DIODES INC /DEL/
Form 10-Q
August 11, 2008

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

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

For the quarterly period ended June 30, 2008

Or

o **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from __________ to __________.

Commission file number: 002-25577

DIODES INCORPORATED

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**95-2039518** (I.R.S. Employer Identification Number)
15660 North Dallas Parkway Suite 850 Dallas, Texas (Address of principal executive offices)	**75248** (Zip code)

(972) 385-2810

(Registrant s telephone number, including area code)

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

Yes þ No o

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

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

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

Yes o No þ

The number of shares of the registrant s Common Stock outstanding as of August 7, 2008 was 40,851,587

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

ASSETS

	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, net	89,578	**111,934**
Inventories	53,031	**101,649**
Deferred income taxes, current	5,173	**6,620**
Prepaid expenses and other	10,576	**15,088**
Total current assets	538,009	**321,423**
LONG-TERM INVESTMENT, available-for-sale securities		**294,653**
PROPERTY, PLANT AND EQUIPMENT, net	123,407	**183,415**
DEFERRED INCOME TAXES, non-current	3,241	**17,626**
OTHER ASSETS		
Goodwill	25,135	**112,324**
Intangible assets, net	9,643	**17,418**
Other	6,930	**7,718**
Total assets	$ 706,365	$ **954,577**

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

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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	55,145	**58,423**
Accrued liabilities	27,841	**41,541**
Income tax payable	1,732	**6,418**
Current portion of long-term debt	1,345	**1,365**
Current portion of capital lease obligations	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**
Long-term borrowings	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**
CONTINGENCIES AND COMMITMENTS		
STOCKHOLDERS EQUITY		
Preferred stock par value $1.00 per share; 1,000,000 shares authorized; no shares issued or outstanding		
Common stock par value $0.66 2/3 per share; 70,000,000 shares authorized; 40,172,491 and 40,838,821 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 income (loss)	900	**(19,058)**
Total stockholders equity	369,598	**383,230**
Total liabilities and stockholders equity	$ 706,365	$ **954,577**

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

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

	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**
OPERATING EXPENSES				
Selling, general and administrative	13,397	**17,127**	26,075	**31,786**
Research and development	3,156	**4,994**	6,101	**8,730**
Restructuring charge and 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 (EXPENSES)				
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)**
Total other income (expenses)	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 earnings of joint ventures	(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**

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

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

	Six Months Ended June 30, 2007	Six Months Ended June 30, 2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 25,258	**$ 27,311**
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	11,978	**16,465**
Amortization of intangibles	418	**466**
Amortization of convertible bond issuance costs	630	**622**
Minority interest earnings	961	**1,284**
Share-based compensation	4,654	**5,133**
Loss (gain) on disposal of property, plant and equipment	348	**(37)**
Changes in operating assets:		
Accounts receivable	(7,793)	**(7,347)**
Inventories	(442)	**(16,652)**
Prepaid expenses and other current assets	(1,876)	**(1,242)**
Deferred income taxes	863	**(1,034)**
Changes in operating liabilities:		
Accounts payable	(5,382)	**(3,502)**
Accrued liabilities	415	**(1,248)**
Other liabilities	2,210	**(104)**
Income taxes payable	(88)	**3,064**
Net cash provided by operating activities	$ 32,154	**$ 23,179**
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions, net of cash acquired	$	**$ (152,934)**
Acquired intangibles		**(66)**
Purchases of property, plant and equipment	(23,318)	**(25,092)**
Sales (purchases) of available-for-sale securities	(18,772)	**2,797**
Proceeds from sale of property, plant and equipment	5	**45**
Net cash used by investing activities	$ (42,085)	**$ (175,250)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances on line of credit, net	$ 1,056	**$ 16,463**
Net proceeds from issuance of common stock	3,894	**1,147**
Proceeds from long-term debt		**165,000**
Repayments of long-term debt	(1,383)	**(1,062)**
Repayments of capital lease obligations	(81)	**(156)**
Net cash provided by financing activities	$ 3,486	**$ 181,392**

EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	236	**632**
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(6,209)	**29,953**
CASH AND CASH EQUIVALENTS, beginning of period	48,888	**56,179**
CASH AND CASH EQUIVALENTS, end of period	$ 42,679	**$ 86,132**

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

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

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	Six Months Ended June 30, 2007	**2008**
Acquisition:		
Fair value of assets acquired	$	$ 196,958
Liabilities assumed		(44,219)
Cash acquired		24,566
Cash paid for the acquisition	$	$ **177,305**

