

United States  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended March 31, 2002

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 (I.R.S. Employer  
incorporation or organization) 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 May 10, 2002 was 9,250,664, including 1,075,672 shares of treasury stock.

PART I - FINANCIAL INFORMATION

Item 1 - Consolidated Financial Statements

DIODES INCORPORATED AND SUBSIDIARIES  
CONSOLIDATED CONDENSED BALANCE SHEET

ASSETS

	December 31, 2001	March 31, 2002
	-----	-----
CURRENT ASSETS		(Unaudited)
Cash and cash equivalents	\$ 8,103,000	\$ 6,113,000
Accounts receivable		

Customers	16,250,000	16,814,000
Related parties	1,486,000	4,232,000
	-----	-----
	17,736,000	21,046,000
Less: Allowance for doubtful receivables	343,000	325,000
	-----	-----
	17,393,000	20,721,000
Inventories	17,813,000	14,557,000
Deferred income taxes, current	4,368,000	4,368,000
Prepaid expenses, income taxes and other current assets	1,266,000	1,843,000
	-----	-----
Total current assets	48,943,000	47,602,000
PROPERTY, PLANT AND EQUIPMENT, at cost, net of accumulated depreciation and amortization	44,925,000	46,430,000
DEFERRED INCOME TAXES, non-current	3,672,000	3,723,000
OTHER ASSETS		
Goodwill, net	5,090,000	5,090,000
Other	628,000	937,000
	-----	-----
TOTAL ASSETS	\$ 103,258,000	\$ 103,782,000
	-----	-----

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

DIODES INCORPORATED AND SUBSIDIARIES  
CONSOLIDATED CONDENSED BALANCE SHEET

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 2001	March 31, 2002
	-----	-----
		(Unaudited)
CURRENT LIABILITIES		
Line of credit	\$ 6,503,000	\$ 3,300,000
Accounts payable		
Trade	6,098,000	8,247,000
Related parties	3,149,000	3,309,000
Accrued liabilities	5,062,000	5,456,000
Current portion of long-term debt		
Related party	2,500,000	2,500,000
Other	5,833,000	8,608,000
Current portion of capital lease obligations	--	114,000
	-----	-----
Total current liabilities	29,145,000	31,534,000
LONG-TERM DEBT, net of current portion		
Related party	7,500,000	7,500,000
Other	13,664,000	8,431,000
CAPITAL LEASE OBLIGATIONS, net of current portion	--	2,633,000
MINORITY INTEREST IN JOINT VENTURE	1,825,000	1,864,000
STOCKHOLDERS' EQUITY		
Class A convertible preferred stock - par value \$1.00 per share; 1,000,000 shares authorized; no shares issued and outstanding	--	--
Common stock - par value \$0.66 2/3 per share; 30,000,000 shares authorized; 9,227,664 and 9,242,664 shares issued and outstanding at December 31, 2001 and March 31, 2002, respectively	6,151,000	6,161,000
Additional paid-in capital	7,310,000	7,762,000
Retained earnings	39,882,000	40,090,000
	-----	-----
	53,343,000	54,013,000
Less:		
Treasury stock - 1,075,672 shares of common stock, at cost	1,782,000	1,782,000
Accumulated other comprehensive loss	437,000	411,000
	-----	-----
	2,219,000	2,193,000
Total stockholders' equity	51,124,000	51,820,000
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 103,258,000	\$ 103,782,000

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

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

	Three Months Ended March 31,	
	2001	2002
Net sales	\$ 25,748,000	\$ 26,924,000
Cost of goods sold	21,627,000	22,572,000
Gross profit	4,121,000	4,352,000
Research and development expenses	139,000	313,000
Selling, general and administrative expenses	3,045,000	3,765,000
Total operating expenses	3,184,000	4,078,000
Income from operations	937,000	274,000
Other income (expense)		
Interest income	66,000	8,000
Interest expense	(740,000)	(346,000)
Other	(96,000)	16,000
Income before income taxes and minority interest	167,000	(48,000)
Income tax benefit	429,000	295,000
Income before minority interest	596,000	247,000
Minority interest in joint venture earnings	(75,000)	(39,000)
Net income	\$ 521,000	\$ 208,000
Earnings per share		
Basic	\$ 0.06	\$ 0.03
Diluted	\$ 0.06	\$ 0.02
Weighted average shares outstanding		
Basic	8,132,559	8,165,325
Diluted	9,029,628	8,774,016

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

(Unaudited)

	Three Months Ended March 31,	
	2001	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 521,000	\$ 208,000
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation and amortization	2,083,000	2,280,000
Minority interest earnings	75,000	39,000
Changes in operating assets:		
Accounts receivable	(2,430,000)	(3,328,000)
Inventories	5,013,000	3,256,000
Prepaid expenses, taxes and other assets	(988,000)	(937,000)
Changes in operating liabilities:		
Accounts payable	(2,801,000)	2,309,000
Accrued liabilities	(2,517,000)	394,000
Income taxes payable	407,000	--
Net cash provided (used) by operating activities	(637,000)	4,221,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(2,801,000)	(1,038,000)
Net cash used by investing activities	(2,801,000)	(1,038,000)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances on (repayments of) line of credit, net	2,966,000	(3,203,000)
Proceeds from the issuance of capital stock	58,000	87,000
Repayments of long-term obligations	(495,000)	(2,458,000)
Proceeds from majority shareholder contract reimbursement	--	375,000
Other	26,000	--
Net cash provided (used) by financing activities	2,555,000	(5,199,000)
EFFECT OF EXCHANGE RATE AND INTEREST RATE CHANGES ON CASH AND CASH EQUIVALENTS	--	26,000
DECREASE IN CASH	(883,000)	(1,990,000)
CASH AT BEGINNING OF PERIOD	4,476,000	8,103,000
CASH AT END OF PERIOD	\$ 3,593,000	\$ 6,113,000
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION Cash paid during the period for:		
Interest	\$ 674,000	\$ 318,000
Income taxes	\$ 190,000	\$ 108,000
Non-cash acquisitions of property, plant and equipment	\$ --	\$ 2,785,000

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 financial statements have been prepared in accordance with the instructions to Form 10-Q. They do not include all information and footnotes necessary for a fair presentation of financial position and results of operations and cash flows in conformity with generally accepted accounting principles. These consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2001. In the opinion of management, all adjustments (consisting of normal recurring adjustments and accruals) considered necessary for a fair presentation have been included in the interim period. Operating results for the three months ended March 31, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002.

The consolidated financial statements include the accounts of the Company and its wholly-owned foreign subsidiaries, Diodes Taiwan Co., Ltd. ("Diodes-Taiwan") and Diodes-Hong Kong Ltd. (Diodes-Hong Kong), the

accounts of Shanghai KaiHong Electronics Co., Ltd. ("Diodes-China") in which the Company has a 95% interest, and the accounts of FabTech Incorporated ("FabTech" or "Diodes-FabTech"), which the Company acquired in December 2000. All significant intercompany balances and transactions have been eliminated.

NOTE B - Recently Issued Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets, effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill (and intangible assets deemed to have indefinite lives) will no longer be amortized but will be subject to annual impairment tests in accordance with the Statements. Other intangible assets will continue to be amortized over their useful lives.

The Company has applied the new rules on accounting for goodwill beginning in the first quarter of 2002. An independent appraiser hired by the Company, performed the first of the required impairment tests of goodwill and indefinite lived intangible assets as of January 1, 2002, and has determined that the goodwill is fully recoverable. Application of the non-amortization provisions of the Statements is expected to result in an increase in net income, net of tax, of approximately \$165,000 (\$0.02 per share) per year.

	Three Months Ended March 31,	
	2001	2002
Reported net income	\$ 521,000	\$ 208,000
Add: Goodwill amortization, net of tax	42,000	--
Adjusted net income	\$ 563,000	\$ 208,000
Diluted earnings per common share:		
Reported net income	\$ 0.06	\$ 0.02
Add: Goodwill amortization, net of tax	\$ 0.00	--
Adjusted diluted earnings per common share	\$ 0.06	\$ 0.02

NOTE C - Functional Currencies, Comprehensive Loss and Foreign Currency Translation

Until June 30, 2001, the functional currency of Diodes-Taiwan was the U.S. dollar. Effective July 1, 2001, the Company changed the functional currency of Diodes-Taiwan to the local currency in Taiwan. As a result of this change, the translation of the balance sheet and statement of income of Diodes-Taiwan from the local currency into the reporting currency (US dollar) results in translation adjustments.

The Company believes this reporting change most appropriately reflects the current economic facts and circumstances of the operations of Diodes-Taiwan. The Company continues to use the U.S. dollar as the functional currency at Diodes-China and Diodes-Hong Kong, as substantially all monetary transactions are made in that currency, and other significant economic facts and circumstances currently support that position. As these factors may change in the future, the Company will periodically assess its position with respect to the functional currency of Diodes-China and Diodes-Hong Kong.

The Company has entered into an interest rate swap agreement with a major U.S. bank which expires November 30, 2004, to hedge its exposure to variability in expected future cash flows resulting from interest rate risk

related to 25% of its long-term debt.

The effect of the translation adjustments and swap agreement results in a change in accumulated other comprehensive loss of \$26,000 for the three months ended March 31, 2002, and is reflected on the balance sheet as a separate component of shareholders' equity. There was no other comprehensive loss for the three months ended March 31, 2001.

#### NOTE D - Inventories

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

	December 31, 2001	March 31, 2002
Finished goods	\$ 12,030,000	\$ 9,364,000
Work-in-progress	1,848,000	1,825,000
Raw materials	6,311,000	5,765,000
	20,189,000	16,954,000
Less: Reserves	(2,376,000)	(2,397,000)
Net inventory	\$ 17,813,000	\$ 14,557,000

#### NOTE E - 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 \$8.1 million resulting from temporary differences in bases of assets and liabilities. This deferred tax asset results primarily from inventory reserves and certain expense accruals, which are not currently deductible for income tax purposes.

The reported income tax rate as a percentage of pretax income differs from the statutory combined federal and state tax rates of approximately 40%. The primary reasons for this difference are: (i) currently the effective tax rate of Diodes-China is approximately 12%, and as discussed below, deferred U.S. federal and state income taxes are currently not provided on these earnings, and (ii) deferred income tax benefits at a rate of 37.5% have been recognized on losses incurred at Diodes-FabTech.

