

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

May 2, 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 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))
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Item 2.02 **Results of Operations and Financial Condition**

On May 2, 2007, Diodes Incorporated issued a press release announcing first quarter 2007 earnings. A copy of the press release is attached as Exhibit 99.1.

On May 2, 2007, Diodes Incorporated hosted a conference call to discuss its first quarter 2007 results. A copy of the transcript is attached as Exhibit 99.2.

During the conference call on May 2, 2007, 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 May 2, 2007

Exhibit 99.2 - Conference call transcript dated May 2, 2007

Exhibit 99.3 - Question and answer transcript dated May 2, 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.

DIODES INCORPORATED

Dated: May 3, 2007

By: /s/ Carl C. Wertz

CARL C. WERTZ
Chief Financial Officer

EXHIBIT INDEX

Exhibit Number	Description
99.1	Press Release dated May 2, 2007
99.2	Conference call transcript dated May 2, 2007
99.3	Question and answer transcript dated May 2, 2007



FOR IMMEDIATE RELEASE

Diodes Incorporated Reports First Quarter Results

· Revenues of \$92.0 million, up 25%

· Net income of \$13.0 million, up 40%

Dallas, Texas - May 2, 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 solid financial results for the first quarter ending March 31, 2007.

First Quarter Highlights:

- Revenues increased 25.0% YOY to \$92.0 million
- Gross profit increased 21.9% YOY \$29.5 million
- Net income increased 39.7% YOY to \$13.0 million, or \$0.47 per fully diluted share, up from \$9.3 million, or \$0.34 per share, in the first quarter of 2006
- Adjusted net income increased 32.7% YOY to \$14.2 million or \$0.50 per share

Revenues for the first quarter of 2007 increased 25.0% to \$92.0 million, compared to the \$73.6 million reported in the year-ago quarter. Sequentially, revenues were 2.6% lower than the fourth quarter of 2006 as a 2% increase in units sold was offset by an overall 4% price decrease. Net income increased 39.7% year-over-year to \$13.0 million, or \$0.47 per fully diluted share, up from \$9.3 million, or \$0.34 per share, in the first quarter of 2006. Adjusted net income (excluding SFAS 123R stock option expense) for the first quarter of 2007 was \$14.2 million or \$0.50 per share, an increase of 32.7% over the \$10.7 million or \$0.38 reported in the year-ago quarter.

Commenting on the quarter, Dr. Keh-Shew Lu, President and CEO of Diodes Incorporated, said, "We are pleased with the progress we made during the first quarter of 2007 as Diodes continued to outperform the industry despite the weakness in Asia. We are also pleased with the execution of our analog strategy, the integration of our new Super Barrier Rectifier (SBR^â) product line, the introduction of several innovative new products, and the expansion of our distribution in Europe, positioning Diodes to continue to deliver profitable growth in the quarters and years ahead. In addition, with a strong balance sheet, we are actively evaluating corporate growth initiatives, including acquisitions, to accelerate our profitable growth."

End-Markets

"Our sequential increase in the consumer electronics segment was offset by weak seasonal demand in the computer and industrial segments, as well as significant price pressure and an unfavorable commodity-based product mix. Design activity, however, remained brisk and lead times have stabilized. During the quarter we completed the integration of our SBR^â product line into our sales channels and are seeing significant opportunities to expand sales into the Asia power market going forward," commented Mark King, Sr. Vice President of Sales and Marketing.

“Asia revenue was down 7% sequentially and contributed 72% of our first quarter sales, with end-demand in core end-equipment categories such as digital media players, notebook computers and LCD screens down in the quarter. North American sales were up 3.4% sequentially and accounted for 24% of sales driven by strong OEM demand, with distributor POS up slightly. We saw strong sequential growth in Europe up 63% from the fourth quarter of 2006 and contributing 4.5% of total sales, as we continued to make progress with new design wins, initial orders and expanded customer relationships,” said Mr. King. “Our market share remained at the record high levels achieved in the fourth quarter of 2006 across all regions during the first quarter for our discrete products, driven by a broad range of end equipment categories, including digital audio players, set-top boxes, LCD monitors, notebooks and wireless LAN.”

Design Wins and New Products

“Design activity remained strong across all regions in the first quarter with multiple wins at over 65 accounts globally. There is strong interest in our SBR^â technology (that uses a MOS cellular design to replace standard traditional Schottky or PN junction diodes) with design wins in 7 accounts during the quarter for end-equipments ranging from communication to LCD television,” Mr. King commented. “Diodes also had important wins at key OEM accounts, including switchers and LDO wins in a satellite set-top box, a game console and a DSL modem. On the discrete side we experienced strong interest on our DFN packages, our recently announced low threshold MOSFET line, PowerDITM and array platforms for digital media devices, mobile handsets and LCD monitors.”