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

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

NOTE A Basis of Presentation and Recently Issued Accounting Pronouncements

Unless the context otherwise requires, the words Diodes, the Company, we, us and our refer to I Incorporated and its subsidiaries. The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States (U.S.) for interim financial information and with the instructions to Form 10-Q. They do not include all information and footnotes necessary for a fair presentation of financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the U.S. for complete financial statements. These consolidated condensed financial statements should be read in conjunction with the consolidated financial statements and related notes contained in our Annual Report on Form 10-K for the year ended December 31, 2007. In the opinion of management, all adjustments (consisting of normal recurring adjustments and accruals) considered necessary for a fair presentation of the results of operations for the period presented have been included in the interim period. Operating results for the three and six months ended June 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. The condensed consolidated financial data at December 31, 2007 is derived from audited financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2007.

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. As permitted under accounting principles generally accepted in the U.S., interim accounting for certain expenses, including income taxes, are based on full year forecasts. Such amounts are expensed in full in the year incurred. For interim financial reporting purposes, income taxes are recorded based upon estimated annual effective income tax rates.

All significant intercompany balances and transactions have been eliminated.

Corporate Structure

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

In connection with our acquisition of Zetex plc (Zetex) (see-Note M Business Acquisitions), we formed Diodes Holdings UK Limited and Diodes Investment Company, which are the holding companies for Diodes Zetex Limited.

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

Holding companies

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

Subsidiaries

Diodes Taiwan, Inc. (Diodes-Taiwan)	100% owned
Diodes Hong Kong Limited (Diodes-Hong Kong)	100% owned
Anachip Corp. (Anachip or Diodes-Anachip)	99.81% owned
Shanghai Kai Hong Electronic Co., Ltd. (Diodes-China)	95% owned

Shanghai Kai Hong Technology Co., Ltd. (Diodes-Shanghai)	95% owned
Diodes FabTech, Inc. (FabTech or Diodes-FabTech)	100% owned
Diodes United Kingdom Limited	100% owned
Diodes Korea Inc.	100% owned
Diodes Germany GmbH	100% owned
Diodes France SARL	100% owned (2008)
Diodes Zetex Limited (Diodes-Zetex)	100% owned (2008)

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Reclassifications

Certain prior year s balances have been reclassified to conform to the current financial statement presentation. These reclassifications had no impact on previously reported net income or stockholders equity.

Recently Issued Accounting Pronouncements

In May 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement).* FSP APB 14-1 clarifies that convertible debt instruments that may be settled in cash upon conversion are not addressed by paragraph 12 of Accounting Principles Board Opinion No. 14, *Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants*. FSP APB 14-1 also specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity s nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. FSP APB 14-1 is effective for fiscal years beginning after December 15, 2008. The Company is currently evaluating the future impacts and required disclosures of this pronouncement and believes that there will be a material adjustment made to account for the liability and equity components of the Company s $230 million convertible senior notes separately.

In May 2008, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 162, *The Hierarchy of Generally Accepted Accounting Principles*. This standard is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with generally accepted accounting principles in the United States for non-governmental entities. SFAS No. 162 is effective 60 days following approval by the U.S. Securities and Exchange Commission (SEC) of the Public Company Accounting Oversight Board s amendments to AU Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles*. We do not expect SFAS No. 162 to have a material impact on the preparation of our consolidated financial statements.

In April 2008, the FASB issued FSP FAS 142-3, *Determination of the Useful Life of Intangible Asset*. FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS 142, *Goodwill and Other Intangible Assets*. The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141R, *Business Combinations,* and other accounting principles generally accepted in the U.S. FSP FAS 142-3 is effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. The guidance for determining the useful life of a recognized intangible asset in this FSP shall be applied prospectively to intangible assets acquired after the effective date. The disclosure requirements shall be applied prospectively to all intangible assets recognized as of, and subsequent to, the effective date. The Company is currently evaluating the impacts and required disclosures of adopting this pronouncement.

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

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

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In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51*, (SFAS 160) which establishes new standards governing the accounting for and reporting of noncontrolling interests (NCIs) in partially owned consolidated subsidiaries and the loss of control of subsidiaries. Certain provisions of this standard indicate, among other things, that NCIs (previously referred to as minority interests) be treated as a separate component of equity, not as a liability; that increases and decreases in the parent s ownership interest, that leave control intact, be treated as equity transactions, rather than as step acquisitions or dilution gains or losses; and that losses of a partially owned consolidated subsidiary be allocated to the NCIs even when such allocation might result in a deficit balance. This standard also requires changes to certain presentation and disclosure requirements. SFAS 160 is effective beginning January 1, 2009. The provisions of the standard are to be applied to all NCIs prospectively, except for the presentation and disclosure requirements, which are to be applied retrospectively to all periods presented. After adoption, noncontrolling interests ($4.8 million and $7.2 million at December 31, 2006 and 2007, respectively) will be classified as stockholders equity, a change from its current classification between liabilities and stockholders equity. The Company is currently evaluating the future impacts and required disclosures of this pronouncement.

