

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934 [FEE REQUIRED]
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1996.

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]
For the transition period from _____ to _____.
COMMISSION FILE NUMBER: 1-5740

DIODES INCORPORATED

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other
jurisdiction of
incorporation or
organization)

95-2039518
(I.R.S. Employer
Identification
Number)

3050 EAST HILLCREST DRIVE
WESTLAKE VILLAGE, CALIFORNIA
(Address of principal executive
offices)

91362
(Zip Code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (805) 446-4800

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

COMMON STOCK, PAR VALUE \$0.66 2/3
(Title of each class)

AMERICAN STOCK EXCHANGE
(Name of each exchange
on which registered)

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

--- ---

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

The aggregate market value of the 2,573,919 shares of Common Stock held by non-affiliates of the registrant, based on the closing price of the Common Stock on the American Stock Exchange on March 21, 1997 of \$7.50 per share, was approximately \$19,304,392.

The number of shares of the registrant's Common Stock outstanding as of March 21, 1997, was 5,675,794 including 717,115 shares of treasury stock.

THIS REPORT INCLUDES A TOTAL OF 63 PAGES
THE EXHIBIT INDEX IS ON PAGE 51

DIODES INCORPORATED

TABLE OF CONTENTS

| | Page |
|--|------|
| | ---- |
| PART I..... | 2 |
| Item 1. Business | 2 |
| Item 2. Properties | 8 |
| Item 3. Legal Proceedings | 9 |
| Item 4. Submission of Matters to a Vote of Security Holders | 9 |
| PART II | 9 |
| Item 5. Market for Registrant's Common Equity and Related Stockholder Matters..... | 9 |
| Item 6. Selected Financial Data..... | 10 |
| Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations | 11 |
| Item 8. Financial Statements and Supplementary Data..... | 17 |
| Item 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure..... | 17 |
| PART III | 17 |
| Item 10. Directors and Executive Officers of the Registrant. | 17 |
| Item 11. Executive Compensation..... | 21 |
| Item 12. Security Ownership of Certain Beneficial Owners and Management..... | 25 |
| Item 13. Certain Relationships and Related Transactions | 28 |
| PART IV | 30 |
| Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K..... | 30 |
| Cautionary Statement for Purposes of the "Safe Harbor" Provision of the Private Securities Litigation Reform Act of 1995..... | 49 |
| SIGNATURES..... | 50 |
| INDEX TO EXHIBITS..... | 51 |

ITEM 1. BUSINESS

BUSINESS DEVELOPMENT

Diodes Incorporated (the "Company") was formed in 1959 under the laws of Delaware. The Company is engaged in the manufacture, sale, and distribution of discrete semiconductors worldwide, primarily to manufacturers of automotive, computer and telecommunication products and to distributors of electronic components. In addition to the Company's corporate headquarters and marketing facility in Westlake Village, California, and the joint venture manufacturing facility in Shanghai, China, the Company's wholly-owned subsidiary, Diodes Incorporated Taiwan Company, Ltd. ("Diodes-Taiwan"), maintains an engineering, manufacturing, purchasing, and sales facility in Taipei, Taiwan.

The Company, following a restructuring in 1990, has grown rapidly as a supplier of discrete semiconductors. In 1990, the Company installed new management and raised additional capital from the private sale of 1,000,000 shares of the Company's Common Stock to Silitek Corporation ("Silitek"), a Taiwanese company engaged in the manufacture and sale of electronic components and equipment, including semiconductor rectifiers. After a further purchase of the Company's stock, Silitek transferred such Common Stock ownership interest in 1991 to Lite-On Power Semiconductor Corporation ("LPSC"), a wholly-owned, Taiwanese subsidiary of Silitek. LPSC continues to be a major shareholder of the Company, owning 1,995,093 shares of the Company's Common Stock, or 40.2% of the total shares outstanding of the Company's Common Stock as of December 31, 1996.

The Company's substantial increase in net sales from \$14.7 million in 1991 to \$56.0 million 1996, can be attributed primarily to the Company's continued efforts to improve the level of sales and customer support by strengthening its sales and marketing departments, focusing on a more pro-active selling philosophy, and improving the level of communication, cooperation, planning and control within the Company, as well as to increased industry demand for the Company's products.

The Company is engaged in an ongoing program to develop strategic alliances under terms that will provide the Company access to the products its customers need.

Four alliances, in particular, are part of this effort:

1. A marketing agreement with LPSC that provides customers with access to additional high-quality components, further strengthening the Company's relationship with LPSC. The Company is now the exclusive reseller (with the exception of a few house accounts) for LPSC in North America.
2. A joint venture with Shanghai Kai Hong Electronics Co., Ltd. ("Kai Hong") that gives the Company additional SOT-23 capacity. The Company provided Kai Hong with capital for the construction of a new facility, primarily for the manufacture of high quality SOT-23 products. See "Item 1. Business - New Developments."
3. A marketing agreement with Intermetall, Halbleiterwerk der Deutsche, ITT Industries GmbH ("ITT") of Freiburg, Germany, to distribute ITT's complete line of discrete semiconductors in North America, including Canada and Mexico. Under this agreement, the Company is the exclusive marketing channel for these products in North America.

4. An agreement with FabTech, Inc. ("FabTech"), a wholly-owned subsidiary of LPSC, whereby the Company will gain a new supply of processed wafers for its Diodes-Taiwan and Kai Hong facilities used in the manufacture of various types of discrete semiconductors. See "Item 1. Business -- New Developments".

These alliances are part of the Company's long-term strategic plan to expand its product line and secure reliable product sourcing for products that its customers need, while maintaining profitability.

In August 1996, the Company obtained a new \$23 million credit facility consisting of: (i) a term loan and (ii) a standby letter of credit, both earmarked for financing the Kai Hong joint venture and for other sourcing agreements; and (iii) a revolving credit facility for working capital as needed. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources" for a description of the Company's credit facility.

PRODUCTS

Semiconductors come in two basic configurations: discrete and integrated circuits. Discrete semiconductors, of which the Company is engaged in the manufacture, sale, and distribution are fixed-function components such as small signal transistors, medium-power MOSFETs, transient voltage suppressors (TVSs), zeners, Schottkys, diodes, rectifiers and bridges.

Far more complex in terms of function are integrated circuits - - multi-function devices of the sort found in computer memory boards and central processing units. Integrated circuits, characterized by rapid changes in both production and application, and the desire to put ever-more intelligence into ever-smaller packages, have required the development of manufacturing techniques that are sophisticated and expensive.

In contrast, there is little that is proprietary about the manufacturing of discrete semiconductors. Here technologies are neither new nor rapidly evolving. Success, therefore, is highly dependent upon the ability to produce large numbers of inexpensive components of consistent high quality, and with low overhead.

Discretes, which effectively tie integrated circuits to their surrounding environments and enable them to work, come in hundreds of permutations and vary according to voltage, current, power handling capability, and switching speed.

In a standard industry classification, those discrete semiconductors operating at less than 1 watt are referred to as low-power semiconductors, while those operating at greater than 1 watt are termed power semiconductors. Both types of semiconductors are found in a wide assortment of commercial instrumentation and communication equipment, in consumer products like televisions and telephones, and in automotive, computer and industrial electronic products.

MANUFACTURING AND SIGNIFICANT VENDORS

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. The two largest suppliers of products to the Company are LPSC, an affiliate of the Company based in Taiwan, and ITT, based in Freiburg, Germany. During the year ended December 31, 1996, approximately 28% and 31% of purchases were from these two vendors, respectively. See Notes 11 and 12 of "Notes to Consolidated Financial Statements," included herein, for a description of the major vendors and the relationship between LPSC and the Company. In addition, Diodes-Taiwan supplied approximately 4% of the Company's purchases in 1996, and the Kai Hong facility has begun to ship a nominal amount of product to the Company. The Company anticipates that Kai Hong will become an increasingly valuable supplier.

The Company's products are sold under several brand names such as Diodes, Inc., Lite-On, and ITT. The Company may choose, if proven beneficial, to unify product lines under one brand name in order to establish brand name unity, consistency of product and to capitalize on brand name recognition, where possible.

Although the Company believes that there exist alternative sources for the products of any of its suppliers, the loss of any one of its principal suppliers or the loss of several suppliers in a short period of time could have a short-term, materially adverse effect on the Company.

SALES AND MARKETING

The discrete semiconductor components market is served by numerous semiconductor manufacturers and distributors. Some of the larger companies include Motorola, National Semiconductor, International Rectifier, Rohm, Phillips, and General Instruments, many of whom have greater financial, marketing, brand name and other resources than the Company. Over the years, there has been a tendency among some larger manufacturers to limit or de-emphasize the production and marketing of discrete components in favor of integrated and hybrid circuits. With fewer service-oriented sources of discrete components available to original equipment manufacturers ("OEMs"), the Company has been able to make gains in market share.

The Company sells its products through its own internal and regional sales departments as well as through representatives and distributors. The Company's in-house sales team, aided by the sales force of approximately 30 independent sales representatives located throughout North America and the Pacific Rim, supplies more than 300 OEM accounts. The Company's products include catalog items and units designed to specific customer requirements. The Company further supplies approximately 50 stocking distributors, who collectively sell to over 5,000 customers on the Company's behalf. At December 31, 1996, OEM customers accounted for approximately 66% of the Company's net sales. Customers range from Fortune 500 companies to small, privately-held OEMs.

Through continuous sales and customer service efforts, the Company further developed significant business relationships with companies who are considered leaders in their respective market segments, such as automotive, telecommunications, personal computers, computer peripherals and industrial. The Company's marketing efforts have also benefited from an ongoing program to develop strategic alliances with manufacturers, such as FabTech and Kai Hong, to better control its destiny in terms of the price, the quality and especially the availability of the products it sells.

The Company's products are sold primarily in North America and the Pacific Rim, both directly to end users and through electronic component distributors. During 1996, approximately 85% and 15% of the Company's products were sold in North America and the Pacific Rim, respectively.

During the past five years, the Company has pursued an aggressive program to improve product quality and customer service in order to support more broad-based, strategic accounts. For the fiscal years ended December 31, 1996, 1995, and 1994, the sale of discrete semiconductor products represented 100 percent of the Company's net sales and the Company intends to continue this dedication to discrete semiconductors.

Through Diodes-Taiwan, the Company employs a general manager who acts as the Pacific Rim purchasing liaison with respect to product procurement from other vendors located in the Far East. Diodes-Taiwan also manufactures product for sale to the Company as well as for other customers. In addition, Diodes-Taiwan generates sales in Taiwan and other Asian countries. See Note 12 of "Notes to Consolidated Financial Statements."

During the fiscal year ended December 31, 1996, the Company sold its products to approximately 300 direct customers, and to distributors who sell to over 5,000 additional indirect customers.

During most of 1996, both the Company and its industry experienced a slowdown in demand for discrete semiconductor products. In general, the Company maintains sufficient inventories of standard products to permit rapid delivery of customers' orders where required, and continuously coordinates with subcontractors to support future product demand. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources."

All of the Company's inventory is composed of discrete semiconductors which are standardized in electronic related industries. Finished goods inventory turns over approximately four times annually. The Company has no special inventory or working capital requirements that are not in the ordinary course of business. Unless arrangements are otherwise specially made, invoices to customers are payable net 30 days. Company policy is to hold shipments to customers who are more than 60 days in arrears.

The Company is not dependent on any one major customer to support its level of net sales. For the fiscal year ended December 31, 1996, there was not one customer that accounted for more than 5% of the Company's net sales. The twenty largest customers of the Company accounted, in total, for approximately 44% of the Company's net sales during such period.

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. Backlog of orders scheduled to ship within six months were approximately \$10.2 million on December 31, 1996, compared to approximately \$12.0 million on December 31, 1995, and \$8.8 million on December 31, 1994. The Company and the industry as a whole is experiencing a trend towards shorter lead-times (the amount of time between the date a customer places an order to the date the customer requires shipment). Accordingly, the amount of backlog at any date is not necessarily indicative of actual shipments. The Company strives to maintain proper inventory levels to support customers' just-in-time order expectations.

NEW DEVELOPMENTS

In February 1996, the Company announced an agreement with FabTech, Inc. whereby the Company gained a new supply of processed wafers used in the manufacture of several types of discrete semiconductors. The Company has provided FabTech with approximately \$2.5 million in working capital to be used in upgrading, reconfiguring, and starting up operations at an existing wafer fabrication facility located in the AT&T building in Lee's Summit, Missouri. FabTech is a newly-created, wholly-owned subsidiary of LPSC.

The Company's Diodes-Taiwan and Kai Hong manufacturing facilities receive wafers from FabTech, among others. Output from the FabTech facility includes wafers used in the production of Schottky barrier diodes, fast recovery epitaxial diodes (FREDs), and other widely used value-added products. Schottky barrier diodes are employed in the manufacture of the power supplies found in personal computers, telecommunications devices and myriad other applications where high frequency, low forward voltage and fast recovery are required.

In March 1996, the Company entered into the Kai Hong joint venture for the development of additional manufacturing capacity in Shanghai. The joint venture allows for the manufacturing and sales of diodes and associated electronic components. The Company has a 70% controlling interest, is responsible for production and management, and currently receives 100% of the production, mainly in SOT-23 packaged components. The Company has an equity contribution of \$2.8 million and the minority interest party has an equity contribution of \$1.2 million. The joint venture agreement allows for additional expansion in several phases according to market demand. The initial phase of the Kai Hong operation is now in full production, and beginning in the first quarter of 1997, is making a positive contribution to the Company's bottom line.

These alliances, among others, assist the Company to enhance its ability to acquire -- in a timely fashion and at reasonable cost -- the products that its customers need.

In March 1997, as a result of the Company's total commitment to customer satisfaction and product quality, the Company's corporate headquarters received official ISO 9002 Certification of Registration from Underwriters Laboratories, the leading third-party certification organization in the United States and the largest in North America. ISO 9000 certifications consist of a series of paradigms for the establishment of systems and protocols to facilitate the creation and maintenance of superior quality-control techniques. With its underlying premise that true product quality requires a total quality system, ISO certification is often required of vendors seeking to establish relationships with OEMs doing business in intensely competitive global markets.

COMPETITION

Competition in the semiconductor marketplace, in which the Company competes, is intense. The Company competes with discrete semiconductor manufacturing companies such as Motorola, National Semiconductor, International Rectifier, Rohm, Phillips, and General Instruments, as well as distributors of similar product lines such as Taitron Components.

Competitiveness in sales of the Company's products is determined by the price and quality of the product and the ability of the Company to provide delivery in keeping with the customers' needs. The Company believes itself to be well equipped to be competitive in respect to these requirements. Although technology in the semiconductor industry is ever changing, the products sold by the Company are mature products. Because of this, the Company is not expecting to experience much further technological change within its current product line, nor does it believe its products will become obsolete.

in the foreseeable future. The Company's market share is estimated at 3% based upon the total area market for discrete semiconductors in North America. Many of the Company's competitors have substantially greater financial, marketing, distribution and other resources than the Company. Accordingly, in response to market conditions, the Company from time to time may reposition product lines or decrease prices, which may adversely affect the Company's profit margins on such product lines. See "Cautionary Statement for Purposes of the 'Safe Harbor' Provision of the Private Securities Litigation Reform Act of 1995."

EMPLOYEES

As of December 31, 1996, the Company employed a total of 59 full-time employees in the United States: 19 in sales and marketing, 21 in customer support, and 19 in operations and administration. Diodes-Taiwan employed an additional 61 employees in its Taiwan office: 43 in manufacturing, 3 in sales, and 15 in purchasing, quality control, and administration. The Kai Hong manufacturing facility employed a total of 117 employees; 67 in manufacturing and 50 in quality control and general administration. None of the Company's employees is subject to a collective bargaining agreement. The Company considers its relations with its employees to be satisfactory.

