

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, 2007

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 No.)

15660 North Dallas Parkway, Suite 850
Dallas, TX
(Address of principal executive offices)

75248
(Zip Code)

(972) 385-2810
(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 :

- 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))
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Item 2.02 Results of Operations and Financial Condition.

On November 1, 2007, Diodes Incorporated issued a press release announcing third quarter 2007 results . A copy of the press release is attached as Exhibit 99.1.

On November 1, 2007, Diodes Incorporated hosted a conference call to discuss its third quarter 2007 results. A recording of the conference call has been posted on its website at www.diodes.com. A copy of the script is attached as Exhibit 99.2.

During the conference call on November 1, 2007, Dr. Keh-Shew Lu, President and CEO of Diodes Incorporated, as well as Carl C. Wertz, Chief Financial Officer, Rick White, Senior Vice President of Finance, and Mark King, Senior 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 Exchange 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 1934, except as shall be expressly set forth by specific reference in such filing.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits

Exhibit 99.1 - Press release dated November 1, 2007

Exhibit 99.2 - Conference call script dated November 1, 2007

Exhibit 99.3 - Question and answer transcript dated November 1, 2007

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 2, 2007

DIODES INCORPORATED

By: /s/ Carl C. Wertz

CARL C. WERTZ
Chief Financial Officer

EXHIBIT INDEX

Exhibit Number

Description

| | |
|------|---|
| 99.1 | Press release dated November 1, 2007 |
| 99.2 | Conference call script dated November 1, 2007 |
| 99.3 | Question and answer transcript dated November 1, 2007 |



Diodes Incorporated Reports Record Third Quarter Financial Results

Record revenue up 13.7 percent YOY to \$105.3 million
Record net income up 26.1 percent YOY to \$16.1 million

DALLAS, TEXAS - November 1, 2007 -- Diodes Incorporated (**Nasdaq:DIOD**), a leading global manufacturer and supplier of high-quality application specific standard products within the broad discrete and analog semiconductor markets, today reported record financial results for the third quarter ended September 30, 2007.

Third Quarter Highlights:

- Revenues increased 13.7 percent year-over-year and 9.3 percent sequentially to a record \$105.3 million
- Gross profit margin increased 50 basis points sequentially to 32.4 percent
- Net income increased 26.1 percent year-over-year to a record \$16.1 million
- Adjusted net income increased to a record \$17.1 million, or \$0.40 per share, up from \$14.2 million, or \$0.33 per share on a stock split-adjusted basis, in the third quarter of 2006

Revenues for the third quarter of 2007 increased 13.7 percent to a record \$105.3 million, compared to \$92.6 million reported in the third quarter of 2006. Sequentially, revenues were 9.3 percent higher than the second quarter of 2007 due to a 7 percent increase in units sold and a 2 percent increase in average selling price.

Gross profit for the third quarter of 2007 increased 11.3 percent to \$34.2 million, or 32.4 percent of revenue, as compared to \$30.7 million, or 33.2 percent of revenue in the prior-year quarter and 31.9 percent in the second quarter of 2007.

Commenting on the quarter, Dr. Keh-Shew Lu, President and CEO of Diodes Incorporated, said, "The third quarter marks another record quarter of revenues for Diodes, which was further highlighted by a 26 percent year-over-year improvement to the record bottom line. Market share for our discrete products was at an all time high driven by continued gains in Asia and Europe. Additionally, our strategic initiatives targeting our analog business as well as our aggressive new product introductions, that target the high growth electronics markets, continue to deliver positive results, which have consistently outperformed the industry. We believe that our continued focus on revenue expansion, combined with increased scale and cost efficiencies, will result in sustainable, profitable growth for the Company."

Third quarter net income was a record \$16.1 million, or \$0.38 per diluted share, compared to \$12.8 million, or \$0.30 on a split-adjusted basis, in the third quarter of 2006 and \$12.2 million, or \$0.29 per share on a split adjusted basis, in the prior quarter.

Adjusted net income for the third quarter of 2007, which primarily excludes \$1.3 million SFAS 123R stock option expense, was a record \$17.1 million, or \$0.40 per share, an increase of 20.8 percent compared to the \$14.2 million, or \$0.33 per share on a split adjusted basis, reported in the year-ago quarter and an increase of 14.2 percent compared to the \$15.0 million, or \$0.35 per share on a split adjusted basis, reported in the second quarter of 2007.

On July 10, 2007, the Company announced a 3-for-2 stock split in the form of a 50 percent stock dividend payable on July 30 to stockholders of record on July 20; therefore, in accordance with GAAP financial reporting, the split-adjusted earnings per share is reflected on the income statement included herein.

At September 30, 2007, Diodes had approximately \$363 million in total cash and short-term investments, \$436 million in working capital, \$238 million in long-term debt (including the convertible note), and unused and available credit facilities of \$52 million.

Product and Market Highlights

"During the quarter, we continued to make notable progress with our new product road map in discrete, analog and hall sensors," stated Mark King, Senior Vice President of Sales and Marketing. "In Asia in particular, there was a broad-based advance in key end equipment of notebook computers, digital audio players, LCD TVs and set-top boxes. In Europe, our revenues reached a new record, and we believe this market will continue to be a growth driver for Diodes in the coming year. In terms of overall design activity, it was another strong quarter with multiple design wins at 80 accounts globally. Global design wins and in-process activity is centered around several of our new products, including hall sensors for cell phones and notebooks."

During the quarter, Diodes introduced several new products that included the AP1533 high efficiency DC-DC buck converter as well as several breakthrough 300-volt Super Barrier Rectifiers. Additionally, the Company expanded its SOT-223 line with the release of 19 medium power bipolar junction transistors, which served as an example of Diodes' ability to leverage its analog package capabilities in order to further broaden the discrete product line.

Most recently, Diodes continued to make progress towards focusing its analog line more towards mobility and portability with the introduction of its first high efficiency charge pump white LED driver for small size LCD display panels found in cellular phones, PDAs, and smart phones, as well as other portable electronic devices. This product is a first of a new series that will address the portable display market, which complements the Company's existing analog power, Hall sensors and discrete product solutions.

Business Outlook

"As we look to the fourth quarter, we are projecting an increase in revenue to a range of \$106 to \$109 million with continued sequential gross profit margin improvement in the range of 60 to 110 basis points," stated Dr. Lu. "We expect to accelerate new product introductions in the fourth quarter and into 2008 and further expand our market share in both the discrete and analog markets. We believe that our focus on the high volume, high growth electronics markets combined with our manufacturing efficiencies and cross-selling synergies will continue to deliver consistent profitable growth for Diodes."

Conference Call

Diodes will host a conference call on Thursday, November 1, 2007 at 10:00 a.m. Central Time (11:00 a.m. Eastern Time) to discuss its third quarter 2007 financial 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 <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 approximately 60 days.