In accordance with the current taxation policies of the People's Republic of China, Diodes-China was granted preferential tax treatment for the years ended December 31, 1999 through 2003. Earnings were subject to 0% tax rates in 1999 and 2000, and 12% in 2001. Earnings in 2002 and 2003 will be taxed at 12% (one half the normal central government tax rate), and at normal rates thereafter. Earnings of Diodes-China are also subject to tax of 3% by the local taxing authority in Shanghai. The local taxing authority waived this tax in 2001 and in the first quarter of 2002, and current indications are that the local tax will be waived for the remainder of 2002.

Earnings of Diodes-Taiwan are currently subject to a tax rate of 35%, which is comparable to the U.S. Federal tax rate for C corporations.

As of March 31, 2002, accumulated and undistributed earnings of Diodes-China is approximately \$22.3 million. The Company has not recorded deferred Federal or state tax liabilities (estimated to be \$8.9 million) on these cumulative earnings since the Company considers this investment to be

permanent, and has no plans, intentions or obligation to distribute all or part of that amount from China to the United States. The Company is, however, evaluating the need to provide deferred taxes for the future earnings of Diodes-China to the extent such earnings may be appropriated for distribution to Diodes-North America, and as further investment strategies with respect to Diodes-China are determined. Should the Company's North American cash requirements exceed the cash that is provided through the domestic credit facilities, cash can be obtained from the Company's foreign subsidiaries. However, the distribution of any unappropriated funds to the U.S. will require the recording of income tax provisions on the U.S. entity, thus reducing net income.

NOTE F - Geographic Segments

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

The Company's operations include the domestic operations (Diodes-North America and Diodes-FabTech) located in the United States, and the Far East operations (Diodes-Taiwan located in Taipei, Taiwan; Diodes-China located in Shanghai, China; and Diodes-Hong Kong). For reporting purposes, European operations, which account for approximately 2% of total sales, are consolidated into the domestic operations.

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

Three Months Ended March 31, 2002	Far East	North America	Consolidated Segments
	-----	-----	-----
Total sales	\$ 21,195,000	\$ 14,824,000	\$ 36,019,000
Inter-company sales	(8,568,000)	(527,000)	(9,095,000)
	-----	-----	-----
Net sales	\$ 12,627,000	\$ 14,297,000	\$ 26,924,000
Assets	\$ 58,167,000	\$ 45,615,000	\$ 103,782,000
Deferred tax assets	\$ 110,000	\$ 7,981,000	\$ 8,091,000
	=====	=====	=====

Three Months Ended March 31, 2001	Far East	North America	Consolidated Segments
	-----	-----	-----
Total sales	\$ 16,726,000	\$ 16,128,000	\$ 32,854,000
Inter-company sales	(6,773,000)	(333,000)	(7,106,000)
	-----	-----	-----
Net sales	\$ 9,953,000	\$ 15,795,000	\$ 25,748,000
Assets	\$ 63,054,000	\$ 48,336,000	\$ 111,390,000
Deferred tax assets	\$ 135,000	\$ 5,894,000	\$ 6,029,000
	=====	=====	=====

Item 2 - Management's Discussion and Analysis  
of Financial Condition and Results of Operations

Except for the historical information contained herein, the matters addressed in this Item 2 constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such forward-looking statements are subject to a variety of risks and uncertainties, including those discussed below under the heading "Factors That May Affect Future Results" and elsewhere in this Quarterly Report on Form 10-Q, that could cause actual results to differ materially from those anticipated by the Company's management. The Private Securities Litigation Reform Act of 1995 (the "Act") provides certain "safe harbor" provisions for forward-looking statements. All forward-looking statements made on this Quarterly Report on Form 10-Q are made pursuant to the Act.

General

Diodes Incorporated (the "Company"), a Delaware corporation, is engaged in the manufacture, sale and distribution of discrete semiconductors worldwide, primarily to manufacturers in the communications, computing, industrial, consumer electronics and automotive markets, and to distributors of electronic components to customers in these markets. The Company's products include small signal transistors and MOSFETs, transient voltage suppressors (TVSs), zeners, diodes, rectifiers and bridges, as well as silicon wafers used in manufacturing these products.

In addition to the Company's corporate headquarters in Westlake Village, California, which provides sales, marketing, engineering and warehousing functions, the Company's wholly-owned subsidiary, Diodes Taiwan Corporation, Ltd. ("Diodes-Taiwan"), maintains a sales, engineering and purchasing facility in Taipei, Taiwan. The Company also has a 95% interest in Shanghai KaiHong Electronics Co., Ltd. ("Diodes-China" or "KaiHong"), a manufacturing facility in Shanghai, China, with sales offices in Shanghai and Shenzhen, China, and a sales, warehousing and logistics subsidiary in Hong Kong ("Diodes-Hong Kong"). In addition, in December 2000, the Company acquired FabTech Incorporated ("Diodes-FabTech" or "FabTech"), a silicon wafer manufacturer located near Kansas City, Missouri. An office in Toulouse, France supports the Company's European sales expansion.

Sales. The Company's products are sold primarily in North America and the Far East, both directly to end users and through electronic component distributors. In the first quarter of 2002, 53% of the Company's products were sold in North America, while 47% were sold in the Far East. This compares to 55% and 45% for the year 2001, respectively, and 54% and 46% for the year 2000, respectively. An increase in the percentage of sales in the Far East is expected as the Company significantly increases its sales presence there and believes there is greater potential to increase market share in that region due to the expanding base of electronics manufacturers.

The Company sells direct to OEM customers as well as to distributors of electronic components. In the first quarter of 2002, 66% of the Company's sales were direct, while 34% were to distributors. This compares to 68% and 32%, respectively, for the year 2001, and 52% and 48%, respectively, for the year 2000.

Beginning in 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 for this sales channel.



Reporting Segments. For financial reporting purposes, the Company is deemed to engage in one industry segment - discrete semiconductors. The Company has separated its operations into geographical areas: North America and the Far East. North America includes the corporate offices in Southern California ("Diodes-North America") as well as FabTech, Inc. ("FabTech" or "Diodes-FabTech"), the 5-inch wafer foundry located in Missouri. For reporting purposes, the North American region includes European sales as well, which account for approximately 2% of total sales. Diodes-North America procures and distributes products primarily throughout North America and provides management, warehousing, engineering and logistics functions. Diodes-FabTech manufactures silicon wafers for sale to its customer base, as well as for use by Diodes-China. The Far East includes the operations of Diodes-Taiwan, Diodes-China and Diodes-Hong Kong. Diodes-China manufactures product for, and distributes product to, Diodes-North America, Diodes-Taiwan and Diodes-Hong Kong, as well as directly to end customers. Diodes-Taiwan procures product from, and distributes product primarily to, customers in Taiwan, Korea and Singapore. Diodes-Hong Kong sells to customers primarily in Hong Kong and China.

LSC. Lite-On Semiconductor Corporation ("LSC"), formerly Lite-On Power Semiconductor Corporation ("LPSC"), is the Company's largest stockholder, holding approximately 37.5% of the outstanding shares. LSC is a member of The Lite-On Group of companies of the Republic of China. The Lite-On Group, with worldwide sales of approximately \$4.5 billion, is a leading manufacturer of power semiconductors, computer peripherals and communication products. C.H. Chen, the Company's President and Chief Executive Officer, is also Vice Chairman of LSC.

For the year 2001, the Company sold silicon wafers to LSC totaling 7.7% of the Company's sales (15.2% in the first quarter of 2002), making LSC the Company's largest customer. Also for the year 2001, 15.2% of the Company's sales were from discrete semiconductor products purchased from LSC (13.5% in the first quarter of 2002), making LSC the Company's largest outside vendor. All such transactions are on terms no less favorable to the Company than could be obtained from unaffiliated third parties.

In addition, in December 2000, the Company acquired FabTech from LSC. As part of the purchase price, at March 31, 2002, LSC holds a subordinated, interest-bearing note for approximately \$10 million, payable beginning in July 2002. As per the terms of the acquisition, LSC entered into a volume purchase agreement to purchase wafers from FabTech. LSC is currently in compliance with the terms of the wafer purchase agreement.

In June 2001, as per the Company's U.S. bank covenants, the Company was not permitted to make regularly scheduled principal and interest payments to LSC on the remaining \$10.0 million payable related to the FabTech acquisition note, but was, however, able to renegotiate with LSC the terms of the note. Under the terms of the amended and restated subordinated promissory note, payments of approximately \$417,000 plus interest are scheduled to begin again in July 2002. Provided the Company meets the terms of its U.S. bank's expected new covenants, these payments will be made to LSC. However, if the new bank covenants are not met, the Company may be required to re-negotiate its indebtedness to LSC on such terms, if any, as LSC may find acceptable.

Manufacturing and Significant Vendors. The Company's Far East manufacturing subsidiary, Diodes-China, manufactures product for sale primarily to North America and Asia. Diodes-China's manufacturing focuses on SOT-23 and SOD-123 products, as well as sub-miniature packages such as SOT-363, SOT-563, and SC-75. These surface-mount devices ("SMD") are much smaller in size and are used primarily in the computer and communication industries, destined for cellular phones, notebook computers, pagers, PCMCIA cards and modems, as well as in garage door transmitters, among others. Diodes-China's state-of-the-art facilities have been designed to develop even smaller, higher-density products as electronic industry trends to portable and hand-held devices continue. Although Diodes-China purchases silicon wafers from Diodes-FabTech, the majority are currently purchased from other wafer vendors.

Since 1997, the Company's manufacturing focus has primarily been in the development and expansion of Diodes-China. To date, the Company and

its minority partner have increased property, plant and equipment at the Mainland China facility to approximately \$48.9 million. The equipment expansion allows for the manufacture of additional SOT-23 packaged components as well as other surface-mount packaging, including the smaller SOD packages, and even smaller packaging such as SOT-523 and SC-59.

