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

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended SEPTEMBER 30, 1997

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	95-2039518
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
3050 EAST HILLCREST DRIVE WESTLAKE VILLAGE, CALIFORNIA	91362
(Address of principal executive offices)	(Zip code)

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

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

COMMON STOCK, PAR VALUE $0.66 2/3	AMERICAN STOCK EXCHANGE
(Title of each class)	(Name of each exchange on which registered)

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

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 [X] No [ ]

The number of shares of the registrant's Common Stock outstanding as of September 30, 1997 was 5,701,019 including 717,115 shares of treasury stock.

THIS REPORT INCLUDES A TOTAL OF 21 PAGES
THE EXHIBIT INDEX IS ON PAGE 19

DIODES INCORPORATED

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PART I - FINANCIAL INFORMATION

ITEM 1 - CONSOLIDATED FINANCIAL INFORMATION

DIODES INCORPORATED AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEET

ASSETS

	SEPTEMBER 30, 1997 (UNAUDITED)	DECEMBER 31, 1996
CURRENT ASSETS		
Cash	$ 6,266,000	$ 1,820,000
Accounts receivable		
Customers	10,034,000	7,901,000
Related party	443,000	376,000
Other	411,000	352,000
	10,888,000	8,629,000
Less allowance for doubtful receivables	175,000	253,000
	10,713,000	8,376,000
Inventories	12,588,000	13,268,000
Deferred income taxes	1,426,000	1,426,000
Prepaid expenses and other	957,000	345,000
Total current assets	31,950,000	25,235,000
PROPERTY, PLANT AND EQUIPMENT, at cost, net of accumulated depreciation and amortization	4,649,000	4,628,000
ADVANCES TO RELATED PARTY VENDOR	2,772,000	2,631,000
OTHER ASSETS	68,000	52,000
TOTAL ASSETS	$39,439,000	$32,546,000

See accompanying notes

DIODES INCORPORATED AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEET

LIABILITIES AND STOCKHOLDERS' EQUITY

	SEPTEMBER 30, 1997	DECEMBER 31, 1996
	(UNAUDITED)	
CURRENT LIABILITIES		
Due to bank	$ 1,000,000	$ --
Accounts payable		
Trade	3,805,000	2,303,000
Related party	1,624,000	2,250,000
Accrued liabilities		
Compensation and payroll tax	1,425,000	1,292,000
Other accrued liabilities	1,436,000	810,000
Income taxes payable	1,065,000	223,000
Current portion of long-term debt	1,035,000	954,000
Total current liabilities	11,390,000	7,832,000
LONG-TERM DEBT, net of current portion	3,504,000	4,288,000
MINORITY INTEREST IN JOINT VENTURE	1,265,000	962,000
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; 9,000,000 shares authorized; 5,675,794 and 5,701,019 shares issued and outstanding at December 31, 1996 and September 30, 1997, respectively	3,801,000	3,784,000
Additional paid-in capital	5,813,000	5,768,000
Retained earnings	15,448,000	11,694,000
	25,062,000	21,246,000
Less:		
Treasury stock - 717,115 shares of common stock at cost	1,782,000	1,782,000
Total stockholders' equity	23,280,000	19,464,000
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$39,439,000	$32,546,000

See accompanying notes

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

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1997	1996	1997	1996
NET SALES	$ 16,939,000	$ 14,394,000	$ 48,969,000	$ 41,050,000
COST OF GOODS SOLD	12,517,000	10,893,000	35,159,000	30,381,000
Gross profit	4,422,000	3,501,000	13,810,000	10,669,000
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	2,569,000	2,388,000	8,647,000	7,397,000
Income from operations	1,853,000	1,113,000	5,163,000	3,272,000
OTHER INCOME (EXPENSE)				
Interest income	73,000	55,000	206,000	144,000
Interest expense	(98,000)	(149,000)	(298,000)	(421,000)
Minority interest in joint venture earnings	(42,000)	71,000	(290,000)	83,000
Commissions and other	159,000	88,000	361,000	265,000
	92,000	65,000	(21,000)	71,000
INCOME BEFORE INCOME TAXES	1,945,000	1,178,000	5,142,000	3,343,000
PROVISION FOR INCOME TAXES	604,000	423,000	1,388,000	1,185,000
NET INCOME	$ 1,341,000	$ 755,000	$ 3,754,000	$ 2,158,000
EARNINGS PER SHARE				
PRIMARY	$ 0.24	$ 0.14	$ 0.69	$ 0.40
FULLY-DILUTED	$ 0.24	$ 0.14	$ 0.67	$ 0.40
Weighted average shares outstanding				
Primary	5,538,282	5,235,179	5,447,608	5,390,866
Fully-diluted	5,582,673	5,293,366	5,580,210	5,390,866

