a review of Client's Certificate of Incorporation and Bylaws, and copies of the minutes of the Client's Board of Directors, stock ledger and stock transfer book (the "Client Documents") furnished to us by the Client. We have assumed that the Client Documents are

true, accurate and complete, accurately reflect the actions they purport to evidence, and that any consideration for stock issued by the Client was in fact duly paid and received.

3.3. As to matters of fact, we have assumed all representations of the Client and the other parties in the Transaction Documents are true. When an opinion is stated to be “to our knowledge” or other words of similar import appear, the language refers to the actual knowledge of the attorneys within our firm who have rendered legal services in connection with our preparation of this opinion or who have been involved in substantive legal representation of the Client and does not indicate or imply any investigation or inquiry, of the Client or others, on our part except as otherwise expressly stated.

3.4 We express no opinion with respect to the application or effect of the securities or environmental laws, regulations or codes of the State of Missouri or any other jurisdiction, except as set forth in Paragraph 2.3.

3.5 Our review of the Registration Statement and Prospectus was limited in its entirety to those portions of the Registration Statement and Prospectus describing the properties and the business of the Client, and only to the extent necessary to provide the opinion in Paragraph 2.1. No further opinion with regard to the Registration Statement or Prospectus is expressed.

3.6. This opinion is limited to the matters specifically stated in this letter, and no further opinion is to be implied or may be inferred beyond the opinions specifically stated herein. Unless otherwise stated herein, we have made no independent investigation regarding factual matters. This opinion is based solely on the state of the law as of the date of this opinion, and we specifically disclaim any obligation to monitor any of the matters stated in this opinion or to advise the persons entitled to rely on this opinion of any change in law or fact after the date of this opinion which might affect any of the opinions stated herein.

This opinion is rendered solely for your benefit and the benefit of your counsel, in connection with the Transaction and may not be released to or relied upon by any other person or for any other purpose without our prior written consent.

EXHIBIT D

**OPINION OF SHANGHAI DUAN & DUAN LAW FIRM
SPECIAL CHINA COUNSEL TO THE COMPANY**

We have acted as special China counsel for Diodes Incorporated (the "Company") and its subsidiaries Shanghai KaiHong Electronics Co., Ltd. and Shanghai KaiHong Technology Electronic Co., Ltd., limited liability companies organized under the laws of the People's Republic of China (the "Subsidiaries") in connection with the Underwriting Agreement dated September ____, 2005 among the Company, Lite-On Semiconductor Corporation, a Taiwanese corporation, and UBS Securities LLC, A.G. Edwards & Sons, Inc., C.E. Unterberg, Towbin, LLC, Raymond James & Associates, Inc. and WR Hambrecht + Co, LLC as representatives of the underwriters named therein (the "Agreement") relating to the issuance and sale of an aggregate of 2,500,000 shares of common stock, par value U.S.\$0.66-2/3 per share, of the Company. Capitalized terms used in this opinion as defined terms which are not otherwise defined herein but which are defined in the Agreement shall have the same meanings herein as are given to them in the Agreement.

In rendering this opinion, we have conducted investigations in and collected documents from the relevant administrations of industry and commerce in charge of registration of the Subsidiaries respectively. In examinations of the aforesaid documents, we have assumed, without independent investigation, the genuineness of all signatures, the legal capacity of all natural persons who have executed any documents, the authenticity of all original documents, and the conformity to original documents of all documents as copies. In addition, we have examined, and have relied as to matters of fact upon, originals, or duplicates or certified or conformed copies, of such corporate records, agreements, documents and other instruments and such certificates or comparable documents or oral statements of public officials and of officers and representatives of the Subsidiaries and have made such other investigations, as we have deemed relevant and necessary, in connection with the opinions hereinafter set forth.

Based upon the foregoing, we are of the opinion as follows:

(i) each of the Subsidiaries has been duly organized and is validly existing in good standing under the laws of its jurisdiction of incorporation, with full corporate power and authority to own, lease and operate its properties and to conduct its business as described in their business licenses issued by the Administration of Industry and Commerce of the People's Republic of China (each, a "Business License");

(ii) each of the Subsidiaries is duly qualified to do business as a Chinese corporation and each of the Subsidiaries has taken all necessary action to ensure that they can validly conduct their business in all jurisdictions that they currently do business in. To our knowledge there are no restrictions or prohibitions imposed on the Subsidiaries under any jurisdiction which prevent them from doing business in such jurisdictions;

(iii) all of the registered capital of each of the Subsidiaries has been duly approved, is fully paid and nonassessable and is 95% owned by the Company, in each case subject to no security interest, other encumbrance or adverse claim; and to our knowledge, no options, warrants or other rights to purchase, agreements or other obligations to issue or other rights to convert any obligation into shares of the registered capital or ownership interests in the Subsidiaries are outstanding;

(iv) the execution, delivery and performance of the Agreement by the Company, the issuance and sale of the Shares by the Company and the consummation by the Company of the transactions contemplated hereby do not conflict with, result in any breach or violation of or constitute a default under (nor constitute any event which with notice, lapse of time or both would result in any breach of or constitute a default under) the Business License or articles of association of either of the Subsidiaries, or any indenture, mortgage, deed of trust, bank loan or credit agreement or other evidence of indebtedness, or any license, lease, contract or other agreement or instrument to which either of the Subsidiaries is a party or by which either of them or any of their respective properties or assets may be bound or affected, or any law of the People's Republic of China, regulation or rules of state or local governments, or any decree, judgment or order applicable to either of the Subsidiaries;

(v) to our knowledge, neither of the Subsidiaries is in breach or violation of or in default under (nor has any event occurred which with notice, lapse of time or both would result in any breach of, or constitute a default under or give the holder of any indebtedness (or a person action on such holder's behalf) the right to require the repurchase, redemption or repayment of all or a part of such indebtedness under) its respective Business License or articles of association, or any indenture, mortgage, deed of trust, bank loan or credit agreement or other evidence of indebtedness, or any license, lease, contract or other agreement or instrument to which either of the Subsidiaries is a party or by which either of them or any of their respective properties or assets may be bound or affected, or any law of the People's Republic of China, regulation or rules of state or local governments, or any decree, judgment or order applicable to either of the Subsidiaries;

(vi) to our knowledge, there are no actions, suits, claims, investigations or proceedings pending, threatened or contemplated to which either of the Subsidiaries or any of their respective directors or officers is a party or to which any of their respective properties or assets is subject at law, before or by any national, provincial or local governmental or regulatory commission, board, body, authority or agency of the People's Republic of China; and

(vii) the information in the Registration Statement and the Prospectus under the heading "Risk factors — We may not continue to receive preferential tax treatment in China, thereby increasing our income tax expense and reducing our net income." and "Management's discussion and analysis of financial condition

and results of operations — Overview — Financial operations overview — Income tax provision,” insofar as such statements constitute a summary of Chinese tax laws and applicable tax rates related to each Subsidiary, they are accurate and fair statements of such information and to our knowledge the Subsidiaries’ activities of paying taxes are not so far challenged by related Chinese tax authorities.

We are admitted to practice only in the People’s Republic of China and express no opinion as to matters governed by any laws other than the laws of the People’s Republic of China.

This opinion is given as of the date hereof and is expressly limited to the matters stated herein. No opinion is implied or may be inferred beyond what is expressly stated in this letter. We disclaim any duty to supplement this opinion by reason of any change occurring after the date hereof in law or facts.

This opinion is rendered solely for your benefit and solely in connection with the closing of the transaction contemplated by the Agreement; it may not be relied upon by you for any other purpose, nor may it be furnished to, quoted to or relied upon by any other person or entity.

EXHIBIT E

**OPINION OF HUANG & PARTNERS LAW FIRM
SPECIAL TAIWAN COUNSEL TO THE COMPANY**

We have acted as special Republic of China (Taiwan) (“Taiwan”) counsel for Diodes Incorporated (the “Company”) and its subsidiary DII Taiwan Corporation Limited (“Diodes-Taiwan”), a corporation organized under the laws of the Taiwan, in connection with the Underwriting Agreement, dated September ____, 2005, among the Company, Lite-On Semiconductor Corporation, a Taiwanese corporation, and UBS Securities LLC, A.G. Edwards & Sons, Inc., C.E. Unterberg, Towbin, LLC, Raymond James & Associates, Inc. and WR Hambrecht + Co., LLC as representatives of the underwriters named therein (the “Agreement”) relating to the issuance and sale of an aggregate of 2,500,000 shares of common stock, par value U.S.\$0.66-2/3 per share, of the Company. Capitalized terms used in this opinion as defined terms, which are not otherwise defined herein, shall have the same meanings herein as are given to them in the Agreement. This opinion is being delivered to you in connection with the Agreement.

