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, 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)

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, $0.66 2/3 par value, outstanding as of November 2, 1998 was 6,164,352 including 717,115 shares of treasury stock.

THIS REPORT INCLUDES A TOTAL OF 25 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

| | SEPTEMBER 30, 1998 (UNAUDITED) | DECEMBER 31, 1997 |
|---|---|---|
| CURRENT ASSETS | | |
| Cash | $ 1,406,000 | $2,325,000 |
| Accounts receivable | | |
| Customers | 9,489,000 | 10,342,000 |
| Related party | 421,000 | 213,000 |
| Other | 1,169,000 | 916,000 |
| | 11,079,000 | 11,471,000 |
| Less allowance for doubtful receivables | 128,000 | 74,000 |
| | 10,951,000 | 11,397,000 |
| Inventories | 13,338,000 | 13,525,000 |
| Deferred income taxes | 1,101,000 | 1,096,000 |
| Prepaid expenses and other | 1,566,000 | 806,000 |
| Total current assets | 28,362,000 | 29,149,000 |
| PROPERTY, PLANT AND EQUIPMENT, at cost, net of accumulated depreciation and amortization | 10,828,000 | 5,165,000 |
| ADVANCES TO RELATED PARTY VENDOR | 2,958,000 | 2,821,000 |
| OTHER ASSETS | 1,212,000 | 1,219,000 |
| TOTAL ASSETS | $43,360,000 | $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

| | SEPTEMBER 30, 1998 (UNAUDITED) | DECEMBER 31, 1997 |
|---|---|---|
| CURRENT LIABILITIES | | |
| Due to bank | $ 2,297,000 | $1,000,000 |
| Accounts payable | | |
| Trade | 2,571,000 | 4,567,000 |
| Related party | 1,474,000 | 952,000 |
| Accrued liabilities | 2,057,000 | 1,988,000 |
| Income taxes payable | 688,000 | 912,000 |
| Current portion of long-term debt | 1,729,000 | 1,031,000 |
| Total current liabilities | 10,816,000 | 10,450,000 |
| LONG-TERM DEBT, net of current portion | 5,038,000 | 3,226,000 |
| MINORITY INTEREST IN JOINT VENTURE | 536,000 | 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 September 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 | 18,882,000 | 16,621,000 |
| | 28,752,000 | 26,235,000 |
| Less: | | |
| Treasury stock - 717,115 shares of common stock at cost | 1,782,000 | 1,782,000 |
| Total stockholders' equity | 26,970,000 | 24,453,000 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $43,360,000 | $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 SEPTEMBER 30, | | NINE MONTHS ENDED SEPTEMBER 30, | |
|---|---|---|---|---|
| | 1998 | 1997 | 1998 | 1997 |
| NET SALES | $ 14,646,000 | $ 16,939,000 | $ 45,784,000 | $ 48,969,000 |
| COST OF GOODS SOLD | 11,032,000 | 12,517,000 | 34,172,000 | 35,159,000 |
| Gross profit | 3,614,000 | 4,422,000 | 11,612,000 | 13,810,000 |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES | 2,811,000 | 2,569,000 | 8,543,000 | 8,647,000 |
| Income from operations | 803,000 | 1,853,000 | 3,069,000 | 5,163,000 |
| OTHER INCOME (EXPENSE) | | | | |
| Interest income | 65,000 | 73,000 | 214,000 | 206,000 |
| Interest expense | (150,000) | (98,000) | (404,000) | (298,000) |
| Minority interest in joint venture earnings | (3,000) | (42,000) | (6,000) | (290,000) |
| Commissions and other | 72,000 | 159,000 | 321,000 | 361,000 |
| | (16,000) | 92,000 | 125,000 | (21,000) |
| INCOME BEFORE INCOME TAXES | 787,000 | 1,945,000 | 3,194,000 | 5,142,000 |
| PROVISION FOR INCOME TAXES | 233,000 | 604,000 | 933,000 | 1,388,000 |
| NET INCOME | $ 554,000 | $ 1,341,000 | $ 2,261,000 | $ 3,754,000 |
| EARNINGS PER SHARE | | | | |
| BASIC | $ 0.11 | $ 0.27 | $ 0.45 | $ 0.76 |
| DILUTED | $ 0.11 | $ 0.24 | $ 0.42 | $ 0.69 |
| Number of shares used in computation | | | | |
| Basic | 5,047,237 | 4,977,033 | 5,022,939 | 4,966,256 |
| Diluted | 5,231,630 | 5,539,699 | 5,366,861 | 5,450,771 |