All of the products sold by the Company, as well as the materials used by the Company in its manufacturing operations, are available both domestically and abroad. For 2001, the three largest external suppliers of products to the Company were LSC and two other vendors. Approximately 15% of the Company's sales were from product manufactured by LSC in 2001 and approximately 10% of the Company's sales were from products manufactured by the two other vendors. In addition, sales of products manufactured by Diodes-China and Diodes-FabTech, the Company's two manufacturing subsidiaries, were approximately 27% and 15% in 2001, respectively. No other manufacturer of discrete semiconductors accounted for more than 5% of the Company's sales in 2001. For the first quarter ended March 31, 2002, sales of products manufactured by LSC and the two other largest vendors were approximately 13% and 12%, respectively, while 31% and 23% were manufactured by Diodes-China and Diodes-FabTech, respectively.

The Company will continue its strategic plan of locating alternate sources of its products and raw materials, including those provided by its major suppliers. The Company anticipates that the effect of the loss of any one of its major suppliers will not have a material adverse effect on the Company's operations, provided that alternate sources remain available. The Company continually evaluates alternative sources of its products to assure its ability to deliver high-quality, cost-effective products.

Diodes-FabTech. Acquired by the Company from LSC on December 1, 2000, FabTech's wafer foundry is located in Lee's Summit, Missouri. Diodes-FabTech manufactures primarily 5-inch silicon wafers, which are the building blocks for semiconductors. Diodes-FabTech has full foundry capabilities including processes such as silicon epitaxy, silicon oxidation, photolithography and etching, ion implantation and diffusion, low pressure and plasma enhanced chemical vapor deposition, sputtered and evaporated metal deposition, wafer backgrinding, and wafer probe and ink.

Diodes-FabTech purchases polished silicon wafers, and then by using various technologies, in conjunction with many chemicals and gases, fabricates several layers on the wafers, including epitaxial silicon, ion implants, dielectrics, and metals, with various patterns. Depending upon these layers and the die size (which is determined during the photolithography process and completed at the customer's packaging site where the wafer is sawn into square or rectangular die), different types of wafers with various currents, voltages, and switching speeds are produced.

Recent Results. The discrete semiconductor industry has been subject to severe pricing pressures. Although manufacturing costs have been falling, excess manufacturing capacity and over-inventory has caused selling prices to fall to a greater extent than manufacturing costs. To compete in this highly competitive industry, the Company has committed substantial new resources to the development and implementation of sales, marketing and manufacturing. Emphasizing the Company's focus on customer service, additional sales personnel and programs have been added in Asia, and most recently Europe. In order to meet customers' needs at the design stage of end-product development, the Company has also employed additional applications engineers. These applications engineers work directly with customers to assist them in "designing in" the correct products to produce optimum results. In addition, the Company has increased its research and development resources for the purpose of developing new proprietary products. Regional sales managers, working closely with manufacturers' representative firms and distributors, have also been added to help satisfy customers' requirements. In addition, the Company has continued to develop relationships with major distributors who inventory and sell the Company's products.

Beginning in the second half of 1999 and continuing through the first three quarters of 2000, industry demand exceeded industry capacity.

The Company's gross profit margins reached a peak of 34.4% in the third quarter of 2000 and 31.6% for the year 2000. In addition, OEM customers and distributors increased their inventory levels to support projected demand. Then, as semiconductor manufacturers, including the Company, increased manufacturing capacity, the global economy slowed contributing to a sharp decline in sales in the fourth quarter of 2000. This downturn continued throughout year 2001 primarily in two key markets, communications and computers.

Due to excess manufacturing capacity and demand-induced product mix changes, combined with overall decreased product demand and higher customer inventory levels, the Company's gross profit margins decreased from 31.6% in 2000 to 14.9% in 2001. Although the Company's market share increased in 2001, overall selling prices decreased approximately 22.7% and demand for silicon wafers used in manufacturing discrete semiconductors deteriorated even further. In addition, the risks of becoming a fully integrated manufacturer were amplified in the industry-wide slowdown because of the fixed costs associated with the Company's manufacturing facilities, including the recent acquisition of FabTech.

During 2001, the Company responded to this cyclical downturn by implementing programs to cut operating costs, including reducing its worldwide workforce by 26%, primarily at the Diodes-FabTech and Diodes-China manufacturing facilities. The Company continues to actively adjust its cost structure as dictated by market conditions. Long term, the Company believes that it will continue to generate value for shareholders and customers, not just from its expanded Diodes-China manufacturing and Diodes-FabTech's foundry assets, but also by the addition of an enhanced technology and research and development component to the Company. This multi-year initiative is aimed at increasing the Company's ability to serve its customers' needs and establishing itself at the forefront of the next generation of discrete technologies.

The Company has seen signs of improvement beginning in the fourth quarter of 2001 when sales increased almost 14% sequentially, and gross profit margins improved to 13.9%. The improvement trend continued into the first quarter of 2002 when sales increased sequentially by 4%, gross profit margin increased to 16.0% and capacity utilization improved. Average capacity utilization of the Company's manufacturing subsidiaries has increased to 58% and 65% at Diodes-China and Diodes-FabTech, respectively, as compared to 55% and 61%, respectively, in the fourth quarter of 2001, and 52% and 45% in the third quarter of 2001. In addition to increasing capacity utilization, improving manufacturing efficiencies, especially at Diodes-FabTech, and reducing unit costs will continue to be a major operational focus for the balance of 2002. The Company expects gross margins to continue to improve as capacity utilization increases and as prices begin to stabilize, demonstrating the operating leverage inherent in the Company's business.

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets, effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill (and intangible assets deemed to have indefinite lives) will no longer be amortized but will be subject to annual impairment tests in accordance with the Statements. Other intangible assets will continue to be amortized over their useful lives.

The Company has applied the new rules on accounting for goodwill beginning in the first quarter of 2002. An independent appraiser hired by the Company, performed the first of the required impairment tests of goodwill and indefinite lived intangible assets as of January 1, 2002, and has determined that the goodwill is fully recoverable. Application of the non-amortization provisions of the Statements is expected to result in an increase in net income, net of tax, of approximately \$165,000 (\$0.02 per share) per year.

Income taxes. In accordance with the current taxation policies of the People's Republic of China, Diodes-China was granted preferential tax treatment for the years ended December 31, 1999 through 2003. Earnings were subject to 0% tax rates in 1999 and 2000, and 12% in 2001. Earnings in 2002 and 2003 will be taxed at 12% (one half the normal central

government tax rate), and at normal rates thereafter. Earnings of Diodes-China are also subject to tax of 3% by the local taxing authority in Shanghai. The local taxing authority waived this tax in 2001 and in the first quarter of 2002, and current indications are that the local tax will be waived for the remainder of 2002.

Earnings of Diodes-Taiwan are currently subject to a tax rate of 35%, which is comparable to the U.S. Federal tax rate for C corporations.

As of March 31, 2002, accumulated and undistributed earnings of Diodes-China is approximately \$22.3 million. The Company has not recorded deferred Federal or state tax liabilities (estimated to be \$8.9 million) on these cumulative earnings since the Company considers this investment to be permanent, and has no plans, intentions or obligation to distribute all or part of that amount from China to the United States. The Company is evaluating the need to provide deferred taxes for the future earnings of Diodes-China to the extent such earnings may be appropriated for distribution to Diodes-North America, and as further investment strategies with respect to Diodes-China are determined. Should the Company's North American cash requirements exceed the cash that is provided through the domestic credit facilities, cash can be obtained from the Company's foreign subsidiaries. However, the distribution of any unappropriated funds to the U.S. will require the recording of income tax provisions on the U.S. entity, thus reducing net income.

Results of Operations for the Three Months Ended March 31, 2001 and 2002

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

	Percent of Net Sales Three Months Ended March 31,		Percentage Dollar Increase (Decrease)
	2001	2002	'01 to '02
Net sales	100.0 %	100.0 %	4.6 %
Cost of goods sold	(84.0)	(83.8)	4.4
Gross profit	16.0	16.2	5.6
Operating expenses	(12.4)	(15.2)	28.1
Income from operations	3.6	1.0	(70.8)
Interest expense, net	(2.6)	(1.3)	(49.9)
Other income	(0.4)	0.1	(116.3)
Income before taxes and minority	0.6	(0.2)	(128.8)
Income taxes	1.7	1.1	(31.2)
Income before minority interest	2.3	0.9	(58.4)
Minority interest	(0.3)	(0.1)	(47.1)
Net income	2.0	0.8	(60.1)

The following discussion explains in greater detail the consolidated operating results and financial condition of the Company for the three months ended March 31, 2002 compared to the three months ended March 31,

2001. This discussion should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this quarterly report.

	2001 ----	2002 ----
Net Sales -----	\$ 25,748,000	\$ 26,924,000

Net sales increased approximately \$1.2 million, or 4.6%, for the three months ended March 31, 2002, compared to the same period last year, due primarily to a 8.6% increase in units sold as a result of increased demand and lower customer inventories. The Company's average selling prices ("ASP") for discrete devices decreased approximately 19.7% from the same three-month period last year, and 6.0% from the fourth quarter of 2001. ASP's for wafer products decreased 18.2% from the same period last year, but increased 5.0% from the fourth quarter of 2001.

	2001 ----	2002 ----
Cost of Goods Sold -----	\$ 21,627,000	\$ 22,572,000
Gross Profit -----	\$ 4,121,000	\$ 4,352,000
Gross Profit Margin Percentage -----	16.0%	16.2%

Gross profit increased approximately \$231,000, or 5.6%, for the three months ended March 31, 2002 compared to the year ago period. Of the \$231,000 increase, approximately \$188,000 was due to the 4.6% increase in sales, while \$43,000 was due to the increase in gross margin percentage from 16.0% to 16.2%. The higher gross margin percentage was primarily due to increased capacity utilization, cost containment and sales of higher margin products. For the first quarter of 2002, Diodes-China is running at approximately 58% of total capacity, up from 55% last quarter, and Diodes-FabTech has improved to 65% from 61% last quarter.

	2001 ----	2002 ----
Operating Expenses -----	\$ 3,184,000	\$ 4,078,000

Operating expenses, which include selling, general, administrative expenses ("SG&A") and research and development expenses ("R&D") for the three months ended March 31, 2002 increased approximately \$894,000, or 28.1%, compared to the same period last year, due primarily to higher sales commissions associated with the increase in sales, as well as increased general corporate charges and a \$174,000 increase in R&D. SG&A, as a percentage of sales, increased from 11.8% to 14.0% in the comparable period last year, while R&D increased from 0.5% to 1.2% of sales.

