

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, 1999

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. Employee  
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

The number of shares of the registrant's Common Stock, \$0.66 2/3 par value, outstanding as of May 10, 1999 was 5,764,352 including 717,115 shares of treasury stock.

THIS REPORT INCLUDES A TOTAL OF 19 PAGES  
THE EXHIBIT INDEX IS ON PAGE 17

## PART I - FINANCIAL INFORMATION

## ITEM 1 - CONSOLIDATED FINANCIAL INFORMATION

DIODES INCORPORATED AND SUBSIDIARIES  
CONSOLIDATED CONDENSED BALANCE SHEET

## ASSETS

	DECEMBER 31, 1998	MARCH 31, 1999
	-----	-----
		(UNAUDITED)
<b>CURRENT ASSETS</b>		
Cash	\$ 2,415,000	\$ 3,288,000
Accounts receivable		
Customers	9,107,000	11,459,000
Related party	125,000	85,000
Other	496,000	216,000
	-----	-----
	9,728,000	11,760,000
Less allowance for doubtful receivables	110,000	124,000
	-----	-----
	9,618,000	11,636,000
Inventories	13,777,000	12,033,000
Deferred income taxes	1,098,000	1,095,000
Prepaid expenses and other	448,000	837,000
Prepaid income taxes	--	241,000
	-----	-----
Total current assets	27,356,000	29,130,000
<b>PROPERTY, PLANT AND EQUIPMENT, at cost, net of accumulated depreciation and amortization</b>	13,750,000	13,512,000
<b>ADVANCES TO RELATED PARTY VENDOR</b>	3,024,000	3,072,000
<b>OTHER ASSETS</b>	1,259,000	1,264,000
	-----	-----
<b>TOTAL ASSETS</b>	<u>\$45,389,000</u>	<u>\$46,978,000</u>

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, 1998	MARCH 31, 1999
	-----	-----
		(UNAUDITED)
<b>CURRENT LIABILITIES</b>		
Due to bank	\$ 812,000	\$ 450,000
Accounts payable		
Trade	2,991,000	3,608,000
Related party	1,213,000	1,570,000
Accrued liabilities	3,421,000	3,158,000
Income taxes payable	169,000	--
Current portion of long-term debt	2,111,000	2,111,000
	-----	-----
Total current liabilities	10,717,000	10,897,000
<b>DEFERRED COMPENSATION</b>	56,000	54,000
<b>DEFERRED INCOME TAXES</b>	521,000	521,000
<b>LONG-TERM DEBT, net of current portion</b>	5,991,000	6,583,000
<b>MINORITY INTEREST IN JOINT VENTURE</b>	644,000	773,000
<b>STOCKHOLDERS' EQUITY</b>		
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; 9,000,000 shares authorized; 5,764,352 shares issued and outstanding at March 31, 1999 and December 31, 1998	3,843,000	3,843,000
Additional paid-in capital	6,105,000	6,105,000
Retained earnings	19,294,000	19,984,000
	-----	-----
	29,242,000	29,932,000
Less:		
Treasury stock - 717,115 shares of common stock at cost	1,782,000	1,782,000
	-----	-----
Total stockholders' equity	27,460,000	28,150,000
	-----	-----
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$45,389,000</b>	<b>\$46,978,000</b>
	=====	=====

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,	
	1998	1999
NET SALES	\$16,804,000	\$15,612,000
COST OF GOODS SOLD	12,412,000	11,806,000
	-----	-----
Gross profit	4,392,000	3,806,000
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	2,832,000	3,120,000
	-----	-----
Income from operations	1,560,000	686,000
OTHER INCOME (EXPENSES)		
Interest income	83,000	62,000
Interest expense	(93,000)	(160,000)
Minority interest in joint venture earnings	(5,000)	(33,000)
Commissions and other	133,000	152,000
	-----	-----
	118,000	21,000
INCOME BEFORE INCOME TAXES	1,678,000	707,000
PROVISION FOR INCOME TAXES	492,000	17,000
	-----	-----
NET INCOME	\$ 1,186,000	\$ 690,000
	=====	=====
EARNINGS PER SHARE		
BASIC	\$ 0.24	\$ 0.14
	=====	=====
DILUTED	\$ 0.22	\$ 0.13
	=====	=====
Number of shares used in computation		
Basic	4,998,422	5,047,237
	=====	=====
Diluted	5,452,486	5,233,425
	=====	=====

