

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended MARCH 31, 2004

Or

Transition Report Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934
For the transition period from _____ to _____.

COMMISSION FILE NUMBER: 1-5740

DIODES INCORPORATED
(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

95-2039518
(I.R.S. Employer
Identification Number)

3050 EAST HILLCREST DRIVE
WESTLAKE VILLAGE, CALIFORNIA
(Address of principal executive offices)

91362
(Zip code)

(805) 446-4800
(Registrant's telephone number, including area code)

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

Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of shares of the registrant's Common Stock, \$0.66 2/3-par value, outstanding as of May 7, 2004 was 14,877,859, including 1,613,508 shares of treasury stock.

PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

DIODES INCORPORATED AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEET

ASSETS

	DECEMBER 31, 2003	MARCH 31, 2004
	-----	-----
		(UNAUDITED)
CURRENT ASSETS		
Cash and cash equivalents	\$ 12,847,000	\$ 10,474,000
Accounts receivable		
Customers	27,010,000	27,804,000
Related parties	3,938,000	3,598,000
	-----	-----
	30,948,000	31,402,000
Less: Allowance for doubtful receivables	375,000	379,000
	-----	-----
	30,573,000	31,023,000
Inventories	16,164,000	17,992,000
Deferred income taxes, current	5,547,000	6,856,000
Prepaid expenses and other current assets	2,256,000	2,617,000
Prepaid income taxes	446,000	531,000
	-----	-----
Total current assets	67,833,000	69,493,000
PROPERTY, PLANT AND EQUIPMENT, at cost, net of accumulated depreciation and amortization	47,893,000	47,711,000
DEFERRED INCOME TAXES, non-current	1,816,000	1,524,000
OTHER ASSETS		
Goodwill	5,090,000	5,090,000

Other	1,163,000	1,099,000
	-----	-----
TOTAL ASSETS	\$ 123,795,000	\$ 124,917,000
	=====	=====

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

DIODES INCORPORATED AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEET

LIABILITIES AND STOCKHOLDERS' EQUITY

	DECEMBER 31, 2003	MARCH 31, 2004
	-----	-----
		(UNAUDITED)
CURRENT LIABILITIES		
Line of credit	\$ 8,488,000	\$ 5,156,000
Accounts payable		
Trade	14,029,000	13,630,000
Related parties	3,453,000	4,063,000
Accrued liabilities	8,715,000	7,148,000
Current portion of long-term debt		
Related party	2,500,000	2,500,000
Other	3,333,000	2,500,000
Current portion of capital lease obligations	161,000	162,000
	-----	-----
Total current liabilities	40,679,000	35,159,000
LONG-TERM DEBT, net of current portion		
Related party	3,750,000	3,125,000
Other	3,000,000	3,000,000
CAPITAL LEASE OBLIGATIONS, net of current portion	2,334,000	2,278,000
MINORITY INTEREST IN JOINT VENTURE	2,582,000	2,725,000
STOCKHOLDERS' EQUITY		
Class A convertible preferred stock - par value \$1.00 per share; 1,000,000 shares authorized; no shares issued and outstanding	--	--
Common stock - par value \$0.66 2/3 per share; 30,000,000 shares authorized; 14,627,284 and 14,798,709 shares issued at December 31, 2003 and March 31, 2004, respectively	6,502,000	6,614,000
Additional paid-in capital	11,192,000	13,118,000
Retained earnings	55,779,000	60,635,000
	-----	-----
73,473,000		80,367,000
Less:		
Treasury stock - 1,613,508 shares of common stock, at cost	1,782,000	1,782,000
Accumulated other comprehensive loss (gain)	241,000	(45,000)
	-----	-----
2,023,000		1,737,000
	-----	-----
Total stockholders' equity	71,450,000	78,630,000
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 123,795,000	\$ 124,917,000
	=====	=====

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

DIODES INCORPORATED AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF INCOME
(Unaudited)

	THREE MONTHS ENDED MARCH 31,	
	2003	2004
	-----	-----
NET SALES	\$ 29,446,000	\$ 41,430,000
COST OF GOODS SOLD	21,985,000	28,680,000
	-----	-----
Gross profit	7,461,000	12,750,000
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	4,233,000	5,491,000
RESEARCH AND DEVELOPMENT EXPENSES	346,000	748,000
LOSS (GAIN) ON SALE OF FIXED ASSETS	(88,000)	23,000
	-----	-----
Total operating expenses	4,491,000	6,262,000
Operating income	2,970,000	6,488,000

OTHER EXPENSE		
Interest, net	(244,000)	(182,000)
Other	(89,000)	(147,000)
	<u>(333,000)</u>	<u>(329,000)</u>
Income from operations before income taxes and minority interest	2,637,000	6,159,000
INCOME TAX PROVISION	(617,000)	(1,160,000)
	<u>2,020,000</u>	<u>4,999,000</u>
Income from operations before minority interest		
MINORITY INTEREST IN JOINT VENTURE EARNINGS	(97,000)	(143,000)
	<u>\$ 1,923,000</u>	<u>\$ 4,856,000</u>
EARNINGS PER SHARE		
Basic	\$ 0.15	\$ 0.37
Diluted	\$ 0.14	\$ 0.32
WEIGHTED AVERAGE SHARES OUTSTANDING		
Basic	12,471,993	13,096,836
Diluted	13,727,244	15,286,416

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

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

	THREE MONTHS ENDED MARCH 31,	
	2003	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 1,923,000	\$ 4,856,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,614,000	3,170,000
Minority interest earnings	97,000	143,000
Loss (gain) on sale of property, plant and equipment	(88,000)	23,000
Changes in operating assets:		
Accounts receivable	257,000	(645,000)
Inventories	(2,030,000)	(1,828,000)
Prepaid expenses, taxes and other assets	354,000	107,000
Changes in operating liabilities:		
Accounts payable	592,000	211,000
Accrued liabilities	(1,630,000)	(1,652,000)
Net cash provided by operating activities	<u>2,089,000</u>	<u>4,385,000</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(3,933,000)	(3,320,000)
Proceeds from sale of property, plant and equipment	442,000	--
Net cash used by investing activities	<u>(3,491,000)</u>	<u>(3,320,000)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances on (repayments of) line of credit, net	3,518,000	(3,332,000)
Proceeds from the issuance of common stock	262,000	745,000
Repayments of long-term obligations	(1,458,000)	(1,458,000)
Repayments of capital lease obligations	(54,000)	(54,000)
Management incentive reimbursement from LSC	375,000	375,000
Net cash provided (used) by financing activities	<u>2,643,000</u>	<u>(3,724,000)</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	11,000	286,000
INCREASE (DECREASE) IN CASH AND EQUIVALENTS	1,252,000	(2,373,000)
CASH AT BEGINNING OF PERIOD	7,284,000	12,847,000
CASH AT END OF PERIOD	<u>\$ 8,536,000</u>	<u>\$ 10,474,000</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION Cash paid during the period for:		
Interest	\$ 244,000	\$ 186,000
Income taxes	\$ 265,000	\$ 1,189,000

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

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

NOTE A - BASIS OF PRESENTATION

The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q. They do not include all information and footnotes necessary for a fair presentation of financial position, and results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America for complete financial statements. These consolidated condensed financial statements should be read in conjunction with the consolidated financial statements and related notes contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2003. In the opinion of management, all adjustments (consisting of normal recurring adjustments and accruals) considered necessary for a fair presentation of the results of operations for the period presented have been included in the interim period. Operating results for the three months ended March 31, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004. The consolidated financial data at December 31, 2003 is derived from audited financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2003.

