GREAT AMERICAN FINANCIAL RESOURCES INC
Form PRER14A
August 17, 2007

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A
(Rule 14a-101)
Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No. 2)

Filed by the Registrant þ
Filed by a Party other than the Registrant o
Check the appropriate box:
þ Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
o Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to §240.14a-12

GREAT AMERICAN FINANCIAL RESOURCES, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):
o No fee required.
þ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

Common Stock, par value $1.00 per share, of Great American Financial Resources, Inc. (GAFRI Common Stock).

(2) Aggregate number of securities to which transaction applies:

9,208,886 shares of GAFRI Common Stock and the extinguishment of up to 3,500,000 options to purchase GAFRI Common Stock.

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

The filing fee was determined based upon the sum of (A) the product of 9,208,886 shares of GAFRI Common Stock multiplied by the per share merger consideration of $24.50, plus (B) up to $10,000,000 payable in connection with the extinguishment of outstanding options to purchase GAFRI Common Stock. In accordance with Section 14(g) of the Securities Exchange Act of 1934, as amended, the filing fee was determined by multiplying 0.00003070 by the sum of (A) and (B) in the preceding sentence.

(4) Proposed maximum aggregate value of transaction:

$235,617,707

(5) Total fee paid:

$7,233.46

þ Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Preliminary Copies

August , 2007

To the Stockholders of Great American Financial Resources, Inc.:

Dear Stockholder:

On May 17, 2007, the Board of Directors of Great American Financial Resources, Inc., a Delaware corporation (GAFRI or the Company), acting upon the unanimous recommendation of a special committee of independent directors, approved an Agreement and Plan of Merger providing for the merger of the Company with GAFRI Acquisition Corp. (GAC), a Delaware corporation and wholly-owned subsidiary of American Financial Group, Inc., an Ohio corporation (AFG). If the merger is completed, you will be entitled to receive $24.50 in cash, without interest, for each share of the GAFRI common stock that you own, and the Company will be wholly-owned by AFG.

You will be asked, at a special meeting of the Company s stockholders, to vote to approve the Agreement and Plan of Merger. The Board of Directors, acting on the unanimous recommendation of the special committee, has determined that the Agreement and Plan of Merger and the merger are advisable, fair to, and in the best interests of the Company and its stockholders (other than AFG and its subsidiaries and affiliates, including GAFRI or any of its subsidiaries and affiliates) and approved and adopted the Agreement and Plan of Merger. **The Board of Directors (with Messrs. Carl H. Lindner, S. Craig Lindner, Kenneth C. Ambrecht, Charles R. Scheper and William R. Martin abstaining) recommends that the Company s stockholders vote FOR the approval of the Agreement and Plan of Merger.** AFG, which beneficially owns approximately 81% of the outstanding shares of GAFRI common stock, has determined to vote its shares and to cause its subsidiaries to vote their shares in favor of the Agreement and Plan of Merger.

The date, time and place of the special meeting to consider and vote upon the Agreement and Plan of Merger will be September , 2007 at 11:00 a.m. Eastern Daylight Savings Time at The Cincinnatian Hotel, Sixth and Vine Streets, Cincinnati, Ohio 45202.

The proxy statement attached to this letter provides you with information about the proposed merger and the special meeting of the Company s stockholders. We encourage you to read the entire proxy statement carefully. You may also obtain more information about the Company from documents we have filed with the Securities and Exchange Commission.

Your vote is very important. The merger cannot be completed unless the Agreement and Plan of Merger is approved by the affirmative vote of the holders of a majority of the outstanding shares of GAFRI common stock entitled to vote on it. If you fail to vote on the Agreement and Plan of Merger, the effect will be the same as a vote against the approval of the Agreement and Plan of Merger.

Whether or not you plan to attend the special meeting and regardless of the number of shares of GAFRI common stock that you own, please vote your shares by proxy by telephone or mail to ensure that your shares are voted at the special meeting. If you receive more than one proxy card because you own shares that are registered differently, please vote all of your shares shown on all of your proxy cards.

Voting by proxy will not prevent you from voting your shares in person if you subsequently choose to attend the special meeting and wish to vote in person.

Please do not send any certificates for your shares at this time. If the merger is completed, you will receive a letter of transmittal with instructions as to how you exchange your shares for the merger consideration.

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Thank you for your cooperation and continued support.

Very truly yours,

GREAT AMERICAN FINANCIAL RESOURCES, INC.

Mark F. Muething
Executive Vice President, General
Counsel and Secretary

Neither the Securities and Exchange Commission nor any state securities regulatory agency has approved or disapproved the merger, passed upon the merits or fairness of the merger or passed upon the adequacy or accuracy of the disclosure in this document. Any representation to the contrary is a criminal offense.

The proxy statement, dated August , 2007, is first being mailed to stockholders on or about August , 2007.

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS
TO BE HELD , 2007

Notice is hereby given that a special meeting of stockholders of Great American Financial Resources, Inc., a Delaware corporation (GAFRI), will be held on September , 2007 at 11:00 a.m. Eastern Daylight Savings Time at The Cincinnatian Hotel, Sixth and Vine Streets, Cincinnati, Ohio 45202, for the following purposes:

(1) To consider and vote upon a proposal to approve the Agreement and Plan of Merger, dated as of May 17, 2007, by and among GAFRI, American Financial Group, Inc. (AFG) and GAFRI Acquisition Corp. (GAC), which provides for the merger of GAC, a wholly-owned subsidiary of AFG, with and into GAFRI, with GAFRI continuing as the surviving corporation, and the conversion of each outstanding share of common stock of GAFRI (other than shares held by stockholders who perfect their appraisal rights under Delaware law, shares held by GAFRI as treasury shares or otherwise and shares held by AFG or any subsidiary of AFG) into the right to receive $24.50 in cash.

(2) To transact such other business as may properly come before the special meeting or any adjournments of the special meeting.

Stockholders of record at the close of business on August , 2007 are entitled to notice of, and to vote at, the special meeting or any adjournments thereof.

The Agreement and Plan of Merger and the merger are described in the accompanying proxy statement and a copy of the Agreement and Plan of Merger is attached to the proxy statement as Appendix A. We urge you to read the entire proxy statement and the Agreement and Plan of Merger carefully.

WHETHER OR NOT YOU EXPECT TO ATTEND THE MEETING, PLEASE SIGN AND RETURN YOUR PROXY PROMPTLY. It is important that all stockholders execute, date and return the proxy using the enclosed envelope to which no postage need be affixed if mailed in the United States.

By Order of the Board of Directors,

August , 2007

PROPOSED MERGER YOUR VOTE IS VERY IMPORTANT

PLEASE DO NOT SEND YOUR GAFRI COMMON STOCK CERTIFICATES TO US AT THIS TIME. IF THE MERGER IS COMPLETED, YOU WILL BE SENT INSTRUCTIONS REGARDING SURRENDER OF YOUR CERTIFICATES.

WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING IN PERSON, PLEASE SIGN AND DATE THE ENCLOSED PROXY CARD AND RETURN IT PROMPTLY IN THE ENCLOSED POSTAGE PAID ENVELOPE OR VOTE BY TELEPHONE. EVEN IF YOU HAVE VOTED BY PROXY, YOU MAY STILL VOTE IN PERSON IF YOU ATTEND THE MEETING. ANY PROXY MAY BE REVOKED AT ANY TIME BEFORE IT IS EXERCISED BY FOLLOWING THE INSTRUCTIONS SET FORTH ON PAGE 33 OF THE ACCOMPANYING PROXY STATEMENT. PLEASE NOTE, HOWEVER, THAT IF YOUR SHARES ARE HELD OF RECORD BY A BROKER, BANK OR OTHER NOMINEE AND YOU WISH TO VOTE AT THE MEETING, YOU MUST OBTAIN A PROXY ISSUED IN YOUR NAME FROM THAT RECORD HOLDER.

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SUMMARY TERM SHEET

The next several pages summarize the material terms of the transaction detailed in this proxy statement but might not contain all of the information that is important to you. You are urged to read this proxy statement carefully and in its entirety, including the appendices, and the documents referred to or incorporated by reference in this proxy statement. You may obtain the information incorporated by reference in this proxy statement without charge by following the instructions under Where Stockholders Can Find More Information beginning on page 49.

In this proxy statement, the terms we, us, our, GAFRI and the Company refer to Great American Financial Reso Inc. and, where appropriate, its subsidiaries.

Parties Involved in the Proposed Transaction (Page 31)

GAFRI is a Delaware corporation and a holding company that markets retirement products, primarily fixed, indexed and variable annuities, and various forms of supplemental insurance through its subsidiaries, including Great American Life Insurance Company, Annuity Investors Life Insurance Company, Loyal American Life Insurance Company, United Teacher Associates Insurance Company, Continental General Insurance Company and Central Reserve Life Insurance Company.

American Financial Group, Inc., which we refer to as AFG, is a holding company that, through subsidiaries, is engaged primarily in property and casualty insurance, focusing on specialized commercial products for businesses, and, through GAFRI and its subsidiaries, in the sale of traditional fixed, indexed and variable annuities and a variety of supplemental insurance products. AFG currently owns approximately 81% of GAFRI s outstanding common stock.

GAFRI Acquisition Corp, which we refer to as GAC, is a newly-formed Delaware corporation and a wholly-owned subsidiary of AFG. AFG formed GAC for the sole purposes of entering into the merger agreement and completing the merger contemplated by the merger agreement.

The Proposed Transaction (Page 34)

You will be asked to consider and vote upon approval of the Agreement and Plan of Merger, dated as of May 17, 2007, among the Company, AFG and GAC, which we refer to in this proxy statement as the merger agreement. The merger agreement provides that GAC will be merged with and into the Company, and each outstanding share of common stock, par value $1.00 per share, of the Company, which we refer to in this proxy statement as the GAFRI common stock, other than shares held by stockholders who perfect their appraisal rights under Delaware law, shares held by GAFRI as treasury shares or otherwise and shares held by AFG or any subsidiary of AFG, will be converted into the right to receive $24.50 in cash, without interest and less any required withholding taxes.

GAFRI Will Hold a Special Meeting of its Stockholders to Consider Approval of the Merger Proposal (Page 32)

Date, Time and Place (Page 32). The special meeting will be held on September , 2007 at 11:00 a.m., Eastern Daylight Savings Time, at The Cincinnatian Hotel, Sixth and Vine Streets, Cincinnati, Ohio 45202.

Record Date and Voting (Page 32). Only stockholders who hold shares of GAFRI common stock at the close of business on August , 2007, the record date for the special meeting, will be entitled to vote at the special meeting.

Each share of GAFRI common stock outstanding on the record date will be entitled to one vote on each matter submitted to stockholders for approval at the special meeting. As of the record date, there were shares of GAFRI common stock outstanding.

Vote Required (Page 33). For us to complete the merger under Delaware law, stockholders holding at least a majority of our common stock outstanding at the close of business on the record date must vote FOR the approval of the merger agreement. A failure to vote your shares of GAFRI common stock or an abstention from voting will have the same effect as a vote against the merger.

Because AFG Controls a Majority of GAFRI s Outstanding Shares, Approval of the Merger is Assured

As of the record date, AFG beneficially owned approximately 81% of GAFRI s outstanding shares. AFG has determined to vote its shares and to cause its subsidiaries to vote their shares in favor of the merger agreement. In addition, executive officers and directors of GAFRI and AFG who, in the aggregate beneficially own approximately 4.7% of GAFRI s outstanding shares, have expressed their intent to vote in favor of the merger agreement. As a result, approval of the merger agreement is assured.

GAFRI Stockholders Will Have Appraisal Rights (Page 29)

You have the right under Delaware law to dissent from the adoption and approval of the merger agreement and to exercise appraisal rights and receive payment in cash for the fair value of your shares of GAFRI common stock in the event the merger is completed. The fair value of each share of GAFRI common stock as determined in accordance with Delaware law may be more or less than the per share merger consideration to be paid to non-dissenting stockholders in the merger. To preserve your appraisal rights, you must NOT vote in favor of approval of the merger agreement, you must NOT return a signed but not voted proxy card, and you must follow specific procedures required under Delaware law. You must follow these procedures precisely in order to exercise your appraisal rights, or you may lose them. These procedures are described in this proxy statement, and the provisions of Delaware law that grant appraisal rights and govern those procedures are attached as Appendix C. We encourage you to read these provisions carefully and in their entirety and to consult your legal advisor.

When the Merger Will be Completed

We anticipate completing the merger on the date of the special meeting, subject to approval of the merger agreement by the Company s stockholders and the satisfaction of the other closing conditions.

Certain Effects of the Merger (Page 23)

If the merger agreement is approved by the Company s stockholders and certain other conditions to the closing of the merger are either satisfied or waived, GAC will be merged with and into the Company, the separate corporate existence of GAC will cease and the Company will continue its corporate existence under Delaware law as the surviving corporation in the merger, and the separate corporate existence of the Company with all of its rights, privileges, immunities, powers and franchises, shall continue unaffected by the merger.

GAFRI Stockholders Will Receive $24.50 in Cash For Each Share of GAFRI Common Stock They Own

Upon the completion of the merger, each issued and outstanding share of GAFRI common stock held by our public stockholders (by which we mean stockholders holding shares other than shares held by GAFRI as treasury shares or otherwise and shares held by AFG or any subsidiary of AFG), except for shares held by stockholders who perfect their appraisal rights under Delaware law, will be converted into the right to receive $24.50 in cash.

How Outstanding Options Will Be Treated

In the merger, vested employee stock options will be extinguished in exchange for a cash payment by GAFRI to each holder of an option of an amount equal to the positive number difference, less applicable taxes, between $24.50 and the applicable option exercise price multiplied by the number of shares of GAFRI common stock formerly subject to an option. We refer to this amount as the option payment amount . In addition, so long as a holder of an option is an employee of GAFRI, AFG or any subsidiary of either of them at the vesting dates (as set forth in a GAFRI employee stock option plan or document evidencing a grant of an employee stock option), GAFRI shall pay the option payment

amount as soon as practicable after such vesting dates in 2008, 2009, 2010 and 2011. GAFRI directors have agreed that their vested and unvested stock options also will be extinguished upon the consummation of the merger in exchange for the option payment amount to the extent there is a positive difference, less applicable taxes, between $24.50 and the applicable option exercise price. Options for which the exercise price exceeds $24.50 per share will be cancelled. In addition, GAFRI granted options to employees of GAFRI in

February 2007 at an exercise price exceeding the per share merger consideration. The compensation committee of the AFG Board of Directors has taken action to grant options to purchase shares of common stock of AFG on the date that the merger is completed to replace all of these options to purchase GAFRI common stock. The number of shares of AFG common stock that may be acquired upon exercise is identical to the number of shares of GAFRI common stock subject to the prior options, and the exercise price per share, as determined under AFG s 2005 Stock Incentive Plan, will equal the average of the high and low sales prices as reported on the New York Stock Exchange on the date that the merger is completed. The options to purchase AFG common stock will be subject to AFG s customary five year vesting. See Special Factors Interests of Certain Persons in the Merger. Also, as of the effective time of the merger, GAFRI will take all action necessary to provide for the termination of its agent stock option plans or agreements and the extinguishment of all rights under such plans and agreements.

