DIODES INC /DEL/
Form 10-K
February 26, 2009

**United States**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**
**FORM 10-K**

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

**For the fiscal year ended December 31, 2008.**

**or**

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

**For the transition period from _____ to _____ .**

**Commission file number: 002-25577**

**DIODES INCORPORATED**

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

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

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

company)

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

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

**DOCUMENTS INCORPORATED BY REFERENCE**

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

## PART I

### Item 1. Business

### GENERAL

We are a leading global designer, manufacturer and supplier of high-quality, application specific standard products within the broad discrete and analog semiconductor markets, serving the consumer electronics, computing, communications, industrial and automotive markets. These products include diodes, rectifiers, transistors, MOSFETs, protection devices, functional specific arrays, amplifiers and comparators, Hall effect sensors and temperature sensors, power management devices (including LED drivers), DC-DC switching and linear voltage regulators, voltage references, special function devices (including USB power switch, load switch, voltage supervisor and motor controllers) and silicon wafers used to manufacture these products.

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

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

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

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

### BUSINESS OUTLOOK

For 2009 we expect to see a further slowdown in economic activity and a decrease in global demand for our products, particularly in the consumer, computer and automotive markets. The success of our business depends, among other factors, on the strength of the global economy and the stability of the financial markets, which in turn affect our customers demand for our products, the ability of our customers to meet their payment obligations, the likelihood of customers canceling or deferring existing orders and end-user consumers demand for items containing our products in the end-markets we serve. We believe the long-term outlook for our business remains generally favorable despite the recent volatility in the equity and credit markets as we continue to execute on the strategy that has proven successful for us over the years. Although the economy creates a more challenging environment for all businesses, we believe that over the long-term we are well positioned for future growth. We will carefully monitor the market conditions and take the appropriate steps necessary to have positive free cash flow. We also remain focused on

new product development and design wins in order to create additional revenue sources and to position us for rapid growth when the economy improves. See Management s Discussion and Analysis of Financial Condition and Results of Operations *Business Outlook* and *Cost Reduction Initiative* in Part II, Item 7 of this Annual Report for further information.

**FINANCIAL INFORMATION, SEGMENT REPORTING AND GEOGRAPHIC AREAS**

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

**OUR INDUSTRY**

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

**OUR COMPETITIVE STRENGTHS**

We believe our competitive strengths include the following:

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

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

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

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

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

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

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

In 2008, we strengthened our executive management team with the addition of the following management team members: Hans Rohrer, Senior Vice President of Business Development, who brought 30 years of relevant industry experience and joined us as a result of the acquisition of Zetex, at which he was CEO; Colin Greene, Europe President and Vice President of Europe Sales and Marketing, who brought with him over 20 years of relevant industry experience and joined us as a result of the acquisition of Zetex, at which he was COO; and Julie Holland, Vice President of Worldwide Analog Products, who came to us from TI and

brought with her over 23 years of relevant industry experience. Also in 2008, we promoted Tung Cheo ( T.J. ) Lee to Vice President of Packaging Operations and General Manager of China Operations.

**OUR STRATEGY**

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

The principal elements of our strategy include the following:

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

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

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

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

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

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

**Maintain intense customer focus** We intend to strengthen and deepen our customer relationships. We believe that continued focus on customer service is important, especially in the current economic environment, and will help to increase our net sales, operating performance and overall market share once economic conditions improve. To accomplish this, we intend to continue to closely collaborate with our customers to design products that meet their specific needs. A critical element of this strategy is to continue to further reduce our design cycle time in order to quickly provide our customers with innovative products. During 2008, we expanded our quality systems team to

ensure we deliver high quality products. Additionally, to support our customer-focused strategy, we historically expanded our sales force and field application engineers, particularly in Asia and Europe, during periods of growth. Given the current economic conditions, we have deferred hiring additional employees since the fourth quarter of 2008, when we implemented a hiring freeze. See Management s Discussion and Analysis of Financial Condition and Results of Operations *Cost Reduction Initiative* section of Part II, Item 7 of this Annual Report for additional information about the hiring freeze and other cost reduction initiatives.