(i) Diodes-Taiwan has been duly organized and is validly existing in good standing under the laws of Taiwan, with full corporate power and authority to own, lease and operate its properties and to conduct its business as described in the Registration Statement and the Prospectus;

(ii) Diodes-Taiwan is duly qualified to do business as a foreign corporation and is in good standing in each jurisdiction where the ownership or leasing of its properties or the conduct of its business requires such qualification, except where the failure to be so qualified and in good standing would not, individually or in the aggregate, have a Material Adverse Effect;

(iii) All of the outstanding shares of capital stock of Diodes-Taiwan have been duly authorized and validly issued, are fully paid and non-assessable and, except as otherwise stated in the Registration Statement and the Prospectus, are owned by the Company, in each case subject to no security interest, other encumbrance or adverse claim; and to such counsel’s knowledge, no options, warrants or other rights to purchase, agreements or other obligations to issue or other rights to convert any obligation into shares of capital stock or ownership interests in Diodes-Taiwan are outstanding;

(iv) The execution, delivery and performance of the Agreement by the Company, the issuance and sale of the Shares by the Company and the consummation by the Company of the transactions contemplated hereby do not and will not conflict with, result in any breach or violation of or constitute a default under (nor constitute any event which with notice, lapse of time or both would result in any breach of or constitute a default under) Diodes-Taiwan’s business license issued by the Department of Commerce of the Ministry of Economy of Taiwan (the “Business License”) or the articles of association of Diodes-Taiwan, or any indenture, mortgage, deed of trust, bank loan or credit

agreement or other evidence of indebtedness, or any license, lease, contract or other agreement or instrument to which Diodes-Taiwan is a party or by which it or any of its properties or assets may be bound or affected, or any federal, state or local law, regulation or rule of Taiwan, or any decree, judgment or order applicable to it;

(v) To our knowledge, Diodes-Taiwan is not in breach or violation of or in default under (nor has any event occurred which with notice, lapse of time, or both would result in any breach of, or constitute a default under or give the holder of any indebtedness (or a person acting on such holder's behalf) the right to require the repurchase, redemption or repayment of all or a part of such indebtedness under) its Business License or articles of association, or any indenture, mortgage, deed of trust, bank loan or credit agreement or other evidence of indebtedness, or any license, lease, contract or other agreement or instrument to which Diodes-Taiwan is a party or by which it or any of its properties or assets may be bound or affected, or any federal, state, local or foreign law, regulation or rule or any decree, judgment or order applicable to Diodes-Taiwan; and

(vi) To our knowledge, there are no actions, suits, claims, investigations or proceedings pending, threatened or contemplated to which Diodes-Taiwan or any of its directors or officers is a party or to which any of its properties or assets is subject at law or in equity, before or by any federal, state or local governmental or regulatory commission, board, body, authority or agency of Taiwan.

We are admitted to practice only in the Republic of China (Taiwan) and express no opinion as to matters governed by any laws other than the laws of the Republic of China (Taiwan).

This opinion is given as of the date hereof and is expressly limited to the matters stated herein. No opinion is implied or may be inferred beyond what is expressly stated in this letter. We disclaim any duty to supplement this opinion by reason of any change occurring after the date hereof in law or facts.

This opinion is rendered solely for your benefit and solely in connection with the closing of the transaction contemplated by the Agreement; it may not be relied upon by you for any other purpose, nor may it be furnished to, quoted to or relied upon by any other person or entity.

EXHIBIT F

**OPINION OF PATRICK K.M. LAM & CO.
SPECIAL HONG KONG COUNSEL TO THE COMPANY**

We have acted as special Hong Kong counsel for Diodes Incorporated (the "Company") and its subsidiary for Diodes Hong Kong Limited, a company organized under the laws of Hong Kong ("Diodes Hong Kong") in connection with the Underwriting Agreement dated September __, 2005 among the Company, Lite-On Semiconductor Corporation, a Taiwanese corporation, and UBS Securities LLC, A.G. Edwards & Sons, Inc., C.E. Unterberg, Towbin, LLC, Raymond James & Associates, Inc. and WR Hambrecht + Co, LLC as representatives of the underwriters named therein (the "Agreement") relating to the issuance and sale of an aggregate of 2,500,000 shares of common stock, par value U.S.\$0.66-2/3 per share, of the Company. Capitalized terms used in this opinion as defined terms which are not otherwise defined herein but which are defined in the Agreement shall have the same meanings herein as are given to them in the Agreement. This opinion is being delivered to you in connection with the Agreement, we opine that:-

1. Diodes Hong Kong has been duly organized and is validly existing in good standing under the laws of Hong Kong, with full corporate power and authority to own, lease and operate its properties and to conduct its business as described in the Registration Statement and the Prospectus;
2. Diodes Hong Kong is duly qualified to do business as a foreign corporation and are in good standing in each jurisdiction where the ownership or leasing of its properties or the conduct of its business requires such qualification, except where the failure to be so qualified and in good standing would not, individually or in the aggregate, have a Material Adverse Effect;
3. All of the issued and outstanding shares of capital stock of Diodes Hong Kong have been duly authorized and validly issued, are fully paid and non-assessable and, except as otherwise stated in the Registration Statement and the Prospectus, are owned by Diodes Incorporated ("the Company"), in each case subject to no security interest, other encumbrance or adverse claim; and to our knowledge, no options, warrants or other rights to purchase, agreements or other obligations to issue or other rights to convert any obligation into shares of capital stock or ownership interests in Diodes Hong Kong are outstanding;
4. The execution, delivery and performance of the Underwriting Agreement by the Company, the issuance and sale of the Shares by the Company and the consummation by the Company of the transactions contemplated hereby do not and will not conflict with, result in any breach or violation of or constitute a default under (nor constitute any event which with notice, lapse of time or both would result in any breach of or constitute a default under) the charter or by-laws (or equivalent constitutive documents) of Diodes Hong Kong, or any indenture, mortgage, deed of trust, bank loan or credit agreement or other evidence of indebtedness, or any license, lease, contract or other agreement or instrument to which Diodes Hong Kong is a party or by which it or any of its properties or assets may be bound or affected,

or any federal, state or local law, regulation or rule of Hong Kong, or any decree, judgment or order applicable to it;

5. To our knowledge, Diodes Hong Kong is not in breach or violation of or in default under (nor has any event occurred which with notice, lapse of time, or both would result in any breach of, or constitute a default under or give the holder of any indebtedness (or a person acting on such holder's behalf) the right to require the repurchase, redemption or repayment of all or a part of such indebtedness under) its charter or by-laws, or any indenture, mortgage, deed of trust, bank loan or credit agreement or other evidence of indebtedness, or any license, lease, contract or other agreement or instrument to which Diodes Hong Kong is a party or by which it or any of its properties or assets may be bound or affected, or any federal, state, local or foreign law, regulation or rule or any decree, judgment or order applicable to it; and

6. To our knowledge, there are no actions, suits, claims, investigations or proceedings pending, threatened or contemplated to which Diodes Hong Kong or any of its directors or officers is a party or to which any of its properties or assets is subject at law or in equity, before or by any federal, state or local governmental or regulatory commission, board, body, authority or agency of Hong Kong.

We are admitted to practice only in Hong Kong and express no opinion as to matters governed by any laws other than the laws of the Hong Kong.

This opinion is given as of the date hereof and is expressly limited to the matters stated herein. No opinion is implied or may be inferred beyond what is expressly stated in this letter. We disclaim any duty to supplement this opinion by reason of any change occurring after the date hereof in law or facts.

This opinion is rendered solely for your benefit and solely in connection with the closing of the transaction contemplated by the Agreement; it may not be relied upon by you for any other purpose, nor may it be furnished to, quoted to or relied upon by any other person or entity.