Recommendation of the Board of Directors (Page 15)

Our Board of Directors, which we sometimes refer to as the Board, began the process on February 22, 2007, to form a special committee of independent GAFRI directors who are neither employed by or otherwise affiliated with GAFRI, or who do not have a financial interest in the merger different than GAFRI s public shareholders. Initially, Mr. Ronald G. Joseph was the only GAFRI director deemed eligible to meet these qualifications. On March 1st, 2007 the Board acted to appoint Mr. Joseph Tomain as a director and appointed him to serve as the second member of the special committee. On March 16, 2007, the Board acted to appoint L. Thomas Hiltz as a member of the Board and appointed him to serve as the third member of the special committee. As a result, the special committee consists of Messrs. Ronald G. Joseph, L. Thomas Hiltz and Joseph P. Tomain. The special committee was formed for the purpose of reviewing, evaluating and, as appropriate, rejecting or accepting and negotiating with respect to the proposal made by AFG on February 22, 2007 that GAFRI common stock be acquired, and to make the related recommendation to our full Board of Directors regarding the AFG proposal. The special committee unanimously determined that the merger agreement and the merger are advisable, substantively and procedurally fair to, and in the best interests of the Company and its public stockholders (other than AFG, GAFRI and their affiliates). Our Board of Directors, acting upon the unanimous determination of the special committee, has determined that the merger agreement and the merger are advisable, substantively and procedurally fair to, and in the best interests of the Company and its public stockholders (other than AFG, GAFRI and their affiliates), approved and adopted (with Messrs. Carl H. Lindner, S. Craig Lindner, Kenneth C. Ambrecht, Charles R. Scheper and William R. Martin abstaining, because of potential conflicts of interest with respect to the proposed transaction) the merger agreement and recommended that the Company s stockholders vote FOR the approval of the merger agreement.

For the factors considered by our Board of Directors in reaching its decision to approve and adopt the merger agreement and the merger, see *Special Factors The Special Committee ;* and *Special Factors Recommendation of the Special Committee and the Board of Directors.*

Opinion of the Special Committee s Financial Advisor (Page 18)

Cochran Caronia Waller LLC, which we sometimes refer to as CCW, delivered its written opinion to the special committee and to our Board of Directors that, as of May 17, 2007 and based upon and subject to the factors and assumptions set forth therein, the $24.50 in cash per share to be received by the public stockholders pursuant to the merger agreement was fair from a financial point of view to such holders (other than AFG, GAFRI and their affiliates).

The full text of the written opinion of CCW, dated May 17, 2007, which sets forth assumptions made, procedures followed, matters considered and limitations on the review undertaken in connection with the opinion, is attached as Appendix B to this proxy statement. CCW provided its opinion for the information and assistance of the special committee and our Board of Directors in connection with their consideration of the proposal made by AFG. The CCW

opinion is not a recommendation as to how any holder of GAFRI common stock should vote with respect to the merger. Pursuant to an engagement letter between GAFRI and CCW, GAFRI has agreed to pay CCW a fee for its advisory services, a portion of which was payable upon the issuance of any written opinion by CCW.

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AFG and Our Directors and Executive Officers Have Interests in the Transaction that May Be Different From, or in Addition to, Interests of GAFRI s Public Stockholders Generally (Page 25)

AFG beneficially owns approximately 81% of the outstanding shares of GAFRI common stock but may enjoy additional benefits in connection with the merger that will not be shared by the public stockholders generally, to the extent that AFG and holders of AFG common stock are better served by paying as low a price per share of GAFRI common stock as possible.

In the merger, vested employee stock options and vested and unvested director stock options will be extinguished in exchange for cash payments to each holder of an option, and certain officers of GAFRI will be granted options to purchase shares of common stock of AFG as set forth above under How Outstanding Options Will Be Treated.

The merger agreement provides that GAFRI will, or will cause the surviving corporation to, (i) honor all rights to indemnification existing in favor of our current and former officers and directors for acts and omissions occurring before the completion of the merger, (ii) not amend the provisions relating to indemnification or exculpation of the liability of directors in the surviving corporation s organizational documents (in a manner adverse to the current or former directors and officers) and (iii) for six years after the completion of the merger and, subject to certain conditions, maintain GAFRI s current officers and directors liability insurance.

A Number of Conditions Must Be Satisfied or Waived to Complete the Merger (Page 40)

The obligations of AFG, GAFRI and GAC to complete the merger are subject to various conditions, including:

- the approval of the merger agreement by holders of a majority of the shares of GAFRI common stock outstanding on the record date;
- the absence of any law or governmental order prohibiting or disallowing the merger or any governmental proceeding seeking such an order;
- the representations and warranties of each of GAFRI, AFG and GAC with respect to organization and authorization (in addition to the representations and warranties of GAFRI with respect to capitalization) shall be true and correct in all respects with regard to any such representations containing limitations as to materiality or material adverse effect and shall be true and correct in all material respects, both individually and in the aggregate, with regard to any representation not so qualified, in each case as of the effective time of the merger (or, to the extent such representations and warranties speak as of a earlier date, they need only be true and correct in all respects as of such earlier date);
- the representations and warranties of each of GAFRI, AFG and GAC (other than the representations and warranties referred to in the immediately preceding paragraph) shall be true and correct in all respects when made and as of the effective time of the merger (or, to the extent such representations and warranties speak as of a specified date, they need only be true and correct in all respects as of such specified date) interpreted without giving effect to any limitations as to materiality or material adverse effect, except where the failure of all such representations and warranties to be true and correct could not reasonably be expected to have a material adverse effect on each such party; and
- the parties shall have performed in all material respects their agreements and covenants in the merger agreement that are required to be performed at or prior to the effective time of the merger.

See Terms of the Merger Conditions to the Merger beginning on page 40.

Limitations on Solicitation of Competing Proposals (Page 39)

Pursuant to the merger agreement, we have agreed not to initiate, solicit or facilitate from third parties any proposals for an alternative transaction while the merger is pending. AFG stated in its proposal letter to GAFRI dated February 22, 2007, and AFG has reiterated to GAFRI on multiple occasions since such time, that AFG is not interested in pursuing a sale of its interest in GAFRI.

How the Merger May Be Terminated (Page 42)

AFG and GAFRI may mutually agree to terminate the merger agreement at any time upon the mutual written consent of the parties. With certain exceptions, any of AFG, GAC or GAFRI may also terminate the merger agreement at any time if:

- the merger has not occurred on or before September 30, 2007;
- any governmental entity issues an order or takes any other action permanently restraining, enjoining or otherwise prohibiting the merger, which order or other action becomes final and nonappealable; or
- GAFRI stockholder approval is not obtained.

AFG may also terminate the merger agreement at any time if, with certain exceptions:

- our Board of Directors or any committee (including the special committee) of the Board withdraws, qualifies or modifies the recommendation that the holders of shares of GAFRI common stock vote for the approval of the merger agreement; or
- there is a breach by GAFRI of any representation, warranty, covenant or agreement contained in the merger agreement that would give rise to a failure of a closing condition and which has not been cured or is not capable of being cured within twenty (20) business days following receipt by GAFRI of written notice from GAFRI and GAC of such breach.

GAFRI may also terminate the merger agreement at any time if, with certain exceptions, there is a breach by AFG or GAC of any representation, warranty, covenant or agreement contained in the merger agreement that would give rise to a failure of a closing condition and which has not been cured or is not capable of being cured within twenty (20) business days following receipt by GAFRI or GAC of written notice from GAFRI of such breach.

Purposes, Reasons and Plans for GAFRI after the Merger

The purpose of the merger for GAFRI is to enable its public stockholders to immediately realize the value of their investment in the Company through their receipt of the per share merger consideration of $24.50 in cash, representing a premium of approximately 15% to the $21.31 closing price of the GAFRI common stock on The New York Stock Exchange on February 15, 2007 (being the last trading day one week prior to the announcement of the proposed transaction). For the reasons discussed under *Special Factors Recommendation of the Special Committee and the Board of Directors* the Board of Directors has determined that the merger agreement and the transactions contemplated thereby, including the merger, are advisable, substantively and procedurally fair to, and in the best interests of, the Company and its public stockholders. After the merger, GAFRI s operations will continue as they had before it.

Financing of the Merger

The merger and the related transaction will be funded by GAFRI s excess capital and/or by borrowings from AFG. GAFRI and AFG estimate that the total amount of funds necessary to complete the proposed merger is approximately $235 million, which includes approximately $225 million to be paid to the Company s public stockholders and, up to $10 million to be paid to holders of options. AFG will also guarantee the debt of GAFRI and its subsidiaries in the merger.

Tax Considerations For GAFRI Stockholders (Page 28)

Generally, the merger will be taxable to our stockholders for U.S. federal income tax purposes. A holder of GAFRI common stock receiving cash in the merger generally will recognize gain or loss for U.S. federal income tax purposes in an amount equal to the difference between the amount of cash received and the holder s adjusted tax basis in the GAFRI common stock.

QUESTIONS AND ANSWERS ABOUT THE SPECIAL MEETING AND THE MERGER

Q: What is the proposed transaction?

A: The proposed transaction is the acquisition by AFG of GAFRI shares not already beneficially owned by AFG so that AFG becomes the beneficial owner of 100% of GAFRI s common stock. This is proposed to be accomplished through the merger of GAC and GAFRI pursuant to the merger agreement among GAFRI, AFG and GAC. If the merger agreement is approved by GAFRI stockholders and the other closing conditions under the merger agreement have been satisfied or waived, GAC will merge with and into GAFRI and thereafter cease to exist, and GAFRI will be the surviving corporation and will become a wholly-owned subsidiary of AFG.

Q: What will I receive in the merger?

A: If the merger is completed, you will receive $24.50 in cash, without interest and less any required withholding taxes, for each share of GAFRI common stock that you own. You will not be entitled to retain any interest in GAFRI or to receive any shares in the surviving corporation.

Q: Where and when is the special meeting?

A: The special meeting will take place on September , 2007 starting at 11:00 A.M. Eastern Daylight Savings Time at The Cincinnatian Hotel, Sixth and Vine Streets, Cincinnati, Ohio 45202.

Q: What matters will be voted on at the special meeting?

A: You will be asked to consider and vote on the following proposals:

to approve the merger agreement; and

to act upon other business that may properly come before the special meeting or any adjournment or postponement thereof.

Q: What vote of our stockholders is required to approve the merger agreement?

A: For us to complete the merger, under Delaware law, stockholders holding at least a majority of our common stock outstanding at the close of business on the record date must vote FOR the approval of the merger agreement. Accordingly, failure to vote or an abstention will have the same effect as a vote against approval of the merger agreement. As of the record date, AFG beneficially owned approximately 81% of the outstanding GAFRI common stock. AFG has determined to vote its shares and cause its subsidiaries to vote their shares in favor of the merger agreement. In addition, executive officers and directors of GAFRI and AFG who, in the aggregate beneficially own 4.7% of GAFRI s shares, have expressed their intent to vote in favor of the merger agreement. As a result, approval of the merger agreement is assured.

Q: Why did GAFRI s Board of Directors form the special committee?

A: Our Board of Directors believed that a special committee, comprised entirely of independent directors of GAFRI who are not officers or employees of GAFRI, are not affiliates of AFG and who have no financial interest in the merger different from our public stockholders (other than AFG, GAFRI and their affiliates), should be formed to

eliminate any conflict of interest in evaluating and, as appropriate, rejecting or accepting and negotiating the merger and recommending as appropriate the terms of the merger agreement to the full Board of Directors. The members of the special committee are Messrs. Ronald G. Joseph, L. Thomas Hiltz and Joseph P. Tomain. The special committee independently selected and retained legal counsel and a financial advisor to assist it in deliberations.

Q: What was the result of the special committee s deliberations?

A: The special committee determined that the merger was fair from a financial point of view to our public stockholders (other than AFG, GAFRI and their affiliates). This recommendation is based, in part on an opinion from the special committee s financial advisor, CCW, that, as of May 17, 2007, based on and subject to the assumptions, limitations, and qualifications set forth in such opinion, the $24.50 per share merger consideration that our public stockholders will receive in the merger was fair from a financial point of view to such

stockholders. You should read Special Factors The Special Committee, Special Factors Recommendation of the Special Committee and the Board of Directors and Special Factors Opinion of the Special Committee s Financial Advisor for a discussion of the factors that the special committee considered in deciding to recommend the approval of the merger agreement.

Q: How does the Company s Board of Directors recommend that I vote?

A: Acting upon the unanimous determination of the special committee, our Board of Directors (with Messrs. Carl H. Lindner, S. Craig Lindner, Kenneth C. Ambrecht, Charles R. Scheper and William R. Martin abstaining, because of potential conflicts of interest with respect to the proposed transaction) recommends that our stockholders vote FOR the approval of the merger agreement and FOR the adjournment proposal. You should read Special Factors The Special Committee and Special Factors Recommendation of the Special Committee and the Board of Directors for a discussion of the factors that our Board of Directors considered in deciding to recommend the approval of the merger agreement. See also Special Factors Interests of Certain Persons in the Merger.

Q: What effects will the proposed merger have on GAFRI?

A: As a result of the proposed merger, GAFRI will cease to be a publicly traded company and will be wholly-owned by AFG, and you will no longer have any interest in our future earnings or growth. Following consummation of the merger, the registration of our common stock and our reporting obligations under the Securities Exchange Act of 1934, which we refer to as the Exchange Act, will be terminated upon application to the SEC. In addition, upon consummation of the merger, our common stock will no longer be listed on the New York Stock Exchange or any other stock exchange or quotation system.

Q: What happens if the merger is not consummated?

A: If the merger agreement is not approved by the Company s stockholders or if the merger is not consummated for any other reason, the Company s stockholders will not receive any payment for their shares in connection with the merger. Instead, the Company will remain a public company and shares of Company common stock will continue to be listed and traded on the New York Stock Exchange.

Q: How do I vote my shares of GAFRI common stock?

A: Before you vote, you should carefully read and consider the information contained in or incorporated by reference in this proxy statement, including the appendices. You should also determine whether you hold your shares of GAFRI common stock directly in your name as a registered stockholder or through a broker or other nominee because this will determine the procedure that you must follow in order to vote. If you are a registered holder of GAFRI common stock (that is, if you hold your GAFRI common stock in certificate form), you may vote in any of the following ways:

in person at the special meeting complete and sign the enclosed proxy card and bring it to the special meeting;

by mail complete, sign and date the enclosed proxy card and return it in the enclosed postage paid return envelope as soon as possible; or

by telephone call 1-800-PROXIES (1-800-776-9437).

If you are a non-registered holder of shares of common stock of GAFRI (which for purposes of this proxy statement means that your shares are held in street name), you should instruct your broker or other nominee to vote your shares

by following the instructions provided by your broker or other nominee. You may vote in person at the special meeting if you obtain written authorization in your name from your broker or other nominee and bring evidence of your stock ownership from your broker or other nominee. Please contact your broker or other nominee to determine how to vote by mail and whether you will be able to vote by telephone.

If you are an employee of GAFRI, any shares in your retirement and savings plan account and stock purchase plan account will be voted in accordance with your instructions, if indicated. If your proxy card is signed, but does

not indicate your voting preferences, we have been advised by the retirement and savings plan administrator and the plan trustee that your shares will be voted **FOR** the approval of the merger agreement.

Q: What happens if I return my proxy card but I do not indicate how to vote?

A: If you properly return your proxy card, but do not include instructions on how to vote, your shares of GAFRI common stock will be voted **FOR** the approval of the merger agreement. GAFRI s management does not currently intend to bring any other proposals to the special meeting. If other proposals requiring a vote of stockholders are brought before the special meeting in a proper manner, the persons named in the enclosed proxy card intend to vote the shares they represent in accordance with their best judgment.

Q: What happens if I abstain from voting on a proposal?

A: If you return your proxy card with instructions to abstain from voting on the merger proposal, your shares will be counted for determining whether a quorum is present at the special meeting. An abstention with respect to the merger proposal has the legal effect of a vote **AGAINST** the proposal.

Q: What happens if I do not return a proxy card or otherwise do not vote?

A: Your failure to return a proxy card or otherwise vote will mean that your shares will not be counted toward determining whether a quorum is present at the special meeting and will have the legal effect of a vote **AGAINST** the proposal to approve the merger agreement.

