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

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

August 7, 2008
Date of Report (Date of earliest event reported)

DIODES INCORPORATED

(Exact name of registrant as specified in its charter)

Delaware	**002-25577**	**95-2039518**
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

15660 North Dallas Parkway, Suite 850 **Dallas, TX**	**75248**
(Address of principal executive offices)	(Zip Code)

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02 Results of Operations and Financial Condition.

On August 7, 2008, Diodes Incorporated issued a press release announcing second quarter 2008 results. A copy of the press release is attached as Exhibit 99.1.

On August 7, 2008, Diodes Incorporated hosted a conference call to discuss its second quarter 2008 results. A recording of the conference call has been posted on its website at www.diodes.com. A copy of the script is attached as Exhibit 99.2.

During the conference call on August 7, 2008, Dr. Keh-Shew Lu, President and Chief Executive Officer of Diodes Incorporated, as well as Carl C. Wertz, Chief Financial Officer, Rick White, Senior Vice President of Finance, and Mark King, Senior Vice President of Sales and Marketing, made additional comments during a question and answer session. A copy of the transcript is attached as Exhibit 99.3.

In our press release announcing second quarter 2008 results, and during the conference on August 7, 2008, Diodes Incorporated provided guidance on "other income (expense)"of $2.0 to $2.8 million for the third quarter of 2008. Other income (expense) includes interest income, interest expense, foreign exchange gains (losses) and other miscellaneous income and expenses. To provide further clarification, Diodes Incorporated expects the interest income for the fourth quarter of 2008 to be approximately $1.0 million higher than the guidance provided for the third quarter of 2008.

In the press release, the Company utilizes financial measures and terms not calculated in accordance with generally accepted accounting principles in the United States ("GAAP") in order to provide investors with an alternative method for assessing our operating results in a manner that enables investors to more thoroughly evaluate our current performance as compared to past performance. We also believe these non-GAAP measures provide investors with a more informed baseline for modeling the Company's future financial performance. Our management uses these non-GAAP measures for the same purpose. We believe that our investors should have access to, and that we are obligated to provide, the same set of tools that we use in analyzing our results. These non-GAAP measures should be considered in addition to results prepared in accordance with GAAP, but should not be considered a substitute for or superior to GAAP results. We have provided definitions for certain non-GAAP financial measures, together with an explanation of why management uses these measures and why management believes that these non-GAAP financial measures are useful to investors. In addition, in our press release we have provided tables to reconcile the non-GAAP financial measures utilized to GAAP financial measures.

Item 7.01 Regulation FD Disclosure.

The earnings release also provides an update on the Company's business outlook.

In addition, Steven Ho, Asia President and Vice President, Asia Sales and Marketing, retired from the Company effective July 31, 2008.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits.

See exhibit index.

The information in this Form 8-K and the exhibits attached hereto shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except as shall be expressly set forth by specific reference in such filing.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Dated: August 11, 2008

DIODES INCORPORATED

By /s/ Carl C. Wertz

CARL C. WERTZ

Chief Financial Officer

EXHIBIT INDEX

Exhibit Number	Description
99.1	Press release dated August 7, 2008
99.2	Conference call script dated August 7, 2008
99.3	Question and answer transcript dated August 7, 2008

Diodes Incorporated Reports Second Quarter 2008 Financial Results

Achieves Record Revenue and Record Gross Profit

Dallas, Texas – August 7, 2008 — Diodes Incorporated (NASDAQ:DIOD), a leading global manufacturer and supplier of high-quality application specific standard products within the broad discrete and analog semiconductor markets, today reported financial results for the second quarter ended June 30, 2008. Diodes' second quarter financials include one month of financial results from Zetex plc following the successful June completion of the acquisition.

Financial and Business Highlights:

- Revenue increased 20.5 percent over the prior year period and 21.4 percent sequentially to a record $116.0 million;
- Gross profit increased 29.1 percent over the same period last year and 24.1 percent sequentially to $39.6 million;
- Gross margin increased 220 basis points over the prior year period and 70 basis points sequentially to 34.1 percent;
- Achieved adjusted net income of $15.0 million, or $0.35 per share; and
- Completed the acquisition of Zetex.

Revenue for the second quarter of 2008 increased 20.5 percent to $116.0 million as compared to $96.3 million reported in the second quarter of 2007, and increased 21.4 percent when compared to $95.6 million reported in the first quarter of 2008.

Gross profit for the second quarter of 2008 increased 29.1 percent to $39.6 million, or 34.1 percent of revenue, compared to $30.7 million, or 31.9 percent of revenue, in the prior year quarter and $31.9 million, or 33.4 percent of revenue, in the first quarter of 2008.

Commenting on the quarter, Dr. Keh-Shew Lu, President and CEO of Diodes Incorporated, said, "I am pleased to report strong quarterly financial results, including record revenue at the high end of our guidance and a 24 percent sequential increase in gross profit. The growth achieved in the quarter resulted from strength in our core business, particularly in Asia, combined with the one-month contribution from the Zetex acquisition. We achieved these results despite the continued weakening of the global economic environment and are confident in our ability to achieve growth rates that consistently exceed those of the industry."

Dr. Lu further commented, "In terms of the acquisition, our integration efforts are well underway with significant progress made in aligning and integrating the sales and distribution channels across all geographies. Zetex was accretive on an operational basis in the month of June, and we are well positioned to accelerate our growth through the extensive synergies and cross-selling opportunities of the combined companies, while capitalizing on the cost savings and operational benefits."

Second quarter net income, which included a one-time, $1.5 million non-cash currency hedge loss related to the Zetex acquisition, was $13.1 million, or $0.31 per diluted share, compared to $12.2 million, or $0.29 per share, in the second quarter of 2007 and $14.2 million, or $0.33 per share, in the first quarter of 2008.

Adjusted net income for the second quarter of 2008, which excluded $1.2 million of SFAS 123R stock option expenses and the one-time non-cash currency hedge loss, was $15.0 million, or $0.35 per diluted share.

As of June 30, 2008, Diodes had approximately $86.1 million in cash, $294.7 million in long-term investments, $196.7 million in working capital, $400 million in long-term debt (including the convertible notes) and unused and available credit facilities of $49.5 million.

Business Outlook

Dr. Lu concluded, "As we look to the third quarter of 2008, we expect revenue to increase to between $134 million and $142 million. Included in the total revenue guidance is the expectation of approximately $27 million to $33 million of revenue associated with the Zetex acquisition. Additionally, we expect the overall gross profit to grow 13 percent to 20 percent from the second quarter. Because of the one-month contribution of the acquisition of Zetex in the second quarter, we are providing more detailed guidance for the third quarter only. Future guidance will not include the same amount of detail or a breakout of the Zetex results, since Zetex's operations will become an integrated part of our business."

The Company is in the process of obtaining third-party valuations per SFAS 141 for many of the assets and liabilities acquired. Therefore, the fair market value adjustments and corresponding depreciation and amortization are not being provided in this guidance. The adjustments to fair market value and corresponding depreciation and amortization may include, but are not limited to, valuations of inventories and property, plant and equipment, as well as valuation models for identifiable intangible assets.

When the purchase price valuation is complete the Company may revise its third quarter guidance to include the fair market value adjustments and corresponding depreciation and amortization charges to the financial statements. These purchase accounting rules should have no impact to the Company's ongoing free cash flow but will affect U.S. GAAP gross margins and net income in future periods.