EXHIBIT G

**OPINION OF HUANG & PARTNERS LAW FIRM
SPECIAL TAIWAN COUNSEL TO THE SELLING STOCKHOLDER**

We have acted as special Republic of China (Taiwan) (“Taiwan”) counsel for Lite-On Semiconductor Corporation (the “Selling Stockholder”), a corporation organized under the laws of the Taiwan, in connection with the Underwriting Agreement, dated [_____], 2005, among Diodes Incorporated, a Delaware corporation, the Selling Stockholder and UBS Securities LLC, A.G. Edwards & Sons, Inc., C.E. Unterberg, Towbin, LLC, Raymond James & Associates, Inc. and WR Hambrecht + Co, LLC as representatives of the underwriters named therein (the “Agreement”) relating to the issuance and sale of an aggregate of 2,500,000 shares of common stock, par value U.S.\$0.66-2/3 per share (the “Common Stock”), of the Company, including the sale of 750,000 shares of Common Stock by the Selling Stockholder. Capitalized terms used in this opinion as defined terms, which are not otherwise defined herein, shall have the same meanings herein as are given to them in the Agreement. This opinion is being delivered to you in connection with the proposed Agreement.

(i) The Selling Stockholder has been duly organized and is validly existing as a corporation in good standing under the laws of Taiwan, with full corporate power and authority to own, lease and operate its properties and conduct its business in Taiwan;

(ii) The Agreement, the Power of Attorney and the Custody Agreement have been duly authorized, executed and delivered by or on behalf of the Selling Stockholder;

(iii) The Selling Stockholder is, and at the time of purchase will be, the lawful owner of the Shares to be sold by the Selling Stockholder pursuant to this Agreement, free and clear of all security interests, mortgages, pledges, liens and encumbrances and has full legal right and power, and has obtained any authorization or approval required by law (other than those imposed by United States Federal and state securities laws), to sell, assign, transfer and deliver the Shares to be sold by the Selling Stockholder in the manner provided in the Agreement;

(iv) Each of the Representatives of the Selling Stockholder has been duly authorized by the Selling Stockholder to execute and deliver on behalf of the Selling Stockholder the Agreement and any other document necessary or desirable in connection with the transactions contemplated thereby and to deliver the Shares to be sold by the Selling Stockholder;

(v) The execution, delivery and performance of the Agreement by the Selling Stockholder, the sale of the Shares by the Selling Stockholder and the consummation by the Selling Stockholder of the transactions contemplated thereby do not and will not conflict with, result in any breach or violation of or constitute a default under (nor constitute any event which with notice, lapse of

time or both would result in any breach of or constitute a default under) the Selling Stockholder's business license (issued by the Department of Commerce of the Ministry of Economy of Taiwan) or the articles of association of the Selling Stockholder, or any indenture, mortgage, deed of trust, bank loan or credit agreement or other evidence of indebtedness, or any license, lease, contract or other agreement or instrument to which the Selling Stockholder is a party or by which it or any of its properties or assets may be bound or affected, or any Taiwan state or local law, regulation or rule or any decree, judgment or order applicable to the Selling Stockholder;

(vi) There is no tax, duty, levy, impost, deduction, charge or withholding imposed on, or to such counsel's knowledge, pending or proposed by Taiwan or any political subdivision or taxing authority thereof or therein or any federation or organization or similar entity of which Taiwan is a member to the Underwriters in the capacity of taxpayers on or by virtue of the Selling Stockholder's execution, delivery, performance or enforcement of the Agreement or any document to be furnished thereunder;

(vii) The submission by the Selling Stockholder to the jurisdiction of the New York State, and U.S. federal, courts specified in Section 15 of the Agreement constitute valid and legally binding obligations of the Selling Stockholder, and service of process effected in the manner set forth in Section 15 of the Agreement, assuming validity under the laws of the State of New York, will be effective to confer valid personal jurisdiction over the Selling Shareholder under the laws of Taiwan; and

(viii) The Agreement is in proper legal form for enforcement against the Selling Stockholder in Taiwan. To ensure the legality, validity, enforceability or admissibility in evidence of the Agreement in Taiwan, it is not necessary that it be filed or recorded or enrolled with any court or authority in Taiwan or that any stamp, registration or similar tax be paid in Taiwan, other than court costs, including filing fees and deposits to guarantee judgment required by Taiwanese law and regulations. Any Underwriter in respect of the Agreement is entitled to sue as plaintiff in the Taiwanese courts for the enforcement of its respective rights against the Selling Stockholder.

We are admitted to practice only in the Republic of China (Taiwan) and express no opinion as to matters governed by any laws other than the laws of the Republic of China (Taiwan).

This opinion is given as of the date hereof and is expressly limited to the matters stated herein. No opinion is implied or may be inferred beyond what is expressly stated in this letter. We disclaim any duty to supplement this opinion by reason of any change occurring after the date hereof in law or facts.

This opinion is rendered solely for your benefit and solely in connection with the closing of the transaction contemplated by the Agreement; it may not be relied upon by you for

any other purpose, nor may it be furnished to, quoted to or relied upon by any other person or entity.

EXHIBIT H

OFFICERS' CERTIFICATE

Each of Keh-Shew Lu, President and Chief Executive Officer, and Carl C. Wertz, Chief Financial Officer, Secretary and Treasurer of Diodes Incorporated, a Delaware corporation (the "Company") does hereby certify on behalf of the Company as follows:

1. I have reviewed the Registration Statement and the Prospectus.
2. The representations and warranties of the Company as set forth in this Agreement are true and correct as of the time of purchase and, if applicable, the additional time of purchase.
3. The Company has performed all of its obligations under this Agreement as are to be performed at or before the time of purchase and at or before the additional time of purchase, as the case may be.
4. The conditions set forth in paragraphs (k) and (l) of Section 8 of this Agreement have been met.
5. The financial statements and other financial information included in the Registration Statement and the Prospectus fairly present in all material respects the financial condition, results of operations, and cash flows of the Company as of, and for, the periods presented in the Registration Statement.

IN WITNESS WHEREOF, I have signed this certificate on behalf of the Company.

Dated: _____, 2005

Name: Keh-Shew Lu
Title: President and Chief Executive Officer

Name: Carl Wertz
Title: Chief Financial Officer, Secretary and Treasurer

CERTIFICATE OF INCORPORATION
OF
DIODES INCORPORATED

FIRST: The name of the corporation (hereinafter called the "Company") is DIODES INCORPORATED.

SECOND: The registered office of the Company in the State of Delaware is located at 100 West Tenth Street, in the City of Wilmington, in the County of New Castle. The name of its registered agent at that address is The Corporation Trust Company.

THIRD: The nature of the business, or objects or purposes to be transacted, promoted, or carried on are as follows:

(1) To engage in the business of manufacturing solid state and electric devices.

(2) To do everything necessary, proper, advisable, or convenient for the accomplishment of the purposes hereinabove set forth, and to do all other things incidental thereto connected therewith, which are not forbidden by statute or by this Certificate of Incorporation.

(3) To engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware.

(4) To carry out the purposes hereinabove set forth in any state, territory, district or possession of the United States, or in any foreign country, to the extent that such purposes are not forbidden by the law of such state, territory, district or possession of the United States, or by such foreign country; and, in the case of any state or territory, district or possession of the United States, or any foreign country, in which one or more of such purposes are forbidden by law.

to limit the purpose or purposes for which the company proposes to carry on in such state, territory, district or possession of the United States, or foreign country, to such purpose or purposes as are not forbidden by the law thereof, and any certificate for application to do business in such state, territory, district or possession of the United States, or foreign country.

FOURTH: The Company is authorized to issue a total of ten million (10,000,000) shares of all classes of stock. Of such total number of authorized shares of stock, nine million (9,000,000) shares are Common Stock, each of which shares of Common Stock has a par value of Sixty-Six and Two-Thirds Cents (\$.66-2/3), and one million (1,000,000) shares are Preferred Stock, each of which shares of Preferred Stock has a par value of One Dollar (\$1.00).

A statement of the designations of the authorized classes of stock or of any series thereof, and the powers, preferences and relative, participating, optional or other special rights, and qualifications, limitations or restrictions thereof, or of the authority of the Board of Directors to fix by resolution or resolutions such designations and other terms, is as follows:

(1) Preferred Stock:

Shares of Preferred Stock may be issued from time to time in one or more series.