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,	
	1998	1999
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 1,186,000	\$ 690,000
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation and amortization	254,000	552,000
Minority interest earnings	6,000	129,000
Interest income accrued on advances to vendor	(50,000)	(48,000)
Changes in operating assets:		
Accounts receivable	(556,000)	(2,018,000)
Inventories	(774,000)	1,744,000
Prepaid expenses and other assets	(179,000)	(632,000)
Changes in operating liabilities:		
Accounts payable	387,000	974,000
Accrued liabilities	98,000	(265,000)
Income taxes payable	(298,000)	(169,000)
	-----	-----
Net cash provided by operating activities	74,000	957,000
	-----	-----
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(1,573,000)	(314,000)
Proceeds from disposal of other assets	10,000	--
	-----	-----
Net cash used by investing activities	(1,563,000)	(314,000)
	-----	-----
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Advances (repayments) on line of credit, net	619,000	(362,000)
Net proceeds from the issuance of capital stock	140,000	--
Proceeds from (repayments of) long-term obligations	(176,000)	592,000
	-----	-----
Net cash provided by financing activities	583,000	230,000
	-----	-----
INCREASE (DECREASE) IN CASH	(906,000)	873,000
CASH AT BEGINNING OF PERIOD	2,325,000	2,415,000
	-----	-----
CASH AT END OF PERIOD	\$ 1,419,000	\$ 3,288,000
	=====	=====
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid during the period for:		
Interest	\$ 48,000	\$ 48,000
	=====	=====
Income taxes	\$ 1,082,000	\$ 580,000
	=====	=====

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 the instruction to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the financial position and results of operations have been included. Operating results for interim periods are not necessarily indicative of the results that may be expected for the full year. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the calendar year ended December 31, 1998.

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

NOTE B - INCOME TAXES

The Company accounts for income taxes using an asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the tax effect of differences between the financial statement and tax basis of assets and liabilities. Accordingly, the Company has recorded a net deferred tax asset of \$1,095,000 resulting from temporary differences in bases of assets and liabilities. This deferred tax asset results primarily from inventory reserves and expense accruals, which are not currently deductible for income tax purposes.

The income tax expense as a percentage of pre-tax income differs from the statutory combined federal and state tax rates. The primary reasons for this difference are (i) in accordance with Chinese tax policy, earnings of Diodes-China are not subject to tax for the first two years upon commencement of profitable operations, and (ii) earnings of the Company's subsidiary in Taiwan are subject to tax at a lower rate than in the U.S.

Under Federal tax law, foreign earnings are taxed when funds are distributed by foreign subsidiaries to the parent Company. A temporary difference between financial and tax reporting exists for profits earned at the foreign subsidiary level not distributed to the parent. A deferred tax liability of \$521,000 is reflected in the balance sheet for a dividend of approximately \$4.5 million expected to be issued from the Taiwanese subsidiary to the parent Company in 1999. The Company has not established a deferred tax liability for the remaining undistributed earnings of this subsidiary of approximately \$5 million since the Company views this amount as a permanent investment and has no current plans, intentions or obligation to distribute all or part of that amount from Taiwan to the United States.

NOTE C - ADVANCES TO RELATED PARTY VENDOR

Under a compensation-trade agreement the Company has advanced \$2.5 million in cash and equipment to a related party vendor, FabTech Incorporated, a wholly owned subsidiary of Vishay Lite-On Power Semiconductor, Pte, Ltd. Interest accrues monthly at the Company's borrowing rate with total accrued interest of approximately \$572,000 as of March 31, 1999. Amounts advanced, including interest, are payable beginning in 1999 and expiring February 2001 when any outstanding balances become due on demand. The compensation-trade agreement allows the Company to recover interest and principal due by deducting a fixed amount per unit for products purchased from the vendor.

## NOTE D - SEGMENT INFORMATION

Information about the Company's operations in the United States, Taiwan, and China are presented below. Items transferred among the Company and its subsidiaries are transferred at prices to recover costs plus an appropriate mark up for profit. Inter-company revenues, profits and assets have been eliminated to arrive at the consolidated amounts.