The following table provides the details of the third-quarter GAAP guidance excluding the purchase price valuation impact:

Revenue growth	15% to 22%
Gross profit growth	13% to 20%
SG&A, % of revenue	15.0% to 15.5%
R&D, % of revenue	5.0% to 5.5%
Other expense, net	$2.0 to $2.8 million
Tax rate	16.0% to 17.0%
Fully diluted share count	43.0 to 43.4 million

Conference Call

Diodes will host a conference call on Thursday, August 7, 2008 at 10:00 a.m. Central Time (11:00 a.m. Eastern Time) to discuss its second quarter 2008 financial results. Investors and analysts may join the conference call by dialing 1-888-713-4214 and providing the confirmation code 24472970. International callers may join the teleconference by dialing 1-617-213-4866. A telephone replay of the call will be available approximately two hours after the call and will be available until August 11, 2008 at midnight Pacific Time. The replay number is 1-888-286-8010 with a pass code of 18588755. International callers should dial 1-617-801-6888 and enter the same pass code at the prompt. Additionally, this conference call will be broadcast live over the Internet and can be accessed by all interested parties on the Investor section of Diodes' website at http://www.diodes.com. To listen to the live call, please go to the Investor section of Diodes website and click on the Conference Call link at least fifteen minutes prior to the start of the call to register, download, and install any necessary audio software. For those unable to participate during the live broadcast, a replay will be available shortly after the call on Diodes' website for approximately 60 days.

About Diodes Incorporated

Diodes Incorporated (Nasdaq: DIOD), an S&P SmallCap 600 and Russell 3000 Index company, is a leading global manufacturer and supplier of high-quality application specific standard products within the broad discrete and analog semiconductor markets, serving the consumer electronics, computing, communications, industrial and automotive markets. Diodes' products include diodes, rectifiers, transistors, MOSFETs, protection devices, functional specific arrays, amplifiers and comparators, Hall-effect sensors and temperature sensors, power management devices including LED drivers, DC-DC switching, regulators, linear voltage regulators and voltage reference along with special function devices including USB power switch, load switch, voltage supervisor and motor controllers. The Company has its corporate offices in Dallas, Texas, with a sales, marketing, engineering and logistics office in Southern California; design centers in Dallas, San Jose, Taipei, England and Germany; wafer fabrication facilities in Kansas City, Missouri and Manchester, England; two manufacturing facilities in Shanghai, China, one in Neuhaus, Germany and a joint venture facility in Chengdu, China; engineering, sales, warehouse and logistics offices in Taipei, Hong Kong and Manchester, England, and sales and support offices throughout the world. For further information, including SEC filings, visit the Company's website at http://www.diodes.com.

Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995: Any statements set forth above that are not historical facts are forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. Such statements include statements regarding our expectation that: we are confident in our ability to achieve growth rates that consistently exceed those of the industry; we are well positioned to accelerate our growth through the extensive synergies and cross-selling opportunities of the combined companies while capitalizing on the cost savings and operational benefits; we expect revenue to increase in the third quarter to between $134 million and $142 million; we expect to include approximately $27 million to $33 million of revenue associated with the Zetex acquisition in our total revenue guidance; we expect our overall gross profit to grow 13 percent to 20 percent from the second quarter; the adjustments to fair market value and corresponding depreciation and amortization may include, but are not limited to, valuations of inventories and property, plant and equipment, as well as valuation models for identifiable intangible assets; and we expect that purchase accounting rules should have no impact to our ongoing free cash flow but will affect U.S. GAAP gross margins and net income in the future periods. Potential risks and uncertainties include, but are not limited to, such factors as the Company's business strategy, the introduction and market reception to new product announcements, fluctuations in product demand and supply, prospects for the U.S. and global economy; the continue introduction of new products, the Company's ability to maintain customer and vendor relationships, technological advancements, impact of competitive products and pricing, growth in targeted markets, successful integration of acquired companies and/or assets, the Company's ability to successfully make additional acquisitions, risks of domestic and foreign operations, uncertainties in the Auction Rate Securities market; currency exchange rates; availability of tax credits, and other information detailed from time to time in the Company's filings with the United States Securities and Exchange Commission.

Recent news releases, annual reports, and SEC filings are available at the Company's website: http://www.diodes.com. Written requests may be sent directly to the Company, or they may be e-mailed to: diodes-fin@diodes.com.

Company Contact:
Carl Wertz
Chief Financial Officer
Diodes, Inc.
(805) 446-4800
carl_wertz@diodes.com

Investor Contact:
Leanne Sievers
EVP, IR
Shelton Group
(949) 224-3874
lsievers@sheltongroup.com

CONSOLIDATED CONDENSED INCOME STATEMENT and BALANCE SHEET FOLLOW

DIODES INCORPORATED AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF INCOME
(in thousands, except per share data)
(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2007	**2008**	2007	**2008**
Net sales	$ 96,283	**$ 116,018**	$ 188,303	**$ 211,598**
Cost of goods sold	65,605	**76,400**	128,102	**140,064**
Gross profit	30,678	**39,618**	60,201	**71,534**
Selling, general and administrative expenses	13,397	**17,127**	26,075	**31,786**
Research and development expenses	3,156	**4,994**	6,100	**8,730**
Gain on disposal of fixed assets	1,770	**—**	1,770	**(45)**
Total operating expenses	18,323	**22,121**	33,946	**40,471**
Income from operations	12,355	**17,497**	26,255	**31,063**
Other income (expense)				
Interest income	4,285	**2,554**	8,320	**8,002**
Interest expense	(1,696)	**(2,285)**	(3,421)	**(3,983)**
Other	72	**(1,202)**	(56)	**(1,496)**
	2,661	**(933)**	4,843	**2,523**
Income before income taxes and minority interest	15,016	**16,564**	31,098	**33,586**
Income tax provision	(2,221)	**(2,781)**	(4,879)	**(4,996)**
Income before minority interest	12,795	**13,783**	26,219	**28,590**
Minority interest in joint venture earnings	(546)	**(675)**	(961)	**(1,279)**
Net income	$ 12,249	**$ 13,108**	$ 25,258	**$ 27,311**
Earnings per share				
Basic	$ 0.31	**$ 0.32**	$ 0.64	**$ 0.68**
Diluted	$ 0.29	**$ 0.31**	$ 0.60	**$ 0.64**
Number of shares used in computation				
Basic	39,397	**40,616**	39,220	**40,431**
Diluted	42,023	**42,843**	41,897	**42,695**

DIODES INCORPORATED AND SUBSIDIARIES

CONSOLIDATED RECONCILIATION OF NET INCOME TO ADJUSTED NET INCOME

(in thousands, except per share data)
(unaudited)

ADJUSTED NET INCOME

This measure consists of generally accepted accounting principles, or GAAP, net income, which is then adjusted solely for the purpose of adjusting for non-cash share-based compensation expense and restructuring costs. Excluding the non-cash share-based compensation expense and the restructuring costs adjustments provides investors with a better depiction of the Company's operating results and provides a more informed baseline for modeling future earnings expectations. We recommend a review of net income on both a non-GAAP basis and GAAP basis be performed to get a comprehensive view of our results. We provide a reconciliation of adjusted net income to GAAP net income below.