The Board of Directors is hereby authorized, within the limitations and restrictions stated in this Article FOURTH, to fix by resolution or resolutions the designation of each series of Preferred Stock and the powers, preferences and relative, participating, optional or other special rights, and qualifications, limitations or restrictions thereof, including, without limiting the generality of the foregoing, such

provisions as may be desired concerning voting, redemption, dividends, dissolution or the distribution of assets, conversion or exchange, and such other subjects or matters as may be fixed by resolution or resolutions of the Board of Directors under the General Corporation Law of Delaware.

If any proposed amendment to the Certificate of Incorporation of the Company would alter or change the preferences, special rights or powers given to any one or more outstanding series of Preferred Stock, so as to affect such series adversely, or would authorize the issuance of a class or classes of stock having preferences or rights with respect to dividends or dissolution or the distribution of assets that would be superior to the preferences or rights of such series of Preferred Stock, then the holders of each such series of Preferred Stock so affected by the amendment shall be entitled to vote as a series upon such amendment, and the affirmative vote of two-thirds (2/3) of the outstanding shares of each such series shall be necessary to the adoption thereof, in addition to such other vote as may be required by the General Corporation Law of Delaware.

The number of authorized shares of Preferred Stock may be increased or decreased by the affirmative vote of the holders of a majority of the stock of the Company entitled to vote, without there being a class vote of the Preferred Stock.

(2) Common Stock:

Subject to all of the preferences and rights of the Preferred Stock or a series thereof that may be fixed by a resolution or resolutions of the Board of Directors, dividends may be paid on the Common Stock as and when declared by the Board of Directors, out of any funds of the Company legally available for the payment of such dividends.

Except as may otherwise be provided by a resolution or resolutions of the Board of Directors concerning the Preferred Stock or a series thereof, or by this Certificate of Incorporation or the General Corporation Law of Delaware, the holders of the shares of Common Stock issued and outstanding shall have and possess the exclusive right to notice of stockholders' meetings and the exclusive power to vote.

FIFTH: The name and mailing address of the incorporator is as follows:

Name	Address
----	-----
A. D. Grier	100 West Tenth Street Wilmington, Delaware

SIXTH: At all elections of Directors of the Company, each stockholder who is entitled to vote upon such election shall be entitled to as many votes as shall be equal to the number of votes which (except for this provision as to cumulative voting) he would be entitled to cast for the election of Directors with respect to his shares of stock multiplied by the number of Directors to be elected, and he may cast all of such votes for a single Director or may distribute them among the number to be voted for or for any two or more of them, as he sees fit.

SEVENTH: In furtherance and not in limitation of the powers conferred by statute, the Board of Directors is expressly authorized to make, alter or repeal the By-Laws of the Company.

EIGHTH: The Company shall indemnify any and all persons whom it has the power to indemnify pursuant to the General Corporation Law of Delaware against any and all expenses, judgments, fines, amounts paid in settlement, and any other liabilities to the fullest

extent permitted by such Law and may, at the discretion of the Board of Directors, purchase and maintain insurance, at its expense, to protect itself and such persons against any such expense, judgment, fine, amount paid in settlement or other liability, whether or not the Company would have the power to so indemnify such person under the General Corporation Law of Delaware.

I, THE UNDERSIGNED, being the incorporator, for the purpose of forming a corporation pursuant to the General Corporation Law of the State of Delaware, do make, file and record this Certificate of Incorporation, do hereby certify the facts herein stated are true, and have accordingly hereunto set my hand this 26th day of July, 1968.

/s/ A. D. Grier

STATE OF DELAWARE)
) SS.
COUNTY OF NEW CASTLE)

BE IT REMEMBERED that on this 26th day of July, 1968, personally came before me, the subscriber, a Notary Public for the State and County aforesaid, A. D. Grier, known to me personally to be such, and acknowledged the said Certificate of Incorporation to be her act and deed and that the facts therein stated are truly set forth.

GIVEN under my hand and seal of office the day and year aforesaid.

/s/ NOT LEGIBLE [ATWELL]

Notary Public

[SEAL]

AGREEMENT AND PLAN OF MERGER

AGREEMENT AND PLAN OF MERGER, dated as of the 10th day of January, 1969, pursuant to Section 4118 of the California Corporations Code, and to Section 252 of the General Corporation Law of the State of Delaware, by and between DIODES INCORPORATED, a California corporation (hereinafter sometimes called "Old Diodes") and DIODES INCORPORATED, a Delaware corporation (hereinafter sometimes called "Diodes Delaware") (the two corporate parties hereto being sometimes collectively referred to as the "Constituent Corporations"):

W I T N E S S E T H:

WHEREAS, Diodes Delaware is a corporation duly organized and existing under the laws of the State of Delaware, and pursuant to its Certificate of Incorporation is authorized to issue a total of nine million (9,000,000) shares of Common Stock, Sixty-Six and Two-Thirds Cents (\$.66-2/3) par value, or a total of Six Million Dollars (\$6,000,000) par value, and one million (1,000,000) shares of Preferred Stock, One Dollar (\$1.00) par value, or a total of One Million Dollars (\$1,000,000) par value; and

WHEREAS, Diodes Delaware has outstanding, as of the date hereof, 1,000 shares of Common Stock, all of which are owned of record and beneficially by Old Diodes and each of which is entitled to one vote and no shares of Preferred Stock; and

WHEREAS, Old Diodes is a corporation duly organized and existing under the laws of the State of California, and pursuant to its Articles of Incorporation as amended to the date hereof is authorized to issue a total

of nine million (9,000,000) shares of Capital Stock, Sixty-Six and Two-Thirds Cents (\$.66-2/3) par value, or a total of Six Million Dollars par value; and

WHEREAS, Old Diodes has outstanding as of the date hereof approximately 1,814,976-1/4 shares of its Capital Stock, each of which is entitled to one vote; and

WHEREAS, the principal and registered office of Diodes Delaware in the State of Delaware is 100 West Tenth Street, in the City of Wilmington, County of New Castle; and

WHEREAS, the principal office of Old Diodes in the State of California is located at 20235 Nordhoff Street, Chatsworth, County of Los Angeles; and

WHEREAS, the Board of Directors of Diodes Delaware has adopted resolutions declaring advisable the proposed merger (hereinafter referred to as the "merger") of Old Diodes into Diodes Delaware on the terms and conditions hereinafter set forth and approving this Agreement and Plan of Merger, and the Board of Directors of Old Diodes has by resolution adopted this Agreement and Plan of Merger, and both such Boards of Directors have directed that this Agreement and Plan of Merger be submitted to their respective stockholders at separate meetings called for the purpose of taking the same under consideration, in accordance with the applicable statutes of the State of California and Delaware.

NOW, THEREFORE, the Constituent Corporations do hereby agree to merge on the terms and conditions herein provided, as follows:

ARTICLE I

GENERAL

1.01 The corporations parties to this Agreement and Plan of Merger (hereinafter sometimes called the "Agreement"), agree to effect the merger herein provided for, subject to the terms and conditions herein set forth.

1.02 Upon the Effective Date, as defined in Section 1.08 hereof, Old Diodes shall be merged into Diodes Delaware, which latter company shall be the Surviving Corporation, governed by the laws of the State of Delaware, the name of which shall continue to be Diodes Incorporated.

1.03 The Certificate of Incorporation of Diodes Delaware in effect on the Effective Date shall, until amended, be and remain the Certificate of Incorporation of the Surviving Corporation.

1.04 The By-Laws of Diodes Delaware in effect on the Effective Date shall be and remain the By-Laws of the Surviving Corporation, until altered, amended or repealed.

1.05 Upon the Effective Date, the separate existence of Old Diodes shall cease and Old Diodes shall be merged into the Surviving Corporation. The Surviving Corporation shall, from and after the Effective Date, possess all the rights, privileges, powers, and franchises of whatsoever nature and description, as well of a public as of a private nature, and be subject to all the restrictions, disabilities and duties of each of the Constituent Corporations; and all and singular, the rights, privileges, powers and franchises of each of the Constituent Corporations, and all property, real, personal and mixed, and all debts

due to either of the Constituent Corporations or whatever account, as well for stock subscriptions as all other things in action or belonging to each of the Constituent Corporations, and every devise or bequest which either of the Constituent Corporations would have been capable of taking shall be vested in the Surviving Corporation without further act or deed; and all property, rights, privileges, powers and franchises, and all and every other interest shall be thereafter as effectually the property of the Surviving Corporation as they were of the several and respective Constituent Corporations, and the title to any real estate vested by deed or otherwise, in any of the Constituent Corporations, shall not revert or be in any way impaired by reason of such merger. All rights of creditors and all liens upon the property of the Constituent Corporations shall be preserved unimpaired, and all debts, liabilities, and duties of the Constituent Corporations shall thenceforth attach to the Surviving Corporation, and may be enforced against it to the same extent as if said debts, liabilities and duties had been incurred or contracted by it. Any claim existing or action or proceeding, whether civil, criminal or administrative, pending by or against either Constituent Corporation may be prosecuted to judgment or decree as if such merger had not taken place, or the Surviving Corporation may be substituted in such action or proceeding.