IMPORTS AND IMPORT RESTRICTIONS

During 1996, the Company's U.S. operations, which accounted for approximately 85.5% of the Company's total net sales, imported substantially all of its products, of which approximately 31.5% was imported from Taiwan and approximately 17.3% from mainland China. The balance of the imports are from Germany, Japan, India, the Philippines, England and Korea, among others. As a result, the Company's operations are subject to the customary risks of doing business abroad, including, among other things, the difficulty and expense of maintaining foreign sourcing channels, cultural and institutional barriers to trade, fluctuations in currency exchange rates, restrictions on the transfer of funds and the imposition of tariffs, political instability, transportation delays, expropriation, import and export controls and other non-tariff barriers (including export licenses and changes in the allocation of quotas), as well as the uncertainty regarding the future relationship between China and Taiwan, and other U.S. and foreign regulations that may apply to the export and import of the Company's products, and which could have a material adverse effect on the Company. Any significant disruption in the Company's Taiwanese or Chinese sources of supply or in the Company's relationship with its suppliers located in Taiwan or China could have a material adverse effect on the Company.

The Company purchases products from foreign suppliers in United States dollars and, accordingly, its results of operations could be materially and adversely affected by fluctuations in currency exchange rates. The Company's imported products are also subject to United States customs duties and, in the ordinary course of business, the Company from time to time is subject to claims by the United States Customs Service for duties and other charges. The Company attempts to reduce the risk of doing business in foreign countries by, among other things, contracting in U.S. dollars, and, when possible, maintaining multiple sourcing of product groups from several countries.

FINANCIAL INFORMATION ABOUT FOREIGN AND DOMESTIC OPERATIONS AND EXPORT SALES

With respect to foreign operations see Notes 1, 11 and 12 of "Notes to Consolidated Financial Statements".

ITEM 2. PROPERTIES

The Company's primary physical properties during the year ended December 31, 1996, were as follows:

1. Industrial building located at 3050 East Hillcrest Drive, Westlake Village, California 91362. This building, consisting of 30,800 square feet, is the Company's corporate headquarters and product distribution center. The Company is primary lessee under a lease that will expire December 14, 1998.

The Company has two five-year options to extend the term of the lease.

2. Industrial premises consisting of approximately 9,000 square feet and located at 5Fl. 501-16 Chung-Cheng Road, Hsin-Tien City, Taipei, Taiwan, Republic of China. These premises, owned by Diodes-Taiwan, are used as a manufacturing facility. The facility is subject to a mortgage held by Chang-Hwa Commercial Bank, which matures on November 11, 2003, and is secured by land and buildings.

3. Industrial premises consisting of approximately 7,000 square feet and located at 2Fl. 501-15 Chung-Cheng Road, Hsin-Tien City, Taipei, Taiwan, Republic of China. These premises, owned by Diodes-Taiwan are used as sales and administrative offices. The facility is subject to a mortgage held by Chang-Hwa Commercial Bank, which matures on February 27, 2003, and is secured by land and buildings.

4. Regional sales office located at 400 West Maple, Suite 300, Birmingham, Michigan 48009. These premises are leased at less than \$1,000 per month.

5. Regional sales office located at 78 Northeastern Blvd. #1, Nashua, NH 03062. These premises are leased at less than \$1,000 per month.

6. Regional sales office located at 923-D Merchants Walk NW, Huntsville, Alabama 35801. These premises are leased at less than \$1,000 per month.

7. Industrial building located at Xinqiao Town, Song Jian County, Shanghai, Peoples Republic of China. This building, consisting of approximately 20,000 square feet, is the corporate headquarters and product distribution and manufacturing facility for the newly formed Kai Hong joint venture. The building is owned by the joint venture company, Shanghai Kai Hong Electronics Co., Ltd.

The Company believes its current facilities are adequate for the foreseeable future. See Notes 5 and 13 of "Notes to Consolidated Financial Statements."

ITEM 3. LEGAL PROCEEDINGS

The Company is, from time to time, involved in litigation incidental to the conduct of its business. The Company does not believe that any currently pending litigation, to which it is a party, will have a material adverse affect on its financial condition or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of security holders by the Company during the last three months of the year ending December 31, 1996.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock is listed and traded on the American Stock Exchange ("AMEX") (Symbol "DIO"). The following Table 1 shows the range of high and low sales prices per share for the Company's Common Stock for each fiscal quarter from March 31, 1995 as reported by AMEX.

TABLE 1

| CALENDAR QUARTER ENDED | SALE PRICE OF COMMON STOCK | |
|---------------------------|-------------------------------|----------|
| | HIGH | LOW |
| | ----- | ----- |
| March 31, 1995..... | \$ 7 1/4 | \$ 4 7/8 |
| June 30, 1995..... | 11 7/8 | 5 |
| September 30, 1995..... | 19 5/8 | 11 7/8 |
| December 31, 1995..... | 15 3/4 | 10 1/2 |
| ----- | ----- | ----- |
| March 31, 1996..... | \$11 7/8 | \$ 8 5/8 |
| June 30, 1996..... | 11 | 6 1/2 |
| September 30, 1996..... | 8 1/2 | 5 1/2 |
| December 31, 1996..... | 9 1/4 | 5 3/4 |

On March 21, 1997, the closing sale price of the Company's Common Stock on AMEX was \$7.50. Shareholders are urged to obtain current market quotations for the Common Stock. As of March 21, 1997, there were approximately 1,107 stockholders of record of the Company's Common Stock.

No dividends have been declared during the past three years and the Company does not expect to declare dividends in the foreseeable future. The payment of dividends is within the discretion of the Company's Board of Directors, and will depend upon, among other things, the Company's earnings, financial condition and capital requirements and general business conditions.

ITEM 6. SELECTED FINANCIAL DATA

Selected financial data for the fiscal years ended December 31, 1996, 1995, 1994, 1993 and 1992 is set forth in Table 2 and is qualified in its entirety by, and should be read in conjunction with, the other information and financial statements appearing elsewhere herein (in 000's except per share data).

TABLE 2

| | YEAR ENDED DECEMBER 31, | | | | |
|---|-------------------------|-----------|-----------|-----------|-----------|
| | 1996 | 1995 | 1994 | 1993 | 1992 |
| INCOME STATEMENT DATA | | | | | |
| Net sales | \$ 56,019 | \$ 58,190 | \$ 38,275 | \$ 26,403 | \$ 18,430 |
| Gross profit | 14,842 | 16,463 | 10,697 | 7,143 | 5,005 |
| Selling, general & administrative expenses | 10,386 | 9,522 | 7,563 | 5,924 | 4,480 |
| Income from operations | 4,456 | 6,941 | 3,134 | 1,219 | 392 |
| Interest expense, net | 351 | 144 | 6 | 75 | 55 |
| Minority interest in joint venture net loss (1) | 238 | -- | -- | -- | -- |
| Other income | 295 | 513 | 437 | 80 | 238 |
| Provision (benefit) for income taxes (2) | 1,673 | 2,610 | 1,202 | (363) | 170 |
| Net income | 2,965 | 4,700 | 2,363 | 1,587 | 405 |
| Earnings per share (3) | \$ 0.55 | \$ 0.90 | \$ 0.46 | \$ 0.34 | \$ 0.09 |
| Common and common equivalent shares outstanding | 5,362 | 5,220 | 5,137 | 4,724 | 4,300 |
| BALANCE SHEET DATA | | | | | |
| Total assets | \$ 32,546 | \$ 29,363 | \$ 17,545 | \$ 13,727 | \$ 10,303 |
| Working capital | 17,403 | 13,263 | 9,411 | 6,606 | 5,354 |
| Stockholders' equity | 19,464 | 16,499 | 10,770 | 7,996 | 6,010 |

(1) See Note 4 of "Notes to Consolidated Financial Statements" included herein.

(2) See Note 8 of "Notes to Consolidated Financial Statements" included herein.

(3) See Note 1 of "Notes to Consolidated Financial Statements" included herein.

No cash dividends were paid during the years 1992-1996.

GENERAL

Revenues for the twelve months ended December 31, 1996 were \$56.0 million versus \$58.2 million in the same period a year ago, a decrease of 3.7% primarily due to an industry-wide slowdown in unit demand for discrete semiconductor products for most of 1996 and an inventory build-up commencing in the fourth quarter of 1995. Starting in the second half of 1996, the Company has seen indications that demand for its product is improving, primarily based upon new orders. Fourth-quarter 1996 earnings showed improvement over the immediately preceding quarter, having increased 7.0% on a 4.0% increase in revenues.

Net income for the twelve months ended December 31, 1996, affected by gross margin pressures, a one-time charge of \$660,000 for pre-operating costs associated with the Kai Hong joint venture (a previously-announced surface-mount manufacturing facility in mainland China), the addition of key marketing personnel and programs, and charges associated with the Company's ISO 9002 certification, decreased 39.6% to \$3.0 million, and earnings per share were \$0.55 compared to \$0.90 in 1995. Beginning in the first quarter of 1997, Kai Hong is now making a positive contribution to the Company's bottom line.

Although gross margins throughout 1996 were affected by pricing pressures within the industry, due largely to excess capacity among semiconductor manufacturers, the Company's gross margin in 1997 has been improving due in part to improved inventory management. However, the Company anticipates stronger unit demand in the first six months of 1997 when compared to the last six months of 1996. The Company also expects both gross margins and operating margins to be positively affected by stronger market demand combined with the above mentioned programs installed in 1996.

RESULTS OF OPERATIONS

The following Table 3 sets forth, for the periods indicated, the percentage which certain items in the statement of income bear to net sales and the percentage dollar increase (decrease) of such items from period to period.

TABLE 3

| | PERCENT OF NET SALES | | | | | PERCENTAGE DOLLAR INCREASE (DECREASE) | | | |
|------------------------|-------------------------|---------|---------|---------|---------|---------------------------------------|------------|------------|------------|
| | YEAR ENDED DECEMBER 31, | | | | | '95 TO '96 | '94 to '95 | '93 to '94 | '92 to '93 |
| | 1996 | 1995 | 1994 | 1993 | 1992 | | | | |
| Net sales | 100.0 % | 100.0 % | 100.0 % | 100.0 % | 100.0 % | (3.7) % | 52.0 % | 45.0 % | 43.3 % |
| Cost of goods sold | (73.5) | (71.7) | (72.1) | (72.9) | (72.8) | (1.3) | 51.3 | 43.2 | 43.5 |
| Gross profit | 26.5 | 28.3 | 27.9 | 27.1 | 27.2 | (9.8) | 53.9 | 49.8 | 42.7 |
| Operating expenses | (18.5) | (16.4) | (19.8) | (22.4) | (25.0) | 9.1 | 25.9 | 27.7 | 28.4 |
| Income from operations | 8.0 | 11.9 | 8.2 | 4.6 | 2.1 | (35.8) | 121.5 | 157.1 | 211.0 |
| Interest expense, net | (0.6) | (0.2) | (0.0) | (0.3) | (0.3) | 143.8 | 2,300.0 | (92.0) | 36.4 |
| Other income | 0.9 | 0.9 | 1.1 | 0.3 | 0.8 | 3.9 | 17.6 | 446.3 | (47.0) |
| Income before taxes | 8.3 | 12.6 | 9.3 | 4.6 | 2.6 | (36.6) | 105.1 | 191.3 | 150.8 |
| Income taxes (benefit) | 3.0 | 4.5 | 3.1 | (1.4) | 0.5 | (35.9) | 117.1 | (431.1) | (537.3) |
| Net income | 5.3 | 8.1 | 6.2 | 6.0 | 2.2 | (36.9) | 99.0 | 48.9 | 291.9 |

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

| | 1996 | 1995 | 1994 |
|-----------|---------------|---------------|---------------|
| | ---- | ---- | ---- |
| NET SALES | \$ 56,019,000 | \$ 58,190,000 | \$ 38,275,000 |

The Company's 1996 comparative decrease in net sales of approximately \$2.2 million, or 3.7%, was the result of an industry-wide slowdown in unit demand for discrete semiconductor products for most of 1996 and an inventory build-up commencing in the fourth quarter of 1995. Starting in the second half of 1996, the Company has seen indications that demand for its product is improving, primarily based upon new orders. Fourth-quarter 1996 earnings showed improvement over the immediately preceding quarter, having increased 7.0% on a 4.0% increase in revenues.

The Company's 1995 comparative increase in net sales of approximately \$19.9 million, or 52.0%, was the result of a healthy market for discrete semiconductors, an aggressive marketing program in which the Company sought to emphasize quality, reliability, and customer service, and the maturation and further cultivation of existing relationships with major users of discrete components. In the fourth quarter of 1995, the Company experienced a slowing of orders, primarily due to a slow down in the personal computer and related industries.

| | 1996 ---- | 1995 ---- | 1994 ---- |
|-------------------------|---------------|---------------|---------------|
| GROSS PROFIT | \$ 14,842,000 | \$ 16,463,000 | \$ 10,697,000 |
| GROSS MARGIN PERCENTAGE | 26.5% | 28.3% | 27.9% |

The Company's gross profit in 1996 decreased approximately \$1.6 million or 9.8%, due to pricing pressures within the industry resulting from decreased demand and to excess on-hand inventory, as well as to the 3.7% decrease in net sales.

The Company's gross profit in 1995 increased approximately \$5.8 million or 53.9%, primarily due to the 52.0% increase in net sales. The gross margin percentage was comparable to that of 1994, increasing 0.4 percentage points.

| | 1996 ---- | 1994 ---- | 1993 ---- |
|---|---------------|--------------|--------------|
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES ("SG&A") | \$ 10,386,000 | \$ 9,522,000 | \$ 7,563,000 |

The Company's SG&A for the year ended 1996 increased approximately 9.1% or \$864,000 primarily due to costs associated with the Kai Hong joint venture (a previously-announced surface-mount manufacturing facility in mainland China), the ISO certification, as well as to the addition of key marketing personnel.

Fourth quarter 1996 and year-end results, include a one-time charge of \$660,000 for pre-operating costs associated with Kai Hong. These costs had been capitalized during start-up phases through the joint venture's first six months of operations, and were fully amortized upon commencement of full-scale operations in the fourth quarter. This accounting practice is consistent with preferred methods discussed by regulators and accounting standard setters in December 1996.

Without the start-up costs associated with Kai Hong, SG&A in the fourth quarter would have been approximately 15.6% of sales, in line with SG&A that was 15.4% of sales in the same period a year ago. The Company's total SG&A as a percentage of net sales increased from 16.4% in 1995 to 18.5% in 1996 primarily as a result of SG&A associated with the Kai Hong manufacturing facility.

The Company's SG&A for the year ended 1995 increased approximately 25.9%, while net sales increased 52.0%. This approximately \$1.9 million increase was primarily attributable to increased commissions paid to outside sales representatives and distributors of approximately \$1.0 million, or 66.1%, and an increase in overall wages and benefits of approximately \$544,000, or 18.9%. The total SG&A as a percentage of net sales decreased from 19.8% in 1994 to 16.4% in 1995, as a result of improved cost controls.

| | 1996 ---- | 1995 ---- | 1994 ---- |
|------------------------|--------------|--------------|--------------|
| INCOME FROM OPERATIONS | \$ 4,456,000 | \$ 6,941,000 | \$ 3,134,000 |

The Company's 1996 comparative decrease in operating profit of approximately \$2.5 million, or 35.8%, is primarily the result of the Company's 3.7% decrease in net sales, 9.8% decrease in gross profit, as well as a 9.1% increase in SG&A.

The Company's 1995 comparative increase in operating profit of approximately \$3.8 million, or 121.5%, is primarily the result of the Company's 52.0% increase in net sales and 53.9% increase gross profit as well as a 3.4 percentage point decrease in SG&A as a percentage of net sales.

| | 1996 ---- | 1995 ---- | 1994 ---- |
|------------------|--------------|--------------|--------------|
| INTEREST EXPENSE | \$ 538,000 | \$ 190,000 | \$ 63,000 |
| INTEREST INCOME | \$ 187,000 | \$ 46,000 | \$ 57,000 |

The Company's 1996 net interest expense increased approximately \$207,000 primarily as a result of an increase in the Company's usage of its credit facility to finance and expand the Kai Hong manufacturing facility. The Company has contributed approximately \$2.8 million toward the Kai Hong joint venture. The Company's interest expense for 1996 increased \$348,000, primarily as a result of the Kai Hong investment and a \$2.5 million working capital loan to FabTech. See "Item 1. Business -- New Developments". The Company charges FabTech an interest rate equal to the Company's cost of funds, which is recorded as interest income.