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

The consolidated financial statements include the accounts of Diodes-North America and its wholly-owned foreign subsidiaries, Diodes Taiwan Corporation, Ltd. ("Diodes-Taiwan") and Diodes-Hong Kong Ltd. ("Diodes-Hong Kong"), the accounts of Shanghai KaiHong Electronics Co., Ltd. ("Diodes-China") in which the Company has a 95% interest, and the accounts of its wholly-owned United States subsidiary, FabTech Incorporated ("FabTech" or "Diodes-FabTech"). All significant intercompany balances and transactions have been eliminated.

NOTE B - FUNCTIONAL CURRENCIES, COMPREHENSIVE GAIN/LOSS AND FOREIGN CURRENCY TRANSLATION

The Company entered into an interest rate swap agreement with a major U.S. bank which expires November 30, 2004, to hedge its exposure to variability in expected future cash flows resulting from interest rate risk related to a portion of its long-term debt, the effect of which resulted in \$10,000 gain for the three months ended March 31, 2004.

The Company uses the U.S. dollar as the functional currency in Diodes-China and Diodes-Hong Kong, and uses the NT dollar as the functional currency in Diodes-Taiwan, as substantially all monetary transactions are made in the functional currency, and other significant economic facts and circumstances currently support that position. The translation of the balance sheet and statement of income of Diodes-Taiwan from the local currency into the reporting currency (U.S. dollar) results in translation adjustments, the effect of which is reflected in the accompanying statement of comprehensive income and on the balance sheet as a separate component of shareholders' equity.

The effect of a \$276,000 gain in translation adjustments and the \$10,000 gain related to the interest rate swap agreement results in a change in accumulated other comprehensive income of \$286,000 for the three months ended March 31, 2004, and is reflected on the balance sheet as a separate component of shareholders' equity. There were no other components of other comprehensive loss (income) for the three months ended March 31, 2004.

NOTE C - INVENTORIES

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

	DECEMBER 31, 2003	MARCH 31, 2004
Finished goods	\$ 9,920,000	\$ 11,158,000
Work-in-progress	1,818,000	1,960,000
Raw materials	6,519,000	6,996,000
	-----	-----
	18,257,000	20,114,000
Less: Reserves	(2,093,000)	(2,122,000)
	-----	-----
Net inventory	\$ 16,164,000	\$ 17,992,000
	=====	=====

NOTE D - INCOME TAXES

In accordance with the current taxation policies of the

People's Republic of China ("PRC"), Diodes-China received preferential tax treatment for the years ended December 31, 1996 through 2003. Earnings were subject to 0% tax rates from 1996 through 2000, and 12% in 2001, 2002 and 2003. Earnings in 2004 will be taxed at 12% (one-half the normal central government tax rate). Earnings of Diodes-China are also subject to tax of 3% by the local taxing authority in Shanghai. The local taxing authority waived this tax in 2002, 2003 and the first quarter of 2004. Earnings of Diodes-Taiwan are currently subject to a tax rate of 35%, which is comparable to the U.S. Federal tax rate for C corporations. Earnings of Diodes-Hong Kong are currently subject to a 17.5% tax for local sales or local source sales, all other sales are tax-free.

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

As of March 31, 2004, accumulated and undistributed earnings of Diodes-China are approximately \$39.4 million, including \$10.0 million of restricted earnings (which are not available for dividends). Through March 31, 2002, the Company had not recorded deferred U.S. federal or state tax liabilities (estimated to be \$8.9 million as of March 31, 2002) on these cumulative earnings since the Company, at that time, considered this investment to be permanent, and had no plans or obligation to distribute all or part of that amount from China to the United States. Beginning in April 2002, the Company began to record deferred taxes on a portion of the earnings of Diodes-China in preparation of a dividend distribution. As of March 31, 2004, the Company has recorded \$1.7 million in deferred taxes on the cumulative earnings, but has made no distributions. The Company intends to dividend \$6.0 million from Diodes-China to the U.S. in 2004. It is anticipated that this transaction will not have a material effect on net income as the U.S. income taxes have already been accrued.

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

NOTE E - STOCK SPLIT

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

NOTE F - STOCK BASED COMPENSATION AND STOCK OPTIONS

The Company has a stock-based employee compensation plan, which is described more fully in Note 10 of the Company's audited financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2003. The Company accounts for this plan under the recognition and measurement principles of APB Opinion No. 25 ("Accounting for Stock Issued to Employees"), and related interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under the plan have an exercise price equal to the fair market value of the underlying common stock at the date of grant. During the first three months of 2004, the Company granted 4,000 stock options to directors, officers and key employees at an average exercise price of \$21.85.

The following table illustrates the effect on net income if the Company had applied the fair value recognition provisions of SFAS No. 123, ("Accounting for Stock Based Compensation"), to stock based employee compensation.

	For the three months ended March 31 (in 000's except per share data),					
	Amounts Per Share			AMOUNTS PER SHARE		
	2003	Basic	Diluted	2004	BASIC	DILUTED
Net income	\$ 1,923	\$0.15	\$0.14	\$ 4,856	\$0.37	\$0.32
Additional compensation for fair value of stock options, net of tax effect	(88)	(0.00)	(0.01)	(51)	(0.00)	(0.01)
Proforma net income	\$ 1,835	\$0.15	\$0.13	\$ 4,805	\$0.37	\$0.31

NOTE G - GEOGRAPHIC SEGMENTS

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

Senior Vice President of Operations. The Company operates in a single segment, discrete semiconductor devices, through its various manufacturing and distribution facilities.

The Company's operations include the domestic operations (Diodes-North America and Diodes-FabTech) located in the United States, and the Far East operations (Diodes-Taiwan located in Taipei, Taiwan; Diodes-China located in Shanghai, China; and Diodes-Hong Kong located in Hong Kong, China). For reporting purposes, European operations, which account for approximately 2.8% of total sales for the three months ended March 31, 2004, are consolidated into the domestic (North America) operations.

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

THREE MONTHS ENDED	FAR EAST	NORTH AMERICA	CONSOLIDATED SEGMENTS
MARCH 31, 2004			
Total sales	\$ 40,901,000	\$ 21,377,000	\$ 62,278,000
Inter-company sales	(16,967,000)	(3,881,000)	(20,848,000)
Net sales	\$ 23,934,000	\$ 17,496,000	\$ 41,430,000
Assets	\$ 80,988,000	\$ 43,929,000	\$ 124,917,000
Property, plant and equipment	\$ 36,173,000	\$ 11,538,000	\$ 47,711,000

THREE MONTHS ENDED	FAR EAST	NORTH AMERICA	CONSOLIDATED SEGMENTS
MARCH 31, 2003			
Total sales	\$ 26,957,000	\$ 16,244,000	\$ 43,201,000
Inter-company sales	(10,489,000)	(3,266,000)	(13,755,000)
Net sales	\$ 16,468,000	\$ 12,978,000	\$ 29,446,000
Assets	\$ 63,149,000	\$ 45,124,000	\$ 108,273,000
Property, plant and equipment	\$ 33,265,000	\$ 12,395,000	\$ 45,660,000

NOTE H - RECLASSIFICATIONS

Certain 2003 amounts presented in the accompanying financial statements have been reclassified to conform to 2004 financial statement presentation. These reclassifications had no impact on previously reported net income or stockholders' equity.