1.06 The Constituent Corporations each hereby agrees that at any time, or from time to time, as and when requested by the Surviving Corporation, or by its successors and assigns, it will execute and deliver, or cause to be executed and delivered in its name by its last acting officers, or by the corresponding officers of the Surviving Corporation, all such conveyances, assignments, transfers, deeds, or other instruments, and will take or cause to be taken such further or other

action as the Surviving Corporation, its successors or assigns may deem necessary or desirable in order to evidence the transfer, vesting or devolution of any property, right, privilege or franchise or to vest or perfect in or confirm to the Surviving Corporation, its successors and assigns, title to and possession of all of the property, rights, privileges, powers, immunities, franchises and interests referred to in this Article I and otherwise to carry out the intent and purposes hereof.

1.07 Each of the Constituent Corporations shall take, or cause to be taken, all action or do, or cause to be done, all things necessary, proper or advisable under the laws of the States of California and Delaware to consummate and make effective the merger.

1.08 Subject to the terms and conditions herein provided, as soon as practicable after the adoption of this Agreement by the shareholders of Old Diodes and Diodes Delaware, respectively, a Certificate of Merger incorporating this Agreement shall be filed under Section 4119 of the California Corporations Code with the Secretary of the State of California, and this Agreement, certified by the secretary or assistant secretary of Diodes Delaware under the seal of that corporation, shall be filed under Section 252 of the General Corporation Law of the State of Delaware with the Secretary of State of Delaware and a certified copy thereof shall be recorded in the office of the Recorder of New Castle County, Delaware, where the Certificate of Incorporation is recorded, in accordance with Section 103 of the General Corporation Law of the State of Delaware. This Agreement shall become effective at the close of business on the day (hereinafter called the "Effective Date") on which both of such filings have been completed.

ARTICLE II

CAPITAL STOCK OF THE SURVIVING CORPORATION

2.01 The manner of converting the shares of each of the Constituent Corporations into shares of the Surviving Corporation shall be as hereinafter set forth in this Article II.

2.02 Each share of the Common Stock of Diodes Delaware issued and outstanding immediately prior to the Effective Date shall be cancelled.

2.03 Each share of the Capital Stock of Old Diodes issued and outstanding immediately prior to the Effective Date, shall automatically and without any action on the part of the holder thereof, be converted, upon the Effective Date, into one share of Common Stock of Diodes Delaware. Each certificate of Old Diodes evidencing ownership of any such shares shall, from and after the effective date, evidence ownership of the same number of shares of Common Stock of Diodes Delaware. Holders of certificates representing shares of Capital Stock of Old Diodes will not be required to surrender such certificates in exchange for certificates for shares of Common Stock of Diodes Delaware. Whenever certificates which previously represented shares of Common Stock of Old Diodes are surrendered for transfer, Diodes Delaware will cause to be issued certificates representing an equal number of shares of Common Stock of Diodes Delaware, and at any time upon surrender by any holder of certificates which previously represented shares of Capital Stock of Old Diodes, Diodes Delaware will cause to be issued therefor certificates for an equal number of shares of Common Stock of Diodes Delaware.

2.04 Upon the Effective Date, Diodes Delaware shall assume all stock options granted by Old Diodes, to the extent that such options are outstanding immediately prior to the effective date, whether or not then exercisable, by substituting for the Capital Stock of Old Diodes allocable to such options shares of Common Stock of Diodes Delaware on the basis set forth in Section 2.03 hereof and on a basis which will comply with Section 425 of the Internal Revenue Code and other applicable statutes set forth in the Internal Revenue Code.

2.05 In the event that Old Diodes shall be obligated by contract immediately prior to the Effective Date to issue any shares of its Capital Stock, Diodes Delaware shall be obligated to issue in lieu thereof shares of its Common Stock on the basis set forth in Section 2.03 hereof.

ARTICLE III

STOCK OPTION PLAN; EMPLOYMENT ARRANGEMENTS;
PROFIT SHARING AND RETIREMENT PLAN;
OFFICERS AND DIRECTORS

3.01 Upon the Effective Date, Diodes Delaware shall have as stock option plan the qualified Stock Option Plan for officers and employees of Old Diodes, as amended. From and after the Effective Date the references in said Stock Option Plan (i) to "Company" shall be to Diodes Delaware, and (ii) to the "Board of Directors" and "Committee" shall be to the Board of Directors and Committee of Diodes Delaware. The Board of Directors and Committee of Diodes Delaware, upon the Effective Date, shall be vested with powers to administer said Stock Option Plan, as amended, referred to in this Section 3.01.

3.02 The employees of Old Diodes shall, upon the Effective Date, become employees of Diodes Delaware and shall continue to be entitled to benefits substantially equivalent to those which they enjoyed as employees of Old Diodes.

3.03 The directors and officers of Old Diodes in office on the Effective Date shall continue in office as, and shall be and constitute, the directors and officers of Diodes Delaware for the term elected and until their respective successors shall be elected or appointed and qualified.

ARTICLE IV
TERMINATION AND AMENDMENT

4.01 Anything herein or elsewhere to the contrary notwithstanding, this Agreement may be terminated by written notice of termination at any time before completion of the respective filings with the Secretary of State of California and the Secretary of State of Delaware referred to in Section 1.08 hereof (whether before or after approval hereof by the shareholders of the Constituent Corporations, or either of them) by appropriate resolution of the Board of Directors of Old Diodes, for any reason deemed appropriate by said Board of Directors.

ARTICLE V
MISCELLANEOUS

5.01 Descriptive headings are for convenience only and shall not control or affect the meaning or construction of any provisions of this Agreement.

5.02 This Agreement may be executed in any number of counterparts or may be, where the same are not required, certified or otherwise delivered without the testimonium clause and signatures; each such counterpart hereof shall be deemed to be an original instrument, but all such counterparts together shall constitute but one agreement.

DIODES INCORPORATED
(California)

ATTEST:

/s/ NORMAN H. KIRSHMAN

Secretary

/s/ W. LLOYD

President

DIODES INCORPORATED
INCORPORATED
JUNE 15, 1959
CALIFORNIA

DIODES INCORPORATED
(Delaware)

ATTEST:

/s/ NORMAN H. KIRSHMAN

Secretary

/s/ W. LLOYD

President

DIODES INCORPORATED
CORPORATE SEAL
1968
DELAWARE

I, NORMAN H. KIRSHMAN, Secretary of DIODES INCORPORATED, a corporation organized and existing under the laws of the State of Delaware, hereby certify, as such secretary and under the seal of the said corporation, that the Agreement of Merger to which this certificate is attached, after having been first duly signed on behalf of the said corporation and having been signed on behalf of DIODES INCORPORATED, a corporation of the State of California, was duly submitted to the stockholders of said DIODES INCORPORATED, a Delaware corporation, at a special meeting of said stockholders called and held separately from the meeting of stockholders of any other corporation after at least 20 days' notice by mail as provided by section 252 and section 251 of Title 8 of the Delaware Code of 1953 on the 25th day of September, 1968, for the purpose of considering and taking action upon the proposed Agreement of Merger; that 1,000 shares of stock of said corporation were on said date issued and outstanding; that the proposed Agreement of Merger was approved by the stockholders by an affirmative vote representing at least two-thirds of the total number of shares of the outstanding capital stock of said corporation, and that thereby the Agreement of Merger was at said meeting duly adopted as the act of the stockholders of said DIODES INCORPORATED, a Delaware corporation, and the duly adopted agreement of said corporation.

WITNESS my hand and seal of said DIODES INCORPORATED, a Delaware corporation, on this 10th day of January, 1969.