In December 2007, the FASB ratified the Emerging Issues Task Force (EITF) consensus on EITF Issue No. 07-1, *Accounting for Collaborative Arrangements* that discusses how parties to a collaborative arrangement (which does not establish a legal entity within such arrangement) should account for various activities. The consensus indicates that costs incurred and revenues generated from transactions with third parties (i.e., parties outside of the collaborative arrangement) should be reported by the collaborators on the respective line items in their income statements pursuant to EITF Issue No. 99-19, Reporting Revenue Gross as a Principal Versus Net as an Agent. Additionally, the consensus provides that income statement characterization of payments between the participants in a collaborative arrangement should be based upon existing authoritative pronouncements; analogy to such pronouncements is not within their scope; or a reasonable, rational, and consistently applied accounting policy election. EITF Issue No. 07-1 is effective for the Company beginning January 1, 2009 and is to be applied retrospectively to all periods presented for collaborative arrangements existing as of the date of adoption. The Company is currently evaluating the future impacts and required disclosures of this pronouncement.

In June 2007, the FASB s EITF reached a consensus on EITF Issue No. 07-3, *Accounting for Nonrefundable Advance Payments for Goods or Services to Be Used in Future Research and Development Activities* that would require nonrefundable advance payments made by the Company for future research and development activities to be capitalized and recognized as an expense as the goods or services are received by the Company. EITF Issue No. 07-3 is effective for the Company with respect to new arrangements entered into beginning January 1, 2008. The Company s adoption of this pronouncement did not have a material impact and the Company does not have any arrangements in the scope of this pronouncement.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115* (SFAS 159). This Statement permits entities to choose to measure many financial instruments and certain other items at fair value and report unrealized gains and losses on these instruments in earnings. SFAS 159 is effective as of January 1, 2008. At the effective date, an entity may elect the fair value option for eligible items that exist at that date. The entity shall report the effect of the first re-measurement to fair value as a cumulative-effect adjustment to the opening balance of retained earnings. The Company has not elected the fair value option for eligible items that existed as of January 1, 2008.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. Under SFAS 157, fair value measurements would be separately disclosed by level within the fair value hierarchy. SFAS 157 became effective beginning January 1, 2008 and did not have a material effect on the Company s financial position, results of operations or cash flows. In February 2008, FASB Staff Position (FSP) No. 157-2, *Effective Date of FASB Statement No. 157*, was issued that delayed the application of SFAS 157 for non-financial assets and non-financial liabilities, until January 1, 2009 (see Note E Fair Value Measurements).

NOTE B Functional Currencies, Comprehensive Income and Foreign Currency Translation

Functional Currencies and Translation The functional currency for most of our international operations is the U.S. dollar. The functional currency for our subsidiaries Diodes-Taiwan, Diodes-Anachip and Diodes-Zetex is their local currency, as the Company believes it is the appropriate currency for them to use. Assets and liabilities denominated in foreign currencies are translated at the exchange rate on the balance sheet date. Income and expense accounts denominated in foreign currencies are translated at the average exchange rate during the period presented. Resulting translation adjustments are recorded as a separate component of accumulated other comprehensive income or loss within stockholders equity in the consolidated condensed balance sheets. Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are recorded as other income (expense) in the consolidated condensed statements of income. The Company had foreign exchange transaction losses of approximately $0.1 million and $1.2 million for the three months ended June 30, 2007 and 2008, respectively, and approximately $0.3 million and $1.7 million for the six months ended June 30, 2007 and 2008, respectively.

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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 separate components of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income or loss. The components of other comprehensive income or loss include foreign currency translation adjustments, unrealized holding losses for available-for-sale securities, unrealized loss on defined benefit plan and foreign currency gain on forward contracts. Accumulated other comprehensive income was $0.9 million at December 31, 2007 and accumulated other comprehensive loss was $19.1 million at June 30, 2008. The $20.0 million change in other comprehensive loss was primarily a result of a $16.5 million, net of tax, unrealized loss of available-for-sale securities (see Note F Short-term and Long-term Investments) and $8.5 million, net of tax, unrealized loss on defined benefit plan (see Note P Defined Benefit Plan) during the first six months of 2008, partially offset by a $4.7 million currency translation gain.

