

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

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

November 1, 2006  
Date of Report (Date of earliest event reported)

DIODES INCORPORATED  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other  
jurisdiction of  
incorporation)

1-5740  
(Commission File Number)

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

3050 East Hillcrest Drive  
Westlake Village, California  
(Address of principal executive offices)

91362  
(Zip Code)

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02 Results of Operations and Financial Condition

On November 1, 2006, Diodes Incorporated issued a press release announcing third quarter 2006 earnings. A copy of the press release is attached as Exhibit 99.1.

On November 1, 2006, Diodes Incorporated hosted a conference call to discuss its third quarter 2006 results. A copy of the transcript is attached as Exhibit 99.2.

During the conference call on November 1, 2006, Dr. Keh-Shew Lu, President and CEO of Diodes Incorporated, as well as Carl C. Wertz, Chief Financial Officer, Rick White, Sr. Vice President of Finance, and Mark King, Sr. Vice President of Sales and Marketing made additional comments during a question and answer session. A copy of the transcript is attached as Exhibit 99.3.

The information in this Form 8-K and the Exhibits attached hereto shall not be deemed "filed" for purposes of Section 18 of the Securities Act of 1934, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Securities Exchange Act of 1984, except as shall be expressly set forth by specific reference in such filing.

Item 9.01 Financial Statements and Exhibits.

(c) Exhibits

- Exhibit 99.1 - Press Release dated November 1, 2006  
Exhibit 99.2 - Conference call transcript dated November 1, 2006  
Exhibit 99.3 - Question and answer transcript dated November 1, 2006

SIGNATURES

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

Dated: November 1, 2006

DIODES INCORPORATED

By /s/ Carl C. Wertz

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CARL C. WERTZ  
Chief Financial Officer

EXHIBIT INDEX

Exhibit Number	Description
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99.1	Press Release dated November 1, 2006
99.2	Conference call transcript dated November 1, 2006
99.3	Question and answer transcript dated November 1, 2006

FOR IMMEDIATE RELEASE

Diodes Incorporated Reports Record Third Quarter Results

o Record revenues of \$92.6 million, up 71%

o Record pro forma earnings of \$14.2 million, up 69%

Westlake Village, California, November 1, 2006 - Diodes Incorporated (NasdaqGS: DIOD), a leading manufacturer and supplier of high-quality discrete and analog semiconductors, today reported record financial results for the third quarter ending September 30, 2006.

Third Quarter Highlights:

- o Revenues increased 70.8% YOY and 11.9% sequentially to a record \$92.6 million
- o Gross profit increased 62.6% YOY and 11.9% sequentially to \$30.7 million
- o Pro forma net income increased 69.1% YOY to a record \$14.2 million, or \$0.49 per fully diluted share, up from \$8.4 million, or \$0.34 per share, in the third quarter of 2005, and \$0.45 in the second quarter of 2006
- o Net income on a GAAP basis increased 12.2% sequentially to \$12.8 million, or \$0.45 per fully diluted share, up from \$11.4 million or \$0.41 per share in the second quarter of 2006
- o YTD cash flow from operations increased 23.2% to \$46.0 million

Revenues for the third quarter of 2006 increased 70.8% year-over-year and 11.9% sequentially to a record \$92.6 million. Pro forma net income increased 69.1% year-over-year to a record \$14.2 million, or \$0.49 per fully diluted share, up from \$8.4 million, or \$0.34 per share, in the third quarter of 2005, and \$0.45 in the second quarter of 2006. Pro forma results are included because under FAS 123(R), the Company began expensing stock options in the first quarter of 2006, and therefore, equivalent stock option expense was not reflected in the 2005 periods. Pro forma net income and earnings per share exclude approximately \$1.6 million in non-cash, net stock option expense (see table for a reconciliation of the impact of pro forma net income to GAAP net income). Net income on a GAAP basis increased 12.2% sequentially to \$12.8 million, or \$0.45 per fully diluted share, compared to \$11.4 million, or \$0.41 per share, in the second quarter of 2006.

Commenting on the quarter, Dr. Keh-Shew Lu, President and CEO of Diodes Incorporated, said: "During the third quarter Diodes' sales and net income reached new highs, as we leveraged our innovative products, efficient manufacturing, and intense customer focus to gain market share in the discrete market and expand into adjacent segments. The planned acquisition of APD Semiconductor announced last week will provide Diodes with access to advanced technologies in the discrete semiconductor market and will allow us to offer another superior product line in respect to both cost and performance. In addition, our convertible bond issue is expected to be accretive to earnings and provides us with tremendous flexibility to pursue corporate growth initiatives, including acquisitions, to accelerate our profitable growth."

On October 5, the Company issued \$230 million in aggregate principal convertible senior notes due on October 1, 2026. The notes will pay interest semiannually at a rate of 2.25% per annum, with a 39.68% conversion premium, and with any conversion premium redeemable into cash and/or shares of common stock at the Company's preference. At current market rates, the pre-tax net investment interest income on the proceeds of the bond offering is projected to be approximately \$5.0 to \$5.5 million per year. The Company expects this transaction to be accretive to earnings per share given the current short-term interest environment and intends to use the net proceeds from this offering for working capital and other general corporate purposes, including acquisitions.

For the first nine months of 2006, revenues increased 62.2% to \$248.9 million, compared to \$153.4 million in the same period last year. Net income for the first nine months of 2006 was \$33.5 million, or \$1.19 per fully diluted share. Pro forma net income for the first nine months of 2006, which excludes \$4.3 million of net stock option expense, increased 62.1% to \$37.8 million, compared to \$23.3 million in the same period in 2005. Pro forma fully diluted earnings per share grew to \$1.32 for the first nine months of 2006, compared to \$0.96, for the same period last year.

## End-Markets

"Our strong third quarter top-line growth was driven by better than expected sales in the consumer electronics segment as well as customer acceptance of our analog product line. We are extremely pleased with our progress on the Anachip acquisition and the resulting attractive cross selling opportunities and new product development initiatives combining analog and discrete circuits. Our discrete market share rose to an all time high during the quarter, driven by a broad range of end equipment categories, including digital audio players, set-top boxes, LCD monitors, notebooks and wireless LAN. For the third quarter of 2006, consumer electronics and computer made up 37% and 35% of total sales respectively, with telecom contributing 13%," commented Mark King, Sr. Vice President of Sales and Marketing.

"Asia contributed 73% of our third quarter sales, with the help of better than expected sales in the computer and consumer segments as well as robust growth in our analog product line. North American accounted for 24% of sales driven by strong OEM demand, with distributor point of sale again reaching a record high. Sales in Europe slowed sequentially as a result of the summer holiday, contributing 3% of total sales, but were up 105% from the third quarter of 2005 as we continued to make progress with new design wins and expanded customer relationships," said Mr. King. "We experienced market share gains in all regions during the third quarter for our discrete products, and in Asia, we reached another all-time high in market share."

## Design Wins and New Products

"Design activity remained brisk in the third quarter with multiple wins at over 50 customers. There is strong interest in our analog designs from our traditional accounts as well as important discrete wins at original Anachip customers," Mr. King commented. "Demand for Diodes' switchers, LDO's and hall sensors was robust with wins coming from a broad list of end equipment, including digital audio players, mobile phones and set-top boxes. On the discrete side we experienced strong interest on our DFN, PowerDI and array platforms for portable media devices, power converters and LCD monitors."

Diodes recently launched the AH180, a new generation of low-voltage Hall Sensor switch designed to meet the two critical factors of today's demanding requirements of device manufacturers: time to market and solution cost. Its size, together with the exceptional power consumption performance, allow the AH180 to easily fit a wide range of applications in the portable consumer electronics and computer devices, such as razor-thin multimedia 3G wireless handsets, and positions the Company in some of the fastest growing end-user markets.

Sales of new products reached a record 29.7% of total sales, compared to 14.1% a year ago, and 24.9% last quarter, and this growth includes the contribution of the Anachip acquisition. New product revenue was driven by products in sub-miniature array, QFN, PowerDI123, PowerDI5, and Schottky platforms on the discrete side, as well as the analog product lines. Diodes released 35 products covering nine product families in the third quarter.

#### Additional Financial Highlights

Gross profit for the third quarter of 2006 increased 62.6% to \$30.7 million, or 33.2% of revenue, compared to the same period last year. This increase in gross profit was helped by improved product mix and increased sales volume. Due to strong product demand for discrete devices and high capacity utilization during the quarter, our migration of analog production to our highly productive in-house packaging facility was not as brisk as expected in the quarter.

For the quarter, SG&A expenses were \$11.8 million or 12.8% of revenue, versus \$7.6 million, or 14.0% of revenue, in the comparable quarter last year. Included in third quarter SG&A expenses were \$1.6 million in non-cash, stock option expense. For comparable purposes, excluding the stock option expense, SG&A for the third quarter of 2006 would have been 11.3% of sales (see table for a reconciliation of the impact of stock option expense to reported results).

Operating income for the third quarter increased 63.1% to a record \$16.9 million, or 18.3% of sales, compared to \$10.4 million for the third quarter of 2005. Sequentially, operating margins improved 180 basis points over the second quarter 2006 driven by increased sales volume as well as operating synergies from the Anachip combination.

In the quarter ended September 30, 2006, a one-time adjustment to correct prior year accounting for share-grants and intercompany currency losses had a tax-adjusted reduction to net income of approximately \$0.6 million, equivalent to \$0.02 per share.

Investment in research and development grew to \$1.9 million, or 2.1% of revenue, compared to \$0.94 million, or 1.7% of sales, in the third quarter of 2005.

Capital expenditures for the current quarter were \$4.9 million and \$32.4 million year to date. Depreciation expense for the quarter was \$4.4 million and \$14.1 million year to date.

At quarter-end, Diodes had \$109 million in total cash and short-term investments (not including the \$224 million proceeds from the bond offering), \$159.3 million in working capital, \$5.7 million in long-term debt and unused and available credit facilities of \$50 million. For the first nine months of 2006, shareholder equity increased 23% to \$277.0 million.