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Except for the historical information contained herein, the matters addressed in this Item 2 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. Such forward-looking statements are subject to a variety of risks and uncertainties, including those discussed below under the heading "Risk Factors" and elsewhere in this Quarterly Report on Form 10-Q, that could cause actual results to differ materially from those anticipated by the Company's 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. The Company undertakes no obligation to publicly release the result of any revision to their forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unexpected events.

OVERVIEW

Diodes Incorporated (the "Company"), a Delaware corporation, is engaged in the manufacture, sale and distribution of discrete semiconductors worldwide, primarily to manufacturers in the communications, computing, industrial, consumer electronics and automotive markets, and to distributors of electronic components to end customers in these markets. Our technologies include high density diode and transistor arrays in multi-pin surface-mount packages; Powermite(R)3, high-performance surface-mount packages; performance Schottkys, switching and rectifier diodes; single and dual pre-biased transistors; performance tight tolerance and low current zener diodes; subminiature surface-mount packages; transient voltage suppressors (TVS and TSPD); small signal transistors and MOSFETs; and standard, fast, ultra-fast, and super-fast rectifiers.

Our products are designed into a broad range of end-products such as notebook computers, flat-panel displays, set-top boxes, game consoles, digital cameras, cellular phones, PDAs, power supplies, security systems, network routers and switches, DC to DC conversion, as well as into automotive electronic applications, GPS navigation, satellite radios, and audio/video players.

Positioning the Company to rapidly respond to the demands of the global marketplace and continuing to increase its investment in research and development, the Company is focused on expanding its product portfolio and closely controlling product quality and time-to-market. Shifting development priorities toward specialized configurations, such as the Company's high-density array devices, the Company is introducing a range of new products that improve the trade-off between size, performance and power consumption for surface-mount packages

The majority (66% in the first quarter of 2004 and 69% in year 2003) of our sales are to OEMs such as Intel Corporation, Cisco Systems Incorporated, Sony Corporation, Nortel Networks Corporation, Delphi Automotive, Bose Corporation, Scientific Atlanta Incorporated, Samsung Electronics, Asustek Computer, Inc., Quanta and LG Electronics, Inc. Our distribution network (34% in the first quarter of 2004 and 31% of year 2003 sales) includes major distributors such as Arrow Electronics, Inc., Avnet, Inc., Digi-Key Corporation, Future Electronics Ltd., Jaco Electronics, Inc., Reptron Electronics, Inc., and All American Semiconductor, Inc.

Because of the electronics industry trend towards moving manufacturing to lower operating cost countries in Asia, the Company has focused primarily on customers in China, Taiwan, Korea and Hong Kong (Asian customers). We sell to Asian customers (58% for the first quarter of 2004 and 56% of 2003 year sales) primarily through our wholly-owned subsidiaries, Diodes-Taiwan and Diodes-Hong Kong. The Asian discrete semiconductor market is the largest and fastest growing market in which the Company participates. An increase in Asian sales is expected as we have significantly increased our sales presence there and believe there is greater potential to increase market share in that region due to the expanding base of electronics product manufacturers.

Our corporate headquarters located just outside Los Angeles in Westlake Village, California, which provides sales, marketing, engineering, logistics and warehousing functions, sells primarily to North American manufacturers and distributors (39% for the first quarter of 2004 and 41% of year 2003 sales). Due to the manufacturing shift, the North American discrete semiconductor market is now the smallest market and its growth rate is far less than all other markets in which the Company participates. The majority of our applications engineers are located in the U.S. in order to work with the customers' design engineers who are primarily located in the U.S. Whether the end-application is ultimately manufactured in the U.S. or in Asia, our world-wide sales organization is well positioned to provide sales and support to the customer.

In order to take advantage of the relatively robust European market, offices in Toulouse, France and Hattenheim, Germany support our European sales expansion (3% of both first quarter 2004 and year 2003 sales).

Asian sales are also generated from Shanghai KaiHong Electronics Co., Ltd. ("Diodes-China" or "KaiHong"), a 95% owned manufacturing facility in Shanghai, China, with offices in Shanghai and Shenzhen, China, as well as from FabTech Incorporated ("Diodes-FabTech" or "FabTech"), a silicon wafer manufacturer acquired in December 2000 located near Kansas City, Missouri.

The discrete semiconductor industry has historically been subject to severe pricing pressures. At times, although manufacturing costs have decreased, excess manufacturing capacity and over-inventory have caused selling prices to decrease to a greater extent than manufacturing costs. To compete in this highly competitive industry, the Company has committed substantial new resources to the development of proprietary products, the further development and implementation of sales and marketing functions, and the expansion of manufacturing capabilities.

RELATED PARTIES

We conduct business with two related party companies, Lite-On Semiconductor Corporation ("LSC") (and its subsidiaries) and Xing International (and its subsidiaries). LSC, a 35% shareholder, is our largest shareholder, and Xing International is owned by our 5% joint venture partner in Diodes-China. C.H. Chen, our President and Chief Executive Officer, and a member of our Board of Directors, is also Vice-Chairman of LSC. M.K. Lu, a member of our Board of Directors, is President of LSC, while Raymond Soong, our Chairman of the Board, is the Chairman of The Lite-On Group, a significant shareholder of LSC.

In addition to being our largest external supplier of products, in the first quarter of 2004, we sold silicon wafers to LSC totaling 10.0% (10.7% for year 2003) of our total sales, making LSC our largest customer. The Company has a long-standing sales agreement under which the Company is the exclusive North American distributor for certain of LSC product lines. In addition, the Company leases warehouse space from LSC for its operations in Hong Kong. Such transactions are on terms no less favorable to the Company than could be obtained from unaffiliated third parties. As per Nasdaq, the Audit Committee of the Board of Directors has approved the contracts related to the transactions.

In December 2000, the Company acquired the wafer foundry, FabTech, Inc., from LSC. As part of the purchase price, at March 31, 2004, LSC holds a subordinated, interest-bearing note for approximately \$5.6 million. In May 2002, the Company renegotiated the terms of the note to extend the payment period from two years to four years, and therefore, payments of approximately \$208,000 plus interest began in July 2002. In connection with the acquisition, LSC entered into a volume purchase agreement to purchase wafers from FabTech. In addition, as per the terms of the stock purchase agreement, the Company has entered into several management incentive agreements with members of FabTech's

management. The agreements provide members of FabTech's management guaranteed annual payments as well as contingent bonuses based on the annual profitability of FabTech, subject to a maximum annual amount. Any portion of the guaranteed and contingent liability paid by FabTech is reimbursed by LSC.

In addition to the 5% of our sales of product manufactured by companies owned by Xing International, in the first quarter of 2004, the Company sold silicon wafers to companies owned by Xing International totaling 1.0% (1.1% in year 2003) of the Company's total sales. In addition, Diodes-China leases its manufacturing facilities from, subcontracts a portion of its manufacturing process (metal plating and environmental services) to, and pays a consulting fee to Xing International. Such transactions are on terms no less favorable to the Company than could be obtained from unaffiliated third parties. As per Nasdaq, the Audit Committee of the Board of Directors has approved the contracts related to the transactions.