/s/ Norman H. Kirshman

NORMAN H. KIRSHMAN
Secretary

DIODES INCORPORATED
CORPORATE SEAL
1968
DELAWARE

THE ABOVE AGREEMENT OF MERGER, having been executed on behalf of each corporate party thereto, in accordance with the provisions of the General Corporation Law of the State of Delaware, and the Corporations Code of the State of California, the President of each corporate party thereto does now hereby execute the said Agreement of Merger and the Secretary of each corporate party thereto does now hereby attest the said Agreement of Merger under the corporate seals of their respective corporations, by authority of the directors and stockholders thereof, as the respective act, deed and agreement of each of said corporations, on this 10th day of January, 1969.

DIODES INCORPORATED
INCORPORATED JUNE 15, 1959
CALIFORNIA

DIODES INCORPORATED,
A California Corporation

/s/ W. LLOYD

President

ATTEST:

/s/ NORMAN H. KIRSHMAN

Secretary

DIODES INCORPORATED
(CORPORATE SEAL)
1968
DELAWARE

DIODES INCORPORATED,
A Delaware Corporation

/s/ W. LLOYD

President

ATTEST:

/s/ NORMAN H. KIRSHMAN

Secretary

STATE OF CALIFORNIA)
) SS.
COUNTY OF LOS ANGELES)

BE IT REMEMBERED that on this 10th day of January, 1969, personally came before me, a Notary Public in and for the County and State aforesaid, W. LLOYD, President of Diodes Incorporated, a corporation of the State of Delaware, and he duly executed said certificate before me and acknowledged the said certificate to be his act and deed and the act and deed of said corporation and the facts stated therein are true; and that the seal affixed to said certificate and attested by the Secretary of said corporation is the common or corporate seal of said corporation.

IN WITNESS WHEREOF, I have hereunto set my hand and seal of office the day and year aforesaid.

/s/ THELMA J. KERRIS

Notary Public

[SEAL GRAPHIC]
OFFICIAL SEAL
THELMA J. KERRIS
NOTARY PUBLIC - CALIFORNIA
PRINCIPAL OFFICE IN
LOS ANGELES COUNTY

My Commission Expires August 10, 1971

BE IT REMEMBERED that on this 10th day of January, 1969, personally came before me, a Notary Public in and for the County and State aforesaid, W. LLOYD, President of Diodes Incorporated, a corporation of the State of California, and he duly executed said certificate before me and acknowledged the said certificate to be his act and deed and the act and deed of said corporation and the facts stated therein are true; and that the seal affixed to said certificate and attested by the Secretary of said corporation is the common or corporate seal of said corporation.

IN WITNESS WHEREOF, I have hereunto set my hand and seal of office the day and year aforesaid.

Thelma J. Kerris

Notary Public

[SEAL GRAPHIC]
OFFICIAL SEAL
THELMA J. KERRIS
NOTARY PUBLIC - CALIFORNIA
PRINCIPAL OFFICE IN
LOS ANGELES COUNTY

My Commission Expires August 13, 1971

CERTIFICATE OF DESIGNATIONS, PREFERENCES
AND RIGHTS OF CLASS A PREFERRED STOCK

OF

DIODES INCORPORATED

a Delaware corporation

DIODES INCORPORATED, a corporation organized and existing under the
General Corporation Law of the State of Delaware,

DOES HEREBY CERTIFY:

That, pursuant to the authority conferred on the Board of Directors by the
Certificate of Incorporation of said corporation, and pursuant to the provisions
of Section 151 of Title 8 of the Delaware Code of 1953, said Board of Directors,
by the unanimous consent of its members filed with the minutes of the Board on
November 25, 1993, adopted the following resolutions providing for the issuance
of a series of ONE HUNDRED AND SIXTY NINE THOUSAND SIX HUNDRED AND TWENTY NINE
(169,629) shares of Preferred Stock, designated Class A Preferred Stock, and
providing for designations, relative rights, preferences, privileges and
limitations of said Class A Preferred Stock.

"RESOLVED, that this Board shall, and hereby does, authorize the issuance
to Lite-On Power Semiconductor, a Taiwan corporation of 169,629 shares of this
Corporation's authorized but unissued \$1.00 Par Value Preferred Stock,
designated Class A Preferred Stock, and

RESOLVED FURTHER, that said Class A Preferred Stock shall be issued
subject to the designations, relative

rights, preferences, privileges and limitations as set forth in the document entitled Statement of Designations, Relative Rights, Preferences, Privileges and Limitations, a copy of which follows these minutes in the Minute Book of the Company.

Attached hereto marked Exhibit "A" is a copy of the document entitled Statement of Designations, Relative Rights, Preferences, Privileges and Limitations referred to in the above resolution.

IN WITNESS WHEREOF, said DIODES INCORPORATED has caused this certificate to be signed by PEDRO P. MORILLAS, its Executive Vice President, and attested by JOSEPH LIU, its Secretary, this 15th day of June, 1995.

DIODES INCORPORATED,
a Delaware corporation

by: /s/ Pedro P. Morillas

PEDRO P. MORILLAS
Executive Vice President

ATTEST:

BY /s/ Joseph Liu

JOSEPH LIU, secretary

DIODES INCORPORATED CLASS "A" PREFERRED STOCK

STATEMENT OF DESIGNATIONS, RELATIVE RIGHTS, PREFERENCES, PRIVILEGES AND
LIMITATIONS

A. CONVERTIBILITY

(1) The shares of Class A Preferred Stock are convertible, at the option of the record holder of the shares, into shares of fully paid and nonassessable \$0.66 2/3 Par Value Common Stock of the Corporation (hereinafter the "Common Stock"). The shares of Class A Preferred Stock may be converted at any time after the conversion date set forth on the share certificate. Each share of Class A Preferred Stock may be converted into one (1) share of Common Stock.

(2) To convert shares of Class A Preferred Stock, the holder of the shares must surrender the certificate or certificates representing the shares to be converted, duly endorsed to the Corporation or in blank, at the principal office of the Corporation, and give written notice to the Corporation at that office that the holder desires to convert the shares. The notice must set forth the name, address and taxpayer identification number of the person or persons to whom a certificate or certificates representing the Common Stock of the Corporation are to be issued.

(3) Shares of Class A Preferred Stock shall be deemed to be converted at the close of business on the date of the surrender to the Corporation of the properly endorsed certificate or certificates representing the shares. The rights of the holders of the Class A Preferred Stock surrendered shall cease at that time, and the person or persons in whose name or names the certificate or certificates for the Common Stock are to be issued shall be treated for all purposes as having become record owners of the Common Stock of the Corporation at the time. However, if certificates are surrendered on a day in which the stock transfer books of the Corporation are closed, the surrender shall be deemed to have occurred on the next succeeding day on which the stock transfer books are open.

(4) The Corporation shall at all times reserve and keep available solely for the purpose of issuing upon conversion of Class A Preferred Stock the number of shares of Common Stock issuable upon conversion of all outstanding Class A Preferred Stock.

(5) At the time of conversion, the Corporation shall pay to the holder of record of any share or shares of Class A Preferred Stock surrendered for conversion any accrued and unpaid dividends on the stock.

EXHIBIT "A"

(6) The issuance of certificates for shares of Common Stock upon the conversion of Class A Preferred Stock shall be made without charge for any tax with respect to the issuance. However, if any certificate is to be issued in a name or names other than the name or names of the holder of record of Class A Preferred Stock converted, the person or persons requesting the issuance shall pay to the Corporation the amount of any tax that may be payable in connection with any transfer involved in the issuance, or shall establish to the satisfaction of the Corporation that the tax has been paid or is not due and payable.

(7) The Corporation shall not be required to issue any fractional shares of Common Stock upon the conversion of Class A Preferred Stock. If more than one share of Class A Preferred Stock is surrendered for conversion at one time by the same holder, the number of full shares of Common Stock that shall be issued upon the conversion of Class A Preferred Stock shall be computed on the basis of the aggregate number of shares of Class A Preferred Stock surrendered. If any interest in a fractional share of Common Stock would otherwise be deliverable upon the conversion of Class A Preferred Stock, the Corporation shall make adjustment for that fractional share interest by payment of an amount in cash equal to the same fraction of the market value at that time of a full share of Common Stock of the Corporation.

(8) If the Corporation subdivides or combines in a larger or smaller number of shares its outstanding shares of Common Stock, then the number of shares of Common Stock issuable upon the conversion of Class A Preferred Stock shall be proportionally increased in the case of a subdivision and decreased in the case of a combination, effective in either case at the close of business on the date that the subdivision or combination becomes effective.

