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 JUNE 30, 1998

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 June 30, 1998 was 5,764,352 including 717,115 shares of treasury stock.

THIS REPORT INCLUDES A TOTAL OF 22 PAGES
THE EXHIBIT INDEX IS ON PAGE 18

PART I - FINANCIAL INFORMATION
ITEM 1 - CONSOLIDATED FINANCIAL INFORMATION

DIODES INCORPORATED AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEET

ASSETS

	(UNAUDITED) JUNE 30, 1998	DECEMBER 31, 1997
CURRENT ASSETS		
Cash	$ 2,118,000	$ 2,325,000
Accounts receivable		
Customers	9,382,000	10,342,000
Related party	118,000	213,000
Other	429,000	916,000
	9,929,000	11,471,000
Less allowance for doubtful receivables	108,000	74,000
	9,821,000	11,397,000
Inventories	15,865,000	13,525,000
Deferred income taxes	1,096,000	1,096,000
Prepaid expenses and other	387,000	806,000
Total current assets	29,287,000	29,149,000
PROPERTY, PLANT AND EQUIPMENT, at cost, net of accumulated depreciation and amortization	9,079,000	5,165,000
ADVANCES TO RELATED PARTY VENDOR	2,924,000	2,821,000
OTHER ASSETS	1,317,000	1,219,000
TOTAL ASSETS	$42,607,000	$38,354,000

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

DIODES INCORPORATED AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEET

LIABILITIES AND STOCKHOLDERS' EQUITY

	(UNAUDITED) JUNE 30, 1998	DECEMBER 31, 1997
CURRENT LIABILITIES		
Due to bank	$ 2,643,000	$ 1,000,000
Accounts payable		
Trade	2,559,000	4,567,000
Related party	1,274,000	952,000
Accrued liabilities	1,651,000	1,988,000
Income taxes payable	452,000	912,000
Current portion of long-term debt	1,729,000	1,031,000
Total current liabilities	10,308,000	10,450,000
LONG-TERM DEBT, net of current portion	5,470,000	3,226,000
MINORITY INTEREST IN JOINT VENTURE	413,000	225,000
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; 5,764,352 and 5,701,019 shares issued and outstanding at June 30, 1998 and December 31, 1997, respectively	3,843,000	3,801,000
Additional paid-in capital	6,027,000	5,813,000
Retained earnings	18,328,000	16,621,000
	28,198,000	26,235,000
Less:		
Treasury stock - 717,115 shares of common stock at cost	1,782,000	1,782,000
Total stockholders' equity	26,416,000	24,453,000
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$42,607,000	$38,354,000

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

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

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	1998	1997	1998	1997
NET SALES	$ 14,333,000	$ 15,541,000	$ 31,137,000	$ 32,031,000
COST OF GOODS SOLD	10,727,000	10,854,000	23,139,000	22,642,000
Gross profit	3,606,000	4,687,000	7,998,000	9,389,000
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	2,900,000	3,050,000	5,732,000	6,079,000
Income from operations	706,000	1,637,000	2,266,000	3,310,000
OTHER INCOME (EXPENSE)				
Interest income	66,000	88,000	149,000	133,000
Interest expense	(161,000)	(97,000)	(254,000)	(200,000)
Minority interest in earnings of joint venture	2,000	(158,000)	(3,000)	(248,000)
Commissions and other	116,000	113,000	249,000	202,000
	23,000	(54,000)	141,000	(113,000)
INCOME BEFORE INCOME TAXES	729,000	1,583,000	2,407,000	3,197,000
PROVISION FOR INCOME TAXES	208,000	354,000	700,000	784,000
NET INCOME	$ 521,000	$ 1,229,000	$ 1,707,000	$ 2,413,000
EARNINGS PER SHARE				
BASIC	$ 0.10	$ 0.25	$ 0.34	$ 0.49
DILUTED	$ 0.10	$ 0.23	$ 0.31	$ 0.45
Number of shares used in computation				
Basic	5,022,621	4,962,855	5,010,589	4,960,779
Diluted	5,391,062	5,435,581	5,424,287	5,391,507