During the quarter Diodes launched a number of important innovative new products including the AP1580, its latest generation 300KHz, 3A Asynchronous PWM Buck Converter. The AP1580 was designed to meet the growing demand for higher efficiencies and smaller form factor packaging required in today’s power management designs. The AP1580 with its wide input voltage range of 10V to 40V, and adjustable output voltage from 0.8V to 36V is well suited to support a variety of applications including LCD Monitors & TVs, Plasma Display Panels (PDP), Power Adaptors and Battery Chargers as well as high end Networking and Telecommunication Equipment.

In addition, Diodes also introduced the SBR^â product family packaged in Diodes’ proprietary high performance PowerDITM123. Combined with PowerDITM123’s patented flat lead-frame package, the 3A SBR^â product family is the first in class to combine both highly efficient wafer technologies with a high performance power dissipation package. These features provide unsurpassed efficiency, superior reliability, and a wide safe operating area in applications like disk drives, high temperature automotive applications, DC/DC converters, and in small portable electronics, such as mobile phones, digital audio players and digital cameras.

And finally, Diodes introduced a new series of low threshold voltage MOSFETs, optimized for low voltage applications and designed for simple integration into a wide variety of low voltage circuits common to portable and handheld end products. Subsequent to the end of the first quarter, Diodes announced a broad expansion of its ultra-miniature DFN1006 package product family, including an industry leading 0.5 ampere SBR^â targeted at small electronic appliances, and a new 300-mA fast transient response LDO designed for simple integration into a wide variety of low-power applications such as mobile phones, digital media players.

Sales of new products for the quarter amounted to 31.9% of total sales, compared to 23.3% a year ago, and this growth includes the contribution of the Anachip acquisition as well as the SBR^â technology. New product revenue was driven by products in sub-miniature array, QFN, PowerDITM123, PowerDITM5 and Schottky platforms on the discrete side, as well as the analog product lines. Diodes released 48 products covering 12 product families in the first quarter of 2007.

Additional Financial Highlights

Gross profit for the first quarter of 2007 increased 21.9% compared to the same period last year to \$29.5 million, or 32.1% of revenue, compared to 32.9% in the prior-year quarter, and 33.4% in the fourth quarter of 2006. While sequential unit sales increased 2% and analog margin increased approximately 300 basis points, overall gross margin was affected by a 6% decrease in discrete selling prices.

For the quarter, SG&A expenses were at 13.8% of revenue or \$12.7 million, compared to 15.3% of revenue or \$11.3 million, in the comparable quarter last year. Included in first quarter 2007 SG&A was \$1.3 million in non-cash, SFAS 123R share-based compensation.

Operating income for the first quarter increased 28.2% to \$13.9 million, or 15.1% of sales, compared to \$10.8 million or 14.7% of sales for the first quarter of 2006.

Investment in research and development grew to \$2.9 million, or 3.2% of revenue, compared to \$2.0 million, or 2.7% of sales, in the first quarter of 2006. The R&D increase was primarily due to additional R&D initiatives as well the APD acquisition.

First quarter 2007 effective tax rate of 16.5% reflects additional tax planning efforts aimed at lower planned foreign earnings repatriations in 2007.

Capital expenditures for the current quarter were \$12.4 million or 13.4% of revenue, slightly ahead of the 10-12% full-year estimate. Depreciation expense for the first quarter of 2007 was \$6.3 million.

At March 31, 2007, Diodes had \$335.3 million in total cash and short-term investments, \$407.1 million in working capital, \$236.7 million in long-term debt (including the convertible note), and unused and available credit facilities of \$50.5 million.

Business Outlook

“With a book-to-bill ratio slightly above one, we currently expect record second quarter revenue with sequential growth in the 2 to 5% range, with comparable gross profit improvement. 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 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 second quarter conference call for all interested persons at 2:00 p.m. Pacific Time (5:00 p.m. Eastern Time) on May 2nd, 2007 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. 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) 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. 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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or

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e-mail: crocker.coulson@ccgir.com

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.

CONSOLIDATED CONDENSED INCOME STATEMENT and BALANCE SHEET FOLLOWS

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

	Three Months Ended	
	March 31,	
	2006	2007
	(unaudited)	(unaudited)
Net sales	\$ 73,589	\$ 92,020
Cost of goods sold	49,375	62,496
Gross profit	24,214	29,524
Selling, general and administrative expenses	11,283	12,678
Research and development expenses	1,966	2,944
Loss on disposal of fixed assets	120	-
Total operating expenses	13,370	15,623
Income from operations	10,845	13,901
Other income (expense)		
Interest income	734	4,035
Interest expense	(140)	(1,406)
Other	(207)	(448)
	387	2,182
Income before income taxes and minority interest	11,231	16,082
Income tax provision	(1,689)	(2,658)
Income before minority interest	9,542	13,424
Minority interest in joint venture earnings	(230)	(415)
Net income	<u>\$ 9,312</u>	<u>\$ 13,009</u>
Earnings per share		
Basic	\$ 0.37	\$ 0.50
Diluted	<u>\$ 0.34</u>	<u>\$ 0.47</u>
Number of shares used in computation		
Basic	25,349	26,027
Diluted	<u>27,679</u>	<u>27,851</u>