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 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, Japanese, Korean and German, 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 current and complete investor financial information, including SEC filings and press releases, as well as stock quotes.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, we evaluate our estimates, including those related to revenue recognition, allowance for doubtful accounts, inventory reserves and income taxes, among others. Our estimates are based upon historical experiences, market trends and financial forecasts and projections, and upon various other assumptions that management believes to be reasonable under the circumstances and at that certain point in time. Actual results may differ, significantly at times, from these estimates under different assumptions or conditions.

We believe the following critical accounting policies and estimates affect the significant estimates and judgments we use in the preparation of our consolidated financial statements:

REVENUE RECOGNITION

Revenue is recognized when the product is actually shipped to both manufacturing end-users and electronics component distributors. We reduce revenue in the period of sale for estimates of product returns, distributor price adjustments and other allowances, the majority of which are related to our North American operations. Our estimates are based upon historical data as well as projections of revenues, distributor inventories, average selling prices and market conditions. Actual returns and adjustments could be significantly different from our estimates and provisions, resulting in quarterly adjustments to revenues.

INVENTORY RESERVES

Inventories are stated at the lower of cost or market value. Cost is determined principally by the first-in, first-out method. On an on-going basis, we evaluate our inventory, both finished goods and raw material, for obsolescence and slow-moving items. This evaluation includes analysis of sales levels, sales projections, and purchases by item, as well as raw material usage related to our manufacturing facilities. Based upon this analysis, as well as an inventory aging analysis, we accrue a reserve for obsolete and slow-moving inventory. If future demand or market conditions are different than our current estimates, an inventory adjustment may be required, and would be reflected in cost of goods sold in the period the revision is made.

ACCOUNTING FOR INCOME TAXES

As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the tax jurisdictions in which we operate. This process involves using an asset and liability approach whereby deferred tax assets and liabilities are recorded for differences in the financial reporting bases and tax bases of the Company's assets and liabilities. Significant management judgment is required in determining our provision for income taxes, deferred tax assets and liabilities. Management continually evaluates its deferred tax asset as to whether it is likely that the deferred tax assets will be realized. If management ever determined that its deferred tax asset was not likely to be realized, a write-down of the asset would be required and would be reflected as an expense

in the accompanying period.

ALLOWANCE FOR DOUBTFUL ACCOUNTS

Management evaluates the collectability of our accounts receivable based upon a combination of factors, including the current business environment and historical experience. If we are aware of a customer's inability to meet its financial obligations to us, we record an allowance to reduce the receivable to the amount we reasonably believe we will be able to collect from the customer. For all other customers, we record an allowance based upon the amount of time the receivables are past due. If actual accounts receivable collections differ from these estimates, an adjustment to the allowance may be necessary with a resulting effect to bad debt expense.

IMPAIRMENT OF LONG-LIVED ASSETS

As of March 31, 2004, goodwill was \$5.1 million (\$4.2 million related to the FabTech acquisition, and \$0.9 million related to Diodes-China). Beginning in fiscal 2002 with the adoption of SFAS No. 142 ("Goodwill and Other Intangible Assets"), goodwill is no longer amortized, but instead tested for impairment at least annually. As a result of the Company's adoption of SFAS No. 142, an independent appraiser hired by the Company, performed the required impairment tests of goodwill annually and has determined that the goodwill is fully recoverable.

We assess the impairment of long-lived assets, including goodwill, on an ongoing basis and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Our impairment review process is based upon (i) an income approach from a discounted cash flow analysis, which uses our estimates of revenues, costs and expenses, as well as market growth rates, and (ii) a market multiples approach which measures the value of an asset through an analysis of recent sales or offerings or comparable public entities. If ever the carrying value of the goodwill is determined to be less than the fair value of the underlying asset, a write-down of the asset will be required, with the resulting expense charged in the period that the impairment was determined.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2003 AND 2004

The following table sets forth, for the periods indicated, the percentage that certain items in the statement of income bear to net sales and the percentage dollar increase (decrease) of such items from period to period.

	PERCENT OF NET SALES THREE MONTHS ENDED MARCH 31,		PERCENTAGE DOLLAR INCREASE (DECREASE)
	2003	2004	'03 TO '04
Net sales	100.0 %	100.0 %	40.7 %
Cost of goods sold	(74.7)	(69.2)	30.5
Gross profit	25.3	30.8	70.9
Operating expenses	(15.3)	(15.1)	39.4
Operating income	10.0	15.7	118.5
Interest expense, net	(0.8)	(0.4)	(25.4)
Other income	(0.3)	(0.4)	65.2
Income before taxes and minority interest	8.9	14.9	133.6
Income tax benefit (provision)	(2.1)	(2.8)	88.0
Income before minority interest	6.8	12.1	147.5
Minority interest	(0.3)	(0.3)	47.4
Net income	6.5	11.8	152.5

The following discussion explains in greater detail the consolidated operating results and financial condition of the Company for the three months ended March 31, 2004, compared to the three months ended March 31, 2003. This discussion should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this quarterly report.

	2003	2004
NET SALES	\$ 29,446,000	\$ 41,430,000

Net sales increased approximately \$12.0 million, or 40.7%, for the three months ended March 31, 2004, compared to the same period last year, due primarily to an approximately 41% increase in units sold as a result of increased demand, primarily in the Far East. The Company's average selling prices ("ASP") for discrete devices decreased approximately 1% from the first

quarter of 2003, and decreased 4% from the fourth quarter of 2003.

ASPs for wafer products decreased approximately 24% from the same period last year, and decreased 22% from the fourth quarter of 2003, due primarily to product mix changes as a result of increased capacity.

	2003 ----	2004 ----
COST OF GOODS SOLD	\$ 21,985,000	\$ 28,680,000

GROSS PROFIT	\$ 7,461,000	\$ 12,750,000

GROSS PROFIT MARGIN PERCENTAGE	25.3%	30.8%

Cost of goods sold increased approximately \$6.7 million, or 30.5%, for the three months ended March 31, 2004 compared to the year ago period. As a percent of sales, cost of goods sold decreased from 74.7% for the three months ended March 31, 2003 to 69.2% for the three months ended March 31, 2004. Gross profit increased approximately \$5.3 million, or 70.9%, for the three months ended March 31, 2004 compared to the year ago period. Of the \$5.3 million increase, approximately \$3.0 million was due to the 40.7% increase in sales, while \$2.3 million was due to the increase in gross margin percentage from 25.3% to 30.8%. The higher gross margin percentage was due primarily to sales of higher margin products and continuing manufacturing efficiencies, partially offset by pricing pressures on the Company's commodity and wafer products. For the first quarter of 2004, Diodes-China's average capacity utilization was nearly 100%, compared to 98% in the first quarter of 2003 as capacity was increased approximately 70%. Average capacity in the first quarter of 2004 at Diodes-FabTech was nearly 90% compared to 86% in the year-ago quarter. Production line re-engineering targeted at yield improvement and efficiency gains resulted in additional capacity of approximately 30% compared to last year.

	2003 ----	2004 ----
TOTAL OPERATING EXPENSES	\$ 4,491,000	\$ 6,262,000

Operating expenses, which include selling, general, administrative expenses ("SG&A"), research and development expenses ("R&D"), and loss (gain) on sale of fixed assets, for the three months ended March 31, 2004 increased approximately \$1.8 million, or 39.4%, compared to the same period last year, due primarily to (i) a 116.2% increase in R&D primarily at Diodes-China and Diodes-FabTech, and (ii) higher sales commissions, incentives, marketing expenses, and higher wages due to increased employees, as well as audit and legal expenses associated with Sarbanes-Oxley Act compliance.