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

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

	SIX MONTHS ENDED JUNE 30,	
	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 1,707,000	$ 2,413,000
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation and amortization	510,000	446,000
Minority interest earnings	188,000	261,000
Interest income accrued on advances to vendor	(103,000)	(92,000)
Changes in operating assets:		
Accounts receivable	1,576,000	(1,476,000)
Inventories	(2,340,000)	214,000
Prepaid expenses and other assets	321,000	(759,000)
Changes in operating liabilities:		
Accounts payable	(1,686,000)	496,000
Accrued liabilities	(337,000)	1,054,000
Income taxes payable	(460,000)	239,000
Net cash provided (used) by operating activities	(624,000)	2,796,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(4,424,000)	(578,000)
Acquisition of other assets	--	(99,000)
Net cash used by investing activities	(4,424,000)	(677,000)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances on line of credit, net	1,643,000	1,082,000
Net proceeds from the issuance of capital stock	256,000	--
Proceeds from (repayments of) long-term obligations	2,942,000	(520,000)
Net cash provided by financing activities	4,841,000	562,000
INCREASE (DECREASE) IN CASH	(207,000)	2,681,000
CASH AT BEGINNING OF PERIOD	2,325,000	1,820,000
CASH AT END OF PERIOD	$ 2,118,000	$ 4,501,000
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Interest	$ 138,000	$ 63,000
Income taxes	$ 262,000	$ 661,000

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, 1997.

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 KaiHong joint venture in which the Company has a 95% controlling 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 $1,096,000 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 KaiHong 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 and MOSFETs, transient voltage suppressors (TVSs), zeners, Schottkys, diodes, rectifiers and bridges.

Since the beginning of 1998, the Company's operations have been adversely affected by a slowdown throughout the electronics industry that has included the semiconductor segment. Over-capacity, lower average selling prices, and higher customer inventory levels have contributed to the decreased demand.

In the first half of 1998, the Company significantly increased the amount of product shipped to larger distributors. Although these sales are usually significant in terms of total sales dollars and gross margin dollars, this shift in sales to larger distributors is under agreements that usually result in lower gross profit margins for the Company, when compared to smaller distributors and OEM customers. As the industry trend of 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 lower gross profit margins, primarily at its U.S. operations.

One of the Company's primary strategic programs was the formation of the KaiHong joint venture. The KaiHong joint venture, in which the Company has invested in a SOT-23 manufacturing facility on mainland China, provides replacements for a portion of the parts previously manufactured by ITT. Due to the success of the first phase of KaiHong, the Company's Board of Directors has approved funding for further expansion of the joint venture. The equipment expansion will allow for the manufacturer of additional SOT-23 packaged components as well as other surface-mount packaging. Due to the market slowdown, management has re-evaluated the KaiHong expansion, and has determined to continue proceeding with a scaled-down version of the expansion. The capital required for the additional expansion has been reduced from $14 million to approximately $9 million. The Company's credit facility will be used to finance the additional manufacturing capacity. The additional financing remains available should market demand warrant further expansion.

The Company purchases products from foreign suppliers primarily in United States dollars. To a limited extent, and from time to time, the Company contracts (e.g., a portion of the equipment purchases for the KaiHong expansion) in foreign currencies, and, accordingly, its results of operations could be materially affected by fluctuations in currency exchange rates. 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 current contracts written in foreign currency are not significant enough to justify the costs inherent in currency hedging.

The Company's imported products are also subject to United States customs duties and, in the ordinary course of business, the Company, from time to time, is subject to claims by the United States Customs Service for duties and other charges. The Company attempts to reduce the risk of doing business in foreign countries by, among other things, contracting in U.S. dollars, and, when possible, maintaining multiple sourcing of product groups from several countries.