Q: May I change my vote after I have mailed my signed proxy card or otherwise submitted my vote?

A: Yes. You can change your vote at any time before your shares are voted at the special meeting. If you are a registered holder of GAFRI common stock, you can do this in any of the following ways:

- by sending a written notice to the Corporate Secretary of GAFRI to the address specified below stating that you would like to revoke your proxy;

- by completing and submitting a new, later-dated proxy card by mail to the address specified below or by recording a later telephone vote; or

- by attending the special meeting and voting in person. Your attendance at the special meeting alone will not revoke your proxy. You must also vote at the special meeting in order to revoke your previously submitted proxy.

You should send any notice of revocation or your completed new, later-dated proxy card, as the case may be, to the Corporate Secretary of GAFRI at the company s headquarters, 250 East Fifth Street, Cincinnati, Ohio 45202.

If your shares are held in street name, you must contact your broker or other nominee and follow the directions provided to you in order to change your vote.

Q: If my broker or other nominee holds my shares in street name, will my broker or other nominee vote my shares for me?

A: Your broker or other nominee will not be able to vote your shares of GAFRI common stock unless you have properly instructed your broker or other nominee on how to vote. If you do not provide your broker or other nominee with voting instructions, your shares may be considered present at the special meeting for purposes of

determining a quorum, but will have the legal effect of a vote **AGAINST** the proposal to approve the merger agreement.

Q: Do I have dissenters or appraisal rights?

A: Yes. Under Delaware law, you have the right to dissent from the merger and, in lieu of receiving the per share merger consideration, obtain payment in cash of the fair value of each of your shares of GAFRI common stock as determined by the Delaware Chancery Court. To exercise appraisal rights, you must strictly follow the procedures prescribed by Section 262 of the Delaware General Corporation Law.

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Q: What does it mean if I receive more than one set of materials?

A: This means you own shares of GAFRI common stock that are registered under different names. For example, you may own some shares directly as a stockholder of record and other shares through a broker or you may own shares through more than one broker. In these situations, you will receive multiple sets of proxy materials.

You must complete, sign, date and return all of the proxy cards or follow the instructions for any alternative voting procedure on each of the proxy cards that you receive in order to vote all of the shares you own. Each proxy card you receive comes with its own prepaid return envelope; if you vote by mail, make sure you return each proxy card in the return envelope that accompanies that proxy card. If you vote by telephone, make sure you follow the instructions on each proxy card.

Q: When do you expect the merger to be completed?

A: The parties to the merger agreement are working toward completing the merger as quickly as possible. If the merger agreement is approved and adopted and the other conditions to the merger are satisfied or waived, the merger is expected to be completed promptly after the special meeting. The parties currently expect to complete the merger on the day of the special meeting of shareholders, although there can be no assurance that we will be able to do so.

Q: If the merger is completed, how will I receive the cash for my shares?

A: If the merger is completed, you will receive a letter of transmittal with instructions on how to send your stock certificates to American Stock Transfer Company, which has been designated to act as paying agent in connection with the merger. You will receive a check in the amount of cash for your shares from the paying agent after you comply with these instructions. If your shares of GAFRI common stock are held for you in street name by your broker, you will receive instructions from your broker as to how to effect the surrender of your street name shares and receive cash for such shares.

Q: Should I send in my stock certificates now?

A: No. Soon after the merger is completed, you will receive the letter of transmittal instructing you to send your stock certificates to the paying agent in order to receive a check for the cash payment of the per share merger consideration for each share of GAFRI common stock represented by your stock certificates. You should use the letter of transmittal to exchange your stock certificates for the cash payment to which you are entitled upon completion of the merger.

Q: What should I do now?

A: After you read and consider carefully the information contained in this proxy statement, please submit your proxy as soon as possible so that your shares may be represented at the special meeting. If your shares of GAFRI common stock are registered in your own name, you may submit your proxy by filling out and signing the proxy card and then mailing your signed proxy card in the enclosed prepaid return envelope. If your shares are held in street name you should follow the directions your broker, bank or other nominee provides.

Q: Who can help answer my questions?

A:

If you would like additional copies, without charge, of this proxy statement or if you have questions about the merger agreement or the merger, including the procedures for voting your shares, you should contact Mark F. Muething, Secretary and General Counsel of GAFRI, at (513) 333-5515 or mmuething@gafri.com.

SPECIAL FACTORS

Background of the Merger

In September 1992, STI Group, Inc. (STI), GAFRI s predecessor, reached an agreement with a subsidiary of AFG to purchase 100% of the capital stock of Great American Life Insurance Company. This acquisition was conditioned upon AFG acquiring through a tender offer and private purchase from STI no less than 80% of the outstanding common stock of STI, and STI obtaining funds sufficient to finance and consummate the acquisition of Great American Life Insurance Company. This acquisition, which was consummated on December 31, 1992,

resulted in a subsidiary of AFG beneficially owning slightly more than 80% of the outstanding common stock of STI (STI changed its name to American Annuity Group, Inc. and later to GAFRI). Prior to the consummation of these transactions, AFG owned approximately 39% of the outstanding shares of STI (now GAFRI).

Members of AFG management have, from time to time, discussed the possible merits of GAFRI becoming a wholly-owned subsidiary of AFG. However, prior to February 2007 no proposal was made by AFG to GAFRI s Board of Directors in connection with these discussions. In late 2006 and early 2007, AFG s management, noting the availability of excess capital to AFG, considered a proposal to acquire the outstanding shares of GAFRI common stock not already owned by AFG and determined that such a transaction would be an appropriate investment of a portion of AFG s excess capital in a specialty-based insurance business that supports AFG s strategic initiatives. AFG s management s considerations with respect to GAFRI were discussed with the AFG board of directors in late 2006. In February 2007, AFG s management asked its board of directors to consider authorizing AFG to submit to GAFRI a proposal that AFG acquire the outstanding shares of GAFRI common stock not beneficially owned by AFG so that GAFRI would become a wholly-owned subsidiary of AFG. The proposal presented by AFG s management to its board of directors contemplated that GAFRI s public stockholders would have the right to receive $23.50 in cash per share. The AFG Board consented to making the proposal and it was submitted to GAFRI s Board on February 22, 2007. On April 23, 2007, AFG s Board of Directors approved an increase of $1.00 in the per share purchase price of the GAFRI common not beneficially owned by AFG. The AFG Board unanimously approved the Merger Agreement on May 17, 2007.

AFG did not consider any transaction other than the proposed merger involving its GAFRI ownership. AFG did, however, consider maintaining its approximate 81% ownership interest in GAFRI with GAFRI continuing as an independent public company. AFG stated in its proposal letter to GAFRI dated February 22, 2007, and AFG has reiterated to GAFRI on multiple occasions since such time, that AFG is not interested in pursuing a sale of its interest in GAFRI. AFG s reasons for proposing the merger immediately follow.

AFG s Reasons for the Merger

AFG proposed the merger to simplify its corporate structure in a manner that provides the following benefits:

Improvement of AFG s Performance. AFG s management expects that if the merger is consummated, it will increase AFG s ability to receive a greater return than what it may currently be achieving on the investment of its excess capital. The merger would increase AFG s investment in core specialty insurance businesses where AFG already has significant expertise while at the same time further simplifying AFG s organizational structure. AFG s management also believes that the merger would provide immediate expense savings and additional synergies between AFG s and GAFRI s businesses over time, be accretive to AFG s earnings and improve AFG s return on equity. Additionally, the merger would allow for easier movement of capital throughout all of AFG s operations, which may facilitate the raising of capital by AFG in the future. AFG also believes that, after evaluating other opportunities, the merger is the best use of certain excess capital and it supports AFG s strategic objectives.

Facilitate Future Capital Raising. AFG believes that simplifying the corporate structure would facilitate the raising of capital by AFG in the future. As a wholly-owned subsidiary of AFG, GAFRI s capital needs can be met with capital raised by the AFG at the parent level, similar to the method in which AFG has funded its other wholly-owned subsidiaries. Historically, GAFRI has engaged in separate capital raising transactions, normally with rates and terms less attractive than those available to AFG, because of the inability to freely move capital from AFG to GAFRI due to the structural impediment of the minority ownership.

Elimination of GAFRI as a Reporting Company. The merger would terminate GAFRI s obligations to file reports and other information as a public company required under the Exchange Act. The elimination of the burdens associated

with public reporting and other tasks resulting from GAFRI s public company status, including, for example, the dedication of time and resources of management and of the Board to meet the various requirements of being a public company will increase management s focus on the operations of the business. In addition, GAFRI s expenses will decrease as a result of the elimination of costs associated with the filing of quarterly, annual or other periodic reports with the SEC or the publishing and distribution of financial information and proxy statements to its shareholders. The elimination of GAFRI s status as a public company

would also result in GAFRI no longer being required to comply separately with the requirements of the Sarbanes-Oxley Act of 2002.

Determination as to Fairness AFG, GAC and Affiliates

The board of directors of AFG and GAC and Carl H. Lindner, Chairman of the Board of AFG and GAFRI, Carl H. Lindner III, Co-Chief Executive Officer, Co-President and a director of AFG, S. Craig Lindner, Chief Executive Officer and a director of GAFRI and Co-Chief Executive Officer, Co-President and a director of AFG, Kenneth C. Ambrecht, director of both AFG and GAFRI, and William R. Martin, director of both AFG and GAFRI did not independently analyze the merger but relied upon and adopted the conclusions, analyses, determinations and findings of the special committee as set forth below and determined that the merger is both procedurally and substantively fair to the public stockholders of GAFRI, excluding officers, directors and other affiliates of AFG and GAFRI. Carl H. Lindner, S. Craig Lindner, Mr. Ambrecht and Mr. Martin each abstained from voting as members of the Board of Directors of GAFRI on the merger proposal because of their potential conflict of interest arising from their positions with both AFG and GAFRI.

The Special Committee

On February 22, 2007, our Board of Directors authorized the formation of a special committee of independent directors of GAFRI, which we refer to as the special committee, designated Mr. Ronald Joseph as the initial member of the special committee and gave Mr. Joseph the authority to recommend to the Board the appointment of one or more additional persons to serve on the special committee. The special committee was authorized to (i) review and evaluate the terms of the transaction proposed by AFG, (ii) establish such procedures, review such information and engage such financial advisors and legal counsel as it deemed appropriate to assist it in the performance of its duties, (iii) recommend to the Board and the public stockholders of GAFRI to accept the proposed transaction, (iv) recommend to the Board and the public stockholders of GAFRI to reject the proposed transaction, and/or (v) negotiate the terms of a transaction, if any, with AFG.

On March 1, 2007, upon the recommendation of Mr. Joseph, the Board elected Mr. Joseph Tomain, dean emeritus and a professor of law at the University of Cincinnati College of Law, as a member of the Board and appointed Mr. Tomain to serve on the special committee.

Between February 27 and March 1, 2007, the special committee interviewed several law firms to serve as independent legal counsel to the special committee. On March 3, 2007, the special committee engaged Squire, Sanders & Dempsey, L.L.P. (Squire Sanders) as its legal counsel to advise it regarding its duties in connection with the proposed transaction. Thereafter on the same day the special committee met with Squire Sanders to discuss the special committee s responsibilities, business issues which potentially would need to be addressed in connection with the proposed transaction, and the probable timeline for the transaction.

On March 6, 2007, the special committee met with Squire Sanders and continued discussions regarding issues that potentially would need to be addressed in connection with the proposal by AFG. Counsel also advised the special committee on the special committee s fiduciary and other legal responsibilities. Counsel further advised the special committee on the legal principles applicable to, and the legal consequences of, actions taken by the special committee with respect to any offers to acquire GAFRI, including but not limited to the AFG proposal. At this meeting, the special committee and Squire Sanders also discussed the process to be undertaken in selecting an independent financial advisor, and identified firms that may be suitable to serve as the special committee s financial advisor. The discussion resulted in the special committee granting a mandate to Squire Sanders to solicit proposals from prospective financial advisors identified on the basis of general criteria set forth by the special committee, with instructions that any response be received on or before March 13, 2007.

The solicitation by Squire Sanders, on behalf of the special committee, resulted in the submission of written preliminary presentations and proposals by thirteen (13) prospective financial advisors. On March 15, 2007, the special committee and its counsel extensively evaluated these materials, and based on its general criteria of potential conflicts, cost and competence, the special committee selected five financial advisors with whom to conduct additional separate meetings. The special committee and its legal counsel also discussed the advisability of adding another independent director to the GAFRI Board of Directors and to the special committee, and the discussion led

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to the special committee and counsel considering persons that the special committee may recommend to our Board of Directors.

On March 16, 2007, upon the recommendation of Messrs. Joseph and Tomain, the Board elected L. Thomas Hiltz, an independent private attorney, as a member of the Board and further appointed Mr. Hiltz to serve on the special committee.

On March 20, 2007, the special committee, together with Squire Sanders, conducted separate meetings with representatives from five prospective financial advisors selected from the initial list of thirteen. At the conclusion of those meetings and subsequent discussions with counsel, the special committee selected Cochran Caronia Waller LLC, which we refer to in this proxy statement as CCW, to serve as its financial advisor for the purpose of advising the special committee, assisting the special committee in any negotiations with AFG, and rendering a fairness opinion to the special committee in connection with the proposed transaction. The special committee concluded that CCW was qualified and independent of AFG, and selected CCW based principally on its knowledge of GAFRI and the insurance industry, institutional strength, expertise and experience in representing special committees. On the evening of March 20, 2007, the special committee advised CCW that it had been selected as independent financial advisor to the special committee, and instructed Squire Sanders to negotiate an engagement letter with CCW and to have CCW commence an investigation and analyses of the value of GAFRI.

On March 22, 2007, CCW met with members of GAFRI s management and Squire Sanders to commence CCW s due diligence process. There was also a detailed discussion of the expectations of the special committee and its advisors with respect to the due diligence process and GAFRI s production of documents and information. GAFRI management pledged its cooperation in the due diligence meeting and made a summary presentation to, and answered questions from, CCW and Squire Sanders regarding GAFRI s operations, strategic plan and financial statements, including recent financial and operating history. On March 28, 2007, CCW and Squire Sanders met again with members of GAFRI s management to discuss tax and environmental liability aspects of the initial due diligence process, and on March 30, 2007, CCW and Squire Sanders met telephonically with the management of GAFRI and GAFRI s real estate advisors to discuss GAFRI s real estate investments.

On April 4, 2007, GAFRI s management made a detailed day-long presentation to, and answered questions from, the special committee and its legal and financial advisors regarding GAFRI s operations and financial condition. The presentation included a discussion of the history and organizational structure of GAFRI, recent acquisitions and dispositions made by GAFRI, a review of each of GAFRI s Cincinnati-based and Austin-based insurance operations, a review of GAFRI s investments and strategic plan, a discussion of GAFRI s financial condition, tax-related matters and available financial statements and a review of all litigation and contingent reserves. In addition to the formal meetings of the special committee and the April 4, 2007 meeting with GAFRI s management, the special committee in the course of its review and evaluation of the proposed transaction informally consulted with GAFRI s management on several other occasions.

From March 22 through April 17, 2007, CCW reviewed financial and other information concerning GAFRI, including GAFRI s audited and interim financial statements, business plans and projections provided by GAFRI s management, and other information concerning GAFRI, as described below in Special Factors Opinion of the Special Committee s Financial Advisor. On April 17, 2007, CCW made a preliminary presentation of its ongoing valuation analyses to a meeting of the special committee. At that meeting, members of the special committee and its legal counsel held extensive discussions with CCW regarding due diligence performed by CCW, the approaches taken by CCW to value GAFRI, the manner in which CCW may arrive at an opinion as to the fairness, from a financial point of view, of the consideration to be received by public stockholders under the proposed transaction and the assumptions upon which CCW s valuation work was based, including forecasts of the expected future performance of GAFRI provided by GAFRI s management, which represent GAFRI s best good faith estimate of its future performance, data from

comparable transactions, and the terms of the proposed transaction.