DIODES INCORPORATED AND SUBSIDIARIES
CONSOLIDATED RECONCILIATION OF NET INCOME TO ADJUSTED NET INCOME
(in thousands, except per share data)

	Three Months Ended	
	March 31,	
	2006	2007
	(unaudited)	(unaudited)
Net income	\$ 9,312	\$ 13,009
Adjustments to reconcile net income to adjusted net income:		
Stock option expense included in cost of goods sold:	133	82
Stock option expense included in selling and general administrative expenses:	1,316	1,303
Stock option expense included in research and development expenses:	147	124
Total stock option expense	1,596	1,509
Income tax benefit related to stock option expense	205	333
Adjusted net income	\$ 10,703	\$ 14,185
Diluted shares used in computing earnings per share	27,679	27,851
Incremental shares considered to be outstanding:	770	633
Adjusted diluted shares used in computing Adjusted earnings per share	<u>28,449</u>	<u>28,484</u>
Adjusted earnings per share		
Basic	\$ 0.42	\$ 0.55
Diluted	<u>\$ 0.38</u>	<u>\$ 0.50</u>

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*):

	Three Months Ended	
	March 31,	
	2006	2007
Net Income	\$ 9,312	\$ 13,009
Plus:		
Interest expense, net	(594)	(2,629)
Income tax provision	1,689	2,658
Depreciation and amortization	4,673	6,291
EBITDA	\$ 15,080	\$ 19,329

DIODES INCORPORATED AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEET

ASSETS
(in thousands, except share data)

	December 31, 2006	March 31, 2007 (unaudited)
CURRENT ASSETS		
Cash and cash equivalents	\$ 48,888	\$ 40,538
Short-term investments	291,008	294,779
Total cash and short-term investments	339,896	335,317
Accounts receivable		
Customers	72,175	76,871
Related parties	6,147	6,210
	78,322	83,081
Less: Allowance for doubtful receivables	(617)	(660)
	77,705	82,421
Inventories	48,202	48,821
Deferred income taxes, current	4,650	3,573
Prepaid expenses and other current assets	8,393	9,241
Total current assets	478,846	479,373
PROPERTY, PLANT AND EQUIPMENT , at cost, net of accumulated depreciation and amortization	95,469	101,552
DEFERRED INCOME TAXES , non current	5,428	7,104
OTHER ASSETS		
Equity investment	-	-
Intangible assets	10,669	10,232
Goodwill	25,030	24,735
Other	6,697	6,778
TOTAL ASSETS	\$ 622,139	\$ 629,774

DIODES INCORPORATED AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEET

LIABILITIES AND STOCKHOLDERS' EQUITY
(in thousands, except share data)

	December 31, 2006	March 31, 2007 (unaudited)
CURRENT LIABILITIES		
Line of credit	\$ -	\$ -
Accounts payable		
Trade	40,030	34,298
Related parties	12,120	12,308
Accrued liabilities	24,966	19,455
Income tax payable	3,433	3,570
Long-term debt, current portion	2,802	2,494
Capital lease obligations, current portion	141	142
	83,492	72,267
LONG-TERM DEBT, net of current portion		
2.25% convertible senior notes due 2026	230,000	230,000
Others	7,115	6,717
CAPITAL LEASE OBLIGATIONS, net of current portion		
	1,477	1,426
OTHER LONG-TERM LIABILITIES		
	1,101	4,932
MINORITY INTEREST IN JOINT VENTURE		
	4,787	5,202
	327,972	320,544
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; 25,961,267 and 26,082,860 shares issued at December 31, 2006 and March 31, 2007, respectively	17,308	17,389
Additional paid-in capital	113,449	117,823
Retained earnings	162,802	173,856
Accumulated other comprehensive gain	608	162
	294,167	309,230
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 622,139	\$ 629,774

Diodes First Quarter 2007 Conference Call Participants:
Dr. Keh-Shew Lu, Carl Wertz, Mark King and Richard White
Ver# 2G

Introduction: Crocker Coulson, *CCG*

Good afternoon and welcome to Diodes' first quarter 2007 earnings conference call.

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

In addition, any projections as to the Company's future performance represent management's estimates as of **today May 2, 2007**. 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.

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, Inc.

Thank you, Crocker.

Welcome everyone, and thank you for joining us today.

We are pleased to report another quarter of solid results, with Diodes continuing to out-perform the overall industry.

A few of our accomplishments during the first quarter we:

1st - moved forward on our analog strategy

2nd -launched a number of new innovative products,

and 3rd - delivered solid results for our shareholders.

First quarter 2007 highlights include the following results:

- Revenues grew 25% year over year to \$92 million dollars
- Gross profit increased 22% year over year to \$29.5 million dollars
- Net income grew 40% year over year to \$13 million dollars, or \$0.47 cents per share

Diodes continued to outperform the overall market and to take share in the application specific standard discrete and analog space, despite a more difficult industry environment as a result of weakness in the computer and industrial segments this quarter.