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 is developing 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. The 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 the Y2K compliance. Confirmation has been requested from the Company's primary processing vendors that plans are being developed to address processing of transactions in the year 2000. Management estimates the Y2K compliance expense at approximately $250,000 over the next twelve months. The Company presently believes that, with modifications to existing software and conversions to new software, Y2K will not pose significant operational problems for the Company's computer systems, as so modified and converted. However, if such modifications and conversions are not completed timely, Y2K may have a material impact on the operations of the Company.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30, 1998 AND 1997

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 JUNE 30,		PERCENTAGE DOLLAR INCREASE (DECREASE)
	1998	1997	`97 TO `98
Net sales	100.0%	100.0%	(7.8)%
Cost of goods sold	(74.8)	(69.8)	(1.2)
Gross profit	25.2	30.2	(23.1)
SG&A	(20.2)	(19.7)	(4.9)
Income from operations	5.0	10.5	(56.9)
Interest expense, net	(0.7)	(0.0)	955.6
Other income	0.8	(0.3)	362.2
Income before taxes	5.1	10.2	(53.9)
Income taxes	1.5	2.3	(41.2)
Net income	3.6	7.9	(57.6)

The following discussion explains in greater detail the consolidated operating results and financial condition of the Company. This discussion should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this quarterly report.

	1998	1997
NET SALES	$ 14,333,000	$ 15,541,000

Net sales decreased approximately $1.2 million, or 7.8%, for the three months ended June 30, 1998 compared to the same period last year, due primarily to a decrease in units sold of approximately 6.7%. This decrease in units sold is comprised of a decrease in units sold in North America of approximately 10.0%, partly offset by an increase in units sold in the Far East of 9.9%. Average selling prices in the second quarter of 1998 decreased approximately 1.4%, which represents decreases in average selling prices in both North America and the Far East of 0.8% and 8.3%, respectively, compared to the same period in 1997.

	1998	1997
GROSS PROFIT	$ 3,606,000	$ 4,687,000
GROSS MARGIN PERCENTAGE	25.2%	30.2%

Gross profit decreased approximately $1.1 million, or 23.1%, and gross profit margin decreased to 25.2% from 30.2%, for the three months ended June 30, 1998 compared to the same period a year ago, due primarily to market pricing pressures resulting in lower manufacturing profits at the Company's facilities in Asia, as well as an inventory write-down to reflect current market value. Gross margins were also affected by an increase in the Company's sales to larger distributors.

	1998	1997
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES ("SG&A")	$ 2,900,000	$ 3,050,000

SG&A for the three months ended June 30, 1998 decreased approximately $150,000, or 4.9%, compared to the same period last year, due primarily to a decrease in operating expenses associated with tightened controls of the Company's expenses. SG&A as a percentage of net sales increased to 20.2% for the three months ended June 30, 1998 from 19.6% for the same period last year.

	1998	1997
INTEREST INCOME	$ 66,000	$ 88,000
INTEREST EXPENSE	$ 161,000	$ 97,000

Interest income for the three months ended June 30, 1998 decreased approximately $22,000, or 25.0%, compared to the same period last year as the Company is in a borrowing position and thus strives to minimize its cash balances. Interest income is primarily the interest charged to FabTech, a related party, under the Company's loan agreement, as well as earnings on its cash balances. The Company's interest expense for the three months ended June 30, 1998 increased approximately $64,000, or 66.0%, primarily as a result of increased borrowing. Interest expense is primarily the result of the term loan by which the Company financed (i) the investment in the KaiHong joint venture and (ii) the $2.8 million advanced to FabTech.

	1998	1997
MINORITY INTEREST IN JOINT VENTURE	$ 2,000	$ (158,000)

Minority interest in joint venture represents the minority investor's share of the KaiHong joint venture's net income for the period. The joint venture loss for the three months ended June 30, 1998 is primarily the result of lower unit sales as well as pricing pressures. The joint venture investment is eliminated in consolidation of the Company's financial statements and the activities of KaiHong are included therein. As of June 30, 1998, the Company had a 95% controlling interest in the joint venture compared to 70% in the same period last year. The Company increased its interest in KaiHong through an arrangement in accordance with the original joint venture agreement and through the purchase of a substantial portion of the minority interest in the fourth quarter of 1997.

	1998	1997
COMMISSIONS AND OTHER INCOME	$ 116,000	$ 113,000

Other income for the three months ended June 30, 1998 increased approximately $3,000, or 2.7%, compared to the same period last year, due primarily to currency exchange gains at the Company's Taiwan subsidiary, partly offset by decreased commissions earned by the Company's Taiwan subsidiary on drop shipment sales in Asia.