Total comprehensive income for the three and six months ended June 30, 2007 and 2008 was as follows *(in thousands)*:

Total Comprehensive Income

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	**2008**	2007	**2008**
Net income	$ 12,249	**$ 13,108**	$ 25,258	**$ 27,313**
Translation adjustment	257	**1,622**	(189)	**4,681**
Unrealized loss on available-for-sale securities, net of tax		**(5,031)**		**(16,524)**
Unrealized loss on defined benefit plan, net of tax		**(8,540)**		**(8,540)**
Foreign currency gain on forward contracts, net of tax		**425**		**425**
Comprehensive income	$ 12,506	**$ 1,584**	$ 25,069	**$ 7,355**

NOTE C Hedging

As a multinational company, our transactions are denominated in a variety of currencies. During the second quarter of 2008, in connection with the acquisition of Zetex, the Company adopted forward exchange contracts, designated as foreign-currency cash flow hedges, to reduce the potentially adverse effects of foreign-currency exchange rate fluctuations that occur in the normal course of business. The Company uses forward exchange contracts to hedge, thereby attempting to reduce our overall exposure to the effects of currency fluctuations on cash flows. The Company does not permit speculation in financial instruments for profit on the exchange rate price fluctuation, trading in currencies for which there are no underlying exposures, or entering into trades for any currency to intentionally increase the underlying exposure.

These forward exchange contracts are recognized on the balance sheet at their fair value. Unrealized gain positions are recorded as assets and unrealized loss positions are recorded as liabilities. Changes in the fair values of the outstanding forward exchange contracts that are highly effective are recorded in other comprehensive income until net income is affected by the variability of the cash flows of the hedged transaction. Changes in the fair values of the forward exchange contracts not effective as hedging instruments are recognized in earnings in the current period. Results of ineffective hedges are recorded in the expense line item being hedged.

The Company assesses, both at the inception of the hedge and on an ongoing basis, whether the derivatives that are used in hedging transactions have been highly effective in offsetting changes in the cash flows of hedged items and whether those forward exchange contracts are expected to remain highly effective in future periods.

As of June 30, 2008, the Company had forward contracts, primarily relating to the Zetex operations, of approximately $53.2 million that mature monthly over the next 18 months. For the six months ended June 30, 2008, the Company had net foreign exchange hedge-related transaction losses of $1.5 million related to hedging the Zetex acquisition purchase price and deferred net unrealized losses on outstanding forward exchange contracts recorded as other comprehensive gain of $0.4 million (net of tax). For the six months ended June 30, 2008, the Company had no ineffective hedges because forward foreign currency contract amounts were less than the specifically identified anticipated transactions.

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NOTE D Earnings Per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	**2008**	2007	**2008**
BASIC				
Weighted average number of common shares outstanding used in computing basic earnings per share	39,397	**40,617**	39,220	**40,431**
Net income	$ 12,249	**$ 13,108**	$ 25,258	**$ 27,313**
Earnings per share	$ 0.31	**$ 0.32**	$ 0.64	**$ 0.68**
DILUTED				
Weighted average number of common shares outstanding used in computing basic earnings per share	39,397	**40,617**	39,220	**40,431**
Add: Assumed exercise of stock options and stock awards	2,626	**2,227**	2,677	**2,264**
	42,023	**42,844**	41,897	**42,695**
Net income	$ 12,249	**$ 13,108**	$ 25,258	**$ 27,313**
Earnings per share	$ 0.29	**$ 0.31**	$ 0.60	**$ 0.64**

Earnings per share are based upon the weighted average number of shares of Common Stock and common stock equivalents outstanding, including those related to share-based compensation and convertible notes. Earnings per share are computed using the treasury stock method under FASB Statement No. 128. The convertible notes include a net share settlement feature which requires us to redeem the par amount of the bond in cash and any remaining value, assuming the bond is in the money, in incremental shares, cash or a combination thereof. The net share settled convertible as structured is defined in EITF 90-19, Instrument C, which allows us to use the treasury stock method of calculating the diluted earnings per share. The incremental value of the shares is determined based on the average price of our Common Stock over the reporting period. There are no shares in the earnings per share calculation related to the convertible notes outstanding as our average stock price did not exceed the conversion price of $39.00 and, therefore, there is no conversion spread.

NOTE E Fair Value Measurements

As stated in Note A Basis of Presentation and Recently Issued Accounting Pronouncements, on January 1, 2008, we adopted the methods of fair value as described in SFAS 157 to value the financial assets and liabilities. SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact and (iv) willing to transact.