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

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

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

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

**CONVERTIBLE SENIOR NOTES**

On October 12, 2006, we issued and sold convertible senior notes with an aggregate principal amount of $230 million due 2026 (the Notes ), which pay 2.25% interest per annum on the principal amount of the Notes, payable semi-annually in arrears on April 1 and October 1 of each year, beginning on April 1, 2007.

The Notes will be convertible into cash or, at our option, cash and shares of our Common Stock based on an initial conversion rate, subject to adjustment, of 25.6419 shares (split adjusted) per $1,000 principal amount of Notes (which represents an initial conversion price of $39.00 per share (split adjusted), in certain circumstances. In addition, following a make-whole fundamental change that occurs prior to October 1, 2011, we will, at our option, increase the conversion rate for a holder who elects to convert its Notes in connection with such make-whole fundamental change, in certain circumstances.

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

**OUR PRODUCTS**

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

Our broad product line includes:

Discrete semiconductor products, including performance Schottky rectifiers; performance Schottky diodes; Zener diodes and performance Zener diodes, including tight tolerance and low operating current types; standard, fast, super-fast and ultra-fast recovery rectifiers; bridge rectifiers; switching diodes; small signal bipolar transistors; prebiased transistors; MOSFETs; thyristor surge protection devices; and transient voltage suppressors;

Complex high-density diode, transistor and mixed technology arrays, in multi-pin ultra-miniature surface-mount packages, including customer specific and function specific arrays;

Silicon wafers used in manufacturing these products; and

Analog, including power management devices and Hall effect sensors.

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

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

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

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

**PRODUCT PACKAGING**

Our device packaging technology primarily includes a wide variety of surface-mount packages. Our focus on the development of smaller, more thermally efficient, and increasingly integrated packaging, is a critical component of our product development. We provide a comprehensive offering of miniature and sub-miniature packaging, enabling us to fit components into smaller and more efficient packages, while maintaining the same device functionality and

power handling capabilities. Smaller packaging provides a reduction in the height, weight and board space required for our components, and is well suited for battery-powered, hand-held and wireless consumer applications such as digital audio players, notebook computers, flat-panel displays, mobile handsets, digital cameras and set-top boxes.

**CUSTOMERS**

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

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

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

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

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

**SALES AND MARKETING**

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

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

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

customers, sales representatives and distributors. We support our customers through our field application engineering and customer support organizations.

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

and a small order desk for overnight sample fulfillment. In addition, our website provides investors access to our financial and corporate governance information.

**MANUFACTURING OPERATIONS AND FACILITIES**

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

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

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

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

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

**BACKLOG**

The amount of backlog to be shipped during any period is dependent upon various factors, and all orders are subject to cancellation or modification, usually with no penalty to the customer. Orders are generally booked from one

month to greater than twelve months in advance of delivery. The rate of booking of new orders can vary significantly from month to month. We, and the industry as a whole, have been experiencing a trend towards shorter lead-times, and we expect this trend to continue. The amount of backlog at any date depends upon various factors, including the timing of the receipt of orders, fluctuations in orders of existing product lines, and the introduction of any new lines. Accordingly, we believe that the amount of our backlog at any date is not a particularly useful measure of our future sales. We strive to maintain proper inventory levels to support our customers just-in-time order expectations.