About Diodes Incorporated

Diodes Incorporated (NASDAQ:DIOD), an S&P SmallCap 600 Index company, is a leading global manufacturer and supplier of high-quality application specific standard products within the broad discrete and analog semiconductor markets, serving the consumer electronics, computing, communications, industrial and automotive markets. Diodes' products include diodes, rectifiers, transistors, MOSFETs, protection devices, functional specific arrays, power management devices including DC-DC switching and linear voltage regulators, amplifiers and comparators, and Hall-effect sensors. The Company has its corporate offices in Dallas, Texas, with a sales, marketing, engineering and logistics office in Southern California; design centers in Dallas, San Jose and Taipei; a wafer fabrication facility in Missouri; two manufacturing facilities in Shanghai; a fabless IC plant in Hsinchu Science Park, Taiwan; engineering, sales, warehouse and logistics offices in Taipei and Hong Kong, and sales and support offices throughout the world. With its recent asset acquisition of APD Semiconductor, a privately held U.S.-based fabless semiconductor company, Diodes acquired proprietary SBR® technology. Diodes, Inc.'s product focus is on high-growth end-user equipment markets 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. Such statements include statements regarding our expectation that: continued focus on revenue expansion, combined with increased scale and cost efficiencies will result in sustainable profitable growth; we can continue to make progress with our new product road map; Europe will continue to be a growth driver; we will be able to leverage our packaging capabilities; we will realize revenue growth and gross profit margin improvement; we will continue to accelerate new product introductions and expand our market share. Potential risks and uncertainties include, but are not limited to, such factors as the introduction and market reception to new product announcements, 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, the Company's ability to successfully make additional acquisitions, 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.

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.

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CONSOLIDATED CONDENSED INCOME STATEMENT and BALANCE SHEET FOLLOW

DIODES INCORPORATED AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF INCOME
(in thousands, except per share data)
(unaudited)

| | Three Months Ended | | Nine months ended | |
|---|--------------------|-------------------------|-------------------|-------------------------|
| | September 30, | | September 30, | |
| | 2006 | 2007 | 2006 | 2007 |
| Net sales | \$ 92,575 | \$ 105,264 | \$ 248,876 | \$ 293,567 |
| Cost of goods sold | 61,879 | 71,112 | 166,532 | 199,214 |
| Gross profit | 30,696 | 34,152 | 82,344 | 94,353 |
| Selling, general and administrative expenses | 11,825 | 14,607 | 34,883 | 40,682 |
| Research and development expenses | 1,941 | 3,554 | 5,985 | 9,654 |
| Restructuring costs and fixed asset impairment | 32 | - | 152 | 1,770 |
| Total operating expenses | 13,798 | 18,161 | 41,020 | 52,107 |
| Income from operations | 16,898 | 15,991 | 41,324 | 42,246 |
| Other income (expense) | | | | |
| Interest income | 1,069 | 4,712 | 2,807 | 13,032 |
| Interest expense | (89) | (1,706) | (363) | (5,127) |
| Other | (1,563) | (13) | (1,699) | (70) |
| | (583) | 2,993 | 745 | 7,835 |
| Income before income taxes and minority interest | 16,315 | 18,984 | 42,069 | 50,081 |
| Income tax provision | (3,212) | (2,243) | (7,778) | (7,122) |
| Income before minority interest | 13,103 | 16,741 | 34,291 | 42,959 |
| Minority interest in joint venture earnings | (333) | (640) | (824) | (1,601) |
| Net income | <u>\$ 12,770</u> | <u>\$ 16,101</u> | <u>\$ 33,467</u> | <u>\$ 41,358</u> |
| Earnings per share | | | | |
| Basic * | \$ 0.33 | \$ 0.40 | \$ 0.87 | \$ 1.05 |
| Diluted * | <u>\$ 0.30</u> | <u>\$ 0.38</u> | <u>\$ 0.80</u> | <u>\$ 0.98</u> |
| Number of shares used in computation | | | | |
| Basic * | 38,530 | 39,845 | 38,280 | 39,430 |
| Diluted * | <u>42,229</u> | <u>42,445</u> | <u>42,083</u> | <u>42,099</u> |

* Adjusted for the effect of a 3-for-2 stock split in July 2007.

DIODES INCORPORATED AND SUBSIDIARIES
CONSOLIDATED RECONCILIATION OF NET INCOME TO ADJUSTED NET INCOME

(in thousands, except per share data)

(unaudited)

| | Three Months Ended | | Nine months ended | |
|---|--------------------|------------------|-------------------|------------------|
| | September 30, | | September 30, | |
| | 2006 | 2007 | 2006 | 2007 |
| Net income | <u>\$ 12,770</u> | <u>\$ 16,101</u> | <u>\$ 33,467</u> | <u>\$ 41,358</u> |
| Adjustments to reconcile net income to adjusted net income: | | | | |
| Stock option expense included in cost of goods sold: | 133 | 59 | 399 | 219 |
| Stock option expense included in selling and general administrative expenses: | 1,355 | 1,173 | 4,112 | 3,680 |
| Stock option expense included in research and development expenses: | 146 | 112 | 439 | 355 |
| Total stock option expense | 1,634 | 1,344 | 4,950 | 4,254 |
| Restructuring costs | - | - | - | 1,770 |
| Other adjustments | - | 55 | - | 95 |
| Income tax benefit related to stock option expense, restructuring costs and other adjustments | 228 | 344 | 661 | 1,150 |
| Adjusted net income | <u>\$ 14,176</u> | <u>\$ 17,156</u> | <u>\$ 37,756</u> | <u>\$ 46,327</u> |
| Diluted shares used in computing earnings per share | 42,229 | 42,445 | 42,083 | 42,099 |
| Incremental shares considered to be outstanding: * | 749 | 832 | 746 | 1,056 |
| Adjusted diluted shares used in computing Adjusted earnings per share | <u>42,978</u> | <u>43,277</u> | <u>42,829</u> | <u>43,155</u> |
| Adjusted earnings per share | | | | |
| Basic * | \$ 0.37 | \$ 0.43 | \$ 0.99 | \$ 1.17 |
| Diluted * | <u>\$ 0.33</u> | <u>\$ 0.40</u> | <u>\$ 0.88</u> | <u>\$ 1.07</u> |

* Adjusted for the effect of a 3-for-2 stock split in July 2007.

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 *(in thousands, unaudited)*:

| | Three Months Ended | |
|-------------------------------|---------------------------|------------------|
| | September 30, | |
| | <u>2006</u> | <u>2007</u> |
| Net Income | \$ 12,770 | \$ 16,101 |
| Plus: | | |
| Interest expense, net | (980) | (3,316) |
| Income tax provision | 3,212 | 2,243 |
| Depreciation and amortization | 4,383 | 7,391 |
| EBITDA | <u>\$ 19,385</u> | <u>\$ 22,419</u> |
| | | |
| | Nine Months Ended | |
| | September 30, | |
| | <u>2006</u> | <u>2007</u> |
| Net Income | \$ 33,467 | \$ 41,359 |
| Plus: | | |
| Interest expense, net | (2,445) | (8,846) |
| Income tax provision | 7,778 | 7,122 |
| Depreciation and amortization | 14,053 | 20,417 |
| EBITDA | <u>\$ 52,853</u> | <u>\$ 60,052</u> |

DIODES INCORPORATED AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEET

ASSETS

(in thousands, except share data)

| | December 31, 2006 | September 30, 2007 (unaudited) |
|--|----------------------|--------------------------------------|
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 48,888 | \$ 45,144 |
| Short-term investments | 291,008 | 317,726 |
| Total cash and short-term investments | 339,896 | 362,870 |
| Accounts receivable | | |
| Customers | 72,175 | 82,779 |
| Related parties | 6,147 | 7,186 |
| | 78,322 | 89,965 |
| Less: Allowance for doubtful receivables | (617) | (485) |
| | 77,705 | 89,480 |
| Inventories | 48,202 | 48,379 |
| Deferred income taxes, current | 4,650 | 8,195 |
| Prepaid expenses and other current assets | 8,393 | 10,778 |
| Total current assets | 478,846 | 519,702 |
| PROPERTY, PLANT AND EQUIPMENT, at cost, net | | |
| of accumulated depreciation and amortization | 95,469 | 119,218 |
| DEFERRED INCOME TAXES, non current | | |
| | 5,428 | 6,735 |
| OTHER ASSETS | | |
| Intangible assets | 10,669 | 9,842 |
| Goodwill | 25,030 | 25,018 |
| Other | 6,697 | 6,387 |
| TOTAL ASSETS | \$ 622,139 | \$ 686,902 |