The Company's interest expense for 1995 increased approximately \$127,000, primarily as a result of an increase in the Company's usage of its revolving line of credit to expand the Company's inventory and finance additional sourcing agreements. See "Item 1. Business -- Business Development." The Company's interest income for the year ended 1995 remained relatively unchanged compared to 1994 as the Company maintained adequate working cash.

| | 1996 ---- | 1995 ---- | 1994 ---- |
|--|--------------|--------------|--------------|
| MINORITY INTEREST IN JOINT VENTURE NET LOSS | \$ 238,000 | \$ 0 | \$ 0 |

The Company's \$238,000 minority interest in joint venture net loss represents the Company's 70% controlling interest in the Kai Hong joint venture. All of the Kai Hong joint venture earnings are consolidated within the Company's financial statements. The \$238,000 represents the minority investor's share of the joint venture loss. In the first quarter of 1997, the Kai Hong joint venture began to contribute positively to the Company's net income. As the joint venture realizes profitability, the minority interest line item will be recorded as a reduction to earnings.

| | 1996 ---- | 1995 ---- | 1994 ---- |
|--------------|--------------|--------------|--------------|
| OTHER INCOME | \$ 295,000 | \$ 513,000 | \$ 437,000 |

The Company's other income for 1996 decreased approximately 42.5% compared to other income in 1995. This \$218,000 decrease is primarily due to decreased sales commissions paid to the Company's Taiwan subsidiary on drop shipments in Asia.

The Company's other income for 1995 increased approximately \$76,000, or 17.6% compared to other income in 1994, primarily due to increased sales commissions paid to its Taiwan subsidiary on drop shipment sales in Asia.

| | 1996 ---- | 1995 ---- | 1994 ---- |
|--------------------|--------------|--------------|--------------|
| NET INCOME | \$ 2,965,000 | \$ 4,700,000 | \$ 2,363,000 |
| EARNINGS PER SHARE | \$ 0.55 | \$ 0.90 | \$ 0.46 |

The Company's net income for the year ended December 31, 1996 decreased 36.9% or approximately \$1.7 million, and earnings per share decreased to \$0.55 for the year ended December 31, 1996, compared to \$0.90 for 1995. These decreases were primarily due to the decrease in net sales and the increase in SG&A (including the one-time charge of \$660,000 for pre-operating costs associated with Kai Hong), both absolutely and as a percentage of net sales. The number of common

and common equivalent shares outstanding increased approximately 2.9% primarily due to the issuance of stock options in August 1996.

The Company's net income for the year ended December 31, 1995 increased 99.0% or approximately \$2.3 million, and earnings per share increased to \$0.90 for the year ended December 31, 1995, compared to \$0.46 for 1994. These increases were primarily due to the 52.0% increase in net sales and the decrease in SG&A as a percentage of net sales. The number of common and common equivalent shares outstanding increased approximately 1.6% primarily due to a higher stock price throughout most of 1995.

Inflation did not have a material effect on net sales or net income in fiscal years 1996, 1995 or 1994. The uncertainty of exchange rates, notably the Japanese Yen and German Deutsche Mark, induced price pressure on some of the products.

FINANCIAL CONDITION

LIQUIDITY AND CAPITAL RESOURCES

Cash provided by operating activities in 1996 was \$3.6 million compared to cash used by operating activities of \$4.8 million in 1995 and cash provided by operating activities of \$3.0 million in 1994. The primary sources of cash flows in 1996 was from operations and from a decrease in inventories of \$3.0 million, or 18.6%. The Company believes that this level of inventory is necessary to effectively service current and new customers as well as provide for managed growth. In 1995, the Company's primary use of cash flow was a \$9.3 million increase in inventories. The ratio of the Company's current assets to current liabilities on December 31, 1996, was 3.2 to 1 compared to a ratio of 2.1:1 and 2.5:1 as of December 31, 1995 and 1994, respectively.

Cash used by investing activities was \$3.3 million in 1996, compared to \$2.1 million in 1995 and \$109,000 in 1994. The Company has provided capital to Kai Hong for the construction and equipment of a new facility for the manufacture of surface-mount SOT 23 devices; and to FabTech for upgrading, reconfiguring, and starting up operations at an existing wafer fabrication facility. The Company has a 70% controlling interest in the Kai Hong joint venture, is responsible for production and management, and currently receives 100% of the products. The venture parties have made a significant equity contribution to the joint venture and a portion of the cost of developing the project is debt financed. The joint venture agreement allows for additional production expansion in phases according to market demand. The Kai Hong operation is now in full production and beginning in the first quarter of 1997, is making a positive contribution to the Company's bottom line. As of December 31, 1996, the Company has invested approximately \$2.8 million to the venture. Both Kai Hong and FabTech alliances are indicative of the Company's desire to participate in the sourcing of advanced-technology discrete components, and to enhance its ability to procure products in a timely fashion and at reasonable cost.

Cash provided by financing activities was \$1.0 million in 1996, compared to \$5.6 million in 1995 and a use of \$2.0 million in 1994. In August 1996, the Company obtained a new \$22.6 million credit facility with a major bank consisting of: a working capital line of credit up to \$9 million, term commitment notes providing up to \$9.5 million for plant expansion and advances to vendors, and letters of credit of \$4.1 million for Kai Hong. Interest on outstanding borrowings under the credit agreement is payable monthly at LIBOR plus a negotiated margin. Fixed borrowings require payments of interest only for six months from the date of distribution and fixed principal plus interest payments for sixty months thereafter. The agreement has certain covenants and restrictions which, among other matters requires the maintenance of certain financial ratios and operating results, as defined in the agreement. The Company was in compliance as of December 31, 1996. The working capital line

of credit expires August 3, 1998 and contains a sublimit of \$2 million for issuance of commercial and stand-by letters of credit. During 1996 average and maximum borrowings outstanding on the line of credit were \$2,975,000 and \$8,382,000, respectively. The weighted average interest rate on outstanding borrowings was 7.4% for the year ended December 31, 1996. As of December 31, 1996 \$5 million is outstanding under the term note commitment. The Company may borrow the remaining \$4.5 million available under the term note commitment through September 7, 1997. The Company also has two guaranty agreements which guarantee term loans made by a major bank to Shanghai Kaihong Electronics Co., Ltd. (in order to assist in establishing a credit record with the bank) and the minority investor of the Kai Hong joint venture (as per the Kai Hong joint venture agreement) for \$1.0 million and \$850,000, respectively. In the event that the Company shall be required to pay any amount whatsoever to any person pursuant to, in connection with or as a result of or relating to the guaranty, the Company shall have the right, in its sole and absolute discretion, to purchase from the minority investor, and the minority investor hereby sells and assigns to the Company, that portion of the minority investor's shares of the capital stock of Shanghai Kaihong Electronics Co., Ltd. obtained by dividing (x) the amount so paid by the Company by (v) the aggregate amount theretofor required to be paid by the minority investor to Shanghai Kaihong Electronics Co., Ltd. for the purchase of such shares, in cancellation of the minority investor's obligations to reimburse for the Company for such amount so paid by the Company.

The Company anticipates it will continue to utilize such credit facility to support its operations. The Company believes that the continued availability of this credit facility, together with internally generated funds, will be sufficient to meet the Company's currently foreseeable operating cash requirements. The Company's cash balance at year ended December 31, 1996 increased approximately \$1.3 million from the 1995 level and the Company will continue to minimize its cash balances to manage interest expense.

Accounts receivable as of December 31, 1996 increased 4.1% on a 3.7% decrease in net sales as the Company has provided more flexible terms to its customers due to the market conditions. The Company's inventories as of December 31, 1996 have decreased 18.6% as the Company continues to closely manage its inventory levels in order to increase its asset utilization while maintaining its commitment to provide timely delivery of product to customers.

The Company's total working capital increased 31.2% to \$17.4 million as of December 31, 1996, from \$13.3 million as of December 31, 1995, primarily as a result of the conversion of a portion of the Company's debt from short-term to long-term. The Company believes that such working capital position will be sufficient for growth opportunities.

The Company's debt to equity ratio decreased to 0.62 at December 31, 1996, from 0.78 at December 31, 1995. The Company anticipates this ratio may increase as the Company continues to use its credit facilities to fund additional sourcing opportunities.

As of December 31, 1996, the Company has no material plans or commitments for capital expenditures other than as disclosed in connection with the Kai Hong and FabTech agreements filed in the Company's 1995 Form 10-K. See "Item 1. Business -- New Developments." However, to ensure that the Company can secure reliable and cost effective sourcing to support and better position itself for growth, the Company is continuously evaluating additional sources of products. The Company believes its financial position will provide sufficient funds should an appropriate investment opportunity arise and thereby, assist the Company in improving customer satisfaction and in maintaining or increasing product market penetration.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See "Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K" for the Company's Consolidated Financial Statements filed as part of this Annual Report on Form 10-K.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The following Table 4 sets forth information as to the names, ages, positions and offices held with the Company, or principal occupations during the past five years, and, where applicable, the terms of office as directors of all the Company's directors and executive officers. The term of office of each director expires with the annual meeting of shareholders or when a successor is elected and qualified.

TABLE 4

| OFFICERS AND DIRECTORS | AGE | POSITION WITH THE COMPANY | DIRECTOR SINCE (1) |
|--------------------------|-----|---|--------------------|
| Raymond Soong (2) | 55 | Chairman of the Board | 1993 |
| David Lin (3) | 50 | President and Chief Executive Officer; Director | 1991 |
| Michael R. Giordano (4) | 50 | Director | 1990 |
| M.K. Lu (5) | 48 | Director | 1995 |
| Shing Mao (6) | 61 | Director | 1990 |
| Michael A. Rosenberg (7) | 68 | Director | 1989 |
| Leonard M. Silverman (8) | 57 | Director | 1995 |
| Pedro Morillas (9) | 51 | Executive Vice President | N/A |
| Joseph Liu (10) | 55 | Vice President-Operations, Chief Financial Officer and Secretary | N/A |

(1) Directors are elected at each annual meeting of shareholders.

(footnotes continued on following page)

(footnotes continued from previous page)

- (2) Mr. Soong has been the Chairman of the Board of Silitek since 1990 and has been Chairman of the Board of LPSC since 1992. See "Item 12. Security Ownership of Certain Beneficial Owners and Management" and "Item 13. Certain Relationships and Related Transactions" for a discussion of the relationship between Silitek, LPSC and the Company. Since 1995, Mr. Soong has also been a director of FabTech, with whom the Company entered into an agreement with in February 1996, whereby Diodes will gain a new supply of processed wafers used in the manufacture of several types of discrete semiconductors. FabTech is a newly-created subsidiary of LPSC. Mr. Soong is a graduate of the National Taipei Institute of Technology's Electronic Engineering Department. After serving as a senior engineer for RCA and as a chief engineer for Texas Instruments, Mr. Soong, together with several of his coworkers, founded Taiwan Liton Electronic Co. Ltd., a Taiwan corporation ("Taiwan Liton"), in 1975. Taiwan Liton, which manufactures electronic components and subsystems, is an affiliate of Silitek through common control, and its stock is listed on the Taipei Stock Exchange. Mr. Soong is also Chairman of the Board of Taiwan Liton, and the newly formed Kai Hong joint venture.
- (3) Since 1991, Mr. Lin has served as a director of the Company. Mr. Lin has served as President and Chief Executive Officer of the Company since March 1993. Mr. Lin is also President of Silitek and had served as Executive Vice President of Silitek since 1990, prior to becoming President. See "Item 12. Security Ownership of Certain Beneficial Owners and Management" and "Item 13. Certain Relationships and Related Transactions" for a discussion of the relationship between Silitek, LPSC and the Company. Mr. Lin was previously President of Texas Instruments Asia, Limited, in Taiwan from 1982 to 1990. Mr. Lin has been a director of LPSC since 1991 and a director of Maxi Switch, Inc., since 1990. Mr. Lin is also a director of the newly formed Kai Hong joint venture.
- (4) Mr. Giordano joined the investment banking firm of PaineWebber Incorporated as a Senior Vice President-Investment Consulting, when PaineWebber acquired his previous firm, Kidder Peabody and Company, Inc. Mr. Giordano advises corporations, foundations, trusts, and municipal governments in investments and finance. Mr. Giordano was with Kidder Peabody since 1979. Formerly a captain and pilot in the USAF, Mr. Giordano received his Bachelors of Science degree in Aerospace Engineering from California State Polytechnic University and his Masters degree in Business Administration (Management and Finance) from the University of Utah. Mr. Giordano also did post graduate work in International Investments at Babson College.
- (5) Since 1991, Mr. Lu has been President and a director of LPSC. From 1983 to 1990, Mr. Lu was General Manager/Vice President of Silitek. See "Item 12. Security Ownership of Certain Beneficial Owners and Management" and "Item 13. Certain Relationships and Related Transactions" for a discussion of the relationship between Silitek, LPSC and the Company. Since 1995, Mr. Lu has also been a director of FabTech. Mr. Lu earned his Bachelor of E.E. at Tatung Institute of Technology and is a graduate of the Institute of Administration at National Chengchi University. Mr. Lu is also a present member of the Chinese Management Association and the Chinese Association for Advancement of Management. Mr. Lu is also a director of Shanghai Seefull Electronics, Co., Ltd. and the newly formed Kai Hong joint venture.

(footnotes continued on following page)

(footnotes continued from previous page)

- (6) From 1988 to present, Dr. Mao has been Chairman of the Board of Lite-On, Inc., a California corporation located in Milpitas, California ("Lite-On Milpitas"), a wholly owned subsidiary of Taiwan Liton. See "Item 12. Security Ownership of Certain Beneficial Owners and Management" and "Item 13. Certain Relationships and Related Transactions" for a discussion of the relationship between Silitek, LPSC and the Company. Dr. Mao has been a director of Dyna Investment Co., Ltd. of Taiwan, a venture capital company, and a director of LPSC, both since 1989. Since 1995, Dr. Mao has also been a director of FabTech. Before joining Lite-On, Dr. Mao served in a variety of management positions with Raytheon Company for four years, with Texas Instruments for 11 years, and with UTL Corporation (later acquired by Boeing Aircraft Company) for seven years. Dr. Mao earned his Ph.D. degree in electrical engineering at Stanford University in 1963.
- (7) From 1992 to present, Mr. Rosenberg serves as an independent consultant to Vishay Company, a Fortune 500 Company. Vishay is a major international passive component manufacturer with 50 operating plants located in 11 countries. Until 1991, Mr. Rosenberg was President, Principal Operating Officer a director of SFE Technologies, a manufacturer of electronic components with principal offices in San Fernando, California. Prior to that, Mr. Rosenberg served, since 1970, as Vice President Technology of SFE Technologies.
- (8) From 1984 to present, Dr. Leonard Silverman has been the Dean of Engineering at the University of Southern California ("USC"), and has been employed by USC since 1968. Dr. Silverman is internationally known for his pioneering work in the theory and application of multi-variable control systems and signal processing and has more than 100 publications to his credit. Dr. Silverman has been honored as a Fellow of the IEEE, as a Distinguished Member of the IEEE Control Society, and has received a Centennial Medal of the IEEE. He has also received election to the National Academy of Engineering, one of the highest honors that can be bestowed on an engineer. Dean Silverman also serves on the Board of Directors for Advanced Micro Devices, as well as for the Colachis Foundation, the Lord Foundation, and the M.C. Gill Foundation. Dr. Silverman earned his A.B., B.S., M.S. and Ph.D. degrees in electrical engineering at Columbia University during the period 1961 through 1966.
- (9) Mr. Morillas joined the Company in 1993. Prior to becoming Executive Vice President of the Company, Mr. Morillas was associated with National Semiconductor for over 10 years, most recently as Vice President, Asia Marketing, in Hong Kong for four years. Mr. Morillas is a director of the newly formed Kai Hong joint venture.
- (10) Mr. Liu has served as Vice President, Operations of the Company since 1994 and Chief Financial Officer and Secretary since 1990. Mr. Liu has been the Company's Vice President, Administration from 1990 to 1994. Prior to joining the Company, Mr. Liu held various management positions with Texas Instruments ("TI"), Dallas, since 1971, including Planning Manager, Financial Planning Manager, Treasury Manager, Cost Accounting Manager and General Accounting Manager with TI Taiwan, Ltd. in Taipei; from 1981-1986 as Controller with TI Asia in Singapore and Hong Kong; from 1986-1989 as Financial Planning Manager, TI Latin America Division (for TI Argentina, TI Brazil, and TI Mexico) in Dallas and from 1989-1990 Chief Coordinator of Strategic Business Systems for TI Asia Pacific Division in Dallas. Mr. Liu is a director of the newly formed Kai Hong joint venture, and serves as Chief Financial Officer of FabTech.