	1998	1997
INCOME TAX PROVISION	$ 208,000	$ 354,000
EFFECTIVE TAX RATE	28.5%	22.4%

Income tax expense for the three months ended June 30, 1998 decreased approximately $146,000, or 41.2%, compared to the same period last year. The Company's effective tax rate in the current quarter increased to 28.5% from 22.4% for the same period last year, as a result of the decrease in net income from the KaiHong joint venture, which under Chinese tax law is exempt from tax for the first two years upon commencing profitable operation.

RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 1998 AND 1997.

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 SIX MONTHS ENDED JUNE 30,		PERCENTAGE DOLLAR INCREASE (DECREASE)
	1998	1997	`97 TO `98
Net sales	100.0%	100.0%	(2.8)%
Cost of goods sold	(74.3)	(70.7)	2.2
Gross profit	25.7	29.3	(14.8)
SG&A	(18.4)	(19.0)	(5.7)
Income from operations	7.3	10.3	(31.5)
Interest expense, net	(0.4)	(0.2)	56.7
Other income	0.8	(0.1)	534.8
Income before taxes	7.7	10.0	(24.7)
Income taxes	2.2	2.5	(10.7)
Net income	5.5	7.5	(29.3)

The following discussion explains in greater detail the consolidated operating results and financial condition of the Company. This discussion should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this quarterly report.

	1998	1997
NET SALES	$ 31,137,000	$ 32,031,000

Net sales decreased approximately $894,000, or 2.8%, for the six months ended June 30, 1998 compared to the same period last year, due primarily to a decrease in average selling prices of approximately 11.3%. Far East pricing pressures resulted in a decrease in average selling prices of approximately 18.3%, while in North America, pricing pressures lowered average selling prices by approximately 10.4% compared to the same period last year. Decreased average selling prices was partly offset by an increase in units sold of approximately 9.2%, which represents increases in units sold in North America and the Far East of approximately 4.7% and 31.8%, respectively, compared to the same period in 1997. Also contributing to the decrease in sales was a design change at one of the Company's larger customers, resulting in a decrease in sales of approximately $2.2 million.

	1998	1997
GROSS PROFIT	$ 7,998,000	$ 9,389,000
GROSS MARGIN PERCENTAGE	25.7%	29.3%

Gross profit decreased approximately $1.4 million, or 14.8%, and gross profit margin decreased to 25.7% from 29.3%, for the six months ended June 30, 1998 compared to the same period a year ago, due primarily to market pricing pressures resulting in lower manufacturing profits at the Company's facilities in Asia,

as well as an inventory write-down in the second quarter to reflect current market value. Gross margins were also affected by an increase in the Company's sales to larger distributors.

	1998	1997
SG&A	$ 5,732,000	$ 6,079,000

SG&A for the six months ended June 30, 1998 decreased approximately $347,000, or 5.7%, compared to the same period last year, due primarily to a decrease in operating expenses associated with tightened controls of the Company's expenses. SG&A as a percentage of net sales decreased to 18.4% for the six months ended June 30, 1998 from 19.0% for the same period last year.

	1998	1997
INTEREST INCOME	$ 149,000	$ 133,000
INTEREST EXPENSE	$ 254,000	$ 200,000

Interest income for the six months ended June 30, 1998 increased approximately $16,000, or 12.0%, compared to the same period last year as the Company is in a borrowing position and thus strives to minimize its cash balances. 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 the six months ended June 30, 1998 increased approximately $54,000, or 27.0%, primarily as a result of increased borrowing. Interest expense is primarily the result of the term loan by which the Company financed (i) the investment in the KaiHong joint venture and (ii) the $2.8 million advanced to FabTech.

	1998	1997
MINORITY INTEREST IN JOINT VENTURE	$ (3,000)	$ (248,000)

Minority interest in joint venture represents the minority investor's share of the KaiHong joint venture's net income for the period. The earnings of the joint venture for the six months ended June 30, 1998 have been negatively affected by lower unit sales as well as by pricing pressures.

	1998	1997
COMMISSIONS AND OTHER INCOME	$ 249,000	$ 202,000

Other income for the six months ended June 30, 1998 increased approximately $47,000, or 23.3%, compared to the same period last year, due primarily to currency exchange gains at the Company's Taiwan subsidiary, partly offset by decreased commissions earned by the Company's Taiwan subsidiary on drop shipment sales in Asia.