**DIODES INCORPORATED AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEET**

LIABILITIES AND STOCKHOLDERS' EQUITY

(in thousands, except share data)

| | December 31, 2006 | September 30, 2007 (unaudited) |
|---|----------------------|--------------------------------------|
| CURRENT LIABILITIES | | |
| Line of credit | \$ - | \$ 920 |
| Accounts payable | | |
| Trade | 40,030 | 37,198 |
| Related parties | 12,120 | 13,383 |
| Accrued liabilities | 24,966 | 26,580 |
| Income tax payable | 3,433 | 3,355 |
| Long-term debt, current portion | 2,802 | 2,111 |
| Capital lease obligations, current portion | 141 | 144 |
| | 83,492 | 83,691 |
| LONG-TERM DEBT, net of current portion | | |
| 2.25% convertible senior notes due 2026 | 230,000 | 230,000 |
| Others | 7,115 | 6,125 |
| CAPITAL LEASE OBLIGATIONS, net of current portion | | |
| | 1,477 | 1,363 |
| OTHER LONG-TERM LIABILITIES | | |
| | 1,101 | 5,610 |
| MINORITY INTEREST IN JOINT VENTURE | | |
| | 4,787 | 6,389 |
| | 327,972 | 333,178 |
| STOCKHOLDERS' EQUITY | | |
| 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; 38,941,901 and 39,962,300 shares issued at December 31, 2006 and September 30, 2007, respectively (1) | 17,308 | 26,642 |
| Additional paid-in capital | 113,449 | 124,155 |
| Retained earnings | 162,802 | 202,205 |
| Accumulated other comprehensive gain | 608 | 722 |
| | 294,167 | 353,724 |
| | \$ 622,139 | \$ 686,902 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 622,139 | \$ 686,902 |

(1) Adjusted for the effect of a 3-for-2 stock split in July 2007 (Note O)

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

Operator:

Good afternoon and welcome to Diode Inc.'s third quarter 2007 financial results conference call. At this time, all participants are in a listen only mode. At the conclusion of today's conference call, instructions will be given for the question and answer session. If anyone needs assistance at any time during the conference call, please press the star followed by the zero on your touchtone phone.

As a reminder, this conference call is being recorded today, Thursday, November 1, 2007. I would now like to turn the call to Leanne Sievers, with Shelton Group, the Investor Relations agency of record for Diodes. Leanne, please go ahead.

Introduction: Leanne Sievers, EVP of Shelton Group

Good morning and welcome to Diodes' third quarter 2007 earnings conference call. I'm Leanne Sievers, executive vice president of Diodes' new investor relations firm, Shelton Group.

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

Before I turn the call over to Dr. Lu, I would like to remind our listeners that 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.

In addition, any projections as to the Company's future performance represent management's estimates as of **today, November 1, 2007**. Diodes assumes no obligation to update these projections in the future as market conditions may or may not 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.

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

Dr. Keh-Shew Lu, President and CEO of Diodes

Thank you, Leanne.

Welcome everyone, and thank you for joining us today.

We are pleased to report another quarter of record financial results including record revenues and profits. Third quarter revenues represent a 9.3 percent growth sequentially over last quarter and nearly 14 percent year-over-year. We also increased gross profit by 50 basis points sequentially.

Our strategic initiatives regarding our analog business as well as aggressive new product introductions that target the high-growth electronics markets continue to deliver results, which have consistently outperformed the industry. Additionally, market share for our products was at an all time high during the quarter driven by continued gains in Asia and Europe.

For the quarter, adjusted net income grew 14 percent sequentially to a record \$17.1 million, or 40 cents per share adjusted for the stock split.

Diodes' performance is a result of our ability to combine customer-focused innovation in the discrete, analog, and Hall sensors markets, with state-of-the-art cost-efficient packaging that delivers greater value to our customers. Design activity remained strong during the quarter as we capitalized on the synergies between these product families to create expanded opportunities with our customers.

The consumer and computing market segments, which represent approximately 75 percent of our total revenues, continued to be key contributors to our growth during the quarter as we further increase our penetration of these higher growth markets.

As planned, the consolidation of our analog manufacturing operation into our Shanghai facilities is now complete.

We will continue to realize incremental operational efficiencies that will benefit our results and margins over time. All our manufacturing facilities are over 90 percent utilized. Our fab is producing over 53,000 wafers per month, and our packaging facilities in China are producing more than 1.3 billion units per month.

As we look to the fourth quarter, we expect record results, which will continue to benefit from our manufacturing efficiencies and cross-selling synergies to deliver consistent profitable growth in the coming quarters.

We plan to accelerate new product introductions during the fourth quarter and as we enter 2008, and to further expand our market share.

We continue to actively work on acquisition opportunities, which have the potential to be accretive within the first 12 months.

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

Carl Wertz, CFO

Thanks, Dr. Lu, and good morning everyone.

As Dr. Lu mentioned, in the third quarter Diodes continued to make solid progress in the execution of our strategy.

Revenues for the third quarter set another record reaching \$105.3 million, an increase of 13.7 percent from the third quarter of 2006. On a sequential basis our revenues were up 9.3 percent, which was at the upper end of our increased guidance range. New product sales accounted for 34.2 percent of revenue, compared to 29.7 percent just one year ago.

Gross profit for the third quarter was \$34.2 million, or 32.4 percent, a 50 basis point sequential increase over last quarter. Gross margin was up as a result of improved product mix and the benefit of internalizing our analog manufacturing.

As we have discussed on previous calls, we should see opportunities for continued margin expansion as we begin to realize the full benefits of our transition of analog production to our state-of-the art facilities in China. We also anticipate that a greater mix of new, higher margin products and an increase in units will help to offset future price erosion and contribute to margins in the coming year.

Selling, General & Administrative expenses for the quarter were \$14.6 million, or 13.9 percent of revenue, in-line with last quarter. Included in third quarter SG&A was \$1.2 million in non-cash, FAS123R, share-based compensation. In the earnings release we have included a table to reconcile the impact of share-based compensation expense to our reported results.

Sequentially, SG&A dollars increased due primarily to increased wages and incentives. We believe that SG&A, as a percentage of revenue, should be comparable to the third quarter.

Research and development investment in the quarter was \$3.6 million, or 3.4 percent of revenue. As expected, as a percentage of revenue, R&D investment has increased throughout the year as our R&D activities continue to increase in both the U.S. and Asia, and is reflected in our increased new product activity.

We continue to enhance our research and development capabilities to support our broader market focus, and anticipate fourth quarter R&D percentage to be comparable to the third quarter.

Our effective **income tax** rate in the third quarter was 11.8 percent, compared to 14.8 percent for the previous quarter. The lower effective tax rate reflects profit levels in lower tax rate jurisdictions, as well as a year-to-date effective tax provision adjustment.

In addition, as part of our tax strategy efforts, we have established a holding company in the Netherlands, which we believe will be lowering our effective tax rate. We are finalizing this phase of our tax strategy and expect our effective tax rate for the fourth quarter to be in the 11 to 14 percent range. This equates to an effective full-year tax rate of 13 to 15 percent.

Adjusted net income, which excludes \$1.3 million in FAS123R, non-cash stock option expense, increased 20.8 percent year-over-year to \$17.1 million, or \$0.40 per share, up from \$14.2 million, or \$0.33 per share on a stock split-adjusted basis, in the third quarter of 2006, and \$0.35 per share in the second quarter of 2007.