## Business Outlook

"Coming off our 6th consecutive quarter of record revenue performance, including our 11.9% sequential growth this quarter, and with a book-to-bill ratio at parity, we currently expect to see sequential revenue growth in the 1 to 3% range, with comparable gross margins, for the fourth quarter of 2006. Over the next few quarters, as we continue to introduce new discrete and analog products and internalize packaging of our analog products, we expect to see gradual expansion in our gross margins," stated Dr. Lu. "We are very pleased with our progress to-date in executing against our strategic objectives and we are excited about the opportunities ahead for profitable growth through customer-focused innovation".

## Conference Call

Diodes Incorporated will hold its third quarter conference call for all interested persons at 2 p.m. Pacific Time (5 p.m. Eastern Time) on November 1st, 2006 to discuss its results. This conference call will be broadcast live over the Internet and can be accessed by all interested parties on the investor section of Diodes' website at [www.diodes.com](http://www.diodes.com). To listen to the live call, please go to the Investor section of Diodes website and click on the Conference Call link at least fifteen minutes prior to the start of the call to register, download, and install any necessary audio software. For those unable to participate during the live broadcast, a replay will be available shortly after the call on Diodes website for 60 days.

## About Diodes Incorporated

Diodes Incorporated (NasdaqGS: DIOD) is a leading manufacturer and supplier of high-quality discrete and analog semiconductor products, primarily to the communications, computing, industrial, consumer electronics and automotive markets. The Company's corporate sales, marketing, engineering and logistics headquarters is located in Southern California, with two manufacturing facilities in Shanghai, China, a wafer fabrication plant in Kansas City, Missouri, engineering, sales, warehouse and logistics offices in Taipei, Taiwan and Hong Kong, and sales and support offices throughout the world. Diodes, Inc. recently acquired Anachip Corporation, a fabless analog IC company in Hsinchu Science Park, Taiwan.

Diodes, Inc.'s product focus is on subminiature surface-mount discrete devices, analog power management ICs and Hall-effect sensors all of which are widely used in end-user equipment such as TV/Satellite set top boxes, portable DVD players, datacom devices, ADSL modems, power supplies, medical devices, wireless notebooks, flat panel displays, digital cameras, mobile handsets, DC to DC conversion, Wireless 802.11 LAN access points, brushless DC motor fans, and automotive applications. For further information, including SEC filings, visit the Company's website at <http://www.diodes.com>.

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

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

CONSOLIDATED CONDENSED INCOME STATEMENT and BALANCE SHEET FOLLOWS

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2006	2005	2006
Net sales	\$54,200,000	\$92,575,000	\$153,398,000	\$248,876,000
Cost of goods sold (1)	35,323,000	61,879,000	100,428,000	166,532,000
Gross profit	18,877,000	30,696,000	52,970,000	82,344,000
Selling and general administrative expenses (2)	7,581,000	11,825,000	21,469,000	34,824,000
Research and development expenses (3)	938,000	1,941,000	2,688,000	5,985,000
Loss (gain) on disposal of fixed assets	--	32,000	(105,000)	152,000
Total operating expenses	8,519,000	13,798,000	24,052,000	40,961,000
Income from operations	10,358,000	16,898,000	28,918,000	41,383,000
Other income (expense)				
Interest income	23,000	1,069,000	66,000	2,807,000
Interest expense	(188,000)	(89,000)	(465,000)	(363,000)
Other	116,000	(1,563,000)	95,000	(1,758,000)
Income before income taxes and minority interest	(49,000)	(583,000)	(304,000)	686,000
Income tax provision (4)	10,309,000	16,315,000	28,614,000	42,069,000
	(1,621,000)	(3,212,000)	(4,523,000)	(7,778,000)
Income before minority interest	8,688,000	13,103,000	24,091,000	34,291,000
Minority interest in joint venture earnings	(305,000)	(333,000)	(802,000)	(824,000)
Net income	\$ 8,383,000	\$12,770,000	\$ 23,289,000	\$ 33,467,000
Earnings per share				
Basic	\$ 0.38	\$ 0.50	\$ 1.08	\$ 1.31
Diluted	\$ 0.34	\$ 0.45	\$ 0.96	\$ 1.19
Number of shares used in computation				
Basic	22,010,235	25,686,913	21,658,863	25,520,156
Diluted (5)	24,731,514	28,152,592	24,344,795	28,055,154



DIODES INCORPORATED AND SUBSIDIARIES  
CONSOLIDATED RECONCILIATION OF NET INCOME TO PRO FORMA NET INCOME

Pro forma consolidated statements of income are presented because we use it as an additional measure of our operating performance. Pro forma net income and pro forma net income per share should not be considered as alternatives to net income, earnings per share or other measures of consolidated operations and cash flow data prepared in accordance with accounting principles generally accepted in the United States of America, as indicators of our operating performance, or as alternatives to cash flow as a measure of liquidity. Pro forma consolidated statements of income are intended to present our operating results, excluding items described below, for the periods presented.

Pro forma net income and earnings per share reconciliation	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2006	2005	2006
GAAP net income	\$ 8,383,000	\$12,770,000	\$23,289,000	\$33,467,000
Pro forma adjustments:				
Stock option expense				
included in cost of goods sold:	--	133,000	--	399,000
Stock option expense				
included in selling and general				
administrative expenses:	--	1,355,000	--	4,112,000
Stock option expense				
included in research and				
development expenses:	--	146,000	--	439,000
Total stock option expense	--	1,634,000	--	4,950,000
Income tax benefit related to				
stock option expense	--	228,000	--	661,000
Pro forma net income	\$ 8,383,000	\$14,176,000	\$23,289,000	\$37,756,000
Diluted shares used in computing				
Pro forma earnings per share	24,731,514	28,152,592	24,344,795	28,055,154
Incremental shares considered				
to be outstanding:	--	499,355	--	497,651
Adjusted diluted shares used in computing				
Pro forma earnings per share	24,731,514	28,651,947	24,344,795	28,552,805
Pro forma earnings per share				
Basic	\$ 0.38	\$ 0.55	\$ 1.08	\$ 1.48
Diluted	\$ 0.34	\$ 0.49	\$ 0.96	\$ 1.32

- 1) For the quarter and nine months ended September 30, 2006, includes \$133,000 and \$399,000 of stock option expense, respectively.
- 2) For the quarter and nine months ended September 30, 2006, includes \$1,355,000 and \$4,112,000 of stock option expense, respectively.
- 3) For the quarter and nine months ended September 30, 2006, includes \$146,000 and \$439,000 of stock option expense, respectively.
- 4) For the quarter and nine months ended September 30, 2006, includes \$228,000 and \$661,000 of income tax benefit related to stock option expense, respectively.
- 5) For the quarter and nine months ended September 30, 2006, 499,355 and 497,651 incremental shares are considered to be outstanding under FAS123R, respectively.

DIODES INCORPORATED AND SUBSIDIARIES  
CONSOLIDATED RECONCILIATION OF NET INCOME TO EBITDA

EBITDA represents earnings before net interest expense, income tax provision, depreciation and amortization. Our management believes EBITDA is useful to investors because it is frequently used by securities analysts, investors and other interested parties in evaluating companies in our industry. In addition, our management believes that EBITDA is useful in evaluating our operating performance compared to that of other companies in our industry because the calculation of EBITDA generally eliminates the effects of financing and income taxes and the accounting effects of capital spending, which items may vary for different companies for reasons unrelated to overall operating performance. As a result, our management uses EBITDA as a measure to evaluate the performance of our business. However, EBITDA is not a recognized measurement under generally accepted accounting principles, or GAAP, and when analyzing our operating performance, investors should use EBITDA in addition to, and not as an alternative for, income from operations and net income, each as determined in accordance with GAAP. Because not all companies use identical calculations, our presentation of EBITDA may not be comparable to similarly titled measures of other companies. Furthermore, EBITDA is not intended to be a measure of free cash flow for our management's discretionary use, as it does not consider certain cash requirements such as a tax and debt service payments.

The following table provides a reconciliation of Net Income to EBITDA:

	Three Months Ended September 30,	
(in thousands)	2005	2006
Net Income	\$ 8,383	\$12,770
Plus:		
Interest expense, net	165	(980)
Income tax provision	1,508	3,212
Depreciation and amortization	4,074	4,383
EBITDA	\$14,130	\$19,385

	Nine Months Ended September 30,	
(in thousands)	2005	2006
Net Income	\$23,288	\$33,467
Plus:		
Interest expense, net	399	(2,445)
Income tax provision	4,523	7,778
Depreciation and amortization	11,887	14,053
EBITDA	\$40,097	\$52,853

DIODES INCORPORATED AND SUBSIDIARIES  
CONSOLIDATED CONDENSED BALANCE SHEET  
(Unadited)

ASSETS

	December 31, 2005	September 30, 2006
	-----	-----
CURRENT ASSETS		(unaudited)
Cash and cash equivalents	\$ 73,288,000	\$ 53,157,000
Short-term investments	40,348,000	56,139,000
	-----	-----
Total cash and short-term investments	113,636,000	109,296,000
Accounts receivable		
Customers	48,348,000	70,049,000
Related parties	6,804,000	5,554,000
	-----	-----
Less: Allowance for doubtful receivables	55,152,000 (534,000)	75,603,000 (675,000)
	-----	-----
Inventories	54,618,000	74,928,000
Deferred income taxes, current	24,611,000	45,767,000
Prepaid expenses and other current assets	2,541,000	2,565,000
Prepaid income taxes	5,326,000	6,663,000
	-----	-----
Prepaid income taxes	--	441,000
	-----	-----
Total current assets	200,732,000	239,660,000
PROPERTY, PLANT AND EQUIPMENT, at cost, net of accumulated depreciation and amortization	68,930,000	89,168,000
DEFERRED INCOME TAXES, non current	8,466,000	11,043,000
OTHER ASSETS		
Equity investment	5,872,000	--
Goodwill	5,090,000	24,093,000
Other	425,000	2,906,000
	-----	-----
TOTAL ASSETS	\$289,515,000	\$366,870,000
	=====	=====

DIODES INCORPORATED AND SUBSIDIARIES  
CONSOLIDATED CONDENSED BALANCE SHEET  
(Unaudited)