(9) If the Corporation is recapitalized, is consolidated with or merged into any other corporation, or sells or conveys to any other corporation all or substantially all of its property as an entity, provision shall be made as part of the terms of the recapitalization, consolidation, merger, sale, or conveyance so that the holders of Class A Preferred Stock may receive, in lieu of the Common Stock otherwise issuable to them upon conversion of Class A Preferred Stock, at the same conversion ratio, the same kind and amount of securities or assets as may be distributable upon the recapitalization, consolidation, merger, sale, or conveyance with respect to the Common Stock.

(10) If the Corporation at any time pays to the holders of its Common Stock a dividend in Common Stock, the number of shares of Common Stock issuable upon the conversion of Class A Preferred Stock shall be proportionally increased, effective at the close of business on the record date for determination of the holders of the Common Stock entitled to the dividend.

(11) Except as provided below, if the Corporation at any

time pays any dividend or makes any distribution on its Common Stock in property other than cash or in Common Stock of the Corporation, then provision shall be made as part of the terms of the dividend or distribution so that the holders of Class A Preferred Stock surrendered for conversion after the record date for the determination of holders of Common Stock entitled to the dividend or distribution shall be entitled to receive the same proportionate share of property that they would have been entitled to receive had Class A Preferred Stock been converted immediately prior to the record date.

(12) These adjustments shall be made successively if more than one of these events occurs. However, no adjustment in the conversion ratio of Class A Preferred Stock into Common Stock shall be made by reason of

(a) the payment of a cash dividend on the Common Stock or on any other class of stock of the Corporation;

(b) the purchase, acquisition, redemption, or retirement by the Corporation of any shares of Common Stock or of any other class of stock of the Corporation, except as provided above in connection with a subdivision or combination of the outstanding Common Stock of the Corporation;

(c) the issuance, other than as provided above, of any shares of Common Stock, or of any securities of the Corporation convertible into Common Stock or into other securities of the Corporation, or of any rights, warrants or options to subscribe for or purchase shares of Common Stock or other securities of the Corporation, or of any other securities of the Corporation; provided that if the Corporation offers any of the securities or any rights, warrants or options to subscribe for or purchase any of its securities to the holders of its Common Stock, pursuant to any preemptive or preferential rights granted to the holders of Common Stock by the certificate of incorporation of the Corporation, or pursuant to any similar rights granted by the Board of Directors of the Corporation, the Corporation shall mail written notice of the offer to the holders of Class A Preferred Stock at least 20 days prior to the record date for determination of the holders of Common Stock entitled to receive the offer;

(d) the offer by the Corporation to redeem or acquire shares of its Common Stock by paying or exchanging the stock of another corporation, or the carrying out of a transaction contemplated by an offer of this nature; provided that the Corporation shall mail written notice of the offer to the holders of Class A Preferred Stock at least 20 days prior to the expiration of the offer; or

(e) the distribution of stock to holders of Common Stock of the Corporation, if the issuer of the stock distributed is at the time of the distribution engaged in a business that was previously operated as a division or subsidiary by a corporation

acquired by the Corporation and that was distinct from the principal business of the corporation acquired.

B. VOTING RIGHTS

(1) At every meeting of the stockholders of the Corporation, each holder of Class A Preferred Stock shall be entitled to one vote for each share of Class A Preferred Stock standing in the name of the holder on the books of the Corporation, with the identical voting rights as a holder of a share of Common Stock of the Corporation, except as expressly provided in these paragraphs. Except as otherwise provided by law, and except as provided in these paragraphs, the Class A Preferred Stock and any other class of stock of the Corporation having voting rights shall vote together as one class.

(2) The holders of Class A Preferred Stock are entitled to receive notice of all meetings of the stockholders of the Corporation, to the same extent and in the same manner as the holders of the Common Stock of the Corporation.

(3) At any election of directors of the Corporation in which the holders of Class A Preferred Stock are entitled to vote, each holder of Class A Preferred Stock shall have the right to cumulative voting. Each holder shall be entitled to a number of votes equal to the number of votes the holder (absent this provision for cumulative voting) would be entitled to cast in an election of directors with respect to the Class A Preferred Stock owned by the holder multiplied by the number of directors to be elected by the holders of the Class A Preferred Stock. Each holder shall be entitled to cast all of these votes for a single director, or to distribute them among the number of directors to be elected or among any two or more of them as the holder may see fit.

C. PREFERENCE ON LIQUIDATION

(1) In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Corporation, or of any reduction in the capital of the Corporation resulting in any distribution of assets to its stockholders, each holder of Class A Preferred Stock shall be entitled to receive in cash out of the assets of the Corporation, whether from capital or earnings, available for distribution to the stockholders of the Corporation, before any amount is paid to the holders of the Common Stock, the sum of \$1.00 per share for each share of Class A Preferred Stock held by the holder, plus an amount equal to the sum of all accumulated and unpaid dividends to the date fixed for the payment of the distribution on the shares of Class A Preferred Stock held by the holder.

(2) The purchase or redemption by the Corporation of any class of its stock in any manner permitted by law, the consolida-

tion or merger of the Corporation with or into one or more other corporations, or the sale or transfer by the Corporation of all or substantially all of its assets shall not, for the purposes of determining preferences on liquidation, be deemed to be a liquidation, dissolution or winding up of the Corporation or a reduction of its capital. A dividend or distribution to stockholders from net profits or surplus earned after the date of any reduction in the capital of the Corporation shall not be deemed to be a distribution resulting from the reduction in capital. No holder of Class A Preferred Stock shall be entitled to receive any amounts in connection with any liquidation, dissolution or winding up of the Corporation other than the amounts provided for in these paragraphs.

D. NO PREEMPTIVE RIGHTS

No holder of Class A Preferred Stock shall be entitled, as of right, to purchase or subscribe for any part of the unissued stock of the Corporation, or of any stock of the Corporation to be issued by reason of an increase of the authorized stock of the Corporation, to purchase or subscribe for any debentures, bonds, certificates of indebtedness or other securities convertible into or carrying options or warrants to purchase stock or other securities of the Corporation, to purchase or subscribe for any stock of the Corporation purchased by the Corporation, or to have any other preemptive rights now or hereafter defined by the laws of the State of Delaware.

E. DIVIDENDS

(1) The holders of Class A Preferred Stock are entitled, when and as declared by the Board of Directors of the Corporation out of the funds of the Corporation legally available for the payment of dividends, to a cash dividend in an amount to be determined, in its sole discretion, by the board of directors.

(2) Dividends on Class A Preferred Stock will be declared if, as and when the Board of Directors in its sole discretion deems advisable, and only out of the net profits or surplus of the Corporation as is fixed and determined by the Board of Directors in its sole discretion from time to time. The determination at any time of the amount of net profits or surplus available for dividends will be binding and conclusive on the holders of the stock of the Corporation outstanding at the time.

(3) Any declared and unpaid dividends on Class A Preferred Stock will not bear interest.

(4) In addition to the preferred dividend on Class A Preferred Stock provided for hereinabove, the holders of Class A Preferred Stock are entitled to participate with the Common Stock with respect to the declaration, payment and setting apart of

dividends, and each share of Class A Preferred Stock will be treated as if it were a share of Common Stock in connection with the declaration, payment and setting apart of dividends on the Common Stock of the Corporation.

F. CHANGES IN PREFERRED STOCK

(1) Except as provided below, and so long as any shares of Class A Preferred Stock are outstanding, the Corporation shall not change the rights, preferences or privileges of Class A Preferred Stock in any material aspect prejudicial to the holders of Class A Preferred Stock.

CERTIFICATE OF AMENDMENT
OF
CERTIFICATE OF INCORPORATION
OF
DIODES INCORPORATED

The undersigned, Carl Wertz, the Chief Financial Officer of Diodes Incorporated, a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware,

DOES HEREBY CERTIFY:

FIRST: That the first sentence of ARTICLE FOURTH of the Certificate of Incorporation be, and it hereby is, amended to read in its entirety as follows:

FOURTH: The Company is authorized to issue a total of thirty-one million (31,000,000) shares of all classes of stock. Of such total number of authorized shares of stock, thirty million (30,000,000) shares are Common Stock, each of which shares of Common Stock has a par value of Sixty-Six and Two-Thirds Cents (\$.66-2/3), and one million (1,000,000) shares are Preferred Stock, each of which shares of Preferred Stock has a par value of One Dollar (\$1.00).