**PATENTS, TRADEMARKS AND LICENSES**

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

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

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

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

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

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

**COMPETITION**

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

**ENGINEERING AND RESEARCH AND DEVELOPMENT**

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

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

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

**EMPLOYEES**

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

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

**ENVIRONMENTAL MATTERS**

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

**CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS**

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

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

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

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

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

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

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

**SEASONALITY**

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

**AVAILABLE INFORMATION**

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

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

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

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

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

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

**Item 1A. Risk Factors**

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

**RISKS RELATED TO OUR BUSINESS**

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

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

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

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

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

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

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

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

The semiconductor industry in which we operate is highly competitive. We expect intensified competition from existing competitors and new entrants. Competition is based on price, product performance, product availability, quality, reliability and customer service. We compete in various markets with companies of various sizes, many of which are larger and

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

***New technologies could result in the development of new products by our competitors and a decrease in demand for our products, and we may not be able to develop new products to satisfy changes in demand, which could result in a decrease in net sales and loss of market share.***

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

Products or technologies developed by other companies may render our products or technologies obsolete or noncompetitive and, since we operate primarily in a narrower segment of the broader semiconductor industry, this may have a greater effect on us than it would if we were a broad-line semiconductor manufacturer with a wider range of product types and technologies. Many of our competitors are larger and more established international companies with greater engineering and research and development resources than us. Our failure to identify or capitalize on any

fundamental shifts in technologies in our product markets, relative to our competitors, could harm our business, have a material adverse effect on our competitive position within our industry and harm our relationships with our customers. In addition, to remain competitive, we must continue to reduce package sizes, improve manufacturing yields and expand our sales. We may not be able to accomplish these goals, which could harm our business.

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

Our operations are dependent upon our information technology systems, which encompass all of our major

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

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

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

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

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

pay substantial damages for past, present and future use of the infringing technology;

cease the manufacture, use or sale of infringing products;

discontinue the use of infringing technology;

expend significant resources to develop non-infringing technology;

pay substantial damages to our customers or end-users to discontinue use or replace infringing technology with non-infringing technology;

license technology from the third party claiming infringement, which license may not be available on commercially reasonable terms, or at all; or

relinquish intellectual property rights associated with one or more of our patent claims, if such claims are held invalid or otherwise unenforceable.

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

Our manufacturing operations depend upon obtaining adequate supplies of raw materials, parts and equipment on a timely basis from third parties. Our results of operations could be adversely affected if we are unable to obtain adequate supplies of raw materials, parts and equipment in a timely manner or if the costs of raw materials, parts or equipment were to

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

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

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

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

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

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

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

A significant part of our growth strategy involves acquiring companies with complementary product lines, customers or other capabilities. For example, (i) in fiscal year 2000, we acquired Diodes FabTech Inc., a wafer fabrication company, in order to have our own wafer manufacturing capabilities, (ii) in January 2006, we acquired

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

unexpected losses of key employees or customers of the acquired company;

bringing the acquired company s standards, processes, procedures and controls into conformance with our operations;

coordinating our new product and process development;

hiring additional management and other critical personnel;

increasing the scope, geographic diversity and complexity of our operations;

difficulties in consolidating facilities and transferring processes and know-how;

difficulties in reducing costs of the acquired entity s business;

diversion of management s attention from the management of our business; and

adverse effects on existing business relationships with customers.

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

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

We are subject to a variety of U.S. Federal, state, local and foreign governmental laws, rules and regulations related to the use, storage, handling, discharge or disposal of certain toxic, volatile or otherwise hazardous chemicals used in our manufacturing process both in the United States and England where our wafer fabrication facilities are located, in China and Germany where our assembly, test and packaging facilities are located, and in Taiwan (where our analog products were produced through 2007). Some o roman",times,serif;color:#000000;'>the transactions contemplated by the framework agreement do not close, including due to the failure to receive required stockholder and warrantholder approvals, or the failure to meet other closing conditions.

Sports Properties cautions that the foregoing list of factors is not exclusive. Additional information concerning these and other risk factors is contained in Sports Properties most recent filings with the Securities and Exchange Commission. All subsequent written and oral forward-looking statements concerning Sports Properties, the framework agreement, the related transactions or

other matters and attributable to Sports Properties or any person acting on its behalf are expressly qualified in their entirety by the cautionary statements above. Sports Properties cautions readers not to place undue reliance upon any forward-looking statements, which speak only as of the date made. Sports Properties does not undertake

or accept any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement to reflect any change in its expectations or any change in events, conditions or circumstances on which any such statement is based.