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 2005	September 30, 2006
	-----	-----
<b>CURRENT LIABILITIES</b>		
Line of credit	\$ 3,000,000	\$ --
Accounts payable		
Trade	18,619,000	37,250,000
Related parties	7,921,000	13,215,000
Accrued liabilities	19,782,000	27,756,000
Long-term debt, current portion	4,621,000	1,954,000
Capital lease obligations, current portion	138,000	141,000
	-----	-----
Total current liabilities	54,081,000	80,316,000
<b>LONG-TERM DEBT, net of current portion</b>	4,865,000	3,709,000
<b>CAPITAL LEASE OBLIGATIONS, net of current portion</b>	1,618,000	1,508,000
<b>MINORITY INTEREST IN JOINT VENTURE</b>	3,477,000	4,321,000
	-----	-----
Total liabilities	64,041,000	89,854,000
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock - par value \$1.00 per share; 1,000,000 shares authorized; no shares issued and outstanding		
Common stock - par value \$0.66 2/3 per share; 70,000,000 shares authorized; 25,258,119 and 25,930,914 shares issued at December 31, 2005 and September 30, 2006, respectively	16,839,000	17,355,000
Additional paid-in capital	94,664,000	111,357,000
Retained earnings	114,659,000	148,126,000
	-----	-----
Less:	226,162,000	276,838,000
Accumulated other comprehensive gain (loss)	(688,000)	178,000
	-----	-----
Total stockholders' equity	225,474,000	277,016,000
	-----	-----
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	289,515,000	366,870,000
	=====	=====

Participants: Dr. Keh-Shew Lu, Carl Wertz, Mark King and Richard White

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Introduction: Crocker Coulson, CCG

Good afternoon and welcome to Diodes' third quarter 2006 earnings conference call.

With us today are Diodes' President and CEO, Dr. Keh-Shew Lu, and Chief Financial Officer, Carl Wertz, Mark King, Sr. VP of Sales and Marketing, and Sr. Vice President-Finance, Richard White.

Before I turn the call over to Dr. Lu, may I remind our listeners that in this call, management's prepared remarks contain forward-looking statements, which are subject to risks and uncertainties, and management may make additional forward-looking statements in response to your questions.

Therefore, the Company claims the protection of the safe harbor for forward-looking statements that is contained in the Private Securities Litigation Reform Act of 1995. Actual results may differ from those discussed today, and therefore we refer you to a more detailed discussion of the risks and uncertainties in the Company's filings with the Securities & Exchange Commission.

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In addition, any projections as to the Company's future performance represent management's estimates as of today November 1, 2006. Diodes assumes no obligation to update these projections in the future as market conditions change.

For those of you unable to listen to the entire call at this time, a recording will be available via webcast for 60 days at the investor relations section of Diodes' website at [www.diodes.com](http://www.diodes.com).

And now it's my pleasure to turn the call over Diodes' CEO, Dr. Keh-Shew Lu.

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Dr. Keh-Shew Lu, CEO of Diodes

Thank you, Crocker.

Welcome everyone, and thank you for joining us today.

I am very pleased to report another quarter of solid performance. In the third quarter of 2006 Diodes achieved record top- and bottom-line results, as we continued to outperform the semiconductor industry.

Our strategy, announced last year, to expand our discrete business into adjacent technologies has exceeded our expectations, and our new linear products are already making a strong contribution to the organic growth of Diodes revenues and profits.

Here are Q3 earnings highlights:

- o Revenues increased 71% year-over-year and almost 12% sequentially to a record \$93 million.
- o Gross profit increased 63% year-over-year and nearly 12% sequentially.
- o GAAP net income also increased almost 12% sequentially to \$12.7 million, or \$0.45 per share, compared to \$0.41 in 2Q06
- o Pro forma net income increased 69% year-over-year to a record \$14.2 million, or \$0.49 per share.

These outstanding numbers are the result of strong demand for our next generation discrete products and excellent customer acceptance of our standard linear products. We are very pleased with the results from the Anachip acquisition, and we continue to see excellent cross-selling opportunities across our combined customer base. We also expect to increase our analog margins as we internalize more of Anachip's products into our world-class packaging facilities.

We continue to make solid progress in the execution of our business strategy of pursuing profitable growth through customer driven innovation;

We are accomplishing this by:

First, our focus on R&D for next-generation technologies: For example, recently, we launched the AH180 product platform, a new generation of low-voltage Hall Sensor switches. The AH180 size and power consumption performance make it a perfect fit to a wide range of applications in the fast growing portable consumer electronics market.

Second, we launched 35 products from 9 product families in the third quarter and sales from new products approached 30% of total revenues, as we continued to capitalize on our strengths in next-generation multi-chip solutions.



Third, we further strengthened our technology footprint with the acquisition of APD Semiconductors. The announced APD acquisition provides Diodes with access to advanced technologies in the discrete semiconductor market that will allow us to offer a superior product in respect to both cost and performance.

Finally, our \$230 million convertible bond provides us with tremendous financial flexibility to pursue additional corporate growth opportunities, including acquisitions, to accelerate our profitable growth.

Our balance sheet continued to be very strong in Q3. At quarter-end, Diodes had \$109 million in cash, \$159 million in working capital, and \$3.7 million in long term debt. As of October 5th, our convertible bond issue added to an already strong balance sheet to enable us to continue on our growth path, both through organic growth and through acquisitions.

We see a range of opportunities that fit within our strategic product focus and could leverage our strengths in manufacturing and distribution.

Recognition by leading business publications re-affirmed our strategic direction as well as solid execution. For the third consecutive year, Diodes was selected for Forbes' "The 200 Best Small Companies".

Thus, as we head into the fourth quarter with strong financials and recently strengthened management team, we are confident Diodes will continue to execute well on its strategy of innovation and profitable growth.

With that, I'm going to turn the call over to Carl to discuss our financial results in more detail.

Thanks, Dr. Lu, and good afternoon everyone.

As Dr. Lu mentioned, Diodes again achieved record financial results in the third quarter of 2006.

As Diodes built on our leadership position in the discrete semiconductor industry and continued our successful expansion into the analog market, our third quarter revenue and profits increased considerably, both on a sequential and year-over-year basis, setting new records for Diodes.

- o Revenues for the third quarter were \$92.6 million, an increase of 70.8% from the third quarter of 2005. On a sequential basis our revenues grew 11.9%. New product sales advanced to a record 29.7% of revenue, compared to 24.9% in the previous quarter.
- o Gross profit for the third quarter increased 62.6% to \$30.7 million, compared to the same period last year. This increase in gross profit was primarily due to increased sales volume. Gross margin at 33.2% was comparable sequentially, as we slowed the migration of our analog production to our in-house packaging facilities due to strong product demand and high capacity utilization during the quarter, which had been at full capacity all quarter. We expect to increase the process of migration over the course of 2007, balancing potential margin improvement with capacity utilization.

- o Selling, General & Administrative expenses for the quarter were \$11.8 million at 12.8% of revenue, versus \$7.6 million and 14.0% of revenue in the comparable quarter last year. Included in third quarter SG&A was \$1.4 million in non-cash, stock option compensation as per FAS-123R.

For comparable purposes, excluding the stock option compensation, SG&A for the third quarter of 2006 would have improved further to 11.3% of sales compared to 14.0% last year. In the press release we have included a table to reconcile the impact of stock option compensation expense to reported results.

- o Research and development was \$1.9 million, or 2.1% of revenue, compared to \$940,000, or 1.7% of revenue, in the third quarter of 2005. We continue to put the resources in place to drive new product development across discrete and analog devices and to bolster our new product pipeline as evidenced by the APD acquisition.

- o Depreciation was \$4.4 million for the quarter and \$14.1 million year-to-date.
- o EBITDA for the quarter was \$19.4 million and \$52.9 million YTD.
- o Our effective income tax rate in the third quarter was 19.7%, comparable to the 19.8% for the previous quarter, and 15.7% for the same period last year. Our higher effective tax rate was the result of greater income in the U.S. at higher tax rates. Going forward, we anticipate our tax rate to be comparable to the third quarter.
- o Pro forma net income, which excludes \$1.4 million net stock option expense, for the third quarter increased 68.7% year-over-year to \$14.2 million, or 49 1/2 cents per share, compared to \$8.4 million, or \$0.34 per share, last year, a 44% improvement. Sequentially, pro forma net income increased 10.1% from 2006.

- o GAAP net income increased 11.4% sequentially to \$12.8 million, or \$0.45 per share, up from \$11.4 million, or \$0.41, in the second quarter this year. Year-over-year, GAAP net income increased 52.3%.
- o In the quarter, we made a one-time adjustment to correct for prior year accounting treatment related to an overstatement of operating expense for restricted stock awards, and an understatement of other expense for intercompany currency losses. The combined one-time tax-adjusted decrease to net income for the quarter was approximately \$650,000, equivalent to \$0.02 per share.
- o Cash flow from operations for the year was \$46.0 million, a 23% increase compared to \$37.3 million for the same period last year.
- o Turning to the balance sheet, as of September 30, 2006 we had \$109 million in total cash and short-term investments and \$150 million in working capital, with only \$3.7 million in long-term term debt.

- o On October 5, we issued \$230 million in aggregate principal convertible senior notes due on October 1, 2026. The notes will pay interest semiannually at a rate of 2.25% per year. The notes have an approximately 40% conversion premium, and with any future conversion redeemable into cash and/or shares of common stock at the Company's preference.

At current market rates, the pre-tax net investment interest income on the proceeds of the bond offering is projected to be approximately 5 to 5.5 million dollars per year. We expect this transaction to be accretive to EPS given the current short-term interest rate environment and we intend to use the net proceeds from this offering primarily for acquisitions.

- o Our total debt to equity ratio prior to the convertible transaction was 32% for the third quarter, while our total debt to assets was 24%.
- o Inventories ended the third quarter at \$46 million, with inventory turns slightly improved at 67 days compared to 70 the previous quarter.
- o Accounts receivable days were 73 in the third quarter compared to 68 days in the prior quarter. We continue to experience some pressure to extend terms, especially in Asia and Europe.