After describing the due diligence it had performed in the process and discussing the financial analyses techniques utilized in undertaking the valuation of GAFRI, CCW then presented its preliminary valuation of GAFRI, which was based on six valuation methodologies: historical stock price analysis, historical trading multiple analyses, price to book value versus return on equity analysis, public market trading analysis, dividend discount analysis and premiums paid analysis. During this presentation, CCW answered various questions from the special

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committee regarding the valuation methodologies and the implications of their results. At the conclusion of CCW s April 17, 2007 presentation of its preliminary valuation and twice by telephonic conference calls on April 18, 2007, the special committee engaged in robust deliberations on the preliminary valuation analyses. Each member of the special committee asked a number of questions of CCW, all of which were answered to the satisfaction of the special committee.

On April 20, 2007, the special committee and its advisors met with the management of GAFRI and a representative of our Board of Directors to inform them of its preliminary conclusions with respect to the transaction proposed by AFG as a prelude to meeting with representatives of AFG. Squire Sanders opened the meeting with a report on the legal standards governing the actions of the special committee. This report covered issues such as the independence of the members of the special committee and the independence of CCW and Squire Sanders as advisors to the special committee. The report also discussed the deliberative nature of the actions taken by the special committee up to that date, including meeting with the management of GAFRI for a presentation of GAFRI s operations, financial condition and strategic initiatives, additional due diligence meetings with GAFRI s management on tax, environmental and real estate evaluation matters, and the thirteen (13) meetings of the special committee up to that date that included about 4 meetings solely on valuation.

Thereafter, on April 20, 2007, the special committee, together with Squire Sanders and CCW, met with representatives of AFG to discuss the financial terms of the proposed transaction. Squire Sanders reviewed the terms of the initial proposal from AFG, and then discussed the process being undertaken by the special committee and the special committee s work up to that date, including the selection and engagement of Squire Sanders as legal counsel and CCW as financial advisor, due diligence meetings with management of GAFRI, the management s responsiveness to due diligence requests and the deliberate and robust nature of the special committee s meetings and discussions, particularly on the subject matter of valuation. The special committee then informed the AFG representatives of the special committee s resolution not to recommend acceptance of AFG s initial proposal to pay cash consideration of $23.50 per share for GAFRI common stock held by the public stockholders, and suggested that the special committee might be able to recommend an offer of $25.50 per share, coupled with other conditions it considered to be in the best interest of the public stockholders.

AFG responded unequivocally that it would not consider an offer of $25.50 per share of GAFRI common stock. AFG then presented its valuation of GAFRI, which was based on the operations and business prospects of each of GAFRI s individual lines of business, as well as its own analyses of various valuation metrics, and informed the special committee that the special committee s suggestion of $25.50 per share was considerably in excess both of what AFG was willing to offer to the public stockholders and of AFG s valuation of GAFRI which had resulted in an average price of $21.32 per share of GAFRI common stock based on AFG s various valuation metrics. AFG further stated that because of the regulatory uncertainty with respect to the future of the medical supplement line of the insurance business, its valuation of GAFRI would not justify paying $25.50 per share for GAFRI common stock held by the public stockholders. In response to a question posed by a member of the special committee, AFG indicated that the $25.50 per share valuation would result in a return on equity on GAFRI common stock of about 6.3% in 2007, in comparison to approximately 10% for comparable companies in the insurance industry. CCW asked the AFG representatives questions regarding AFG s valuation analyses and received responses thereto from the AFG representatives. CCW further discussed the market price analysis of GAFRI as well as other preliminary analyses used by CCW in evaluating the financial fairness of the proposed transaction.

Following deliberations between the special committee and its advisors, and further discussions among the special committee and its advisors and the AFG representatives over valuation methodologies and the market value of GAFRI common stock, the special committee stated that it could recommend acceptance of an offer of $24.50 per share of GAFRI common stock held by the public stockholders, contingent upon the satisfaction of other conditions in the best interests of the public stockholders. The AFG representatives thereafter acceded to the non-binding recommendation

to raise its offer to $24.50 per share of GAFRI common stock held by the public stockholders, it being understood that the accord was preliminary in nature as to what the special committee might recommend to our Board of Directors and would not be binding upon the special committee until a definitive merger agreement was negotiated and its execution approved by the special committee, and that even then the recommendation could be withdrawn under customary circumstances. The AFG representatives stated that AFG would withdraw its proposal before it would agree to a price of more than $24.50 per share of GAFRI common stock. AFG then

suggested further discussions between AFG s counsel and the special committee s legal counsel regarding other merger terms.

On April 24, 2007, Squire Sanders, on behalf of the special committee, met with AFG s counsel for discussions regarding conditions to the proposed transactions and the negotiation of a definitive merger agreement. Between April 26, 2007 and May 10, 2007, the special committee met several times either in person or telephonically with Squire Sanders to deliberate upon and resolve issues with respect to the proposed transaction as it deemed such resolution to be in the best interests of the public stockholders, and to receive updates on the negotiation of a definitive merger agreement and related matters. On May 15, 2007, the special committee met with CCW for an update on its preliminary valuation analyses, which had not changed in any significant respect.

On May 17, 2007, the special committee met with CCW and Squire Sanders to receive the final valuation report and fairness opinion of CCW, and to receive a draft of the negotiated definitive merger agreement. CCW reviewed the financial analyses methodologies that it had utilized in the valuation of GAFRI, and then presented its valuation of GAFRI. In addition, CCW delivered its fairness opinion, both orally and by presenting a confirming opinion letter, that the merger consideration of $24.50 per share of GAFRI common stock would be fair to the public stockholders (other than AFG, GAFRI and their affiliates) from a financial point of view. Squire Sanders reviewed the draft merger agreement with the special committee discussing the course of negotiations with AFG s counsel. Based in part on the CCW opinion and the valuation analyses presented by CCW to the special committee, the special committee s belief that the $24.50 per share price is a fair offer from a financial point of view and the other factors described below in Special Factors Recommendation of the Special Committee and the Board of Directors Reasons for the Special Committee s Determination; Fairness of the Merger, and after further detailed discussions, the special committee unanimously voted to accept the proposed merger, and to recommend to our Board of Directors that the merger and the merger agreement be approved by the Board and recommended to the public stockholders.

Thereafter, also on May 17, 2007, our Board of Directors met to receive and deliberate upon the report of the special committee. The special committee, in concert with Squire Sanders and CCW, reported to the Board on the process undertaken by the special committee and the special committee s review of the merger agreement, and unanimously recommended to our Board of Directors that the Board accept the offer of $24.50 per share of GAFRI common stock held by the public stockholders and to approve and adopt the definitive merger agreement. After the presentation of the report, and responses to questions posed by various members of the Board to the special committee and its advisors, our Board of Directors (with Messrs. Carl H. Lindner, S. Craig Lindner, Kenneth C. Ambrecht, Charles R. Scheper and William R. Martin abstaining, because of potential conflicts of interest with respect to the proposed transaction) approved and adopted the recommendations of the special committee with respect to the proposed transaction, the definitive merger agreement and the transactions contemplated thereby, and resolved to recommend the approval of the proposed transaction and the merger agreement to the public stockholders. Thereafter, GAFRI issued a press release announcing that, based on the recommendation of the special committee, our Board of Directors had approved the proposed transaction and the offer of $24.50 per share in cash.

AFG s acceptance of the final terms of the merger (including the increase in the consideration to be paid for the GAFRI shares) reflected the separate negotiations with counsel for certain shareholders of GAFRI who filed lawsuits in February challenging the original merger terms proposed by AFG. See Special Factors Certain Litigation Regarding the Merger.

Recommendation of the Special Committee and the Board of Directors

At a meeting held on May 17, 2007, the special committee determined that the proposed transaction, including the merger, the merger agreement and the transactions contemplated thereby, were fair to the public stockholders (other than AFG, GAFRI and their affiliates) and in the best interests of the public stockholders and unanimously

recommended that our Board of Directors approve the proposed transaction, the merger, the merger agreement and the other transactions contemplated thereby and recommend to the public stockholders the merger, the merger agreement and the transactions contemplated thereby. In reaching its conclusion, the special committee was assisted in its deliberations by CCW and Squire Sanders. See Special Factors The Special Committee. Additionally, the

special committee met on 22 occasions between February 23, 2007 and the date of this proxy statement, in person or by telephone conference, to consider developments relating to the proposed transaction. The special committee is unaware of any development since its May 17, 2007 meeting that would affect its determination, and, accordingly, the special committee reconfirms that, as of the date of this proxy statement, its determination that the proposed transaction, including the merger, the merger agreement and the transactions contemplated thereby, are fair to the public stockholders (other than AFG, GAFRI and their affiliates) and in the best interests of the public stockholders.

Reasons for the Special Committee s Determination; Fairness of the Merger

In reaching its conclusions and recommending the proposed transaction, the merger and the merger agreement to the Board, the special committee considered the current overall position of GAFRI, and relied upon the Company s management to provide financial information, projections and assumptions (based on the best information available to management at that time), as the starting point for its analyses, and upon its financial advisor to provide independent analyses for the consideration of the special committee in its valuation of the Company and its evaluation of the proposed transaction. The following discussion of the factors considered by the special committee in reaching its conclusions and recommendation includes all of the material factors considered by the special committee.

Specifically, the material factors that the special committee considered in reaching its determination and making its recommendation evaluated in connection with these considerations and believed supported its determination are:

The special committee s belief that it was unlikely another bidder would make a definitive proposal that would result in a transaction providing greater value to the public stockholders than the proposed transaction. This view was reinforced by the lack of any interest in acquiring GAFRI by any person other than AFG. In addition, the special committee believes that the $24.50 per share consideration is the highest price that could be obtained from AFG, and considered the possibility that AFG would withdraw its bid at a price in excess of $24.50 per share. Furthermore, in its proposal letter of February 22, 2007, AFG stated that it was not interested in pursuing a sale of its approximately 81% equity stake in GAFRI.

The special committee s consideration of the Company as a viable, going concern business, and its understanding that AFG would not consider liquidating GAFRI. The special committee therefore did not consider liquidation value as a relevant valuation methodology. Furthermore, the special committee determined that the valuation of GAFRI as a going concern will result in a greater value for the public stockholders (other than AFG, GAFRI and their affiliates) that is more certain and more immediate than the value that would otherwise be realized in a liquidation of GAFRI. The special committee does not believe there is a single method of determining going concern value, although the special committee believes the analyses of CCW in their totality may be reflective of, among other things, the going concern value. Accordingly, in making a determination as to the going concern value of GAFRI, the special committee adopted the analyses and conclusions of CCW, in addition to the special committee s consideration of other material factors, including GAFRI s current financial position, operations, strategic business plan, potential for future viability and growth and current market conditions.

The special committee s consideration of the per share the merger consideration of $24.50 per share in cash in relation to the then-current market price of GAFRI common stock, the then-current value of GAFRI in a freely negotiated transaction and the future value of GAFRI as an independent entity, and the special committee s determination that to the extent the going concern value of GAFRI is reflected in the then-current market price of GAFRI common stock, the per share merger consideration to be received by the public stockholders represents a premium to GAFRI s going concern value

The special committee s consideration and adoption of CCW s written opinion, in its entirety, delivered to the special committee on May 17, 2007, that the per share merger consideration of $24.50 to be received by the public stockholders (other than AFG, GAFRI and their affiliates) is fair to such holders from a financial point of view. The full text of the written opinion of CCW, sets forth assumptions made, matters considered and limitations on the review undertaken in connection with its opinion, is attached hereto as Appendix B

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and is incorporated herein by reference. GAFRI s shareholders are urged to and should read CCW s fairness opinion in its entirety.

The special committee consideration of the various analyses undertaken by CCW, each of which is described below in Special Factors Opinion of the Special Committee s Financial Advisor.

The special committee s consideration of the then-current market prices of GAFRI common stock, and its determination that the per share merger consideration of $24.50 was fair to the public stockholders (other than AFG, GAFRI and their affiliates) from a financial point of view as it represents an approximate 15% premium over the market price of GAFRI common stock on February 15, 2007 (being the last trading day one week prior to the announcement of the proposed transaction).

The special committee s consideration of the historical market prices of GAFRI common stock, and the special committee s subsequent determination that, based on the fact that GAFRI common stock had not closed above the $24.50 per share price during the five-year period preceding the announcement of the proposed merger, the per share merger consideration of $24.50 was fair to the public stockholders (other than AFG, GAFRI and their affiliates) from a financial point of view.

The special committee s consideration of premiums paid in comparable merger transactions, and the special committee s subsequent determination that, based on the indication that the premium represented by the consideration offered in the proposed merger was within the median range of premiums paid in the various transactions compared to the merger, the proposed per share merger consideration was fair to the public stockholders of GAFRI stockholders (other than AFG, GAFRI and their affiliates).

The special committee s consideration of the net book value of GAFRI, and its determination that, based on the indication that the proposed merger consideration represents a premium over the net book value of GAFRI, the per share merger consideration of $24.50 was fair to the public stockholders (other than AFG, GAFRI and their affiliates) from a financial point of view.

The special committee s consideration of the proposed terms and conditions of the merger agreement. In particular, the special committee considered the fact that the merger agreement does not provide for any termination fees and expense reimbursement obligations which would have the effect of unreasonably discouraging competing bids or hurt the financial results of GAFRI if the merger is not completed. The special committee also concluded that provisions of the merger agreement permitting the Board, in the exercise of its fiduciary duties, to withdraw or modify its recommendation to the shareholders regarding the merger, would facilitate any competing bid, if such a bid becomes available prior to the consummation of the merger.

The fact that the merger and the merger agreement are the product of arm s-length negotiations between AFG and the special committee. During the course of these negotiations, the special committee was able to negotiate terms and conditions of the merger agreement that it believes are beneficial to GAFRI and the public stockholders.

The fact that GAFRI and AFG reported to the special committee in the course of their due diligence that neither is aware of any firm offer by any unaffiliated person during the past two years for the merger, consideration, sale or change of control of GAFRI.

The fact that the per share merger consideration is all cash, which provides certainty of value and complete liquidity to the public stockholders, compared to a transaction in which the public stockholders would receive stock or some other form of consideration.

The likelihood of completion of the merger.

The ability of the public stockholders who may not support the merger to obtain fair value for their shares if they properly perfect and exercise their appraisal rights under Delaware General Corporation Law. The special committee felt that it was important that the Delaware General Corporation Law provides the public stockholders with the opportunity to exercise appraisal rights and to seek a judicial determination of the fair value of their shares if they are dissatisfied with the consideration offered in the merger.

The foregoing discussion of the information relied upon, the analyses adopted by, and factors considered by, the special committee in reaching its conclusions and recommendation includes all of the material factors considered by the special committee. In view of the wide variety of factors considered by the special committee in evaluating the terms of the merger, the special committee did not find it practicable, and did not attempt, to quantify, rank or otherwise assign relative weight to those factors.

The special committee believes that sufficient procedural safeguards were and are present to ensure the fairness of the merger and to permit the special committee to represent effectively the interests of the public stockholders. The special committee believes that sufficient procedural safeguards were and are present to ensure the fairness of the merger and to permit the special committee to represent effectively the interests of the public stockholders. The special committee believes that the procedure that was followed in determining the per share merger consideration to be paid to the public stockholders was fair to the public stockholders other than AFG, GAFRI and their affiliates because, among other things:

- The Board established a special committee comprised of three non-employee directors who are not affiliated with AFG.