SFAS 157 requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement costs). Valuation techniques should be consistently applied. Inputs to valuation

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techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity s own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, SFAS 157 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

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

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

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

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

Due to a lack of observable market quotes on our $320.7 million ARS portfolio, we utilized a valuation model that relies exclusively on Level 3 inputs. Fair value presented for the ARS is based on third-party information and were determined using proprietary models based upon well-recognized financial principles and reasonable estimates about relevant future market conditions including those that are based on the expected cash flow streams, the underlying financial condition and credit quality of the issuer and bond insurer, the percent of the Federal Family Education Loan Program (FFELP) guaranty, and the maturity of the securities, as well as the market activity of similar securities. The valuation of our ARS investment portfolio is subject to uncertainties that are difficult to predict and the future actual market prices may differ materially (see Note F Short-term and Long-term Investments).

Financial assets and liabilities carried at fair value as of June 30, 2008 are classified in the following table *(in thousands*):

Description	Level 1: Quoted Prices in Active Markets for Identical Assets	Level 2: Significant Other Observable Inputs	Level 3: Significant Unobservable Inputs	**Total at June 30, 2008**
Available-for-sale securities	$	$	$ 294,653	$ **294,653**
Total	$	$	$ 294,653	$ **294,653**

The following is a reconciliation of the beginning and ending balances for assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the period ended June 30, 2008 *(in thousands)*:

	Available-for-sale securities
Beginning balance as of January 1, 2008	$ 320,700
Total gains or losses (unrealized)	
Included in other comprehensive loss	(26,072)
Purchases, issuances, and settlements	25
Ending balance as of June 30, 2008	**$ 294,653**

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Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis, that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Financial assets and financial liabilities measured at fair value on a non-recurring basis were not significant at June 30, 2008.

Certain non-financial assets and non-financial liabilities measured at fair value on a recurring and non-recurring basis include goodwill, other intangible assets and other non-financial long-lived assets. As previously stated above, SFAS 157 will be applicable to these fair value measurements beginning January 1, 2009.

NOTE F Short-term and Long-term Investments

Short-term and long-term investments at June 30, 2008 and December 31, 2007, were as follows *(in thousands)*:

As of June 30, 2008	Cost Basis	Unrealized Gains	Unrealized Losses	Fair Value
Long-term investments:				
Available-for-sale investment in auction rate securities	$ 320,675	$	$ (26,072)	$ **294,653**
Total long-term investments	$ 320,675	$	$ (26,072)	$ **294,653**

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

As of June 30, 2008, we had $320.7 million invested in ARS, which are generally long-term debt instruments that provided liquidity through a Dutch auction process that resets the applicable interest rate at pre-determined calendar intervals. These mechanisms historically have allowed existing investors to roll over their holdings and continue to own the respective securities or to liquidate their holdings by selling their securities at par value.

Historically, the Company invested in ARS for short periods of time as part of its cash management program. However, the recent uncertainties in the credit markets and the failure of the auctions for the Company s ARS have prevented us and other investors from liquidating holdings of ARS. An auction failure, which is not a default in the underlying debt instrument, occurs when the amount of securities submitted for sale exceed the amount of purchase orders, resulting in our continuing to hold these securities. The maturity dates for the Company s ARS range from 19 to 39 years and averages 32 years. Based on current market conditions, if a secondary market does not develop, it is likely that auctions related to these securities will continue to be unsuccessful. Unsuccessful auctions will result in our holding securities beyond their next scheduled auction reset dates, thereby limiting the liquidity of these investments.

Our ARS are primarily in student loan association bonds. None of our investments are collateralized mortgage obligations or are any other type of mortgage-backed or real estate-backed security.

As of June 30, 2008, approximately 85.7%, or $274.8 million, of the $320.7 million par value ARS are collateralized by higher education funded student loans that are supported by the federal government as part of FFELP. The following table shows a natural grouping of the FFELP guaranteed securities, as well as the percentage of the ARS portfolio guaranteed by FFELP *(in thousands)*.

% of FFELP guaranty	**Par Value**	**% of Total**

Greater than 99.0%	$195,000	60.8%
Between 81.2% and 82.1%	86,825	27.1%
50.50%	17,000	5.3%
10.00%	3,850	1.2%
non-FFELP guaranteed	18,000	5.6%
Total	**$320,675**	**100.0%**

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As of June 30, 2008, our portfolio of ARS was valued using a valuation model that relies exclusively on Level 3 inputs. The valuation resulted in the ARS being discounted by a range of 5.5% to 23.1% of par value. The resulting discount of the total ARS portfolio was 8.1% of par value, or $26.1 million pre-tax unrealized loss (see Note E Fair Value Measurements).