	2001 ----	2002 ----
Interest Income -----	\$ 66,000	\$ 8,000
Interest Expense -----	\$ 740,000	\$ 346,000
Net Interest Expense -----	\$ 674,000	\$ 338,000

Net interest expense for the three months ended March 31, 2002 decreased approximately \$336,000 versus the same period last year, due primarily to a reduction in the Company's total debt. The Company's interest expense is primarily the result of the Company's financing of the FabTech

acquisition, as well as the investment in the Diodes-China manufacturing facility.

	2001	2002
	----	----
Other Income (Expense)	\$ (96,000)	\$ 16,000
-----		

Other income for the three months ended March 31, 2002 increased approximately \$112,000 compared to the same period last year, due primarily to rental income generated by Diodes-FabTech for the use of some of its testing facilities, which began in May 2001.

	2001	2002
	----	----
Income Tax Benefit	\$ 429,000	\$ 295,000
-----		

The reported income tax rate as a percentage of pretax income differs from the statutory combined federal and state tax rates of approximately 40%. The primary reasons for this difference are: (i) currently the effective tax rate of Diodes-China is approximately 12%, and deferred U.S. federal and state income taxes are currently not provided on these earnings, and (ii) deferred income tax benefits at a rate of 37.5% have been recognized on losses incurred at Diodes-FabTech.

	2001	2002
	----	----
Minority Interest in Joint Venture	\$ 75,000	\$ 39,000
-----		

Minority interest in joint venture represents the minority investor's share of the Diodes-China joint venture's income for the period. The decrease in the joint venture earnings for the three months ended March 31, 2002, is primarily the result of decreased gross margins due to excess capacity and demand-induced product mix changes, both internally and to external customers. The joint venture investment is eliminated in consolidation of the Company's financial statements, and the activities of Diodes-China are included therein. As of March 31, 2002, the Company had a 95% controlling interest in the joint venture.

#### Financial Condition

##### Liquidity and Capital Resources

At March 31, 2002 the Company had cash and cash equivalents totaling \$6.1 million, a \$2.0 million decrease from December 31, 2001 balances primarily as a result of the Company reducing its bank loan balances. Cash provided by operating activities for the three months ended March 31, 2002 was \$4.2 million compared to a use of \$637,000 for the same period in 2001. The primary sources of cash flows from operating activities in the first quarter of 2002 were a decrease in inventories of \$3.3 million, an increase in accounts payable of \$2.3 million, and depreciation and amortization of \$2.3 million. The primary use of cash flows from operating activities in the first quarter of 2002 was an increase in accounts receivable of \$3.3 million. The primary sources of cash flows from operating activities for the three months ended March 31, 2001 were a \$5.0 million decrease in inventories, and depreciation and amortization of \$2.1 million, while the primary uses were a \$2.8 million decrease in accounts payable and a \$2.5 million decrease in accrued liabilities. Inventory turns at March 31, 2002 were 6.2 times compared to 5.1 times at December 31, 2001. Accounts receivable days at March 31, 2002 were 70 days compared to 61 days at December 31, 2001. The ratio of the Company's current assets to current liabilities on March 31, 2002 was 1.5 to 1, compared to 1.7 to 1 at December 31, 2001.

Cash used by investing activities for the three months ended March 31, 2002 was \$1.0 million, compared to \$2.8 million during the same period in 2001. The primary investment in both years was primarily for additional manufacturing equipment at the Diodes-China manufacturing facility.

On December 1, 2000, the Company purchased all the outstanding capital stock of FabTech Incorporated, a 5-inch wafer foundry located in Lee's Summit, Missouri from Lite-On Semiconductor Corporation ("LSC"), the Company's largest stockholder. The acquisition purchase price consisted of approximately \$6.0 million in cash and an earn-out of up to \$30.0 million if FabTech meets specified yearly earnings targets over a four-year period (for the year 2001, these earnings targets were not met, and, therefore, no earn-out was paid). In addition, FabTech was obligated to repay an aggregate of approximately \$19.2 million in debt, consisting of (i) approximately \$13.6 million note payable to LSC, (ii) approximately \$2.6 million note payable to the Company, and (iii) approximately \$3.0 million note payable to a financial institution (this amount was repaid on December 4, 2000 with the proceeds of a capital contribution by the Company). The acquisition was financed internally and through bank credit facilities.

In June 2001, as per the Company's U.S. bank covenants, the Company was not permitted to make regularly scheduled principal and interest payments to LSC on the remaining \$10.0 million payable related to the FabTech acquisition note, but was, however, able to renegotiate with LSC the terms of the note. Under the terms of the amended and restated subordinated promissory note, payments of approximately \$417,000 plus interest are scheduled to begin again in July 2002. Provided the Company meets the terms of its U.S. bank's expected new covenants, payments will be made to LSC. However, if the bank covenants are not met, the Company may be required to re-negotiate its indebtedness to LSC on such terms, if any, as LSC may find acceptable. The Company is currently in negotiations for new U.S. bank covenants.

Cash used by financing activities was \$5.2 million for the three months ended March 31, 2002, as the Company reduced its overall debt, compared to cash provided by financing activities of \$2.6 million in the same period of 2001. In 2001, the Company increased its credit facility to \$46.3 million, encompassing one major U.S. bank, three banks in Mainland China and two banks in Taiwan. As of March 31, 2002, the credit facilities were \$17.1 million, \$25.0 million, and \$3.2 million, for the U.S. facility secured by substantially all assets, the unsecured Chinese facilities, and the unsecured Taiwanese facilities, respectively. As of March 31, 2002, the available credit was \$5.2 million, \$20.0 million, and \$1.5 million, for the U.S. facility, the Chinese facilities, and the Taiwanese facilities, respectively.

The agreements have certain covenants and restrictions, which, among other matters, require the maintenance of certain financial ratios and operating results, as defined in the agreements, and prohibit the payment of dividends. The Company was not in compliance with some of its U.S. bank covenants but has obtained a waiver from the bank.

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

The Company has entered into an interest rate swap agreement with a major U.S. bank which expires November 30, 2004, to hedge its exposure to variability in expected future cash flows resulting from interest rate risk related to 25% of its long-term debt. The interest rate under the swap agreement is fixed at 6.8% and is based on the notional amount, which was \$6.4 million at March 31, 2002. The swap contract is inversely correlated to the related hedged long-term debt and is therefore considered an effective cash flow hedge of the underlying long-term debt. The level of effectiveness of the hedge is measured by the changes in the market value of the hedged long-term debt resulting from fluctuation in interest rates. During fiscal 2001, variable interest rates decreased resulting in an interest rate swap liability of \$147,000 as of

December 31, 2001. As of March 31, 2002, the swap liability was \$123,000. As a matter of policy, the Company does not enter into derivative transactions for trading or speculative purposes.

Total working capital decreased approximately 18.7% to \$16.1 million as of March 31, 2002, from \$19.8 million as of December 31, 2001. The Company believes that such working capital position will be sufficient for foreseeable operations and growth opportunities. The Company's total debt to equity ratio decreased to 1.01 at March 31, 2002, from 1.02 at December 31, 2001. It is anticipated that this ratio may increase should the Company use its credit facilities to fund additional inventory sourcing opportunities.

The Company has no material plans or commitments for capital expenditures other than in connection with manufacturing expansion at Diodes-China, Diodes-FabTech equipment requirements, and the Company's implementation of an Enterprise Resource Planning ("ERP") software package. However, to ensure that the Company can secure reliable and cost effective inventory sourcing to support and better position itself for growth, the Company is continuously evaluating additional internal manufacturing expansion, as well as additional outside sources of products. The Company believes its financial position will provide sufficient funds should an appropriate investment opportunity arise and thereby, assist the Company in improving customer satisfaction and in maintaining or increasing market share. Based upon plans for new product introductions, product mixes, capacity restraints on certain product lines and equipment upgrades, the Company expects that year 2002 capital expenditures for its manufacturing facilities will run approximately \$4.0 to \$6.0 million, with an additional approximately \$1.0 million for the ERP project.

Cautionary Statement for Purposes of the "Safe Harbor" Provision of the Private Securities Litigation Reform Act of 1995

Except for the historical information contained herein, the matters addressed in this Quarterly Report on Form 10-Q constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such forward-looking statements are subject to a variety of risks and uncertainties, including those discussed under "Risk Factors" and elsewhere in this Quarterly Report on Form 10-Q that could cause actual results to differ materially from those anticipated by the Company's management. The Private Securities Litigation Reform Act of 1995 (the "Act") provides certain "safe harbor" provisions for forward-looking statements. All forward-looking statements made on this Quarterly Report on Form 10-Q are made pursuant to the Act.

All forward-looking statements contained in this Quarterly Report on Form 10-Q are subject to, in addition to the other matters described in this Quarterly Report on Form 10-Q, a variety of significant risks and uncertainties. The following discussion highlights some of these risks and uncertainties. Further, from time to time, information provided by the Company or statements made by its employees may contain forward-looking information. There can be no assurance that actual results or business conditions will not differ materially from those set forth or suggested in such forward-looking statements as a result of various factors, including those discussed below.

#### Risk Factors

##### Vertical Integration

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



- o difficulties associated with owning a manufacturing business, including, but not limited to, the maintenance and management of manufacturing facilities, equipment, employees and inventories and limitations on the flexibility of controlling overhead;
- o difficulties implementing our Enterprise Resource Planning system;
- o difficulties expanding our operations in the Far East and developing new operations in Europe;
- o difficulties developing and implementing a successful research and development team; and
- o difficulties developing proprietary technology.

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

#### Economic Conditions

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

#### Competition

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

#### Foreign Operations

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

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

#### Variability of Quarterly Results

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

- o general economic conditions in the countries where we sell our products;
- o seasonality and variability in the computer and communications market and our other end markets;
- o the timing of our and our competitors' new product introductions;
- o product obsolescence;
- o the scheduling, rescheduling and cancellation of large orders by our customers;
- o the cyclical nature of demand for our customers' products;
- o our ability to develop new process technologies and achieve volume production at our fabrication facilities;
- o changes in manufacturing yields;
- o adverse movements in exchange rates, interest rates or tax rates; and
- o the availability of adequate supply commitments from our outside suppliers or subcontractors.