There are no family relationships among any of the directors or executive officers of the Company and, except as set forth above, as of the date hereof, no directorships are held by any director in a company which has a class of securities registered pursuant to Section 12 of the Securities

Exchange Act of 1933, as amended (the "Exchange Act"), or subject to the requirements of Section 15(d) of the Exchange Act, or any company registered as an investment company under the Investment Company Act of 1940. None of the directors, nominees for director, or executive officers were selected pursuant to any arrangement or understanding, other than with the directors and executive officers of the Company acting within their capacity as such.

COMPLIANCE WITH REPORTING REQUIREMENTS OF SECTION 16(A)

Under Section 16(a) of the Exchange Act, the Company's directors, executive officers and any persons holding ten percent or more of the Common Stock are required to report their ownership of Company stock and any changes in that ownership to the Securities and Exchange Commission (the "SEC") and to furnish the Company with copies of such reports. Specific due dates for these reports have been established and the Company is required to report any failure to file on a timely basis by such persons. Based solely upon a review of copies of reports filed with the SEC during the fiscal year ended December 31, 1996, all reporting persons filed reports on a timely basis.

The following Table 5 sets forth certain summary information concerning compensation paid or accrued by the Company with respect to the Company's Chief Executive Officer (who has served in such capacity at any time during the last fiscal year) and each of the two other executive officers of the Company (determined as of the end of the last fiscal year) (the "Named Executives") for each of the fiscal years ended December 31, 1996, 1995 and 1994:

TABLE 5
SUMMARY COMPENSATION TABLE

| Name and Principal Position | Year | Annual Compensation | | | Long Term Compensation | | All Other Compensation(\$) |
|--|------|---------------------|-----------|-------------------------------|-----------------------------|---------------------------------------|----------------------------|
| | | Salary(\$) | Bonus(\$) | Other Annual Compensation(\$) | Awards | Payouts | |
| | | | | | Restricted Stock Awards(\$) | Securities Underlying Options/SARs(#) | LTIP Payouts(\$) |
| DAVID LIN President and Chief Executive Officer | 1996 | --(1) | -- | -- | -- | 100,000(2) | -- |
| | 1995 | --(1) | -- | -- | -- | -- | -- |
| | 1994 | --(1) | -- | -- | -- | -- | -- |
| PEDRO MORILLAS Executive Vice President | 1996 | 133,000 | 60,000 | --(3) | -- | 70,000(4) | -- |
| | 1995 | 128,003 | 146,481 | --(3) | -- | -- | -- |
| | 1994 | 125,169 | 71,504 | --(3) | -- | -- | -- |
| JOSEPH LIU Vice President-Operations, Chief Financial Officer and Secretary | 1996 | 120,000 | 30,000 | --(5) | -- | 50,000(6) | -- |
| | 1995 | 115,564 | 73,240 | --(5) | -- | -- | -- |
| | 1994 | 115,560 | 45,300 | --(5) | -- | 40,000(7) | -- |

(1) Mr. Lin receives no direct cash compensation from the Company, other than issuance of the Company's stock options. However, Mr. Lin receives cash compensation directly from Silitek for his services as President of Silitek, which, through its subsidiary LPSC, supplies a significant volume of the semiconductors products distributed by the Company. As disclosed elsewhere in this Form 10-K, Silitek is also the beneficial owner of 1,995,093 shares of the Company's Common Stock.

(2) Mr. Lin's options were granted pursuant to the Company's 1993 Non-Qualified Stock Option Plan ("1993 NQO Plan") at an exercise price of \$6.00. The 1993 NQO Plan became effective retroactively to July 6, 1993, upon approval by the shareholders at the Company's 1994 annual meeting. The 1993 NQO Plan provides for the issuance of up to 1,000,000 shares of the Company's authorized but unissued Common Stock. Options granted shall terminate and be of no force and effect with respect to any shares not previously taken up by optionee upon the expiration of ten years from the date of grant. A vested but unexercised option is normally exercisable for 90 days after termination of employment, other than by death or retirement. In the event of death, unmaturing options are accelerated to maturity. The Stock Option Committee,

(footnotes continued on following page)

(footnotes continued from previous page)

which administers the 1993 NQO Plan, has full discretion to determine whether or not options granted under the 1993 NQO Plan shall have a right to relinquish up to one-half of an unexercised position of an option for an amount of cash, if concurrently, the holder of the option exercises a portion of the option and purchases a number of shares of stock at least equal to the number of shares which could have been purchased under the portion of the option relinquished ("SAR"). However, the Board has expressly stated that it has not and does not intend to grant such SAR. The shares to be issued upon exercise of options under the 1993 NQO Plan require a three-year vesting period. The option price is 100% of the fair market value of such shares on the date the option is granted. Options expire ten years from the grant of the option.

- (3) Mr. Morillas receives the benefit of a Company-owned automobile and a life insurance premium; the aggregate value is less than 10% of his total annual salary and is not included in this total. Effective September 1, 1994, the Company implemented a Deferred Profit Sharing Plan ("401(k) Plan") whereby employees shall be permitted to make elective deferrals in any amount from 2% to 15% of their compensation. The Company contributes an additional and discretionary 50% of the employee's contribution, not to exceed 3% of the employee's compensation. Under the Company's 401(k) Plan, the employee then directs funds into selected investments. Mr. Morillas participates in the 401(k) Plan and the Company's discretionary contribution is 3% of his compensation from September 1, 1994. In addition, Mr. Morillas receives the benefit of the Company's group health insurance plan, which is partially funded by the Company; the value of such benefit is less than 10% of his salary and is not included in this total. Mr. Morillas also received a one time moving expense in 1993 of \$12,400 in connection with his and his family's move to the Los Angeles area, which is less than 10% of his salary and is not included in the 1993 total.
- (4) Mr. Morillas' options were issued pursuant to the Company's 1993 Incentive Stock Option Plan ("1993 ISO Plan") at an exercise price of \$6.00 and are exercisable annually in three equal amounts over a three year vesting period. The 1993 ISO Plan provides for the issuance of up to 1,000,000 shares of the Company's authorized but unissued Common Stock. Options granted under the 1993 ISO Plan are not transferable, except by will or the laws of descent or distribution. An vested but unexercised option is normally exercisable for 90 days after termination of employment, other than by death or retirement. In the event of death, unexercised options are accelerated to maturity. An option granted under the 1993 ISO Plan may not be priced at less than 100% of fair market value on the date of grant and expires 10 years from the date of grant.
- (5) Mr. Liu receives the benefit of a Company-owned automobile and a life insurance premium; the aggregate value is less than 10% of his total annual salary and is not included in this total. Mr. Liu participates in the Company's 401(k) Plan and the Company's contribution is 3% of his compensation from September 1, 1994. In addition, Mr. Liu receives the benefit of the Company's group health insurance plan, which is partially funded by the Company, the value of such benefit is less than 10% of his salary and is not included in this total.
- (6) Mr. Liu's options granted in 1996 were issued pursuant to the Company's 1993 ISO Plan at an exercise price of \$6.00 and are exercisable annually in three equal amounts over a three year vesting period.
- (7) Mr. Liu's options granted in 1994 were issued pursuant to the Company's 1993 ISO Plan at an exercise price of \$7.875 and become exercisable with respect to 50% of the options on June 17, 1995 and the remaining 50% of the options on June 17, 1996.

STOCK OPTIONS

The following Table 6 contains information concerning the grant of stock options during fiscal year ended December 31, 1996 to the Named Executives:

TABLE 6

OPTION/SAR GRANTS IN FISCAL YEAR 1996

| Name | Individual Grants | | | | Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term (1) | |
|----------------|--|---|--------------------------------|-----------------|--|----------|
| | Number of Securities Underlying Options/SARs Granted (#) | Percent of Total Options/SARs Granted to Employees in FY 1996 | Exercise or Base Price (\$/Sh) | Expiration Date | 5% (\$) | 10% (\$) |
| DAVID LIN | 100,000 | 16.5 | 6.00 | 08/01/06 | 377,337 | 956,245 |
| PEDRO MORILLAS | 70,000 | 11.6 | 6.00 | 08/01/06 | 264,136 | 669,372 |
| JOSEPH LIU | 50,000 | 8.3 | 6.00 | 08/01/06 | 188,668 | 478,123 |

- (1) The Potential Realizable Value is the product of (a) the difference between (i) the product of the closing sale price per share at the date of grant and the sum of (A) 1 plus (B) the assumed rate of appreciation of the Common Stock compounded annually over the term of the option and (ii) the per share exercise price of the option and (b) the number of shares of Common Stock underlying the option at December 31, 1996. These amounts represent certain assumed rates of appreciation only. Actual gains, if any, on stock option exercises are dependent upon a variety of factors, including market conditions and the price performance of the Company's Common Stock. There can be no assurance that the rate of appreciation presented in this table can be achieved.

OPTION EXERCISES AND HOLDINGS

The following Table 7 contains information with respect to the Named Executives concerning the exercise of options during the fiscal year ended December 31, 1995 and unexercised options held by the Named Executives as of December 31, 1996:

TABLE 7

AGGREGATED OPTION EXERCISES IN FISCAL YEAR 1996
AND FISCAL YEAR-END OPTION VALUES

| Name | Shares Acquired on Exercise (#) | Value Realized (\$) | Number of Unexercised Options/SAR's at 12/31/96(#) | | Value of Unexercised "In-the-Money" Options/SAR at 12/31/96 (\$) (1) | |
|----------------|--|---------------------------|--|---------------|--|---------------|
| | | | Exercisable | Unexercisable | Exercisable | Unexercisable |
| DAVID LIN | -- | -- | 47,000 | 100,000 | 252,625 | 125,000 |
| PEDRO MORILLAS | -- | -- | 16,667 | 70,000 | 89,585 | 87,500 |
| JOSEPH LIU | -- | -- | 60,000 | 50,000 | 107,500 | 62,500 |

(1) Value of unexercised "in-the-money" options is the difference between the closing sale price of the Company's Common Stock on December 31, 1996 (\$7.25 per share) and the exercise price of the option, multiplied by the number of shares subject to the option.

COMPENSATION OF DIRECTORS

All directors each receive \$750 for each board meeting attended during the year ended December 31, 1996. No additional amounts are paid to directors for committee participation or special assignments. Both employee and non-employee directors are eligible to receive grants of stock options.

EMPLOYMENT CONTRACTS AND TERMINATION OF EMPLOYMENT AND CHANGE IN
CONTROL ARRANGEMENTS

Effective March 16, 1993, the Company entered into an employment agreement with Pedro Morillas, the Company's Executive Vice President. Under such employment agreement, Mr. Morillas is entitled to, among other things, (i) receive an annual base salary and performance bonus subject to the determination and evaluation of the Company's Compensation Committee on a yearly basis, (ii) participate in all plans sponsored by the Company for employees in general, (iii) usage of a Company car, and (iv) receive an option to purchase from the Company up to 50,000 shares of the Company's Common Stock at \$1.875 per share (exercisable in three equal installments commencing June 10, 1994 and expiring on the tenth anniversary of the date of grant).

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The Compensation and Options Committee consists of two directors, Michael A. Rosenberg and Michael R. Giordano.

No person who served as a member of the Company's Compensation Committee during the 1996 fiscal year has ever been an officer or employee of the Company or any of its subsidiaries.

David Lin, the President, Chief Executive Officer and Director of the Company, during fiscal year 1996, was President and a director of Silitek. Silitek's entire Board of Directors participated in compensation decisions for Silitek in the absence of its Compensation Committee during fiscal year 1996.

Silitek controls LPSC, its subsidiary. LPSC is the record owner of 40.2% of the Company's issued and outstanding Common Stock, excluding Treasury Stock, and as of March 21, 1997, continues to be the record owner of 40.2% of all of the Company's issued and outstanding securities, excluding Treasury Stock. Thus, since LPSC is a controlled subsidiary of Silitek, Silitek is the beneficial owner of 40.2% of the Company's outstanding voting securities. However, although Silitek could be considered the ultimate beneficial owner of all of the Company's securities held of record by LPSC, Silitek has disclaimed beneficial ownership of the 1,995,093 shares of Common Stock held by LPSC. See "Item 12. Security Ownership of Certain Beneficial Owners and Management" and "Item 13. Certain Relationships and Related Transactions" for a discussion of the relationship between Silitek, LPSC and the Company.

During the years ended December 31, 1996 and 1995, approximately 28% and 16%, respectively, of the purchases of products for resale by the Company, amounting to approximately \$10,403,000 and \$6,512,000, respectively, were from LPSC. These products, which were also available generally from other sources, were purchased in transactions negotiated at prices competitive with prices charged by other vendors of similar products in similar quantities. There are no special or exclusive trading agreements or understandings between the Company and LPSC, other than the Company's marketing agreement with LPSC. See "Item 1. Business -- Business Development."

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following Table 8 sets forth the number of shares and the percentage of outstanding Common Stock as of March 21, 1997 by each person known to the Company to be the beneficial owner of more than five percent of the outstanding shares of Common Stock, by each executive officer and director, and by all directors and officers as a group.

TABLE 8

| NAME AND ADDRESS OF BENEFICIAL OWNER(1) | AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP(2) | TITLE OF CLASS | PERCENT OF CLASS(3) |
|--|--|----------------|---------------------|
| SILITEK CORPORATION | 1,995,093(4) | Common Stock | 40.2% |
| RAYMOND SOONG, Chairman of the Board | 100,000(5) | Common Stock | 2.0% |
| DAVID LIN, President, Chief Executive Officer, Director | 47,000(6) | Common Stock | * |
| MICHAEL R. GIORDANO, Director | 31,000(7) | Common Stock | * |
| M.K. LU, Director | 10,000(8) | Common Stock | * |
| SHING MAO, Director | 80,000(9) | Common Stock | 1.6% |
| MICHAEL A. ROSENBERG, Director | 25,000(10) | Common Stock | * |
| LEONARD M. SILVERMAN, Director | 10,000(11) | Common Stock | * |
| PEDRO MORILLAS, Executive Vice President | 16,667(12) | Common Stock | * |
| JOSEPH LIU, Vice President - Operations, Chief Financial Officer and Secretary | 70,000(13) | Common Stock | 1.4% |
| Directors and Executive Officers as a group (9 persons) | 389,667(14) | Common Stock | 7.9% |

* Less than 1%.

(footnotes continued on following page)

(footnotes continued from previous page)

- (1) The address of Silitek is 10 FL. NO. 25, Sec. 1, Tung Hua S. Rd., Taipei, Taiwan, Republic of China. The address of the directors and executive officers of the Company is 3050 E. Hillcrest Drive, Westlake Village, California 91362.
- (2) The named shareholder has sole voting power and investment power with respect to the shares listed, except as indicated.
- (3) Shares which the person (or group) has the right to acquire within 60 days after March 21, 1997 are deemed to be outstanding in calculating the percentage ownership of the person (or group) but are not deemed to be outstanding as to any other person or group. Percent of class total does not take into account 717,115 shares held as treasury stock.
- (4) Includes 1,995,093 shares of Common Stock to which Silitek disclaims beneficial ownership. LPSC, which holds 1,995,093 shares of Common Stock, as the record holder, is a controlled subsidiary of Silitek. The address of LPSC is 28-1 Wu Shin St., Ta Wu Lung Industrial Zone, Keelung, Taiwan, Republic of China.