ADJUSTED EARNINGS PER SHARE

This non-GAAP financial measure is the portion of the Company's GAAP net income assigned to each share of stock, excluding non-cash share-based compensation expense and restructuring costs. Excluding the non-cash share-based compensation expense and the restructuring costs adjustments provides a more informed baseline for modeling future earnings expectations. We recommend a review of diluted EPS on both a non-GAAP basis and GAAP basis be performed to get a comprehensive view of our results. Information on how these share calculations are made is below.

	Three months ended June 30,		Six months ended June 30,	
	2007	**2008**	2007	**2008**
Net income (Per-GAAP)	$ 12,249	**$ 13,108**	$ 25,258	**$ 27,311**
Adjustments to reconcile net income to adjusted net income:				
Stock option expense included in cost of goods sold:	78	**52**	160	**105**
Stock option expense included in selling and general administrative expenses:	1,205	**1,072**	2,508	**2,151**
Stock option expense included in research and development expenses:	118	**110**	243	**211**
Total stock option expense	1,402	**1,234**	2,911	**2,467**
Restructuring costs	1,770	**—**	1,770	**—**
Other adjustments	55	**1,540**	95	**1,540**
Income tax benefit related to stock option expense, restructuring costs and other adjustments	479	**874**	828	**1,174**
Adjusted net income (Non-GAAP)	$ 14,997	**$ 15,008**	$ 29,206	**$ 30,144**
Diluted shares used in computing earnings per share	42,023	**42,843**	41,897	**42,695**
Incremental shares considered to be outstanding:	847	**558**	898	**546**
Adjusted diluted shares used in computing Adjusted earnings per share	42,870	**43,402**	42,795	**43,241**
Adjusted earnings per share (Non-GAAP)				
Basic	$ 0.38	**$ 0.37**	$ 0.74	**$ 0.75**
Diluted	$ 0.35	**$ 0.35**	$ 0.68	**$ 0.70**

DIODES INCORPORATED AND SUBSIDIARIES
CONSOLIDATED RECONCILIATION OF NET INCOME TO EBITDA

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.

The following table provides a reconciliation of net income to EBITDA *(in thousands, unaudited):*

	Three Months Ended June 30,	
	2007	**2008**
Net Income (Per-GAAP)	$ 12,249	**$ 13,108**
Plus:		
Interest expense (income), net	(2,590)	**(269)**
Income tax provision	2,221	**2,781**
Depreciation and amortization	6,424	**9,275**
EBITDA (Non-GAAP)	$ 18,304	**$ 24,895**

	Six Months Ended June 30,	
	2007	**2008**
Net Income (Per-GAAP)	$ 25,258	**$ 27,311**
Plus:		
Interest expense (income), net	(4,900)	**(4,019)**
Income tax provision	4,879	**4,996**
Depreciation and amortization	12,396	**16,931**
EBITDA (Non-GAAP)	$ 37,633	**$ 45,219**

DIODES INCORPORATED AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS

ASSETS
(in thousands, except share data)

	December 31, 2007	June 30, 2008 (unaudited)
CURRENT ASSETS		
Cash and cash equivalents	$ 56,179	**$ 86,132**
Short-term investments	323,472	—
Total cash and short-term investments	379,651	**86,132**
Accounts receivable		
Customers	84,638	**108,556**
Related parties	5,405	**3,994**
	90,043	**112,550**
Less: Allowance for doubtful receivables	(465)	**(616)**
	89,578	**111,934**
Inventories	53,031	**101,649**
Deferred income taxes, current	5,174	**6,620**
Prepaid expenses and other current assets	10,576	**15,088**
Total current assets	538,010	321,423
LONG TERM INVESTMENT, available-for-sale securities	—	**294,653**
PROPERTY, PLANT AND EQUIPMENT, at cost, net of accumulated depreciation and amortization	123,407	**183,415**
DEFERRED INCOME TAXES, non current	3,241	**17,626**
OTHER ASSETS		
Intangible assets	9,643	**17,418**
Goodwill	25,135	**112,324**
Other	6,929	**7,718**
TOTAL ASSETS	$ 706,365	**$ 954,577**

DIODES INCORPORATED AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY
(in thousands, except share data)

	December 31, 2007	**June 30, 2008 (unaudited)**
CURRENT LIABILITIES		
Line of credit	$ —	**$ 16,520**
Accounts payable		
Trade	42,010	**44,698**
Related parties	13,135	**13,725**
Accrued liabilities	27,841	**41,541**
Income tax payable	1,732	**6,418**
Long-term debt, current portion	1,345	**1,365**
Capital lease obligations, current portion	145	**449**
Total current liabilities	86,208	**124,716**
LONG-TERM DEBT, net of current portion		
2.25% convertible senior notes due 2026	230,000	**230,000**
Others	5,815	**170,038**
CAPITAL LEASE OBLIGATIONS, net of current portion	1,331	**2,352**
OTHER LONG-TERM LIABILITIES	6,249	**35,793**
Total liabilities	329,603	**562,899**
MINORITY INTEREST IN JOINT VENTURES	7,164	**8,448**
COMMITMENTS AND CONTINGENCIES		
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; 70,000,000 shares authorized; 40,172,491 and 40,838,821 shares issued and outstanding at December 31, 2007 and June 30, 2008, respectively	26,782	**27,226**
Additional paid-in capital	121,412	**127,248**
Retained earnings	220,504	**247,814**
Accumulated other comprehensive gain (loss)	900	**(19,058)**
Total stockholders' equity	369,598	**383,230**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 706,365	**$ 954,577**

Exhibit 99.2

Diodes, Inc. Second Quarter 2008 Financial Results Script
Thursday, August 7, 2008 @ 10:00am CST / 8:00am PST

Call Participants: Dr. Keh-Shew Lu, Carl Wertz, Mark King and Richard White

Operator:

Good morning and welcome to Diodes Incorporated's second quarter 2008 financial results conference call. At this time, all participants are in a listen only mode. At the conclusion of today's conference call, instructions will be given for the question and answer session. If anyone needs assistance at any time during the conference call, please press the star followed by the zero on your touchtone phone.

As a reminder, this conference call is being recorded today, Thursday August 7, 2008. I would now like to turn the call to Shelton Group, the investor relations agency for Diodes Incorporated. Leanne, please go ahead.

Introduction: Leanne Sievers, EVP of Shelton Group

Good morning and welcome to Diodes' second quarter 2008 earnings conference call. I'm Leanne Sievers, executive vice president of Shelton Group, Diodes' investor relations firm.

With us today are Diodes' President and CEO, Dr. Keh-Shew Lu; Chief Financial Officer, Carl Wertz; Senior Vice President of Sales and Marketing, Mark King; and Senior Vice President of Finance, Richard White.

Before I turn the call over to Dr. Lu, I would like to remind our listeners that management's prepared remarks contain forward-looking statements, which are subject to risks and uncertainties, and management may make additional forward-looking statements in response to your questions.

Therefore, the Company claims the protection of the safe harbor for forward-looking statements that is contained in the Private Securities Litigation Reform Act of 1995. Actual results may differ from those discussed today, and therefore we refer you to a more detailed discussion of the risks and uncertainties in the Company's filings with the Securities and Exchange Commission.

In addition, any projections as to the Company's future performance represent management's estimates as of **today, August 7, 2008.** Diodes assumes no obligation to update these projections in the future as market conditions may or may not change.

For those of you unable to listen to the entire call at this time, a recording will be available via webcast for 60 days at the investor relations section of Diodes' website at www.diodes.com.