See accompanying notes

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

	NINE MONTHS ENDED SEPTEMBER 30, 1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 3,754,000	$ 2,158,000
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation and amortization	625,000	224,000
Increase (decrease) in allowance for doubtful accounts	(78,000)	61,000
Minority interest in joint venture	303,000	(83,000)
(Increase) decrease in operating assets:		
Accounts receivable	(2,259,000)	(1,740,000)
Inventories	680,000	2,254,000
Prepaid expenses and other	(612,000)	(702,000)
(Decrease) increase in operating liabilities:		
Accounts payable	876,000	(2,797,000)
Accrued liabilities	759,000	1,718,000
Income taxes payable	842,000	(525,000)
Net cash provided by operating activities	4,890,000	568,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(584,000)	(1,454,000)
Acquisition of other assets	(16,000)	(808,000)
Advances to affiliates	(141,000)	(2,587,000)
Minority interest contribution to joint venture	--	1,213,000
Net cash used by investing activities	(741,000)	(3,636,000)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances on line of credit, net	1,081,000	(917,000)
Proceeds from (repayments of) long-term obligations	(784,000)	4,971,000
Net cash provided by financing activities	297,000	4,054,000
INCREASE IN CASH	$ 4,446,000	$ 986,000
CASH AT BEGINNING OF PERIOD	$ 1,820,000	$ 478,000
CASH AT END OF PERIOD	$ 6,266,000	$ 1,464,000
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Non-Cash Investing Activities		
Conversion of joint venture investment to plant and equipment	$ --	$ 1,878,000
Cash paid (received) during the year for:		
Interest	$ 233,000	$ 387,000
Income taxes	$ 1,263,000	$ 2,210,000

See accompanying notes

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 in Form 10-K for the calendar year ended December 31, 1996.

The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiary, Diodes Taiwan Co., Ltd. (a foreign subsidiary), and the accounts of the Kai Hong joint venture in which the Company has a 70% controlling interest. All significant intercompany balances and transactions have been eliminated.

NOTE B - INCOME TAXES

The Company accounts for the income taxes using an asset and liability method. Under this method, deferred tax assets and liabilities are recognized for 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 $1,426,000 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 the Kai Hong joint venture 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.

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 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, medium-power MOSFETs, transient voltage suppressors (TVSs), zeners, Schottkys, diodes, rectifiers and bridges.

In July 1997, Vishay Intertechnology, Inc. ("Vishay") and The Lite-On Group, a Taiwanese consortium, announced the formation of a joint venture -- Vishay/Lite-On Power Semiconductor Pte., LTD. ("Vishay/LPSC") -- to acquire Lite-On Power Semiconductor Corp. ("LPSC"), a member of The Lite-On Group and the Company's largest shareholder. Vishay, with worldwide sales exceeding $1 billion, is the world's largest manufacturer of passive electronic components. The Lite-On Group, with worldwide sales of almost $2 billion, is a leading manufacturer of power semiconductors, computer peripherals, and communication products.

In August 1997, the Company announced that its discrete semiconductor products will now be marketed under a single brand -- "Vishay/Lite-On Power Semiconductor". The Company will benefit from a uniform brand identity and will explore marketing methods to use Vishay's resources combined with planned enhancements to its own engineering and manufacturing capabilities, to develop ever more advanced products, to enhance product quality, and further enhance customer service.

In October 1997, the Company announced the appointment of a new President, Michael A. Rosenberg, to replace David Lin who resigned to pursue other business interests. Mr. Rosenberg, a director of the Company since 1989 and an independent consultant to Vishay, was from 1970 to 1991 associated with SFE Technologies, a Southern California based manufacturer of electronic components, including positions as President and chief executive officer, as well as a member of the Board of Directors. Both Mr. Rosenberg and Mr. Lin will remain members of the Board of Directors of the Company.