- o Capital expenditures for the current quarter were \$4.9 million and \$32.4 million year to date, slightly ahead of our 10-12% full-year estimate, but at the mid-point of our range when excluding the \$6 million building purchase in Taiwan.
- o Recently we announced the planned acquisition of APD Semiconductors for \$8 million, plus a potential earn-out. The purchase price includes patents, technology, trademarks and working capital. This acquisition is aligned with our strategy of strengthening Diodes' technology leadership in the discrete semiconductor market and expanding our product capabilities across important segments of our end-markets.

APD is in its infancy stage and is expected to reach annual revenues of approximately \$2 million in 2006, and the transaction is expected to be accretive to Diodes' 2007 profits. We project APD 2007 revenues to exceed the purchase price. We expect APD product to be a significant growth driver going forward.



As to our Outlook...

Coming off our 6th consecutive quarter of record revenue performance, including our 11.9% sequential growth this quarter, and based on our book-to-bill ratio at parity, we currently expect to see market share gains with sequential revenue growth in the 1 to 3% range in Q4.

We expect gross margin percentage for the fourth quarter to be comparable with Q3. Over time, as we continue to introduce new products, and internalize packaging of our analog products, we expect to see gradual expansion in our gross margins.

We feel confident that 2006 continues to be another year of exceptional growth for Diodes as we continue to focus on innovation and profitable growth, while fully leveraging the synergies created by the Anachip and APD acquisitions.

With that said, I'm now going to turn the discussion over to Mark King, our Sr. VP of Sales and Marketing. Mark will discuss our new products, market opportunities, and give you a view of the direction of the general marketplace.

Markets and Growth Strategies - Mark King

Thanks, Carl and good afternoon everyone.

In the third quarter, Diodes marketing and sales activity included record sales, multiple design wins, an aggressive new product launch schedule, and strong new product revenues generated by both internal development and the Anachip acquisition. Our expanded product offering, broader customer base and deeper relationships have resulted into cross-selling opportunities that exceeded our positive expectations so far.

We made great progress during Q3 in executing our new product road map, including new products in the discrete, analog and power management categories. Sales of new products reached a record 29.7% of total sales.

During the quarter, we launched 35 new products from 9 product families. More recently, we launched the AH180, a Micro-Power Omnipolar Hall-Effect Sensor switch product family. This Hall Sensor is designed to fill the growing demand for lower power, and higher sensitivity required in today's portable contact-less applications.

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Currently, three packages are offered for the AH180 with our sub- miniature DFN package as one of the smallest omnipolar switches in the market today.

To meet application and specific customer requirements, Diodes' superior packaging capability allows for design and production of new DFN package options under fast turnaround. Such flexibility, together with the exceptional power consumption performance, makes the AH180 a perfect fit for a wide range of end-user applications.

Ideally suited for lid-position sensing in mobile flip-phones, including the latest razor-thin multimedia 3G mobile handsets, this sensor is also optimized for use in portable media players, handheld gaming devices, notebook PCs, and industrial metering, and positions us in some of the fastest growing end-user markets.

In addition, through the APD acquisition, we have added to our product portfolio patented and trademarked Super Barrier Rectifier™ technology. The Super Barrier Rectifier™ allows for growth into new high performance market opportunities, and is a natural fit with Diodes' product technology platform. This acquisition strengthens our leadership in high-efficiency rectifiers and we are very excited about the ways we can capitalize on these technologies to deliver next generation discrete devices across a number of high-volume applications.

## Geographic Breakout

Market share for Diodes' discrete products reached all time highs in the third quarter, driven by gains in all regions.

Asia had very strong revenue growth during the quarter, up 16% sequentially and represented 73% of total revenues. Sales were better than expected across all market segments, with emphasis on digital audio player, notebook computers, motherboard, LCD TV and monitors, DC Fan and wireless LAN.

During the quarter, we experienced strong growth in both our discrete and analog product lines, as we took advantage of cross selling opportunities from the Anachip combination. Even though Anachip had relationships with many key Asian accounts prior to the acquisition, both product lines have captured additional market share subsequent to the acquisition.

## North America

North America contributed 24% of sales in the quarter driven by strong OEM demand. Distributor POP was down sequentially while distributor point of sales again reached record highs. Set-top box demand for Q3 increased with the introduction of new designs. The newer platforms contained increased Diodes product-content including new Analog designs.

Sales for accounts designed in North America and built in Asia remained strong.

Design activity remained brisk with 91 new parts at 26 customers, including 5 power IC's. There is strong interest in our performance packages such as PowerDI-123, PowerDI-323, and an increased design activity on our DFN line as well as our array lines.

Distributor inventory has remained in line with the increase in sales.

Wafer sales increased 24% sequentially, and our wafer average selling price was up 2.5%. ASP for discrete components was down slightly this quarter.

In Europe...

We continued to make progress, and despite a summer holiday induced 12% sequential decline, revenues were up 103% from last year. This region contributed 3% of sales. We were pleased with our progress building customer relationships during the quarter, as we had design wins and initial orders at more than 10 accounts. We continue to make in-roads into our expanded distributor network and expect this region to continue to be a growth driver going forward.

Moving to Market Segments...

For the third quarter, our segment breakout was: 38% consumer, 35% computer and peripherals, 13% telecom, 12% industrial, and 2% automotive.

Now I'll go into Design Wins...

Design activity remained strong through Q3. We had multiple design wins at over 50 accounts world-wide, and from a broad list of end-equipments. We are winning analog and hall sensor designs in our traditional accounts, and winning discrete designs at original Anachip customers. The synergies between the product lines have resulted in attractive cross selling opportunities, as we have more to offer our customers.

Most notable wins include:

- o DFN win in recent digital audio player and new mobile handset
- o PowerDI(TM)-323 win in a smart phone.
- o PowerDI(TM)-123 wins in LCD module, DC to DC converters, white goods and portable POS.
- o Array wins in satellite radio, digital audio player, DC to DC converters, and a stun gun application.

Notable wins on the Analog side include:

- o Switcher wins in multiple LCD-TV and power supply, as well as wireless router.
- o USB Switch wins in 2 different set-top-box applications
- o Low drop-out regulator wins in Combo-DVD, ADSL and Cable modem, LCD-TV, Voice-Over-IP, and satellite set-top box.

And finally:

- o Hall Effect IC wins in 2 DC fan, and 2 different DC motor applications.



The bottom line is that we now have a broader product offering which helps us build deeper relationships with our customers. Our discrete product lines complement the power management product lines at Anachip, and the result is synergistic growth that should persist well into the future.

In Summary...

We are very pleased with our record third quarter results. Overall, Diodes made excellent progress in implementing its strategy of innovation and profitable growth, as evidenced by record financial results, multiple design wins, and best-in-class product launches, and recognition by top business publications. We are confident of continued success going forward.

In the discrete market, we believe that we are well positioned with innovative products that satisfy the increasing demand for portability and miniaturization, from the computing and consumer electronics markets.

The acquisition of APD further strengthens our product portfolio and we continue to actively look for additional acquisition opportunities that will enhance our product portfolio, manufacturing strengths, and customer base.

We see dynamic growth and innovation for Diodes going forward, that will continue to add to shareholder value.

With that, let's open the floor to questions. Operator?

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Operator

(OPERATOR INSTRUCTIONS). Alex Gauna, UBS.

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Alex Gauna - UBS - Analyst

Yes, thank you. I want to start by saying congratulations on the powerful results.

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Dr. Keh-Shew Lu - Diodes Inc. - President & CEO

Thank you, Alex.

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Alex Gauna - UBS - Analyst

I wanted to go into how you view progress on the gross margin line, particularly given the efforts in bringing in Anachip in-house, and I believe you mentioned the increasing content of new products coming out there -- what is it, 29.7% of revenues now? What should we expect on the gross margin line? I know you have given us a near-term projection here. But what really is the update on progress there?

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Dr. Keh-Shew Lu - Diodes Inc. - President & CEO

Well, Alex, we know by bringing Anachip product to our own facilities, packaging facilities, that gross margin should be improved quite a bit. And fortunately, or unfortunately, our growth is faster than we expected. For example, you know, we continue almost two quarters at consistently 12% growth. Therefore, we cannot really bring in our product internally, because we just do not have enough capacity to support those unfocused or unexpected upside.

Number two is our Anachip product grows much faster than our discrete product growth. Therefore, the average actually affects the gross margin percent. You know what I mean? Because energy products by doing outsourcing and packaging actually have lower profit margin than our internal discrete -- are discrete products through our internal packaging. And because energy's growth is less than our discrete, that pulls the average down.

So looking into the future, I still see a lot of room for improved gross margin by moving our product gradually through our own facilities. And I [understand] the synergy we didn't really [utilize] yet is selling energy product to U.S. and Europe customers. We know -- I think I talked to everybody before -- U.S. Europe and U.S. customers typically, we can get a bigger ASP, and therefore, in turn, upgrade their profit margins.

We just finished (indiscernible) our product -- all the energy products we want to [port] through our (indiscernible) site, and the release to the U.S. and Europe customer base. The design-in is very strong, but the ramp-up is not in there yet. So I think through the next year, from the fourth quarter and the more in the next year, we should see an improvement from the gross margin percent due to bringing in to our own facility and number two, by getting the customer from U.S. and Europe for our energy product.

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Alex Gauna - UBS - Analyst

To be clear, I think I have discussed with you in the past that one of the targets was for Q1 ramp in a number of areas. And am I hearing you correctly on the Anachip front that you still expect Europe and U.S. to begin ramping in Q1 of next year?

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Dr. Keh-Shew Lu - Diodes Inc. - President & CEO

Yes, correct. Like I said, we just finished the [porting] and I think I mentioned to you, we don't want to just take the Anachip product, which is built by our subcontract to the U.S. and Europe customers. We want to make sure all those products are built by our own facilities in Shanghai. And therefore, we take time to qualify all the products which can be built by ourselves. And we just finished that qualification now. And we start to announce the [build-up] to qualify our customer in the U.S. and Europe. And so it will take time. In any

quarter, it takes time for people to ramp it up. So yes, I think you are right (indiscernible) from next quarter, from the first quarter next year, you will start to see gradually design -- a gradual ramp-up from our energy product.