SECOND: That at a meeting of the Board of Directors of Diodes Incorporated resolutions were duly adopted declaring said amendment to be advisable and calling a meeting of the stockholders of said corporation for consideration thereof.

THIRD: That thereafter, pursuant to the resolution of its Board of Directors, the annual meeting of the stockholders of said corporation was duly called and held, upon notice in accordance with Section 222 of the General Corporation Law of the State of Delaware, at which meeting the necessary number of shares as required by statute were voted in favor of said amendment.

FOURTH: That the aforesaid amendment was duly adopted in accordance with the applicable provisions of Section 242 of the General Corporation Law of the State of Delaware.

FIFTH: That the capital of said corporation shall not be reduced under or by reason of said amendment.

IN WITNESS WHEREOF, I have signed this Certificate this fifteenth day of June, 2000.

/s/ CARL WERTZ

Carl Wertz, Chief Financial Officer

State of Delaware
Secretary of State
Division of Corporations
Delivered 01:42 PM 09/02/2005
FILED 01:37 PM 09/02/2005
SRV 050725504 - 0683514 FILE

CERTIFICATE OF ELIMINATION
OF
THE CLASS A PREFERRED STOCK
OF
DIODES INCORPORATED

Diodes Incorporated, a corporation organized and existing under the laws of the State of Delaware (the "Company"), in accordance with the provisions of Section 151(g) of the General Corporation Law of the State of Delaware (the "DGCL"), hereby certifies as follows:

1. That the Certificate of Incorporation, as amended to date, of the Company authorizes 31,000,000 shares of capital stock, which consists of 30,000,000 shares of Common Stock and 1,000,000 shares of Preferred Stock.

2. That pursuant to Section 151 of the DGCL and the authority set forth in the Company's Certificate of Incorporation, the board of directors of the Company (the "Board of Directors"), by resolution duly adopted, established a series of preferred stock, \$1.00 par value per share, of the Company, designated as "Class A Preferred Stock" (the "Class A"), fixed the total number of shares of such class at 169,629, and established the powers, designations, preferences and relative, participating, optional and other special rights, and the qualifications, limitations and restrictions, of such series and filed a Certificate of Designations, Preferences and Rights of Class A Preferred Stock in the office of the Secretary of State of the State of Delaware on June 30, 1995, (the "Certificate of Designation").

3. That the Board of Directors has duly adopted the following resolutions:

RESOLVED: That as of the date hereof no shares of Class A are outstanding and no shares of Class A will be issued subject to the Certificate of Designation.

RESOLVED FURTHER: That all matters set forth in the Certificate of Designation with respect to the Class A be eliminated from the Certificate of Incorporation, as heretofore amended, of this corporation.

RESOLVED FURTHER: That all 169,629 shares of Class A shall resume the status of authorized but unissued shares of preferred stock, par value \$1.00 per share, of the Company.

RESOLVED FURTHER: That the Certificate of Elimination hereby is approved.

RESOLVED FURTHER: That each officer of this corporation hereby is authorized and directed, by and on behalf of this corporation and in its name, to execute the Certificate of Elimination and to cause the Certificate of Elimination to be filed with the Secretary of State of the State of Delaware, but with such changes therein as the officer filing the same shall deem to be necessary or advisable, the filing of the Certificate of Elimination with the Secretary of State of the State of Delaware to be conclusive evidence of the approval of any such changes.

RESOLVED FURTHER: That each officer of this corporation hereby is authorized and directed, by and on behalf of this corporation and in its name, to execute and deliver such documents and to take such other actions as such officer may deem to be necessary or advisable to effect the purposes of the foregoing resolutions.

4. That no shares of Class A are outstanding, and no shares of Class A will be issued pursuant to the Certificate of Designation.

5. That all matters set forth in the Certificate of Designation with respect to Class A be, and they hereby are, eliminated from the Certificate of Incorporation, as heretofore amended, of the Company and that, accordingly, all 169,629 shares of Class A shall resume the status of authorized but unissued shares of preferred stock, par value \$1.00 per share.

The next page is the signature page.

IN WITNESS WHEREOF, the Company has caused this Certificate of Elimination to be executed by its duly authorized officer on this first day of September, 2005.

DIODES INCORPORATED

By /s/ CARL C. WERTZ

Carl C. Wertz,
Secretary

September 7, 2005

Diodes Incorporated
3050 East Hillcrest Drive
Westlake Village, CA 91362

Re: Registration Statement on Form S-3

Ladies and Gentlemen:

We have acted as special counsel to Diodes Incorporated, a Delaware corporation (the "Company"), in connection with the filing of a registration statement on Form S-3 (the "Registration Statement") under the Securities Act of 1933, as amended, covering the offering for sale of an aggregate of up to 2,875,000 shares of the Company's common stock, par value \$0.66^{2/3} per share (the "Shares"), of which 2,125,000 shares (including up to 375,000 shares that the underwriters have the option to purchase solely to cover over-allotments) will be sold by the Company and 750,000 shares will be sold by the selling stockholder named therein (the "Selling Stockholder"). This opinion is being furnished in accordance with the requirements of Item 16 of Form S-3 and Item 601(b)(5)(i) of Regulation S-K.

In connection with this opinion, we have reviewed the Registration Statement, the Company's charter documents, resolutions adopted by the Board of Directors of the Company, certificates of government officials and such other documents, records, certificates, memoranda and other instruments as we have deemed necessary as a basis for this opinion. With respect to the foregoing documents, we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals and the conformity to originals of all documents submitted to us as certified or reproduced copies. We also have obtained from officers of the Company certificates as to certain factual matters and, insofar as this opinion is based on matters of fact, we have relied on such certificates without independent investigation.

Based on the foregoing review, and in reliance thereon, we are of the opinion that the Shares when issued and sold in the manner contemplated by the Registration Statement, will be validly issued, fully paid and nonassessable.

We consent to the filing of this opinion letter as Exhibit 5.1 to the Registration Statement and the naming of our firm in the "Legal Matters" portion of the prospectus included in the Registration Statement.

We express no opinion as to matters governed by any laws other than the Delaware General Corporation Law, the applicable provisions of the Delaware Constitution and reported decisions of the Delaware courts interpreting these laws.

This opinion letter is rendered as of the date first written above, and we disclaim any obligation to advise you of facts, circumstances, events or developments which hereafter may be brought to our attention and which may alter, affect or modify the opinion expressed herein. Our opinion is expressly limited to the matters set forth above, and we render no opinion, whether by implication or otherwise, as to any other matters relating to the Company or the Shares.

Respectfully submitted,

/s/ Sheppard Mullin Richter & Hampton LLP

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in this Registration Statement on Form S-3 of Diodes Incorporated of our report dated January 28, 2005 appearing in the Annual Report on Form 10-K of Diodes Incorporated for the year ended December 31, 2004, of our report dated April 7, 2005 with respect to management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting, which report is included in this amended annual report on Form 10-K/A of Diodes Incorporated for the year ended December 31, 2004 and to the reference to us under the heading "Experts" in the Registration Statement.

/s/ Moss Adams LLP

MOSS ADAMS LLP
Los Angeles, California
September 7, 2005

DIODES INCORPORATED
POWER OF ATTORNEY
FILING OF REGISTRATION STATEMENT ON FORM S-3

The undersigned, a director of Diodes Incorporated, a Delaware corporation, hereby nominates and appoints Dr. Keh-Shew Lu and Carl C. Wertz, as his agents and attorneys-in-fact (the "Agents"), for the undersigned and in the undersigned's name, place and stead, in any and all capacities (including the undersigned's capacity as a director of Diodes Incorporated), to sign this Registration Statement on Form S-3 (Registration No. 333-127833) and any and all amendments (including post-effective amendments) to this Registration Statement, and any and all registration statements filed pursuant to Rule 462(b) under the Securities Act of 1933, as amended, in connection with or related to the offering communicated by this Registration Statement and its amendments, if any, and to file or cause to be filed the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto the Agents full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as the undersigned might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or his substitute, may lawfully cause to be done by virtue hereof.

This Power of Attorney shall remain in full force and effect until revoked or superseded by written notice filed with the Securities and Exchange Commission.

IN WITNESS WHEREOF, the undersigned has hereunto subscribed this power of attorney this 7th day of September, 2005.

/s/ Shing Mao

Shing Mao