Cash flow from operations for the quarter was \$24.5 million, a 14 percent increase compared to \$21.5 million for the same period last year.

Turning to the **balance sheet**, at the end of the quarter we had \$363 million in total cash and short-term investments, \$436 million in working capital, and \$238 million in long-term term debt including the convertible bond.

Inventories ended the third quarter at \$48.4 million, with inventory days improving to 61 days. We believe we are well positioned to support our revenue growth and have effective inventory control.

Accounts receivable days were 77 days in the third quarter compared to 80 days in the prior quarter.

Capital expenditures for the current quarter were \$15.6 million, or 14.9 percent of revenue. For the nine months ended September 30, 2007, Cap-Ex is \$43 million. This represents 14.6 percent of revenue, which is above our full-year estimate as we continue to invest for expected growth by capitalizing on opportunities to gain market share.

We expect Cap-Ex in the fourth quarter to be lower than the third quarter.

Our revised expansion plans, now including a 6-inch SBR[®] line in FabTech, and additional analog capacity in China, will put our full-year 2007 Cap-Ex at between 14 and 15 percent of revenue.

Depreciation expense for the third quarter and first nine months of 2007 was \$6.9 million and \$18.8 million, respectively.

Turning to our Outlook...

We currently expect revenue for the fourth quarter of 2007 to increase to a range of \$106 to \$109 million, with continued sequential gross profit margin

improvement in the range of 60 to 110 basis points. We remain confident that Diodes' focus on the application specific standard products within the broad

discrete and analog markets, while leveraging our cost efficient manufacturing base, positions us well to continue to deliver profitable growth in the

quarters ahead.

With that said, I will now turn the call over to Mark King, SVP Sales and Marketing. Mark...

Mark King, Senior VP of Sales and Marketing

Thank you, Carl, and good morning.

Let me begin with our segment breakout for the third quarter: computing represented 37 percent of revenue; consumer 36 percent; communications 15 percent; industrial 10 percent; and automotive 2 percent.

During the third quarter, we continued to make notable progress with our new product road map in discrete, analog and hall sensor devices. We released 64 products from 14 different product families, including 28 SBR devices, 3 analog and 3 hall sensor devices.

As Carl mentioned, new products grew to 34.2 percent of revenues with products in our DFN product line, PowerDI[®] and low threshold MOSFET line serving as the key drivers, along with continued gains in our analog product line.

During the quarter, we expanded our portfolio of high efficiency DC-DC buck converters with the introduction of the AP1533. This converter is a solid example of our commitment to enhance our power management product portfolio and is well suited for applications like LCD TVs and monitors, DVD and Personal Video Recorders, set-top boxes, and industrial controls.

Also during the quarter, we launched our breakthrough 300-volt Super Barrier Rectifiers. These devices are used in high power applications such as plasma/LCD monitors and industrial applications. Additionally, we expanded our SOT-223 line with the release of 19 medium power bipolar junction transistors, which served as an example of our ability to leverage our analog package capabilities in order to broaden our discrete product line.

Most recently, we continued to make progress towards focusing our analog line more towards mobility and portability. The introduction of our first high efficiency charge-pump, white LED driver for small size LCD displays will target cellular phones, and PDAs, as well as other portable electronic devices. This product is a first of a new series that will address the portable display market, which complements our existing analog power, hall sensors and discrete product solutions.

We anticipate a meaningful contribution to revenues in the second half of 2008, and we are very excited about the opportunities in this segment as we focus our future analog product introductions on the mobile and portable markets.

In terms of overall design activity, it was another strong quarter with multiple design wins at 80 accounts globally. Global design wins and in-process design activity is centered around new products including:

- Switching regulators for set-top boxes and LCD TVs
- Superbarrier rectifiers and Power DI[®] - where we continue to see very broad end equipment appeal
- QFN platforms for digital audio players, mobile phones, LCD displays for mobile phones, and
- Hall Sensors for cell phones and notebooks

We expect to have our 1st tier-one handset design for Hall sensor in Q4, and we recently won an ASMCC device on a next generation cell phone display

In terms of geographic breakout on component sales, our market share was at an all time high driven by continued gains in Asia and Europe. In particular, Asia sales volume increased 10 percent over the second quarter and represented 75 percent of total revenues in the third quarter. OEM sales in Asia were strong, specifically in the consumer and computing segments. Additionally, there was a broad-based advances in key end-equipment of notebook computer, digital audio players, LCD TVs and set-top boxes.

Design activity in Asia was very strong across all product lines, including key wins in SBR[®], hall sensors, switching regulators and LDOs. Distributor point of sales increased in the quarter, with distributor inventories remaining at healthy levels.

To further expand our global distribution network in Asia, we entered into an agreement with Arrow Asia Pac, a business unit of Arrow Electronics.

Arrow is a highly sophisticated semiconductor distributor with over 50 supporting sales offices throughout the region with a particular emphasis and strength in Mainland China. Their dedicated local teams of customer applications engineers will assist with increasing customer access and knowledge, as well as improve our competitive position and brand recognition in that region.

Now turning to North America, sales decreased 2 percent from the second quarter. We did see strength in cable and satellite set-top box and portable medical devices, but it was offset by the continued movement of manufacturing to Asia. Coming off a low second quarter, wafer sales increased 23 percent in 3Q.

In total, we achieved 84 design wins in North America during the quarter, with 8 of these for analog, 72 discrete, and 4 in SBR[®]. We continue to gain momentum in our PowerDI[®] lines, SBR technology and our linear and switching regulators. Distributor point of sales was down 2 percent sequentially, and inventory levels were also down in line with sales.

Finally, in Europe, sales accounted for 4 percent of revenues, and increased 12.2 percent over the second quarter reaching a new record. OEM sales were up 21.6 percent driven by strong consumer demand and increased shipments to automotive customers. Our momentum in Europe continued to expand with 35 design wins at 20 accounts, including one significant SBR[®] win, 9 in analog and 3 hall sensor wins.

Distributor point of sales continued to grow by 2 percent in the quarter to a new record, despite the traditionally low summer months impacting sales in southern Europe. We believe this market will continue to be a growth driver for Diodes going forward.

In summary, we are confident that our focus on the high growth, high volume electronic end-markets will continue to drive growth in the future, with increased upside for our analog business as we move towards mobility and portability.

We have a strong pipeline of new products in the coming quarters as a result of our expanded R&D platform and dedication to product innovation. Diodes is well positioned with our customers on next-generation end-devices, and we continue to leverage our core competencies around manufacturing excellence.

With that, we will open the call for questions.

Q&A Session

Upon Completion of the Q&A...

Carl Wertz:

I'd like to make one additional comment before we conclude:

We are scheduled to participate in several financial conferences in the coming months, including:

- v In November--
 - Next Monday, we'll be presenting at AeA in Monterey
 - Then the UBS Global Technology Conference in New York
 - Followed by Thomas Weisel's Power Conference in New York
 - v In December--
 - We have the Raymond James IT Supply Chain Conference in New York
 - v In January--
 - We'll have the Needham's 10th Annual Growth Conference in New York
 - Followed by Sidoti & Co's 5th Annual Conference in Palm Beach, Florida
-

Should you be attending any of these events, we encourage you to join our presentation or contact the Shelton Group or the appropriate one-on-one coordinator to schedule a time to meet with us.

Thank you for your participation today. We look forward to reporting our continued progress on next quarter's conference call.

Operator, we may now disconnect.