One of the Company's primary strategic programs was the formation of the Kai Hong joint venture, formed in the first half of 1996. The Kai Hong joint venture, in which the Company has invested $2.8 million in a SOT-23 manufacturing facility on mainland China, continues to contribute positively to the Company's bottom line throughout 1997, as well as provides replacements for a portion of the parts no longer available due to the sale of one of the Company's major suppliers. Due to the success of the first phase of Kai Hong as well as prevailing market conditions, the Company's Board of Directors has approved funding for further expansion of the joint venture. The capital required for the second and third phases of Kai Hong is estimated at $14.0 million. The Company will use its existing credit facility to finance the additional manufacturing capacity.

As of September 30, 1997, the Company had a 70% controlling interest in the Kai Hong joint venture, but will increase its interest in Kai Hong to 95% through the purchase of a portion of the interest held by its joint venture partner in the fourth quarter of 1997. The purchase price, as per the joint venture agreement, will be approximately $2.1 million and will result in approximately $1.1 million in goodwill. Since its inception, all of Kai Hong's sales have been to the Company and, thus, categorized as intercompany sales which do not contribute to total consolidated sales. It is anticipated that with the approved additional manufacturing capacity, future sales will be made to unaffiliated customers, as well as to the Company, thus contributing to total consolidated sales.

The Company's Taiwan and Kai Hong manufacturing facilities receive wafers from FabTech, Inc. ("FabTech") (a wholly-owned subsidiary of Vishay/LPSC) as well as from other sources. Output from the FabTech facility includes wafers, which may be used in the production of such products as Schottky barrier diodes, fast recovery epitaxial diodes (FREDs), and other widely used value-added products. Schottky barrier diodes are employed in the manufacture of the power supplies found in personal computers, telecommunications devices and myriad other applications where high frequency, low forward voltage and fast recovery are required.

Both the Kai Hong and FabTech alliances are indicative of the Company's desire to participate in the sourcing of advanced-technology discrete components, and to enhance its ability to procure products in a timely fashion and at reasonable costs.

The Company will continue its strategic plan of locating alternate sources of its products, including those provided by its major suppliers. Alternate sources include, but are not limited to, the Kai Hong joint venture and other sourcing agreements in place as well as those in negotiations. The Company anticipates that the effect of the loss of any one of its major suppliers will not have a material adverse effect on the Company's operations provided that alternate sources remain available. The Company continually evaluates alternative sources of its products to assure its ability to deliver high quality, cost effective products.

The Company's contracts are primarily in U.S dollars. To a limited extent, and from time to time, the Company contracts (e.g. a portion of the equipment purchases for the Kai Hong expansion) in foreign currencies. Due to the limited number of contracts denominated in foreign currencies and the complexities of currency hedges, the Company has not engaged in hedging to date. If the volume of contracts written in foreign currencies increases, and the Company does not engage in currency hedging, any substantial increase in the value of such currencies could have a material adverse effect on the Company's results of operations. Management believes that the contracts written in foreign currency are not significant enough to justify the costs inherent in currency hedging.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 1997 AND 1996

The following table sets forth, for the periods indicated, the percentage which 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 SEPTEMBER 30,		PERCENTAGE DOLLAR INCREASE (DECREASE)
	1997	1996	`96 TO `97
Net sales	100.0 %	100.0 %	17.7 %
Cost of goods sold	(73.9)	(75.7)	14.9
Gross profit	26.1	24.3	26.3
SG&A	(15.2)	(16.6)	7.6
Income from operations	10.9	7.7	66.5
Interest expense, net	(0.1)	(0.6)	(73.4)
Other income	0.7	1.1	(26.4)
Income before taxes	11.5	8.2	65.1
Income taxes	3.6	3.0	42.8
Net income	7.9	5.2	77.6

The following discussion explains in greater detail the consolidated operating results and financial condition of the Company for the three months ended September 1997 compared to the three months ended September 30, 1996. This discussion should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this quarterly report.