	1998	1997
INCOME TAX PROVISION	$ 700,000	$ 784,000
EFFECTIVE TAX RATE	29.1%	24.5%

Income tax expense for the six months ended June 30, 1998 decreased approximately $84,000, or 10.7%, compared to the same period last year. The Company's effective tax rate in the current quarter increased to 29.1% from 24.5% for the same period last year, as a result of the decrease in net income from the KaiHong joint venture, which under Chinese tax law is exempt from tax for the first two years upon commencing profitable operation.

FINANCIAL CONDITION

LIQUIDITY AND CAPITAL RESOURCES

Cash used by operating activities for the six months ended June 30, 1998 was approximately $624,000 compared to cash provided by operating activities of approximately $2.8 million for the six months ended June 30, 1997. The primary source of cash flows from operating activities for the six months ended June 30, 1998 was net income of approximately $1.7 million and a decrease in accounts receivable of approximately $1.6 million, while the primary use of cash flows from operating activities was an increase in inventories of approximately $2.3 million. Due to the slowdown in the semiconductor industry, the Company is directing its efforts into reducing current inventory levels, while still providing the service and delivery that customers demand. The primary sources of cash flows from operating activities for the six months ended June 30, 1997 was net income of approximately $2.4 million, while the primary use of cash flows from operating activities was approximately $1.5 million increase in accounts receivable. 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 June 30, 1998 was 2.84 to 1 compared to a ratio of 2.79 to 1 as of December 31, 1997.

Cash used by investing activities was approximately $4.4 million for the six months ended June 30, 1998, compared to approximately $677,000 for the same period in 1997. The primary investments in 1998 was for additional manufacturing equipment at the KaiHong manufacturing facility.

Cash provided by financing activities was approximately $4.8 million as of June 30, 1998, compared to approximately $562,000 for the same period in 1997 as the Company continues to use its credit facilities.

In March 1998, the Company amended an August 1996 loan agreement whereby the Company obtained a $23 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 KaiHong. Interest on outstanding borrowings under the credit agreement is payable monthly at LIBOR plus a negotiated margin. 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 June 30, 1998. 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. The weighted average interest rate on outstanding borrowings was approximately 7.1% for the six months ended June 30, 1998. As of June 30, 1998, approximately $7.1 million is outstanding under the term note commitment.

The Company uses its credit facility primarily to fund the advances to KaiHong and FabTech 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.

In July 1998, the Company replaced two previously filed guarantees to Shanghai Kaihong Electronics Co., Ltd. and the minority investor of the KaiHong 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 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 pursuant to this paragraph.

The Company's total working capital increased approximately 1.6% to $19.0 million as of June 30, 1998 from $18.7 million as of December 31, 1997. The Company believes that its working capital position will be sufficient for its capital requirements in the foreseeable future.

As of June 30, 1998, the Company has no material plans or commitments for capital expenditures other than for the KaiHong expansion. 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 was 0.60 at June 30, 1998 compared to 0.56 at December 31, 1997. 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.

The Company submitted to a vote of its security holders at an annual meeting of shareholders on June 5, 1998, the election of members of the Board of Directors. The directors were each elected to serve until the 1997 annual meeting or until their successors are elected and have qualified. The results of the tabulation for each nominee for director of the Company is as follows:

Eugene R. Conahan, Director	For:	4,563,158
	Withheld:	231,240
Michael R. Giordano,	For:	4,578,708
Director	Withheld:	215,690
David Lin,	For:	4,578,683
Director	Withheld:	215,715
M.K. Lu,	For:	4,578,608
Director	Withheld:	215,790
Shing Mao,	For:	4,578,608
Director	Withheld:	215,790
Michael A. Rosenberg,	For:	4,551,258
Director	Withheld:	243,140
Eric Schaedlich,	For:	4,563,083
Director	Withheld:	231,315
Leonard M. Silverman,	For:	4,577,283
Director	Withheld:	217,115

Raymond Soong, Director	For:	4,578,733
	Withheld:	215,665
William J. Spires, Director	For:	4,563,903
	Withheld:	230,495

The Company also submitted to a vote of its security holders at an annual meeting of shareholders on June 5, 1998, the appointment of Moss Adams LLP as the Company's independent certified public accountants for the fiscal year ending December 31, 1998. The result of the tabulation was 4,770,258 shares voted in favor of the proposal and 24,140 shares voted against or abstained from voting on the proposal. No broker non-votes with respect to this proposal were received.