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Alex Gauna - UBS - Analyst

And one more follow-up, if I could -- does this include increased penetration of the cellular handset market at this juncture?

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Dr. Keh-Shew Lu - Diodes Inc. - President & CEO

Well, one of the products that we just announced, AH180 -- that is from our energy product. And you can see the applications. So the answer is yes. And our AH180 product turned out to be quite a good product. In fact, we just announced it a couple of weeks, right? And we already have a couple of design wins.

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Alex Gauna - UBS - Analyst

Congratulations on that front.

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Operator

Ramesh Misra, C.E. Unterberg, Towbin.

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Ramesh Misra - C.E. Unterberg, Towbin - Analyst

Congratulations on the numbers. A first question, Carl, is for you. I wanted clarification on that onetime expense you said for about \$650,000 that is related to tax. So basically -- which resulted in -- is that an understatement in your pro forma EPS by \$0.02, did I get that right?

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Carl Wertz - Diodes Inc. - CFO

Yes. It was a onetime adjustment, related to two areas. One was in '05, we had an overstatement of our operating expense, about \$800,000 related to the stock option expensing. And the other component was an understatement of our other expense, okay? And the net effect of both of those were a \$650,000 decrease in EPS of \$0.02.

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Ramesh Misra - C.E. Unterberg, Towbin - Analyst

So basically, if we had not included that charge, your EPS would have been \$0.51.

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Dr. Keh-Shew Lu - Diodes Inc. - President & CEO

Yes, you are right. It is a \$0.02 onetime deal effect.

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Carl Wertz - Diodes Inc. - CFO

We tried to make that pretty clear with the onetime or (MULTIPLE SPEAKERS) percent effect so you can model that outgoing for.

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Ramesh Misra - C.E. Unterberg, Towbin - Analyst

Okay, and then my next question is for Dr. Lu. Dr. Lu, what is the size of your overall Hall-effect sensor business at this current time?

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Dr. Keh-Shew Lu - Diodes Inc. - President & CEO

You know, our Hall sensor business is coming from Anachip the acquisition. And you remember, Anachip acquisition, at that time when we buy -- we only look at power management application. So if you remember, when I make that announcement, I say we spent \$31 million for the \$35 million of power management business. And so the total (indiscernible) other -- like a [PLD] PowerDI and the Hall sensor (indiscernible) together -- last year is about \$15 million. And so you can figure out from that number -- PLD is the small number, so the rest is the Hall sensor (indiscernible). Then, after we took over building this year, we spent about (indiscernible) engineering effort tried to -- we look at this Hall sensor business, and it turned out to be a surprise to us. It's a good business. And we believe by putting our -- number one, our design resource to fix all the problem and to [channel] the next-generation new order, and to spend time with our sales channel, our distribution channel, we found out this is a pretty good product line. And therefore, we announced the first new product which goes through our new [engineering] resource, to come out this new product line -- AH180. And we are very happy with the performance of this product and market acceptance of this product. And we open up a big door for us to get into the cell phone application too.

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Mark King - Diodes Inc. - SVP, Sales and Marketing

Yes, the Hall sensor remains a really nice lead-in product. Anybody that uses a Hall sensor wants to talk to us, guaranteed. So it's a very exciting entry point with some key customers after.

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Ramesh Misra - C.E. Unterberg, Towbin - Analyst

I see. So you are clearly keeping this serendipitous discovery of the business at Anachip. So is it safe to assume that it's about 10% or so of sales currently? Very roughly, again.

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Dr. Keh-Shew Lu - Diodes Inc. - President & CEO

More than 10%. (MULTIPLE SPEAKERS). No, no, no -- you are talking about Anachip -- it's about (MULTIPLE SPEAKERS).

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Ramesh Misra - C.E. Unterberg, Towbin - Analyst

No, just the Hall sensor.

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Dr. Keh-Shew Lu - Diodes Inc. - President & CEO

Yes, --

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Carl Wertz - Diodes Inc. - CFO

We don't --

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Dr. Keh-Shew Lu - Diodes Inc. - President & CEO

We don't get into detail, but you can see (indiscernible). The total Anachip business last year is about 50, and the power management is 35. The rest of it is -- the rest is the Hall sensor, PLD, everything else.

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Ramesh Misra - C.E. Unterberg, Towbin - Analyst

Got it. And then one final question -- this may be for Mark or for Dr. Lu. I just wanted a little more clarification in terms of APD's product portfolio. One way of looking at it is that potentially you are paying about 4 times trailing sales, or you are paying about onetime forward sales, depending upon how successful APD's unreleased products are. So can you just kind of briefly go into that product portfolio and what holes did it fill for you and where does it help you going forward?

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Dr. Keh-Shew Lu - Diodes Inc. - President & CEO

Ramesh, this is -- the APD acquisition is a little bit different from the Anachip acquisition. Anachip acquisition for us is a jump start for us to get into the analog business. So it's more on the product, more on the business, more on the analog -- you know in that area.

But for APD acquisition, it's a pure technology acquisition. We agree -- I think from our announcement, you can see they have a lot of patents, a lot of trademarks, a lot of [tech knowledge] is within this APD Company. Their product is in its infancy stage. I think Carl was talking about that. So you cannot really to look at it's a 4-X of the revenue, because the money really pay for is the technology. You know, you can see, we want to spend our R&D money. But our revenue growth (indiscernible) we've just cannot spend enough R&D money to get to our business model. But by doing this kind of acquisition is a supplemental of our technology improvement. And if you look at APD technology, it provides us a better performance, a lower-cost chip. Now, if you wanted -- if you keep -- the dies sets are the same, the performance is much better. And it's scalable. So you can keep the same performance but reduce the die size, reduce the cost. And it's leading us to a new generation, a new variable of technology. So I want to say APD acquisition is really a technology acquisition and it's a growth driver for us next year or even year after. And I think APD recognized that, and we recognize that. And that is why they don't want to just take the money and walk away. The really want (indiscernible) and now. And that (indiscernible) tied to the revenue, because we all understand it will be a growth provider, a growth driver for us in the future.

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Operator

Steve Smigie, Raymond James.

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Steve Smigie - Raymond James - Analyst

I was curious if you could tell me if the guidance that you gave for Q4 includes any revenue from APD?

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Dr. Keh-Shew Lu - Diodes Inc. - President & CEO

We ought to mention -- APD is only \$2 million, and very minor. So yes, it's included, but it's a very, very small amount. The [power] (indiscernible) is \$2 million, and we only two months left. And if we cross (indiscernible) you probably only have a half-quarter left. So it's very small amount. It's not significant.

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Steve Smigie - Raymond James - Analyst

Okay, great. As Dr. Lu was mentioning, your percentage of R&D as a percentage of revenues was still pretty low just because it looks like your revenue grew so fast. Can you give us some guidance in terms of what R&D, and as long as you are at it, SG&A will look like sequentially and if any sort of plans to ramp those more quickly as we enter '07?

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Dr. Keh-Shew Lu - Diodes Inc. - President & CEO

Well, I think our business model, I have been saying when we spent (indiscernible) technology, we are not talking about R&D 10% or 15% like a lot of people thinking going to (indiscernible). But I think I mentioned before our (indiscernible) for our R&D is 2.5% plus/minus 0.5%. So you can see probably somewhere around 2% to 3% of the revenue. And that is our business model, and that is about what we are doing. And we are -- if you look at our R&D this quarter, third quarter, it's a bit lower than our business plan. And it's

because -- but we are straight (indiscernible) the design center in  
(indiscernible), the design center (indiscernible) and so we probably will catch  
up to -- but our business model is about 2.5%, plus or minus 0.5%

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Steve Smigie - Raymond James - Analyst

Right. And you think you will catch up to that in Q4, or more Q1?

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Dr. Keh-Shew Lu - Diodes Inc. - President & CEO

No, it probably won't be in Q4. Q4 is only two months left. So you might consider Q1.

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Steve Smigie - Raymond James - Analyst

Okay. And you did a good job there controlling SG&A as well. Does that increased dollar-wise sequentially, and what sort of target do you have for that as a percentage of revenue?

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Dr. Keh-Shew Lu - Diodes Inc. - President & CEO

I think that's the way we control SG&A is quite good. And what we really do is we (indiscernible) that SG&A growth (indiscernible), but we get our revenue growth. So what we do is we allow SG&A increase at the best percentage of our revenue growth. So eventually -- so we were hoping every quarter our SG&A is either flat or down as a percentage. So I am very careful to make sure our SG&A as a percent of the revenue won't increase. And we will keep it that way. That is our business model anyway.

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Steve Smigie - Raymond James - Analyst

Okay, great. Your [interest common] assumption, the 5 to I think 5.5 you gave -- it seems like the interest rate you would be getting there was similar or a little over 2%. Are you just being conservative with that, or could you get a little bit more?

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Dr. Keh-Shew Lu - Diodes Inc. - President & CEO

No, don't forget -- we have to 2.25% cost, too.

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Steve Smigie - Raymond James - Analyst

Okay, so that's netted out.

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Dr. Keh-Shew Lu - Diodes Inc. - President & CEO

Yes, that is net. The one we report is net, and we have 2.25% payout twice a year.

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Steve Smigie - Raymond James - Analyst

Okay, fair enough. And just in terms of looking at Q1, would you expect that to be a pretty weak quarter sequentially just given your mix of consumer and computing business, and could that potentially be down sequentially?

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Dr. Keh-Shew Lu - Diodes Inc. - President & CEO

Well, number one, we don't really give the guidance that far away. Okay? So we give the guidance on 4Q, but the 1Q for us, it's quite far away. And just that -- market seasonality, Christmas sales can affect. I can tell you so far, we don't know what will be the Christmas sale. But if Christmas sales is good, at the next quarter, then 1Q will be good. But if Christmas sale is bad, then 1Q won't be as good. And so I really don't know. Just like everybody -- we don't really know what will be the Christmas sales. I hope we have a good Christmas sale. If we can encourage everybody go to do the Christmas shopping, I will be pickled to death.