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

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

| | NINE MONTHS ENDED SEPTEMBER 30, 1998 | NINE MONTHS ENDED SEPTEMBER 30, 1997 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | $ 2,261,000 | $ 3,754,000 |
| Adjustments to reconcile net income to net cash provided (used) by operating activities: | | |
| Depreciation and amortization | 790,000 | 712,000 |
| Minority interest earnings | 6,000 | 290,000 |
| Interest income accrued on advances to vendor | (137,000) | (141,000) |
| Changes in operating assets: | | |
| Accounts receivable | 446,000 | (2,337,000) |
| Inventories | 187,000 | 680,000 |
| Prepaid expenses and other assets | (753,000) | (628,000) |
| Changes in operating liabilities: | | |
| Accounts payable | (1,474,000) | 876,000 |
| Accrued liabilities | 69,000 | 758,000 |
| Income taxes payable | (224,000) | 842,000 |
| Net cash provided by operating activities | 1,171,000 | 4,806,000 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of property, plant and equipment | (6,458,000) | (732,000) |
| Net cash used by investing activities | (6,458,000) | (732,000) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Advances on line of credit, net | 1,297,000 | 1,000,000 |
| Net proceeds from the issuance of capital stock | 256,000 | 62,000 |
| Minority interest capital contribution | 305,000 | 13,000 |
| Proceeds from (repayments of) long-term obligations | 2,510,000 | (703,000) |
| Net cash provided by financing activities | 4,368,000 | 372,000 |
| INCREASE (DECREASE) IN CASH | (919,000) | 4,446,000 |
| CASH AT BEGINNING OF PERIOD | 2,325,000 | 1,820,000 |
| CASH AT END OF PERIOD | $ 1,406,000 | $ 6,266,000 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Cash paid during the period for: | | |
| Interest | $ 190,000 | $ 233,000 |
| Income taxes | $ 757,000 | $ 1,263,000 |

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 $1,101,000 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.

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. As of September 30, 1998 the Company had undistributed earnings at its Taiwanese subsidiary which, at effective Federal and State tax rates, less applicable credits for foreign taxes paid, results in a deferred tax liability. Management has not recognized a deferred tax liability for undistributed earnings because it considers earnings accumulated and undistributed through September 30, 1998 to be permanent reinvestments of capital in Taiwan.

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 LPSC. Interest accrues monthly at the Company's borrowing rate with total accrued interest of approximately $475,000 as of September 30, 1998. Amounts advanced, including interest, are payable beginning after 1998 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.

# 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.

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 nine months of 1998, the Company significantly 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 lower gross profit margins, primarily at its U.S. operations.

One of the Company's primary strategic programs has been 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 purchased from ITT. Due to the success of the first phase of KaiHong, the Company's Board of Directors 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. In the second quarter of 1998, due to the market slowdown, management re-evaluated the KaiHong expansion, and determined to continue proceeding with a scaled-down version of the expansion.

Currently, the Company is in negotiations to become a significant supplier to a European customer. Should negotiations prove successful, this increased demand will warrant KaiHong's expansion as originally planned. The total capital required is approximately $18 million. As of October 31, 1998, the Company has invested approximately $12.5 million in the KaiHong joint venture. The Company's credit facility as well as KaiHong's own credit facility will be used to finance the additional manufacturing capacity.