We currently have the ability and intent to hold these ARS investments until a recovery of the auction process or until maturity. Because of the inability to determine when our investments in ARS would settle, as of March 31, 2008, we reclassified the entire ARS balance from short-term investments to long-term investment, available-for-sale securities on our consolidated balance sheet.

Although we are uncertain as to when the liquidity issues relating to these investments will improve, we consider these issues to be only temporary, and thus reduced the carrying value of the ARS to $294.7 million by recording a $16.5 million unrealized loss (net of $9.6 million tax effect) in other comprehensive loss.

It is possible that further declines in ARS fair value may occur. We continue to monitor the market for ARS and consider its impact (if any) on the fair market value of the investments. If the current market conditions deteriorate further, we may be required to record additional unrealized losses in other comprehensive income or record impairment charges to the income statement.

NOTE G Inventories

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

	December 31, 2007	**June 30, 2008**
Raw materials	$ 19,918	**$ 36,390**
Work-in-progress	11,868	**30,609**
Finished goods	21,245	**34,650**
	$ 53,031	**$ 101,649**

NOTE H Goodwill and Other Intangible Assets

The following amounts of goodwill and intangible assets relating to the acquisition of Zetex are preliminary (See Note M Business Acquisitions). The Company is undergoing an independent valuation of the assets acquired, and upon completion of the valuation the amounts of goodwill and intangible assets are subject to change.

Changes in goodwill are as follows *(in thousands):*

	2007				**2008**			
	Balance, January 1	Acquisitions/ purchase accounting adjustments	Currency exchange and other	Balance, December 31	Balance, January 1	Acquisitions/ purchase accounting adjustments	Currency exchange and other	**Balance, June 30**
Total	$25,030	$	$105	$25,135	$25,135	$85,231	$1,958	$**112,324**

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Intangible assets at June 30, 2008 are *(in thousands):*

		As of June 30, 2008			
Intangible Assets	Useful life	Gross Carrying Amount	Accumulated Amortization	Currency exchange and other	**Net**
Amortized Intangible Assets:					
Patents and trademarks	3-15 years	$11,422	$(2,025)	$ (37)	$ **9,360**
Software license	3 years	648	(33)	4	**619**
Total amortized intangible assets:		$12,070	$(2,058)	$ (33)	$ **9,979**
Indefinite Life Intangible Assets:					
Intellectual property	Indefinite	$ 7,387	$	$ 52	$ **7,439**
Total indefinite life intangible assets:		$ 7,387	$	$ 52	$ **7,439**
Total intangible assets:		$19,457	$(2,058)	$ 19	$**17,418**

Amortization expense related to intangible assets subject to amortization was $0.2 million and $0.3 million for the three months ended June 30, 2007 and 2008, respectively.

Amortization expense related to intangible assets subject to amortization was $0.4 million and $0.5 million for the six months ended June 30, 2007 and 2008, respectively.

NOTE I Income Tax Provision

Income tax expense of $2.8 million and $5.0 million was recorded for the three and six months ended June 30, 2008, respectively. This resulted in an effective tax rate of 14.9% in the six months ended June 30, 2008, as compared to 15.7% in the same period of last year and compared to 13.2% for the full year of 2007. Our lower effective tax rate compared with the same period last year was the result of lower income in the U.S. and higher income in lower-taxed jurisdictions, partially offset by an increased income tax rates at our China subsidiaries.

Our global presence requires us to pay income taxes in a number of jurisdictions. In general, earnings in the U.S. and Taiwan are currently subject to tax rates of 39.0% and 25.0%, respectively. In addition, Taiwan earnings are subject to an additional 10% retained earnings tax should the Taiwan earnings not be distributed. Earnings of Diodes-Hong Kong are subject to a 16.5% tax for local sales or local source sales; all other Hong Kong sales are not subject to foreign income taxes. Earnings 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 this Subpart F income is computed as the difference between the foreign effective tax rates and the U.S. tax rate. In accordance with U.S. tax law, we receive credit against our U.S. federal tax liability for income taxes paid by our foreign subsidiaries.

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

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 2007. For 2008, we expect a tax rate of 25%. In addition, due to a $15 million permanent re-investment of Diodes-China earnings in 2004, Diodes-China has received additional preferential tax treatment (earnings will be exempted from central government income tax for two years, and then subject to tax rates in the range of 12.0% to 12.5% for the following three years) on earnings that are generated by this investment.

In addition, the earnings of Diodes-China would ordinarily be subject to a standard local government tax rate of 3.0% through 2007. However, as an incentive for establishing Diodes-China, the local government waived this tax from 1996 through 2007.