And now I will turn the call over to Diodes' President and CEO, Dr. Keh-Shew Lu.

Dr. Keh-Shew Lu, President and CEO of Diodes

Thank you, Leanne.

Welcome everyone, and thank you for joining us today.

I am pleased to report another strong quarter for Diodes in which we reported record revenue at the high end of our guidance range and gross profits that increased 24 percent over the first quarter, exceeding the high end of our guidance. As previously announced, our second quarter results included one month of financial results from our June acquisition of Zetex.

As we have stated previously, the acquisition of Zetex offers substantial synergies that we believe will further enhance Diodes global leadership in discrete and analog semiconductor solutions. We have been analyzing Zetex's business model for several years prior to announcing the acquisition, so we are prepared to capture the synergies of the combined companies, which we expect to realize over the next several quarters.

To note, Zetex was accretive on an operational basis for the June month.

In terms of timing, this acquisition occurs at a time of strength in Diodes' development and growth, and will only enhance what we have accomplished to date. As all of our shareholders know, we have consistently achieved growth rates that have exceeded those of the industry, in addition to delivering profitable results quarter after quarter. Although the overall global economy is weak, we believe that our continued growth will be complemented by the addition of Zetex to our business by enhancing Diodes' market position, expanding our product portfolio, and increasing exposure to the automotive and industrial markets, as well as broadening our presence in Europe.

Since closing in June, we have made significant progress in aligning and integrating the sales and distribution channels across all geographies, which Mark King will discuss with you in greater detail. And although we will continue to analyze the costs of manufacturing and operational synergies between our two companies in the coming quarters, our immediate focus is on capturing the revenue and growth synergies that are offered through this acquisition. We have a very experienced management team that has a proven track record of quickly and effectively integrating companies for maximum return for our shareholders, and I look forward to reporting our progress in the coming quarters. With that, I will turn the call over to Carl to discuss our second quarter financial results in more detail.

Carl Wertz, CFO

Thanks, Dr. Lu, and good morning everyone.

As Dr. Lu mentioned, our second quarter financials include one month of results from our acquisition of Zetex.

Revenue for the second quarter was $116 million, which was at the high end of our increased guidance range, representing an increase of 21 percent both sequentially and over the prior year period, and set an all-time record for the Company.

New product sales accounted for 30 percent of revenue and does not include the one-month of Zetex.

Gross profit for the second quarter of 2008 was $39.6 million, an improvement of 24 percent sequentially and 29 percent over the same period last year. Gross margin improved 70 basis points sequentially to 34.1 percent of revenue and 220 basis points from the year-ago quarter. Our gross profit results were above our increased guidance range and was driven by solid average selling prices, continued operational efficiencies and an improved product mix.

Selling, General & Administrative expenses for the quarter were $17.1 million, or 14.8 percent of revenue, which was an improvement from the first quarter on a percent of revenue basis. Absolute dollar increases were primarily due to Zetex's operations. Included in second-quarter SG&A was $1.1 million of non-cash, FAS123R, share-based compensation. In the earnings release we have included a table to reconcile the impact of share-based compensation expense. Looking at the third quarter and with a full quarter of Zetex's results, we expect SG&A to range between 15 and 15.5 percent of revenues.

Research and Development investment in the quarter was $5.0 million, or 4.3 percent of revenue. The increase as a percent of revenue reflects Zetex's greater focus on wafer process technology as well as their depth of engineering resources, as we have stated previously. Looking at the third quarter, we believe that R&D will be approximately 5 to 5.5 percent of revenue as Zetex is fully factored into our quarterly results.

Other expense amounted to approximately $900,000 for the quarter, consisting of $2.6 million of interest income primarily related to our Auction Rate Securities Investments offset by $1.9 million of interest expense, primarily related to our convertible bonds, and a non-cash loss of $1.5 million related to a foreign currency hedge required by the Zetex acquisition. Although the hedge was an expense related to the Zetex acquisition purchase price, U.S. GAAP does not permit this hedge to be booked in the purchase price accounting; thus a P&L loss was recorded. However, even when considering this one-time charge, our operational performance was strong enough to cover the hedge loss.

Net other expense for the third quarter is expected to range between $2 to $2.8 million.

Our effective **income tax** rate in the second quarter was 16.8 percent, which was slightly higher than our expected range due to the earnings contribution from Zetex. For the full year of 2008, we expect the tax rate to range between 16 and 17 percent, which takes into consideration Zetex combined with our operations in lower tax jurisdictions, as well as our preferential tax treatment in Asia.

Adjusted net income was $15 million, or $0.35 per share. Fully diluted shares used to calculate adjusted earnings per share were 43.4 million. For the third quarter, we expect the fully diluted share count for GAAP earnings to be 43.0 to 43.4 million shares.

Adjusted net income for the second quarter excludes $1.2 million in non-cash, stock option expense, as well as the one-time, non-cash hedge loss related to the Zetex acquisition.

Cash flow from operations for the quarter was $13 million, and $23 million year-to-date.

Turning to the **balance sheet**, as of June 30th, we had $86 million in cash and short-term investments with $197 million in working capital. Long-term

term debt, including the convertible bond and the loan related to the Zetex acquisition, was $400 million.

As discussed last quarter, we had $320 million invested in auction rate securities as part of our cash management program. The securities are currently valued using a third-party valuation methodology and are classified on our balance sheet as a non-current, long-term investment in the amount of $295 million.

We review impairments in accordance with FAS 115, as well as related guidance issued by the FASB and SEC in order to determine the classification of the impairment as "temporary" or "other-than-temporary". In evaluating the ARS portfolio, we classified the 8 percent decline in value as temporary, and recorded the unrealized loss in "other comprehensive loss" on the balance sheet.

As we have stated previously, we consider the liquidity issue to be temporary and currently intend to hold these securities until a recovery of the auction process. We believe our cash flow should be sufficient for all of our operational requirements. We will continue to monitor the auction rate market and evaluate the securities at each quarter-end to determine the valuation required.

Inventory increased during the second quarter to $102 million, primarily as a result of the $30 million of Zetex inventory acquired. Without Zetex, inventory days increased slightly to 91 days from 88 last quarter.

Accounts receivable increased to $112 million with the inclusion of $18 million acquired from Zetex. Without Zetex, A/R days improved from 82 days to 80 days.

Capital expenditures were $12 million for the quarter and $26 million year-to-date. The majority of the investment was for manufacturing equipment in China, as well as a $5 million land purchase for our Dallas headquarters.

Going forward, as part of our wafer fab review plan, approximately $6.5 million of capital was authorized for Zetex to expand its 6-inch line, and we are also qualifying their 4-inch bi-polar process in our 6-inch line at Diodes-FabTech in order to increase capacity and reduce costs. For the year, we continue to expect to invest 10 to 12 percent of our revenues in Cap-Ex.

Depreciation expense for the second quarter was $9 million and $16.5 million for the year.

Turning to our Outlook...

As we look to the third quarter of 2008, we expect revenue to increase to between $134 and $142 million. Included in the total revenue guidance is the expectation of approximately $27 to $33 million of revenue associated with the Zetex acquisition. Additionally, we expect the overall gross profit to grow 13 to 20 percent from the second quarter.

Because of the one-month contribution of the acquisition of Zetex in the second quarter, we are providing a more detailed guidance for the third quarter only. The table is included in the earnings release. Any future guidance will not include the same level of detail or a breakout of the Zetex results since its operations will become an integrated part of our business.