	1997	1996
NET SALES	$ 16,939,000	$ 14,394,000

Net sales increased approximately $2.5 million, or 17.7%, for the three months ended September 30, 1997 compared to the same period last year, due primarily to an increase in customer demand in Asian markets resulting in an increase in the number of units shipped. Throughout most of 1996, the industry experienced a substantial decrease in demand, combined with excess inventory among the Company's customers, which negatively affected the Company's net sales and gross profit margins in 1996.

	1997	1996
GROSS PROFIT	$ 4,422,000	$ 3,501,000
GROSS PROFIT MARGIN PERCENTAGE	26.1%	24.3%

Gross profit increased approximately $921,000, or 26.3%, for the three months ended September 30, 1997 compared to the same period a year ago, primarily as a result of the 17.7% increase in net sales, and increased gross profit from sales of product manufactured by the Kai Hong joint venture, as well as from continued improvements in inventory management. Positive gross profit from the Kai Hong manufacturing facility began in the first quarter of 1997. Pricing pressures exist and there can be no assurance that gross margins can be maintained.

	1997	1996
SG&A	$ 2,569,000	$ 2,388,000

Selling, general and administrative expenses ("SG&A") for the three months ended September 30, 1997 increased approximately $181,000, or 7.6%, compared to the same period last year, due primarily to an increase of approximately $127,000 in sales commissions paid on the 17.7% increase in net sales and approximately $114,000 associated with new marketing programs and personnel, partially offset by approximately $136,000 in decreased operating expenses associated with the Kai Hong manufacturing facility which commenced operations in the second quarter of 1996.

	1997	1996
INTEREST INCOME	$ 73,000	$ 55,000
INTEREST EXPENSE	$ 98,000	$ 149,000

Interest income for the three months ended September 30, 1997 increased $18,000, or 32.7%, compared to the same period last year. Interest income is primarily the interest charged to FabTech under the Company's loan agreement, as well as earnings on its cash balances. The Company's interest expense for 1997 decreased $51,000, or 34.2%, as a result debt reduction. Interest expense is primarily the result of the term loan by which the Company financed (i) the $2.8 million investment in the Kai Hong joint venture and (ii) the $2.5 million advanced to FabTech, a related party.

	1997	1996
MINORITY INTEREST IN JOINT VENTURE	$ (42,000)	$ 71,000

Minority interest in joint venture for the three months ended September 30, 1997 represents the minority investor's share of the Kai Hong joint venture's net income for the period. The joint venture investment is eliminated in consolidation of the Company's financial statements and the activities of Kai Hong are included therein. As of September 30, 1997, the Company had a 70% controlling interest in the joint venture, but will increase its interest in Kai Hong to 95% beginning in the fourth quarter of 1997.

	1997	1996
COMMISSIONS AND OTHER INCOME	$ 159,000	$ 88,000

Other income for the three months ended September 30, 1997 increased approximately $71,000, or 80.7%, compared to other income for the same period in 1996 primarily as a result of increased commissions earned by the

Company's Taiwan subsidiary on drop shipment sales in Asia.

	1997	1996
INCOME TAXES	$ 604,000	$ 423,000

Income tax expense for the three months ended September 30, 1997 increased approximately $181,000, or 42.8%, compared to income taxes for the same period last year. The Company's effective tax rate in the current quarter decreased to 31.1% from 35.9% for the same period last year, as a result of the net income in China from the Kai Hong joint venture, which under Chinese tax law is exempt from tax for the first two years upon commencing profitable operation. Also contributing to the effective tax rate decrease were increased earnings of the Company's subsidiary in Taiwan, which are subject to tax at a lower rate than in the U.S.

RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1997 AND 1996

The following table sets forth, for the periods indicated, the percentage which 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 NINE MONTHS ENDED SEPTEMBER 30,		PERCENTAGE DOLLAR INCREASE (DECREASE)
	1997	1996	`96 TO `97
Net sales	100.0 %	100.0 %	19.3 %
Cost of goods sold	(71.8)	(74.0)	15.7
Gross profit	28.2	26.0	29.4
SG&A	(17.7)	(18.0)	16.9
Income from operations	10.5	8.0	57.8
Interest expense, net	(0.1)	(0.7)	(48.0)
Other income	0.1	0.8	(79.6)
Income before taxes	10.5	8.1	53.8
Income taxes	2.8	2.8	17.1
Net income	7.7	5.3	74.0

The following discussion explains in greater detail the consolidated operating results and financial condition of the Company for the nine months ended September 30, 1997 compared to the nine months ended September 30, 1996. This discussion should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this quarterly report.