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%, and there is no local government tax. As an incentive for establishing Diodes-Shanghai, the 2005 and 2006 earnings of Diodes-Shanghai were exempted from central government income tax and the 2007 earnings were subject to a 7.5% tax rate. For 2008, we expect a tax rate of 12.5%.

It is unclear to what extent our China subsidiaries will receive preferential tax treatment. The recent China government income tax reform terminates some existing tax incentives for foreign enterprises doing business in China. The central government tax rate in China increased to 25% beginning in 2008; however, we believe Diodes-China may qualify for a high technology preferential tax treatment that would reduce the tax rate to 15% and Diodes-China may qualify for a transitional tax rate of 9%.

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

We file income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. We are no longer subject to U.S. federal income tax examinations by tax authorities for tax years before 2004. The IRS has contacted the Company regarding an examination for the tax year ended 2005. With respect to state and local jurisdictions and countries outside of the U.S., with limited exceptions, we are no longer subject to income tax audits for years before 2001. Although the outcome of tax audits is always uncertain, we believe that adequate amounts of tax, interest and penalties, if any, have been provided for in our FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN48) reserve for any adjustments that may result from future tax audits. We recognize accrued interest and penalties, if any, related to unrecognized tax benefits in income tax expense.

We adopted the provisions FIN48 effective January 1, 2007. As a result of the implementation of FIN48, we increased our liability for unrecognized tax benefits, primarily related to our foreign subsidiaries, by approximately $2.0 million during the first quarter of 2007, which was accounted for as a reduction to the January 1, 2007 balance of retained earnings. As of January 1, 2008 and June 30, 2008, the gross amount of unrecognized tax benefits was approximately $4.1 million and $4.3 million, respectively.

It is reasonably possible that the amount of the unrecognized benefit with respect to certain of our unrecognized tax positions will significantly increase or decrease within the next 12 months. These changes may be the result of settlement of ongoing audits or competent authority proceedings. At this time, an estimate of the range of the reasonably possible outcomes cannot be made.

In addition, funds repatriated from foreign subsidiaries to the U.S. may be subject to federal and state income taxes. As of January 1, 2007, we had accrued $3.3 million for U.S. taxes on future dividends from our foreign subsidiaries. With the establishment of the holding companies in 2007, the Company intends to permanently reinvest overseas all of its earnings from its foreign subsidiaries. Accordingly, the $3.3 million liability was reversed during 2007, and U.S. taxes are no longer being recorded on undistributed foreign earnings.

NOTE J Deferred compensation

Beginning January 1, 2007, the Company implemented a Non-Qualified Deferred Compensation Plan (the Deferred Compensation Plan) for executive officers, key employees and members of the Board of Directors (the Board). The Deferred Compensation Plan allows eligible participants to defer the receipt of eligible compensation until designated future dates. The Company offsets its obligations under the Deferred Compensation Plan by investing in the actual underlying investments. These investments are classified as trading securities and are carried at fair value. At June 30, 2008, these investments totaled approximately $2.1 million. All gains and losses in these investments are equally offset by corresponding gains and losses in the Deferred Compensation Plan liabilities.

NOTE K Share-based Compensation

We maintain share-based compensation plans for our officers, key employees, and our Board, which provide for stock options and stock awards. For further details regarding the Company s share-based compensation plans, please see Note 15 of our notes to consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2007.

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

For the three months and six months ended June 30, 2007 and 2008, share-based compensation expense associated with the Company s stock options recognized in the income statement is as follows *(in thousands)*:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2007	**2008**	2007	**2008**
Cost of sales	$ 79	**$ 51**	$ 160	**$ 105**
Selling and administrative expense	1,205	**1,072**	2,508	**2,151**
Research and development expense	118	**110**	243	**211**
Total stock option expense	$ 1,402	**$ 1,233**	$ 2,911	**$ 2,467**

Stock option expense for the three months and six months ended June 30, 2007 and 2008 was estimated on the date of grant using the Black-Scholes option pricing model. For the six months ended June 30, 2008, the Company granted stock options to purchase approximately 241,000 shares of the Company s Common Stock, which vests in equal annual installments over a four-year period and expire ten years from the date of grant. Options granted during the six months ended June 30, 2008 had a weighted-average grant date fair value of $16.70.

The total intrinsic value (actual gain) of options exercised during the six months ended June 30, 2008 was approximately $6.5 million. The total net cash proceeds received from stock option exercises during the six months ended June 30, 2008 was $1.1 million.