- The Board granted the special committee exclusive authority on behalf of the Board to evaluate, review, reject or accept and negotiate the proposed transaction.

- The special committee retained and received advice from its own independent legal and financial advisors in evaluating, negotiating and recommending the terms of the proposed transaction, and these advisors reported directly to and took direction solely from the special committee.

- The special committee, together with its legal and financial advisors, conducted extensive due diligence and negotiations for the benefit of the public stockholders other than AFG, GAFRI and their affiliates.

- The fact that, under the terms of the merger agreement the Board (acting upon the recommendation of the special committee) or the special committee is not prohibited from withdrawing, modifying or changing its recommendation that the public stockholders other than AFG, GAFRI and their affiliates approve and adopt the merger agreement, the merger and the transactions related thereto if the special committee determines that such withdrawal, modification or change is necessary in order for the special committee or the Board to comply with its fiduciary duties.

- The merger consideration of $24.50 per share and the other terms and conditions of the proposed transaction was the result of active and lengthy negotiations between the special committee and its legal and financial advisors on the one hand, and AFG on the other hand.

- The special committee met in excess of 20 times to consider the proposed transaction and the fairness of the proposed transaction to the public stockholders other than AFG, GAFRI and their affiliates.

- Under Delaware law, the public stockholders have the right to demand appraisal of their shares.

In light of the foregoing procedural safeguards, the special committee determined that the merger is procedurally fair to the public stockholders other than AFG, GAFRI and their affiliates. Accordingly, the special committee did not consider it necessary to retain an unaffiliated representative to act solely on behalf of the public stockholders (other than AFG, GAFRI and their affiliates) for purposes of negotiating the terms of the merger agreement or preparing a report concerning the fairness of the merger agreement and the merger.

The special committee also considered certain risks and other potentially negative factors concerning the merger agreement, the merger and the transactions contemplated thereby, but ultimately determined that these factors were outweighed by the factors that supported the special committee s determination. These potentially negative factors included:

The fact that GAFRI will no longer be a public company following completion of the merger, with the resultant effect that the public stockholders will have no further opportunities to participate in any future growth of GAFRI.

The possibility that the merger will not be completed, and the risks associated with such an occurrence.

The closing of the merger is not conditioned upon the affirmative vote of a majority of the public stockholders, but instead is conditioned upon the affirmative vote of a majority of all stockholders.

The fact that, as of the record date, AFG beneficially owned approximately 81% of GAFRI s outstanding shares and has determined to vote, or cause to be voted, such shares in favor of the merger agreement, which means that the proposed merger does not require the affirmative vote of any public stockholders other than AFG, GAFRI and their affiliates.

The possibility of disruption to GAFRI s operations following the announcement of the merger agreement, and the resulting effect on GAFRI if the merger does not close.

The special committee concluded, however, that the aforementioned risks and potentially negative factors could be managed or mitigated by GAFRI or were unlikely to have a material impact on the merger, and that, overall, the potentially negative factors associated with the merger were outweighed by the potential benefits of the merger.

The special committee views its determination and recommendation that the merger agreement and the merger are fair to, and in the best interests of, the public stockholders as being based upon its judgment, in light of the totality of the information presented and considered, of the overall effect of the merger on the public stockholders compared to any alternative transaction and the likely effect of rejecting the merger. The special committee believes that the procedure that was followed in determining the per share merger consideration to be paid to the public stockholders was fair to the public stockholders. The Board appointed as the only members of the special committee three non-employee directors who are not affiliated with AFG, and granted the special committee exclusive authority on behalf of the Board to evaluate, review, reject or accept and negotiate the proposed transaction.

Based on the foregoing, the special committee unanimously determined that the AFG proposal, including the merger, the merger agreement and the transactions contemplated thereby, were fair to, and in the best interests of, the public stockholders other than AFG, GAFRI and their affiliates and recommended to our Board of Directors approval of the merger agreement and that it be recommended to the shareholders of GAFRI.

Position of the Board of Directors as to Fairness of the Merger

Our Board of Directors consists of 10 members, three of whom served on the special committee. At the May 17, 2007 meeting of the Board, the special committee, with representatives of CCW and Squire Sanders participating, reported to the entire Board of Directors on its review of the proposed transaction and the merger agreement. Messrs. Carl H. Lindner, S. Craig Lindner, Kenneth C. Ambrecht, Charles R. Scheper and William R. Martin abstained from any vote with respect to the merger or the merger agreement. The members of the special committee, namely L. Thomas Hiltz, Ronald G. Joseph and Joseph P. Tomain, as well as directors Robert A. Adams and John T. Lawrence III voted to approve the proposed transaction and the merger agreement. The Board considered the analyses performed by, and the conclusions and recommendations of, the special committee. Our Board of Directors believes that, given the careful deliberations and process employed by the special committee, including the advice received by the special committee from each of CCW and Squire Sanders, and based upon the recommendation of the special committee, the merger and the merger agreement are fair to the public stockholders (other than AFG, GAFRI and their affiliates) and in the best interest of the public stockholders (other than AFG, GAFRI and their affiliates) and GAFRI.

Opinion of the Special Committee s Financial Advisor

Pursuant to an engagement letter dated March 20, 2007, the special committee engaged CCW to act as its financial advisor in connection with the special committee s evaluation of the transaction proposed by AFG, and to render to the

special committee a written opinion as to whether the per share merger consideration to be received by the unaffiliated public stockholders was fair to such unaffiliated public stockholders from a financial point of view. As used in this section, the term unaffiliated public stockholders does not include (i) AFG and its affiliates or (ii) GAFRI or any of its affiliates with respect to shares held in treasury or otherwise, and CCW s opinion does not address the fairness of the merger or the per share merger consideration to be received by any such party or holders of shares who have properly exercised appraisal rights, if any.

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The special committee chose to retain CCW to serve as its financial advisor because CCW is a leading investment banking firm specializing in the insurance industry and its investment banking professionals have substantial experience in transactions similar to the transaction proposed by AFG. CCW, as part of its investment banking business, is continually engaged in performing financial analyses with respect to businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and other transactions as well as for corporate and other purposes. In addition, CCW was retained by Ceres Group, Inc. (prior to its acquisition by GAFRI) to act as financial advisor in connection with its acquisition by GAFRI in August 2006. CCW has not had any relationship with the Company, GAC or AFG during the two years preceding the date hereof, other than with regard to the merger. On May 17, 2007, at a meeting of the special committee, CCW delivered its oral opinion, which was confirmed by delivery of a written opinion dated May 17, 2007, to the special committee that, as of such date, on the basis of its analyses summarized below and subject to the limitations described below and in the written opinion the per share merger consideration to be received by the unaffiliated public stockholders was fair to such unaffiliated public stockholders from a financial point of view.

The full text of CCW s written opinion, which is attached as Appendix B to this proxy statement and is incorporated herein by reference, describes, among other things, the assumptions made, general procedures followed, matters considered and limitations on the review undertaken by CCW in rendering its opinion. GAFRI s unaffiliated public stockholders are urged to and should read CCW s opinion carefully and in its entirety. CCW s opinion is addressed to the special committee for its use in evaluating the transaction proposed by AFG and it addresses only the fairness from a financial point of view of the consideration to be received by the unaffiliated public stockholders pursuant to the merger agreement and does not address any other aspect of the transaction proposed by AFG. CCW s opinion does not constitute a recommendation to the special committee or any of the public stockholders on whether or not to vote in favor of or against any matter related to the merger.

As compensation to CCW for its services to the special committee in connection with its evaluation of the transaction proposed by AFG, the special committee paid CCW $250,000 upon execution of the engagement letter dated March 20, 2007 and an additional $250,000 upon the delivery of CCW s opinion. Additional compensation of $250,000 will be payable after GAFRI mails definitive proxy materials to its shareholders or alternatively decides not to proceed with the merger. In addition, regardless of whether the merger is consummated, the special committee has agreed to reimburse CCW for customary expenses, including reasonable attorneys fees and disbursements, and to indemnify CCW and related persons against various liabilities arising out of CCW s engagement. No portion of the CCW fee or its right to expense reimbursement is contingent upon the successful completion of the merger or on the conclusions reached in the CCW opinion.

In connection with rendering its opinion and performing its related financial analyses, CCW reviewed, among other things:

- the final draft of the definitive merger agreement;
- certain historical financial statements of GAFRI as of and for each of the five years ended December 31, 2002 through December 31, 2006 and certain unaudited historical financial statements of GAFRI as of and for the quarter ended March 31, 2007;
- certain internal business, operating and financial information, projections and forecasts of GAFRI, referred to herein as Forecasts, prepared by the management of GAFRI;
- information regarding certain publicly traded companies comparable to GAFRI;

information regarding publicly available financial terms of certain transactions that CCW deemed comparable to the merger;

current and historical market prices and trading volumes of the common stock of GAFRI; and

certain other publicly available information on GAFRI and AFG.

In addition, CCW held discussions with members of the management of GAFRI concerning past and current business operations, assets, liabilities, financial condition and future prospects of GAFRI. CCW also considered other matters which it has deemed relevant to its inquiry and has taken into account such accepted financial and investment banking procedures and considerations as it has deemed relevant.

CCW was not requested to opine to, and did not address, among other things:

the underlying business decision of GAFRI, the Board, the special committee, the public stockholders or any other party to proceed with or to effect the merger; or

the relative merits of the merger as compared to any alternative business strategies that might exist for GAFRI or the effect of any other transaction in which GAFRI might engage.

In arriving at its opinion, CCW relied upon and assumed, without independent verification, the accuracy and completeness of all financial, accounting, legal, tax and other information examined by it or otherwise reviewed or discussed with GAFRI. In that regard, CCW assumed, with the consent of the special committee and GAFRI, that the Forecasts were reasonably prepared by the management of GAFRI on a basis reflecting the best then currently available estimates and judgments of the management of GAFRI and CCW expressed no opinion with respect to such Forecasts or the assumptions on which they are based.

CCW is not an actuary and its services did not include any actuarial determination or evaluation by CCW or any attempt to evaluate actuarial assumptions and CCW has relied on GAFRI s actuaries with respect to reserve adequacy. In that regard, CCW made no analysis of, and expressed no opinion as to, the adequacy of the insurance and investment contract liabilities or the policy liabilities of GAFRI. In addition, CCW did not make an independent evaluation or appraisal of the assets, liabilities (including any derivative or off-balance-sheet assets and liabilities) or solvency of GAFRI or any of its respective subsidiaries and CCW was not furnished with any such evaluation or appraisal. CCW s opinion does not address the underlying business decision of GAFRI to engage in the merger, nor did CCW express any opinion as to the prices at which shares of GAFRI common stock will trade at any time.

CCW relied as to all legal, tax and regulatory matters on advice of counsel to GAFRI, and assumed that the merger will be consummated on the terms described in the merger agreement, without any waiver of any material terms or conditions by GAFRI. The special committee did not request that CCW, and CCW did not, solicit third party indications of interest in respect of the merger.

In the ordinary course of its investment banking activities, CCW and its affiliates may provide such services to GAFRI, AFG and their respective affiliates, may actively trade the debt and equity securities (or related derivative securities) of GAFRI and AFG for its own account and for the accounts of its customers and may at any time hold long and short positions of such securities.

Financial Analyses of the Special Committee s Financial Advisor

The following is a summary of the material financial analyses presented by CCW to the special committee on May 17, 2007, in connection with providing its opinion, which we refer to herein as the CCW presentation. The following summary does not purport to be, and is not, a complete description of the financial analyses performed by CCW. Financial analyses involve complex considerations and judgments concerning financial and operating characteristics and other factors that could affect the acquisition, public trading or other values of the companies, business segments or transactions analyzed and, therefore, financial analyses are not readily susceptible to summary description. No company, transaction or business utilized by CCW in conducting its financial analyses as a comparison is identical to GAFRI, the merger agreement or the merger, and an evaluation of the results of those analyses is not entirely mathematical. The estimates used in, and the valuation ranges resulting from, such analyses are inherently subject to substantial uncertainty and, thus, such analyses do not purport to be, and should not be construed in any respect as, a guaranty of value at which GAFRI, the common stock of GAFRI or any other interests in GAFRI actually could be acquired or sold. The summaries of the financial analyses include information presented in tabular format. The tables must be read together with the full text of each summary and are alone not a complete description of CCW s financial

analyses.

Except as otherwise noted, the following quantitative information, to the extent that it is based on market data, is based on market data as it existed on or before May 17, 2007, and is not necessarily indicative of current market conditions. CCW s financial analyses were necessarily based on the information available to CCW and general economic, financial and stock market conditions and circumstances as they existed and could be evaluated by CCW as of the date of preparation of the CCW presentation. Although subsequent developments may affect the financial analyses performed by CCW, CCW does not have any obligation to update, revise or reaffirm any of the information included in the CCW presentation.

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Overview

As part of its financial analysis, CCW performed a Public Market Trading Analysis, a Dividend Discount Analysis, and a Premiums Paid Analysis. These analyses and the resulting per share reference ranges for GAFRI indicated by these analyses are described below. As part of CCW s financial analysis, CCW reviewed the historical stock price performance and average trading volume of GAFRI and selected companies and the historical financial performance and trading multiples of GAFRI. The order of analyses described below does not represent the relative importance or weight given to those analyses by CCW. CCW considered the results of all of its analyses as a whole, did not attribute any particular weight to any analysis or factor considered by it and did not draw, in isolation, conclusions from or with regard to any one factor or method of analysis. Accordingly, CCW believes that the summary set forth below and its analyses must be considered as a whole and that selecting portions thereof, without considering all of its analyses, could create an incomplete view of the processes underlying its analyses.

Public Market Trading Analysis

In order to access how the public market values shares of similar publicly traded companies, CCW reviewed and compared specific financial and market data relating to GAFRI with selected companies that CCW, based on its experience with companies in the life insurance and annuities industries, deemed appropriate as comparables to GAFRI, including: American Equity Investment Life Holding Co., Conseco, Inc., FBL Financial Group, Inc., National Western Life Insurance Company, Nationwide Financial Services, Inc., Presidential Life Corporation, Protective Life Corporation and Torchmark Corporation.

The financial information compared included current stock price, previous 52 weeks high and low stock price, average weekly trading volume over the last year as a percentage of shares outstanding, market capitalization, stock performance over the last year, GAAP book value, including and excluding the impact of unrealized gains and losses, as of March 31, 2007, return on equity, or ROE, for the last twelve months ended March 31, 2007, or LTM, estimated ROE for 2007 and 2008, dividend yield, LTM diluted EPS, LTM operating EPS, estimated operating EPS for 2007 and 2008 and beta. The credit statistic compared included the ratio of long-term debt to book capitalization. In order to arrive at a public market reference range for GAFRI, CCW derived multiples for the comparable companies, including price as a multiple of (i) LTM operating EPS, (ii) 2007 estimated operating EPS, (iii) 2008 estimated operating EPS, and (iv) GAAP book value per share, excluding the impact of unrealized gains and losses, as of March 31, 2007. Additionally, CCW examined the correlation between 2007 estimated ROEs and price to book value multiples of the comparable companies for which 2007 earnings estimates were publicly available. The resulting regression line provides the implied price to book value multiple for a company at a given 2007 estimated ROE. The market price information used in the analysis was as of May 15, 2007. The earnings per share estimates used were based on First Call consensus estimates as of May 15, 2007. First Call is a product of Thomson Financial, a data service that monitors and publishes a compilation of earnings estimates regarding companies of interest to institutional investors produced by selected research analysts.