The Company's goal is to increase its R&D expenditures, both in absolute dollars and as a percentage of sales, as part of its strategy to develop more proprietary products aimed at improving gross margins. SG&A, as a percentage of sales, improved from 14.4% to 13.3% in the comparable period last year, while R&D increased from 1.2% to 1.8% of sales. Total operating expenses, as a percentage of sales, improved to 15.1% from 15.3% in the comparable period last year.

	2003 ----	2004 ----
NET INTEREST EXPENSE	\$ 244,000	\$ 182,000

Net interest expense for the three months ended March 31, 2004 decreased approximately \$62,000, or 25.4% versus the first quarter last year, due primarily to a reduction in the Company's total debt as well as lower interest rates. The Company's interest expense is primarily the result of the Company's borrowings to finance the FabTech acquisition, as well as the investment and expansion in the Diodes-China manufacturing facility.

	2003 ----	2004 ----
OTHER EXPENSE	\$ (89,000)	\$ (147,000)

Other expense for the three months ended March 31, 2004 increased \$58,000, or 65.2% from the first quarter of 2003, due primarily to currency exchange losses, primarily in Taiwan, as the Taiwan dollar strengthened versus the U.S. dollar.

	2003 ----	2004 ----
INCOME TAX PROVISION	\$ 617,000	\$ 1,160,000

The effective Income tax rate for the first quarter of 2004 was 18.8% compared to 23.4% in the comparable period of 2003 as more profit was earned by the Company's Far East subsidiaries in lower tax jurisdictions. Included in the tax provision for the three months ended March 31, 2003 is \$210,000 in deferred taxes recorded in preparation of a dividend in 2004 from Diodes-China to the U.S. parent company. No deferred taxes were recorded in the

first quarter of 2004 as the remaining capital at Diodes-China is deemed permanent.

	2003	2004
	----	----
MINORITY INTEREST IN JOINT VENTURE	\$ 97,000	\$ 143,000

Minority interest in joint venture represents the minority investor's share of the Diodes-China joint venture's income for the period. The increase in the joint venture earnings for the three months ended March 31, 2004 is primarily the result of increased capacity utilization and manufacturing efficiencies. The joint venture investment is eliminated in consolidation of the Company's financial statements, and the activities of Diodes-China are included therein. As of March 31, 2004, the Company had a 95% controlling interest in the joint venture.

FINANCIAL CONDITION

LIQUIDITY AND CAPITAL RESOURCES

The Company's liquidity requirements arise from the funding of its working capital needs, primarily inventory, work-in-process and accounts receivable. The Company's primary sources for working capital and capital expenditures are cash flow from operations, borrowings under the Company's bank credit facilities and borrowings from principal stockholders. Any withdrawal of support from its banks or principal stockholders could have serious consequences on the Company's liquidity. The Company's liquidity is dependent, in part, on customers paying within credit terms, and any extended delays in payments or changes in credit terms given to major customers may have an impact on the Company's cash flow. In addition, any abnormal product returns or pricing adjustments may also affect the Company's source of short-term funding.

At March 31, 2004 the Company had cash and cash equivalents totaling \$10.5 million, a decrease of \$2.4 million from December 31, 2003. Cash provided by operating activities for the three months ended March 31, 2004 was \$4.4 million compared to \$2.1 million for the same period in 2003. The primary sources of cash flows from operating activities for the first three months of 2004 were \$4.9 million in net income and \$3.2 million in depreciation and amortization. In 2003, the primary sources were \$2.6 million in depreciation and amortization, \$1.9 million in net income.

The primary use of cash flows from operating activities for the first three months of 2004 was an increase in inventory of \$1.8 million, while the primary use of cash flows from operating activities in the same period in 2003 was a \$2.0 million increase in inventory. Inventories increased to \$18.0 million from \$16.2 million at December 31, 2003, primarily due to an increase in wafer and raw material inventory at Diodes-China. Inventory turns reduced to 6.5 turns at March 31, 2004 from 6.9 turns at December 31, 2003.

For the three months ended March 31, 2004, gross accounts receivable increased 43.7% compared to the 40.7% increase in sales. Days sales outstanding improved from 70 days at December 31, 2003 to 67 days at March 31, 2004. The Company continues to closely monitor its credit terms, while at times providing extended terms, required primarily by Far East customers and major U.S. distributors.

The ratio of the Company's current assets to current liabilities improved to 1.98 at March 31, 2004, compared to 1.67 at December 31, 2003.

Cash used by investing activities for the three months ended March 31, 2004 was \$3.3 million, compared to \$3.5 million during the same period in 2003. The primary investment in both years was for additional manufacturing equipment at the Diodes-China manufacturing facility, and to a lesser extent, for capacity increases at Diodes-FabTech in 2003.

On December 1, 2000, the Company purchased all the outstanding capital stock of FabTech Incorporated, a 5-inch wafer foundry located in Lee's Summit, Missouri from Lite-On Semiconductor Corporation ("LSC"), the Company's largest stockholder. The acquisition purchase price consisted of approximately \$5 million in cash plus FabTech was obligated to repay an aggregate of approximately \$19 million of debt, consisting of (i) approximately \$13.6 million note payable to LSC, (ii) approximately \$2.6 million note payable to the Company, and (iii) approximately \$3.0 million note payable to a financial institution (which was repaid on December 4, 2000 with the proceeds of a capital contribution by the Company). The acquisition was financed internally and through bank credit facilities.

In June 2001, according to the Company's U.S. bank covenants, Diodes-FabTech was not permitted to make regularly scheduled principal and interest payments to LSC on the remaining \$10.0 million payable related to the FabTech acquisition note, but was, however, able to renegotiate with LSC the terms of the note. Under the terms of the amended and restated subordinated promissory note, payments of approximately \$417,000 plus interest were scheduled to begin again in July 2002, provided the Company met the terms of its U.S. bank's covenants. In May 2002, the Company renegotiated the terms of the note with LSC to extend the payment period from two years to four years, and accordingly, payments of approximately \$208,000 plus interest began in July 2002.

Cash used by financing activities was \$3.7 million for the

three months ended March 31, 2004, as the Company paid down on its credit facilities by \$4.8 million, compared to cash provided by financing activities of \$2.6 million in the same period of 2003, due primarily to borrowing on its line of credit.

In February 2003, the Company and its U.S. bank renewed its \$7.5 million revolving credit line, extending it for two years, and obtained an additional \$2.0 million credit facility to be used for capital expenditure requirements at its wafer fabrication facility. This \$2.0 million facility brings the Company's total credit facility to \$50.7 million, with the total available and unused credit at March 31, 2004 of \$34.2 million.

At March 31, 2004, the Company's total bank credit facility of \$50.7 million encompasses one major U.S. bank, three banks in Mainland China and four in Taiwan. As of March 31, 2004, the total credit lines were \$17.8 million, \$25.0 million, and \$7.9 million, for the U.S. facility secured by substantially all assets, the unsecured Chinese facilities, and the unsecured Taiwanese facilities, respectively. As of March 31, 2004, the available credit was \$4.4 million, \$22.0 million, and \$7.8 million, for the U.S. facility, the Chinese facilities, and the Taiwanese facilities, respectively.