Diodes' performance is a result of our ability to combine customer-focused innovation in the discrete and standard analog markets with state-of-the-art, cost efficient packaging to deliver greater value to our customers, while at the same time delivering positive results for our shareholders.

During the quarter we completed the integration of the Super Barrier Rectifier, we call SBR^â technology, into our sales channels and launched the SBR^â product family packaged in Diodes' proprietary high-performance PowerDITM123, and in the Ultra-Miniature DFN package, the first two of many planned SBR^â product introductions.

These offerings provide breakthrough performance not attainable with traditional Schottky technology. We are very pleased with our customer's acceptance of our SBR^â product family, with several design wins in the quarter and many more expected in the quarters to come.

These product launches are a good example of Diodes' effective research and development for next-generation technologies designed to meet the growing demand for higher efficiencies and smaller form factor in the fastest growing end markets.

Finally, Diodes ended the quarter with \$335 million dollars in cash and short term investments, which give us enough financial flexibility to evaluate additional opportunities to accelerate our profitable growth. We are actively evaluating acquisition candidates within our targeted market segments that fit our M&A criteria.

As we enter the second quarter, we expect to continue to build on our strengths as we benefit from synergies between our discrete and adjacent analog products and continue to focus on customer centric innovation and efficient manufacturing to deliver profitable growth.

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

1Q 2007 Financials: Carl Wertz

Thanks, Dr. Lu, and good afternoon everyone.

As Dr. Lu mentioned, in the first quarter Diodes continued to outperform the industry, and to make progress executing our strategy. Despite a more challenging market environment in the first quarter of 2007, revenue and profits increased significantly on a year-over-year basis.

- **Revenues** for the first quarter were \$92 million, an increase of 25% from the first quarter of 2006. On a sequential basis our revenues declined 2.6%. New product sales grew to 32% of revenue, compared to 23% just one year ago.
- **Gross profit** for the first quarter of 2007 increased 21.9% compared to the same period last year, to \$29.5 million, or 32.1% of revenue, compared to 32.9% in the prior-year quarter, and 33.4% in the fourth quarter of 2006. While sequential unit sales increased 2% and analog margin increased approximately 300 basis points, overall gross margin was affected by a 6% decrease in discrete selling prices.

Over the course of 2007, we see opportunities for margin expansion as we continue to transition from outsourced production to our state-of-the-art packaging facilities, and as we continue to introduce new products.

- **Selling, General & Administrative** expenses for the quarter improved to 13.8% of revenue or \$12.7 million, compared to 15.3% of revenue or \$11.3 million, in the comparable quarter last year. Included in first quarter 2007 SG&A was \$1.3 million in non-cash, FAS-123R share-based compensation, equal to the first quarter of 2006. In the earnings release we have included a table to reconcile the impact of share-based compensation to our adjusted net income.
 - **Research and development** investment in the quarter was \$2.9 million, or 3.2% of revenue, compared to \$2 million or 2.7% of revenue, in the first quarter of 2006. The R&D increase was primarily due to additional R&D initiatives, as well as the APD acquisition in the 4th quarter which provided the SBR[®] technology. We continue to enhance our research and development capabilities to support our broader market focus and profitable growth objectives.
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- **EBITDA** for the quarter was \$19.3 million, compared to \$15.1 million last year.
- Our effective **income tax** rate in the first quarter was 16.5%, compared to 20.5% for the previous quarter, and 15.5% for the same period last year. The lower effective tax rate reflects additional tax planning efforts aimed at improving our tax rate with lower planned foreign earnings repatriations in 2007. Going forward, we currently anticipate our consolidated tax rate to be comparable to 1Q07.
- **Net income** increased 39.7% year-over-year to \$13.0 million, or \$0.47 per share, up from \$9.3 million, or \$0.34 per share, in the first quarter of 2006. Adjusted net income excludes \$1.2 million, net of tax, FAS-123R stock option expense and was \$14.2 million or \$0.50 per share.
- **Cash flow from operations** for the quarter was \$6.5 million.
- Turning to the **balance sheet**, at the end of the quarter we had \$335 million in total cash and short-term investments, \$407 million in working capital, and \$237 million in long-term term debt including the convertible bond.
- Our total debt to equity ratio was 1.0, while our total debt to assets was 51%.
- **Inventories** ended the first quarter at \$49 million, with inventory days at 73 compared to 69 days the previous quarter.
- **Accounts receivable days** were 81 days in the first quarter compared to 74 days in the prior quarter. We continue to experience some pressure to extend terms, especially in Asia and Europe.
- **Capital expenditures** for the current quarter were \$12.4 million or 13.4% of revenue, slightly ahead of our 10 to 12% full-year estimate. Depreciation expense for the first quarter of 2007 was \$6.3 million.

As to our Outlook...

With a book-to-bill ratio slightly above one, we expect to achieve record second quarter revenue with sequential growth in the 2 to 5% range, with comparable gross profit improvement.