We are in the process of obtaining third-party valuations as per FAS 141 for many of the Zetex assets and liabilities acquired, and as such, the fair market value adjustments and corresponding depreciation and amortization expenses are not provided in today's guidance.

These purchase accounting rules should have no impact to the ongoing free cash flow of Diodes but will affect U.S. GAAP gross margins and net income in future periods.

With that said, I will now turn the call over to Mark King, Senior Vice President, Sales and Marketing. Mark...

Mark King, Senior VP of Sales and Marketing

Thank you, Carl, and good morning.

As Dr. Lu mentioned, we made significant progress during the quarter in aligning and integrating the sales and distribution channels across all geographies. Our marketing units have been combined and consolidated, and we are in the process of consolidating our rep organization and cross training on both product lines. And although the distribution channels and integration requirements vary with each geographic region, we have taken the appropriate steps to fortify many areas of the business in order to quickly combine our two organizations into one cohesive operation.

From an overall business perspective, I believe that Zetex's infrastructure combined with its process knowledge, strong applications team, and solid technology will greatly benefit our company. Additionally, Zetex brings analog and application-centric exposure in categories where Diodes does not currently participate, in areas such as power management and LED-lighting.

With limited product overlap, we believe in the coming quarters we will be able to fully capitalize on the established sales organizations, cross-selling synergies, and expanded product offerings provided by the combined Company.

Since Zetex was only one month of revenue, let me begin the discussion with the segment breakout for Diodes only: computing represented 37 percent of revenue; consumer 34 percent; communications 15 percent; industrial 12; and automotive 2 percent. In terms of segment breakout, we expect with the Zetex impact, an increase in the industrial and automotive segments, which will add more balance to our industry distribution.

Let's move on to our new products.
During the second quarter, we released 53 new products, including 6 analog, 13 discrete, 2 Hall devices, 22 MOSFETs, and 10 SBR® devices. As Carl mentioned, new products accounted for 30 percent of revenue.

Our new product revenue was driven by our continued expansion of our MOSFET product offerings, in particular our newly released MOSFETs used for load switches, DC/DC switching, and inverter applications for notebook PC, GPS, digital camera, inverters and DC fans.

Additionally, during the quarter we released a custom array product for an automotive keyless entry system, and a custom 3amp SBR® DFN device that is being used in a DC to DC converter for ultra thin LCD-TV's. Both of these new products resulted in design wins in the quarter.

Also during the quarter, we released our first SBR® product in our patent pending T0220S package; and further expanded our omnipolar Hall sensor line with our 0.4 millimeter, slim bodied package targeting cell phones and portable devices.

In terms of overall design activity, it was another strong quarter with broad-based design wins across all regions at over 100 accounts globally. Design wins and in-process design activity were highlighted by:

- AP2280 loadswitch wins in digital camera and digital picture frame
- Omni Polar Hall Sensor wins in cell phone and multiple notebook platforms, including our recently announce AH1822
- LDO wins for our AP7217 in DVD-read write, and our AP7173 in set-top boxes
- We won our first two design wins in our recently announced SBR® product for a solar-panel application, as well as a notebook platform.
- And multiple MOSFET wins in portable GPS, bluetooth headsets, notebook computers, and battery packs.

In regards to geographic breakout, Asia sales increased approximately 10 percent over the prior quarter, and represented 80 percent of total revenues. After a weak first quarter, we experienced a seasonal recovery in the computer and consumer industry, specifically in end-equipment of notebook, set-top boxes, LCD-TV and DC fan, coupled with improvements and increased demand in our subcontract packaging business.

OEM sales were up 16 percent, while distributor point of purchase was down 3 percent and distributor point of sales was up 7 percent over the first quarter. Distributor inventory was down in the quarter.

In terms of design activity in Asia, we had a strong quarter with 128 design wins at 57 customers that included 38 wins in analog, 47 in SBR® and 43 in discrete.

Now turning to **North America**, Discrete and analog sales remained flat compared to the prior quarter and represented 15 percent of total sales. Direct sales were up due to continued strength in set-top boxes and small increases in the industrial market. Distributor point of purchase decreased 1 percent after a very soft first quarter, and distributor inventory was up slightly. Distributors continue to have very conservative outlook on the economy. Distributor point of sales was down 4 percent sequentially.

In total, we achieved 59 design wins in North America during the quarter at 18 customers: 12 of these for analog, 44 discrete, and 3 in SBR®.

In terms of wafer sales, we were off 6 percent in the second quarter.

Sales in **Europe** were down 12 percent over the record first quarter as European demand softened, and in total, accounted for 5 percent of revenues. Distributor point of sales decreased 3 percent in the quarter.

Our design-win momentum in Europe continued to expand in the second quarter with 36 wins at 31 accounts: including 31 discrete and 5 analog design wins. Specifically, our high power SBR® product line received strong interest from the European customer base, and we believe these products have the potential to become a major contributor for our future growth in the region.

Zetex's world wide sales performance trended positively in the quarter with strong design win momentum.

Regarding the Zetex integration efforts we have consolidated the combined sales organizations globally.

In North America, we realigned the rep network and trained 80 percent of them. We have also added the Zetex line to Arrow and Avnet, who have signed and placed initial stocking orders. This is a major step for the Zetex product line as it really expands the product reach. We estimate that better than 60 percent of the North America distributor serviceable market for semiconductors goes through Arrow and Avnet.

In Europe, combining resources of the direct sales teams supplemented by the rep organization in the outer regions has greatly expanded the reach of the combined Company. Moving forward, we will be combining the lines in the distribution network by moving the Zetex line into Rutronic, and Diodes products into some strong regional distributors. We expect to complete the remaining consolidation by the beginning of the fourth quarter.

In Asia, Zetex has the least distributor overlap with Diodes, so we expect to consolidate the channel over the next 3-6 months.

In summary, we believe Diodes is taking all the right steps towards becoming a global leading provider of complete analog and discrete solutions, and the acquisition of Zetex is an important component of that process. We continue to execute on our growth objectives and are well positioned to accelerate our growth through the extensive synergies of the combined companies. Our primary focus in the coming quarters will be on expanding sales, while capitalizing on the cost savings and other operational synergies provided through this acquisition.

With that, we will open the call for questions.

Q&A Session

Upon Completion of the Q&A...

Dr. Lu:

Thank you for your participation today; we appreciate your time and consideration.

Operator, we may now disconnect.

QUESTION AND ANSWER

Operator

(OPERATOR INSTRUCTIONS) Shawn Harrison, Longbow Research.

Shawn Harrison - ***Longbow Research — Analyst***

Good morning. Just a number of modeling questions first off. Carl, I missed the CapEx in the quarter.

Carl Wertz - ***Diodes, Inc. — CFO, Secretary, Treasurer***

It was $12 million.

Shawn Harrison - ***Longbow Research — Analyst***

Okay. And then getting back to the operating expenses, what do you expect options expense to be in the third quarter?

Carl Wertz - ***Diodes, Inc. — CFO, Secretary, Treasurer***

Hang on for one second.

Shawn Harrison - ***Longbow Research — Analyst***

Then just kind of following on that, what should we see in terms of operating expense dollars move, kind of going forward, as you take cost out of the Zetex model?