ITEM 5. OTHER INFORMATION

The proxy materials for the 1998 annual meeting of stockholders held on June 5, 1998 were mailed to stockholders of the Company on May 1, 1998. Stockholder proposals to be presented at the 1999 annual meeting of stockholders must be received at the Company's executive offices at 3050 East Hillcrest Drive, Westlake Village, California, 91362, addressed to the attention of the Corporate Secretary by January 1, 1999 in order to be considered for inclusion in the proxy materials relating to such meeting. Recently, the Securities and Exchange Commission amended its rule governing a company's ability to use discretionary proxy authority with respect to stockholder proposals which were not submitted by the stockholders in time to be included in the proxy statement. As a result of that rule change, in the event a stockholder proposal is not submitted to the Company prior to March 15, 1999, the proxies solicited by the Board of Directors for the 1999 annual meeting of stockholders will confer authority on the holders of the proxy to vote the shares in accordance with their best judgment and discretion if the proposal is presented at the 1999 annual meeting of stockholders without any discussion of the proposal in the proxy statement for such meeting.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Exhibit 10.25 - Bank Guarantee For Shanghai Kaihong Electronics Co., Ltd.

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/ Carl Wertz August 11, 1998

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CARL WERTZ
Chief Financial Officer and Secretary
(Principal Financial and Accounting Officer)

INDEX TO EXHIBITS

EXHIBIT 10.25

GUARANTY
OF
DIODES INCORPORATED
3050 East Hillcrest Drive, Westlake Village, California 91362

1. FOR GOOD AND VALUABLE CONSIDERATION, the receipt and sufficiency of which by DIODES INCORPORATED, a Delaware corporation ("DIODES"), are hereby acknowledged, and to induce THE HONGKONG and SHANGHAI BANKING CORPORATION LIMITED (the "Bank") at any time or from time to time, to extend financial accommodation with or without security, to or for the account of: SHANGHAI KAIHONG ELECTRONICS CO., LTD. (the "Borrower"), or in respect of which the Borrower may be liable (the term "Financial Accommodations" shall include the financial accommodations as outlined in the Bank's offer letter of July 10, 1998 duly accepted by the Borrower), DIODES hereby guarantees to the Bank that the Borrower will promptly perform and observe every agreement to be performed or observed by the Borrower and that all sums stated to be payable in, or which become payable under the documents to which such Financial Accommodations are made ("the Financing Document(s)"), will be promptly paid in full when due whether at maturity or earlier by reason or acceleration or otherwise, together with interest due thereunder, or DIODES shall immediately upon receipt of written demand thereof, fully pay and otherwise discharge all such obligations of the Borrower. In case of one or more extensions of time of payment or renewals, in whole or in part, of any of the Financing Document(s), the same will be promptly paid or performed when due, according to each such extension or renewal, whether at maturity or earlier by reason of acceleration or otherwise.

2. DIODES hereby consents that from time to time, without notice to or further consent of DIODES, the performance or observance by the Borrower of any of the Financing Document(s) may be waived or the time of performance thereof extended by the Bank, and payment of any obligation hereby guaranteed may be accelerated in accordance with any agreement between the Bank and the Borrower, or may be increased, extended, or renewed in whole or in part without affecting the liability of DIODES hereunder.

3. Notwithstanding the aggregate sums which may be or become payable by the Borrower to the Bank at any time or from time to time, the liability of DIODES hereunder shall not exceed THREE MILLION DOLLARS (U.S.$3,000,000.00) plus any and all interest on that amount, and all costs of collection including without limitation, reasonable attorney fees. It is understood that the obligations of the Borrower to the Bank may at any time and from time to time exceed the liability of DIODES hereunder without impairing this Guaranty. DIODES agrees that whenever at any time or from time to time it shall make any payment to the Bank hereunder on account of its liability hereunder, that it will notify the Bank in writing that such payment is made under this Guaranty for such purpose. No payment pursuant to any provision hereof shall entitle DIODES by subrogation to the rights of the Bank, to any payment by the Borrower or out of the property of the Borrower, except after payment in full of all sums (including interests, costs and expenses) which may be or become payable by the Borrower to the Bank at any time or from time to time.