The Company purchases products from foreign suppliers primarily in United States dollars. To a limited extent, and from time to time, the Company contracts in foreign currencies (e.g., a portion of the equipment purchases for the KaiHong expansion), 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 currencies 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 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 requested from the Company's primary processing vendors and major customers 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's Y2K compliance plans call for testing of all critical systems by the end of 1998. The Company presently believes that, with modifications to existing software and upgrades to Y2K compliant software, Y2K will not pose significant operational problems for the Company's computer systems, as so modified and upgraded. However, if such modifications and upgrades are not completed timely, Y2K may have a material impact on the operations of the Company.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED SEPTEMBER 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 SEPTEMBER 30, | | PERCENTAGE DOLLAR INCREASE (DECREASE) |
|---|---|---|---|
| | 1998 | 1997 | `97 TO `98 |
| Net sales | 100.0% | 100.0% | (13.5)% |
| Cost of goods sold | (75.3) | (73.9) | (11.9) |
| Gross profit | 24.7 | 26.1 | (18.3) |
| SG&A | (19.2) | (15.2) | 9.4 |
| Income from operations | 5.5 | 10.9 | (56.7) |
| Interest expense, net | (0.6) | (0.1) | 240.0 |
| Other income | 0.5 | 0.7 | (41.0) |
| Income before taxes | 5.4 | 11.5 | (59.5) |
| Income taxes | 1.6 | 3.6 | (61.4) |
| Net income | 3.8 | 7.9 | (58.7) |

The following discussion explains in greater detail the consolidated operating results and financial condition of the Company for the three months ended September 30, 1998 compared to the three months ended September 30, 1997. 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 | $ 14,646,000 | $ 16,939,000 |

Net sales decreased approximately $2.3 million, or 13.5%, for the three months ended September 30, 1998 compared to the same period last year, due primarily to a decrease in units sold of approximately 6.2%. This decrease in units sold is comprised of a decrease in units sold in North America of approximately 17.3%, partly offset by an increase in units sold in the Far East of 50.5%. Average selling prices in the third quarter of 1998 decreased approximately 8.0%, which represents a decrease in average selling price in the Far East of approximately 38.7%, partly offset by an increase in the North American average selling price of approximately 1.8% compared to the same period in 1997.

| | 1998 | 1997 |
|---|---|---|
| GROSS PROFIT | $ 3,614,000 | $ 4,422,000 |
| GROSS PROFIT MARGIN PERCENTAGE | 24.7% | 26.1% |

Gross profit decreased approximately $800,000, or 18.3%, and gross profit margin decreased to 24.7% from 26.1%, for the three months ended September 30, 1998 compared to the same period a year ago, due primarily to market pricing pressures. Gross profit margin was also negatively affected by an increase in the percentage of the Company's sales to larger distributors at lower gross profit margins.

| | 1998 | 1997 |
|---|---|---|
| SG&A | $ 2,811,000 | $ 2,569,000 |

SG&A for the three months ended September 30, 1998 increased approximately $242,000, or 9.4%, compared to the same period last year, due primarily to consulting fees paid to the minority investor of the KaiHong joint venture. In July 1998, the Company entered into a consulting agreement with the minority investor (the "Consultant") in the KaiHong joint venture. In order to be assured of the continued association and services of the Consultant and in order to take advantage of her experience, knowledge and abilities in the Company's manufacturing business, it is in the Company's best interest to retain the Consultant under the terms and conditions set forth in this agreement (see the Consulting Agreement filed herein).

SG&A as a percentage of net sales increased to 19.2% for the three months ended September 30, 1998 from 15.2% for the same period last year.

| | 1998 | 1997 |
|---|---|---|
| INTEREST INCOME | $ 65,000 | $ 73,000 |
| INTEREST EXPENSE | $150,000 | $ 98,000 |

Net interest expense for the three months ended September 30, 1998 increased approximately $60,000 compared to the same period last year due primarily to increased debt to finance the KaiHong expansion. 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 is primarily the result of the term loan by which the Company is financing (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) | $ (42,000) |

Minority interest in joint venture represents the minority investor's share of the KaiHong joint venture's net income for the period. The decrease in the joint venture earnings for the three months ended September 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 September 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 | $ 72,000 | $ 159,000 |

Other income for the three months ended September 30, 1998 decreased approximately $87,000, or 54.7%, compared to the same period last year, due primarily to currency exchange fluctuation at the Company's Taiwan subsidiary. Commissions earned by the Company's Taiwan subsidiary on drop shipment sales in Asia for the three months ended September 30, 1998 were flat compared to the same period last year.

| | 1998 | 1997 |
|---|---|---|
| INCOME TAXES | $ 233,000 | $ 604,000 |

Income tax expense for the three months ended September 30, 1998 decreased approximately $371,000, or 61.4%, compared to the same period last year. The Company's effective tax rate in the current quarter decreased to 29.6% from 31.1% for the same period last year, as a result of the increase in net income from the Company's Taiwan operations, which are taxed at a lower rate than that of the U.S. operations.

RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 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 NINE MONTHS ENDED SEPTEMBER 30, | | PERCENTAGE DOLLAR INCREASE (DECREASE) |
|---|---|---|---|
| | 1998 | 1997 | `97 TO `98 |
| Net sales | 100.0% | 100.0% | (6.5)% |
| Cost of goods sold | (74.6) | (71.8) | (2.8) |
| Gross profit | 25.4 | 28.2 | (15.9) |
| SG&A | (18.7) | (17.7) | (1.2) |
| Income from operations | 6.7 | 10.5 | (40.6) |
| Interest expense, net | (0.4) | (0.1) | 106.5 |
| Other income | 0.7 | 0.1 | 343.7 |
| Income before taxes | 7.0 | 10.5 | 37.9 |
| Income taxes | 2.1 | 2.8 | (32.8) |
| Net income | 4.9 | 7.7 | (39.8) |

The following discussion explains in greater detail the consolidated operating results and financial condition of the Company for the nine months ended September 30, 1998 compared to the nine months ended September 30, 1997. 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 | $ 45,784,000 | $ 48,969,000 |

Net sales decreased approximately $3.2 million, or 6.5%, for the nine months ended September 30, 1998 compared to the same period last year, due primarily to a decrease in average selling prices of approximately 9.9%. Far East pricing pressures resulted in a decrease in average selling prices of approximately 26.9%, while in North America, pricing pressures lowered average selling prices by approximately 6.1% compared to the same period last year. Decreased average selling prices were partly offset by an increase in units sold of approximately 3.4%, which represents an increase in units sold in the Far East of approximately 38.8%, partially offset by a decrease in units sold of approximately 3.5% in North America compared to the same period in 1997. Also contributing to the decrease in sales was lost sales of approximately $2.2 million due to a design change at one of the Company's larger customers.

| | 1998 | 1997 |
|---|---|---|
| GROSS PROFIT | $ 11,612,000 | $ 13,810,000 |
| GROSS PROFIT MARGIN PERCENTAGE | 25.4% | 28.2% |

Gross profit decreased approximately $2.2 million, or 15.9%, and gross profit margin decreased to 25.4% from 28.2%, for the nine months ended September 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 inventory write-downs to reflect current market value. Gross profit margin was also affected by an increase in the percentage of the Company's sales to larger distributors, primarily in the first quarter.

| | 1998 | 1997 |
|---|---|---|
| SG&A | $ 8,543,000 | $ 8,647,000 |

SG&A for the nine months ended September 30, 1998 decreased approximately $104,000, or 1.2%, compared to the same period last year, due primarily to a decrease in operating expenses associated with tightened controls of the Company's expenses as well as consulting fees paid to the minority investor of the KaiHong joint venture (see the Consulting Agreement filed herein).

SG&A as a percentage of net sales increased to 18.7% for the nine months ended September 30, 1998 from 17.1% for the same period last year.

| | 1998 | 1997 |
|---|---|---|
| INTEREST INCOME | $ 214,000 | $ 206,000 |
| INTEREST EXPENSE | $ 404,000 | $ 298,000 |

Net interest expense for the nine months ended September 30, 1998 increased approximately $98,000 compared to the same period last year due primarily to increased debt to finance the KaiHong expansion. 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 is primarily the result of the term loan by which the Company is financing (i) the investment in the KaiHong joint venture and (ii) the $2.8 million advanced to FabTech.

| | 1998 | 1997 |
|---|---|---|
| MINORITY INTEREST IN JOINT VENTURE | $ (6,000) | $ (290,000) |

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 nine months ended September 30, 1998 have been negatively affected by lower unit sales as well as by pricing pressures.