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

#### New Technologies

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

#### Production

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

#### Future Acquisitions

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

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

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

#### Integration of Acquisitions

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

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

#### Backlog

The amount of backlog to be shipped during any period is dependent upon various factors and all orders are subject to cancellation or modification, usually without penalty to the customer. Orders are generally booked from one to twelve months in advance of delivery. The rate of booking new orders can vary significantly from month to month. The Company and the industry as a whole are experiencing a trend towards shorter lead-times (the amount of time between the date a customer places an order and the date the customer requires shipment). The amount of backlog at any date depends upon various factors, including the timing of the receipt of orders, fluctuations in orders of existing product lines, and the introduction of any new lines. Accordingly, the Company believes that the amount of backlog at any date is not meaningful and is not necessarily indicative of actual future shipments. The Company strives to maintain proper inventory levels to support customers' just-in-time order expectations.

#### Product Resources

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

#### Qualified Personnel

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

## Expansion

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

## Suppliers

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

## Environmental Regulations

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

The Company received a claim from one of its former U.S. landlords, regarding potential groundwater contamination at a site in which the Company engaged in manufacturing from 1967 to 1973, alleging that the Company may have some responsibility for cleanup costs. Although investigations into the landlord's allegations are ongoing, the Company does not anticipate that the ultimate outcome of this matter will have a material effect on its financial condition.

## Product Liability

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

## System Outages

Risks are presented by electrical or telecommunications outages, computer hacking or other general system failure. To try to manage our operations efficiently and effectively, we rely heavily on our internal information and communications systems and on systems or support services from third parties. Any of these are subject to failure. System-wide or local failures that affect our information processing could have material adverse

effects on our business, financial condition, results of operations and cash flows. In addition, insurance coverage for the risks described above may be unavailable.

#### Downward Price Trends

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

#### Obsolete Inventories

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

#### Deferred Taxes

As of March 31, 2001, accumulated and undistributed earnings of Diodes-China is approximately \$22.3 million. The Company has not recorded deferred Federal or state tax liabilities (estimated to be \$8.9 million) on these cumulative earnings since the Company considers this investment to be permanent, and has no plans, intentions or obligation to distribute all or part of that amount from China to the United States. The Company will consider the need to provide deferred taxes on future earnings of Diodes-China to the extent such earnings may be appropriated for distribution to Diodes-North America, and as further investment strategies with respect to Diodes-China are determined. Should the Company's North American cash requirements exceed the cash that is provided through the domestic credit facilities, cash can be obtained from the Company's foreign subsidiaries. However, the distribution of any unappropriated funds to the U.S. will require the recording of income tax provisions on the U.S. entity, thus reducing net income.

## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings

There are no matters to be reported under this heading.

### Item 2. Changes in Securities

There are no matters to be reported under this heading.

### Item 3. Defaults Upon Senior Securities

There are no matters to be reported under this heading.

### Item 4. Submission of Matters to a Vote of Security Holders

There are no matters to be reported under this heading.

### Item 5. Other Information

There are no matters to be reported under this heading.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

- Exhibit 10.46 Sale and Leaseback Agreement between the Company and  
Shanghai Ding Hong Company, Ltd.  
Exhibit 10.47 Lease Agreement between the Company and  
Shanghai Ding Hong Company, Ltd.  
Exhibit 11 Computation of Earnings Per Share  
Exhibit 99.44 Press release: Diodes Incorporated Announces  
Conference Call To Discuss First Quarter FY 2002 Results  
Exhibit 99.45 Press release: Diodes, Inc. Reports First Quarter 2002 Results

(b) Reports on Form 8-K  
None

SIGNATURE

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

DIODES INCORPORATED (Registrant)

By: /s/ Carl Wertz

May 10, 2002

-----  
CARL WERTZ

Chief Financial Officer, Treasurer and Secretary  
(Duly Authorized Officer and Principal Financial  
and Chief Accounting Officer)

INDEX TO EXHIBITS

Exhibit 10.46	Sale and Leaseback Agreement between the Company and Shanghai Ding Hong Company, Ltd.	Page 24
Exhibit 10.47	Lease Agreement between the Company and Shanghai Ding Hong Company, Ltd.	Page 31
Exhibit 11	Computation of Earnings Per Share	Page 37
Exhibit 99.44	Press release: Diodes Incorporated Announces Conference Call To Discuss First Quarter FY 2002 Results	Page 38
Exhibit 99.45	Press release: Diodes, Inc. Reports First Quarter 2002 Results	Page 39

Exhibit 10.46  
The Sale and Leasing Agreement

This agreement is concluded between and by Shanghai Kai Hong Electronic Company Ltd. with its legal residence being: Chenchun Road Xinqiao Town Songjiang County Shanghai , China ("Party A") and Shanghai Ding Hong Electronic Company Ltd. with its legal residence being: No 999 Xinqiao Town Songjiang County Shanghai , China ("Party B") on March 30, 2002, in the city of Shanghai.

Whereas,

1. Party A agrees to sell a three story building completed by itself on (date) (hereinafter referred to as "original factory building"), and one power distribution building both buildings set forth in Exhibit one and two, hereinafter referred to as " Building A") to Party B for the purpose and on the terms and conditions of this agreement;
2. Party B agrees to let Building A to Party A after Party B purchases Building A from Party A for the purpose and on the terms and conditions of this agreement.
3. Party B agrees to let extended part of the original factory building as well as the affiliated buildings and area (set forth in Exhibit three and four, hereinafter referred to as " Building B") to Party A.

Now it is hereby agreed as follows,

1. Definitions and interpretation

Unless otherwise defined in this agreement, the terms used in this agreement shall only have the meanings hereunder.

1.1 "Building A" shall have the following meanings,

- a. The original factory building of three stories located in No. 375 land of Song Jiang District, Shanghai;
- b. The power distribution building located in No. 375 land of Song Jiang District, Shanghai.

1.2 "Building B" shall have the following meanings,

- a. The extended part of the original three story factory building and
- b. Affiliated buildings and area set forth in Exhibit Four.  
(the specific site and area is set forth in the Exhibit Map of the completed building )

1.3 "Effective Date" shall mean the agreement will take effect after the legal representatives or authorized representatives of both parties affix their signatures and company seals on this agreement.

1.4 "Leasing Term" shall mean 15 years since the agreement takes effect.

1.5 "Free of Rental Term" shall mean the period that in accordance with article 3.4 Party A is entitled to use Building A without paying any rent fees since the 16th year after the agreement has taken effect for 15 years as long as Party A maintains its lawful existence as a business entity.

2. The sale price of Building A and the method of payment

2.1 The sale price

- a. Both parties agree to that the net value of the original factory building is USD\$ 242,090, and that the net value of power distribution building is USD\$; 32,916
- b. Party B agrees to purchase Building A with the price mentioned above.

2.2 The method of payment

Both parties agree that Party B shall provide Party A with a lawful receipt of real assets transfer, meanwhile to clarify the real assets value indicated in Party A's account, the clearance balance shall be transferred into Party A's long term credit--to collect from Party B. Party B will make 15 annual installment payments after the agreement takes effect, in other words, to pay off USD\$ 275,006 within 15 years, and that every calendar year Party B shall pay USD\$ 18,334 to the account as prescribed by Party A before January 31st.

3. Rent Term, Rent and Method of Payment

3.1 The period of lease

Both parties agree to that Party A is entitled to lease Building A for 15 years after the agreement takes effect.

3.2 Rental: both parties agree to that the annual rental of Building A shall be USD\$ 19.251.

3.3 Method of payment: every calendar year Party A shall pay rental to the account as prescribed by Party B before January 31st.

3.4 Term for free of rent

After Party A leases Building A for 15 years, thereby Party A is entitled to continue to use Building A until 2024 with free of rent. If the operating period of Party A is extended beyond 2024, and Party A still exists as a business entity after 2024, thereby Party A is entitled to use Building with free of rent.

4. Under the circumstances that Party A terminates the lease of Building A before the lease term expires, then,

4.1 Under the circumstances that Party A terminates the lease relationship prior to maturity of the lease term and where Party B is unable to let Building A to a third party, Party A is still borne to pay the rent in accordance with the agreement. Party B shall also pay installment to Party A in accordance with the agreement.

4.2 Under the circumstances that Party A terminates the lease relationship prior to maturity of the lease term and where Party B is able to let Building A to a third party with the same rent, then Party A is not borne to pay the rent and any penalties, Party B shall also pay installment to Party A in accordance with the agreement.

4.3 Under the circumstances that Party B lets Building A or one of Building A to a third party, however, the rent thereof is less than the installment that Party B shall pay to Party A, then Party A shall pay the balance between the annual rental prescribed in Article 3.2 and the actual rental collected by Party B. Party B shall also pay installment to Party A in accordance with the agreement.

4.4 Under the circumstances that Party B lets Building A to a third party, and where the rent thereof is more than the installment Party B shall pay to Party A, then Party B is entitled to just pay the consideration in accordance with the amount on terms and conditions of this agreement.

4.5 Party B is not allowed to terminate the lease contract and the leasing term for free of rental without the consent of Party A. Otherwise Party B is liable to indemnify Party A all its losses including and without limitation any and all reasonable profits, out-of-pocket costs, legal fees, accounting fees and removal or relocation fees.

5. The leasing term, rental and the method of payment as to the leasing term of Building B.

5.1 Leasing term: both parties agree that, Party A is entitled to lease Building B for 15 years following the agreement takes effect. After the expiry of the leasing term, in case Party A still rents Building A or within the leasing term for free of rental, the leasing term of Building B shall be extended automatically and accordingly.

5.2 Rental: both parties agree that the monthly rental of Building B shall be USD \$17,541. The rental can be adjusted where meeting mutual agreement.

5.3 Method of payment: Party A shall pay the rental to the account as nominated by Party B before 1st monthly.



5.4 Deposit: Party A shall pay Party B a deposit of USD\$ 17,030 for leasing Building B, This deposit should apply against the last month's rent due by Party A to Party B

6. Termination of the agreement prior to the maturity of the leasing term of Building B

6.1 Where Party A will terminate the agreement prior to the maturity of the leasing term, Party A thereby shall compensate all losses, and damages suffered by Party B. The amount of compensation shall be decided upon negotiation between two parties.

6.2 Under the circumstances that Party A terminates the agreement prior to the maturity of the leasing term of building A for free of rental, Party A shall not be entitled to refund the deposit of USD\$17,030.