The Company adopted Statement of Financial Accounting Standard No. 131 (SFAS No. 131), Disclosures about Segments of an Enterprise and Related Information, in 1998. Operating segments are defined as components 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, Chief Financial Officer, and Vice President of Far East Operations. The operating segments are managed separately because each operating segment represents a strategic business unit whose function and purpose differs from the other segments.

For financial reporting purposes, the Company is deemed to operate in three separate segments; North America, Taiwan, and China. All three segments focus on discrete semiconductor devices. The North American segment procures and distributes products primarily throughout North America and provides management, warehousing and engineering support to the other two segments. The Taiwan segment procures product from, and manufactures and distributes product primarily to, companies in Taiwan, Korea, Singapore, and Hong Kong. This segment also procures product for, and manufactures and distributes product to, the Company's North American operations. The China segment manufactures product for, and distributes product to, both the North American and Taiwan segments. In 1997, the China segment began manufacturing product for, and distributing product to, customers in China, the U.S. and Europe.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. The Company evaluates performance based on stand-alone operating segment income. Revenues are attributed to geographic areas based on the location of the market producing the revenues.

THREE MONTHS ENDED MARCH 31, 1999 -----	Shanghai KaiHong Electronics (China) -----	Diodes-Taiwan Corporation, Ltd. (Taiwan) -----	Diodes Incorporated -----	Consolidated Segments -----
Total sales	\$ 2,014,000	\$ 7,664,000	\$10,099,000	\$19,777,000
Intersegment sales	(1,450,000)	(2,071,000)	(644,000)	(4,165,000)
Net sales	\$ 564,000	\$ 5,593,000	\$ 9,455,000	\$15,612,000
Depreciation and amortization	\$ 467,000	71,000	\$ 14,000	\$ 552,000
Interest expense, net	\$ 12,000	\$ 2,000	\$ 84,000	\$ 98,000
Income tax provision (benefit)	\$ --	\$ 304,000	\$ (287,000)	\$ 17,000
Net income (loss)	\$ 624,000	\$ 474,000	\$ (408,000)	\$ 690,000
Segment assets	\$15,880,000	\$12,875,000	\$18,223,000	\$46,978,000



THREE MONTHS ENDED MARCH 31, 1998 -----	Shanghai KaiHong Electronics (China) -----	Diodes-Taiwan Corporation, Ltd. (Taiwan) -----	Diodes Incorporated -----	Consolidated Segments -----
Total sales	\$ 970,000	\$ 7,280,000	\$13,319,000	\$21,569,000
Intersegment sales	(911,000)	(3,403,000)	(451,000)	(4,765,000)
Net sales	\$ 59,000	\$ 3,877,000	\$12,868,000	\$16,804,000
Depreciation and amortization	\$ 160,000	\$ 16,000	\$ 78,000	\$ 254,000
Interest expense (income), net	\$ 8,000	\$ 3,000	\$ (1,000)	\$ 10,000
Income tax provision (benefit)	\$ --	\$ 238,000	\$ 254,000	\$ 492,000
Net income (loss)	\$ 100,000	\$ 719,000	\$ 367,000	\$ 1,186,000
Segment assets	\$ 6,871,000	\$ 7,862,000	\$25,583,000	\$40,316,000

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 "Factors That May Affect Future Results" 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.

GENERAL

Diodes Incorporated (the "Company") is a provider of high-quality discrete semiconductor devices to leading manufacturers in the automotive, electronics, computing and telecommunications industries. The Company's products include small signal transistors and MOSFETs, transient voltage suppressors (TVSs), zeners, Schottkys, diodes, rectifiers and bridges. The Company's products are sold primarily in North America and Asia, both directly to end-users and through electronic component distributors.