Carl Wertz - ***Diodes, Inc. — CFO, Secretary, Treasurer***

The — SG&A expense, op expense —

Shawn Harrison - ***Longbow Research — Analyst***

Yes.

Carl Wertz - ***Diodes, Inc. — CFO, Secretary, Treasurer***

We expect to range between 15% and 15.5%. Then the R&D percent also is 5% to 5.5%.

Shawn Harrison - ***Longbow Research — Analyst***

And options are included in that 15% to 15.5% — or stock-based compensation, excuse me, correct?

Carl Wertz - ***Diodes, Inc. — CFO, Secretary, Treasurer***

Correct.

Shawn Harrison - ***Longbow Research — Analyst***

And how much would you expect that to be?

Carl Wertz - ***Diodes, Inc. — CFO, Secretary, Treasurer***

Probably similar to this quarter. Maybe slightly more.

Shawn Harrison - ***Longbow Research — Analyst***

Okay. And I guess looking at the operating expenses of 15% to 15.5% of sales, slightly greater than I expected and probably most street models had included. So how should we expect that to trend over time on both a dollar and a percentage basis?

Keh-Shew Lu - ***Diodes, Inc. — President, CEO***

Okay, this is Dr. Lu. Let me answer. The reason we acquired Zetex is we know they have a very good results over there. Their engineering is very strong and they are very good in their resources. So our plan is not really trim down or deduce the R&D and SG&A. Okay?

Our strategy is very simple. We want to be grow the revenue either by cross-selling, by bringing in each other’s product line. By our past history, we are able to grow CAGR above 20% a year if the market is decent. Now, we don’t know what will be the market next year, but assume the market is reasonable, then we should be able to grow above 20% CAGR.

So if you look at — if we grow revenue by 20%, let’s say, just as an assumption, okay — then our SG&A are currently is when forecast we forecast third quarter 15% to 15.5%. It’s probably very reasonable if you said, no increase the headcount, no increase the expense. But just that’s the revenue will grow 20%. Then you can very reasonably thinking this should be go back to our model or even better than our model.

And if you look at R&D, we use the same approach. We should be able to drop now 20%. Because if the revenue grows 20%, okay? So then you go back to our old models. So today, our model, by adding Zetex, which we all knew at the beginning from when we purchased this company, we know their R&D is very high and their SG&A is high. But consolidated, two companies together, give us 12 months of the growth. I think we should be able to bring that model back to Diodes’ old models.

Shawn Harrison - ***Longbow Research — Analyst***

Okay. So the key takeaway is you think you can deliver substantial revenue upside with essentially the same cost structure at Zetex?

Keh-Shew Lu - ***Diodes, Inc. — President, CEO***

That is what I say.

Shawn Harrison - ***Longbow Research — Analyst***

Okay. Then just —

Keh-Shew Lu - ***Diodes, Inc. — President, CEO***

If the market is reasonable. We really don’t know what will be the market next year. But if the market is reasonable, then we should be able to do it.

Shawn Harrison - ***Longbow Research — Analyst***

Okay. Just a quick follow-up. The Zetex revenue contribution in the second quarter, was that about $12 million?

Keh-Shew Lu - ***Diodes, Inc. — President, CEO***

We don’t separate it, but we give the guidance on — end of that — based last quarter, we said 10% to 13% — I’m sorry, $10 million to $13 million. So you can pick somewhere there.

Shawn Harrison - ***Longbow Research — Analyst***

Okay. Then Mark, maybe just a little bit of commentary on what you are seeing in the legacy business as we move into the third quarter. Distribution seems like it is weak in a few geographies for you, but what maybe you are seeing by end market.

Mark King - ***Diodes, Inc. — SVP-Sales & Marketing***

Yes, I think we are seeing pretty much everything in what everybody else is seeing out there. It is a pretty short — short-term market. North America is remaining relatively flat. Europe is softening somewhat. Asia is in a growth pattern in the third quarter, but maybe not as robust as it has been in previous years. So I think it is a pretty — quite cautious in all market areas.

Keh-Shew Lu - ***Diodes, Inc. — President, CEO***

But by our past history, our growth is not just coming on the market growth. Our growth should be more than the market growth. And so by looking at the number we turn in, we focus — the revenue growth 15% to 22%. Yet some of that was due to one month — to one quarter of the Zetex numbers. But it still can be an organic growth, too.

Shawn Harrison - ***Longbow Research — Analyst***

Okay, thank you very much, and congratulations on closing the acquisition.

Operator

Ramesh Misra, Collins Stewart.

Ramesh Misra - ***Collins Stewart — Analyst***

Good morning, gentlemen. My first question was in regards to the gross margin improvement sequentially of 70 basis points. Since this is the last time that you will be talking a little more about Zetex separately, can you give us a sense of how much of that was organic and how much was Zetex contribution?

Keh-Shew Lu - ***Diodes, Inc. — President, CEO***

Right now, we really do not separate, and it would be difficult for us to separate from the future because we are going to sell each other and we start to qualify Zetex products to our SKE side, and then we transport the product from — some of the wafer capability from Zetex fab to our Kansas fab, at the same time we are expanding Zetex six-inch line.

We have a lot of working between the Diodes and Zetex working together. For example, they have people now from Zetex today is in our Kansas City helping us to transform some of their 4-inch byproducts technology into our fab. And so I really don’t like to separate. We are back to treating as one company, and we help each other to improve the gross margin, bringing their product to our assembly site and bringing their 4-inch line that, some of their products to our FabTech. Expand 6-inch line, maybe we'll bring some of our 6-inch product to their line.

We have a lot of things going, try to make into one company instead of two separate companies. So I really don't like to — don't prefer to separate the gross margin differently from one company to the other.

All I can say is that the product margin from — we are very comparable to each other, okay? We are comparable to each other. Their ASP is higher, but unfortunately, their manufacturing cost is higher. And our ASP is lower, but our manufacturing cost is lower. So I think the gross margin is not that far away from each other. Therefore, it is not a meaningful for me to separate those two.

Ramesh Misra - ***Collins Stewart — Analyst***

All right. That makes sense. Dr. Lu, as you bring in some of the manufacturing efficiencies and operating efficiencies that Diodes has developed, do you expect a meaningful improvement on the margin side at the former Zetex operation?

Keh-Shew Lu - ***Diodes, Inc. — President, CEO***

Yes, there will be, but don't forget this kind of thing won't be quickly resolved, okay? Especially their market is in industrial and automotive. Their customers typically do not want to change their sourcing quickly. They are more slowly to adapt force in change.

So we are not really counting on that portion. We really count on is this. Cross-selling the new product to each other gets the growth — revenue growth quickly such that you load in the fab. And when you load in the fab, you bring the cost down. I'm more looking at that direction instead of just taking their product from their subcon to our SKE, do this, move their fab loading into FabTech's load. And that is not what I am looking at, especially from short-term point of view. Okay?

Short-term is growth the revenue as fast as we can — are hoping — if we can grow to 20% or more, then R&D as a percent will go down. SG&A as a percent will go down to our business models, at the same time the loading in their fab will be increased and the loading in our fab will be increased, too. And that will help so much, and that is the synergy I've been talking about.

Ramesh Misra - ***Collins Stewart — Analyst***

Okay, got it. Then a final question, in terms of, again, Zetex's revenue in the month of June, and your expectation of it in the September quarter. It seems that that number will be going down, and I wanted to get an understanding of that. Is that because Europe slows down in the September quarter or are there other factors?