The 1,995,093 shares of Common Stock to which Silitek disclaims beneficial ownership and which are held in name by LPSC included (less stock sales); (a) 1,945,800 shares of Common Stock transferred to LPSC from Silitek during the year ended December 31, 1991 in connection with a consolidation of the semiconductor rectifier activities of Silitek into its LPSC subsidiary; (b) 214,987 shares of Common Stock and; (c) 169,629 shares of Preferred Stock which are convertible into Common Stock on a one share to one share basis, acquired in May 1993 pursuant to a private placement transaction with the Company. Silitek purchased the 214,987 shares of Common Stock and the 169,629 shares of Preferred Stock for investment purposes for its own benefit. On July 12, 1995, LPSC converted its 169,629 shares of Preferred Stock into 169,629 shares of Common Stock. Silitek intends to continue to review its investment in the Common Stock with the view to maximizing its investment. Future actions by Silitek, if any, will be made in light of the then current financial conditions of Silitek, LPSC and the Company, prevailing market prices, and other factors deemed relevant by Silitek.
- (5) Represents 100,000 shares of Common Stock which Mr. Soong has the right to acquire within 60 days of March 21, 1997, by the exercise of vested stock options.
- (6) Represents 47,000 shares of Common Stock which Mr. Lin has the right to acquire within 60 days of March 21, 1997 by the exercise of vested stock options.
- (7) Represents 1,000 shares of Common Stock held in the name of PaineWebber Trust for the IRA of Mr. Giordano and 30,000 shares of Common Stock which Mr. Giordano has the right to acquire within 60 days of March 21, 1997 by the exercise of vested stock options.
- (8) Represents 10,000 shares of Common Stock which Mr. Lu has the right to acquire within 60 days of March 21, 1997 by the exercise of vested stock options.
- (9) Represents 80,000 shares of Common Stock which Dr. Mao has the right to acquire within 60 days of March 21, 1997 by the exercise of vested stock options.

(footnotes continued on following page)

(footnotes continued from previous page)

- (10) Represents 25,000 shares of Common Stock which Mr. Rosenberg has the right to acquire within 60 days of March 21, 1997 by the exercise of vested stock options.
- (11) Represents 10,000 shares of Common Stock which Mr. Silverman has the right to acquire within 60 days of March 21, 1997 by the exercise of vested stock options.
- (12) Represents 16,667 shares of Common Stock which Mr. Morillas has the right to acquire within 60 days of March 21, 1997 by the exercise of vested stock options.
- (13) Includes 60,000 shares of Common Stock which Mr. Liu has the right to acquire within 60 days of March 21, 1997 by the exercise of vested stock options.
- (14) Includes 378,667 shares which the Directors and Officers have the right to acquire within 60 days of March 21, 1997 by the exercise of vested stock options.

Other than as disclosed in the foregoing table, to the knowledge of the Company, no other person (other than Cede & Co., a depository company) owns of record or beneficially more than 5 percent of the issued and outstanding Common Stock of the Company.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

LPSC is the record owner of 40.2% of the Company's issued and outstanding Common Stock, excluding treasury stock, at December 31, 1996, and as of March 21, 1997, continues to be the record owner of 40.2% of all of the Company's issued and outstanding securities, excluding treasury stock. Thus, since LPSC is a controlled subsidiary of Silitek, Silitek is the beneficial owner of 40.2% of the Company's outstanding voting securities. However, although Silitek could be considered the ultimate beneficial owner of all of the Company's securities held of record by LPSC, Silitek has disclaimed beneficial ownership of the 1,995,093 shares of Common Stock. See "Item 12. Security Ownership of Certain Beneficial Owners and Management" and "Item 13. Certain Relationships and Related Transactions" for a discussion of the relationship between Silitek, LPSC and the Company.

During the years ended December 31, 1996 and 1995, approximately 28% and 16%, respectively, of the purchases of products for resale by the Company, amounting to approximately \$10,403,000 and \$6,512,000, respectively, were from LPSC. These products, which were also available generally from other sources, were purchased in transactions negotiated at prices competitive with prices charged by other vendors of similar products in similar quantities. There are no special or exclusive trading agreements or understandings between the Company and LPSC.

In February 1996, the Company announced an agreement with FabTech, Inc. whereby the Company gains a new supply of processed wafers used in the manufacture of several types of discrete semiconductors. The Company has provided FabTech with approximately \$2.5 million in working capital to be used in upgrading, reconfiguring, and starting up operations at an existing wafer fabrication facility located in the AT&T building in Lee's Summit, Missouri. FabTech is a newly-created, wholly-owned subsidiary of LPSC.

The Company's Diodes-Taiwan and Kai Hong manufacturing facilities receive wafers from FabTech, among others. Output from the FabTech facility includes wafers used in the production of Schottky barrier diodes, fast recovery epitaxial diodes (FREDS), and other widely used value-added products. Schottky barrier diodes, currently in short supply world-wide, are employed in the manufacture of the power

supplies found in personal computers, telecommunications devices and myriad other applications where high frequency, low forward voltage and fast recovery are required.

In March 1996, the Company entered into the Kai Hong joint venture for the development of additional manufacturing capacity in Shanghai. The joint venture allows for the manufacturing and sales of diodes and associated electronic components. The Company has a 70% controlling interest, is responsible for production and management, and currently receives 100% of the production, mainly in SOT-23 packaged components. The Company has an equity contribution of \$2.8 million and the minority interest party has an equity contribution of \$1.2 million. The joint venture agreement allows for additional expansion in several phases according to market demand. The initial phase of the Kai Hong operation is now in full production, and beginning in the first quarter of 1997, is making a positive contribution to the Company's bottom line.

Mr. Raymond Soong, who became a director and Chairman of the Board of the Company effective March 16, 1993, is also the Chairman of the Board of Silitek, LPSC, Taiwan Liton, and the newly formed Kai Hong joint venture.

Mr. David Lin, who has been a director of the Company since 1991 and effective March 16, 1993 became President and Chief Executive Officer of the Company, is also the President and a director of Silitek and his salary is fully paid by Silitek. See "Item 11. Executive Compensation." Mr. Lin is also a director of the newly formed Kai Hong joint venture.

Silitek is affiliated through common ownership and control with Taiwan Liton, and both companies are members of the Lite-On Group of companies in Taiwan. Both Silitek and Taiwan Liton are public corporations in Taiwan with stock registered on the Taipei Stock Exchange. Taiwan Liton owns 100% of the voting shares of Lite-On Milpitas.

Dr. Shing Mao, who is a director of the Company, is Chairman of the Board of Lite-On Milpitas. Dr. Mao is also a director of LPSC, and since 1995, has also been a director of FabTech, with whom the Company entered into an agreement with in January 1996, whereby Diodes will gain a new supply of processed wafers used in the manufacture of several types of discrete semiconductors. FabTech is a newly-created subsidiary of LPSC.

Mr. M.K. Lu, who has been a director of the Company since 1995, is also the President and a director of LPSC since 1991. From 1983 to 1990, Mr. Lu was General Manager/Vice President of Silitek. Mr. Lu is also a director of the newly formed Kai Hong joint venture.

During 1996, Mr. Michael R. Giordano, a member of the Company's Board of Directors and Senior Vice President-Investment Consulting at the investment banking firm of PaineWebber, Inc., has, from time to time, assisted members of the Board of Directors and Executive Officers of the Company in stock option exercises and subsequent stock sales of the Company's Common Stock. Mr. Giordano is also the pension consultant for the Company's 401(k) plan. Mr. Giordano has also, from time to time, assisted LPSC in stock transactions. Compensation received by Mr. Giordano for services rendered to the Company and LPSC in 1996 was less than \$2,000.

Mr. Pedro Morillas, Executive Vice President of the Company is also a director of the newly formed Kai Hong joint venture.

Mr. Joseph Liu, Vice President, Operations, Chief Financial Officer and Secretary of the Company, is also a director of the newly formed Kai Hong joint venture, and Serves as Chief Financial Officer of FabTech.

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) FINANCIAL STATEMENT SCHEDULES

(1) Financial statements:

| | Page |
|--|----------|
| | ---- |
| Independent Auditors' Report | 31 |
| Consolidated Balance Sheet at December 31, 1996 and 1995 | 32 to 33 |
| Consolidated Statement of Income for the Years Ended December 31, 1996, 1995, and 1994 | 34 |
| Consolidated Statement of Stockholders' Equity for the Years Ended December 31, 1996, 1995, 1994 | 35 |
| Consolidated Statement of Cash Flows for the Years Ended December 31, 1996, 1995, and 1994 | 36 |
| Notes to Consolidated Financial Statements | 37 to 46 |

(2) Schedules:

| | |
|---|----|
| Report of Independent Accountants on Financial Statements and Schedules | 47 |
| Schedule II -- Valuation and Qualifying Accoun | 48 |

(b) EXHIBITS

See the Index to Exhibits at page 51 of this Annual Report on Form 10-K for exhibits filed or incorporated by reference

(c) REPORTS ON FORM 8-K

None.

Board of Directors and Stockholders
Diodes Incorporated and Subsidiaries

We have audited the accompanying consolidated balance sheet of Diodes Incorporated and Subsidiaries, as of December 31, 1996 and 1995 and the related consolidated statements of income, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Diodes Incorporated and Subsidiaries as of December 31, 1996 and 1995, and the consolidated results of their operations and cash flows for the years then ended, in conformity with generally accepted accounting principles.

MOSS ADAMS LLP

/s/ Moss Adams LLP
Los Angeles, California
February 21, 1997

DIODES INCORPORATED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 1996 AND 1995

ASSETS

| | 1996 | 1995 |
|---|--------------|--------------|
| | ----- | ----- |
| CURRENT ASSETS | | |
| Cash | \$ 1,820,000 | \$ 478,000 |
| Accounts receivable | | |
| Customers | 7,901,000 | 7,794,000 |
| Related party | 376,000 | 233,000 |
| Other | 352,000 | 194,000 |
| | ----- | ----- |
| Allowance for doubtful accounts | 8,629,000 | 8,221,000 |
| | 253,000 | 177,000 |
| | ----- | ----- |
| | 8,376,000 | 8,044,000 |
| Inventories | 13,268,000 | 16,295,000 |
| Deferred income taxes | 1,426,000 | 893,000 |
| Prepaid expenses and other | 345,000 | 173,000 |
| | ----- | ----- |
| Total current assets | 25,235,000 | 25,883,000 |
| PROPERTY, PLANT AND EQUIPMENT, at cost, net of accumulated depreciation and amortization | 4,628,000 | 1,527,000 |
| ADVANCES TO RELATED PARTY VENDOR | 2,631,000 | - |
| INVESTMENT IN JOINT VENTURE | - | 1,878,000 |
| OTHER ASSETS | 52,000 | 75,000 |
| | ----- | ----- |
| Total assets | \$32,546,000 | \$29,363,000 |
| | ===== | ===== |

The accompanying notes are an
integral part of these financial statements

DIODES INCORPORATED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 1996 AND 1995

LIABILITIES AND STOCKHOLDERS' EQUITY

| | 1996 | 1995 |
|---|--------------|--------------|
| | ----- | ----- |
| CURRENT LIABILITIES | | |
| Due to bank | \$ - | \$ 3,916,000 |
| Accounts payable | | |
| Trade | 2,303,000 | 5,454,000 |
| Related party | 2,250,000 | 621,000 |
| Accrued liabilities | 2,102,000 | 1,954,000 |
| Income taxes payable | 223,000 | 637,000 |
| Current portion of long-term debt | 954,000 | 38,000 |
| | ----- | ----- |
| Total current liabilities | 7,832,000 | 12,620,000 |
| LONG-TERM DEBT, net of current portion | 4,288,000 | 244,000 |
| MINORITY INTEREST IN JOINT VENTURE | 962,000 | - |
| STOCKHOLDERS' EQUITY | | |
| Class A convertible preferred stock - par value \$1 per share; 1,000,000 shares authorized; no shares issued and outstanding | - | - |
| Common stock - par value \$.66 2/3 per share; 9,000,000 shares authorized; 5,675,794 shares in 1996 and 5,675,619 shares in 1995 issued and outstanding | 3,784,000 | 3,784,000 |
| Additional paid-in capital | 5,768,000 | 5,768,000 |
| Retained earnings | 11,694,000 | 8,729,000 |
| | ----- | ----- |
| | 21,246,000 | 18,281,000 |
| Less: Treasury stock - 717,115 shares of common stock, at cost | 1,782,000 | 1,782,000 |
| | ----- | ----- |
| | 19,464,000 | 16,499,000 |
| | ----- | ----- |
| Total liabilities and stockholders' equity | \$32,546,000 | \$29,363,000 |
| | ===== | ===== |

The accompanying notes are an
integral part of these financial statements

DIODES INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

YEARS ENDED DECEMBER 31, 1996, 1995 AND 1994

| | 1996 | 1995 | 1994 |
|---|---------------|---------------|---------------|
| | ----- | ----- | ----- |
| NET SALES | \$ 56,019,000 | \$ 58,190,000 | \$ 38,275,000 |
| COST OF GOODS SOLD | 41,177,000 | 41,727,000 | 27,578,000 |
| | ----- | ----- | ----- |
| Gross profit | 14,842,000 | 16,463,000 | 10,697,000 |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES | 10,386,000 | 9,522,000 | 7,563,000 |
| | ----- | ----- | ----- |
| Income from operations | 4,456,000 | 6,941,000 | 3,134,000 |
| OTHER INCOME (EXPENSES) | | | |
| Interest income | 187,000 | 46,000 | 57,000 |
| Interest expense | (538,000) | (190,000) | (63,000) |
| Minority interest in joint venture net loss | 238,000 | - | - |
| Equity earnings in joint venture | - | - | 71,000 |
| Commissions and other | 295,000 | 513,000 | 366,000 |
| | ----- | ----- | ----- |
| Income before income taxes | 4,638,000 | 7,310,000 | 3,565,000 |
| INCOME TAX PROVISION | (1,673,000) | (2,610,000) | (1,202,000) |
| | ----- | ----- | ----- |
| NET INCOME | \$ 2,965,000 | \$ 4,700,000 | \$ 2,363,000 |
| | ===== | ===== | ===== |
| EARNINGS PER SHARE | \$.55 | \$.90 | \$.46 |
| | ===== | ===== | ===== |
| Number of shares used in computation | 5,362,027 | 5,220,196 | 5,136,510 |
| | ===== | ===== | ===== |

The accompanying notes are an
integral part of these financial statements

DIODES INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 1996, 1995, AND 1994

| | Preferred Stock | | Common Stock | | | Additional paid-in capital | Retained earnings | Common stock in treasury |
|---|-----------------|------------|--------------|-----------------------|-------------|----------------------------------|----------------------|--------------------------------|
| | Shares | Amount | Shares | Shares in treasury | Amount | | | |
| BALANCE, December 31, 1993 | 169,629 | \$ 170,000 | 5,245,957 | 717,115 | \$3,497,000 | \$4,445,000 | \$ 1,666,000 | \$1,782,000 |
| Exercise of stock options, including \$250,000 income tax benefit | - | - | 97,167 | - | 65,000 | 346,000 | - | - |
| Net income for the year ended December 31, 1994 | - | - | - | - | - | - | 2,363,000 | - |
| BALANCE, December 31, 1994 | 169,629 | 170,000 | 5,343,124 | 717,115 | 3,562,000 | 4,791,000 | 4,029,000 | 1,782,000 |
| Exercise of stock options, including \$684,000 income tax benefit | - | - | 162,766 | - | 109,000 | 920,000 | - | - |
| Re-issuance of lost shares | - | - | 100 | - | - | - | - | - |
| Preferred stock converted | (169,629) | (170,000) | 169,629 | - | 113,000 | 57,000 | - | - |
| Net income for the year ended December 31, 1995 | - | - | - | - | - | - | 4,700,000 | - |
| BALANCE, December 31, 1995 | - | - | 5,675,619 | 717,115 | 3,784,000 | 5,768,000 | 8,729,000 | 1,782,000 |
| Exercise of stock options | - | - | 175 | - | - | - | - | - |
| Net income for the year ended December 31, 1996 | - | - | - | - | - | - | 2,965,000 | - |
| BALANCE, December 31, 1996 | - | \$ - | 5,675,794 | 717,115 | \$3,784,000 | \$5,768,000 | \$11,694,000 | \$1,782,000 |