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Steve Smigie - Raymond James - Analyst

And I apologize, just one more, if I could. The other income -- or I guess it's actually other expense of \$1.6 million -- seems up quite a bit sequentially. I don't know if that was part of the reversal there or not. But even so, that would only be \$600,000 [as to -- so it would be] another \$1 million. Just curious what that increase was there?

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Carl Wertz - Diodes Inc. - CFO

Steve, it was actually a \$1.1 million adjustment in the fourth quarter for the other expense column. And so you need to make sure you add that back into your model. You know, we stated the net effect after taxes was 650, but it was really about \$800,000 effect in the SG&A line. So if you were to add that back, our percent of SG&A would have been closer to I think 14% range. Okay? And maybe I should've added that when you asked me that question, but I was trying to get some research on it. And then, the other income had a \$1.1 million affect.

There's full disclosure in that convertible, if you want to see that in advance, it's all spelled out there with the numbers in fact.

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Steve Smigie - Raymond James - Analyst

Okay, very nice quarter.

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Operator

Gary Mobley, A.G. Edwards.

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Gary Mobley - A.G. Edwards - Analyst

I was hoping that we could jump back on the topic of APD briefly and maybe you could talk about the potential for gross margin there, perhaps well beyond the 2007 sales projection, once the products hit their full stride?

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Mark King - Diodes Inc. - SVP, Sales and Marketing

Yes, Gary, I think that we have good opportunity to expand gross margin, at our discrete level or above. Again, we look at this product line as an extension to our previous rectifier line and at the performance level. And where we use it in a different where we scale it for cost, we think that that will provide cost advantages. So we really look at the technology as an opportunity to both grow revenues, add sockets in performance spots, but as well, save money. So we think it has a play in both areas, both for growth into new markets, new product segments, as well as expand our margins.

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Gary Mobley - A.G. Edwards - Analyst

Okay. And back on the topic of bringing Anachip packaging in-house, it seems as though you may have -- your capital spending trends in the quarter sort contradict that, that you're running 100% utilization, and wanted to bring packaging in-house. Could you give us some direction on what impacted the quarter, and what the CapEx spend plan might be on a forward 12-month or '07 basis?

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Dr. Keh-Shew Lu - Diodes Inc. - President & CEO

I think the capital expenditures -- I think in the past, I have already mentioned -- we put that the biggest model is a 12% of revenue. We will put in the capital expenditure. But if you look at our revenue growth -- so we can spend more money. But when we spend that money, then the capacity won't be in (indiscernible) quarter later or six months later. So we do expand the capacity. Right now, I think our capacity now is like 1 billion units a month type of capacity. And we are going to now -- later on, probably, go up to about 1.1 billion -- probably at year-end.

So we spend the money for the capacity. But the time to get to the variable, it takes about three months to six months, okay? And that is why it (indiscernible) us to bring in that product into our facility, because our growth is just better than what we expected. If you remember, every quarter, we are talking about 5%, 6%, or 6%, 7% growth, and end up to be 12%. It's just -- much better than our expectations.

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Mark King - Diodes Inc. - SVP, Sales and Marketing

Some of the packages that we kept outsourcers -- some of the higher ASP devices that are in fewer packages for our facility. So again, we don't have as much flexibility in this first stage to ramp as quickly. In some of the other devices, more than our (indiscernible) 23 in there, SD59, we consumed that stuff a while ago. But those are the lower ASPs, so the percentage of revenue, high ASP versus low ASP, may throw that mix off a little, Gary.

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Dr. Keh-Shew Lu - Diodes Inc. - President & CEO

And Gary, like I mentioned, we actually started to move our product into our facility and improve the gross margin. It's just because the lower gross margin type of energy product would grow faster than discrete products. So it forced the average chip (indiscernible) -- the average gross margin percent the same. But if you look at -- we actually started a product of him through moving -- (indiscernible) product moving to our facility and then give us the better margin. It just -- the percentage makes the equal.

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Gary Mobley - A.G. Edwards - Analyst

With respect to the sale synergies from the Anachip acquisition, how far along are we in seeing the benefits of that? You mentioned that you start see the North American and European sales --?

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Dr. Keh-Shew Lu - Diodes Inc. - President & CEO

I think -- I'll answer that question -- and I think we are talking about new power we are starting to see a ramp in 1Q because we finished this [cording], and start to announce the product to our customer base in Europe and U.S. Then you give them six months, you know, three to six months design-in, we see a lot of other design wins. By the way, we always see a lot of design wins in the U.S. and Europe from our energy product. It's just the time for them to ramp, it takes probably three to six months. So Mark can answer it, but I would say probably 1Q or 2Q.

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Mark King - Diodes Inc. - SVP, Sales and Marketing

Right. And in Asia, we pretty much have complete synergy. The customer overlaps, the sales channel is rolling, and the customers are familiar with both lines, so they would accept both logos.

In North America, we have done a lot of design wins at our key accounts. Those would be our multinational accounts or design here and ship to Asia, or some of our top OEMs that we said it was simple to pull an Anachip brand product into those accounts right away.

It's where we are lacking and where we have taken our time is on introduction to the channel, which would be distributors. And in North America and Europe, roughly 70% of the business that we track as a revenue point in those areas is through that channel. So that is where we have a lot of opportunity, is as we move into our distributors -- Arrow, Avnet, Future Electronics, DigiKey and so forth. But in order to do that, since there is inventory returns and stock rotations and all that type of stuff, we wanted to make sure that it was all centralized under one logo so that there was no confusion, and it wasn't clean. So that is what we are talking about.

But we have been introducing into our key customers and working with our key OEMs to establish a position for quite a while in that area. So we've had good success at the key OEMs. It's now getting it into the channel. And the channel drives the margin.

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Operator



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Kevin Rottinghaus - Cleveland Research - Analyst

Just on a similar question -- CapEx looks like it dropped off fairly significantly. With the move to bring Anachip in-house plus the growth you're seeing, any comments on why that would have dropped off, keeping in mind that it is a 12% target, but just would have thought that I would have continued to ramp with the growth that you are seeing?

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Dr. Keh-Shew Lu - Diodes Inc. - President & CEO

Are you talking about the CapEx would drop?

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Kevin Rottinghaus - Cleveland Research - Analyst

If fell quarter over quarter fairly significantly.

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Dr. Keh-Shew Lu - Diodes Inc. - President & CEO

Yes. Well, quarter to quarter, we don't track it quarter to quarter. And we see the capacity need -- we expand it when we do. I think I have been saying is 12% our annual revenue. So quarter to quarter, it's difficult, because any time you added, it's a chunk. And if you don't add it, you don't put that chunk in there.

So I don't look at quarter to quarter. I am more tracking is year to year. And if you look at today, our year-to-year, year-to-date is about -- we are talking about 10 to 12% at (indiscernible) at that point. It's quoting that 6 million for building -- we take those away.

So I think we are about at the middle of, I would say, 10 to 12% year-to-date. And so we probably will finish this year at about 12% of our revenue.

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Kevin Rottinghaus - Cleveland Research - Analyst

Okay. Carl, was there any adjustments R&D due to the onetime?

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Carl Wertz - Diodes Inc. - CFO

No.

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Dr. Keh-Shew Lu - Diodes Inc. - President & CEO

No.

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Kevin Rottinghaus - Cleveland Research - Analyst

Is the R&D in absolute dollars -- were actually down a little bit on the quarter. Was there anything happening, either in second quarter or third quarter that might have caused that to go down a little bit this quarter?

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Dr. Keh-Shew Lu - Diodes Inc. - President & CEO

No, typically, the R&D percent is you cut in mask. If you cut another mask in that quarter, then the R&D will be up. The course of R&D is (indiscernible) percent -- one is the people, the core of the (indiscernible). Those are very constant. As a matter of fact, we are [hiding] the people, so it will be probably included.

But the other big chunk is the mask and all the new product we have built now -- costs associated with the new products. And so when some quarter you cut a lot of mask, your cost will be way up. Some quarter, they will be down.

Now, I am not saying this because our real growth (indiscernible) so you look at the percent, you are going to say -- oh, the percent went down. But the dollar-wise -- yes, our third quarter versus second quarter, it went down, what 200 -- ?

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Carl Wertz - Diodes Inc. - CFO

About 150,000.

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Dr. Keh-Shew Lu - Diodes Inc. - President & CEO

150,000. So it's not up -- a couple of (indiscernible) of mask will offset that amount --

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Carl Wertz - Diodes Inc. - CFO

I think you're right. I think the mask, a lot of the variable cost in place.

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Dr. Keh-Shew Lu - Diodes Inc. - President & CEO

Yes. But the reason percent went down so much is because -- don't forget, we grow to almost 12% this quarter. And we just did not hire that many R&D to keep up with it.

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Kevin Rottinghaus - Cleveland Research - Analyst

Okay, I understand. Then I guess two other quick ones. Mark, if you could please repeat what you said earlier on channel inventories, and then any kind of commentary you might have on inventory at your customers.

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Mark King - Diodes Inc. - SVP, Sales and Marketing

No, I think our inventory at our customers is fine. You know, I don't think we ever have really any issue there. Customers pretty much depend on us to deliver, so we don't think there's any double-ordering.

We do see the channel -- I don't think our inventory is out of whack, but the distributor inventory in general may be a little out of whack. So we expect some -- we have seen -- as I mentioned that our POP was down quarter over quarter, but we had record POS sales.

So I think that we are going to see a trend from the distributors across the board to be a little bit careful with inventory over the balance of the fourth quarter. But I don't think that there is anything to be concerned about there.

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Kevin Rottinghaus - Cleveland Research - Analyst

Okay. And then last, if you could just give any kind of commentary on the PC market that you see out there -- maybe trying to net out your share gains, just what the PC market looks like this time if year versus what it normally does.

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Mark King - Diodes Inc. - SVP, Sales and Marketing

I think the PC market looks pretty much like it always does this time of year. You know, there has been some indication of a little bit of more softening in the motherboard going into the end of this year. But it's really not clear yet to us, okay? We are still tracking. Our numbers are still tracking and so we don't see any big adjustments.