For financial reporting purposes, the Company is deemed to operate in three separate segments: North America, Taiwan, and China. All three segments focus on discrete semiconductor devices. The North American segment procures and distributes products primarily throughout North America and provides management, warehousing and engineering support to the other two segments. The Taiwan segment procures product from, and manufactures and distributes product primarily to, companies in Taiwan, Korea, Singapore, and Hong Kong. This segment also procures product for, and manufactures and distributes product to, the Company's North American operations. The China segment manufactures product for, and distributes product to, both the North American and Taiwan segments. In 1997, the China segment began manufacturing product for, and distributing product to, customers in China, the U.S. and Europe. See Note D of "Notes to Consolidated Financial Statements" for a description of the Company's adoption of SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information.

Products are sold under brand names such as Diodes, Lite-On, ITT and Vishay/Lite-On Power Semiconductor. The Company is unifying product lines under a limited number of brand names in order to establish brand name unity and consistency of product, and to capitalize on brand name recognition, where possible.

The Company's Far East subsidiaries, Diodes-Taiwan and Diodes-China, both manufacture product for sale to North America and the Far East. Diodes-Taiwan manufacturing focuses on products such as axial Schottky and MELF rectifiers. These "general use" products are destined for end products in the automotive industry as well as for use in commercial appliances, household lighting, and electric hand tools, among others. Diodes-China manufacturing, for the most part, focuses on SOT-23 and SOD-123 products. These surface mount devices ("SMD's") are used in the computer and telecommunication industries and are destined for cellular phones, notebook computers, pagers, PCMCIA cards, modems, and garage door transmitters, among others. Diodes-China's state-of-the-art facilities have been designed to develop even smaller, higher-density products as electronic industry trends to portable and hand held devices continue.

The discrete semiconductor industry has, for the last few years, been subject to severe pricing pressures, compounded by the Asian economic situation. Although manufacturing costs have been falling, excess manufacturing capacity and over-inventory has caused selling prices to fall at a greater extent than manufacturing costs. Because of this competitive environment, gross profit margins have declined from 28.3% in 1995 to 24.4% for the three months ended March 31, 1999. To compete in this highly competitive industry, in recent years, the Company has committed substantial resources to the development and implementation of two areas of operation; (i) sales and marketing, and (ii) manufacturing.

Emphasizing the Company's focus on customer service, additional personnel and programs have been added. In order to meet customers' needs at the design stage of end-product development, the Company has employed additional applications engineers. These applications engineers work directly with customers to assist them in "designing in" the correct products to produce optimum results. Regional sales managers, working closely with manufacturers' representative firms and distributors, have also been added in the U.S. and the Far East to help satisfy customers' requirements. In addition, the Company has developed relationships with major distributors who inventory and sell the Company's products. The relationship with Vishay Intertechnology, Inc. has provided additional opportunities for the Company to have its products offered by some of the world's largest distributors.

Beginning in 1998, the Company increased the amount of product shipped to larger distributors. Although these sales were significant in terms of total sales dollars and gross margin dollars, they generally were under agreements that resulted in lower gross profit margins for the Company when compared to sales to smaller distributors and OEM customers. As the consolidation of electronic component distributors continues, the Company anticipates that a greater portion of its distributor sales will be to the larger distributors, and thus may result in continuing pressure on gross profit margins.

Since 1997, the Company's manufacturing focus has primarily been in the development and expansion of Diodes-China. To date, the Company has invested over \$14 million in the manufacturing facility, which supplies product for sale primarily in North America and the Far East. The investment allows for the manufacture of additional SOT-23 packaged components as well as other surface-mount packaging, including the smaller SOD packages. Approximately \$8.0 million of the Company's existing credit facility has been used to finance the additional manufacturing capacity.

The Company's overall effective federal, state, and foreign tax rate decreased to 2.4% for the three months ended March 31, 1999 from 29.3% in the first quarter of 1998. The decrease in the Company's effective tax rate is due primarily to the increase in Diodes-China's contribution to net income at a tax rate of 0%.

The Company has conducted a comprehensive review of its computer systems to identify the systems that could be affected by the Year 2000 Issue ("Y2K") and has developed an implementation plan to resolve the issue. Y2K is the result of computer programs being written using two digits rather than four to define the applicable year. Any of the Company's programs that have time-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in a major system failure or miscalculations. The Company is utilizing both internal and external resources to identify, correct or reprogram, and test the systems for Y2K compliance. Confirmation has been received from the Company's primary processing vendors

and major customers that plans are being developed to address processing of transactions in the year 2000. The total cost of Y2K compliance was not considered a material expense. All internal critical systems have been tested and the Company believes that, with its modifications to existing software and its upgrades to Y2K compliant software, Y2K will not pose significant operational problems for the Company's computer systems. However, if (i) problems surface that have not yet been identified that will require substantial time and resources to remedy, or (ii) such modifications and upgrades are not completed timely by the Company's business partners, they could have a material adverse effect on the Company's business.

#### RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 1998 AND 1999

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)
	1998	1999	'98 TO '99
Net sales	100.0 %	100.0 %	(7.1)%
Cost of goods sold	(73.9)	(75.6)	(4.9)
Gross profit	26.1	24.4	(13.3)
Selling, general & administrative expenses ("SG&A")	(16.9)	(20.0)	10.2
Income from operations	9.3	4.4	(56.0)
Interest expense, net	(0.1)	(0.6)	880.0
Other income	0.8	0.7	(7.0)
Income before taxes	10.0	4.5	(57.9)
Income taxes	2.9	0.1	(96.5)
Net income	7.1	4.4	(41.8)

The following discussion explains in greater detail the consolidated operating results and financial condition of the Company for the three months ended March 31, 1999 compared to the three months ended March 31, 1998. This discussion should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this quarterly report.

	1998	1999
NET SALES	\$ 16,804,000	\$ 15,612,000

Net sales decreased approximately \$1.2 million, or 7.1%, for the three months ended March 31, 1999 compared to the same period last year, due primarily to a 10.3% decrease in average selling prices in the first quarter of 1999, which represents a decrease in average selling prices in North America and the Far East of approximately 14.2% and 7.8%, respectively, compared to the same period in 1998.

	1998 ----	1999 ----
GROSS PROFIT	\$ 4,392,000	\$ 3,806,000
GROSS PROFIT MARGIN PERCENTAGE	26.1%	24.4%

Continuing pricing pressures within the discrete semiconductor industry resulting from decreased demand and excess on-hand inventory contributed to a decrease in gross margin percentage to 24.4% for the three months ended March 31, 1999 compared to 26.1% for the same period in 1998. Gross profit decreased approximately \$586,000, or 13.3%, due primarily to market pricing pressures as well as by an increase in the percentage of the Company's sales to larger distributors at lower gross profit margins.

	1998 ----	1999 ----
SG&A	\$ 2,832,000	\$ 3,120,000

SG&A for the three months ended March 31, 1999 increased approximately \$288,000, or 10.2%, compared to the same period last year, due primarily to increases in administrative expenses at Diodes-China pursuant to incremental management expenses, higher Company-wide marketing and advertising expenses, and increased sales commissions and additional sales personnel at Diodes-Taiwan.

	1998 ----	1999 ----
INTEREST INCOME	\$ 83,000	\$ 62,000
INTEREST EXPENSE	\$ 93,000	\$ 160,000
NET INTEREST EXPENSE	\$ 10,000	\$ 98,000

Net interest expense for the three months ended March 31, 1999 increased \$88,000, due primarily to an increased use of the Company's credit facility to support the expansion of Diodes-China. The Company's interest expense is primarily the result of the term loan by which the Company is financing (i) the investment in the Diodes-China manufacturing facility and (ii) the \$3.1 million, including accrued interest, advanced to FabTech. Interest income is primarily the interest charged to FabTech, a related party, under the Company's formal loan agreement, as well as earnings on its cash balances.

	1998 ----	1999 ----
MINORITY INTEREST IN JOINT VENTURE	\$ (5,000)	\$ (33,000)

Minority interest in joint venture represents the minority investor's share of the Diodes-China joint venture's net income for the period. The increase in the joint venture earnings for the three months ended March 31, 1999 is primarily the result of increased sales. 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, 1999, the Company had a 95% controlling interest in the joint venture.

	1998 ----	1999 ----
COMMISSIONS AND OTHER INCOME	\$ 133,000	\$ 152,000

Commissions and other income for the three months ended March 31, 1999 increased approximately \$19,000, or 14.3%, compared to the same period last year, due in part to currency exchange fluctuation at the Company's subsidiaries in Taiwan and China. Sales commission income earned by the Company's Taiwan subsidiary on drop shipment sales in Asia for the three months ended March 31, 1999 increased 3.2% compared to the same period last year.