In summary, despite near term industry headwinds, we remain confident that Diodes' focus on the application specific standard products within the broad discrete and analog market, while leveraging our cost efficient manufacturing base, position us well to continue to deliver profitable growth in the quarters and years ahead.

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 on the direction of the general marketplace.

Markets and Growth Strategies - Mark King

Thanks, Carl and good afternoon.

During Q1 we made significant progress along our new product road map in the discrete, analog and power management categories. Sales of new products reached 32% of total sales, driven by products in our subminiature array, QFN, PowerDITM, SBR[®] and Schottky platforms on the discrete side, and our analog product lines in general.

We launched 48 products from 12 product families in the quarter. Earlier in the quarter, we launched an SBR[®] product family in Diodes' proprietary high performance PowerDITM123 package, marking the industry's first 3 Ampere SBR[®] rectifiers to be offered in a high power density package. In Q1 we also launched the AP1580, our next generation, high-current, high-voltage PWM Buck Converter. This line is targeted at important high volume electronic devices like LCD and plasma TVs. We also launched a new series of low threshold MOSFETs, optimized for low-voltage applications common to ultra-miniature electronic devices including mobile phones and digital media players.

More recently, we announced the introduction of an industry leading 0.5 ampere SBR[®] in our ultra-miniature DFN-1006 package. The SBR offers exceptionally low forward-voltage drop combined with the lowest reverse leakage current characteristics available on the market. With its extremely compact form factor occupying only 0.6 square millimeters of PCB area, Diodes' DFN package has received strong customer interest prompting us to expedite a broad general DFN product expansion. Finally, we launched a new 300-mA fast transient response LDO designed for simple integration into a wide variety of low-power applications including Bluetooth headsets, mobile phones, and digital media players.

During the quarter, we fully integrated the recently acquired SBR[®] technology into Diodes' sales channel, and qualified and converted 100% of the product line to the Diodes brand. The move to internal manufacturing of small outline packages is complete, and we began our first internal assembly builds of the DPAK and TO-220 power packages during Q1. Customer interest for both standard and customized devices has been exceptionally strong, and we expect a fast ramp of our SBR[®] line, with a flow of new innovative products expected to be launched in the coming quarters.

Now for Geographic Breakout...

Market share for Diodes' products remained at all time highs in the first quarter.

Asia revenue declined sequentially driven by seasonally slow demand levels in the consumer and computer segments, and contributed 71.5% of our first quarter sales. As expected, core end equipment categories such as digital audio players, notebook computers, motherboard and LCD TVs were down in the quarter affecting both top-line revenue and overall product mix. Units were flat quarter over quarter, while ASP was down 7% in Asia.

North America

North America revenue was slightly higher than Q4, driven by set-top-box, and generally stable demand across the board. A significant portion of the set-top box business was a result of new analog design wins from previous quarters.

Design activity in the quarter was high with 132 new part qualifications at 45 customers, including 12 analog designs. We saw strong interest in our DFN, and PowerDI[™] products as well as increased interest in our linear regulator lines resulting in several significant design wins. We also saw continued strong interest from the power engineering community in our newly acquired SBR[®] technology with several design wins expected in Q2.

North America distributor POS was up slightly with POP and inventory flat compared to Q4.

Wafer unit volume was up 6.4% sequentially in the quarter, but ASPs were down 3.5% sequentially. ASPs for discrete components were down 6% in Q1 compared to the prior quarter.

In Europe...

Diodes gained significant momentum during Q1, with sales up 62% sequentially, and with OEM sales up 20% and distributor point of sales up 16% over Q4, both record levels. Europe accounted for 4.5% of our sales in the quarter.

Our opportunities in Europe continue to expand with design wins, initial orders, and expanded contracts at more than 20 accounts in Q1, including two significant SBR[®] wins that will result in Q2 orders, 7 new analog design wins and 5 hall sensor wins. We expect our positive momentum should continue in Q2 and beyond.

Moving to Market Segments...

For the first quarter, our segment breakout was: 38% consumer, 35% computer and peripherals, 15% telecom, 10% industrial, and 2% automotive.

Now I'll go into Design Wins

Design activity was strong across all regions. We had multiple design wins at over 65 accounts globally. The activity around our new SBR[®] technology has been tremendous, with design wins at 7 accounts globally for end-use applications in communication and LCD TV, among others. More importantly, the in-process design volume is quite high, and initial customer input has highlighted many new product opportunities for standard products as well as customer specific devices.

Traction on standard analog design wins is steadily ramping up in North America and Europe. In Q1 we began moving this product line into our channels in these regions, and have seen broad customer interest. We also had wins in key OEM accounts with LDO and switcher wins in satellite set-top box, an upcoming games console, and in DSL modem.

In Asia, standard analog design activity was strong in LCD TV and motherboards, and we have seen strong interest in our Omni-polar hall sensor platform with key design wins in 2 cell phone designs and a new notebook design.