	1997	1996
NET SALES	$ 48,969,000	$ 41,050,000

Net sales increased approximately $7.9 million, or 19.3%, for the nine months ended September 30, 1997 compared to the same period last year, due primarily to an increase in customer demand in Asian markets resulting in an increase in the number of units shipped. Throughout most of 1996, the industry experienced a substantial decrease in demand, combined with excess inventory among the Company's customers which negatively affected the Company's net sales and gross profit margins in 1996.

	1997	1996
GROSS PROFIT	$ 13,810,000	$ 10,669,000
GROSS PROFIT MARGIN PERCENTAGE	28.2%	26.0%

Gross profit for the nine months ended September 30, 1997 increased approximately $3.1 million, or 29.4%, compared to the same period last year, primarily as a result of the 19.3% increase in net sales, and increased gross profit from sales of product manufactured by the Kai Hong joint venture, as well as from continued improvements in inventory management Positive gross profit from the Kai Hong manufacturing facility began in the first quarter of 1997. Pricing pressures exist and there can be no assurance that gross margins can be maintained.

	1997	1996
SG&A	$ 8,647,000	$ 7,397,000

SG&A for the nine months ended September 30, 1997 increased approximately $1.3 million, or 16.9%, compared to the same period last year, due primarily to: (i) an increase of approximately $270,000 in sales commissions paid on the 19.3% increase in net sales, (ii) approximately $99,000 in operating expenses associated with the Kai Hong manufacturing facility which commenced operations in the second quarter of 1996, and (iii) $335,000 associated with new marketing programs and personnel.

	1997	1996
INTEREST INCOME	$ 206,000	$ 144,000
INTEREST EXPENSE	$ 298,000	$ 421,000

Interest income for the nine months ended September 30, 1997 increased approximately $62,000, or 43.1%, compared to the same period last year. Interest income is primarily the interest charged to FabTech under the Company's loan agreement as well as earnings on the Company's cash balances. The Company's interest expense for 1997 decreased $123,000 or 29.2%, as a result of debt reduction. Interest expense is primarily the result of the term loan by which the Company financed (i) the $2.8 million investment in the Kai Hong joint venture and (ii) the $2.5 million advanced to FabTech, a related party.

	1997	1996
MINORITY INTEREST IN JOINT VENTURE	$ (290,000)	$ 83,000

Minority interest in joint venture for the three months ended September 30, 1997 represents the minority investor's share of the Kai Hong joint venture's net income for the period. The joint venture investment is eliminated in consolidation of the Company's financial statements and the activities of Kai Hong are included therein. As of September 30, 1997, the Company had a 70% controlling interest in the joint venture, but will increase its interest in Kai Hong to 95% beginning in the fourth quarter of 1997.

	1997	1996
COMMISSIONS AND OTHER INCOME	$ 361,000	$ 265,000

Other income for the nine months ended September 30, 1997 increased approximately $96,000, or 36.2%, compared to other income for the same period in 1996 primarily as a result of increased commissions earned by the Company's Taiwan subsidiary on drop shipment sales in Asia.

	1997	1996
INCOME TAXES	$ 1,388,000	$ 1,185,000

Income tax expense for the nine months ended September 30, 1997 increased approximately $203,000, or 17.1%, compared to income taxes for the same period last year. The Company's effective tax rate in the current quarter decreased to 27.0% from 35.4% as a result of the net income in China from the Kai Hong joint venture, which under Chinese tax law is exempt from tax for the first two years upon commencing profitable operation. Also contributing to the effective tax rate decrease were increased earnings of the Company's subsidiary in Taiwan, which are subject to tax at a lower rate than in the U.S. FINANCIAL CONDITION

LIQUIDITY AND CAPITAL RESOURCES

Cash provided by operating activities for the nine months ended September 30, 1997 was approximately $4.8 million compared to cash provided by operating activities of $568,000 for the nine months ended September 30, 1996. The primary source of cash flows from operating activities for the nine months ended September 30, 1997 was net income of approximately $3.8 million. The primary use of cash flows from operating activities was approximately $2.3 million increase in accounts receivable. Gross accounts receivable increased 26.2% on a 19.3% increase in net sales as the Company continues to closely monitor its credit policy while, at times, providing more flexible terms when necessary. The ratio of the Company's current assets to current liabilities on September 30, 1997 was 2.8 to 1 compared to a ratio of 3.2 to 1 as of December 31, 1996.