The accompanying notes are an
integral part of these financial statements

DIODES INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

YEARS ENDED DECEMBER 31, 1996, 1995, AND 1994

| | 1996 | 1995 | 1994 |
|--|------------------|--------------------|----------------|
| | ----- | ----- | ----- |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net income | \$ 2,965,000 | \$ 4,700,000 | \$ 2,363,000 |
| Adjustments to reconcile net income to net cash provided (used) by operating activities: | | | |
| Depreciation and amortization | 656,000 | 339,000 | 328,000 |
| Joint venture loss | (238,000) | - | (71,000) |
| Gain on sale of property, plant and equipment | (41,000) | (67,000) | (8,000) |
| Changes in operating assets and liabilities | | | |
| Accounts receivable | (332,000) | (1,949,000) | (1,603,000) |
| Inventories | 3,027,000 | (9,280,000) | (1,198,000) |
| Prepaid expenses and other assets | (149,000) | 43,000 | 96,000 |
| Deferred income taxes | (533,000) | (78,000) | (321,000) |
| Accounts payable | (1,522,000) | 2,198,000 | 1,532,000 |
| Accrued liabilities | 148,000 | 577,000 | 561,000 |
| Income taxes payable | (414,000) | (1,220,000) | 1,390,000 |
| Deferred compensation payable | - | (14,000) | (71,000) |
| | ----- | ----- | ----- |
| Net cash provided (used) by operating activities | 3,567,000 | (4,751,000) | 2,998,000 |
| | ----- | ----- | ----- |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Liquidation of investment in joint venture | - | - | 400,000 |
| Investment in joint venture and advances to vendors | (2,631,000) | (1,878,000) | - |
| Minority interest of joint venture investment | 1,200,000 | - | - |
| Purchases of property, plant and equipment | (1,848,000) | (348,000) | (522,000) |
| Proceeds from sales of property, plant and equipment | 10,000 | 145,000 | 13,000 |
| | ----- | ----- | ----- |
| Net cash used by investing activities | (3,269,000) | (2,081,000) | (109,000) |
| | ----- | ----- | ----- |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Advances (repayments) on line of credit, net | (3,916,000) | 3,916,000 | (2,000,000) |
| Net proceeds from the issuance of capital stock | - | 1,713,000 | 162,000 |
| Proceeds from borrowing of long term debt | 5,000,000 | - | - |
| Repayments of long-term debt | (40,000) | (52,000) | (119,000) |
| | ----- | ----- | ----- |
| Net cash provided (used) by financing activities | 1,044,000 | 5,577,000 | (1,957,000) |
| | ----- | ----- | ----- |
| INCREASE (DECREASE) IN CASH | 1,342,000 | (1,255,000) | 932,000 |
| CASH, beginning of year | 478,000 | 1,733,000 | 801,000 |
| | ----- | ----- | ----- |
| CASH, end of year | \$ 1,820,000 | \$ 478,000 | \$ 1,733,000 |
| | ===== | ===== | ===== |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | | |
| Cash paid (received) during the year for: | | | |
| Interest | \$ 575,000 | \$ 169,000 | \$ 73,000 |
| | ===== | ===== | ===== |
| Income taxes | \$ 2,597,000 | \$ 1,344,000 | \$ (114,000) |
| | ===== | ===== | ===== |
| Non-Cash Financing Activity | | | |
| Tax Benefit related to exercise of stock options credited to paid-in capital | \$ - | \$ 684,000 | \$ 250,000 |
| | ===== | ===== | ===== |

The accompanying notes are an integral part of these financial statements

DIODES INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS - Diodes Incorporated and its subsidiaries distribute diodes, transistors, and semi-conductors. The products are sold to electronics manufacturers primarily throughout North America.

PRINCIPLES OF CONSOLIDATION - The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Diodes Taiwan Co., Ltd. and its majority owned subsidiary Shanghai Kai Hong Electronics, Co. Ltd. (both foreign subsidiaries). All significant intercompany balances and transactions have been eliminated.

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

DEPRECIATION AND AMORTIZATION - Property, plant and equipment are depreciated using straight-line and accelerated methods over the estimated useful lives, which range from 20 to 53 years for buildings and 1 to 10 years for machinery and equipment. Leasehold improvements are amortized using the straight-line method over 1 to 5 years.

INCOME TAXES - Income taxes are accounted for using an asset and liability approach whereby deferred tax assets and liabilities are recorded for the differences in the financial reporting bases and tax bases of the Company's assets and liabilities. Income taxes are further explained in Note 8.

CONCENTRATION OF CREDIT RISK - Financial instruments which potentially subject the Company to concentrations of credit risk include trade accounts receivable. Credit risk is limited by the dispersion of the Company's customers over various geographic areas, operating primarily in the electronics manufacturing and distribution industries. The Company performs on-going credit evaluations of its customers and generally requires no collateral from its customers. Historically, credit losses have not been significant.

The Company and its subsidiaries maintain cash balances at major financial institutions in the United States, Taiwan, and China. Accounts at each institution in the United States are insured by the Federal Deposit Insurance Corporation up to \$100,000. Accounts at each institution in Taiwan are insured by the Central Deposit Insurance Company up to NT\$1,000,000.

FOREIGN OPERATIONS - Through its subsidiaries the Company maintains operations in Taiwan and China for which the functional currency is the U.S. dollar. Assets and liabilities of its foreign operations are not hedged and therefore are subject to fluctuations in the currency exchange rate between the U.S. and NT dollar and Renminbi Yuan.

Monetary assets and liabilities are translated at the year-end exchange rate. Non-monetary assets and liabilities are converted at historical rates. Income and expense accounts are translated using an average exchange rate for the year, except that cost of goods sold and depreciation expense are remeasured using historical rates. Included in net income are translation gains of approximately \$13,000 for the year ended December 31, 1996 and losses of approximately \$66,000, and \$84,000 for the years ended December 31, 1995 and 1994, respectively.

DIODES INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

EARNINGS PER SHARE - Earnings per share are based upon the weighted average number of shares of common stock and common stock equivalents outstanding, net of common stock held in treasury. Fully diluted earnings per share do not materially differ from primary earnings per share.

INVESTMENTS IN JOINT VENTURES - The joint venture investment in Kai Hong is eliminated in consolidation of the Companies financial statements and activities of Kai Hong are included there-in. A minority interest is reflected for the minority stockholder's share of Kai Hong's capital investment and retained earnings or accumulated deficit (Note 4).

The Company's investment in Seefull Electronic Co., Ltd. was accounted for using the equity method of accounting. During 1994 the joint venture was liquidated (Note 4).

USE OF ESTIMATES - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Significant estimates used in preparing these financial statements include allowance for doubtful accounts, reserves for inventory market valuation, deferred income tax assets, and accrued liabilities.

STOCK-BASED COMPENSATION - The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 (SFAS 123), Accounting for Stock-Based Compensation. This standard is effective for the year ending December 31, 1996, however adoption is optional. The Company has determined that it will continue to apply APB Opinion No. 25 (APB 25) and related Interpretations in accounting for its option plans. Under SFAS 123, a fair value method is used to determine compensation cost for stock options or similar equity instruments. Compensation is measured at the grant date and is recognized over the service or vesting period. Under APB 25, compensation cost is the excess, if any, of the quoted market price of the stock at the measurement date over the amount that must be paid to acquire the stock.

The new standard allows the Company to continue to account for stock-based compensation under APB 25, with disclosure of the effects of the new standard. The proforma effect on income as if the Company had adopted SFAS 123 is disclosed in Note 9.

NOTE 2 - INVENTORIES

| | December 31, | |
|------------------|--------------------------------|--------------------------------|
| | ----- 1996 ----- | ----- 1995 ----- |
| Finished goods | \$12,468,000 | \$15,602,000 |
| Work-in-progress | 394,000 | 367,000 |
| Raw materials | 406,000 | 326,000 |
| | ----- \$13,268,000 ===== | ----- \$16,295,000 ===== |

DIODES INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - PROPERTY, PLANT AND EQUIPMENT

| | December 31, | |
|--|--------------|-------------|
| | 1996 | 1995 |
| Building | \$ 893,000 | \$ 468,000 |
| Leasehold improvements | 143,000 | 140,000 |
| Machinery and equipment | 5,104,000 | 1,806,000 |
| | ----- | ----- |
| | 6,140,000 | 2,414,000 |
| Less accumulated depreciation and amortization | 1,835,000 | 1,210,000 |
| | ----- | ----- |
| | 4,305,000 | 1,204,000 |
| Land | 323,000 | 323,000 |
| | ----- | ----- |
| | \$4,628,000 | \$1,527,000 |
| | ===== | ===== |

NOTE 4 - JOINT VENTURES AND ADVANCES TO RELATED PARTY VENDORS

SHANGHAI KAI HONG ELECTRONICS, CO. LTD.- In June 1995, the Company entered into a product sourcing and compensation trade agreement with Shanghai Kai Hong Electronics Company, Ltd. (Kai Hong), an entity in Shanghai, China. Initially, the agreement with Kai Hong was structured as a trade agreement whereby the Company was to make cash and other forms of advances for the development of a production facility. Effective March 18, 1996, a joint venture was established between the Company and the original owner of Kai Hong. The Company has a 70% controlling interest in the joint venture and is responsible for production and management. The venture parties have made a significant equity contribution to the joint venture and a portion of the cost of developing the project is debt financed. The joint venture agreement allows for additional production expansion in phases according to market demand. During 1996 advances of \$1,878,000 made to Kai Hong in 1995 by the Company were converted into capital investment in the Joint Venture and \$922,000 of additional cash was contributed by the Company to the joint venture. The Company may contribute up to \$10 million of additional capital investment and has committed to guarantee additional contributed capital investments of Kai Hong's minority shareholder in exchange for an assignment of the shareholder's interest in Kai Hong.

FABTECH INCORPORATED - Under an agreement entered into in February 1996 the Company has advanced \$2.5 million in cash and equipment to a related party vendor FabTech Incorporated, a wholly owned subsidiary of Lite-On Power Semiconductor Corporation (Note 11).

DIODES INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 - JOINT VENTURES AND ADVANCES TO RELATED PARTY VENDORS
(Continued)

SEEFULL - In February 1993, under a Joint Shareholder Agreement, the Company and Lite-On Power Semiconductor (Note 11) each purchased 50% of the common stock of Shanghai Seefull Electronic Co., Ltd. (Seefull) for \$400,000. During 1994, Lite-On Power Semiconductor purchased the Company's share of Seefull for \$400,000 cash, and the JV agreement was terminated.

NOTE 5 - BANK CREDIT AGREEMENT AND LONG-TERM DEBT

The Company has a \$22.6 million credit agreement with a major bank providing a working capital line of credit up to \$9 million, term commitment notes providing up to \$9.5 million for plant expansion and advances to vendors, and letters of credit of \$4.1 million for Kai Hong. Interest on outstanding borrowings under the complete credit agreement is payable monthly at LIBOR plus a negotiated margin. Fixed borrowings require payments of interest only for six months from the date of distribution and fixed principal plus interest payments for sixty months thereafter. The agreement has certain covenants and restrictions which, among other matters requires the maintenance of certain financial ratios and operating results, as defined in the agreement. The Company was in compliance as of December 31, 1996.

The working capital line of credit expires August 3, 1998. The line contains a sublimit of \$2 million for issuance of commercial and stand-by letters of credit. During 1996 average and maximum borrowings outstanding on the line of credit were \$2,975,000 and \$8,382,000, respectively. The weighted average interest rate on outstanding borrowings was 7.4% for the year ended December 31, 1996.

As of December 31, 1996 \$5 million is outstanding under the term note commitment. The Company may borrow the remaining \$4.5 million available under the term note commitment through September 7, 1997.

Long-term debt is comprised of the following:

| | December 31, | |
|---|--------------|-----------|
| | 1996 | 1995 |
| LOAN PAYABLE to bank secured by buildings and land, with monthly principal payments of NT\$84,000 (approximately \$3,000 U.S.), plus interest at 7% per annum through November 2003 | \$ 242,000 | \$281,000 |
| TERM NOTE PAYABLE to bank secured by substantially all assets with monthly principal payments of \$83,000 plus interest at LIBOR plus 1.5% through February 2002 | 5,000,000 | - |
| OTHER | - | 1,000 |
| | 5,242,000 | 282,000 |
| Current portion | 954,000 | 38,000 |
| Long-term portion | \$4,288,000 | \$244,000 |

DIODES INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - BANK CREDIT AGREEMENT AND LONG-TERM DEBT (CONTINUED)

The aggregate maturities of long-term debt for future years ending December 31 are as follows:

| | |
|------------|-------------|
| 1997 | \$ 954,000 |
| 1998 | 1,037,000 |
| 1999 | 1,037,000 |
| 2000 | 1,037,000 |
| 2001 | 1,037,000 |
| Thereafter | 140,000 |
| | ----- |
| | \$5,242,000 |
| | ===== |

NOTE 6 - ACCRUED LIABILITIES

| | December 31, | |
|---|------------------------|------------------------|
| | ----- 1996 ----- | ----- 1995 ----- |
| Employee compensation and payroll taxes | \$ 609,000 | \$ 839,000 |
| Sales commissions | 419,000 | 486,000 |
| Professional and consulting fees | 559,000 | 516,000 |
| Other | 515,000 | 113,000 |
| | ----- | ----- |
| | \$2,102,000 | \$1,954,000 |
| | ===== | ===== |

NOTE 7 - VALUATION OF FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standard No. 107 "Disclosures About Fair Value of Financial Instruments" (SFAS 107) requires disclosure of the fair market value of financial instruments for which it is practicable to estimate fair value. The Company's financial instruments include cash, accounts receivable, accounts payable, working capital line of credit, and long term debt. The Company considers the carrying amounts of all financial instruments to approximate fair value.

DIODES INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 - INCOME TAXES

The components of the income tax provisions are as follows:

| | Year ended December 31, | | |
|----------------------|-------------------------|---------------------|---------------------|
| | 1996 | 1995 | 1994 |
| Current | | | |
| Federal | \$ 982,000 | \$ 1,720,000 | \$ 988,000 |
| Foreign | 678,000 | 450,000 | 189,000 |
| State | 322,000 | 518,000 | 346,000 |
| | 1,982,000 | 2,688,000 | 1,523,000 |
| Deferred tax benefit | (309,000) | (78,000) | (321,000) |
| | <u>\$ 1,673,000</u> | <u>\$ 2,610,000</u> | <u>\$ 1,202,000</u> |

A reconciliation between the effective tax rate and the statutory Federal tax rate for the years ended December 31, 1996, 1995 and 1994 are as follows:

| | 1996 | | 1995 | | 1994 | |
|--|---------------------|----------------------------|---------------------|----------------------------|--------------------|----------------------------|
| | Amount | Percent of pretax earnings | Amount | Percent of pretax earnings | Amount | Percent of pretax earnings |
| Federal tax at 34% | \$ 1,577,000 | 34.0% | \$ 2,485,000 | 34.0% | \$1,212,000 | 34.0% |
| State franchise tax, net of federal benefit | 284,000 | 6.1 | 449,000 | 6.1 | 228,000 | 6.41 |
| Foreign income tax at lower rates | (257,000) | (5.5) | (248,000) | (3.4) | (82,000) | (2.3) |
| Net change in deferred tax asset valuation allowance | - | - | - | - | (162,000) | (4.5) |
| Other | 69,000 | 1.5 | (76,000) | (1.0) | 6,000 | .1 |
| | <u>\$ 1,673,000</u> | <u>36.1%</u> | <u>\$ 2,610,000</u> | <u>35.7%</u> | <u>\$1,202,000</u> | <u>33.7%</u> |

At December 31, 1996 and 1995, the Company's deferred tax asset is comprised of the following items:

| | 1996 | 1995 |
|---|--------------------|------------------|
| Inventory cost | \$ 872,000 | \$737,000 |
| Accrued expenses and state income taxes | 405,000 | 74,000 |
| Miscellaneous | 149,000 | 82,000 |
| | <u>\$1,426,000</u> | <u>\$893,000</u> |

DIODES INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 - STOCK OPTION PLANS

The Company has stock option plans for directors, officers, and employees, which provide for nonqualified and incentive stock options. The Board of Directors determines the option price (not to be less than fair market value for the incentive options) at the date of grant. The options generally expire ten years from the date of grant and are exercisable over the period stated in each option. At December 31, 1996, options for 621,392 shares were exercisable and 1,713,284 shares were available for future grants under the plans.

| | Outstanding Options | | |
|----------------------------|---------------------|-----------------|------------------|
| | Number | Price Per Share | |
| | | Range | Weighted Average |
| Balance, December 31, 1993 | 566,500 | \$.875 - 3.88 | \$1.72 |
| Granted | 65,000 | 7.88 | 7.88 |
| Exercised | (97,167) | .875 - 3.88 | 1.68 |
| | ----- | ----- | ----- |
| Balance, December 31, 1994 | 534,333 | .875 - 7.88 | 2.48 |
| Granted | 60,000 | 11.25 | 11.25 |
| Exercised | (162,766) | 1.00 - 2.63 | 1.66 |
| | ----- | ----- | ----- |
| Balance, December 31, 1995 | 431,567 | .88-11.25 | 3.84 |
| Granted | 605,000 | 6.00 | 6.00 |
| Exercised | (175) | 2.63 | 2.63 |
| Canceled | (10,000) | 6.00 | 6.00 |
| | ----- | ----- | ----- |
| Balance, December 31, 1996 | 1,026,392 | \$.88 - 11.25 | \$ 5.09 |
| | ===== | ===== | ===== |

The Company also has an incentive bonus plan which reserves 200,000 shares of stock for issuance to key employees. As of December 31, 1996, 124,000 shares remain available for issuance under this plan.