The credit agreements have certain covenants and restrictions, which, among other matters, require the maintenance of certain financial ratios and operating results, as defined in the agreements, and prohibit the payment of dividends. The Company was in compliance with its covenants as of March 31, 2004.

The Company has used its credit facilities primarily to fund the expansion at Diodes-China and for the FabTech acquisition, as well as to support its operations. The Company believes that the continued availability of these credit facilities, together with internally generated funds, will be sufficient to meet the Company's current foreseeable operating cash requirements.

The Company has entered into an interest rate swap agreement with a major U.S. bank which expires November 30, 2004, to hedge its exposure to variability in expected future cash flows resulting from interest rate risk related to a portion of its long-term debt. The interest rate under the swap agreement is fixed at 6.8% and is based on the notional amount. The swap contract is inversely correlated to the related hedged long-term debt and is therefore considered an effective cash flow hedge of the underlying long-term debt. The level of effectiveness of the hedge is measured by the changes in the market value of the hedged long-term debt resulting from fluctuation in interest rates. As a matter of policy, the Company does not enter into derivative transactions for trading or speculative purposes.

Total working capital increased approximately 26.1% to \$34.3 million as of March 31, 2004, from \$27.2 million as of December 31, 2003. The Company believes that such working capital position will be sufficient for foreseeable operations and growth opportunities. The Company's total debt to equity ratio decreased to 0.59 at March 31, 2004, from 0.73 at December 31, 2003.

The Company has no material plans or commitments for capital expenditures other than in connection with manufacturing expansion at Diodes-China and Diodes-FabTech equipment requirements. However, to ensure that the Company can secure reliable and cost effective inventory sourcing to support and better position itself for growth, the Company is continuously evaluating additional internal manufacturing expansion, as well as additional outside sources of products. The Company believes its financial position will provide sufficient funds should an appropriate investment opportunity arise and thereby, assist the Company in improving customer satisfaction and in maintaining or increasing market share. As of March 31, 2004, based upon plans for new product introductions, product mixes, capacity restraints on certain product lines and equipment upgrades, the Company expects that year 2004 capital expenditures will be in the \$13 to \$16 million range as the Company approaches higher capacity utilizations and brings new products into production.

Inflation did not have a material effect on net sales or net income in the first three months of 2004. A significant increase in inflation could affect future performance.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our primary business objective is the maximization of operating income given an acceptable level of risk. Our objective is exposed to three primary sources of market risk: foreign currency risk, interest rate risk, and political risk. No material changes to any of these risks have occurred since December 31, 2003. For a more detailed discussion of market risk, refer to Part II, Item 7A of our 2003 Annual Report on Form 10-K as filed with the Securities and Exchange Commission.

FOREIGN CURRENCY RISK. The Company faces exposure to adverse movements in foreign currency exchange rates, primarily in Asia. The Company's foreign currency risk may change over time as the level of activity in foreign markets grows and could have an adverse impact upon the Company's financial results. Certain of the Company's 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, the Japanese Yen, and the Hong Kong dollar. Because of the relatively small size of each individual currency exposure, the Company does not employ hedging techniques designed to mitigate foreign currency exposures. Therefore, the Company could

experience currency gains and losses.

INTEREST RATE RISK. The Company has credit agreements with U.S. and Far East financial institutions at interest rates equal to LIBOR or similar indices plus a negotiated margin. A rise in interest rates could have an adverse impact upon the Company's cost of working capital and its interest expense. The Company entered into an interest rate swap agreement to hedge its exposure to variability in expected future cash flows resulting from interest rate risk related to a portion of its long-term debt. At March 31, 2004 the interest rate swap agreement applies to \$1.7 million of the Company's long-term debt and expires November 30, 2004. The swap contract is inversely correlated to the related hedged long-term debt and is therefore considered an effective cash flow hedge of the underlying long-term debt. The level of effectiveness of the hedge is measured by the changes in the market value of the hedged long-term debt resulting from fluctuation in interest rates. As a matter of policy, the Company does not enter into derivative transactions for trading or speculative purposes.

POLITICAL RISK. The Company has a significant portion of its assets in Mainland China and Taiwan. The possibility of political conflict between the two countries or with the United States could have an adverse impact upon the Company's ability to transact business through these important business segments and to generate profits. See "Risk Factors - Foreign Operations."

ITEM 4. CONTROLS AND PROCEDURES

The Company's Chief Executive Officer, C.H. Chen, and Chief Financial Officer, Carl Wertz, with the participation of the Company's management, carried out an evaluation of the effectiveness of the Company's 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 report, the Company's disclosure controls and procedures are effective in making known to them material information relating to the Company (including its consolidated subsidiaries) required to be included in this report.

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.

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

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. Such forward-looking statements are subject to a variety of risks and uncertainties, including those discussed under "Risk Factors" and elsewhere in this Quarterly Report on Form 10-Q that could cause actual results to differ materially from those anticipated by the Company's 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 the Company or statements made by its 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.

RISK FACTORS

VERTICAL INTEGRATION

We are in the process of vertically integrating our business. Key elements of this strategy include (i) expanding our manufacturing capacity, (ii) establishing wafer foundry and research and development capability through the acquisition of FabTech and (iii) establishing sales, marketing, product development, package development and assembly/testing operations in company-owned facilities or through the acquisition of established contractors. We have a limited history upon which an evaluation of the prospects of our vertical integration strategy can be based. There are certain risks associated with our vertical integration strategy, including:

o difficulties associated with owning a manufacturing business, including, but not limited to, the maintenance and management of manufacturing facilities, equipment, employees and inventories and limitations on the flexibility of controlling overhead;

- o difficulties implementing our Enterprise Resource Planning system;
- o difficulties expanding our operations in the Far East and developing new operations in Europe;
- o difficulties developing and implementing a successful research and development team;
- o difficulties developing proprietary technology; and,
- o market acceptance of our proprietary technology.

The risks of becoming a fully integrated manufacturer are amplified in an industry-wide slowdown because of the fixed costs associated with manufacturing facilities.

ECONOMIC CONDITIONS

The discrete segment of the semiconductor industry is highly cyclical, and the value of our business may decline during the "down" portion of these cycles. During recent years, we, as well as many others in our industry, experienced significant declines in the pricing of, as well as demand for, our products and lower facilities utilization. The market for discrete semiconductors may experience renewed, possibly more severe and prolonged, downturns in the future. The markets for our products depend on continued demand in the communications, computer, industrial, consumer electronic and automotive markets, and these end-markets may experience changes in demand that could adversely affect our operating results and financial condition.

COMPETITION

The discrete semiconductor industry is highly competitive. We expect intensified competition from existing competitors and new entrants. Competition is based on price, product performance, product availability, quality, and reliability and customer service. We compete in various markets with companies of various sizes, many of which are larger and have greater resources or capabilities as it relates to financial, marketing, distribution, brand name recognition and other resources than we have and, thus, may be better able to pursue acquisition candidates and to withstand adverse economic or market conditions. In addition, companies not currently in direct competition with us may introduce competing products in the future. Some of our current major competitors are Fairchild Semiconductor Corporation, International Rectifier Corporation, Rohm Electronics, Phillips Electronics, On Semiconductor Corporation, and Vishay Intertechnology, Inc. We may not be able to compete successfully in the future, or competitive pressures may harm our financial condition or our operating results.