Cash used by investing activities was $679,000 for the nine months ended September 30, 1997, compared to $3.6 million for the same period in 1996. The primary investments were approximately $220,000 for computer system upgrades as well as approximately $300,000 for additional manufacturing equipment at Kai Hong.

As of September 30, 1997, the Company had a 70% interest in the Kai Hong joint venture, is responsible for production and management, and currently receives 100% of the production. The venture parties have made a significant equity contribution to the joint venture and a portion of the cost of developing the project is debt financed. Phase one of the Kai Hong operation is in full production with its existing equipment and, since the first quarter of 1997, has made a positive contribution to the Company's profitability. The joint venture agreement allows for additional production expansion in phases according to market demand. Due to the success of the first phase of Kai Hong as well as prevailing market conditions, the Company's Board of Directors has approved funding for further expansion of the joint venture. The capital required for the second and third phases of Kai Hong is estimated to be $14.0 million. In the fourth quarter of 1997, the Company will also increase its interest in the Kai Hong joint venture to 95% through the purchase of a portion of the interest held by its joint venture partner. The purchase price, as per the joint venture agreement, will be approximately $2.1 million and will result in approximately $1.1 million in goodwill to be amortized over 25 years. The Company will use it's existing credit facility to finance both the additional manufacturing capacity and the increased ownership.

Cash provided by financing activities was approximately $297,000 as of September 30, 1997, compared to cash provided of approximately $4.1 million for the same period in 1996.

In August 1996, the Company obtained a $22.6 million credit facility with a major bank consisting of: a working capital line of credit up to $9 million, term commitment notes providing up to $9.5 million for plant expansion and advances to vendors, and letters of credit of $4.1 million for Kai Hong. Interest on outstanding borrowings under the credit agreement is payable monthly at LIBOR plus a negotiated margin. Fixed borrowings require payments of interest only for six months from the date of distribution and fixed principal plus interest payments for sixty months thereafter. The agreement has certain covenants and restrictions which, among other matters requires the maintenance of certain financial ratios and operating results, as defined in the agreement. The Company was in compliance as of September 30, 1997. The working capital line of credit expires August 3, 1998 and contains a sublimit of $2.0 million for issuance of commercial and stand-by letters of credit. The weighted average interest rate on outstanding borrowings was 6.9% for the nine months ended September 30, 1997.

As of September 30, 1997, $4.3 million is outstanding under the term note commitment. The Company may borrow the remaining $5.2 million available under the term note commitment through September 30, 1997. The credit facility extension is currently being negotiated. The Company also has two guaranty agreements

which guarantee term loans made by a major bank to Shanghai Kaihong Electronics Co., Ltd. (Kai Hong) (to assist Kai Hong in establishing a credit record with the bank) and the minority investor of the Kai Hong joint venture (as per the Kai Hong joint venture agreement) for $1.0 million and $850,000, respectively. Upon completion of the Company's increase in joint venture interest to 95%, the $850,000 guarantee agreement will be terminated. In the event that the Company shall be required to pay any amount whatsoever to any person pursuant to, in connection with or as a result of or relating to the guaranty, the Company shall have the right, in its sole and absolute discretion, to purchase from the minority investor, and the minority investor hereby sells and assigns to the Company, that portion of the minority investor's shares of the capital stock of Shanghai Kaihong Electronics Co., Ltd. obtained by dividing (x) the amount so paid by the Company by (v) the aggregate amount theretofor required to be paid by the minority investor to Shanghai Kaihong Electronics Co., Ltd. for the purchase of such shares, in cancellation of the minority investor's obligations to reimburse for the Company for such amount so paid by the Company.