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Operator

[Tom Grayless], Longbow Research.

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Tom Grayless - Longbow Research - Analyst

Hi, this is [Tom Grayless] for Sean Harrison. I was just wondering if you could give us a little more color here on product inventory at distribution, Anachip versus the legacy lines, and if you are seeing any change in order cancellations? I know you want to do that a little bit, but maybe just a little more detail?

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Mark King - Diodes Inc. - SVP, Sales and Marketing

Actually, you know, I think in Asia, this is a very busy time of year, so there's certainly no inventory buildup in Asia. And so, basically, we have no inventory -- Anachip inventory in the channel yet, because -- again, no significant inventory in the channel yet, because we are in the process -- we just completed all of our qualifications and are porting into the logo transformation. So there is certainly no issue with inventory of Anachip in the channel. And as I said before, I think we are pretty -- we're in a pretty reasonable position. Our inventories are higher than they were last year, but we are also seeing record POS. So I think we are in pretty good shape in the channel industry, and on the (Inaudible question - background noise) side.

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Tom Grayless - Longbow Research - Analyst

All right. And could you comment a little bit about the rise in lead frame molding costs in 3Q and 4Q -- any thoughts you have on that?

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Dr. Keh-Shew Lu - Diodes Inc. - President & CEO

What was the question?

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Mark King - Diodes Inc. - SVP, Sales and Marketing

The change in lead frame cost and molding cost and -- you know, when you are running a billion units a month of very small material content devices, it may take us several quarters to see the impact of those changes. And as we have increased our volume and so on, we have kind of offset some of these with synergies and overhead cost reductions and so forth. So yes, we just don't have the data on that.

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Operator

[Christopher Mongaru], Sidoti.

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Christopher Mongaru - Sidoti - Analyst

Congratulations on a good quarter. I just wanted to know a little bit more about what you see going forward with the ADP acquisition -- how it's going to enhance your business going forward, and some things that you are looking at product-wise and basically just to give us a better idea of maybe where you are going with this?

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Dr. Keh-Shew Lu - Diodes Inc. - President & CEO

Okay, number one, it's APD. That is a (multiple speakers)

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Christopher Mongaru - Sidoti - Analyst

I apologize -- APD. (multiple speakers)

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Dr. Keh-Shew Lu - Diodes Inc. - President & CEO

Okay, the Company is called APD. They provide really technology. We need it, and complement to our product line. That is number one. And that is why we are very interested, because we look at their technology. It's really a very good differentiator, and it provides a [load] (indiscernible) and -- and yes, they provide the [low] we have and -- let me see -- low leakage at high temperature. So those was the very good performance in our mind. You know, our product -- we -- leakage is one important phase, especially for portable product, high temperature. So they provide us a technology at high temperature, low leakage, and the [law] we have. And those are related technology can lead into a dealership product. Okay?

And number two is the die size is scalable to the performance. That is our other key thing. In the Schottky product, it's very difficult to control the die size. And so you have fixed die size, you have performance come out. Now you say, I don't need this kind of performance. Can you give me a lower cost at a lower performance? In Schottky, it's very difficult to do.

This technology for provide us the scalable effect. So if you show me a high-performance, like I mentioned, low [VF] and a low leakage and temperature -- -- if you don't need this kind of performance, then you can shrink the die and provide a low-cost product. And that is the second thing.

So we all -- we could say, is the cost effective, or performance type of technology? And that gives us the leadership product. And that is why we believe It's the gross driver for us in the future.

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Mark King - Diodes Inc. - SVP, Sales and Marketing

As well as you, can actually design the efficiency, which is a combination of the VF and leakage towards the application, and very specifically, towards what the customer needs, is very simply by just modeling the difference. So we see it to offer improved performance in someone's circuit very simply in high-volume applications. So this goes very well with our PowerDI performance packaging platform, which is very small devices with very high thermal capability. And we just see a lot of opportunity, not only to enhance or Schottky offering, but also to attack different rectifier technologies that might not be our strengths, which would be ultrafast marketplace and so forth. So we see a great opportunity in performance and power supplies. And most importantly, long-term, we see this as a nice automotive opportunity.

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Christopher Mongaru - Sidoti - Analyst

Great, that helped a lot. And also, after -- you just had a fantastic quarter, something like 12% top-line growth. Do you think any of that might have been attributable to this quarter, and maybe that's part of the reason for the 1 to 3% growth guidance, as opposed to -- if you guys have been giving maybe 3% to 7% the last couple of quarters?

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Carl Wertz - Diodes Inc. - CFO

Christopher, so if I could take -- I think that is it difficult question. When you, off of it, --

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Christopher Mongaru - Sidoti - Analyst

I know, it's hard -- I am just wondering --.

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Dr. Keh-Shew Lu - Diodes Inc. - President & CEO

Chris, what is the question? What are you saying?

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Christopher Mongaru - Sidoti - Analyst

Well, the question is -- do you think any of the -- with the extreme growth seen in the third quarter might have been attributable to some sales from the fourth quarter?

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Carl Wertz - Diodes Inc. - CFO

I don't think so.

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Dr. Keh-Shew Lu - Diodes Inc. - President & CEO

No.

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Carl Wertz - Diodes Inc. - CFO

Chris, what I was going to start to say is, we had our first \$50 million quarter in the second quarter of 2005. We had our first \$60 million quarter in the fourth quarter of '05. We had our first \$70 million quarter in the first quarter of '06. We had our first \$80 million in the second quarter, and we had our first \$90 million in the third quarter. That is a lot of compounded growth. (multiple speakers) a short period of time.

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Dr. Keh-Shew Lu - Diodes Inc. - President & CEO

Let me answer -- your first question -- is it because we proved -- [pull] in the fourth quarter to make the third quarter 12%? The answer is definitely not. We don't do that.

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Christopher Mongaru - Sidoti - Analyst

No, I understand.

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Dr. Keh-Shew Lu - Diodes Inc. - President & CEO

Okay. Number two, if you look at most guidance today, our competitors' -- most of them tell you it's negative. And so we believe for us -- our strategy always -- we are going to be outperforming our market. And we are going to outperform probably 3-X of our market growth. So if you go to look at everybody's announcements, you would say our continued growth will be very positive. So maybe, we are now able to repeat 12%. But when people grow 7, 8%, or 6, 7%, we grow 12%. But when people go to negative, 4, 5%, for us to say 1 to 3% -- I think we still outperform the whole market.

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Christopher Mongaru - Sidoti - Analyst

No, I agree. I was just --

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Dr. Keh-Shew Lu - Diodes Inc. - President & CEO

(multiple speakers) so it's definitely not because we pull in fourth quarter to make a third quarter number. That is definitely not the answer.

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Carl Wertz - Diodes Inc. - CFO

We still expect to take share gain in the fourth quarter, Chris.

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Christopher Mongaru - Sidoti - Analyst

Yes, that is exactly what I was asking.



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Operator

Chris Chaney, Stanford Group.

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Chris Chaney - Stanford Group - Analyst

Thank you, and gentlemen, I wanted to add my congratulations for a very nice Q3 also. Now I had two questions. The first relates to the tax rate for '07. And Carl, I am thinking that with what's being said about the expected ramp at Anachip, especially in the U.S. and Europe, that we should see the tax rate begin to increase somewhat in 2007? Can you give us any guidance on that?

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Carl Wertz - Diodes Inc. - CFO

Well, we gave the guidance for the end of the fourth quarter basically being in line with the last one -- pretty close to the high end of the 19, 20%. Again, I think for modeling '07, we don't give the guidance that far out. But you guys still need to do some modeling -- I would suggest keeping it that [rate]. We are doing a lot of tax planning globally. It's a very complex environment. Tax, as we know, changes almost daily with the government and such. So I would say stay in that high-end range for your model.

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Chris Chaney - Stanford Group - Analyst

All right, very nice. And then the second question relates to really your -- I guess your unit output, or unit capacity as we were hearing earlier that by the end of the year, we might see around 1.1 billion units per month as the run rate. Do you guys have a target specifically for -- by the end of 2007, or where do you think you might be? And what sort of CapEx could get you there? Would it still be the 12% number of sales you were talking about earlier?

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Dr. Keh-Shew Lu - Diodes Inc. - President & CEO

Number one, yes -- our CapEx model for next year is going to be still at 12%. Number two, how much we're going to do it, we don't know, because it depends on how the market is doing. In fact, I mentioned, we always put in the capacity when we need it. We do not put in a lot of capacity and expect the market is going to be growing, then turn out to be wrong, and then have a lot of excess capacity sitting there. Therefore, we now still look at in our assumption of the revenue and plan on 12% of that revenue to be the capital expenditure. When we get there, then we spend it. And if our revenue is not there, we don't spend it. But we do put in a new capability. For example, this year, we put up the [18 S0] packets. We did not have that 18 S0 before. And due to the Anachip acquisition, we have put in 18 S0 capacity -- capability into our assembly. Now, by buying APD, we need to look at a lot of the product they can use in our internal capabilities. But they have I think one package we don't produce. So we are looking at -- we might want to put in that capacity into our capability -- our assembly site, too.

So we did not -- we are still not our model, and we will spend the money. But I cannot give you the -- what will be the run rate we expect by the end of next year.

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Chris Chaney - Stanford Group - Analyst

Okay, I understand. And just one last question, and that is that earlier this quarter, when it appeared to you that the market was going to be better and that sales were going to be really ramping, I'm wondering if at that time, were you trying to order equipment and having trouble getting the deliveries and getting them into production, or do you see any tightness in the back of equipment going into next year?

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Dr. Keh-Shew Lu - Diodes Inc. - President & CEO

No, like I said, we do not see by gauging the needs and then putting in capacity. We put in the capacity when we really have the need. And that is why did not bring in porting energy products faster than what we expand it. When we grow faster than we -- when the business grows faster than we expect it, we just throw down the porting Anachip products into our facilities. And we're using that capacity originally for the energy products. We used this for additional

(indiscernible).