| | 1998 | 1997 |
|---|---|---|
| COMMISSIONS AND OTHER INCOME | $ 321,000 | $ 361,000 |

Other income for the nine months ended September 30, 1998 decreased approximately $40,000, or 11.1%, compared to the same period last year, due primarily to currency exchange losses at the Company's Taiwan subsidiary, partly offset by increased commissions earned by the Company's Taiwan subsidiary on drop shipment sales in Asia.

| | 1998 | 1997 |
|---|---|---|
| INCOME TAXES | $ 933,000 | $ 1,388,000 |

Income tax expense for the nine months ended September 30, 1998 decreased approximately $455,000, or 32.8%, compared to the same period last year. The Company's effective tax rate for the nine months ended September 30, 1998 increased to 29.2% from 27.0% 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 provided by operating activities for the nine months ended September 30, 1998 was approximately $1.5 million compared to approximately $4.8 million for the nine months ended September 30, 1997. The primary source of cash flows from operating activities for the nine months ended September 30, 1998 was net income of approximately $1.3 million and a decrease in accounts receivable of approximately $446,000, while the primary use of cash flows from operating activities was a decrease in accounts payable of approximately $1.5 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 nine months ended September 30, 1997 was net income of approximately $3.8 million, while the primary use of cash flows from operating activities was approximately $1.3 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 September 30, 1998 was 2.62 to 1 compared to a ratio of 2.79 to 1 as of December 31, 1997.

Cash used by investing activities was approximately $6.5 million for the nine months ended September 30, 1998, compared to approximately $732,000 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 $4.1 million as of September 30, 1998, compared to approximately $359,000 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, require the maintenance of certain financial ratios and operating results, as defined in the agreement. The Company is in compliance. 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 6.9% for the nine months ended September 30, 1998. As of September 30, 1998, approximately $6.6 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.

The Company's total working capital decreased approximately 6.4% to $17.5 million as of September 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 September 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 0.59 at September 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 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, 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

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 10.26 - Consulting Agreement between the Company and J.Y. Xing

Exhibit 11 - Computation of Earnings Per Share

Exhibit 27 - Financial Data Schedule

(b) Reports on Form 8-K

None

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SIGNATURE

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

DIODES INCORPORATED (Registrant)

By: s/ Carl Wertz
- ----------------------------------------------------- November 11, 1998
CARL WERTZ
Chief Financial Officer and Secretary
(Duly Authorized Officer and Principal Financial and
Chief Accounting Officer)

INDEX TO EXHIBITS

EXHIBIT 10.26

# CONSULTING AGREEMENT

THIS CONSULTING AGREEMENT is made and effective as of the twenty-first day of July, 1998, by and between Diodes Incorporated, a Delaware corporation (the "Company"), and J.Y. Xing (the "Consultant"), with respect to the following facts:

A. The Company desires to be assured of the continued association and services of the Consultant in order to take advantage of her experience, knowledge and abilities in the Company's business, and is willing to retain the Consultant, and the Consultant desires to be so retained, on the terms and conditions set forth in this Agreement.

B. The Consultant from time to time in the course of her relationship with the Company may learn trade secrets and other confidential information concerning the Company, and the Company desires to safeguard such trade secrets and confidential information against unauthorized use and disclosure.

ACCORDINGLY, on the basis of the representations, warranties and covenants contained herein, the parties hereto agree as follows:

1. CONSULTING SERVICES

1.1 Retention. The Company hereby retains the Consultant as a consultant, and the Consultant hereby accepts such appointment, on the terms and conditions set forth below, to perform during the term of this Agreement such services as are required hereunder.

1.2 Duties. The Consultant shall render such services to the Company, and shall perform such duties and acts, as reasonably may be requested by the Company in connection with maintaining the relationship of Shanghai KaiHong Electronics Co., Ltd., a joint venture in which the Company has a principal interest, with all national, provincial and local governmental agencies in the People's Republic of China.

1.3 Performance of Duties. The Consultant shall devote such time, ability and attention to the Company's business as may be necessary for her to discharge her duties hereunder in a professional and businesslike manner.

1.4 Relationship. The Consultant shall be an independent contractor of the Company. Nothing in this Agreement shall be construed to give the Consultant any rights as an employee, agent, partner or joint venturer of the Company or to entitle the Consultant to control in any manner the business of the Company or to incur any debt, liability or obligation on behalf of the Company.