7. Insurance and repair costs

7.1 During the Leasing Term and Free of rental period, Party A is liable to purchase insurance for Building A and bear the repair costs as well, If Party A can not obtain building insurance, then Party B will be requested to obtain insurance and Party A will reimburse Party B for the actual insurance cost

7.2 During the Leasing Term, Party B is liable to purchase insurance for Building B and bear the repair costs as well.

7.3 Party B is entitled to inspect the utilization of buildings rented by Party A and Party A should provide assistance.

8. Liability for breach of the agreement

Where Party B violates article 2.2 of the agreement for failing to pay installment punctually, then Party B shall be liable to pay liquidate damages to Party A at the rate of 0.21/ooof the installment for each day of delay.

8.1 Where Party A violates article 3.3 of the agreement for failing to pay the rent, then Party A shall pay a penalty at the rate of 0.21/of the rent for each day of delay.

8.2 Where Party B breach its warranties stipulated in article 6, Party B shall compensate Party A's lost and damages if any.

8.3 Party A is not allowed to:

(1) sub-lease Building A and Building B or exchange the use of two buildings with other parties without Party B's consent.

(2) In case Party A alters the structure of two building or damage two buildings without Party B's consent, Party A is liable to compensation.

(3) In case Party A changes the lease purpose prescribed in the agreement and the subject of lease without Party B's consent, Party A is liable to restoration and compensation.

9. Warranties

Party B hereby warrants that with the period of the lease and term for free of rent Building A and Building B shall not be sold or mortgaged except for Party A's prior approval in writing.

10. Force Majeure

10.1 The definition of Force Majeure

Force Majeure shall mean all events which are beyond the control of the Parties to this agreement, and which are unforeseen, unavoidable and insurmountable, and which arise after the Effective Date and which prevent total or partial performance by either party. Such events shall include earthquakes, typhoons, flood, fire, war, acts of government or public agencies, strikes and any other event which can not be foreseen, prevented and controlled, including events which are recognized as Force Majeure in general international commercial practice.

## 10.2 Consequences of Force Majeure

- a. If an event of Force Majeure occurs, a Party's contractual obligations affected by such an event shall be suspended during the period of delay caused by the Force Majeure and the period for performing such obligation shall be extended, without penalty, for a period equal to such suspension.
- b. The party claiming Force Majeure shall promptly inform the other party in writing and shall furnish with in fifteen (15) days thereafter sufficient proof of the occurrence and expected duration of such Force Majeure. The party claiming Force Majeure shall also use all reasonable endeavors to terminate the Force Majeure.
- c. In the event of Force Majeure, the parties shall immediately consult with each other in order to find an equitable solution and shall use all reasonable endeavors to minimize the consequences of such Force Majeure

## 11. The effectiveness of this agreement

This agreement shall become effective after the legal representatives or authorized representatives of both parties affix their signatures and company seals on this agreement.

## 12. Language of the agreement

This agreement is made and executed in Chinese and English, both versions having equal validity.

## 13. Settlement of disputes

### 13.1 Friendly consultations

In the event of any dispute, difference, controversy or claim arising out of or relating to this agreement, including any regarding the breach, termination or validity of this agreement, (a "Dispute") then upon one party giving the other party notice in writing of the Dispute and regarding the commencement of friendly consultations ("Notice of Dispute") the parties shall attempt to resolve such Dispute through friendly consultation.

If the Dispute has not been resolved through friendly consultations with thirty (30) days from the Notice of Dispute was given in respect of it, the Dispute shall be resolved by arbitration in accordance with Article 10.2 such arbitration may be initiated by either party.

### 13.2 Arbitration

The arbitration shall be conducted by Shanghai Arbitration Commission in Shanghai in accordance with its procedure rules. The arbitration award shall be final and binding on the parties. The costs of arbitration shall be borne by the losing party except as may be otherwise determined by the arbitration tribunal.

### 13.3 Continuance of performance

Except for the specified matters in dispute, which are then currently being arbitrated, the parties shall continue to perform their respective obligations under this agreement during any friendly consultations or any arbitration pursuant to this article 10.

### 13.4 Separability

The provisions of these articles 10 shall be separable from the other terms of this agreement. Neither the termination nor the invalidity of this agreement shall affect the validity of the provisions of this article 10.

## 14. Applicable law

The validity, interpretation and implementation of this agreement and the settlement of disputes herein shall be governed by relevant PRC laws and regulation which are officially promulgated and publicly available.

15. Miscellaneous

15.1 Anything not prescribed by the agreement shall be made as the supplementary clauses by two parties' mutual agreement. The supplementary clauses and exhibitions constitute the part of the entire agreement.

15.2 Both parties know their respective right, obligation, liability, very clearly and will execute the agreement in accordance with the provisions of the agreement. Where one party violates the agreement, the other party is entitled to claim damages in accordance with the agreement.

15.3 Any notice or written communication provided for in this Contract from one Party to the other Party shall be made in writing in Chinese and English and sent by courier service delivered letter. The date of receipt of a notice or communication hereunder shall be deemed to be seven (7) days after the letter is given to the courier service provided it is evidenced by a confirmation receipt. All notices and communications shall be sent to the appropriate address set forth below, until the same is changed by notice given in writing to the other Party.

To: Party A  
Address: Shanghai KaiHong Electronics, Ltd.

To: Party B  
Shanghai Ding Hong Electronic Co.,  
Ltd.

Attn.: /s/ Joseph Liu,  
Joseph Liu, President  
Date: March 30, 2002

Attn.: /s/ J.Y. Xing  
J.Y. Xing, President  
Date: March 30, 2002

Exhibit 10.47  
Lease Agreement

This Lease Agreement (hereinafter referred to as "the Lease") is entered into as March 30, 2002, in the city of Shanghai, by and between SHANGHAI KAI HONG ELECTRONIC COMPANY, LIMITED (hereinafter referred to as "Party A") with its registered office at East of Chen Chun Road, XinQiao Town, SongJiang District, Shanghai, P.R.C. and SHANGHAI DING HONG ELECTRONIC EQUIPMENT LIMITED (hereinafter referred to as "Party B") with its registered office at No. 999, Chen Chun Road, XinQiao Town, SongJiang District, Shanghai, P.R.C.

Party A and Party B are collectively referred to as the Parties and each as a Party.

WHEREAS,

1. Party B represents that it is the legal owner of the Factory Building and the Utility Building (hereinafter collectively referred to as "the Buildings") with full legal power to enter into this Lease.

2. Party A agrees to lease to Party B the partial area of the first floor of the Factory Building (set forth in Exhibit One, hereinafter referred to as "Rent Area A") and the Utility Building (set forth in Exhibit Two, hereinafter referred to as "Rent Area B") in accordance with the terms and conditions of this Lease. Rent Area A and Rent Area B are collectively referred to as the Rent Areas as the area for lease in the "Phase I". Party B accepts this Lease.

3. Party B understands that there is no guarantee or obligation on the part of Party A that it will lease any portion of the Buildings other than the Rent Areas from Party B including, but not limited to the second floor and the third floor of the Building.

NOW, THEREFORE, THE PARTIES HEREBY AGREE AS FOLLOWS,

1. Definitions and Interpretation

Unless otherwise defined in this Lease, the terms used in the Lease shall only have the meanings hereunder.

1.1 "Factory Building" shall mean the building of three stories (Construction Number C) located in the lot No. 375 of Song Jiang District, Shanghai.

1.2 "Rent Area A" shall mean the first floor of the Factory Building excluding the shade area marked in the Exhibit One ("1st Floor Layout for Factory Building").

1.3 "Utility Building" shall mean the building of three stories (Construction Number) located in the lot No. 375-1 of Song Jiang District, Shanghai.

1.4 "Rent Area B" shall mean the first floor of the Utility Building excluding the shade area marked in the Exhibit Two ("Utility Building 1st Floor Layout").

1.5 "Effective Date" shall mean the date on which the Lease will take effect after the legal representatives or authorized representatives of the Parties affix their signatures and corporate seals on the Lease.

1.6 "Rent Term" shall mean the period of time in which Party A is entitled to use the Rent Areas and Party B is entitled to receive rent from Party A in accordance with the terms and conditions of this Lease.

2. Gross Area of the Rent Areas

2.1 The gross area of the Rent Area A is 1233.90 square meters.

2.2 The gross area of the Rent Area B is 478.80 square meters.

3. Rent Term

3.1 The Parties agree that the Lease Term is 5 years commencing from the date of

March 1, 2002.

3.2 The Rent Term shall be automatically renewed for successive 5 year terms unless Party A gives notice of termination not less than 30 days before the expiration of any Lease Term. In its operating period, Party A has the priority to the Rent Areas defined in this Contract and Party B shall not terminate this Contract without reasonable cause and Party A's approval in written.

3.3 In the period of renewal, the items relating to the rental stipulated in Article 4 of the Lease shall be adjusted upon consultation on the basis of the current-then index number of prices.

4. Rental

4.1 The Parties agree that the monthly Rental of the Rent Area A shall be US\$4 per square meter and for a total of US\$ 4935.60.

4.2 The Parties agree that the monthly Rental of the Rent Area B shall be US\$4 per square meter and for a total of US\$ 1915.20.

5. Method of Payment

Party A shall pay the Rental in RMB Yuan according to the Medium Rate of Exchanges published by the Bank of China on the day of payment to the RMB account as prescribed by Party B before the first day of every month.

6. Deposit

Party A shall pay Party B a deposit amounting to US\$ 6850.80 within 10 days of the effective date of the Lease.

7. Right of First Refusal

If, during any term of this Lease, Party B receives from a third party a bona fide, legally binding offer to rent any portion of the Buildings other than the Rent Areas, it shall notify Party A of this fact. The notice shall specify all terms in the bona fide third party offer. Party A shall then have thirty (30) days to rent that portion of the Buildings referred to in the bona fide offer on the same terms and conditions. Party B shall not rent the remaining portion of the Buildings to any third party until the thirty (30) days has expired, without Party A exercising its right of first refusal.

8. Termination of the Lease

If either Party terminates the Lease prior to the expiration of the Rent Term without the consent from the other Party, the former thereby shall pay damages to the latter to compensate its actual loss. The amount of damages shall include, but not be limited to the reasonable profits, out-of-pocket costs, legal fees, accounting fees and removal or relocation fees.