Keh-Shew Lu - ***Diodes, Inc. — President, CEO***

Well, I will put it — it's two factors. One is yes, the third quarter, typically July and August is very slow months. And the business probably starts to pick it up in September. But another reason is they are very uneven. Typically, when you run your semiconductor, the revenue is not coming out evenly. You have April, May typically will be slow. And then June, end of quarter, you pick it up strong.

And that's always the case, because even your customers the same way. They don't ship linearly. So just by taking one month, June, yes, in Zetex is much bigger than their three-month average. But that is just that. It is not really their business is up or down so much.

Ramesh Misra - ***Collins Stewart — Analyst***

I see.

Keh-Shew Lu - ***Diodes, Inc. — President, CEO***

I hope I answered your question.

Ramesh Misra - ***Collins Stewart — Analyst***

Yes, that does. So I will stop there and let others get on. Thank you.

Operator

Steve Smigie, Raymond James.

Steve Smigie - ***Raymond James — Analyst***

Thank you. Just as a follow-on to that last call, so what might the Zetex revenue look like as we enter the December quarter? Is that —?

Keh-Shew Lu - ***Diodes, Inc. — President, CEO***

Well, I don't — we don't look at the forecast on the fourth quarter right now. I'm easy to get on the third quarter in, so I'm sorry. We don't really give the guidance on the fourth quarter, but you know —.

Mark King - ***Diodes, Inc. — SVP-Sales & Marketing***

Steve, it is going to take us a little time to learn their cycles and learn the consistency of the things and the way their distributors work and so forth. So I just don't think we have that nailed down yet.

Keh-Shew Lu - ***Diodes, Inc. — President, CEO***

Yes, because they are more in — they are very strong in Europe. You know, Europe cycle is different from Asia cycles. We're typically very strong in the third quarter from Diodes' point of view, but they are a little bit weak in the third quarter.

Steve Smigie - ***Raymond James — Analyst***

Okay, so it is not inconceivable to think that you could potentially have a stronger fourth quarter out of Zetex than in the third quarter?

Mark King - ***Diodes, Inc. — SVP-Sales & Marketing***

We are certainly hoping we'll get some synergies from the cross-selling and so forth going into the fourth quarter and into next year. So we hope to have had an opportunity to build some momentum. But remember, we kind of closed this deal right in the middle of summer. So in some of the excitement, it's like, okay, we are trying to get people together and so forth, but there's a vacation season and everything else.

So we think we can really be rolling and all over the customers starting the beginning of September in, say, the European market and so forth. But we have done an enormous amount of work to be prepared to make that happen.

Steve Smigie - ***Raymond James — Analyst***

Right. Was there any currency impact, translating euros generated over back to dollars, or anything that might have made Zetex's revenue look lower in terms of what you are maybe projecting for Q3 or anything like that, or is it —?

Carl Wertz - ***Diodes, Inc. — CFO, Secretary, Treasurer***

Steve, I don’t think there’s anything significant in the currency other than the hedge loss that we talked about (multiple speakers). One time where we had a — hedged the whole 160 some odd million dollars, and the dollar strengthened against the British pound.

Keh-Shew Lu - ***Diodes, Inc. — President, CEO***

This hedge for purchase to Zetex is really something we cannot really prevent. When we buy that Zetex, we announced we are going to pay certain dollar, US dollars. So we announced in US dollars. Unfortunately, UK government said you need to put all the money in the pound. Okay? And — at the time when you announced acquisition.

So we needed to go ahead, hedge at that time. One way or the other, even you know the exchange rate are going to be changing one way or the other, you just need to convert into pounds. So when we do acquisition, we are returning pounds to pounds.

Unfortunately, US GAAP said, well, if you converted at that time but you don’t really give them the money at the time of close, then whatever the exchange rate loss, it’s show on your P&L. It is not in the (inaudible). So for us, you can say we buy cheaper in US dollars, but in pounds, we’re buying the same. And that’s cheaper versus the original announced dollar is showing into our P&L.

And that is what we are talking about the hedge loss, which is not really impact to us from the operation point of view. We expect to spend X dollars for it and that’s the X dollars.

Steve Smigie - ***Raymond James — Analyst***

Okay. Just looking at the other expense line, $2 million to $2.8 million. Just curious, if I take your convert and multiply that through and your interest income from the ARS, that other expense line for Q3 looks somewhat higher than I might expect. I am just curious if there is just some one-time thing in there? Is that sort of the level we would expect roughly to run through our models going forward?

Keh-Shew Lu - ***Diodes, Inc. — President, CEO***

The key thing is the expense for borrow the money from UBS to purchase Zetex. That never really happened. That doesn’t happen until June 9 or something, when we closed it. So if you look at it now, we pay in three months of the interest payment to UBS for borrowing the money to purchase Zetex.

Steve Smigie - ***Raymond James — Analyst***

Okay. At some point, I guess, if you are — the auction rate market starts up, and you should pay that off of cash, the rates would go back down, then?

Keh-Shew Lu - ***Diodes, Inc. — President, CEO***

Yes, immediately. Exactly. Whenever we get some additional cash, we will try to pay off. So either from operations we would gradually pay off or if we get some releases from the ARS, we will pay it off immediately.

Steve Smigie - ***Raymond James — Analyst***

Okay. I’ll let somebody else have questions. Thank you.

Operator

Vijay Rakesh, (inaudible).

Vijay Rakesh ***Analyst***

Dr. Lu, just going back to your questions on better margins with — trying to get better margins with your fab absorption at Zetex, how do you see your gross margins going forward as you start to get more leverage out of Zetex?

Keh-Shew Lu - ***Diodes, Inc. — President, CEO***

I think from a gross margin percent improvement point of view, it will be gradual. It won't be a big increase in a very short period of time. If you look at our expense on the Anachip integration, it takes about — more than one year. I still remember we acquired Anachip in January 2006. The real impact of major show up is in September, in the third quarter of 2007 and fourth quarter of 2008. Those two quarters to show the major impact. Okay?

And the Zetex will be the similar way, maybe even take longer, because like I said, their customer won't be quickly changing that much. But the one we really want to get all the synergy is like I mentioned, we want to be aggressively growing the revenue by cross-selling, by bringing the product to all the different distributors — their distributors use our products; our distributor using their products. And aggressively in Asia for their products, aggressively Europe for our products. We have a lot of cross-selling activity going to be happen.

From there, you are going to be — since you are holding R&D and SG&A, correct — then you are going to significantly reduce — improve the bottom line. And that is what — we committed, it will be accretive within 12 months. We today is already showing June, we already tell you, is accretive from operational. And we are accretive from operational actually in the third quarter. Okay? But with the expense of paying those interests. But we are going to be, within 12 months, we should be able to generate enough bottom-line savings to pay for it.

Vijay Rakesh ***Analyst***

And Dr. Lu, on your core business, Diodes business and the Zetex business, as you look at your guidance here for the second half, how is that visibility and what does your backlog look like for your and Zetex businesses separately—?

Keh-Shew Lu - ***Diodes, Inc. — President, CEO***

I think Mark can answer it.

Mark King - ***Diodes, Inc. — SVP-Sales & Marketing***

I think our backlog is probably around our traditional. It's pretty much level to the same it was in the second quarter. There's still a lot of turns businesses that had to occur. I think we went into the quarter about 60% loaded.