Note to Investors

In connection with the proposed transactions we have

filed a preliminary proxy statement regarding the proposed transactions with the SEC and intend to mail a definitive proxy statement to our stockholders and warrantholders. Before making any voting decision investors are urged to read the preliminary proxy statement and the definitive proxy statement when it becomes available because they contain

important information about the proposed transactions. Stockholders and warrantholders will also be able to obtain a copy of the preliminary and definitive proxy statements, without charge, once available, at the SEC s Internet site at http://www.sec.gov or by directing a request to: Sports Properties Acquisition Corp., 437 Madison Avenue, 38th Floor, New

York, New York 10022, Attention: Andrew Murstein, Telephone (212) 328-2100. We and our directors, executive officers, affiliates and other persons may be deemed to be participants in the solicitation of proxies for the special meetings of our stockholders and warrantholders to approve the proposed transactions. A list of the names of

those directors and officers and descriptions of their interests in us is contained in our annual report. You may also obtain additional information about the interests of our directors and officers in the proposed transactions by reading the preliminary proxy statement that we filed and the definitive proxy statement and other

relevant
materials
that
we
will
file
with
the
SEC
when
they
become
available.
1

Transaction Overview
Transaction Overview
1.03x
(1)
(Less than traditional IPO)
Price / Book Value:
Transaction:
Convert HMR to an operating company: Medallion Management
Sponsor:
Medallion Financial to provide management and other services
Structural Improvements:
All Sponsor shares cancelled: 5.375 million shares eliminated
Warrants: increase exercise price and duration; eliminate

cashless exercise feature of IPO warrants
Deferred underwriting fee: reduced by over 75%
Business Purpose:
Acquire and manage taxicab medallions and operators
Initial Book Value:
Up to $209 million; minimum of $100 million
Ticker / Exchange:
HMR
/ NYSE Amex
HMR Stock Price:
$9.90 (November 30, 2009)
Expected Timetable:
Record Date:
Shareholder / Warrant holder meeting:
Closing:
Early January
Mid-January
Mid-January
(1)
Note: Assumes initial book value of $209 million (see Appendix)
2

Superior and relatively uncorrelated asset returns available to owners with historical ROEs
of over 30%
Only public company to primarily own and operate medallions
Attractive ancillary business opportunities exist across the taxicab industry
Advantageous tax treatment of medallions enables favorable distributable income
Substantial founder investment with strong alignment of interests
Proprietary access to the medallion market; local presence in key markets
Respected management team with nearly 100 years of combined experience in the taxicab industry
Key Investment Highlights
Key Investment Highlights
3

Acquire assets in diverse groups of markets Will initially focus activities in New

York
City,
Chicago
and
Boston
and
intend
to
expand
to
other
municipalities
that
may
provide
attractive
return
profiles
Markets
will
be
evaluated
on
the
basis
of
the
medallion
price,
market
lease
rates
and
the
outlook
on
other
value
drivers
such
as
potential
fare
increases
Maximize
lease
revenues
through
the
ownership

of
a
large
number
of
medallions
as
well
as
buying
fleet
operations
Leverage
existing
relationships
with
local
medallion
brokers
and
fleet
owners
Achieve
optimal
pricing
on
medallions
by
pursuing
bulk
purchases
of medallions
Opportunistically
pursue
related
services:
fleet
management,
taxicab
advertising,
corporate
or
town
car
services,
credit
card
processing
Systematic
exits

through
dispositions
once
an
asset
has
met
target
return
parameters
Business Strategy
Business Strategy
4

Overview of Taxicab Medallions

Overview of Taxicab Medallions

A taxicab medallion is a regulated license, issued to operate a taxicab and designates the exclusive right to pick up street hails in many major metropolitan markets

In 1937, NYC issued 11,787 medallions for $10 each; today there are 13,237 medallions, of which the corporate or mini-fleet medallions sell for approximately $750,000 each

Given its importance to the welfare of the general public, the industry is highly regulated by local city councils and municipal regulatory bodies that:

Regulate and control the number of medallions in existence

License drivers

Establish fares

Monitor complaints and enforce regulations
Approve all transfers of medallions
As a measure to control congestion, new medallions are rarely issued
The regulation of the number of medallions has had the following effects:
Consistent medallion price appreciation
Active secondary market for medallions
Variety of lenders to prospective medallion owners
Competes on the basis of price and convenience
5

Compelling Opportunity

Compelling Opportunity

Taxi medallions have historically provided owners with an opportunity to earn attractive returns versus other asset classes

Medallions are liquid assets and can provide current lease income and offer the potential for price appreciation

Municipal regulation of the local medallion market creates a significant barrier to entry

The medallion market is fragmented, creating opportunities for knowledgeable operators with capital

Medallions are a depreciable asset for tax purposes

Medallions can be levered at attractive rates to enhance equity returns

Taxicab fleet operators currently can be purchased at less than 2x EBITDA

6

Drivers of Taxi Medallion Values
Drivers of Taxi Medallion Values
Driver
Commentary
Stable regulatory
environment
Medallion supply is regulated by local municipalities
Supply and demand
for taxi service
Competes against mass transportation, black cars and liveries
Fares
Regulated by local authorities, have risen steadily over time
Driver availability

Competes against other employment opportunities for drivers
Access to capital
Ability to finance the acquisition of a medallion
Secondary market
Ability for owners to sell in a liquid market
Ready universe of
sellers
Turnover rate of medallions creates supply for prospective
owners
Traffic and
environmental
Traffic control and congestion pricing are potential factors
Technology
Mandatory credit card readers may boost ridership
7

Experienced Management Team
Experienced Management Team
Cohesive team working together for more than 20 years
Medallion
Financial s
executive
management
team
has
relationships
with
every
facet

of
the
industry
including
taxi
drivers,
fleet
owners,
lease
operators,
banks,
finance
companies,
taxi
brokers
and
regulators
Three
generations
of
proven
experience
operating
the
only
public
company
dedicated
to
providing
loan
financing
to
this
industry
Name
Title
Experience
Industry Experience
Alvin Murstein
Chairman /
CEO
40+ years
Chairman and CEO of Medallion Financial since
inception and predecessor companies since 1979.
Executive in the taxi cab industry for over 40
years
Andrew Murstein
President
20 years

President of Medallion Financial since inception
in 1995
Larry Hall
CFO
10 years
CFO of Medallion Financial since 2004. Previous
experience at Citibank, Wells Fargo and Arthur
Andersen
Michael Kowalsky
EVP
20 years
EVP of Medallion Financial and President of
Medallion Funding Corp. (lending subsidiary of
Medallion Financial) since 1996
Medallion Financial s
Board includes: Former Governor of New York Mario Cuomo, Baseball Hall of
Famer Hank Aaron and former United States Senator and Governor of Connecticut Lowell Weicker
8

Overview of Medallion Financial
Overview of Medallion Financial
Medallion
Financial
is
a
leading
lender
to
the
taxi
industry
No

competing businesses: Medallion Financial does not purchase medallions or taxicab fleets Transitional Services to be provided by Medallion Financial Medallion Financial will charge a transitional services fee of 1.0% of book equity (not assets) for management, accounting, office space and various back office services; there are no extra incentive fees

This arrangement will give Medallion Management access to a team of experienced professionals that will allow growth of its business with the immediate benefit of a larger and more sophisticated infrastructure without the full costs normally associated with such an infrastructure Medallion Financial s motto is In niches there are riches

Medallion Financial has lent over $3 billion to the New York taxicab medallion market and its principal losses have been 9

Medallion Financial Loan Losses

Medallion Financial Loan Losses

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10

Alignment of Interests
Alignment of Interests
None
of
the
officers
of
the
Company
(Chairman,
CEO,
CFO
and