QUESTION AND ANSWER

Operator

(OPERATOR INSTRUCTIONS). Harsh Kumar, Morgan Keegan.

Harsh Kumar - Morgan Keegan - Analyst

Good morning, it's Harsh Kumar, Morgan Keegan. A couple questions, Carl and Mark. Maybe you can help me out here. You said gross margin increases are being driven by mix and analog moving in-house. Within mix can you talk about what's working for you and what we can expect in the December quarter?

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

Okay, this is Dr. Lu. During the year we make two things. One is, I think I've been talking about move our analog production from the subcon to our internal manufacturing in Shanghai. And that we have been talking about and it's completed, the portion we want to move we can now move 100% because some of the stuff we do not produce ourselves. So the one we wanted to move we completely move it by end of end of September.

And then another thing is if you remember several months ago we shut down our Hsinchu operation which is the (inaudible) and final task in our -- into China, again, or some of them into the subcon. So we reduced our own operation there and that saved us some money. And so that's what order improvement is coming from when we're talking about analog manufacturing inside.

And if you move forward from the fourth quarter I think we give our guidance of continued improvement and we keep that range, 60 basis points to 110 basis points. So we believe with continued efficiency produced by ourselves, yield improvements and all those we believe we can achieve between 60 basis points to 110 basis points improvement.

Harsh Kumar - Morgan Keegan - Analyst

That's very helpful, Dr. Lu. Dr. Lu, can you just remind us what you're expecting on your analog business in terms of gross margins, would it be comparable to your core business or better or a little off? Can you just help us there?

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

I think that one of the reasons we moved from -- we entered into analog business is because analog business in general can give us higher gross margin. Okay? And so we expect we'll continue to improve the gross margin when our analog business gets in more percent to our total business.

Harsh Kumar - Morgan Keegan - Analyst

Got it. And next question on -- kind of looking at December and possibly looking at a little ahead of December into the March quarter. Dr. Lu, your business is very heavily focused on consumer and computing and that tends to be typically strong in the second half. Can you talk about just generally qualitatively what you're seeing in those markets? Whether you're still seeing some strength or you're seeing things fall off? Just anything would be helpful.

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

I think we keep the guidance for the fourth quarter from 106 to 109, so that shall continue growth, even the -- our growth will be slower but we will still show a continued growth. Okay? And we don't really give the guidance after the quarters. But typically you know the semiconductor market, the sequence is in 1Q typically. I'm not talking myself, I'm just talking about the market, typically 1Q is a weak quarter. Okay.

Harsh Kumar - *Morgan Keegan* - *Analyst*

Got it. That's always helpful. And last question I guess for Carl. Carl, you're bringing down tax rate for the fourth quarter, should we expect a lower tax rate for 2008 as we model out?

Carl Wertz - *Diodes, Inc.* - *CFO*

We indicated we're still finalizing the Netherlands holding company. I think going into the next year it's probably safe to say that it should be in that 13% to 15% range as we're predicting for the fourth. We may get a little betterment as we get more involved with it, but to give that kind of guidance I don't think we want to go there yet.

Harsh Kumar - *Morgan Keegan* - *Analyst*

No, that's great. And one last if I can. Congratulations on your design win at Tier 1 in cell phones. I know you've been trying to get in for a little while. Should we expect revenues in the fourth quarter or should we expect a design win in the fourth quarter?

Mark King - *Diodes, Inc.* - *SVP Sales & Marketing*

I think you should expect a design win and it ramping through 2008.

Harsh Kumar - *Morgan Keegan* - *Analyst*

Got it. Thanks, guys.

Operator

Shawn Harrison, Longbow Research.

Shawn Harrison - *Longbow Research* - *Analyst*

Good morning, just a quick clarification if I could get the end market breakdown again?

-Mark King - *Diodes, Inc.* - *SVP Sales & Marketing*

I think it's -- it was 37% computing, 36% consumer, 15% communication, 10% industrial, 2% automotive.

Shawn Harrison - *Longbow Research* - *Analyst*

Okay. My second question just has to deal with the increase in operating expenses, I'm just wondering the increase in sales in Europe. Is there a higher cost to operate in Europe in terms of just selling expense in that region that aided in the sequential increase in operating expenses?

Carl Wertz - *Diodes, Inc.* - CFO

The European operation, we've been over there already, we have multiple sites. And basically by forming a holding company will not have a substantial cost. We're incurring some now from the legalization and establishment of the Company. But we should not experience a significant change.

Mark King - *Diodes, Inc.* - SVP Sales & Marketing

I would say that sales expense in Europe is higher because of the value of the dollar versus the euro, but I don't think it's necessarily a big impact on the SG&A or the operational costs as we outlined them.

Shawn Harrison - *Longbow Research* - Analyst

Okay. And then maybe just to break down the operating expenses further. Of the sequential increase, how much was just general wage inflation that you're seeing versus the other factors mentioned?

Carl Wertz - *Diodes, Inc.* - CFO

The overall wages have gone up, primarily it's due to improved performance of the Company and we're increasing incentives for the global distribution. We stay pretty much abreast with the normal inflation rate for wage increases.

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

But if you look at -- we have a very big sales force in China and in Taiwan. And China and Taiwan -- that's where our revenue are coming from. And you know the exchange rate in China and have been going against us, okay. And then the same thing in Taiwan. So if you look at those would be increase our SG&A, but salary increase is a portion only and exchange rate is another change for us. And we try to maintain, at least percentage wise, try to maintain about the same and that our revenue grows to cover the salary increase and exchange rate increase.

Shawn Harrison - *Longbow Research* - Analyst

Okay. And then just one final question. ASP's increased 2% sequentially, how much of that was product mix versus actual pricing increases you received?

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

Product mix is almost all that. We really don't see a price increase, okay? That's why we put the ASP average selling price, it's really due to the product mix.

Mark King - *Diodes, Inc.* - SVP Sales & Marketing

We chose to squeeze some of our commodities in the last quarter.

Shawn Harrison - *Longbow Research* - Analyst

Okay. And then just looking forward, new products as a percentage of sales, could that increase to maybe the mid 30% range given your focus on driving more new product development?

Mark King - *Diodes, Inc.* - SVP Sales & Marketing

Well, I think it's asset mix (multiple speakers)

Shawn Harrison - Longbow Research - Analyst

I guess maybe from 32.5 to say 35 to 36.

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

That's right.

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

You know, I think we're going to lose some products. I mean I think at a certain point you're always I think 33% to 35% is actually a pretty high rate. What we hope is that we develop longevity, long-term projects that are driving revenue for a long period of time before.

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

Especially you know the analog product, analog product lifecycle is much longer than other product. And analog product design, especially standard analog product, okay? Those the design cycle is long and the life is even much longer. And therefore is still in the ramp up mode even after roll outside of the new product definition range. New product definition range is three years and a lot of standard analog product is still in the ramp mode after three years of the release production.

Shawn Harrison - Longbow Research - Analyst

Meaning your mix should see maybe an improved benefit for a longer duration just because of the growth in analog products?

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

Yes, correct.

Shawn Harrison - Longbow Research - Analyst

Okay. Thank you.

Operator

Kevin Rottinghaus, Cleveland Research.

Kevin Rottinghaus - Cleveland Research Company - Analyst

Thanks. Mark, it sounded like you just said you squeezed out some of the commodities this quarter. Just interpret that, are you talking about walking away from some of the lower margin business at this point?

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

We expanded to a certain point, so as we regain getting very high utilization rates that we take we kind of shed bad business or our lowest commodity level business. Clearly if we had unlimited capacity we could have grown more. But we didn't choose to do it, we thought it was better to move forward. But we always play in those markets to keep our utilization high in softer periods. So, yes, we can move in and out of that business for best operational improvement as we go.