On the discrete side, we continued to see robust interest in our DFN leadless packages especially our new 0.4mil thick devices, our recently announced low-threshold MOSFET line, PowerDI™, and Array platforms. We had significant wins in digital audio players, mobile handset, notebook, and LCD module.

The synergy between the analog and discrete product lines continues to present opportunities to expand and deepen our relationship with our customer base.

We expect the design activity on our newly acquired Super Barrier Rectifier product line to be very strong in the coming quarter. We will also be working with customers to outline and develop application or customer specific requirements that can be exploited with this technology.

In Summary...

We are very pleased with our progress in the first quarter. While the industry environment has become more challenging in recent months, we feel confident that Diodes is well positioned to continue to expand our share of the market, realize cost and cross-selling synergies from our acquisitions, and accelerate the pace of product innovation through our expanded global R&D platform.

As we enter the second quarter, we will continue to leverage our core competencies around manufacturing excellence and customer centric innovation to expand our position with our customers on the next generation of end devices. We feel confident we are in the right segments and have the right product focus to drive organic growth above the overall market. In addition, we are evaluating acquisition opportunities to accelerate that growth, by expanding our addressable markets, enhancing our product breadth, and expanding our customer base and geographic footprint.

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

Operator

At this time I would like to welcome everyone to the Diodes first quarter 2007 earnings conference call. (OPERATOR INSTRUCTIONS). Mr. Coulson, you may begin your conference.

Crocker Coulson - CCG Investor Relations - Investor Relations

Thanks a lot. Good afternoon, everybody. Welcome to Diodes' first quarter 2007 earnings conference call. With us today is the Company's President and CEO, Dr. Keh-Shew Lu, who has just flown back from Taiwan and is joining us from the Westlake Village offices. And we also have the Company's Chief Financial Officer, Carl Wertz, the Company's Senior VP of Sales and Marketing, Mark King, and also, Senior Vice President of Finance, Richard White.

Before I turn the call over to Dr. Lu I'd like to remind our listeners that in this call, management's prepared remarks do contain forward-looking statements. These are subject to risks and uncertainties, and management may make some additional forward-looking statements in response to your questions. Therefore, the Company claims the protection of the Safe Harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. Actual results may differ from those discussed today, and therefore, we'd like to refer you to a more detailed discussion of the risks and uncertainties contained in the Company's filings with the SEC. In addition, any projections as to the Company's future financial performance represent management's estimates as of today, May 2, 2007, and Diodes assumes no obligation to update these projections in the future due to changing market conditions.

For those of you who don't have the opportunity to listen to the entire call right now, we're going to make a recording available for 60 days at the investor relations section of Diodes' Web site, at www.Diodes.com.

Now, with those formalities out of the way, it's now my pleasure to turn the call over to Diodes' CEO, Dr. Keh-Shew Lu.

Dr. Keh-Shew Lu - Diodes Incorporated - President and CEO

Thank you, Crocker. Welcome, everyone, and thank you for joining us today. We are pleased to report another quarter of solid results, with Diodes continuing to outperform the overall industry.

A few of our accomplishments during the first quarter — we first moved forward on our analog strategy; second, launched a number of new, innovative products; and third, delivered solid results for our shareholders.

First quarter 2007 highlights include the following results. Revenue grew 25% year-over-year to \$92 million. Gross profit increased 22% year-over-year to \$39.5 million. Net income grew 40% year-over-year to \$13 million, or \$0.47 per share.

Diodes continued to outperform the overall market, and (inaudible) in application-specific standard (inaudible) analog space, despite a more difficult industry environment as a result of the weakness in the computer and industrial segment this quarter. Diodes performance is a result of our ability to combine customer-focused innovation in the discrete and the standard analog markets, with state-of-the-art, cost-efficient packaging to deliver greater value to our customers, while at the same time delivering positive results for our shareholders.

During the quarter, we completed the integration of the Super Barrier Rectifier — we call SBR technology — into our sales channels, and launched the SBR product family, packaged in Diodes' proprietary high-performance PowerDI123 and in the ultra-miniature DFN package, the first two of many [planned] SBR product introductions. These offerings provide breakthrough performance not attainable with traditional (inaudible). We are very pleased with our customers' acceptance of our SBR product family, with several design wins in the quarter and many more expected in the quarters to come. These product launches are a good example of Diodes' effective research and development for-next generation technology, designed to meet the growing demand for higher efficiency in small form factor in the (multiple speakers) market.

Finally, Diodes ended the quarter with \$335 million in cash and short-term investments (multiple speakers) financial flexibility to evaluate additional opportunities to accelerate our profitable growth, we are actively evaluating acquisition candidates within our (multiple speakers) material. As we enter the second quarter, we expect to continue to build on our strengths as we benefit from synergy between our discrete and (inaudible) analog products, and to continue to focus on customer-centric innovation and efficient [manufacture] to deliver profitable growth.