	1998 ----	1999 ----
PROVISION FOR INCOME TAXES	\$ 492,000	\$ 17,000

The Company's overall effective federal, state, and foreign tax rate decreased to 2.4% for the three months ended March 31, 1999 from 29.3% in the first three months of 1998. The decrease in the Company's effective tax rate is due primarily to the increase in Diodes-China's contribution to net income at a tax rate of 0%. Based upon tax rates in the U.S. and Taiwan and the expected profitability of each of the Company's three business segments during the balance of the year, it is anticipated that for the twelve months of 1999, the provision for income taxes will be in the range of 10-20% of pre-tax income.

## FINANCIAL CONDITION

### LIQUIDITY AND CAPITAL RESOURCES

Cash provided by operating activities for the three months ended March 31, 1999 was \$957,000 compared to \$74,000 for the same period in 1998. The primary sources of cash flows from operating activities in 1999 were a reduction of inventories of \$1.7 million and an increase in accounts payable of \$1.0 million. The primary use of cash flows from operating activities in 1999 was an increase in accounts receivable of \$2.0 million. The primary source of cash flows from operating activities for the three months ended March 31, 1998 were net income of \$1.2 million, while the primary use was a \$774,000 increase in inventories.

Due to the recent slowdown in the semiconductor industry, the Company has directed its efforts into reducing inventory levels, while still providing the service and delivery that customers demand. The Company continues to closely monitor its credit policy, while at times providing more flexible terms, primarily to its Asian customers, when necessary. The ratio of the Company's current assets to current liabilities on March 31, 1999 was 2.7 to 1, compared to a ratio of 2.6 to 1 on December 31, 1998.

Cash used by investing activities was \$314,000 as of March 31, 1999, compared to \$1.6 million during the same period in 1998. The primary investment in both years was for additional manufacturing equipment at the Diodes-China manufacturing facility.

Cash provided by financing activities was \$230,000 for the three months ended March 31, 1999, compared to \$583,000 for the same period in 1998. In March 1998, the Company amended an August 1996 loan agreement whereby the Company obtained a \$23.1 million credit facility with a major bank consisting of: a working capital line of credit up to \$9 million and term commitment notes providing up to \$14 million for plant expansion, advances to vendors, and letters of credit for Diodes-China. Interest on outstanding borrowings under the credit agreement is payable monthly at LIBOR plus a negotiated margin. Fixed borrowings require fixed principal plus interest payments for sixty months thereafter. The agreement has certain covenants and restrictions, which, among other matters, require the maintenance of certain financial ratios and operating results, as defined in the agreement. The Company was in compliance as of March 31, 1999. The working capital line of credit expires June 30, 2000 and contains a sublimit of \$3.0 million for issuance of commercial and stand-by letters of credit. As of March 31, 1999, approximately \$8.7 million is outstanding under the term note commitment, and the average interest rate on outstanding borrowings was approximately 6.8%.

The Company has used its credit facility primarily to fund the advances to Diodes-China and FabTech as well as to support its operations. At March 31, 1999, amounts due from FabTech, including accrued interest, are approximately \$3.1 million, and the entire amount is due February 2001. The Company believes that the continued availability of this credit facility, together with internally generated funds, will be sufficient to meet the Company's currently foreseeable operating cash requirements.

The Company provides guarantees to Diodes-China and the minority investor of the Diodes-China joint venture for \$1.0 million and \$850,000, respectively, as well as a \$1.0 million letter of credit, with a \$3.0 million guarantee. The Company reserves the right, at any time or from time to time, on one month's prior written notice to the bank, to reduce the maximum amount guaranteed hereunder or to terminate this guaranty; provided, however, that the Company shall in any event remain liable as guarantor for all obligations of the borrower outstanding at the effective date of any such notice to the bank.

Total working capital increased approximately 9.6% to \$18.2 million as of March 31, 1999, from \$16.6 million as of December 31, 1998. The Company believes that such working capital position will be sufficient for growth opportunities.