FOREIGN OPERATIONS

We expect revenues from foreign markets to continue to represent a significant portion of our total revenues. In addition, we maintain facilities or contracts with entities in the Philippines, Taiwan, Germany, Japan, England, India, and China, among others. There are risks inherent in doing business internationally, including:

- o changes in, or impositions of, legislative or regulatory requirements, including tax laws in the United States and in the countries in which we manufacture or sell our products;
- o trade restrictions, transportation delays, work stoppages, and economic and political instability;
- o changes in import/export regulations, tariffs and freight rates;
- o difficulties in collecting receivables and enforcing contracts;
- o currency exchange rate fluctuations;
- o restrictions on the transfer of funds from foreign subsidiaries to Diodes-North America;
- o longer customer payment terms; and,
- o the SARS epidemic.

VARIABILITY OF QUARTERLY RESULTS

We have experienced, and expect to continue to experience, a substantial variation in net sales and operating results from quarter to quarter. We believe that the factors that influence this variability of quarterly results include:

- o general economic conditions in the countries where we sell our products;
- o seasonality and variability in the computer and communications market and our other end markets;
- o the timing of our and our competitors' new product introductions;
- o product obsolescence;
- o the scheduling, rescheduling and cancellation of large orders by our customers;
- o the cyclical nature of demand for our customers' products;

- o our ability to develop new process technologies and achieve volume production at our fabrication facilities;

- o changes in manufacturing yields;

- o adverse movements in exchange rates, interest rates or tax rates; and

- o the availability of adequate supply commitments from our outside suppliers or subcontractors.

Accordingly, a comparison of the Company's results of operations from period to period is not necessarily meaningful and the Company's results of operations for any period are not necessarily indicative of future performance.

NEW TECHNOLOGIES

We cannot assure that we will successfully identify new product opportunities and develop and bring products to market in a timely and cost-effective manner, or that products or technologies developed by others will not render our products or technologies obsolete or noncompetitive. In addition, to remain competitive, we must continue to reduce package sizes, improve manufacturing yields and expand our sales. We may not be able to accomplish these goals.

PRODUCTION

Our manufacturing efficiency will be an important factor in our future profitability, and we cannot assure you that we will be able to maintain or increase our manufacturing efficiency. Our manufacturing processes require advanced and costly equipment and are continually being modified in an effort to improve yields and product performance. We may experience manufacturing problems in achieving acceptable yields or experience product delivery delays in the future as a result of, among other things, capacity constraints, construction delays, upgrading or expanding existing facilities or changing our process technologies, any of which could result in a loss of future revenues. Our operating results also could be adversely affected by the increase in fixed costs and operating expenses related to increases in production capacity if revenues do not increase proportionately.

FUTURE ACQUISITIONS

As part of our business strategy, we expect to review acquisition prospects that would implement our vertical integration strategy or offer other growth opportunities. While we have no current agreements and no active negotiations underway with respect to any acquisitions, we may acquire businesses, products or technologies in the future. In the event of future acquisitions, we could:

- o use a significant portion of our available cash;
- o issue equity securities, which would dilute current stockholders' percentage ownership;
- o incur substantial debt;
- o incur or assume contingent liabilities, known or unknown;
- o incur amortization expenses related to intangibles; and
- o incur large, immediate accounting write-offs.

Such actions by us could harm our operating results and/or adversely influence the price of our Common Stock.

INTEGRATION OF ACQUISITIONS

During fiscal year 2000, we acquired FabTech, Inc. We may continue to expand and diversify our operations with additional acquisitions. If we are unsuccessful in integrating these companies or product lines with our operations, or if integration is more difficult than anticipated, we may experience disruptions that could have a material adverse effect on our business, financial condition and results of operations. Some of the risks that may affect our ability to integrate or realize any anticipated benefits from companies we acquire include those associated with:

- o unexpected losses of key employees or customers of the acquired company;
- o conforming the acquired company's standards, processes, procedures and controls with our operations;
- o coordinating our new product and process development;
- o hiring additional management and other critical personnel;
- o increasing the scope, geographic diversity and complexity of our operations;
- o difficulties in consolidating facilities and transferring processes and know-how;
- o diversion of management's attention from other business concerns; and
- o adverse effects on existing business relationships with customers.

BACKLOG

The amount of backlog to be shipped during any period is dependent upon various factors and all orders are subject to cancellation or modification, usually with minimal or no penalty to the customer. Orders are generally booked from one to twelve months in advance of delivery. The rate of booking new orders can vary significantly from month to month. The Company and the industry as a whole are experiencing a trend towards shorter lead-times (the amount of time between the date a customer places an order and the date the customer requires shipment). The amount of backlog at any date depends upon various factors, including the timing of the receipt of orders, fluctuations in orders of existing product lines, and the introduction of any new lines.

Accordingly, the Company believes that the amount of backlog at any date is not meaningful and is not necessarily indicative of actual future shipments. The Company strives to maintain proper inventory levels to support customers' just-in-time order expectations.

PRODUCT RESOURCES

We sell products primarily pursuant to purchase orders for current delivery, rather than pursuant to long-term supply contracts. Many of these purchase orders may be revised or canceled without penalty. As a result, we must commit resources to the production of products without any advance purchase commitments from customers. Our inability to sell, or delays in selling, products after we devote significant resources to them could have a material adverse effect on our business, financial condition and results of operations.

QUALIFIED PERSONNEL

Our future success depends, in part, upon our ability to attract and retain highly qualified technical, sales, marketing and managerial personnel. Personnel with the necessary expertise are scarce and competition for personnel with these skills is intense. We may not be able to retain existing key technical, sales, marketing and managerial employees or be successful in attracting, assimilating or retaining other highly qualified technical, sales, marketing and managerial personnel in the future. If we are unable to retain existing key employees or are unsuccessful in attracting new highly qualified employees, our business, financial condition and results of operations could be materially and adversely affected.

EXPANSION

Our ability to successfully offer our products in the discrete semiconductor market requires effective planning and management processes. Our past growth, and our targeted future growth, may place a significant strain on our management systems and resources, including our financial and managerial controls, reporting systems and procedures. In addition, we will need to continue to train and manage our workforce worldwide.

SUPPLIERS

Our manufacturing operations depend upon obtaining adequate supplies of materials, parts and equipment on a timely basis from third parties. Our results of operations could be adversely affected if we are unable to obtain adequate supplies of materials, parts and equipment in a timely manner or if the costs of materials, parts or equipment increase significantly. In addition, a significant portion of our total sales is from parts manufactured by outside vendors. From time to time, suppliers may extend lead times, limit supplies or increase prices due to capacity constraints or other factors. Although we generally use products, materials, parts and equipment available from multiple suppliers, we have a limited number of suppliers for some products, materials, parts and equipment. While we believe that alternate suppliers for these products, materials, parts and equipment are available, any interruption could materially impair our operations.

ENVIRONMENTAL REGULATIONS

We are subject to a variety of United States Federal, foreign, state and local governmental laws, rules and regulations related to the use, storage, handling, discharge or disposal of certain toxic, volatile or otherwise hazardous chemicals used in our manufacturing process. Any of these regulations could require us to acquire equipment or to incur substantial other expenses to comply with environmental regulations. If we were to incur substantial additional expenses, product costs could significantly increase, thus materially and adversely affecting our business, financial condition and results of operations. Any failure to comply with present or future environmental laws, rules and regulations could result in fines, suspension of production or cessation of operations, any of which could have a material adverse effect on our business, financial condition and results of operations.