9. Insurance and Repair Costs

9.1 During the term of the rental agreement, Party B shall purchase & maintain insurance coverage to cover any and all casualty damage to the Rent Areas, and shall be responsible for repairs of all structural damages to the building that are not the result of improper use by Party A. Party A shall be responsible for all repair costs arising from improper usage by Party A. If Party B cannot obtain building insurance, the Party A will be requested to obtain insurance, and Party B will reimburse Party A for all costs of such insurance coverage".

9.2 Party B shall be entitled to inspect the Rented Areas at reasonable intervals and upon reasonable notice. Party A shall provide assistance to allow such inspections.

10. Liability for Breach of the Lease

10.1 If Party A violates Article 5 of the Lease for failing to pay the Rental, then Party A shall pay a penalty at the rate of 0.21/oo of the Rental for each day of delay.

10.2 Where Party B breaches its warranties stipulated in Article 11, Party B shall compensate Party A for all of its losses and damages including consequential damages.

10.3 Party A shall not:

- (4) sub-lease the Rented Areas or exchange the use of the Rented Areas with other parties without Party B's prior, written consent.
- (5) alter the structure of the Rented Areas or damage the Rented Areas without Party B's prior, written consent.
- (6) change the Lease purpose stipulated by the competent authorities without Party B's consent.

#### 11. Warranties

11.1 Party B hereby warrants that if the Rent Areas are sold to any third party in the Rent Term or the period of renewal, the third party shall continue to carry out the Contract. In case the third party fails to carry out the Contract, Party B shall compensate Party A for all of its losses and damages.

11.2 In case Party B mortgages the Rent Areas to the third party, any loss suffered by Party A shall be indemnified by Party B.

#### 12. Alteration

12.1 The lease of the area marked as "Phase II" and "Phase III" in the Exhibit One shall be discussed further to meet Party A's requirements for productivity improvement.

12.2 If the Parties reach an agreement for the lease of the area set forth in Section 11.1, the layout of the area shall be signed by the Parties as the Exhibit Three of the Lease and the Gross Area and the monthly Rental set forth in Article 2 and Article 4 shall be adjusted accordingly.

#### 13. Force Majeure

##### 13.1 The definition of Force Majeure

Force Majeure shall mean all events which arise after the Effective Date which are beyond the control of the Parties, are unforeseen, unavoidable and insurmountable, and which prevent total or partial performance by either Party. Such events shall include earthquakes, typhoons, flood, fire, war, acts of government or public agencies, strikes and any other event which cannot be foreseen, prevented and controlled, including events which are recognized as Force Majeure in general international commercial practice.

##### 13.2 Consequences of Force Majeure

- d. If an event of Force Majeure occurs, the contractual obligation of a Party affected by such an event shall be suspended during the period of delay the time for performing such obligation shall be extended, without penalty, for a period equal to such suspension.
- e. The Party claiming Force Majeure shall give prompt notice to the other Party in writing and shall furnish, within fifteen (15) days thereafter, sufficient proof of the occurrence and expected duration of such Force Majeure. The Party claiming Force Majeure shall also use all reasonable efforts to mitigate or eliminate the effects of the Force Majeure.
- f. In the event of Force Majeure, the Parties shall immediately consult with each other in order to find an equitable solution and shall use all reasonable efforts to minimize the consequences of such Force Majeure.

#### 14. The Effectiveness of the Lease

The Lease shall become effective after the legal representatives or authorized representatives of both Parties affix their signatures and company seals on the Lease.

#### 15. Language of the Lease

The Lease is made and executed in Chinese and English, both versions having equal validity.

#### 16. Settlement of Disputes

##### 16.1 Friendly Consultations

a. In the event of any dispute, difference, controversy or claim arising out of or relating to the Lease, including any regarding the breach, termination or validity of the Lease, (a "Dispute") then upon one Party giving the other Party notice in writing of the Dispute ("Notice of Dispute"), the Parties shall

attempt to resolve such Dispute through friendly consultation.

b. If the Dispute has not been resolved through friendly consultations with thirty (30) days from the Notice of Dispute, the Dispute shall be resolved by arbitration in accordance with Article 15.2. Such arbitration may be initiated by either Party.

#### 16.2 Arbitration

The arbitration shall be conducted by Shanghai Arbitration Commission in Shanghai in accordance with its procedure rules. The arbitration award shall be final and binding on the Parties. The costs of arbitration shall be borne by the losing Party except as may be otherwise determined by the arbitration tribunal.

#### 16.3 Continuance of performance

Except for the specified matters in dispute which are then currently being arbitrated, the Parties shall continue to perform their respective obligations under the Lease during any friendly consultations or any arbitration pursuant to this Article 15.

#### 16.4 Separability

The provisions of this Article 15 shall be separable from the other terms of the Lease. Neither the termination nor the invalidity of the Lease shall affect the validity of the provisions of this Article 15. 17. Applicable law The validity, interpretation and implementation of the Lease and the settlement of disputes herein shall be governed by relevant PRC laws and regulations which are officially promulgated and publicly available.

#### 18. Miscellaneous

18.1 Any amendment to this Lease shall be in writing and duly signed by both Parties. Such Amendment shall constitute the part of the entire Lease.

18.2 Both Parties know their respective right, obligation, liability, very clearly and will execute the Lease in accordance with the provisions of the Lease. Where one Party violates the agreement, the other Party is entitled to claim damages in accordance with the Lease.

18.3 Any notice or written communication required or permitted by this Lease shall be made in writing in Chinese and English and sent by courier service. The date of receipt of a notice or communication shall be deemed to be seven (7) days after the letter is deposited with the courier service provided the deposit is evidenced by a confirmation receipt. All notices and communications shall be sent to the appropriate address set forth below, until the same is changed by notice given in writing to the other Party.

To: Party A  
Address: SHANGHAI KAI HONG  
COMPANY, LTD.  
Attn.: /s/ Joseph Liu  
Joseph Liu, President  
Date: March 30, 2002

To: Party B  
Address: SHANGHAI DING HONG ELECTRONIC  
ELECTRONIC EQUIPMENT, LTD.  
Attn.: /s/ Jian Y. Xing  
Jian Y. Xing, President  
Date: March 30, 2002

Exhibit - 11

DIODES INCORPORATED AND SUBSIDIARIES

COMPUTATION OF EARNINGS PER SHARE  
(Unaudited)

	Three Months Ended March 31,	
	2001	2002
<b>BASIC</b>		
Weighted average number of common shares outstanding used in computing basic earnings per share	8,132,559	8,165,325
Net income	\$ 521,000	\$ 208,000
Basic earnings per share	\$ 0.06	\$ 0.03
<b>DILUTED</b>		
Weighted average number of common shares outstanding used in computing basic earnings per share	8,132,559	8,165,325
Assumed exercise of stock options	897,069	608,691
	9,029,628	8,774,016
Net income	\$ 521,000	\$ 208,000
Diluted earnings per share	\$ 0.06	\$ 0.02

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



Diodes Incorporated  
FOR IMMEDIATE RELEASE

Diodes Incorporated Announces Conference Call To Discuss First Quarter FY 2002 Results

Westlake Village, California - April 26, 2002 - Diodes Incorporated (Nasdaq: DIOD), a leading manufacturer and supplier of high quality discrete semiconductors, primarily to the communications, computing, industrial, consumer electronics and automotive markets, will host a conference call at 9 a.m. PDT (12 noon EDT) on Wednesday, May 1st to discuss first quarter of FY 2002 results.

Joining C.H. Chen, President and CEO of Diodes, Inc., will be Mark King, Vice President of Sales and Marketing, and Carl Wertz, Chief Financial Officer. The Company plans to distribute its earnings announcement on Business Wire that same day at 6 a.m. PDT (9 a.m. EDT).

This conference call will be broadcast live over the Internet and can be accessed by all interested parties on the investor section of Diodes' website at [www.diodes.com](http://www.diodes.com). To listen to the live call, please go to the Investor section of Diodes website and click on the Conference Call link at least fifteen minutes prior to the start of the call to register, download, and install any necessary audio software. For those unable to participate during the live broadcast, a replay will be available shortly after the call on Diodes website for 90 days.

About Diodes Incorporated

Diodes Incorporated (Nasdaq: DIOD) is a leading manufacturer and supplier of high-quality discrete semiconductor products, serving the communications, computer, industrial, consumer electronics and automotive markets. The Company operates two Far East subsidiaries, Diodes-China (QS-9000 & ISO-14001 certified) in Shanghai and Diodes-Taiwan (ISO-9000 certified) in Taipei. Diodes-China's manufacturing focus is on surface-mount devices destined for wireless devices, notebook computers, pagers, PCMCIA cards and modems, among others. Diodes-Taiwan is our Asia-Pacific sales, logistics and distribution center. The Company's 5" wafer foundry, Diodes-FabTech (QS-9000 certified), specializes in Schottky products and is located just outside Kansas City, Missouri. The Company's ISO-9000 corporate sales, marketing, engineering and logistics headquarters is located in Southern California. For further information, visit the Company's website at <http://www.diodes.com>.

Source: Diodes Incorporated CONTACT: Crocker Coulson, Partner, Coffin Communications Group; (818) 789-0100 e-mail: [crocker.coulson@coffincg.com](mailto:crocker.coulson@coffincg.com) or Carl Wertz, Chief Financial Officer, Diodes Incorporated; (805) 446-4800

Recent news releases, annual reports, and SEC filings are available at the Company's website: <http://www.diodes.com>. Written requests may be sent to Investor Relations, Diodes Incorporated, 3050 E. Hillcrest Drive, Westlake Village, CA 91362, or they may be e-mailed to: [diodes-fin@diodes.com](mailto:diodes-fin@diodes.com).

Diodes Incorporated  
FOR IMMEDIATE RELEASE

Diodes, Inc. Reports First Quarter 2002 Results  
Sequential revenue growth of 4.4% and return to profitability

Westlake Village, California, May 1, 2002 - Diodes Incorporated (Nasdaq: DIOD), a leading manufacturer and supplier of high quality discrete semiconductors, primarily to the communications, computing, industrial, consumer electronics and automotive markets, today reported financial results for the first quarter of fiscal year 2002 ended March 31, 2002.