Kevin Rottinghaus - Cleveland Research Company - Analyst

Okay. And Carl, with the CapEx that you're spending this year what kind of increase should we expect in capacity over 2008?

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

I think -- this is Dr. Lu -- this is a model still 12% of the revenue. And so move forward we're still looking at 12% of our revenue current year. And the reason this year we spent a little bit more was due to really two factors -- number one is we did add in a 6 inch line to support our SBR technology. And therefore we spent the money to go ahead, put 6 inch line in our 5 inch fab capacity locations. That's one.

Another thing is you know we bring in the product internally from subcon for our analog product. Those will not generate additional revenue but is consumed additional capacities. Therefore we spent a little bit more money this year to absorb those additional loading from analog product which was produced by subcon before. And that's why those two something, 3% more than our plan, 3% more than our plan was expanded this year. And this we through the M&A and we need additional capitals. We feel our business plan at this model still target at 12% revenue to be capital money.

Kevin Rottinghaus - Cleveland Research Company - Analyst

Is the 6 inch line -- is that online now or will it be by the end of the year or how far along are you in that project?

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

We got in the equipments in but it would not be a production until probably, our hope in the qualify, until end of year, but I think most likely will be first next year -- first-quarter next year. But the equipment is already in and that we are doing the qualification.

Kevin Rottinghaus - Cleveland Research Company - Analyst

Okay. What does that do to your incremental capacity in 2008? Is there a percentage increase that you could give us or something to help quantify how much more capacity you're adding in '08 versus (multiple speakers)?

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

This is a different line, this is the 6 inch line. Is the fall somewhere around 7,000 to 10,000 a month, and you know our 5 inch line is somewhere around -- I've said 53,000. And so you are talking about -- 5 inch versus 6 inch. So if you want to, I will tell you quickly by conversion rate then probably equipment to 15,000 to 20,000 5 inch equipment. It's about 7,000 to 10,000 wafer 6 inch, you convert to 5 inch it will be about say 15 to 20 5 inch equipment wafer versus our current 53,000.

Kevin Rottinghaus - Cleveland Research Company - Analyst

Okay.

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

That's all you can say, okay?

Kevin Rottinghaus - Cleveland Research Company - Analyst

Okay. One last one. On end markets, what are the expectations for 4Q? What do you expect to kind of lead growth in 4Q?

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

Oh, I thought we already gave the guidance.

Mark King - *Diodes, Inc.* - *SVP Sales & Marketing*

No, he was talking about in the end markets. I think particularly -- I mean obviously in this time of the year it's a computer and consumer market that will continue to move and in Asia.

Kevin Rottinghaus - *Cleveland Research Company* - *Analyst*

So the industrial, auto, comes probably down sequentially then?

Mark King - *Diodes, Inc.* - *SVP Sales & Marketing*

It's too hard to say. I can't get it down to the product, but they could be more flattish.

Kevin Rottinghaus - *Cleveland Research Company* - *Analyst*

Okay. And do you give percentage booked for the quarter and is there any change in that versus your guidance going into 3Q?

Mark King - *Diodes, Inc.* - *SVP Sales & Marketing*

I think it's right on in range with our guidance and what we said we were up kind of at parity.

Kevin Rottinghaus - *Cleveland Research Company* - *Analyst*

Thank you.

Operator

(OPERATOR INSTRUCTIONS). Steve Smigie, Raymond James.

Steve Smigie - *Raymond James* - *Analyst*

Thank you. I was hoping you could talk and little bit about what OpEx is going to look like as we go into 2008 just generally? You had a little bit of extra spending here and does it continue at this sort of higher percentage? As you get into '08 obviously there will be some revenue growth, but maybe even a dollar wise comment on '08? Thanks.

Carl Wertz - *Diodes, Inc.* - *CFO*

Steve, we've given the guidance for the fourth quarter, we don't go too far out beyond the next quarter. But again, as we grow revenues as a percentage of revenue we should still continue to see some improvement next year. This year we've ramped for a substantial growth, okay? So I think we should be seeing a percentage improvement as we move into 2008.

Steve Smigie - Raymond James - Analyst

Are you guys going to have to add another back end facility at some point? It seems like you're pretty highly utilized which is great, I think you've filled up most of the levels of that existing facility.

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

Well, if we need it we'll build another building. I should say I'm sorry - our landlord would build another building and then we'll start to occupy. The model we're doing is we talk to our landlord and they're building the facility building for us and then we occupy floor by floor whenever we need it. We do I have -- our landlord do have land next to our Shanghai facility is available to build the building for us if we need it. And I believe sometime in the next year we probably would need to get into the new building.

Steve Smigie - Raymond James - Analyst

Okay, great. Mark, I was hoping you could talk a little bit about the new Charge Pump product. It seems like that in general is a pretty competitive market. If I'm thinking about the same market it seems like your product is probably 20 to 30 and points lower in gross margin been some of the competitors there. I just wonder if I'm thinking about that correctly and what that ends up being for you?

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

We think -- you know, that's a portable market -- we think it -- when we talk about a margin expansion, mobility and portability being profit. So we think that in those markets is where our strength plays because most of the people that play in that market subcontract their packaging. And this is exactly the course part of our strategy, to be able to take higher value products and put it into packages that we sell all day long as commodity. So we think that we have an advantage in all of those markets to compete at a higher level that these other people do.

Steve Smigie - Raymond James - Analyst

Okay. And I guess -- so that would also be basically a handset product, correct? Probably more than just handsets, but at least handsets. So now you have the hall sensors plus this and are there other products targeted at the handset feature?

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

Yes, I think as I kind of mentioned that we're really kind of -- when we bought Anachip, it was more of a communications type line; it was very focused on LCD and so forth. And we had a great switching regulator line to serve those markets. But Diodes Inc. has always been a portable type company and we focus in those end equipment. So obviously in any acquisition we want to bring them to our core customer.

So as I mentioned in here, as we're focusing on a lot of our new development -- although we're still doing development in the switching regulator's for communication and for LCD TV, we're focusing a lot of our development into the portables market space where we play all day long, things for notebook and cell phone and so forth.

So I think -- the load switch that we released in the last or a week ago or whatever, that's another example of product moving in that direction. I think you'll see more and more of our product releases mixed with portable versus our traditional product style going forward.

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

If you look at our vision it's very clear, we want to use our innovative cost-effective packaging technology to serve at high-growth markets. So portable consumer is the area, the market area we want to target at using our packaging capability. So those kinds of products really exactly meet our vision.

Steve Smigie - Raymond James - Analyst

Okay, could you talk a little bit about the industrial opportunity for the super barrier rectifier product?

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

Yes, those it's pretty exciting. We have on here the nice thing about that product line, again, that lends itself all the way very up to high voltage and high-power all the way down to the smallest die you can put into the smallest device. The range in that product is good. We've seen a lot of applications in high-power and welding, we're seeing a lot of interest in solar, we're seeing a lot of industrial controls and so forth that have more and more interest, communication segment, so forth.

So I think that that is -- clearly it's a power product, so the industrial market is power supply where we really didn't play very much. So we're really focusing ourselves back into some of those markets going forward. It will give us good support for North America and European sales.

Steve Smigie - Raymond James - Analyst

Okay. And my last question is just on the Arrow relationship. Would you expect that to drive some higher gross margin for you because they're typically pretty profitable lines and how can that sort of help out growth? I know it takes a little while to get that stuff going, but how does that help the growth profile?