EVP) are receiving compensation from the Company Medallion Financial owns warrants that will be amended to have a $12 per share exercise price, over 20% above current prices Medallion Financial has invested nearly $7 million and the stock must appreciate over 32% over trust value ($9.96) before it breaks even

on
its
investment
11

Industry
Industry
ripe
ripe
for
for
consolidation;
consolidation;
no
no
single
single
operator

operator
owns
owns
more
more
than
than
1%
1%
of
of
taxis
taxis
nationwide
nationwide
Large Market Opportunity
Large Market Opportunity
New York
New York
13,237 licenses
13,237 licenses
Chicago
Chicago
6,999 licenses
6,999 licenses
Atlanta
Atlanta
1,600 licenses
1,600 licenses
South FL
South FL
2,061 licenses
2,061 licenses
Denver
Denver
1,042 licenses
1,042 licenses
Los Angeles
Los Angeles
2,300 licenses
2,300 licenses
San Francisco
San Francisco
1,381 licenses
1,381 licenses
Boston
Boston
1,825 licenses
1,825 licenses
Philadelphia

Philadelphia
1,600 licenses
1,600 licenses
Cambridge
Cambridge
257 licenses
257 licenses
Medallions in the US > $12 billion in Value
Medallions in the US > $12 billion in Value
Source: Regional regulatory entities
Newark
Newark
600 licenses
600 licenses
12

Historical Medallion Price Appreciation: NYC
Historical Medallion Price Appreciation: NYC
(1)
(1)
13
(1)
Source:
New
York
City
Taxi
and
Limousine

Commission.
Market
data
from
Bloomberg
as
of
12/04/2009
(2)
Past price appreciation may not be indicative of future price appreciation
NYC Corporate Medallion Price Appreciation vs. Various Asset Classes
Corporate Medallions
9.8%
S&P 500
7.3%
Dow Jones Industrial Average
6.9%
Gold
5.9%
Compounded
Annual
Growth
Rates
(1947-2009)
(2)

Price (1 Corp.
Medallion):
$750,000
(Bulk purchase expected
to be below market)
Equity Funding:
$250,000
Debt Funding:
$500,000
Lease Revenue:
$ 30,000
Interest Expense:
$ 23,000

Historical Avg.
Appreciation:
$ 73,500
(1947
2009 CAGR of 9.8%)
Returns:
$ 7,000 + $ 73,500 = $ 80,500
$250,000
ROE:
32%
Hypothetical Example of Medallion Economics: NYC
Hypothetical Example of Medallion Economics: NYC
Note:
This
hypothetical
is
an
example
of
the
type
of
analysis
Medallion
Management s
management
team
might
perform
in
assessing
whether
to
purchase
medallions
and
is
for
illustrative
purposes
only,
does
not
represent
actual
or
expected
returns
from
the

medallions Medallion Management may purchase. Actual returns will depend on Medallion Management's ability to secure leases for the medallions, achieve anticipated lease revenues and the cost of debt financing. Actual returns will also depend on any future appreciation in the asset price of the medallions acquired by Medallion Management. The

historical appreciation shown in this example is based on the compounded annual growth rates in the value of medallions over the 62-year period beginning January 1, 1947. There can be no assurance that medallions valuations will continue to increase at historical rates or at all. Medallion values have declined in

certain years and could decline again. For a discussion of risks that may affect our medallion ownership leasing economics, please see slide 1 and the section entitled Risk Factors in our Proxy Statement filed with the SEC.

In considering a medallion purchase in individual markets, our management team will, as illustrated by the table below, assess the return profile from the assets taking into account lease income that may be earned from the medallion, availability and cost of debt financing and the potential for appreciation in medallion prices based on the historical record in the market:

14

(1) This hypothetical is an example of the type of analysis Medallion Management s

management team might perform in assessing whether to purchase fleet operations and is for illustrative purposes only and does not represent actual or expected returns from the purchase of fleet operations by Medallion Management and should not be relied upon for any investment decision. Actual returns will depend on Medallion