4. DIODES reserves the right, at any time or from time to time, on one month prior written notice to the Bank, to reduce the maximum amount guaranteed hereunder or to terminate this Guaranty; provided, however, that DIODES 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 pursuant to this paragraph.

5. DIODES' obligations hereunder shall be unconditional notwithstanding any lack of enforceability of any Financing Documents pursuant to which the Financial Accommodations are made or any change in any term thereof, any exchange, release or nonperfection of any collateral securing payment of any Financial Accommodation, any law, regulation or order of any jurisdiction affecting any term of any or the Bank's rights with respect thereto or any other circumstance which might otherwise constitute a defense available to or discharge of DIODES. DIODES waives promptness, diligence and notices, including acceptance hereof, with respect to this Guaranty and the Financial Accommodations hereby guaranteed and any requirement that the Bank

exhaust any right or take any action against the Borrower or any collateral or disclose to DIODES any information concerning the Borrower.

6. DIODES agrees that, to the extent that the Borrower makes a payment or payments to the Bank on the Financial Accommodations, or the Bank receives any proceed of collateral to be applied to the Financial Accommodations, which payment or payments or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set arise or otherwise are required to be repaid to the Borrower, its estate, trustee, receiver or any other party, including, without limitation, under any bankruptcy law, state or federal law, common law, or equitable cause, then to the extent of such repayment, the obligation or part thereof which has been paid, reduced, or satisfied by such amount shall be reinstated and continued in full force and effect as of the date of the initial payments, reduction or satisfaction occurred, notwithstanding any contrary action which may have been taken by the Bank in reliance upon such payment or payments. As of the date any payment or proceeds are returned, the statute of limitations shall start anew with respect to any action or proceeding by the Bank against DIODES under this document. DIODES shall defend and indemnify the Bank of and from any claim or loss under this paragraph including actual attorney's and paralegal's fees and expenses in the defense of any such action or suit.

7. This Guaranty and all rights, obligations and liabilities arising hereunder shall be construed according to the laws of the State of California, United States of America. Unless the context otherwise requires, all terms used herein which are defined in the Uniform Commercial Code shall have the meanings therein stated. All notices hereunder shall be given by telex or telecopier if to the Bank at The Hongkong and Shanghai Banking Corporation Limited, Shanghai Branch, 5/F Marine Tower, 1 Pudong Ave. Shanghai China 200120, the People's Republic of China, Attention: Manager, Corporate Banking, Facsimile: (8621) 5879-2238 or if to Attention: Manager's Office, and shall be effective when sent.

IN WITNESS WHEREOF, this instrument has been duly executed by DIODES this 27th day of July 1998.

By: /s/ Michael Rosenberg

Michael Rosenberg
Title: President & CEO

DIODES INCORPORATED AND SUBSIDIARIES

EXHIBIT - 11

COMPUTATION OF EARNINGS PER SHARE

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	1998	1997	1998	1997
BASIC				
Weighted average number of common shares outstanding	5,022,621	4,962,855	5,010,589	4,960,779
Net income	$ 521,000	$1,229,000	$1,707,000	$2,413,000
Basic earnings per share	$ 0.10	$ 0.25	$ 0.34	$ 0.49
DILUTED				
Weighted average number of common shares outstanding	5,022,621	4,962,855	5,010,589	4,960,779
Assumed exercise of stock options	368,441	472,726	413,698	430,728
	5,391,062	5,435,581	5,424,287	5,391,507
Net income	$ 521,000	$1,229,000	$1,707,000	$2,413,000
Diluted earnings per share	$ 0.10	$ 0.23	$ 0.31	$ 0.45

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3-MOS
DEC-31-1998
APR-01-1998
JUN-30-1998
2,118,000
0
9,929,000
108,000
15,865,000
29,287,000
11,795,000
2,716,000
42,607,000
10,308,000
0
0
0
3,843,000
22,573,000
42,607,000
14,333,000
14,333,000
10,727,000
2,900,000
0
0
95,000
729,000
208,000
521,000
0
0
0
521,000
0.10
0.10

For Purposes of This Exhibit, Primary means Basic.