Now, their backlog is a little stronger than the Diodes' — traditionally stronger than the Diodes' because they have had traditionally longer lead times. But I think we are pretty much right where we always are.

Vijay Rakesh ***Analyst***

Got it. Okay. And here as you look at your — the ASPs within the two segments, within the two — Diodes and Zetex, for the quarter, and as you look out — pretty flattish or what do you see?

Mark King - ***Diodes, Inc. — SVP-Sales & Marketing***

Actually, you are going to see a big shock to the ASP next quarter because their ASPs are quite a bit higher than our ASPs, but their units are much lower. So we'll probably have to retrack it.

If you look at the Diodes ASPs, they were down pretty consistently and traditionally in the second quarter. But with that one month, our overall ASPs were up about 8%. So we're going to have to kind of readjust the whole ASP situation when we get a full quarter in.

Vijay Rakesh ***Analyst***

Okay. And then last question here on the tax rate. It looks like it creeped up a little bit. Is that just Europe or what's happening there?

Keh-Shew Lu - ***Diodes, Inc. — President, CEO***

Well, yes, because all that Zetex revenue or their profits, it's 100%, 100% through Europe tax rate. And that's why it bring our average up.

Now, we are working now, but it will take a while to try to get the products direct ship in all this one. But today, 100% of their profits all through Europe and European tax rate.

Vijay Rakesh ***Analyst***

So should it be the 16.5% range for the next couple of quarters, 17% virtually?

Keh-Shew Lu - ***Diodes, Inc. — President, CEO***

I think you are right. You should use that, yes. Until we start to have some actions to direct ship and all those.

Vijay Rakesh ***Analyst***

Okay, thanks.

Operator

Kevin Rottinghaus, Cleveland Research.

Dennis Reed - ***Cleveland Research — Analyst***

This is Dennis Reed for Kevin. Just wanted to dig in a little bit on the pricing environment. You had mentioned kind of the core pricing were down at a traditional level and you got a boost from the Zetex acquisition. If you look at your competitors, how have they behaved on a pricing side?

Mark King - ***Diodes, Inc. — SVP-Sales & Marketing***

I think we always live in a very competitive price environment, and I think if you look at this environment, it is probably as competitive as it gets. I think there's significant amount of price pressure. Nothing that we have never experienced before and so forth. But obviously, when the demand is less than traditional in a period, people are going to be more aggressive. So in our product lines, we see the competitors positioning themselves aggressively.

Dennis Reed - ***Cleveland Research — Analyst***

Okay. Looking at the Zetex ASPs, what type of cost savings could you drive by moving some of their outsourced assembly and test into your facilities?

Keh-Shew Lu - ***Diodes, Inc. — President, CEO***

I think I mentioned it. Savings will be good. By doing their subcon assembly packaging from their subcon to our assembly side, savings would be good. But we — like I mentioned, it's not just move it and then go. Because Zetex customer base is very, very restricted of this sourcing change. And nobody likes — all our customers don't like us change, because saving money for us instead of good for them, right?

So my plan is not just pulling out and putting our assembly side and then saving the money. That is not really the plan. Our plan is qualify their product in our own SKE, and then add those products to the new customers, not existing Zetex customers. It's a new customer or a Diodes' customer who has the confidence on our packaging side. You know, most of our customers already can afford us from our SKE side. They show confidence on our packaging side. So we are going to be selling them the Zetex product using our own packaging side to our customers. And that is when you are going to see the savings instead of their Zetex customers who really don't familiar with our SKE side.

And that is where we are — but again, our synergy is going to be quickly accomplished by cross-sell, by bringing up the revenue as fast as we can, holding below the line, which is R&D and SG&A, as a constant dollar instead of percent, holding at a constant dollars. Then you're going to see a much greater flow through from GPM-9 to [PFO9].

Dennis Reed - ***Cleveland Research — Analyst***

Okay. Sorry to jump around. In terms of the cell phone market, I think you mentioned another couple of design wins in that market. Could you provide any color, I guess, in terms of what percent of revenue it has become and where you ultimately see it going?

Keh-Shew Lu - ***Diodes, Inc. — President, CEO***

Well, how about that Mark can answer this.

Mark King - ***Diodes, Inc. — SVP-Sales & Marketing***

Traditionally, the cell phone marketplace has been really negligible in our overall number, and I think we are still in that level. We are seeing more and more — we are winning more and more design wins with our Hall product. We see some more opportunities with some of our analog products. The Zetex product line and some of their current monitors, there's some opportunity. And we are starting to do more work in discrete.

So I think it can become more significant for us going forward, but at the present time it is not. The timing of that depends on markets and other things, so I don't really want to get too much into when we can see it much different at this point.

Dennis Reed - ***Cleveland Research — Analyst***

Okay. Then just one last one for me. If you look out at your customer base, whether distributor or direct, just any thoughts or commentary on kind of inventory in the supply chain?

Mark King - ***Diodes, Inc. — SVP-Sales & Marketing***

Frankly, our customers, for our products, I can say that they are not over-inventoried. They keep very low inventory. And I can't say the overall chain, but our distributor inventory for Diodes' products is quite clean.

The pressure is overall inventory in those distributors, and so that puts pressure on us. Because it is not that they're not buying Diodes' products; they're just not buying anything, okay? And basically, they are trying to — they are all focusing on cash and keeping things in cash rather than inventory. So until I think that the sentiment changes a little bit about the direction, I think we are going to be up against that from a distributor standpoint on a POP basis.

Now I think from the OEM side, I think they are very cautious with inventory also. Really, we have never experienced an inventory problem at our customer base on our product line. But I think that their buying cycles are shorter now, and they are being more conservative about planning long-term.

Dennis Reed - ***Cleveland Research — Analyst***

All right. Thank you very much.

Operator

Steve Smigie, Raymond James.

Steve Smigie - ***Raymond James — Analyst***

Thank you. Just as a follow-up, could you say how much of Zetex's revenue is outsourced to the subcons versus done in-house?

Keh-Shew Lu - ***Diodes, Inc. — President, CEO***

I would probably say 60% is outsourcing and 40% is produced themselves. And then when we said produced themselves, they have two sites. One is the joint venture — in Chengdu, which they only own one third. But then they 100% own is in Neuhaus in East Germany. So that is about that.

Steve Smigie - ***Raymond James — Analyst***

Okay. Then I know the major part of your plan, it sounds like, is not to move that stuff in-house because customers don't like that. But is there any of that 60% outsourced that you'll be able to move over to your packaging and stuff in Shanghai?

Keh-Shew Lu - ***Diodes, Inc. — President, CEO***

Long time.

Steve Smigie - ***Raymond James — Analyst***

Take a long time?

Keh-Shew Lu - ***Diodes, Inc. — President, CEO***

Yes. Like I said, our objective is not really aggressive move those into our own assemblies. Our objective is qualify the parts, which we are doing right now; sell to our own Diodes' customers, Diodes existing customers, new opportunity, new customer. And that is really our objective.

Steve Smigie - ***Raymond James — Analyst***

Okay. Thank you.

Operator

Ladies and gentlemen, this concludes our question-and-answer session. I would now like to turn the call back to Dr. Keh-Shew Lu for closing remarks.

Keh-Shew Lu - ***Diodes, Inc. — President, CEO***

Thank you for your participation today. We appreciate your time and also consideration, and I see you three months from now. Thank you very much.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This concludes your presentation. You may now disconnect. Good day.