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

Carl Wertz - Diodes Incorporated - CFO

Thanks, Dr. Lu. Good afternoon, everyone. As Dr. Lu mentioned, in the first quarter, Diodes continued to outperform the industry and to make progress executing our strategy. Despite a more challenging market environment in the first quarter 2007, revenue profits increased significantly on a year-over-year basis. Revenues for the first quarter were \$[19] million, an increase of 25% from the first quarter 2006. On a sequential basis, our revenues declined 2.6%.

New product sales grew to 32% of revenue, compared to 23% just a year ago. Gross profit for the first quarter increased 21.9% compared to the same period last year to \$29 million, or 32.1% of revenue, compared to 32.9% in the prior-year quarter and 33.4% in the fourth quarter 2006. While sequential unit sales increased 2%, and analog margin increased approximately 300 basis points, overall gross margin was affected by a 6% decrease in discrete selling prices.

Over the course of 2007, we see opportunities for margin expansion as we continue to transition from outsourced production to our state-of-the-art packaging facilities, and as we continue to introduce new products.

Selling, general and administrative expenses for the quarter improved to 13.8% of revenue, or \$12.7 million, compared to 15.3% revenue, or \$11.3 million, in the comparable quarter last year. Included in the first-quarter SG&A was \$1.3 million of non-cash FAS 123R share-based compensation, equal to the first quarter 2006. In the earnings release, we have included a table to reconcile the impact of share-based compensation to our adjusted net income.

Research and development investment in the quarter was \$2.9 million, or 3.2% of revenue, compared to \$2 million, or 2.7% of revenue, in the first quarter 2006. The R&D increase was primarily due to the additional R&D initiatives, as well as the APD acquisition in the fourth quarter, which provided the SBR technology. We continue to enhance our research and development capabilities to support our broader market focus and profitable growth objectives.

EBITDA for the quarter was \$19.3 million, compared to 15.1 million last year.

Our effective income tax rate in the first quarter was 16.5%, compared to 20.5% in the previous quarter and 15.5% in the same period last year. The lower effective tax rate reflects additional tax planning efforts aimed at improving our tax rate with lower planned foreign earnings repatriations in 2007. Going forward, we currently anticipate our consolidated tax rate to be comparable to the first quarter of '07.

Net income increased 39.7% year-over-year to \$13 million, or \$0.47 per share, up from 9.3 million, or \$0.34 per share, in the first quarter 2006. Adjusted net income excludes \$1.2 million, net of tax, FAS 123R stock option expense, and was \$14.2 million, or \$0.50 per share. Cash flow from operations for the quarter was \$6.5 million.

Turning to the balance sheet, at the end of the quarter we had \$335 million in cash and short-term investments, 407 million in working capital, and 237 million in long-term debt, including the convertible bond. Our total debt to equity ratio was 1, while our total debt to assets was 51%.

Inventories ended the first quarter at \$49 million, equal with the fourth quarter, with inventory days at 73, compared to 69 days the previous quarter. Accounts receivable days were 81 days in the first quarter, compared with 74 days in the prior quarter. We continue to experience some pressure to extend terms, especially in Asia and Europe.

Capital expenditures for the current quarter were \$12.4 million, or 13.4% of revenue, slightly ahead of our 10 to 12% full-year estimate. Depreciation expense for the first quarter of 2007 was \$6.3 million.

As to our outlook, with a book-to-bill slightly above 1, we expect to achieve record second-quarter revenues, with sequential growth in the 2 to 5% range, with comparable gross profit improvement.

In summary, despite near-term industry headwinds, we remain confident that Diodes' focus on application-specific standard products within the broad discrete and analog market, while leveraging our cost-efficient manufacturing base, positions us well to continue to deliver profitable growth in the quarters and years ahead.

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

Mark King - Diodes Incorporated - SVP, Sales and Marketing

Thanks, Carl. Good afternoon. During Q1 we made significant progress along our new product roadmap in discrete, analog and power management categories. Sales of new products reached 32% of total sales, driven by products in our subminiature array, QFN, PowerDI, SBR and Schottky platforms on the discrete side, and our analog product lines in general.

We launched 48 products from 12 product families during the quarter. Earlier in the quarter, we launched an SBR product family in Diodes' proprietary high-performance PowerDI123 package, marking the industry's first 3-amp SBR rectifier to be offered in a high-powered (inaudible) package.

In Q1, we also launched the AP1580, our next-generation high-current, high-voltage PWM Buck Converter. This line is targeted at important high-volume electronic devices like LCD and plasma TVs.

We also launched a new series of low-threshold MOSFETs, optimized for low-voltage applications common in ultraminiature electronic devices, including mobile phones and digital media players.

More recently, we announced the introduction of an industry-leading 0.5-amp SBR in our ultraminiature DFN1006 package. The SBR offers exceptionally low 4-voltage drop, combined with the lowest reverse leakage current characteristics available on the market. With its extremely compact form factor, occupying only 0.6 square millimeters of PCB area, Diodes' DFN package has received strong customer interest, prompting us to expedite a broad general DFN product expansion.

Finally, we launched a new 300-milliamp fast transient response LDO designed for simple integration into a wide variety of low-power applications, including Bluetooth headsets, mobile phones and digital media players.