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

Yes, I don't know that you could actually say you're going to make more money off of Arrow. But I think what they're going to do is help us expand our customer base. And I think that they'll help us sell our specialty products in the Asian marketplace. And it's a good extension to our European agreement and it's a good extension to our North American agreement. And overall Arrow is a very, very important partner to Diodes Inc. globally. So I think that they'll give us some good sophistication on the semiconductor cell in some of the Asian market. And we're specifically interested in them and what they can do and they're programmed in mainland China which is quite -- they're doing quite a good job there.

Steve Smigie - Raymond James - Analyst

Okay, great. Thanks a lot.

Operator

Ramesh Misra, Collins Stewart.

Ramesh Misra - Collins Stewart - Analyst

Good morning, gentlemen. My first question was in regard to handsets. Congratulations, Mark, on that first Tier 1 win. In terms of all the products that you have catering to that market, can you give us an idea of your dollar content per handset in terms of your TAM?

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

No, I can't. We really don't try to get it. But we're seeing more and more opportunity within our discrete product line for our QFN devices. We're focusing a lot in the display area, whether it be directly to the handset manufacturer -- and clearly the hall sensor product area is a growth area for us in those markets. But the overall content, quite honestly they all use different types of product and the key thing is if we win any of them it should be good revenue growth.

Ramesh Misra - Collins Stewart - Analyst

Not to kind of press you too much on that, but can you at least provide some kind of a ballpark? Are we talking about overall less than \$1, are we talking \$2?

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

Clearly less than \$1.

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

That's our product -- remember our product, we don't have the product that high -- ASP.

Ramesh Misra - Collins Stewart - Analyst

Great, okay. In regards to FabTech, so with the addition of the 6 inch line and clearly it sounds like you're able to get most of it as used equipment at a very low price point. Any thoughts of beginning to transition some of that 5 inch -- rest of the 5 inch capacity over to 6 inch?

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

Well, if it's needed then we will, okay. But at this moment we do not plan. But we are already up to very high-capacity and then if our business continued to grow which for sure, then when we need it then we'll convert. We will convert some of our 5 inch to 6 inch. But today we do not have plans in the near future because by 18 -- like I said, 7,000 to 10,000 per month 6 inch, that's already a significant increase. Probably you are talking about -- probably you're talking about a 30% increase in one shot.

Ramesh Misra - Collins Stewart - Analyst

So, why did you not do that SBR line also in 5 inch rather than --

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

Like I said, because we have capacity instead of adding another 5 inch line we're to just go ahead and expand it into 6 inch now.

Ramesh Misra - Collins Stewart - Analyst

I see. So this capacity addition is not just for the SBR line, it would potentially before --?

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

No, what we said is we will use that 6 inch line for SBR, because SBR is a new technology we acquired about a year ago. And currently they're sourcing from other fabs outside, not from FabTech. And with that business continues growing and so we decided to put the SBR process into our own fab so we can in time when we need it we can continue to produce it ourselves in addition to sourcing from our subcon our foundry. And to bring the cost down -- and to bring the cost down because if you produce it -- you produce it yourself you can bring the cost down.

And then since we are the capacity, instead of letting them come in and then take the capacity of out of somewhere else. I just say, okay, we need to add some more capacity and it's not right right now to put the 5 inch capacity. So we say, okay, if we want to do it go ahead, install 6 inch capacity for SBR.

Now like I say, if our other -- our discrete business continued to grow and if someday we need more capacity -- if -- then we'll buy another 6 inch line or another -- 6 inch -- yes, 6 inch line and put in there. For us it's just you expand it when you need it, no sense to put the capacity there if you cannot fully utilize it.

Ramesh Misra - Collins Stewart - Analyst

Okay. Now and regards to CapEx, recognizing that you're capacity constrained, especially in the Shanghai facility, and the fact that you actually spent some money on this new equipment for FabTech, why not really let loose on your CapEx? I know it's up to 14%, but clearly you're operating in a capacity constrained mode. What are your thoughts in that regard?

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

Well, our business model always, adding the capacity fully loaded with commodity and then squeeze the commodity used for the really value added product. Then after you fully utilize it you add more capacity and then you'll go to the commodity and then squeeze the commodity and use them for value added. That's the way we have been operating.

So I need to be careful of just adding so much capacity and then you go after nothing but the very low profit and low gross margin product. That really is not the right way to use our cash. And therefore we do what we're doing and we try to limit it to 12% and that's just the way our business model goes. Now, yes, sure, we can just add in a lot of capital, but I don't - think analysts would like me to do that.

Ramesh Misra - Collins Stewart - Analyst

Okay. Now in the past you've hesitated to provide a breakdown of discrete versus analog. But let me ask you in the sense of when you had acquired Anachip -- or you had over time anticipated to introduce synergistic products so basically products with sophisticated packaging which included an analog components and a discrete component. Can you give us an idea of what the timeline on that is or at what pace is that happening?

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

I think we already through the mutual sales, like handhels -- I won't name the name but some of the cell phone companies we originally have very limited stuff in there. But with analog sensor product we can start again to some cell phone companies and that domestically brings us the discrete and other analog product into the market -- into that customer.

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

At the first stage we've really been mixing the integration of adding the two products to the customer, getting back to the application-specific devices. To be honest, we've had quite a few opportunities and we viewed a mixing analog technology and discrete technology in the same package. And it's moving along, but I think really getting the customer acceptance of that maybe another year out.

But as I mention this, the device for the cell phone, that was actually an [ASMIC] device we did for a cell phone display where we put complementary pair low threshold MOSFETs in two different SBR chips into one circuit and supplied it. So we're still -- our platform, our [ASMIC] platform is being pushed quite high. We haven't seen as many opportunities to put analog with discrete at this point yet, but I think it's starting to become more interesting to the competitor -- I mean to the customer as size further becomes a constraint.

Ramesh Misra - Collins Stewart - Analyst

Okay, got it. And then just finally, on R&D, clearly you're moving along your goal of nudging that up higher. Do you anticipate R&D at any time I don't know in the next year, two years or whatever to cross the 5% threshold or do you still expect it to be kind of lingering around the 3% mark, maybe 4% mark?

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

My business model -- I think we have been talking about that, right? The discrete is somewhere around 3%. And if you look at analog it's probably somewhere around 5. And then when you start to combine together we are running about 3.5%. And this you can significantly mix between the revenues or this percent won't be changed that much. Now if analog grows much, much faster than discrete, then that percent will go up. But I think somewhere around 3.5 and then you gradually and going up some. But I will not see 5% for a long, long time because I've seen the 5% probably will be the R&D model for analog.

Ramesh Misra - Collins Stewart - Analyst

Okay. On the acquisition front, I know you've said in the past that you expect it to be accretive almost right away. Can you kind of give us an update as to what's happening over there? And are you looking primarily at new products, new markets or new technologies?

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

Okay for R&D, M&A, I don't think I talk about to be accretive immediately -- I always say to be accretive within the first 12 months, within the first year, okay? So I need to correct that. That's what I've been saying. It will need to be accretive within the first 12 months, okay. Number two, so far I do give some term sheets out, but unfortunately most of the companies, they all view their -- they're stuck with undervalue, who won't think that, right?

So most of the company I've tried to working with, they all would tell me they're stuck and undervalued and I need to give them a much higher premium. And so I cannot get -- so far get anyone who is willing to sell to us yet. That's where -- it's not we are not working on it. We are actually very aggressively working on different opportunities and I give different term sheets out. It's just nobody wants to accept my term sheet yet, okay?