The Company's debt to equity ratio increased to 0.64 at March 31, 1999, from 0.63 at December 31, 1998. It is anticipated that this ratio may increase as the Company continues to use its credit facilities to fund additional sourcing opportunities.

As of March 31, 1999, the Company has no material plans or commitments for capital expenditures other than in connection with the expansion at Diodes-China. However, to ensure that the Company can secure reliable and cost effective sourcing to support and better position itself for growth, the Company is continuously evaluating additional 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.

#### FACTORS THAT MAY AFFECT FUTURE RESULTS

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 "Factors That May Affect Future Results" 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 Form 10-Q are subject to, in addition to the other matters described in this 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.

There are many factors that could cause the events in such forward looking statements to not occur, including but not limited to:

- o general or specific economic conditions
- o fluctuations in product demand
- o introduction of new products
- o Company's ability to maintain customer relationships
- o technological advancements
- o impact of competitive products and pricing
- o change in growth in targeted markets
- o risks of foreign operations
- o ability and willingness of the Company's customers to purchase products provided by the Company

- o perceived absolute or relative overall value of these products by the purchasers, including the features, quality, and price in comparison to other competitive products
- o level of availability of products and substitutes and the ability and willingness of purchasers to acquire new or advanced products
- o pricing, purchasing, financing, operational, advertising and promotional decisions by intermediaries in the distribution channels which could affect the supply of or end-user demands for the Company's products
- o amount and rate of growth of the Company's selling, general and administrative expenses
- o difficulties in obtaining materials, supplies and equipment
- o difficulties or delays in the development, production, testing and marketing of products
- o failure to ship new products and technologies when anticipated
- o failure of customers to accept these products or technologies when planned
- o defects in products
- o any failure of economies to develop when planned
- o acquisition of fixed assets and other assets, including inventories and receivables
- o making or incurring of any expenditures
- o effects of and changes in trade, monetary and fiscal policies, laws and regulations
- o other activities of governments, agencies and similar organizations
- o changes in social and economic conditions, such as trade restriction or prohibition, inflation and monetary fluctuation, import and other charges or taxes
- o ability or inability of the Company to obtain or hedge against foreign currency
- o foreign exchange rates and fluctuations in those rates
- o intergovernmental disputes
- o developments or assertions by or against the Company relating to intellectual property rights
- o adaptations of new, or changes in, accounting policies and practices in the application of such policies and practices and the effects of changes within the Company's organization
- o changes in compensation benefit plans
- o activities of parties with which the Company has an agreement or understanding, including any issues affecting any investment or joint venture in which the Company has an investment
- o amount, and the cost of financing which the Company has
- o any changes to that financing
- o any other information detailed from time to time in the Company's filings with the United States Securities and Exchange Commission.



PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There are no matters to be reported under this heading.

ITEM 2. CHANGES IN 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 27 - Financial Data Schedule

(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 Wertz

May 13, 1999

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May 13, 1999

CARL 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,	
	1998	1999
BASIC		
Weighted average number of common shares outstanding used in computing basic earnings per share	4,998,422	5,047,237
Net income	\$ 1,186,000 =====	\$ 690,000 =====
Basic earnings per share	\$ 0.24 =====	\$ 0.14 =====
DILUTED		
Weighted average number of common shares outstanding used in computing basic earnings per share	4,998,422	5,047,237
Assumed exercise of stock options	454,064 -----	186,188 -----
Weighted average number of common shares outstanding used in computing diluted earnings per share	5,452,486	5,233,425
Net income	\$ 1,186,000 =====	\$ 690,000 =====
Diluted earnings per share	\$ 0.22 =====	\$ 0.13 =====

3-MOS			
	DEC-31-1999		
	JAN-01-1999		
	MAR-31-1999		
		3,288,000	
		0	
		11,760,000	
		124,000	
		12,033,000	
	29,130,000		
		17,388,000	
		3,876,000	
		46,978,000	
10,897,000			0
	0		
		0	
		3,843,000	
		24,307,000	
46,978,000			
		15,612,000	
	15,612,000		
		11,806,000	
		3,120,000	
		0	
		0	
	98,000		
		707,000	
		17,000	
690,000			
		0	
		0	
			0
		690,000	
		0.14	
		0.13	