The following table presents the selected results of the financial analysis described above for the comparable companies:

	Price to:				
	LTM Oper. EPS	**2007E Oper. EPS**	**2008E Oper. EPS**	**Book Value (Excl. FAS 115)**	**2007E ROE**
American Equity	13.8x	9.7x	8.1x	1.02x	10.6%
Conseco	NM	15.6x	11.2x	0.70x	4.4%

FBL Financial	13.2x	13.1x	12.2x	1.31x	9.2%
National Western Life	19.6x	NA	NA	0.95x	NA
Nationwide	12.3x	13.7x	12.5x	1.57x	10.6%
Presidential Life	10.6x	NA	NA	1.06x	NA
Protective Life	13.7x	12.8x	12.4x	1.51x	10.9%
Torchmark	13.5x	12.9x	11.9x	1.98x	14.3%
Total Median	13.5x	13.0x	12.0x	1.18x	10.6%

CCW then derived from this the ranges of these multiples deemed most meaningful for this analysis (which were 13.0x 14.0x LTM operating EPS, 12.5x 13.5x 2007 estimated operating EPS, 11.5x 12.5x 2008 estimated operating EPS and 0.90x 1.10x GAAP book value per share, excluding the impact of unrealized gains and losses, as of March 31, 2007) and applied these multiples to corresponding financial data of GAFRI. Estimated financial data of GAFRI were based on internal estimates of GAFRI s management. CCW also derived a range of 0.90x 1.00x GAAP book value per share, excluding the impact of unrealized gains and losses, as of March 31, 2007 based on the price to book value multiple implied by inputting GAFRI s 2007 estimated ROE into the regression line discussed above. These calculations indicated an overall mean range of implied per share equity values for GAFRI of $20.58 to $22.96. CCW noted that the merger consideration of $24.50 was above the range of implied per share equity values for GAFRI based on the Public Market Trading Analysis.

CCW selected the comparable companies named above because their businesses and operating profiles are reasonably similar to those of GAFRI. However, because of the inherent differences between business, operations and prospects of GAFRI and the businesses, operations and prospects of the comparable companies, CCW believed that it was inappropriate to, and therefore did not, rely solely on the quantitative results of the Public Market Trading Analysis. Accordingly, CCW also made qualitative judgments concerning differences between the financial and operating characteristics and prospects of GAFRI and the companies included in this analysis that would affect the public trading values of each in order to provide a context in which to consider the results of the quantitative analysis. These qualitative judgments related primarily to the differing sizes, growth prospects, profitability levels and degree of operational risk between GAFRI and the companies included in the Public Market Trading Analysis.

Dividend Discount Analysis

In order to estimate the present value of GAFRI common stock, CCW modeled a dividend discount cash flow analysis using the dividends available to GAFRI s common shareholders for fiscal years 2007 through 2011 based on estimates provided by GAFRI management.

A dividend discount cash flow analysis is a traditional valuation methodology used to derive a valuation of an asset by calculating the present value of estimated future dividends of the asset. Dividends represent the cash available to common shareholders after funding capital requirements, working capital needs and debt financing requirements. Present value refers to the current value of future cash flows or amounts and is obtained by discounting those future cash flows or amounts by a discount rate that takes into account macro-economic assumptions and estimates of risk, the opportunity cost of capital, expected returns and other appropriate factors.

CCW performed a dividend discount cash flow analysis for GAFRI by adding (1) the present value of GAFRI s projected dividends to (2) the present value of the terminal value of GAFRI. The terminal value refers to the value of all future cash flows from an asset at a particular point in time.

To determine terminal value, CCW used a terminal forward net income multiple range of 12.5x 13.5x based on the peer group and a terminal book value multiple range of 1.12x 1.22x based on the price to book value versus 2007 estimated ROE regression analysis utilized in the Public Market Trading Analysis. CCW discounted the dividend streams and the estimated terminal value to a present value using a discount rate range of 11.0% 12.0% based on GAFRI s estimated weighted average cost of equity. CCW used a capital asset pricing model to calculate GAFRI s estimated weighted average cost of equity using standard industry pricing models.

These calculations indicated an overall mean range of implied per share equity values for GAFRI of $22.27 to $25.22. The results of this analysis are summarized as follows:

	Terminal Multiple Range		Implied per Share Range	
Price / Estimated Earnings	12.5x	13.5x	$ 22.41	$25.28
Price / Estimated Book Value	1.12x	1.22x	$ 22.13	$25.17

For the nine months ended September 30, 2010, our capital expenditures were approximately 16.1% of our net sales, which is an increase from our historical 10% to 12% of net sales model. We expect capital expenditures for fiscal 2010 to be higher than our historical model as we increase capacity due to increased demand.

For the nine months ended September 30, 2010, the percentage of our net sales derived from our Asia subsidiaries was 72.7%, compared to 75.4% in the same period last year. The decrease was due primarily to improvements in North America and Europe. We expect our net sales to the Asia market to increase as a percentage of our total net sales as a result of our customers continuing to shift their manufacturing of electronic products to Asia. In addition, Europe accounted for approximately 11.3% of our net sales for the nine months ended

September 30, 2010, compared to 10.4% in the same period last year.

As of September 30, 2010, we had invested approximately $278.0 million in our Asia manufacturing facilities. For the nine months ended September 30, 2010, we invested approximately $64.0 million in these manufacturing facilities, and we expect to continue to invest in our manufacturing facilities, although the amount to be invested will depend on product demand and new product developments.

We have increased our investment in research and development from $16.9 million, or 5.6% of net sales, for the nine months ended September 30, 2009 to $20.4 million, or 4.5% of net sales, for the nine months ended September 30, 2010. For the remainder of 2010, we expect research and development to decrease slightly as a percentage of net sales compared to the third quarter of 2010.

Results of Operations for the Three Months Ended September 30, 2010 and 2009

The following table sets forth, the percentage that certain items in the statements of operations bear to net sales and the percentage dollar increase (decrease) of such items from period to period.

	Percent of Net Sales		Percentage Dollar Increase
	Three months ended September 30,		(Decrease)
	2010	2009	'09 to '10
Net sales	100.0%	100.0%	**33.6**
Cost of goods sold	(62.6)	(69.2)	**20.8**
Gross profit	37.4	30.8	**62.3**
Operating expenses	(19.1)	(21.6)	**18.2**
Income from operations	18.3	9.2	**165.6**
Interest income	0.2	0.7	**(65.3)**
Interest expense and amortization of debt discount	(1.8)	(3.1)	**(21.8)**
Other income (expenses)	0.2	(0.9)	**(123.6)**
Income before income taxes and noncontrolling interest	16.9	5.9	**280.2**
Income tax provision (benefit)	3.3	(0.5)	**(949.9)**
Net income	13.6	6.4	**181.5**
Less: net income attributable to noncontrolling interest	(0.6)	(0.7)	**10.7**
Net income attributable to common stockholders	13.0	5.7	**201.5**

The following discussion explains in greater detail our consolidated operating results and financial condition for the three months ended September 30, 2010, compared to the three months ended September 30, 2009. This discussion should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this quarterly report *(in thousands)*.

	2010	2009
Net Sales	$163,120	$122,122

Net sales increased approximately $41.0 million for the three months ended September 30, 2010, compared to the same period last year. The 33.6% increase in net sales represented an approximately 22.9% increase in units sold and an 8.7% increase in ASP. The revenue increase for the three months ended September 30, 2010 was attributable to increase in demand for our products in all markets with particular strength in North America and Europe. For the remainder of 2010, we expect net sales to be relatively the same as compared to the third quarter of 2010.

	2010	2009
Cost of goods sold	$102,143	$84,547
Gross profit	$ 60,977	$37,575
Gross profit margin	37.4%	30.8%

Cost of goods sold increased approximately $17.6 million, or 20.1%, for the three months ended September 30, 2010 compared to the same period last year. As a percent of sales, cost of goods sold decreased to 62.6% for the three months ended September 30, 2010 compared to 69.2% in the same period last year, and our average unit cost (AUP)

decreased approximately 1.7% due primarily to product mix. The decrease in cost of goods sold as a percentage of sales was due to higher net sales, which offset a portion of fixed costs.

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For the three months ended September 30, 2010, gross profit increased by approximately $23.4 million, or 62.3%, compared to the same period last year. Gross margin increased to 37.4% for the three months ended September 30, 2010, compared to 30.8% for the same period last year, primarily due to higher capacity utilization of our manufacturing and wafer fabrication facilities and improved product mix. For the remainder of 2010, we expect gross margin to be relatively the same as compared to the third quarter of 2010.

	2010	2009
Selling, general and administrative expenses (SG&A)	$22,837	$19,079

SG&A for the three months ended September 30, 2010 increased approximately $3.8 million, or 19.7%, compared to the same period last year, primarily due to higher sales commissions related to increased sales, as well as to higher employee related costs including incentives and higher general operating costs. SG&A as a percentage of sales, decreased to 14.0% for the three months ended September 30, 2010, compared to 15.6% in the same period last year due to higher net sales. For the remainder of 2010, we expect SG&A to be comparable to the third quarter of 2010 on a percentage of net sales basis.

	2010	2009
Research and development expenses (R&D)	$7,212	$6,284

R&D for the three months ended September 30, 2010 was $7.2 million, an increase of approximately $0.9 million from the same period last year, primarily due to increased personnel costs, engineering supplies and material purchases. R&D, as a percentage of sales, decreased to 4.4% for the three months ended September 30, 2010, compared to 5.1% in the same period last year due to higher net sales. For the remainder of 2010, we expect R&D to be comparable to the third quarter of 2010 on a percentage of net sales basis.

	2010	2009
Amortization of acquisition-related intangible assets	$1,098	$1,271

Amortization of acquisition-related intangible assets was approximately $1.1 million for the three months ended September 30, 2010 and approximately $1.3 million in the same period last year.

	2010	2009
Interest income	$279	$805

Interest income decreased for the three months ended September 30, 2010 to $0.3 million, compared to $0.8 million in the same period last year, due primarily to the absence of interest income being earned on our ARS, which were put back to UBS at par value on June 30, 2010 in accordance with the previously disclosed settlement agreement. For the remainder of 2010, we expect interest income to be lower than 2009 since we are no longer earning interest on the ARS.

	2010	2009
Interest expense	$939	$1,784

Interest expense for the three months ended September 30, 2010 was approximately $1.0 million, compared to $1.8 million in the same period last year. The $0.8 million decrease in interest expense was due primarily to the repurchase and retirement of $95.7 million par value of Notes since the fourth quarter of 2008 and due to the fact our no net cost loan was paid off on June 30, 2010 in connection with the previously disclosed settlement agreement with UBS. For the remainder of 2010, we expect interest expense to be lower than 2009 since we are no longer being charged interest for the no net cost loan.

	2010	2009
Amortization of debt discount	$2,006	$1,981

Amortization of debt discount was approximately $2.0 million for both the three months ended September 30, 2010 and the same period last year.

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	2010	2009
Other income (expense)	$251	$(1,062)

Other income for the three months ended September 30, 2010 was $0.3 million, compared to other expense of $1.1 million in the same period last year. Included in other expense for the three months ended September 30, 2009 was a $1.4 million foreign currency transaction losses due primarily to the strengthening of the U.S. dollar versus the British Pound, negatively affecting foreign currency hedges acquired in connection with our acquisition of Zetex.

	2010	2009
Income tax provision (benefit)	$5,346	$(629)

We recognized income tax expense of $5.3 million for the three months ended September 30, 2010, compared to a $(0.6) million income tax benefit in the same period last year. Income taxes for the interim periods ended September 30, 2010 and 2009 have been included in the accompanying financial statements on the basis of an estimated annual effective rate and actual year-to-date effective income tax rate, respectively. The estimated effective tax rate is 19.5% for the three months ended September 30, 2010, as compared to (8.7)% in the same period last year. Our effective tax rate for the three months ended September 30, 2010 was lower than the U.S. statutory tax rate of 35%, as it was impacted by higher income in lower-taxed jurisdictions and the non-cash tax benefit from reversing valuation allowances on deferred tax assets from U.S. loss carryforwards. In addition, the Company s effective tax rate for the three months ended September 30, 2009 was impacted by income in lower-taxed jurisdictions.

	2010	2009
Net income attributable to noncontrolling interest	$907	$819

Noncontrolling interest represented the minority investors share of the earnings of our China and Taiwan subsidiaries for the three months ended September 30, 2010 and 2009. The noncontrolling interest in the subsidiaries and their equity balances are reported separately in the consolidation of our financial statements, and the activities of these subsidiaries are included therein. Our interests in these subsidiaries have not materially changed since December 31, 2009.

Results of Operations for the Nine Months Ended September 30, 2010 and 2009

The following table sets forth, the percentage that certain items in the statements of operations bear to net sales and the percentage dollar increase (decrease) of such items from period to period.

	Percent of Net Sales Nine months ended September 30,		Percentage Dollar Increase (Decrease)
	2010	2009	'09 to '10
Net sales	100.0%	100.0%	**47.7**
Cost of goods sold	(63.9)	(73.9)	**27.7**
Gross profit	36.1	26.1	**104.2**
Operating expenses	(19.9)	(23.1)	**27.2**
Income from operations	16.2	3.0	**700.7**
Interest income	0.6	1.3	**(33.8)**
Interest expense and amortization of debt discount	(2.3)	(4.0)	**(17.7)**
Other income (expenses)	0.4	(0.4)	**(262.8)**
Income (loss) before income taxes and noncontrolling interest	14.9	(0.1)	**(25,101.5)**
Income tax provision	2.6	1.6	**137.7**
Net income (loss)	12.3	(1.7)	**(1,165.1)**
Less: net income attributable to noncontrolling interest	(0.6)	(0.5)	**68.0**
Net income (loss) attributable to common stockholders	11.7	(2.2)	**(887.7)**

The following discussion explains in greater detail our consolidated operating results and financial condition for the nine months ended September 30, 2010, compared to the nine months ended September 30, 2009. This discussion should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this quarterly report *(in thousands)*.

	2010	2009
Net Sales	$449,120	$304,070

Net sales increased approximately $145.1 million for the nine months ended September 30, 2010, compared to the same period last year. The 47.7% increase in net sales represented an approximately 38.5% increase in units sold and a 6.6% increase in ASP. The revenue increase for the nine months ended September 30, 2010 was attributable to increase in demand for our products in all geographic regions.

	2010	2009
Cost of goods sold	$286,893	$224,632
Gross profit	$162,227	$ 79,438
Gross profit margin	36.1%	26.1%

Cost of goods sold increased approximately $62.3 million, or 27.7%, for the nine months ended September 30, 2010 compared to the same period last year. As a percent of sales, cost of goods sold decreased to 63.9% for the nine months ended September 30, 2010 compared to 73.9% in the same period last year, and our AUP decreased 7.8% due

to product mix. The decrease in cost of goods sold as a percentage of sales was due to higher net sales, which offset a portion of the fixed costs.

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For the nine months ended September 30, 2010, gross profit increased by approximately $82.8 million, or 104.2%, compared to the same period last year. Gross margin increased to 36.1% for the nine months ended September 30, 2010, compared to 26.1% for the same period last year, primarily due to higher capacity utilization of our manufacturing and wafer fabrication facilities and improved product mix.

	2010	2009
SG&A	$65,678	$50,375

SG&A for the nine months ended September 30, 2010 increased approximately $15.3 million, or 30.4%, compared to the same period last year, primarily due to higher sales commissions related to increased sales, as well as to higher employee related costs including incentives and higher general operating costs. SG&A, as a percentage of sales, decreased to 14.7% for the nine months ended September 30, 2010, compared to 16.6% in the same period last year due to higher net sales.

	2010	2009
R&D	$20,403	$16,944

R&D for the nine months ended September 30, 2010 was $20.4 million, an increase of approximately $3.5 million from the same period last year, primarily due to increased personnel costs, engineering supplies and material purchases. R&D, as a percentage of sales, decreased to 4.5% for the nine months ended September 30, 2010, compared to 5.6% in the same period last year due to higher net sales.