Had compensation cost for the Company's 1995 and 1996 options granted been determined consistent with SFAS 123, the Company's net income and earnings per share would approximate the proforma amounts below:

| | | As Reported | Pro Forma |
|------|--------------------|--------------|--------------|
| 1996 | Net income | \$ 2,965,000 | \$ 2,318,000 |
| | | ===== | ===== |
| | Earnings per share | \$.55 | \$.43 |
| | | ===== | ===== |
| 1995 | Net income | \$ 4,700,000 | \$ 4,612,000 |
| | | ===== | ===== |
| | Earnings per share | \$.90 | \$.88 |
| | | ===== | ===== |

DIODES INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10 - MAJOR SUPPLIERS

The Company purchases a significant amount of its inventory from two suppliers, one of which is a related party (Note 11). During 1996, 1995, and 1994, purchases from these suppliers amounted to approximately 59%, 50%, and 59%, respectively, of total inventory purchases. There are a limited number of suppliers for these materials.

NOTE 11 - RELATED PARTY TRANSACTIONS

The Company's principal stockholder is Lite-On Power Semiconductor Corporation (LPSC), a Taiwan corporation. LPSC owns approximately 40% of the Company's common stock. The Company's subsidiaries buy product from and sell product to LPSC. Transactions with LPSC for the years ended December 31 and outstanding balances as of December 31 are as follows:

| | 1996 | 1995 | 1994 |
|---------------------|-----------------------|----------------------|----------------------|
| | ----- | ----- | ----- |
| NET SALES | \$1,895,000 ===== | \$1,998,000 ===== | \$ 948,000 ===== |
| PURCHASES | \$10,403,000 ===== | \$6,512,000 ===== | \$5,048,000 ===== |
| ACCOUNTS RECEIVABLE | \$ 376,000 ===== | \$ 233,000 ===== | \$ 158,000 ===== |
| ACCOUNTS PAYABLE | \$2,250,000 ===== | \$ 621,000 ===== | \$ 334,000 ===== |

During 1995, LPSC converted its 169,629 shares of preferred stock, \$1 par value, on a 1 for 1 basis, to common stock, \$.66 2/3 par value. The difference between the par value of the preferred shares and that of the common shares was recorded as additional paid in-capital.

Advances to a wholly owned subsidiary of LPSC located in the U.S. consist of \$2.5 million cash advanced and \$131,000 accrued interest on the advances. Advances are secured by the vendor's accounts receivable and accrue interest at a rate consistent with the Company's borrowing rate (Note 5). The balances will be repaid through a compensation trade arrangement until February 14, 2001, at which time any balances outstanding will be due on demand. The compensation trade arrangement allows the Company to pay reduced amounts for goods purchased from the vendor.

DIODES INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12 - OPERATIONS BY GEOGRAPHIC AREAS

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

| | 1996 | 1995 | 1994 |
|-------------------------------------|---------------|---------------|---------------|
| | ----- | ----- | ----- |
| Net sales - unconsolidated entities | | | |
| United States | \$ 47,921,000 | \$ 52,742,000 | \$ 35,177,000 |
| Asia | 8,098,000 | 5,448,000 | 3,098,000 |
| | ----- | ----- | ----- |
| | \$ 56,019,000 | \$ 58,190,000 | \$ 38,275,000 |
| | ===== | ===== | ===== |
| Inter-geographic net sales | | | |
| United States | \$ 955,000 | \$ 2,370,000 | \$ 1,477,000 |
| Asia | 13,365,000 | 12,407,000 | 7,809,000 |
| | ----- | ----- | ----- |
| | \$ 14,320,000 | \$ 14,777,000 | \$ 9,286,000 |
| | ===== | ===== | ===== |
| Total net sales | | | |
| United States | \$ 48,876,000 | \$ 55,112,000 | \$ 36,654,000 |
| Asia | 21,463,000 | 17,855,000 | 10,907,000 |
| Less inter-geographic net sales | (14,320,000) | (14,777,000) | (9,286,000) |
| | ----- | ----- | ----- |
| | \$ 56,019,000 | \$ 58,190,000 | \$ 38,275,000 |
| | ===== | ===== | ===== |
| Income from operations | | | |
| United States | \$ 3,019,000 | \$ 5,536,000 | \$ 2,542,000 |
| Asia | 1,437,000 | 1,405,000 | 592,000 |
| | ----- | ----- | ----- |
| | \$ 4,456,000 | \$ 6,941,000 | \$ 3,134,000 |
| | ===== | ===== | ===== |
| Identifiable assets | | | |
| United States | \$ 27,909,000 | \$ 26,015,000 | \$ 14,230,000 |
| Asia | 4,637,000 | 3,348,000 | 3,315,000 |
| | ----- | ----- | ----- |
| Total identifiable assets | \$ 32,546,000 | \$ 29,363,000 | \$ 17,545,000 |
| | ===== | ===== | ===== |

DIODES INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 - COMMITMENTS

The Company leases its main office and warehouse under an operating lease agreement which expires in December 1998. Rental expense amounted to approximately \$148,000, \$140,000, and \$132,000 for the years ended December 31, 1996, 1995 and 1994 respectively.

Future minimum payments under the noncancellable operating lease for future years ending December 31 are as follows:

| | |
|------|-----------|
| 1997 | \$131,000 |
| 1998 | 136,000 |
| | ----- |
| | \$267,000 |
| | ===== |

NOTE 14 - EMPLOYEE BENEFIT PLAN

The Company maintains a 401(k) profit sharing plan (the Plan) for the benefit of qualified employees. Employees who participate may elect to make salary deferral contributions to the Plan. The Company may make a discretionary matching contribution of \$1 for every \$2 contributed by the participant. The Company's contribution is limited to 3% of the employee's compensation. For the years ended December 31, 1996, 1995, and 1994, the Company contributed approximately \$120,000, \$79,000, and \$18,000 respectively to the Plan.

NOTE 15 - SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

| | Quarter Ended | | | |
|--------------------|---------------|--------------|--------------|--------------|
| | March 31 | June 30 | Sept. 30 | Dec. 31 |
| | ----- | ----- | ----- | ----- |
| FISCAL 1996 | | | | |
| Net Sales | \$13,206,000 | \$13,450,000 | \$14,394,000 | \$14,969,000 |
| Gross Profit | 3,713,000 | 3,455,000 | 3,501,000 | 4,173,000 |
| Net Income | 848,000 | 555,000 | 755,000 | 807,000 |
| Earnings Per Share | .16 | .11 | .14 | .15 |
| FISCAL 1995 | | | | |
| Net Sales | \$14,239,000 | \$14,539,000 | \$15,356,000 | \$14,056,000 |
| Gross Profit | 3,943,000 | 4,138,000 | 4,432,000 | 3,950,000 |
| Net Income | 983,000 | 1,122,000 | 1,261,000 | 1,334,000 |
| Earnings Per Share | .19 | .22 | .24 | .25 |

To the Board of Directors and Stockholders
Diodes Incorporated and Subsidiaries

Our audits of the consolidated financial statements of Diodes Incorporated and Subsidiaries referred to in our report dated February 21, 1997 appearing in item 8 in this Annual Report on Form 10-K also included an audit of the financial statement schedule listed in item 14(a) of this Form 10-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

MOSS ADAMS LLP

/s/ Moss Adams LLP
Los Angeles, California
February 21, 1997

DIODES INCORPORATED

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

| COL A | COL B | COL C | COL D | COL E |
|--|--------------------------------|---------------------------------------|----------------------|--------------------------|
| Description | Balance at beginning of period | Additions charged to costs & expenses | Deductions | Balance at end of period |
| Year ended December 31, 1996 - Allowance for doubtful accounts | \$177,000 ===== | \$ 81,000 ===== | \$ (5,000) ===== | \$253,000 ===== |
| Year ended December 31, 1995 - Allowance for doubtful accounts | \$170,000 ===== | \$ 80,000 ===== | \$ (90,000) ===== | \$177,000 ===== |
| Year ended December 31, 1994 - Allowance for doubtful accounts | \$ 61,000 ===== | \$138,000 ===== | \$ (29,000) ===== | \$170,000 ===== |

CAUTIONARY STATEMENT FOR PURPOSES OF THE "SAFE HARBOR" PROVISION OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

The Company has decided to take advantage of the new "Safe Harbor" provision of the Private Securities Litigation Reform Act of 1995 (the "Reform Act"). In that connection, this annual report of Form 10-K includes forward looking statements concerning the Company. The forward looking statements are made pursuant to the Reform Act.

There are many factors that could cause the events in such forward looking statements to not occur, including but not limited to, general or specific economic conditions, fluctuations in product demand, the introduction of new products, the Company's ability to maintain customer relationships, technological advancements, impact to competitive products and pricing, growth in targeted markets, risks of foreign operations, the ability and willingness of the Company's customers to purchase products provided by the Company, the perceived absolute or relative overall value of these products by the purchasers, including the features, quality, and price in comparison to other competitive products, the level of availability of products and substitutes and the ability and willingness of purchasers to acquire new or advanced products, and pricing, purchasing, financing, operational, advertising and promotional decisions by intermediaries in the distribution channels which could affect the supply of or end-user demands for the Company's products, the amount and rate of growth and the Company's selling, general and administrative expenses, difficulties in obtaining materials, supplies and equipment, difficulties for delays in the development, production, testing and marketing of products including, but not limited to, failure to ship new products and technologies when anticipated, the failure of customers to accept these products or technologies when planned, and defects in products, any failure of economies to develop when planned, the acquisition of fixed assets and other assets, including inventories and receivables, the making or incurring of any expenditures, the effects of and changes in trade, monetary and fiscal policies, laws and regulations, other activities of governments, agencies and similar organizations and social and economic conditions, such as trade restriction or prohibition, inflation and monetary fluctuation, import and other charges or taxes, the ability or inability of the Company to obtain or hedge against foreign currency, foreign exchange rates and fluctuations in those rates, intergovernmental disputes as well as actions affecting frequency, use and availability, spectrum authorizations and licensing, the costs and other effects of legal investigations, claims and changes in those items, developments or assertions by or against the Company relating to intellectual property rights, adaptations of new, or changes in, accounting policies and practices in the application of such policies and practices and the effects of changes within the Company's organization or in compensation benefit plans, and activities of parties with which the Company has an agreement or understanding, including any issues affecting any investment or joint venture in which the Company has an investment, and the amount, and the cost of financing which the Company has, and any changes to that financing, and any other information detailed from time to time in the Company's filings with the United States Securities and Exchange Commission.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DIODES INCORPORATED (Registrant)

/s/ David Lin March 26, 1997

DAVID LIN
President and Chief Executive Officer
(Principal Executive Officer)

/s/ Joseph Liu March 26, 1997

JOSEPH LIU
Vice President, Secretary
and Chief Financial Officer
(Principal Financial and Accounting Officer)

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the Registrant, and in the capacities indicated, on March 26, 1997.

/s/ Raymond Soong /s/ David Lin

RAYMOND SOONG
Chairman of the Board of Directors

DAVID LIN
Director

/s/ Michael R. Giordano

MICHAEL R. GIORDANO
Director

/s/ M.K. Lu

M.K. LU
Director

/s/ Shing Mao

SHING MAO
Director

/s/ Michael A. Rosenberg

MICHAEL A. ROSENBERG
Director

/s/ Leonard M. Silverman

LEONARD M. SILVERMAN
Director

| NUMBER ----- | DESCRIPTION ----- | Sequential Page Number ----- |
|-----------------|--|------------------------------------|
| 3.1 | Certificate of Incorporation of Diodes Incorporated (the "Company") dated July 29, 1968 (1) | |
| 3.2 | Amended By-laws of the Company dated August 14, 1987 (2) | |
| 10.1 | Stock Purchase and Termination of Joint Shareholder Agreement (3) | |
| 10.2 | 1994 Credit Facility Agreement between the Company and Wells Fargo Bank, National Association (4) | |
| 10.3* | Company's 401(k) Plan - Adoption Agreement (5) | |
| 10.4* | Company's 401(k) Plan - Basic Plan Documentation #03 (5) | |
| 10.5* | Employment Agreement between the Company and Pedro Morillas (6) | |
| 10.6* | Company's Incentive Bonus Plan (7) | |
| 10.7* | Company's 1982 Incentive Stock Option Plan (7) | |
| 10.8* | Company's 1984 Non-Qualified Stock Option Plan (7) | |
| 10.9* | Company's 1994 Non-Qualified Stock Option Plan (7) | |
| 10.10* | Company's 1993 Incentive Stock Option Plan (5) | |
| 10.11 | \$6.0 Million Revolving Line of Credit Note (8) | |
| 10.12 | Credit Agreement between Wells Fargo Bank and the Company dated November 1, 1995 (8) | |
| 10.13 | Kai Hong Compensation Trade Agreement for SOT-23 Product (9) | |
| 10.14 | Kai Hong Compensation Trade Agreement for MELF Product (10) | |
| 10.15 | Lite-On Power Semiconductor Corporation Distributorship Agreement (11) | |
| 10.16 | Loan Agreement between the Company and FabTech Incorporated (12) | |
| 10.17 | Kai Hong Joint Venture Agreement between the Company and Mrs. J.H. Xing (12) | |
| 10.18 | Quality Assurance Consulting Agreement between LPSC and Shanghai Kai Hong Electronics Company, Ltd. (13) | |

(index continued on following page)

(index continued from previous page)

| | |
|-------|---|
| 10.19 | Loan Agreement between the Company and Union Bank of California, N.A. (13) |
| 10.20 | First Amendment to Loan Agreement between the Company and Union Bank of California, N.A. |
| 10.21 | Guaranty Agreement between the Company and Shanghai Kaihong Electronics Co., Ltd. |
| 10.22 | Guaranty Agreement between the Company and Xing International, Inc. |
| 11 | Statement regarding Computation of Per Share Earnings |
| 21 | Subsidiaries of the registrant |
| 23.1 | Consent of Independent Public Accountants |
| 27 | Financial Data Schedule |

- (1) Previously filed as Exhibit 3 to Form 10-K filed with the Commission for fiscal year ended April 30, 1981, which is hereby incorporated by reference.
- (2) Previously filed as Exhibit 3 to Form 10-K filed with the Commission for fiscal year ended April 30, 1988, which is hereby incorporated by reference.
- (3) Previously filed with the Company's Form 8-K, filed on July 1, 1994, which is hereby incorporated by reference.
- (4) Previously filed as Exhibit 10.4 to Form 10-KSB/A filed with the Commission for fiscal year ended December 31, 1993, which is hereby incorporated by reference.
- (5) Previously filed with Company's Form 10-K, filed on March 31, 1995, which is hereby incorporated by reference.
- (6) Previously filed as Exhibit 10.6 to Form 10-KSB filed with the Commission on August 2, 1994, for the fiscal year ended December 31, 1993, which is hereby incorporated by reference.
- (7) Previously filed with Company's Form S-8, filed on May 9, 1994, which is hereby incorporated by reference.
- (8) Previously filed with Company's Form 10-Q, filed on November 14, 1995, which is hereby incorporated by reference.
- (9) Previously filed as Exhibit 10.2 to Form 10-Q/A, filed with the Commission on October 27, 1995, which is hereby incorporated by reference.