First Quarter Highlights:

Return to profitability, with net income for the first quarter of \$208,000 as compared to a loss of \$76,000 for the fourth quarter  
Gross margin improves 230 basis points sequentially from the fourth quarter  
Manufacturing capacity utilization increases to an average of 60%  
Inventory reduced over \$3 million from year-end  
Opened offices in Hong Kong and Shenzhen, China

Revenues for the first quarter of 2002 were \$26.9 million, a sequential increase of 4.4% from the fourth quarter of 2001, and an increase of 4.6% from the first quarter of 2001.

Net income for the quarter was \$208,000, as compared to \$521,000 for the three months ended March 31, 2001 and compared to a net loss of \$76,000 in the fourth quarter ended December 31, 2001. Diluted earnings per share were \$0.02 for the first quarter of 2002, as compared to \$0.06 for the same period last year.

Commenting on the quarter, C.H. Chen, Diodes' President and CEO, said, "We are encouraged by our progress in the first quarter and we are especially pleased to report that Diodes has returned to profitability. After several very challenging quarters in the semiconductor industry, we are starting to see signs of renewed industry growth with increased capacity utilization rates and lower customer inventories. A combination of these factors, cost containment measures, new products and new customers enabled Diodes to achieve positive net income for the quarter."

Diodes growth in the first quarter continued to be driven by the Asian market, which accounted for 47% of sales, up from 39% in the same period last year. During the quarter, the Company opened an office in Hong Kong, enabling Diodes to better provide service and support to its growing Asian customer base, and opened an office in Shenzhen, in mainland China. In addition, European sales are showing positive trends.

While unit demand is up, price competition continues to be intense, as average selling prices fell. Increased capacity utilization coupled with manufacturing cost saving measures contributed to an improved gross profit margin of 16.2% in the first quarter of 2002, compared to 13.9% in the fourth quarter of 2001.

"For the quarter, capacity utilization increased sequentially at both our mainland China facility, Diodes-China, and at our wafer facility, Diodes-FabTech. We have seen indications of renewed distribution ordering and a slight lengthening in order times from OEMs. However, continuing to improve the efficiency of our operations and bring down unit costs will remain a major operational focus for the balance of 2002," stated Mr. Chen.

For the quarter, SG&A expenses were \$3.8 million as compared to \$3.7 million in the fourth quarter. As a percentage of sales, SG&A expenses decreased to 14.0% from 14.3% in the fourth quarter.

"Diodes is gaining significant momentum as a provider of

next-generation surface-mount discrete devices across all market segments. In 2001, we escalated our research & development efforts with the creation of a cross-functional R&D team to develop new technology and increase our product range towards higher margin, differentiated products. For the first quarter, we increased our R&D spending to \$313,000 from \$142,000 in the prior quarter and we are just beginning to realize the benefits of this multi-year strategy," said Mr. Chen.

"Our customer access and market share for targeted products continue to improve," Mr. Chen continued. "During the quarter, we introduced a number of new products including our SBM1040, the first in our Powermite(R)3 platform, and designed for applications requiring a compact profile such as DC-DC converters, switch mode power supplies, notebook PCs, graphics cards, and handheld and portable electronics. Also introduced was our DLP05LC low-capacitance data line protection device designed for portable electronics, including PDAs and laptop computers and other computer peripherals. In addition we secured several design wins with multiple qualifications in our target end equipment, such as notebook, flat panel display, digital camera, mobile handset, set top box, and DC-DC conversion. We will continue to build on this momentum throughout 2002 and develop proprietary product lines that will enhance the depth and breadth of our product range."

The Company continued to manage inventories, which decreased \$3 million or 17% to \$14.7 million from \$17.8 million at the end of 2001. In addition, Diodes paid down approximately \$2.5 million in long-term debt and \$3.2 million on its revolving credit line, ending the first quarter with \$6.1 million in cash.

Mr. Chen concluded, "We are encouraged by signs that industry fundamentals are improving. We believe that both distributor and our own inventory levels are at a low point and we would anticipate beginning to rebuild inventories over the balance of the year to support customer needs. As we continue to improve capacity utilization and introduce new higher margin, proprietary products, we expect to continue to benefit from the operating leverage inherent in our business. Nevertheless, we remain cautious about the timing of improvements in capital spending and PC demand. Therefore, for the second quarter, we are projecting similar revenue increases, with gross margin increasing another 200-300 basis points resulting in improved profitability."

#### About Diodes Incorporated

Diodes Incorporated (Nasdaq: DIOD) is a leading manufacturer and supplier of high-quality discrete semiconductor products, serving the communications, computer, industrial, consumer electronics and automotive markets. The Company operates two Far East subsidiaries, Diodes-China (QS-9000 and ISO-14001 certified) in Shanghai and Diodes-Taiwan (ISO-9000 certified) in Taipei. Diodes-China's manufacturing focus is on surface-mount devices destined for wireless devices, notebook computers, pagers, PCMCIA cards and modems, among others. Diodes-Taiwan is our Asia-Pacific sales, logistics and distribution center. The Company's 5" wafer foundry, Diodes-FabTech (QS-9000 certified), specializes in Schottky products and is located just outside Kansas City, Missouri. The Company's ISO-9000 corporate sales, marketing, engineering and logistics headquarters is located in Southern California. For further information, visit the Company's website at <http://www.diodes.com>.

Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995: Any statements set forth above that are not historical facts are forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. Potential risks and uncertainties include, but are not limited to, such factors as fluctuations in product demand, the introduction of new products, the Company's ability to maintain customer and vendor relationships, technological advancements, impact of competitive products and pricing, growth in targeted markets, risks of foreign operations, and other information detailed from time to time in the Company's filings with the United States Securities and Exchange Commission.

Source: Diodes Incorporated CONTACT: Crocker Coulson, Partner, Coffin Communications Group; (818) 789-0100 e-mail: [crocker.coulson@coffincg.com](mailto:crocker.coulson@coffincg.com) or

Carl Wertz, Chief Financial Officer, Diodes, Inc.; (805) 446-4800

Recent news releases, annual reports, and SEC filings are available at the Company's website: <http://www.diodes.com>. Written requests may be sent directly to the Company, or they may be e-mailed to: [diodes-fin@diodes.com](mailto:diodes-fin@diodes.com).

CONSOLIDATED CONDENSED INCOME STATEMENT and BALANCE SHEET FOLLOWS

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

	Three Months Ended March 31,	
	2001	2002
Net sales	\$ 25,748,000	\$ 26,924,000
Cost of goods sold	21,627,000	22,572,000
Gross profit	4,121,000	4,352,000
Research and development expenses	139,000	313,000
Selling, general and administrative expenses	3,045,000	3,765,000
Total operating expenses	3,184,000	4,078,000
Income from operations	937,000	274,000
Other income (expense)		
Interest income	66,000	8,000
Interest expense	(740,000)	(346,000)
Other	(96,000)	16,000
	(770,000)	(322,000)
Income before income taxes and minority interest	167,000	(48,000)
Income tax benefit	429,000	295,000
Income before minority interest	596,000	247,000
Minority interest in joint venture earnings	(75,000)	(39,000)
Net income	\$ 521,000	\$ 208,000
Earnings per share		
Basic	\$ 0.06	\$ 0.03
Diluted	\$ 0.06	\$ 0.02
Weighted average shares outstanding		
Basic	8,132,559	8,165,325
Diluted	9,029,628	8,774,016

DIODES INCORPORATED AND SUBSIDIARIES  
CONSOLIDATED CONDENSED BALANCE SHEET

ASSETS

December 31,

March 31,

	2001	2002
	-----	-----
		(Unaudited)
CURRENT ASSETS		
Cash and cash equivalents	\$ 8,103,000	\$ 6,113,000
Accounts receivable		
Customers	16,250,000	16,814,000
Related parties	1,486,000	4,481,000
	-----	-----
	17,736,000	21,295,000
Less: Allowance for doubtful receivables	343,000	325,000
	-----	-----
	17,393,000	20,970,000
Inventories	17,813,000	14,677,000
Deferred income taxes, current	4,368,000	4,368,000
Prepaid expenses, income taxes and other current assets	1,266,000	1,844,000
	-----	-----
Total current assets	48,943,000	47,972,000
PROPERTY, PLANT AND EQUIPMENT, at cost, net of accumulated depreciation and amortization	44,925,000	46,430,000
DEFERRED INCOME TAXES, non-current	3,672,000	3,733,000
OTHER ASSETS		
Goodwill, net	5,090,000	5,090,000
Other	628,000	687,000
	-----	-----
TOTAL ASSETS	\$ 103,258,000	\$ 103,912,000
	=====	=====

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

DIODES INCORPORATED AND SUBSIDIARIES  
CONSOLIDATED CONDENSED BALANCE SHEET

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 2001	March 31, 2002
	-----	-----
		(Unaudited)
CURRENT LIABILITIES		
Line of credit	\$ 6,503,000	\$ 3,300,000
Accounts payable		
Trade	6,098,000	8,247,000
Related parties	3,149,000	3,309,000
Accrued liabilities	5,062,000	5,600,000
Current portion of long-term debt		
Related party	2,500,000	2,500,000
Other	5,833,000	8,608,000
Current portion of capital lease obligations	--	114,000
	-----	-----
Total current liabilities	29,145,000	31,678,000
LONG-TERM DEBT, net of current portion		
Related party	7,500,000	7,500,000
Other	13,664,000	8,431,000
CAPITAL LEASE OBLIGATIONS, net of current portion	--	2,633,000
MINORITY INTEREST IN JOINT VENTURE	1,825,000	1,864,000
STOCKHOLDERS' EQUITY		
Class A convertible preferred stock - par value \$1.00 per share; 1,000,000 shares authorized; no shares issued and outstanding	--	--
Common stock - par value \$0.66 2/3 per share; 30,000,000 shares authorized; 9,227,664 and 9,242,664 shares issued and outstanding at December 31, 2001 and March 31, 2002, respectively	6,151,000	6,161,000
Additional paid-in capital	7,310,000	7,762,000
Retained earnings	39,882,000	40,090,000
	-----	-----
	53,343,000	54,013,000
Less:		
Treasury stock - 1,075,672 shares of common stock, at cost	1,782,000	1,782,000
Accumulated other comprehensive loss	437,000	425,000
	-----	-----
	2,219,000	2,207,000

Total stockholders' equity	51,124,000	51,806,000
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 103,258,000	\$ 103,912,000
	=====	=====

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