	2010	2009
Amortization of acquisition-related intangible assets	$3,304	$3,480

Amortization of acquisition-related intangible assets was approximately $3.3 million for the nine months ended September 30, 2010 and approximately $3.5 million in the same period last year.

	2010	2009
Interest income	$2,587	$3,907

Interest income decreased for the nine months ended September 30, 2010 to $2.6 million, compared to $3.9 million in the same period last year, due primarily to a decrease in interest income earned on our ARS, which were put back to UBS at par value on June 30, 2010 in accordance with the previously disclosed settlement agreement.

	2010	2009
Interest expense	$4,317	$5,709

Interest expense for the nine months ended September 30, 2010 was approximately $4.3 million, compared to $5.7 million in the same period last year. The $1.4 million decrease in interest expense was due primarily to the repurchase and retirement of $95.7 million par value of Notes since the fourth quarter of 2008 and due to the fact our no net cost loan was paid off on June 30, 2010 in connection with the previously disclosed settlement agreement with UBS.

	2010	2009
Amortization of debt discount	$5,713	$6,471

Amortization of debt discount for the nine months ended September 30, 2010 was $5.7 million, compared to $6.5 million in the same period last year. The $0.8 million decrease in amortization of debt discount was due primarily to the repurchase and retirement of Notes during 2009.

	2010	2009
Other income (expense)	$1,749	$(1,074)

Other income for the nine months ended September 30, 2010 was $1.7 million, compared to other expense of $1.1 million in the same period last year. Included in other income for the nine months ended September 30, 2010 was a $1.7 million gain on sale of non-core intellectual property for which no intangible assets were recorded. Included in other expense for the nine months ended September 30, 2009 was foreign currency losses of $3.4 million, partially offset by a $1.5 million gain on forgiveness of debt from government subsidies in China and a $1.4 million gain on extinguishment of debt.

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	2010	2009
Income tax provision	$11,705	$4,924

We recognized income tax expense of $11.7 million for the nine months ended September 30, 2010, compared to a $4.9 million in the same period last year. Income taxes for the interim periods ended September 30, 2010 and 2009 have been included in the accompanying financial statements on the basis of an estimated annual effective rate and actual year-to-date effective income tax rate, respectively. The estimated effective tax rate is 17.5% for the nine months ended September 30, 2010, as compared to the effective tax rate for the same period last year of (1837.7)%. Our effective tax rate for the nine months ended September 30, 2010 was lower than the U.S. statutory tax rate of 35%, as it was impacted by higher income in lower-taxed jurisdictions and the non-cash tax benefit from reversing valuation allowances on deferred tax assets from U.S. and U.K. loss carryforwards. In addition, the Company s effective tax rate for the nine months ended September 30, 2009 was impacted by the non-cash income tax expense associated with repatriating earnings of foreign subsidiaries to the U.S. parent.

	2010	2009
Net income attributable to noncontrolling interest	$2,532	$1,507

Noncontrolling interest represented the minority investors share of the earnings of our China and Taiwan subsidiaries for the nine months ended September 30, 2010 and 2009. The noncontrolling interest in the subsidiaries and their equity balances are reported separately in the consolidation of our financial statements, and the activities of these subsidiaries are included therein. Our interests in these subsidiaries have not materially changed since December 31, 2009.

Financial Condition

Liquidity and Capital Resources

Our primary sources of liquidity are cash and cash equivalents, funds from operations and borrowings under our credit facilities. We currently have a U.S. credit agreement for a $10 million revolving credit facility and a $10 million uncommitted facility with no outstanding borrowings and have foreign credit facilities with borrowing capacities of approximately $25.0 million with no outstanding borrowings and $3.6 million used for import and export guarantees. Our primary liquidity requirements have been to meet our inventory and capital expenditure needs and to fund on-going operations. At December 31, 2009 and September 30, 2010, our working capital was $354.3 million and $394.1 million, respectively. Our working capital increased in the first nine months of 2010 primarily due to the increase in cash, accounts receivables and inventories, partially offset by an increase in accounts payable and accrued liabilities. We expect cash generated by our U.S. and international operations, together with existing cash, cash equivalents and available credit facilities, to be sufficient to cover cash needs for working capital and capital expenditures for at least the next 12 months. Cash and cash equivalents, the conversion of other working-capital items and borrowings are expected to be sufficient to fund on-going operations.

During the third quarter of 2010, we did not renew revolving foreign credit facilities totaling approximately $20 million. While our operational cash flow is sufficient to fund current operations, we are in the process of renegotiating the terms for these revolving credit facilities.

On June 30, 2010, we put back our ARS portfolio to UBS AG at par value pursuant to the previously disclosed settlement agreement with UBS AG. Upon exercise of the put option, we liquidated our ARS, for cash and used the proceeds to fully repay the related no net cost loan with UBS Bank.

On October 1, 2011 the holders of our 2.25% Convertible Senior Notes due 2026 (Notes) can require us to purchase all or a portion of their Notes at a purchase price in cash equal to 100% of the principal amount of the Notes to be purchased, plus any accrued and unpaid interest to, but excluding, the purchase date. Therefore, during the fourth quarter of 2010, we will reclassify our Notes from long-term debt to current liabilities. Should the holders choose to require us to purchase their Notes, we will be required to use available funds and/or seek alternative means to service the debt.

Capital expenditures for the nine months ended September 30, 2010 and 2009 were $72.2 million and $15.8 million, respectively. Our capital expenditures for these periods were primarily related to manufacturing expansion in our facilities in China. Capital expenditures in the first nine months of 2010 were approximately 16.1% of our net sales, which is an increase from our historical 10% to 12% of net sales model. We expect capital expenditures for fiscal 2010 to be higher than our historical model.

Discussion of Cash Flow

Cash and cash equivalents increased from $242.0 million at December 31, 2009, to $263.8 million at September 30, 2010 primarily from cash provided by operating and investing activities, offset by cash used in financing activities.

Operating Activities

Net cash provided by operating activities for the nine months ended September 30, 2010 was $90.0 million, resulting primarily from $55.3 million of net income, $37.8 million in depreciation and amortization and $9.8 million in share-based compensation, offset by a greater increase in operating assets than operating liabilities. Net cash provided by operating activities was $44.0 million for the same period last year. Net cash provided by operating activities increased $46.0 million for the nine months ended September 30, 2010, compared to the same period last year. This increase resulted primarily from a $60.5 million increase in net income, offset by changes in operating assets and liabilities.

Investing Activities

Net cash provided by (used in) investing activities was $232.0 million for the nine months ended September 30, 2010 compared to ($3.7) million for the same period last year. The $235.7 million increase in net cash provided by investing activities was due primarily to $296.6 million in proceeds from the sale of short-term investments, offset partially by the $53.4 million increase in purchases of property, plant and equipment.

Financing Activities

Net cash used in financing activities totaled $298.6 million for the nine months ended September 30, 2010 compared to $21.1 million in the same period last year. This increase in usage is primarily the result of an approximately $303.2 million repayment on lines of credit with the proceeds from the sale of short-term investments.

Debt Instruments

There have been no material changes to our debt instruments as disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, filed on March 1, 2010, except for the changes described below.

On June 30, 2010, we put back our ARS portfolio to UBS AG at par value pursuant to the previously disclosed settlement agreement with UBS AG. Upon exercise of the put option, we liquidated our ARS, for cash and used the proceeds to fully repay the related no net cost loan with UBS Bank.

Off-Balance Sheet Arrangements

We do not have any transactions, arrangements and other relationships with unconsolidated entities that will affect our liquidity or capital resources. We have no special purpose entities that provide off-balance sheet financing, liquidity or market or credit risk support, nor do we engage in swap agreements, or outsourcing of research and development services, that could expose us to liability that is not reflected on the face of our financial statements.

Contractual Obligations

There have been no material changes in any of our contractual obligations as disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, filed on March 1, 2010.

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, we evaluate our estimates, which are based upon historical experiences, market trends and financial forecasts and projections, and upon various other assumptions that management believes to be reasonable under the circumstances and at that certain point in time. Actual results may differ, significantly at times, from these estimates under different assumptions or conditions.

Our critical accounting policies, as described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, relate to revenue recognition, inventories, accounting for income taxes, allowance for doubtful accounts, goodwill and long-lived assets, share-based compensation, fair value measurements, defined benefit plan, contingencies and convertible senior notes. There have been no material changes to our critical accounting policies since December 31, 2009, except that we no longer use methods of fair value to value our ARS portfolio.

Recently Issued Accounting Pronouncements

See Note A of the Notes to Consolidated Condensed Financial Statements for detailed information regarding the status of recently issued accounting pronouncements.

Available Information

Our Internet address is http://www.diodes.com. We make available, free of charge through our Internet 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 Securities Exchange Act of 1934 (Exchange Act) as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission (the SEC). To support our global customer-base, particularly in Asia and Europe, our website is language-selectable into English, Chinese, and Korean, giving us an effective marketing tool for worldwide markets. With its extensive online Product (Parametric) Catalog with advanced search capabilities, our website facilitates quick and easy product selection. Our website provides easy access to worldwide sales contacts and customer support, and incorporates a distributor-inventory check to provide component inventory availability and a small order desk for overnight sample fulfillment. Our website also provides access to investor financial information, including SEC filings and press releases, as well as stock quotes and information on corporate governance compliance.

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

Except for the historical information contained herein, the matters addressed in this Quarterly Report on Form 10-Q constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We generally identify forward-looking statements by the use of terminology such as may, will, could, should, potential, continue, intend, plan, estimate, anticipate, believe, or similar phrases or the negatives of such terms. Such forward-l statements are subject to a variety of risks and uncertainties, including those discussed under Risks Related To Our Business and elsewhere in this Quarterly Report on Form 10-Q that could cause actual results to differ materially from those anticipated by our management. 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 Quarterly Report on Form 10-Q are made pursuant to the Act.

All forward-looking statements contained in this Quarterly Report on Form 10-Q are subject to, in addition to the other matters described in this Quarterly Report on Form 10-Q, a variety of significant risks and uncertainties. The following discussion highlights some of these risks and uncertainties. Further, from time to time, information provided by us or statements made by our employees may contain forward-looking information. There can be no assurance that actual results or business conditions will not differ materially from those set forth or suggested in such forward-looking statements as a result of various factors, including those discussed below.

For more detailed discussion of these factors, see the Risk Factors discussion in Item 1A of the Company s most recent Annual Report on Form 10-K as filed with the SEC and in Part II, Item 1A of this report. The forward-looking statements included in this Quarterly Report on Form 10-Q are made only as of the date of this report, and the Company undertakes no obligation to update the forward-looking statements to reflect subsequent events or circumstances.

Risk Factors

Risks Related To Our Business

- Ø *The success of our business depends on the strength of the global economy and the stability of the financial markets, and any weaknesses in these areas may have a material adverse effect on our revenues, results of operations and financial condition.*
- Ø *During times of difficult market conditions, our fixed costs combined with lower revenues may have a negative impact on our results of operations and financial condition.*
- Ø *Downturns in the highly cyclical semiconductor industry or changes in end-market demand could adversely affect our results of operations and financial condition.*
- Ø *The semiconductor business is highly competitive, and increased competition may harm our business, results of operations and financial condition.*
- Ø *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, results of operations and financial condition.*
- Ø *Delays in initiation of production at facilities, implementing new production techniques or resolving problems associated with technical equipment malfunctions could adversely affect our manufacturing efficiencies, results of operations and financial condition.*
- Ø *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.*

Ø *Our customers require our products to undergo a lengthy and expensive qualification process without any assurance of product sales, which could adversely affect our revenues, results of operations and financial condition.*

Ø *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.*

Ø *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 and could adversely affect our results of operations and financial condition.*

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- Ø *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 adversely affect our net sales, market share, results of operations and financial condition.*

- Ø *We may be adversely affected by any disruption in our information technology systems, which could adversely affect our cash flows, results of operations and financial condition.*

- Ø *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.*

- Ø *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 reputation with customers, results of operations and financial condition could be adversely affected if we are unable to obtain adequate supplies in a timely manner.*

- Ø *If we do not succeed in continuing to vertically integrate our business, we will not realize the cost and other efficiencies we anticipate, which could adversely affect our ability to compete, profit margins, results of operations and financial condition.*

- Ø *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, which could adversely affect our business, results of operations and financial condition.*

- Ø *We are subject to many environmental laws and regulations that could result in significant expenses and could adversely affect our business, results of operations and financial condition.*

- Ø *Our products may be found to be defective and, as a result, product liability claims may be asserted against us, which may harm our business, reputation with our customers, results of operations and financial condition.*

- Ø *We may fail to attract or retain the qualified technical, sales, marketing and management personnel required to operate our business successfully, which could adversely affect our business, results of operations and financial condition.*

- Ø *We may not be able to maintain our growth or achieve future growth and such growth may place a strain on our management and on our systems and resources, which could adversely affect our business, results of operations and financial condition.*

- Ø *Obsolete inventories as a result of changes in demand for our products and change in life cycles of our products could adversely affect our business, results of operations and financial condition.*

- Ø *If OEMs do not design our products into their applications, a portion of our net sales may be adversely affected.*

- Ø *We are subject to interest rate risk that could have an adverse effect on our cost of working capital and interest expenses.*

- Ø

We had a significant amount of debt following the offering of convertible notes. Our substantial indebtedness could adversely affect our business, results of operations, financial condition and our ability to meet our payment obligations under the notes and or other debt.

Ø *Restrictions in our credit facilities may limit our business and financial activities, including our ability to obtain additional capital in the future.*

Ø *The value of our benefit plan assets and liabilities is based on estimates and assumptions, which may prove inaccurate and the actual amount of expenses recorded in the consolidated financial statements could differ materially from the assumptions used.*

Ø *Due to the recent fluctuations in the United Kingdom s equity markets and bond markets, changes in actuarial assumptions for our defined benefit plan could increase the volatility of the plan s asset value, require us to increase cash contributions to the plan and have a negative impact on our results of operations and financial condition.*

Ø *There are risks associated with previous and future acquisitions. We may ultimately not be successful in overcoming these risks or any other problems encountered in connection with acquisitions.*

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- Ø *If we fail to maintain an effective system of internal controls or discover material weaknesses in our internal control over financial reporting, we may not be able to report our financial results accurately or detect fraud, which could harm our business and the trading price of our Common Stock.*

- Ø *Terrorist attacks, or threats or occurrences of other terrorist activities, whether in the United States or internationally, may affect the markets in which our Common Stock trades, the markets in which we operate and our results of operations and financial condition.*

- Ø *Certain of our customers and suppliers require us to agree and comply with their codes of conducts, which may include certain regulations and restrictions that may substantially increase the cost of our business as well as have an adverse effect on operating efficiencies, our business, results of operations and financial condition.*

Risks Related To Our International Operations

- Ø *Our international operations subject us to risks that could adversely affect our operations.*

- Ø *We have significant operations and assets in China, Taiwan, Hong Kong and England and, as a result, will be subject to risks inherent in doing business in those jurisdictions, which may adversely affect our financial performance.*

- Ø *A slowdown in the Chinese economy could limit the growth in demand for electronic devices containing our products, which would have a material adverse effect on our business, results of operations and prospects.*

- Ø *Economic regulation in China could materially and adversely affect our business, results of operations and prospects.*

- Ø *We could be adversely affected by violations of the United States   Foreign Corrupt Practices Act and similar worldwide anti-bribery laws.*

- Ø *We are subject to foreign currency risk as a result of our international operations.*

- Ø *We may not continue to receive preferential tax treatment in Asia, thereby increasing our income tax expense and reducing our net income.*

- Ø *The distribution of any earnings of our foreign subsidiaries to the United States may be subject to U.S. income taxes, thus reducing our net income.*

- Ø *The People s Republic of China is experiencing a rapid social, political and economic change, which has increased labor costs and other related costs that could make doing business in China less advantageous than in prior years. Increased labor costs in China could adversely affect our business, results of operations and financial condition.*

Risks Related To Our Common Stock

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

- Ø *We may enter into future acquisitions and take certain actions in connection with such acquisitions that could adversely affect the price of our Common Stock.*

- Ø *Our directors, executive officers and significant stockholders hold a substantial portion of our Common Stock, which may lead to conflicts with other stockholders over corporate transactions and other corporate matters.*

- Ø *We were formed in 1959, and our early corporate records are incomplete. As a result, we may have difficulty in assessing and defending against claims relating to rights to our Common Stock purporting to arise during periods for which our records are incomplete.*

- Ø *Conversion of our convertible senior notes will dilute the ownership interest of existing stockholders, including stockholders who had previously converted their notes.*

- Ø *Non-cash tender offers, debt equity swaps or equity exchanges to consummate our business activities are likely to have the effect of diluting the ownership interest of existing stockholders, including qualified stockholders who receive shares of our Common Stock in such business activities.*

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- Ø *The repurchase rights and the increased conversion rate triggered by a make-whole fundamental change could discourage a potential acquirer.*
- Ø *Anti-takeover effects of certain provisions of Delaware law and our Certificate of Incorporation and Bylaws, may hinder a take-over attempt.*
- Ø *Section 203 of Delaware General Corporation Law may deter a take-over attempt.*
- Ø *Certificate of Incorporation and Bylaw provisions may deter a take-over attempt.*

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As a multinational corporation, we are subject to certain market risks relating to foreign currency, interest rates, political, inflation and credit. We consider a variety of practices to manage these market risks. There have been no material changes to our market risks as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2009, filed on March 1, 2010, except for the changes to foreign currency risks as described below.