1.5 Products. The Consultant hereby acknowledges and agrees that the results, proceeds and products of the consulting services rendered by the Consultant hereunder are, and will be created by the Consultant as, a "work for hire" specifically ordered or commissioned by the Company and, accordingly, are the exclusive and valuable property of the Company. The Company shall have the exclusive right to use, refrain from using, change, modify, add to, subtract from, exploit or otherwise turn to account any such results, proceeds or products in such manner and in any and all media, whether now known or hereafter devised, throughout the universe, in perpetuity, as the Company in its sole discretion shall determine. The Consultant hereby waives any and all so-called "moral rights" of authors in connection with any such results, proceeds or products. To the extent that any of such results, proceeds or products shall not be deemed to be a work for hire, the Consultant hereby assigns to the Company, and authorizes the Company to exploit in its sole discretion, perpetually, exclusively and throughout the universe her entire right, title and interest in and to the same.

1.6 Prior Services. From time to time after January 1, 1998, the Consultant has rendered certain services to the Company. As the total consideration for such services, the Company shall pay to the Consultant U.S. $120,000, receipt of which hereby is acknowledged by the Consultant.

2. COMPENSATION

2.1 Compensation. As the total consideration for the services which the Consultant renders hereunder, the Consultant shall be entitled to the following:

(i) a monthly consulting fee in the amount of U.S. $15,000 payable in advance on the first day of each month, commencing on September 1, 1998 and ending on December 1, 1999;

(ii) reimbursement of any and all reasonable and documented expenses (including, but not limited to, air fare, car rental, lodging, meals, business telephone and related travel expenses) incurred by the Consultant from time to time in the performance of her duties hereunder, provided that each such expense shall be in accordance of the Company's budgets, policies and procedures, as the same may be amended from time to time, and shall have been approved in advance by an authorized representative of the Company in each instance.

3. TERM AND TERMINATION

3.1 Term. The term of the Consultant's appointment as a consultant of the Company shall commence on the date hereof and shall terminate on December 31, 1999 (the "Term").

3.2 At Will Relationship. The Consultant and the Company each hereby acknowledges and agrees that, except as expressly set forth in Section 3.2, (i) the Consultant's relationship with the Company under this Agreement is AT WILL and can be terminated at the option of either the Consultant or the Company in its sole and absolute discretion, for any or no reason whatsoever, with or without cause, (ii) no representations, warranties or assurances have been made concerning the length of such relationship or the amount of compensation to be received by the Consultant and (iii) after the termination of her relationship with the Company, the Consultant shall have no right, title or interest in or claim to any revenues received by the Company from any person for any goods sold or services rendered by the Company to such person, whether or not the Consultant was the cause, in whole or in part, for such person to purchase such goods from the Company or to retain the Company to perform such services.

3.3 Duties Upon Termination. In the event that the Consultant's relationship with the Company under this Agreement is terminated, neither the Company nor the Consultant shall have any remaining duties or obligations hereunder, except that (i) the Company shall promptly pay to the Consultant, or her estate, all reimbursable expenses incurred by the Consultant hereunder as of such date pursuant to Section 2.1 and such compensation as is due to the Consultant pursuant to Section 2.1(i) pro rated through the date of termination, (ii) the Consultant and the Company shall continue to be bound by Section 4 hereof and (iii) in the event the Company terminates the Consultant's relationship with the Company under Section 1.1 without cause, then the Company shall continue to provide to the Employee such compensation as would have been due pursuant to Section 2.1(i) had such termination not occurred until the end of the Term. The Consultant's relationship with the Company shall be deemed to have been terminated by the Company without cause unless it shall have been terminated by the Company as the result of the Consultant's continued and willful failure or refusal to substantially perform her duties in accordance with this Agreement after the Consultant first shall have received written notice from the Company specifying the acts or omissions alleged to constitute such breach and the same continues after the Consultant shall have had reasonable opportunity to correct such breach. If the Consultant terminates her relationship with the Company as the result of the breach by the Company of any material term of this Agreement, such relationship shall be deemed to have been terminated by the Company without cause.