Management's ability to purchase fleet operations, lease the medallions and achieve anticipated lease revenues and operating expenses. This hypothetical is based on certain assumptions, including assumptions relating to acquisition price of taxi leases. For a discussion of risks that may affect our medallion ownership leasing economics, please see slide 1

and
the
section
entitled
Risk
Factors
in
our
Proxy
Statement
filed
with
the
SEC.
(2)
Data
provided
to
Medallion
Management
by
fleet
operators
in
New
York
City
and
is
based
on
2009
averages.
Hypothetical Example of Taxi Fleet Economics: NYC
Hypothetical Example of Taxi Fleet Economics: NYC
(1)
(1)
EBITDA per Car per Year
Other Operating Costs
Insurance
Vehicle Costs
Medallion Owner Lease
Payments
Operating Expenses
Revenues *($120 per shift)*
Fleet Taxi Economics
Fleet Taxi Economics
(2)
(2)
$ 18,000

$
(7,000)
$
(10,000)
$
(13,000)
$
(30,000)
$
78,000
Acquisition Price/
EBITDA
Acquisition Price per
Taxi Lease
Fleet Management Valuation
Fleet Management Valuation
Less than 2.0x
$ 30,000
Our management team's assessment will also analyze the ability of medallion lessees to support lease payments based on an analysis of fleet owners business economics, as illustrated by the following table:
Our management team will also assess possible purchases of fleet operations which we believe in New York City may be available for purchase at less than 2X EBITDA as illustrated by the following:
15
Assumes
Assumes
Medallions
Medallions
are
are
leased
leased
by
by
operator.
operator.
Numbers
Numbers
on
on
per
per
car
car
basis

basis

Hypothetical Combined Example
Hypothetical Combined Example
16
$100
mm
of
Invested
Equity:
75%
Allocated
to
Medallions
and

25%
to
Fleet
Management
$ in millions, except per share data
Taxicab Fleet
Medallions
Management
Total
Invested Equity (1)
$ 75
$ 25
$ 100
Debt (1)
$ 150
$ 25
$ 175
Acquired Value
$ 225
$ 50
$ 275
Pro Forma Revenue
$ 11
(1)
$ 130
(1)
$ 141
Net Income Margin Range
12% -
17%
Pro Forma Net Income
$ 20
(1)
Pro Forma Earnings Per Share
$ 2.04
(1)
Return on Equity
20.5%
(1)
Medallion Appreciation Range
4.9% -
9.8%
(1)
ROE With Increase in Value Through Medallion Appreciation
31.5% -
42.5%

In considering a medallion purchase in individual markets, our management team will, as illustrated by the table below, assess the return profile from the assets taking into account lease income that may be earned from the medallion, availability and cost of debt financing and the potential for appreciation in medallion prices based on the historical record in the market:

Note (1): All financial numbers assume equity is fully deployed with 75% allocated to medallion acquisitions (40% in New Yo
25% to purchases of taxi fleet managers. Leverage on medallions is assumed to be 2:1debt to equity and 1:1 for debt to equity
average lease income yield across markets with $78,000 of revenues per acquired taxi lease, (ii) applies the mid-point of estima
divides pro forma net income by $100 mm of deployed capital, (v) assumes 9.8% represents long-term average and that 4.9% r
Note: This hypothetical is an example of the type of analysis Medallion Management s management team might perform in al
be pursued by Medallion management, is for illustrative purposes only, does not represent actual or expected returns from thes
Management's actual allocation of capital, ability to secure leases for the medallions, achieve anticipated lease revenues, the co
medallions. There can be no assurance that medallions valuations will continue to increase at historical rates or at all in as muc
decline again. Actual returns will depend on Medallion Management's ability to purchase fleet operations, lease the medallions
For a discussion of risks that may affect our businesses, please see slide 1 and the section entitled Risk Factors in our Proxy