Now, we have put in the capacity because our run rate reached there, and we put in the capacity there. So we didn't -- like the beginning of the quarter that you say (indiscernible) had good business then put in the capacity. We don't do that.

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Chris Chaney - Stanford Group - Analyst

I understand. Thank you very much.

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Carl Wertz - Diodes Inc. - CFO

Chris, if I can add to that a little bit, there was a question asked earlier about the seemingly slowdown in our CapEx in the third quarter. We also have to go back to where we were in the second quarter where we had stated we were actually ahead of the schedule. At the end of the second quarter, we were at \$29 million in CapEx, including the \$6 million building. So that was still \$24 million for production expansion. So the \$5 million is balancing out. Like we said, we are still in the mid range of that 10 to 12%.

And I think year in and year out, we have proven that we are pretty efficient in our expansion, and we know what it's like to run facilities at less than full capacity, and we like to keep it at full. So we have been very cautious on our expansion, and I think we're in a pretty good position to continue to go forward.

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Chris Chaney - Stanford Group - Analyst

Do you plan much spending at the wafer fab?

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Dr. Keh-Shew Lu - Diodes Inc. - President & CEO

As of this moment? No. Because for the Anachip, we're using outsourcing. Anachip products, they don't use our internal plant because they're using an outsourcing plant. And for our discrete, we still -- we are running about 85% through. And we (indiscernible) improved the productivity, and we still can support our wafer needs.

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Operator

Kevin Rottinghaus.

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Kevin Rottinghaus - Cleveland Research - Analyst

So I just had a quick follow-up for you. I guess two follow-ups. When does the holiday build typically start to slow down for you?

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Mark King - Diodes Inc. - SVP, Sales and Marketing

December seems to be a little slower generally than -- October and November seemed to be the peak for us.

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Kevin Rottinghaus - Cleveland Research - Analyst

Okay, they start to slow down in December. And then last -- the announcement today between International Rectifier and Vishay -- any commentary you can have on what that does to competitive dynamics, or any impact that might have on the market would be very helpful. Thank you.

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Dr. Keh-Shew Lu - Diodes Inc. - President & CEO

I'll let Mark answer this question.

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Mark King - Diodes Inc. - SVP, Sales and Marketing

I think that that's a perfect acquisition for Vishay. Those are not the right things for us. It seems to be an older technology and so forth.

We always like any consolidation in the industry. It always seems to confuse the competitors a little bit, and give us a little bit of a head start. I don't see -- this one is kind of a more non-mainstream transaction. So I don't see it having a real significant effect on us.

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Kevin Rottinghaus - Cleveland Research - Analyst

Or on the overall market?

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Mark King - Diodes Inc. - SVP, Sales and Marketing

Or on the overall market. I think it's just transferring from one big guy to another big guy. So it's not -- if they were coming altogether, that would be wonderful for us, because we always believe that all consolidation opens up huge opportunities for us.

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Operator

Alex Gauna, UBS.

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Alex Gauna - UBS - Analyst

I wanted to confirm -- I believe you mentioned that both core and the Anachip business lines grew in the current quarter -- or the past quarter, I'm sorry. Is that correct?

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Carl Wertz - Diodes Inc. - CFO

Yes.

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Dr. Keh-Shew Lu - Diodes Inc. - President & CEO

Yes -- both grew.

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Alex Gauna - UBS - Analyst

And then going forward in the neutral gross margin guidance, is that assuming then that both core and the Anachip are expected to grow at the same rate right now?

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Dr. Keh-Shew Lu - Diodes Inc. - President & CEO

Probably.

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Alex Gauna - UBS - Analyst

And then I guess I am wondering, as the quarter progressed, where did you see -- you did upwardly revise guidance twice. Where were those revisions coming from? Were they coming on the Anachip side or on the core side or both?

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Dr. Keh-Shew Lu - Diodes Inc. - President & CEO

Both. You're talking about the third quarter, right?

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Alex Gauna - UBS - Analyst

Yes.

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Dr. Keh-Shew Lu - Diodes Inc. - President & CEO

Yes. It's actually from both.

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Alex Gauna - UBS - Analyst

Okay. And then, Mark, I believe you mentioned that you some people maybe getting or distribution getting maybe a little bit more cautious in Q4. And Dr. Lu, you had also mentioned that peers have showing quite a bit of underperformance here lately. Isn't it safe to assume that somewhere in your end market, you actually -- there was actually slowing in Q3 as well? You managed to outperform it, obviously. But hasn't there already been slowing in the market?

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Mark King - Diodes Inc. - SVP, Sales and Marketing

You know, we've spent a lot of time studying our business. So it's really hard to understand the dynamics of everyone else's business. I think that we have been on a pretty strong growth path all year long. And we don't really see that our segments have been on a strong a growth path as we are. But it does appear that our peers definitely had a much slower growth rate in Q3 than we did.

We do believe we continue to gain share. We do believe we continue to add valued at our customers that is winning us stronger position. So really, we are pretty focused on running our business.

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Dr. Keh-Shew Lu - Diodes Inc. - President & CEO

Yes, but we know one thing -- our third quarter really didn't see the slowdown. From our business, our third quarter didn't see the slowdown, because you can see from our guidance, every time we up our guidance, it's essentially higher than what we previously said. And you remember from our convertible bond offering, at that time, we thought we had 11.5. But we ended up to be 11.9. So we really didn't see any slowdown in third quarter. (multiple speakers)

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Carl Wertz - Diodes Inc. - CFO

Okay, to some degree, it seemed like you viewed the not pulling the Anachip in as a weakness. Actually, I view that as a strength. I view that as our ability to recognize and be flexible and able to maximize our assets in order to maximize our overall top-line growth. And so that is a regular part of our plan. And that has been a part of our utilization plan before Anachip and so forth, is maintaining utilization to maximize revenue.

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Dr. Keh-Shew Lu - Diodes Inc. - President & CEO

Yes, I think -- Alex, you know I have been talking about -- when we're talking about profitable growth, what we really want to do is make the revenue, okay? And we don't pay that much attention to the gross margin percent. As long as we consider which one -- by growth or by improve the gross margin percent, whatever can give us the best gross margin dollar improvement is what we go after. So at this time, and I do mean the third quarter, when we look at it, we definitely want to go to growth instead of just trying to improve that gross margin percent. And it turned out to be, our decision is right. If you look at -- our bottom line number, it still continually improved. And so it's unfortunate we have these two adjustments when also, it cost us \$0.02, or we will be even \$0.02 better than what we tell you today. So I think our strategy is correct, and we continue to concentrate on gross margin dollars. And whenever -- from a matter from growth or from percent improvement, whichever can give us the best of the gross margin dollar, is what we go after.

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Alex Gauna - UBS - Analyst

Yes, I don't mean to imply that I view what happened as a weakness. Again, it was obviously a very powerful quarter. What I am getting at here is, it seems to meet that the industry has slowed down. And anecdotally, there are some signs that maybe we are coming out of a trough at some point. So I'm wondering if perhaps this 1 to 3 could turn into something stronger if the industry does in fact have a good holiday sales cycle and come out of it, given you do quite a bit of turns in the quarter. So I was wondering if maybe, had the industry not slowed, we might even be talking about you having just posted a 16 or 17% number.

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Dr. Keh-Shew Lu - Diodes Inc. - President & CEO

(laughter). (multiple speakers) I like your number. But unfortunately, the [bucket] actually slowed down. Now, we are still much better from a performance point of view relative to our competitors, because every day, I see all these announcements, negative, 7%, negative 7%, and I feel very nervous. But when I look at our number, our focus, I think, 1 to 3% is pretty good for me. And I feel comfortable we should be able to do 1 to 3%.

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Alex Gauna - UBS - Analyst

Last one, if I could. You gave some helpful color on the PC market. You are seeing more now on the LCD exposure side. What do you think is happening with that market right now? There seem to be some mixed indications on whether it's ahead of itself or yet to commence a nice seasonal run here. What you think on the LCD front?

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Mark King - Diodes Inc. - SVP, Sales and Marketing

Every month, my Asian sales manager comes to me and says the LCD (indiscernible) the thing is slowing down. At the end of every month, he tells me I'm wrong -- said he was wrong. So there is a lot of talk about it slowing down. But we haven't seen a significant slowdown. But again, that's a seasonal business -- actually, the seasonal business for that though goes into first quarter because of Super Bowl and so forth. I think it's still very hard to judge.

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Dr. Keh-Shew Lu - Diodes Inc. - President & CEO

I think, Alex, it's really kind of Christmas sale. I think I mentioned that earlier. If economic improve and then people really go out for the Christmas sales, then I feel much better, even this quarter. And I think our customer, which is the LCD monitor builder, or the PC builder -- they are all trying to -- one foot on the gas pedal, the other foot on the brake pedal. And the same thing, they watch, everybody watch the Christmas sale, start from Thanksgiving holiday. And I do the same thing. And really, very hard for us -- I don't think people are now -- even the Wall Street, anybody can tell you what will be this year's Christmas sales. I really don't know.

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Alex Gauna - UBS - Analyst

Very good, and congratulations again -- powerful quarter. Thank you.

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Dr. Keh-Shew Lu - Diodes Inc. - President & CEO

Thank you, Alex.

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Operator

So there are no further questions at this time.

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Crocker Coulson - Diodes Inc. - IR

I think we would like to thank everybody for their time this afternoon and this evening. The questions have certainly run longer than ever in my memory. And we look forward to coming back to you after we close the fourth quarter to give you an update on our further progress. In addition, Diodes will be presenting at the AEA Conference next week up in Monterey. So any of you who are going to be at the conference, we hope you will come by and meet with C.H. and Mark in person.

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Dr. Keh-Shew Lu - Diodes Inc. - President & CEO

No, no C.H. (laughter)

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Crocker Coulson - Diodes Inc. - IR

Sorry, (MULTIPLE SPEAKERS) with Dr. Lu and Carl in person. And the company will also be at the UBS Conference the following week.

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Dr. Keh-Shew Lu - Diodes Inc. - President & CEO

Okay, thank you very much. Thank you, everyone.

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Operator

This concludes today's 2006 results conference call. You may now disconnect.