4. INTELLECTUAL PROPERTY

4.1 Trade Secrets. The Consultant shall not, without the prior written consent of the Company's Board of Directors in each instance, disclose or use in any way, either during the Term or thereafter, except as required in the course of such relationship, any confidential business or technical information or trade secret of the Company acquired (i) prior to the date hereof from the Company or (ii) in the course of such relationship, whether or not patentable, copy-rightable or otherwise protected by law, and whether or not conceived of or prepared by her (collectively, the "Trade Secrets"), including, without limitation, any information concerning customer lists, products, formulas, procedures, operations, investments, financing, costs, employees, purchasing, accounting, marketing, merchandising, sales, salaries, pricing, profits and plans for future development, the identity, requirements, preferences, practices and methods of doing business of specific parties with whom the Company transacts business, and all other information which is related to any product, service or business of the Company, other than information which is generally known in the industry in which the Company transacts business or is acquired from public sources; all of which Trade Secrets are the exclusive and valuable property of the Company.

4.2 Tangible Items. All files, accounts, records, documents, books, forms, notes, reports, memoranda, studies, compilations of information, correspondence and all copies, abstracts and summaries of the foregoing, and all other physical items related to the Company, other than a merely personal item, whether of a public nature or not, and whether prepared by the Consultant or not, are and shall remain the exclusive property of the Company and shall not be removed from the premises of the Company, except as required in the course of rendering consulting services to the Company, without the prior written consent of the Company in each instance, and the same shall be promptly returned to the Company by the Consultant on the expiration or termination of her relationship with the Company or at any time prior thereto upon the request of the Company.

4.3 Solicitation of Employees. During the term of her relationship with the Company and for one (1) year thereafter (such period not to include any period of violation hereof by the Consultant or period which is required for litigation to enforce this paragraph and during which the Consultant is in violation hereof), the Consultant shall not, directly or indirectly, either for her own benefit or purposes or the benefit or purposes of any other person employ or offer to employ, call on, solicit, interfere with or attempt to divert or entice away any employee or independent contractor of the Company (or any person whose employment or status as an independent contractor has terminated within the twelve (12) months preceding the date of such solicitation) in any capacity if that person possesses or has knowledge of any Trade Secrets of the Company.

4.4 Injunctive Relief. The Consultant hereby acknowledges and agrees that it would be difficult to fully compensate the Company for damages resulting from the breach or threatened breach of the foregoing provisions and, accordingly, that the Company shall be entitled to temporary and injunctive relief, including temporary restraining orders, preliminary injunction, permanent injunctions or any other remedies available to the Company for enforcement of such provisions without the necessity of proving actual damages or posting any bond or other undertaking in connection therewith. This provision with respect to injunctive relief shall not, however, diminish the Company's right to claim and recover damages.

4.5 "Company." As used in this Section 4, the term "Company" shall mean Diodes Incorporated and all persons controlling, controlled by or under common control with the Company including, but not limited to, Shanghai KaiHong Electronics Co., Ltd.

5. MISCELLANEOUS

5.1 Severable Provisions. The provisions of this Agreement are severable, and if any one or more provisions may be determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions, and any partially unenforceable provisions to the extent enforceable, shall nevertheless be binding and enforceable.

5.2 Successors and Assigns. All of the terms, provisions and obligations of this Agreement shall inure to the benefit of and shall be binding upon the parties hereto and their respective heirs, representatives, successors and assigns. Notwithstanding the foregoing, neither this Agreement nor any rights hereunder shall be assigned, pledged, hypothecated or otherwise transferred by the Consultant without the prior written consent of the Company in each instance.

5.3 Governing Law. The validity, construction and interpretation of this Agreement shall be governed in all respects by the laws of the State of California applicable to contracts made and to be performed wholly within that State.