The Company uses its credit facility to fund the advances to FabTech and Kai Hong as well as to support its operations. 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's cash balance at September 30, 1997 increased approximately $4.4 million compared to the December 31, 1996 cash balance primarily as a result of cash flow from operating activities.

The Company's total working capital increased 18.4% to $20.6 million as of September 30, 1997 from $17.4 million as of December 31, 1996. The Company believes that its working capital position will be sufficient for its capital requirements in the foreseeable future.

As of September 30, 1997, the Company has no material plans or commitments for capital expenditures other than for the Kai Hong expansion and the increased ownership in the Kai Hong joint venture previously mentioned. 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 credit and financial position will provide sufficient access to funds should an appropriate investment opportunity arise, and, thereby, assist the Company in improving customer satisfaction and in maintaining or increasing product market penetration. The Company's debt to equity ratio increased to 0.64 at September 30, 1997 from 0.62 at December 31, 1996. The Company anticipates this ratio may increase should the Company continue to use its credit facilities to fund additional sourcing opportunities.

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 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, general or specific economic conditions, fluctuations in product demand, the introduction of new products, the Company's ability to maintain customer relationships, technological advancements,

impact of competitive products and pricing, growth in targeted markets, risks of foreign operations, the ability and willingness of the Company's customers to purchase products provided by the Company, the perceived absolute or relative overall value of these products by the purchasers, including the features, quality, and price in comparison to other competitive products, the level of availability of products and substitutes and the ability and willingness of purchasers to acquire new or advanced products, and pricing, purchasing, financing, operating, 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, the amount and rate of sales growth and the Company's selling, general and administrative expenses, difficulties in obtaining materials, supplies and equipment, difficulties of delays in the development, production, testing and marketing of products including, but not limited to, failure to ship new products and technologies when anticipated, the failure of customers to accept these products or technologies when planned, defects in products, any failure of economies to develop when planned, the acquisition of fixed assets and other assets, including inventories and receivables, the making or incurring of any expenditures, the effects of and changes in trade, monetary and fiscal policies, laws and regulations, other activities of governments, agencies and similar organizations and social and economic conditions, such as trade restriction or prohibition, inflation and monetary fluctuation, import and other charges or taxes, the ability or inability of the Company to obtain or hedge against foreign currency, foreign exchange rates and fluctuations in those rates, intergovernmental disputes as well as actions affecting frequency, use and availability, the costs and other effects of legal investigations, claims and changes in those items, developments or assertions by or against the Company relating to intellectual property rights, 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 or in compensation benefit plans, and 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, and the amount, and the cost of financing which the Company has, and any changes to that financing, and 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)

/s/ Joseph Liu November 11, 1997
JOSEPH LIU
Vice President,
Chief Financial Officer and Secretary
(Principal Financial and Accounting Officer)

INDEX TO EXHIBITS

DIODES INCORPORATED AND SUBSIDIARIES

EXHIBIT - 11

COMPUTATION OF EARNINGS PER SHARE

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1997	1996	1997	1996
PRIMARY				
Weighted average number of common shares outstanding	4,977,033	4,958,679	4,966,256	4,958,652
Assumed exercise of stock options	561,249	276,500	481,352	432,214
	5,538,282	5,235,179	5,447,608	5,390,866
Net income	$1,341,000	$ 755,000	$3,754,000	$2,158,000
Primary earnings per share	$ 0.24	$ 0.14	$ 0.69	$ 0.40
FULLY-DILUTED				
Weighted average number of common shares outstanding	4,977,033	4,958,679	4,966,256	4,958,652
Assumed exercise of stock options	605,640	334,687	613,954	*432,214
	5,582,673	5,293,366	5,580,210	5,390,866
Net income	$1,341,000	$ 755,000	$3,754,000	$2,158,000
Fully diluted earnings per share	$ 0.24	$ 0.14	$ 0.67	$ 0.40

* No further effect given to common stock equivalents as their effect would be anti-dilutive.

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3-MOS
DEC-31-1997
JUL-01-1997
SEP-30-1997
6,266,000
0
10,888,000
175,000
12,588,000
31,950,000
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2,398,000
39,439,000
11,390,000
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39,439,000
16,939,000
16,939,000
12,517,000
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0
25,000
1,945,000
604,000
1,341,000
0
0
0
1,341,000
0.24
0.24