(footnotes continued on following page)

(footnotes continued from previous page)

- (10) Previously filed as Exhibit 10.3 to Form 10-Q/A, filed with the Commission on October 27, 1995, which is hereby incorporated by reference.
 - (11) Previously filed as Exhibit 10.4 to Form 10-Q, filed with the Commission on July 27, 1995, which is hereby incorporated by reference.
 - (12) Previously filed with Company's Form 10-K, filed on April 1, 1996, which is hereby incorporated by reference.
 - (13) Previously filed with Company's Form 10-Q, filed on May 15, 1996, which is hereby incorporated by reference.
- * Constitute management contract, compensatory plans and arrangements which are required to be filed pursuant to Item 601 of Regulation S-K.

EXHIBIT 10.20
FIRST AMENDMENT
TO LOAN AGREEMENT

This Amendment Agreement to Loan Agreement (this "Agreement") dated this 5th day of November, 1996, by and between Diodes Incorporated, a Delaware Corporation ("Borrower") and Union Bank of California, N.A. ("Bank").

Whereas, Borrower and Bank have previously entered into that certain Loan Agreement, dated August 8, 1996, ("The Loan Agreement"), pursuant to which Bank has agreed to make certain loans and advances to Borrower;

Whereas, Borrower has requested that Bank agree to amend certain provisions contained in the Loan Agreement; and

Whereas, Borrower and Bank have agreed and intend to hereby amend the Loan Agreement.

Now, therefore, the parties hereby agree as follows:

1. Section 1.2 shall remain in its entirety and a new paragraph shall be added as follows:

Diodes has requested permission to pay down their \$8,000,000 term note to \$5,000,000; under the \$9,500,000 term facility. A new note will be issued evidencing the \$5,000,000 term note with the same terms and conditions, other than the amortization will be \$83,333.33 on the 28th day of each month, commencing February 28, 1997. The availability under this note shall be reduced on the same day and in the same amount as each scheduled principal payment. Diodes will have \$4,500,000 available on the \$9,500,000 term facility under the terms and conditions set forth in section 1.2.

2. Except as modified hereby, the Loan Agreement shall remain otherwise unchanged and in full force and effect and this agreement shall be effective from the date hereof and shall have no retroactive effect whatsoever.

In Witness Whereof, Borrower has executed and delivered this agreement.

"Borrower"
Diodes Incorporated

By: /s/ Joseph Liu
Joseph Liu, CFO

EXHIBIT 10.21

GUARANTY
OF
DIODES INCORPORATED, 3050 East Hillcrest Drive,
Suite 200, Westlake Village, California 91362

1. FOR GOOD AND VALUABLE CONSIDERATION, the receipt and sufficiency of which by DIODES INCORPORATED, a Delaware corporation ("DIODES"), are hereby acknowledged, and to induce THE HONG KONG and SHANGHAI BANKING CORPORATION LIMITED (the "Bank") at any time or from time to time, to extend financial accommodation with or without security, to or for the account of: SHANGHAI KAIHONG ELECTRONICS CO., LTD. (the "Borrower"), or in respect of which the Borrower may be liable (the term "Financial Accommodations" shall include the financial accommodations as outlined in the Bank's offer letter of August 12, 1996 duly accepted by the Borrower), DIODES hereby guarantees to the Bank that the Borrower will promptly perform and observe every agreement to be performed or observed by the Borrower and that all sums stated to be payable in, or which become payable under the documents to which such Financial Accommodations are made ("the Financing Document(s)"), will be promptly paid in full when due whether at maturity or earlier by reason or acceleration or otherwise, together with interest due thereunder, or DIODES shall immediately upon receipt of written demand thereof, fully pay and otherwise discharge all such obligations of the Borrower. In case of one or more extensions of time of payment or renewals, in whole or in part, of any of the Financing Document(s), the same will be promptly paid or performed when due, according to each such extension or renewal, whether at maturity or earlier by reason of acceleration or otherwise.

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

3. Notwithstanding the aggregate sums which may be or become payable by the Borrower to the Bank at any time or from time to time, the liability of DIODES hereunder shall not exceed ONE MILLION DOLLARS (U.S.\$1,000,000.00) plus any and all interest on that amount, and all costs of collection including without limitation, reasonable attorney fees. It is understood that the obligations of the Borrower to the Bank may at any time and from time to time exceed the liability of DIODES hereunder without impairing this Guaranty. DIODES agrees that whenever at any time or from time to time it shall make any payment to the Bank hereunder on account of its liability hereunder, that it will notify the Bank in writing that such payment is made under this Guaranty for such purpose. No payment pursuant to any provision hereof shall entitle DIODES by subrogation to the rights of the Bank, to any payment by the Borrower or out of the property of the Borrower, except after payment in full of all sums (including interests, costs and expenses) which may be or become payable by the Borrower to the Bank at any time or from time to time.

4. DIODES reserves the right, at any time or from time to time, on one month prior written notice to the Bank, to reduce the maximum amount guaranteed hereunder or to terminate this Guaranty; provided, however, that DIODES shall in any event remain liable as guarantor for all obligations of the Borrower outstanding at the effective date of any such notice to the Bank pursuant to this paragraph.

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

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

7. This Guaranty and all rights, obligations and liabilities arising hereunder shall be construed according to the laws of the State of California, United States of America. Unless the context otherwise requires, all terms used herein which are defined in the Uniform Commercial Code shall have the meanings therein stated. All notices hereunder shall be given by telex or telecopier if to the Bank at The Hongkong and Shanghai Banking Corporation Limited, Shanghai Branch, Suite 504, Shanghai Centre, 1376 Nanjing Xi Lu, Shanghai 200040, the People's Republic of China, Attention: Manager, Corporate Banking, Facsimile: (8621) 6279-8586 or if to Attention: Manager's Office, and shall be effective when sent.

IN WITNESS WHEREOF, this instrument has been duly executed by DIODES this 12th day of December, 1996.

By: /s/ David Lin
Title: President & CEO

GUARANTY AGREEMENT

This Guaranty Agreement is made and effective as of December 12, 1996, by and between Xing International, Inc., a New York corporation (the "Borrower"), and Diodes Incorporated, a Delaware corporation (the "Guarantor"), upon the basis of the following facts and understandings of the parties:

A. The Borrower and the Guarantor are the holders of all of the issued and outstanding capital stock of Shanghai Kai Hong Kong Electronics Co., Ltd., a corporation formed under the laws of the People's Republic of China for the purpose of manufacturing and distributing diodes, surface mounted devices, transistors and other electronic components (the "Company"), all pursuant to that certain Joint Venture Agreement dated as of March 18, 1996 (the "Joint Venture Agreement").

B. Concurrently herewith, the borrower is entering into a Term Loan Agreement pursuant to which THE HONG KONG and SHANGHAI BANKING CORPORATION LIMITED (the "Bank") has agreed to lend to the Borrower [U.S. \$850,000], provided that the Guarantor guarantee the prompt payment of the indebtedness of the Borrower.

C. The Borrower desires to provide the Guarantor, and the Guarantor desires to obtain from the Borrower, in consideration of such guaranty, certain rights in and to the shares of the capital stock of the Company now or hereafter held by the Borrower.

D. The Borrower desires to obtain such guarantee from the Guarantor, and the Guarantor is willing to make such guarantee, all on the terms set forth in this Agreement.

NOW THEREFORE, for valuable consideration, the receipt and sufficiency of which hereby is acknowledged, the parties hereto agree as follows:

1. Guaranty.

a. The Guarantor hereby agrees to execute and deliver to the Bank an irrevocable stand by letter of credit.

b. In consideration of the Guaranty, the Borrower shall reimburse the Guarantor promptly upon demand for all costs and expenses incurred by it in connection with, by reason of or relating to the execution, delivery and performance of the Guaranty and for all amounts paid by or on behalf of or for the account of the Borrower pursuant to the Guaranty, including, but not limited to, interest, commission and fees (including attorney's fees).

c. The Borrower hereby authorizes the Bank, if and to the extent the Guarantor shall be required to pay any amount whatsoever to any person pursuant to, in connection with or as a result of or relating to the Guaranty, to set-off and apply for the account of, and to pay over to, the Guarantor any and all amounts at any time held by, and any other indebtedness at any time owing to, the Borrower to or for the credit or the account of the Borrower without notice to the Borrower. The Guarantor agrees promptly to notify the Borrower after any such set-off and application, provided that the failure to give such notice shall not affect the validity of such set-off and application. The rights of the Guarantor under this Section 1(c) are in addition to any other which the Guarantor may have.

d. In the event that the Guarantor shall be required to pay any amount whatsoever to any person pursuant to, in connection with or as a result of or relating to the Guaranty, the Guarantor shall have the right, in its sole and absolute discretion, to purchase from the Borrower, and the Borrower hereby sells and assigns to the Guarantor, that portion of the Borrower's shares of the capital stock of the Company obtained by dividing (x) the amount so paid by the Guarantor by (v) the aggregate amount theretofor required to be paid by the Borrower to the Company for the purchase of such shares, in cancellation of the Borrower's obligations to reimburse for the Guarantor for such amount so paid by the Guarantor. The Borrower hereby authorizes the Company to take all such actions as may be reasonably requested by the Guarantor to effect the purpose and intent of this Section 1(d). The Guarantor's rights under this section 1(d) are in addition to any other rights and remedies (including, without limitation, other rights of set-off) which the Guarantor may have. All distributions with respect to the shares of the Company purchased by the Guarantor pursuant to this section 1(d) which are declared and paid before the effective date of such purchase shall be and remain the property of the Borrower. Upon any such purchase, the right of the Guarantor to seek reimbursement from the Borrower with respect to the payment by the Guarantor which gave rise to such right to purchase shall cease.

2. Survival of Representations, Warranties and Agreements. All representations, warranties and agreements made by the parties hereto in this Agreement (including, but not limited to, statements contained in any schedule or certificate or other instrument delivered by or on behalf of any party hereto or in connection with the transactions contemplated hereby) shall survive the date hereof and any investigations, inspections, examinations or audits made by or on behalf of any party.

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

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

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

6. Attorney's Fees. In the event any party takes legal action to enforce any of the terms of this Agreement, the unsuccessful party to such action shall pay the successful party's expenses (including, but not limited to, attorney's fees and costs) incurred in such action.

7. Jurisdiction. Except as provided in Section 8, each party hereto irrevocably submits to the exclusive jurisdiction of any court of the State of California or the United States of America sitting in the City of Los Angeles over any suit, action or proceeding arising out of or relating to this Agreement. To the fullest extent it may effectively do so under applicable law, each party irrevocably waives and agrees not to assert, by way of motion, as a defense or otherwise, any claim that it is not subject to the jurisdiction of any such court, any objection that it may now or hereafter have to the establishment of the venue of any such suit, action or proceeding brought in any such court and any claim that any such suit, action or proceeding, brought in any such court has been brought in an inconvenient forum. Each party hereto agrees, to the fullest extent it may effectively do so under applicable law, that a judgment in any suit, action or proceeding of the nature referred to hereinabove brought in any such court shall be conclusive and binding upon such person and its successors and assigns and may be enforced in the courts of the United States of America or the State of California (or any other courts to the jurisdiction of which such person is or may be subject) by a suit upon such judgment. Each party hereto consents to process being served in any suit, action or proceeding of the nature referred to hereinabove by mailing a copy thereof by registered or certified mail, postage prepaid, return receipt requested, to the address of the other set forth in Section 10. Each party agrees that such service (i) shall be deemed in every respect effective service of process upon such person in any such suit, action or proceeding and (ii) shall, to the fullest extent permitted by law be taken and held to be valid personal service upon and personal delivery to such person.

8. Arbitration. Any controversy arising out of or relating to this Agreement or the transaction contemplated hereby shall be referred to arbitration before the American Arbitration Association strictly in accordance with the terms of this

Agreement and the substantive law of the State of California. The board of arbitrators shall convene at a place mutually acceptable to the parties in the state of California and, if the place of arbitration cannot be agreed upon, arbitration shall be conducted in Los Angeles. The parties hereto agree to accept the decision of the board of arbitrators, and judgment upon any award rendered hereunder may be entered in any court having jurisdiction thereof. Neither party shall institute a proceeding hereunder until the party furnished to the other party, by registered mail, at least thirty (30) days prior written notice of its intent to do so.

9. Time of Essence. Time is of the essence in the performance of every provision of this Agreement and the other contracts, notes and instruments referred to in this Agreement.

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

GUARANTOR:

DIODES INCORPORATED

By /s/ David Lin, President & CEO
Authorized Representative
3050 East Hillcrest Drive
Suite 200
Westlake Village, California 91362
Telecopier Number: (805) 446-4850

BORROWER:

XING INTERNATIONAL, INC.
By /s/ J.Y. Xing
J.Y. Xing
9712 63rd Drive
Apartment 10D
Rego Park, New York 11374
Telecopier Number:

EXHIBIT 11

DIODES INCORPORATED AND SUBSIDIARIES

COMPUTATION OF EARNINGS PER SHARE

| PRIMARY | Year Ended December 31, | | |
|---|-------------------------|----------------------|----------------------|
| | 1996 | 1995 | 1994 |
| Net income for primary earnings per share | \$2,965,000 ===== | \$4,700,000 ===== | \$2,363,000 ===== |
| Weighted average number of common shares outstanding during the year | 4,958,658 | 4,881,125 | 4,752,883 |
| Add common equivalent shares upon exercise of stock options | 403,369 ----- | 339,071 ----- | 383,627 ----- |
| Weighted average number of shares used in calculations of primary earnings per share | 5,362,027 ===== | 5,220,196 ===== | 5,136,510 ===== |
| Primary earnings per share | \$.55 ===== | \$.90 ===== | \$.46 ===== |
| FULLY DILUTED | | | |
| Weighted average number of shares used in calculating primary earnings per share | 5,362,027 | 5,220,196 | 5,136,510 |
| Add additional shares issuable upon exercise of stock options | 11,336 ----- | 326 ----- | * ----- |
| Weighted average number of shares used in calculation of fully diluted earnings per share | 5,373,363 ===== | 5,220,522 ===== | 5,136,510 ===== |
| Fully diluted earnings per share | \$.55 ===== | \$.90 ===== | \$.46 ===== |

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

SUBSIDIARIES OF THE REGISTRANT

1. Diodes Taiwan Company, Limited, a corporation organized and existing under the laws of the Republic of China (Taiwan) with principal offices located at 5 Fl., 510-16 Chung-Cheng Road, Hsin-Tien City, Taipei, Taiwan, Republic of China. This subsidiary does business under its own name. This is a wholly-owned subsidiary of Diodes Incorporated.

2. Shanghai Kai Hong Electronics Co., Ltd., a corporation formed under the laws of the People's Republic of China with principal offices located at East of Xingqiao Town Songjiang County, Shanghai, Replublic of China. This subsidiary does business under its own name. This is a 70% majority-owned joint venture and a subsidiary of Diodes Incorporated.

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 33-78716) of Diodes Incorporated and Subsidiaries of our report dated February 21, 1997 appearing in item 8 in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report on the financial statement schedule, which appears at page S-1 of this Form 10-K.

MOSS ADAMS LLP

/s/ Moss Adams LLP
Los Angeles, California
March 26, 1997

| | | |
|------------|-------------|------------|
| YEAR | | |
| | DEC-31-1996 | |
| | JAN-01-1996 | |
| | DEC-31-1996 | |
| | | 1,820,000 |
| | | 0 |
| | | 8,629,000 |
| | | 253,000 |
| | | 13,268,000 |
| | | 25,235,000 |
| | | 5,843,000 |
| | | 1,215,000 |
| | | 32,546,000 |
| | 7,832,000 | 0 |
| | 0 | 0 |
| | | 3,784,000 |
| | | 15,680,000 |
| 32,546,000 | | 56,019,000 |
| | | 56,019,000 |
| | | 41,177,000 |
| | | 10,386,000 |
| | | 0 |
| | | 0 |
| | | 538,000 |
| | | 4,638,000 |
| | | 1,673,000 |
| | 2,965,000 | 0 |
| | | 0 |
| | | 0 |
| | | 2,965,000 |
| | | 0.55 |
| | | 0.55 |