Foreign Currency Risk

We face exposure to adverse movements in foreign currency exchange rates, primarily in Asia and Europe. Our foreign currency risk may change over time as the level of activity in foreign markets grows and could have a material adverse impact upon our financial results. Certain of our assets, including certain bank accounts and accounts receivable, and liabilities exist in non-U.S. dollar denominated currencies, which are sensitive to foreign currency exchange fluctuations. These currencies are principally the Chinese Yuan, the Taiwanese dollar and the British Pound Sterling and, to a lesser extent, the Japanese Yen, the Euro and the Hong Kong dollar. In the future, we may enter into hedging arrangements designed to mitigate foreign currency fluctuations. See Risk Factors *We are subject to foreign currency risk as a result of our international operations.* in Part II, Item 1A of this Quarterly Report for additional information.

Effect on Reporting Income

Certain of our subsidiaries have a functional currency that differs from the currencies in which some of their expenses are denominated. Our income and expenses are based on a mix of currencies and a decline in one currency relative to the other currencies could adversely affect our results of operations. Furthermore, our results of operations are reported in U.S. dollars, which is our reporting currency. In the event the U.S. dollar weakens against a foreign currency, we will experience a currency transaction loss, which could adversely affect our results of operations. If a foreign currency were to weaken or (strengthen) by 1.0% against the U.S. dollar, we would experience currency transaction gain or (loss) of approximately $0.2 million per quarter.

Foreign Currency Transaction Risk

We also are subject to foreign currency risk arising from intercompany transactions that are expected to be settled in cash in the near term where the cash balances are held in denominations other than our subsidiaries functional currency. If exchange rates weaken against the functional currency, we would incur a remeasurement gain in the value of the cash balances, and if the exchange rates strengthen against the functional currency, we would incur a remeasurement loss in the value of the cash balances, assuming the net monetary asset balances remained constant. Our ultimate realized gain or loss with respect to currency fluctuations will generally depend on the size and type of transaction, the size and currencies of the net monetary assets and the changes in the exchange rates associated with these currencies. If the Chinese Yuan, the Taiwanese dollar, the Euro and the British Pound Sterling were to weaken or (strengthen) by 1.0% against the U.S. dollar, we would experience currency transaction gain or (loss) of approximately $0.3 million. Net foreign exchange transaction gains or (losses) are included in other income and expense.

Foreign Currency Translation Risk

When our foreign subsidiaries books are maintained in their functional currency, fluctuations in foreign currencies impact the amount of total assets and liabilities that we report for our foreign subsidiaries upon the translation of these amounts into U.S. dollars for reporting purposes. All elements of the subsidiaries financial statements, except for stockholders equity accounts, are translated using a currency exchange rate. Assets and liabilities denominated in foreign currencies are translated at the exchange rate on the balance sheet date. Income and expense accounts denominated in foreign currencies are translated at the weighted-average exchange rate during the period presented. Resulting translation adjustments are recorded as a separate component of accumulated other comprehensive income or loss within stockholders equity in the consolidated balance sheets, which are accumulated in this account until sale or liquidation of the foreign entity investment, at which time they are reported as adjustments to the gain or loss on sale of investment.

Foreign Currency Denominated Defined Benefit Plans

We have a contributory defined benefit plan that covers certain employees in the U.K. and Germany. The defined benefit plan is closed to new entrants and frozen with respect to future benefit accruals. The retirement benefit

is based on the final average compensation and service of each eligible employee. December 31 is our annual measurement date and on measurement date, defined benefit plan assets are determined based on fair value. Defined benefit plan assets consist primarily of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability. The net pension and supplemental retirement benefit obligations and the related periodic costs are based on, among other things, assumptions of the discount rate, estimated return on plan assets and mortality rates. These obligations and

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related periodic costs are measured using actuarial techniques and assumptions. The projected unit credit method is the actuarial cost method used to compute the pension liabilities and related expenses.

As of September 30, 2010, the plan is underfunded and a liability of $33.8 million is reflected in our consolidated financial statements as a noncurrent liability. The amount recognized in accumulated other comprehensive income was a net loss of $26.9 million. If the British Pound Sterling were to (weaken) or strengthen by 1.0% against the U.S. dollar, we would experience currency translation liability (decrease) or increase of approximately $0.3 million. The weighted-average discount rate assumption used to determine benefit obligations as of September 30, 2010 was 5.7%. A 0.2% increase/(decrease) in the discount rate used to calculate the net period benefit cost for the year would reduce annual benefit cost by $0.1 million. A 0.1% increase/(decrease) in the discount rate used to calculate the year-end projected benefit obligation would increase/(decrease) the year-end projected benefit obligation by approximately $2.3 million. The expected return on plan assets is determined based on historical and expected future returns of the various assets classes and as such, each 1.0% increase/(decrease) in the expected rate of return assumption would increase/(decrease) the net period benefit cost by approximately $0.8 million. The asset value of the defined benefit plan has been volatile in recent months due primarily to wide fluctuations in the U.K. equity markets and bond markets. See Risk Factors *Due to the recent fluctuations in the United Kingdom s equity markets and bond markets, changes in actuarial assumptions for our defined benefit plan could increase the volatility of the plan s asset value, require us to increase cash contributions to the plan and have a negative impact on our results of operations and financial condition.* in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2009, filed on March 1, 2010 for additional information.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Our Chief Executive Officer, Keh-Shew Lu, and Chief Financial Officer, Richard D. White, with the participation of the Company s management, carried out an evaluation of the effectiveness of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(e). Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer believe that, as of the end of the period covered by this Quarterly Report on Form 10-Q, our disclosure controls and procedures are effective at the reasonable assurance level to ensure that information required to be included in this report is:

- recorded, processed, summarized and reported within the time period specified in the Commission s rules and forms; and

- accumulated and communicated to our management, including the Chief Executive Officer and the Chief Financial Officer, to allow timely decisions for required disclosure.

Disclosure controls and procedures, no matter how well designed and implemented, can provide only reasonable assurance of achieving an entity s disclosure objectives. The likelihood of achieving such objectives is affected by limitations inherent in disclosure controls and procedures. These include the fact that human judgment in decision-making can be faulty and that breakdowns in internal control can occur because of human failures such as simple errors, mistakes or intentional circumvention of the established processes.

Changes in Controls over Financial Reporting

There was no change in our internal control over financial reporting, known to the Chief Executive Officer or the Chief Financial Officer that occurred during the last fiscal quarter covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, the Company is involved in various routine legal proceedings incidental to the conduct of its business. The Company is not currently a party to any pending litigation.

Item 1A. Risk Factors

There have been material changes from the risk factors disclosed in the Risk Factors section of our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, filed on March 1, 2010, and such changes are reflected immediately below. The following risk factors as well as the risks described in our Annual Report on Form 10-K, are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

RISKS RELATED TO OUR BUSINESS

Certain of our customers and suppliers require us to agree and comply with their codes of conduct, which may include certain regulations and restrictions that may substantially increase the cost of our business as well as have an adverse effect on operating efficiencies, our business, results of operations and financial condition.

Certain of our customers and suppliers require us to agree to comply with their codes of conduct, which may include detailed provisions on labor, human rights, health and safety, environment, corporate ethics and management systems. Certain of these provisions are not requirements under the laws of the countries in which we operate but may be burdensome to comply with on a regular basis. Moreover, new provisions may be added or material changes may be made to any these codes of conduct, and we will have to promptly agree and implement such new provisions or changes, which may substantially further increase the cost of our business, be burdensome to implement and adversely affect our operating efficiencies and results of operations. If we violate any such code of conduct, we may lose business with the customer or supplier and, in addition, we may be subject to fines from the customer or supplier. While we believe that we are currently in compliance with our customers and suppliers codes of conduct, there can be no assurance that, from time to time, if any one of our customers and suppliers audits our compliance with its code of conduct that we would be found to be in full compliance. A loss of business from these customers or suppliers could have a material adverse effect on our business, results of operations and financial conditions.

RISKS RELATED TO OUR INTERNATIONAL OPERATIONS

We are subject to foreign currency risk as a result of our international operations.

We face exposure to adverse movements in foreign currency exchange rates, principally the Chinese Yuan, the Taiwanese dollar and the British Pound Sterling and, to a lesser extent, the Japanese Yen, the Euro, the Hong Kong dollar. Our income and expenses are based on a mix of currencies and a decline in one currency relative to the other currencies could adversely affect our results of operations. Furthermore, our results of operations are reported in U.S. dollars, which is our reporting currency. In the event the U.S. dollar weakens against a foreign currency, we will experience a currency transaction loss, which could adversely affect our results of operations. Also, fluctuations in foreign currency exchange rates may have an adverse impact and be increasingly influential to our overall sales, profits and results of operations as amounts that are measured in foreign currency are translated back to U. S. dollars for reporting purposes. Our foreign currency risk may change over time as the level of activity in foreign markets grows and could have an adverse impact upon our financial results, especially as the portion of our sales attributable to Europe increases. We do not usually employ hedging techniques designed to mitigate foreign currency exposures and, therefore, we could experience currency losses as these currencies fluctuate against the U.S. dollar.

The People s Republic of China is experiencing a rapid social, political and economic change, which has increased labor costs and other related costs that could make doing business in China less advantageous than in prior years. Increased labor costs in China could adversely affect our business, results of operations and financial condition.

Historically, labor in China has been readily available at a lower cost compared to other countries, and any increase in labor cost in China has been consistent with the projected annual increase in the inflation index and the amount of past labor cost increases. However, because China is experiencing rapid social, political and economic change, there can be no assurance that labor will continue to be available in China at costs consistent with historical

levels. Any future increase in labor cost in China is likely to be higher than historical and projected amounts and may occur multiple times in any given year. As a result of experiencing such rapid

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social, political and economic change, China is also likely to enact new, and/or revise its existing, labor laws and regulations on employee compensation and benefits. These changes in Chinese labor laws and regulations will likely have an adverse effect on product manufacturing costs in China. Furthermore, if China laborers go on strike to demand higher wages, our operations could be disrupted. Many of our suppliers are currently dealing with labor shortages in China, which may result in future supply delays and disruptions and may drive a substantial increase in their labor costs that is likely to be shared by us in the form of price increases to us. New or revised government labor laws or regulations, strikes or labor shortages could cause our product costs to rise and/or could cause manufacturing partners on whom we rely to exit the business. These events could have an adverse impact on our product availability and quality, which would affect our business, results of operations and financial conditions.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

We may from time to time seek to repurchase our outstanding Notes in the open market, in privately negotiated transactions or otherwise. Such repurchases, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

There have been no repurchases of our Notes or common stock during the third quarter of 2010.

Item 3. Defaults Upon Senior Securities

There are no matters to be reported under this heading.

Item 4. (Removed and Reserved)

Item 5. Other Information

There are no matters to be reported under this heading.

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Item 6. Exhibits

Number	Description	Form	Date of First Filing	Exhibit Number	Attached Herewith
3.1	Certificate of Incorporation, as amended	S-3	September 8, 2005	3.1	
3.2	Amended By-laws of the Company dated July 19, 2007	8-K	July 23, 2007	3.1	
4.1	Form of Certificate for Common Stock, par value $0.66 2/3 per share	S-3	August 25, 2005	4.1	
4.2	Form of 2.25% Convertible Senior Notes due 2026	S-3	October 4, 2006	4.1	
4.3	Form of Indenture for the 2.25% Convertible Senior Notes due 2026	S-3	October 4, 2006	4.3	
10.1	Second Floor of the Accommodation Building Lease Agreement, dated September 1, 2010, between Shanghai Kaihong Technology Company Limited and Shanghai Ding Hong Electronic Company Limited.	10-Q		10.1	X
10.2	Security Guards Transfer Memorandum of Understanding, dated September 1, 2010, between Diodes Shanghai Company Limited and Shanghai Yuan Hao Electronic Company Limited.	10-Q		10.2	X
10.3	Investment Cooperation Agreement effective as of September 10, 2010, between Diodes Hong Kong Holding Company Limited and the Management Committee of the Chengdu Hi-Tech Industrial Development Zone.	8-K	September 16, 2010		
10.4	Supplementary Agreement to the Investment Cooperation Agreement effective as of September 10, 2010, between Diodes Hong Kong Holding Company Limited and the Management Committee of the Chengdu Hi-Tech Industrial Development Zone.	8-K	September 16, 2010		
31.1	Certification Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, adopted pursuant to Section 302 of the				X

	Sarbanes-Oxley Act of 2002.	
31.2	Certification Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X
32.1*	Certification Pursuant to 18 U.S.C. adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	X
32.2*	Certification Pursuant to 18 U.S.C. adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	X
101.INS**	XBRL Instance Document	
101.SCH**	XBRL Taxonomy Extension Schema	
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase	
101.LAB**	XBRL Taxonomy Extension Labels Linkbase	
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase	

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* *A certification furnished pursuant to Item 601 of the Regulation S-K will not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the Exchange Act), or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.*

** *Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability.*

PLEASE NOTE: It is inappropriate for investors to assume the accuracy of any covenants, representations or warranties that may be contained in agreements or other documents filed as exhibits to this Quarterly Report on Form 10-Q. In certain instances the disclosure schedules to such agreements or documents contain information that modifies, qualifies and creates exceptions to the representations, warranties and covenants. Moreover, some of the representations and warranties may not be complete or accurate as of a particular date because they are subject to a contractual standard of materiality that is different from those generally applicable to stockholders and/or were used for the purpose of allocating risk among the parties rather than establishing certain matters as facts. Accordingly, you should not rely on the representations and warranties as characterizations of the actual state of facts at the time they were made or otherwise.

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SIGNATURE

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

DIODES INCORPORATED (Registrant)

By: /s/ Richard D. White November 9, 2010

RICHARD D. WHITE
Chief Financial Officer, Treasurer and
Secretary
(Duly Authorized Officer and Principal
Financial and
Chief Accounting Officer)

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