5.4 Consent to Jurisdiction. Each party hereto, to the fullest extent it may effectively do so under applicable law, irrevocably (i) submits to the exclusive jurisdiction of any court of the State of California or the United States of America sitting in the City of Los Angeles over any suit, action or proceeding arising out of or relating to this Agreement, (ii) waives and agrees not to assert, by way of motion, as a defense or otherwise, any claim that it is not subject to the jurisdiction of any such court, any objection that it may now or hereafter have to the establishment of the venue of any such suit, action or proceeding brought in any such court and any claim that any such suit, action or proceeding brought in any such court has been brought in an inconvenient forum, (iii) agrees that a judgment in any such suit, action or proceeding brought in any such court shall be conclusive and binding upon such party and may be enforced in the courts of the United States of America or the State of California (or any other courts to the jurisdiction of which such party is or may be subject) by a suit upon such judgment and (iv) consents to process being served in any such suit, action or proceeding by mailing a copy thereof by registered or certified air mail, postage prepaid, return receipt requested, to the address of such party specified in or designated pursuant to Section 5.7. Each party agrees that such service (i) shall be deemed in every respect effective service of process upon such party in any such suit, action or proceeding and (ii) shall, to the fullest extent permitted by law, be taken and held to be valid personal service upon and personal delivery to such party.

5.5 Headings. Section and subsection headings are not to be considered part of this Agreement and are included solely for convenience and reference and in no way define, limit or describe the scope of this Agreement or the intent of any provisions hereof.

5.6 Entire Agreement. This Agreement constitutes the entire agreement between the parties hereto pertaining to the subject matter hereof, and supersedes all prior agreements, understandings, negotiations and discussions, whether oral or written, relating to the subject matter of this Agreement. No supplement, modification, waiver or termination of this Agreement shall be valid unless executed by the party to be bound thereby. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions hereof (whether or not similar), nor shall such waiver constitute a continuing waiver unless otherwise expressly provided.

5.7 Notice. Any notice or other communication required or permitted hereunder shall be in writing and shall be deemed to have been given (i) if personally delivered, when so delivered, (ii) if mailed, one (1) week after having been placed in the United States mail, registered or certified, postage prepaid, addressed to the party to whom it is directed at the address set forth on the signature pages below or (iii) if given by telex or telecopier, when such notice or other communication is transmitted to the telex or telecopier number specified on the signature pages below and the appropriate answer back or telephonic confirmation is received. Either party may change the address to which such notices are to be addressed by giving the other party notice in the manner herein set forth.

5.8 Attorneys' Fees. In the event any party takes legal action to enforce any of the terms of this Agreement, the unsuccessful party to such action shall pay the successful party's expenses, including attorneys' fees, incurred in such action.

5.9 Third Parties. Nothing in this Agreement, expressed or implied, is intended to confer upon any person other than the Company or the Consultant any rights or remedies under or by reason of this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date and year first set forth above.

DIODES INCORPORATED

By /s/ Carl Wertz
Carl Wertz
Authorized Representative
3050 East Hillcrest Drive
Suite 200
Westlake Village, California 91362
Telecopier Number: (805) 446-4850

By /s/ J.Y. Xing
J.Y. Xing
9712 63rd Drive
Apartment 10D
Rego Park, New York  11374

DIODES INCORPORATED AND SUBSIDIARIES

EXHIBIT - 11

COMPUTATION OF EARNINGS PER SHARE

| | THREE MONTHS ENDED SEPTEMBER 30, | | NINE MONTHS ENDED SEPTEMBER 30, | |
|---|---|---|---|---|
| | 1998 | 1997 | 1998 | 1997 |
| BASIC | | | | |
| Weighted average number of common shares outstanding | 5,047,237 | 4,977,033 | 5,022,939 | 4,966,256 |
| Net income | $ 554,000 | $1,341,000 | $2,261,000 | $3,754,000 |
| Basic earnings per share | $ 0.11 | $ 0.27 | $ 0.45 | $ 0.76 |
| DILUTED | | | | |
| Weighted average number of common shares outstanding | 5,047,237 | 4,977,033 | 5,022,939 | 4,966,256 |
| Assumed exercise of stock options | 184,393 | 562,666 | 343,922 | 484,515 |
| | 5,231,630 | 5,539,699 | 5,366,861 | 5,450,771 |
| Net income | $ 554,000 | $1,341,000 | $2,261,000 | $3,754,000 |
| Diluted earnings per share | $ 0.11 | $ 0.24 | $ 0.42 | $ 0.69 |

3-MOS
DEC-31-1998
JUL-01-1998
SEP-30-1998
1,406,000
0
11,079,000
128,000
13,338,000
28,362,000
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554,000
0.11
0.11