PRODUCT LIABILITY

One or more of our products may be found to be defective after we have already shipped such products in volume, requiring a product replacement or recall. We may also be subject to product returns, which could impose substantial costs and have a material and adverse effect on our business, financial condition and results of operations. Product liability claims may be asserted with respect to our technology or products. Although we currently have product liability insurance, there can be no assurance that we have obtained sufficient insurance coverage, or that we will have sufficient resources, to satisfy all possible product liability claims.

SYSTEM OUTAGES

Risks are presented by electrical or telecommunications outages, computer hacking or other general system failure. To try to manage our operations efficiently and effectively, we rely heavily on our internal information and communications systems and on systems or support services from third parties. Any of these systems are subject to failure. System-wide or local failures that affect our information processing could have material adverse effects on our business, financial condition, results of operations and cash flows. In addition, insurance coverage for the risks described above may be unavailable.

DOWNWARD PRICE TRENDS

Our industry is intensely competitive and prices for existing products tend to decrease steadily over their life cycle. There is substantial and continuing pressure from customers to reduce the total cost of using our parts. To remain competitive, we must achieve continuous cost reductions through process and product improvements. We must also be in a position to minimize our customers' shipping and inventory financing costs and to meet their other goals for rationalization of supply and production. Our growth and the profit margins

of our products will suffer if our competitors are more successful than we are in reducing the total cost to customers of their products.

OBSOLETE INVENTORIES

The life cycles of some of our products depend heavily upon the life cycles of the end products into which our products are designed. Products with short life cycles require us to manage closely our production and inventory levels. Inventory may also become obsolete because of adverse changes in end-market demand. We may in the future be adversely affected by obsolete or excess inventories which may result from unanticipated changes in the estimated total demand for our products or the estimated life cycles of the end products into which our products are designed.

DEFERRED TAXES

As of March 31, 2004, accumulated and undistributed earnings of Diodes-China are approximately \$39.4 million, including \$10.0 million of restricted earnings (which are not available for dividends). Through March 31, 2002, the Company had not recorded deferred U.S. federal or state tax liabilities (estimated to be \$8.9 million as of March 31, 2002) on these cumulative earnings since the Company, at that time, considered this investment to be permanent, and had no plans or obligation to distribute all or part of that amount from China to the United States. Beginning in April 2002, the Company began to record deferred taxes on a portion of the earnings of Diodes-China in preparation of a dividend distribution. As of March 31, 2004, the Company has recorded \$1.7 million in deferred taxes on the cumulative earnings, but has made no distributions. The Company intends to dividend \$6.0 million from Diodes-China to the U.S. in 2004. It is anticipated that this transaction will not have a material effect on net income as the U.S. income taxes have already been accrued.

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

FOREIGN CURRENCY RISK

The Company faces exposure to adverse movements in foreign currency exchange rates, primarily in Asia and, to a lesser extent, in Europe. The Company's foreign currency risk may change over time as the level of activity in foreign markets grows and could have an adverse impact upon the Company's financial results. Certain of the Company's 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, the Japanese Yen, and the Hong Kong dollar. Because of the relatively small size of each individual currency exposure, the Company does not employ hedging techniques designed to mitigate foreign currency exposures. Therefore, the Company could experience currency gains and losses.

INTEREST RATE RISK

The Company has credit agreements with U.S. and Far East financial institutions at interest rates equal to LIBOR or similar indices plus a negotiated margin. A rise in interest rates could have an adverse impact upon the Company's cost of working capital and its interest expense. The Company entered into an interest rate swap agreement to hedge its exposure to variability in expected future cash flows resulting from interest rate risk related to a portion of its long-term debt. At March 31, 2004 the interest rate swap agreement applies to \$1.7 million of the Company's long-term debt and expires November 30, 2004. The swap contract is inversely correlated to the related hedged long-term debt and is therefore considered an effective cash flow hedge of the underlying long-term debt. The level of effectiveness of the hedge is measured by the changes in the market value of the hedged long-term debt resulting from fluctuation in interest rates. As a matter of policy, the Company does not enter into derivative transactions for trading or speculative purposes.

POLITICAL RISK

The Company has a significant portion of its assets in Mainland China, Taiwan and Hong Kong. The possibility of political conflict between these countries or with the United States could have an adverse impact upon the Company's ability to transact business through these important business segments and to generate profits.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There are no matters to be reported under this heading.

ITEM 2. CHANGES IN SECURITIES, USE OF PROCEEDS AND ISSUER PURCHASES OF EQUITY SECURITIES

There are no matters to be reported under this heading.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

There are no matters to be reported under this heading.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There are no matters to be reported under this heading.

ITEM 5. OTHER INFORMATION

There are no matters to be reported under this heading.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K
(a) Exhibits

- Exhibit 11 Computation of Earnings Per Share
- Exhibit 31.1 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- Exhibit 31.2 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- Exhibit 32.1 Certification Pursuant to 18 U.S.C. 1350 Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- Exhibit 32.2 Certification Pursuant to 18 U.S.C. 1350 Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K

None.

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/ Carl C. Wertz

May 6, 2004

 CARL C. WERTZ
 Chief Financial Officer, Treasurer and Secretary
 (Duly Authorized Officer and Principal Financial and
 Chief Accounting Officer)

INDEX TO EXHIBITS

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EXHIBIT - 11

DIODES INCORPORATED AND SUBSIDIARIES

COMPUTATION OF EARNINGS PER SHARE
(Unaudited)

	THREE MONTHS ENDED MARCH 31,	
	----- 2003	2004 -----

BASIC

Weighted average number of common shares outstanding used in computing basic earnings per share	12,471,993	13,096,836	
Net income	\$ 1,923,000	\$ 4,856,000	

Basic earnings per share	\$ 0.15	\$ 0.37
DILUTED		
Weighted average number of common shares outstanding used in computing basic earnings per share	12,471,993	13,096,836
Assumed exercise of stock options	1,255,251	2,189,580
	13,727,244	15,286,416
Net income	\$ 1,923,000	\$ 4,856,000
Diluted earnings per share	\$ 0.14	\$ 0.32

EXHIBIT 31.1

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, C.H. Chen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Diodes Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ C.H. Chen
 C. H. Chen
 Chief Executive Officer
 Date: May 6, 2004

EXHIBIT 31.2

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Carl C. Wertz, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Diodes Incorporated;
2. Based on my knowledge, this report does not contain any untrue

statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Carl C. Wertz
Carl C. Wertz
Chief Financial Officer
Date: May 6, 2004

EXHIBIT 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. 1350 ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to their knowledge, the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2004 of Diodes Incorporated (the "Company") fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in such periodic report fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for, the periods presented in such report.

Very truly yours,

/s/ C.H. Chen
C.H. Chen
Chief Executive Officer
Date: May 6, 2004

A signed original of this written statement required by Section 906 has been provided to Diodes Incorporated and will be furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. 1350 ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted

pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to their knowledge, the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2004 of Diodes Incorporated (the "Company") fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in such periodic report fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for, the periods presented in such report.

Very truly yours,

/s/ Carl C. Wertz
Carl C. Wertz
Chief Financial Officer
Date: May 6, 2004

A signed original of this written statement required by Section 906 has been provided to Diodes Incorporated and will be furnished to the Securities and Exchange Commission or its staff upon request.