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A summary of the stock option plans as of June 30, 2008 follows *(in thousands)*:

Stock options	Shares (000)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (yrs)	Aggregate Intrinsic Value ($000)
Outstanding at January 1, 2008	4,268	$ 10.06	6.0	$ 85,393
Granted	241	27.95		
Exercised	(292)	3.93		6,513
Forfeited or expired	(15)	18.84		
Outstanding at June 30, 2008	**4,202**	**$ 11.48**	**5.8**	**$ 67,974**
Exercisable at June 30, 2008	**3,317**	**$ 8.59**	**5.1**	**$ 63,204**

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

As of June 30, 2008, total unrecognized stock-based compensation expense related to unvested stock options, net of forfeitures, was approximately $8.6 million, before income taxes, and is expected to be recognized over a weighted average of approximately 2.2 years.

Share Grants. Restricted stock awards and restricted stock units generally vest in equal annual installments over a four-year period.

A summary of the status of our non-vested share grants as of June 30, 2008 follows *(in thousands)*:

Share Grants	Shares (000)	Weighted-Average Grant-Date Fair Value	Aggregate Intrinsic Value ($000)
Nonvested at January 1, 2008	1,018	$ 18.34	$ 30,602
Granted	105	27.91	
Vested	(375)	15.77	9,342
Forfeited	(28)	26.35	
Nonvested at June 30, 2008	**720**	**$ 20.78**	**$ 19,897**

During the three months ended June 30, 2007 and 2008, there was $0.8 million and $1.3 million, respectively, of share-based compensation expense related to non-vested stock award arrangements granted under the plans.

During the six months ended June 30, 2007 and 2008, there was $1.7 million and $2.7 million, respectively, of share-based compensation expense related to non-vested stock award arrangements granted under the plans.

The total intrinsic value (actual gain) of restricted stock grants vested during the six months ended June 30, 2008 was approximately $9.3 million.

As of June 30, 2008, total un-recognized share-based compensation expense related to non-vested stock award arrangements, net of forfeitures, was approximately $12.9 million, before income taxes, and is expected to be recognized over a weighted average of approximately 2.2 years.

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NOTE L Segment and 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. Our chief decision-making group consists of the President and Chief Executive Officer, Chief Financial Officer, Senior Vice President of Operations, Senior Vice President of Sales and Marketing and Senior Vice President of Finance. For financial reporting purposes, we operate in a single segment, standard semiconductor products, through our various manufacturing and distribution facilities. We aggregated our products since the products are similar and have similar economic characteristics, and the products are similar in production process and share the same customer type.

Our primary operations include the domestic operations in North America and the Far East. For reporting purposes, European sales, which accounted for approximately 4.2% and 8.7% of total sales for the three months ended June 30, 2007 and 2008, respectively, and approximately 4.3% and 7.4% of total sales for the six months ended June 30, 2007 and 2008, respectively, are consolidated into the domestic (North America) operations.

The accounting policies of the operations are the same as those described in the summary of significant accounting policies in our Annual Report on Form 10-K for the year ended December 31, 2007. Revenues are attributed to geographic areas based on the location of the market producing the revenues *(in thousands)*:

Three Months Ended June 30, 2007	Far East	North America	Consolidated Segments
Total sales	$ 121,240	$ 29,943	$ 151,183
Inter-company sales	(48,585)	(6,315)	(54,900)
Net sales	$ 72,655	$ 23,628	$ 96,283
Property, plant and equipment	$ 97,658	$ 12,766	$ 110,424
Assets	$ 199,278	$ 462,145	$ 661,423

Three Months Ended June 30, 2008	Far East	North America	Consolidated Segments
Total sales	$ 154,228	$ 42,366	$ **196,594**
Inter-company sales	(72,855)	(7,721)	**(80,576)**
Net sales	$ 81,373	$ 34,645	$ **116,018**
Property, plant and equipment	$ 107,323	$ 76,092	$ **183,415**
Assets	$ 344,715	$ 609,862	$ **954,577**

Six Months Ended June 30, 2007	Far East	North America	Consolidated Segments
Total sales	$ 231,907	$ 60,666	$ 292,573
Inter-company sales	(93,395)	(10,875)	(104,270)

Net sales	$ 138,512	$ 49,791	$ 188,303
Property, plant and equipment	$ 97,658	$ 12,766	$ 110,424
Assets	$ 199,278	$ 462,145	$ 661,423

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Six Months Ended June 30, 2008	Far East	North America	Consolidated Segments
Total sales	$ 292,698	$ 72,222	**$ 364,920**
Inter-company sales	(137,402)	(15,920)	**(153,322)**
Net sales	$ 155,296	$ 56,302	**$ 211,598**
Property, plant and equipment	$ 107,323	$ 76,092	**$ 183,415**
Assets	$ 344,715	$ 609,862	**$ 954,577**