Then you're talking about -- we've really -- it's not just look at -- and I think I mentioned that before. Depending on where the company is located and what kind of synergy we can extract from the company, then we try to put the value and then from there go on for it, okay? It's we're looking at different companies, some in Asia, some in Europe, some in U.S. And different companies bring us different synergies.

Ramesh Misra - Collins Stewart - Analyst

Okay, all right thanks, Dr. Lu. Thanks Mark and Carl.

Operator

Christopher Longiaru, Sidoti.

Christopher Longiaru - Sidoti & Company - Analyst

Hi, gentlemen. A lot of my questions have been answered, I just have a couple. First of all, it sounds like what you were saying was you would have had to add capacity no matter what, whether it was 5 inches or 6 inches so you just went with the 6 inches. Am I correct in saying that?

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

Yes.

Christopher Longiaru - Sidoti & Company - Analyst

Okay. The other thing is that it sounds like you said that the movement of the analog product line is brought in-house, whatever you're going to bring and is done. So I'm assuming the uptick in margins you said 60 basis points to 110, that's really just from product mix, is that correct?

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

No, no, no. It would continue, and, yes, some of them from product mix but some of them was still from continued improvement. Don't forget, we don't have any experience to handle like testing, I'm talking about analog testing, analog manufacturing inside our SKE, okay? So it will be -- you're going to have more yield improvement and more of the productivity improvement. And so it will continue. Like I said, this is the first wave. You move in, you save some money, but that's not -- you won't be exactly the same as the subcon since from the day one. And give us some time, we'll continue to improve.

Christopher Longiaru - Sidoti & Company - Analyst

Okay, got it. Did you give a share count, Carl, for the fourth quarter?

Carl Wertz - Diodes, Inc. - CFO

Share count?

Christopher Longiaru - Sidoti & Company - Analyst

Yes.

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

Share count, yes.

Carl Wertz - Diodes, Inc. - CFO

Approximately 43.6 million shares, I believe, somewhere in that range.

Christopher Longiaru - Sidoti & Company - Analyst

43.6.

Carl Wertz - Diodes, Inc. - CFO

43.3.

Christopher Longiaru - Sidoti & Company - Analyst

43.3. Thanks, guys.

Operator

Harsh Kumar, Morgan Keegan.

Harsh Kumar - Morgan Keegan - Analyst

Dr. Lu, I think in the comments that you had said that you would expect percentage improvements in your operating expense, and then I think somewhere later in an answer to a question, you had said that we should be thinking about R&D at 3.5%. It's already at, I believe, 3.3%. Should we be, therefore, turning R&D up because it obviously doesn't change that much as you hire people, perhaps go up as opposed to come down? But then we should be thinking about maybe OpEx coming down as a percentage of sales; is that the correct way to think about it, Carl and Dr. Lu?

Carl Wertz - *Diodes, Inc.* - CFO

That is a pretty fair estimation. SG&A should be coming down as a percent. R&D, Dr. Lu mentioned, will probably be in the 3%, maybe 4% range -- somewhere in the mid 3s.

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

mid 3.

Harsh Kumar - *Morgan Keegan* - Analyst

Fair enough. And then kind of diving into that coming from the top, gross margin, how should we -- now that everything is done, you've got analog in-house and you're relatively stable from a go-forward basis, how should we think about your longer-term gross margin maybe a year out, maybe a year and a half out? And then also, how should we think about your financial model?

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

Okay, I think due to the product mix, you should continue to see some improvement, okay? Especially second half of next year when the market will be up again and the mix will be have a change, then you'll probably see continued improvement.

Harsh Kumar - *Morgan Keegan* - Analyst

In gross margin, Dr. Lu?

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

Yes, you are talking about gross margin.

Harsh Kumar - *Morgan Keegan* - Analyst

Okay, yes, yes.

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

Yes.

Harsh Kumar - *Morgan Keegan* - Analyst

And then I guess pretty fair to assume that your OpEx should go back to maybe 12% -- the 12.3% range; is that correct? I'm sorry, the SG&A.

Carl Wertz - *Diodes, Inc.* - CFO

We didn't give a percentage. We're in the high 13, which still compared to the industry and peers, that is still a relatively low number, a lower number.

Harsh Kumar - *Morgan Keegan* - Analyst

Okay, fair enough. Then lastly, maybe a question for Mark and Dr. Lu. A lot of talk in the consumer space and maybe even more so in the computing space about potential double ordering. Have you seen any of that, or qualitatively, how would you describe your customers? Are they fairly optimistic about things being somewhat normal?

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

You know our lead time is not that long. Our customers really don't need to double order, okay? And since we really never put our customer in our location, there's no reason for them to double order.

Harsh Kumar - *Morgan Keegan* - *Analyst*

Fair enough. Thank you, that is very helpful.

Operator

Steve Smigie, Raymond James.

Steve Smigie - *Raymond James* - *Analyst*

Great, thank you. As far as Q1 typical seasonality, I know it's typically down. Do you guys view your typical seasonality for Q1 as sort of like a down, say, 2%, or do you think seasonality is more like a down 4%?

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

Well, I don't have that visibility to say 2% or 4%. We don't have that kind of visibility in that far away. Like I mentioned to most of the analysts before, our lead time is so short and we react to the market actually simultaneously. And therefore, it is very difficult for us to see our market too far away.

Today we can see the fourth quarter. We really don't have visibility in the first quarter. But like I mentioned to you, the semiconductor business, typically 1Q, is the low quarters.

Steve Smigie - *Raymond James* - *Analyst*

Okay. In terms of the Q4 revenue guidance, Mark sort of answered this question earlier, but would you say there is some element of being conservative in terms of revenue guidance there?

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

I don't think we'll give the guidance on conservative. The best we know today is 106 to 109. Now, the market could be changed. Today the market is so unstable. It could be one day jump up, it could be one day going down, okay? So very difficult for us to nail down what will be the number. See, while we are running on the long lead time, we have the backlog. Then we can -- by looking at backlog, we know exactly what we -- but I mentioned that to some of the analysts before. We don't really go by the backlog. So we react to the market almost simultaneous, and that is why we have difficult to nail down the exact number.

Steve Smigie - *Raymond James* - *Analyst*

Okay. And last question was, do you now or do you anticipate doing any chip-scale packaging?

Mark King - *Diodes, Inc.* - SVP Sales & Marketing

You know, we've invested a lot this year in our DFN QFN package, which is kind of where we see the marketplace or where we want to be now. Clearly, there is chip-scale opportunities and there is some products and packages that are chip-scale like that we're working on. So our goal will be to keep pace with the industry with the smallest and thinnest devices out there.

Steve Smigie - *Raymond James* - Analyst

Okay, thanks a lot.

Operator

Ladies and gentlemen, we have exhausted the time set aside for Q&A. I would now like to turn the call back over to Mr. Carl Wertz for closing remarks.

Carl Wertz - *Diodes, Inc.* - CFO

Thank you. I'd like to make one additional comment before we conclude. We are scheduled to participate in several financial conferences in the coming months. Dr. Lu and myself will be participating and presenting at the AeA Monterey next Monday and Tuesday. Management will be presenting at the UBS Global Technology Conference in New York November 14th, followed by the Thomas Weisel Power Conference in New York on November 15th. December 12th, we will be participating in the Raymond James Conference in New York.

And then moving into the first quarter on January 8th, we will be participating at the Needham's Tenth Annual Growth Conference in New York. And January 22nd, we will be participating in Sidoti & Company's Fifth Annual Conference in Palm Beach, Florida. So with that, I believe we'd like to conclude, and thank you very much for your time and interest.

Operator

Thank you for your participation in today's conference. This concludes the presentation. You may now disconnect. Good day.