Selective use of leverage
Medallions can be financed at between 2x and 5x leverage at attractive rates
Many banks, conduits and Medallion Financial are active lenders
Anticipate paying quarterly cash dividends upon commencement of the first fleet medallion acquisition
Most if not all of the initial dividends

attributed
to
medallion
ownership
will
not be taxed on a current basis
Dividends are a return of capital to the extent the taxable income is less than zero due to the depreciation of the taxi medallions for tax purposes
Substantial portion of our quarterly distributions is not expected to be made out of our taxable net income and will not result in immediate taxable income to U.S. taxpayers
Financing and Dividend Policy
Financing and Dividend Policy
17

Dividend Yield Analysis
Dividend Yield Analysis
Once
capital
is
fully
deployed,
Medallion
Management
anticipates
paying
out
about 25%-50% of its Operating Net Income to shareholders as a dividend

This payout ratio implies a dividend yield of 5.1% to 10.2%, as compared to trust value of $9.96 per share
5.1%
6.1%
7.2%
8.2%
9.2%
10.2%
0%
2%
4%
6%
8%
10%
12%
25%
30%
35%
40%
45%
50%
S&P 500 Avg. dividend of 2.2%
Net Income Payout
Net Income Payout
Dividend Yield
Dividend Yield
18

Superior and relatively uncorrelated asset returns available to owners with historical ROEs
of over 30%
Only public company to primarily own and operate medallions
Attractive ancillary business opportunities exist across the taxicab industry
Advantageous tax treatment of medallions enables favorable distributable income
Substantial founder investment with strong alignment of interests
Proprietary access to the medallion market; local presence in key markets
Respected management team with nearly 100 years of combined experience in the taxicab industry
Investment Conclusions
Investment Conclusions
19

Appendix
Appendix
20

Summary Financial Overview
Summary Financial Overview
21
(numbers in millions, except per share values)
No Share Conversion
$100 mm Cash
Amount in Trust -
Pre Fees and Conversions
214.8
214.8
214.8
Less: Amount Paid Out for Share Conversion
-

-
114.8
Amount in Trust -
Pre Fees
214.8
214.8
100.0
Less: Estimated Transaction Expenses
(1)
-
6.1
5.1
Amount in Trust -
Pro Forma
214.8
208.6
94.9
Shares Outstanding
(2)
21.6
21.6
10.0
Trust Value per Share
9.96
$
9.67
$
9.45
$
Market Value per Share
(3)
9.90
$
Trust Value Per Share vs. Pro Forma Trust Value Per Share
Equivalent IPO Gross Spread
(4)
3.0%
5.1%
Multiple of Pro Forma Cash Per Share
(5)
1.03x
1.05x
Notes
(1) Represents fees payable at close
(2) Shares outstanding following the transaction includes 25,000
previously issued shares
(3) Share price as of November 30, 2009
(4) Represents the percentage discount of the pro forma trust value per share relative to current trust value
(5) Represents ratio of current trust value per share to pro forma trust value per share
Trust Value at Conversion

Trust Value at
November 30, 2009

Warrant Amendment
Warrant Amendment
Restructuring
terms
of
the
warrants
for
the
benefit
of
shareholders
Increase exercise price from $7.00 to $12.00

Extend maturity by three years to 2015
Increase redemption call price from $14.25 to $18.75 for IPO warrants
Prohibition of cashless exercise for IPO warrants
Following the transaction there will be 27.6 million warrants outstanding
Warrants provide new equity capital at a 20%+ premium to current trust value per share
Transaction requires approval of a majority of warrant holders
22

Taxicab Facts in NYC
Taxicab Facts in NYC
There
are
more
than
470,000
taxi
trips
per
day
More
than

85%
of
all
taxi
trips
begin
or
end
in
Manhattan;
at
some
times
of
the
day,
more
than
half
of
all
vehicles
in
Midtown
are
yellow
cabs
Passengers
spend
more
than
$2
billion
on
taxi
fares
each
year
Taxis
generate
tens
of
thousands
of
jobs
Current
taxi
ridership
stands
at

approximately
240
million
passengers
making
more
than
170
million
medallion-cab
trips
per
year
Source: Taxi 07: Roads Forward
23

Symbol: HMR
Symbol: HMR
24