During the quarter, we fully integrated the recently acquired SBR technology into Diodes' sales channel, and qualified and converted 100% of the product line to Diodes' brand. The move to internal manufacturing of small outlying packages is complete, and we began our first internal assembly build of the [DPAC] and [TU220] power packages during Q1.

Customer interest for both standard and customized devices has been exceptionally strong, and we expect fast ramp of our SBR line, with a flow of new, innovative products expected to be launched in the coming quarters.

Now for a geographic breakout. Market share for Diodes' products remained at all-time highs in the first quarter. Asia revenue declined sequentially, driven by seasonally-slow demand levels in the consumer and computer segments, and contributed 71.5% of our first-quarter sales. As expected, core and equipment categories, such as digital audio player, notebook computers, motherboards, LCD TVs, were down in the quarter, affecting both topline revenue and overall product mix. Units were flat quarter-over-quarter, while ASPs were down 7% in Asia.

North America revenue was slightly higher than Q4, driven by set-top box and generally stable demand across the board. A significant proportion of the set-top box business was the result of new analog design wins from the previous quarters. Design activity in the quarter was high, with 132 new parts qualifications at 45 customers, including 12 analog designs. We saw strong interest in our DFN and PowerDI products, as well as increased interest in our linear regulator lines, resulting in several significant design wins. We also saw continued strong interest from the power engineering community in our newly acquired SBR technology, with several design wins expected in Q2. North American distributor POS was up slightly, with POP and inventory flat compared to Q4. Wafer unit volume was up 6.4% sequentially in the quarter, but ASPs were down 3.5% sequentially. ASPs for discrete components were down 6% in Q1 as compared to the prior quarter.

In Europe, Diodes gained significant momentum during Q1, with sales up 62% sequentially, and with OEM sales up 20% and distributor point of sales up 16% over Q4 — both record levels. Europe accounted for 4.5% of our sales in the quarter. Opportunities in Europe continued to expand, with design wins, initial orders and expanded contracts at more than 20 accounts in Q1, including two significant SBR wins that will result in Q2 orders, seven new analog design wins, and five hall sensor wins. We expect our positive momentum should continue in Q2 and beyond.

Moving to market segments, for the first quarter, our segment breakout was 38% consumer, 35% computer and peripheral, 15% telecom, 10% industrial and 2% automotive.

Now I will go on to design wins. Design activity was strong across all regions. We had multiple design wins at over 65 accounts globally. The activity around our SBR technology has been tremendous, with design wins at seven accounts globally for end-use applications in communication, LCD TV, among others. More importantly, the in-process design volume is quite high, and initial customer input has highlighted many new product opportunities for standard products, as well as customer-specific devices.

Traction on standard analog design wins is steadily ramping up in North America and Europe. In Q1 we began moving this product into our channels in these regions and have seen broad customer interest. We also had wins in key OEM accounts, with LDOs and switcher wins in satellite set-top box, an upcoming game console, and in DSL modem.

In Asia, standard analog design activity was strong in LCD TV and motherboard, and we've seen strong interest in our Omnipolar hall sensor platform, with key design wins in two cellphone designs and a new notebook design.

On the discrete side, we continue to see robust interest in our DFN leadless packages, especially our new 0.4 [mm] thick devices, our recently announced low-threshold MOSFET line, PowerDI and array platforms. We had significant wins in digital audio player, mobile handset, notebook and LCD module.

The synergy between the analog and the discrete product line continues to present opportunities to expand and deepen our relationship with our customer base. We expect the design activity on our newly acquired SBR rectifier product line to be very strong in the coming quarter. We will also be working with our customers to outline and develop application or customer-specific requirements that can be exploited with this technology.

In summary, we are pleased with our progress in the first quarter. While the industry environment has become more challenging in recent months, we feel confident that Diodes is well positioned to continue to expand our share of the market, realize cost and cross-selling synergies from our acquisitions, and accelerate the pace of product innovation through our expanded global R&D platform. As we enter the second quarter, we will continue to leverage our core competencies around manufacturing excellence and customer-centric innovation to expand our position with our customers on the next-generation end devices. We feel confident we are in the right segments and have the right product focus to drive organic growth above the overall market. In addition, we are evaluating acquisition opportunities to accelerate that growth by expanding our addressable market, enhancing our product breadth, and expanding our customer base and geographic footprint.

With that, I will open the floor to questions.

QUESTION AND ANSWER

Operator

Ramesh Misra, CE Unterberg, Towbin.

Ramesh Misra - CE Unterberg, Towbin - Analyst

My first question is in regards to your ASP decline. ASP decline was definitely a lot greater than some of your peers have reported. Can you give some commentary in that regard, Dr. Lu and/or Mark?

Dr. Keh-Shew Lu - Diodes Incorporated - President and CEO

The ASP decline, well — this is — we do not want to really — what do I say? We really want to increase our market share. We do not want to sacrifice our revenue growth or our market share, so we are aggressive on the pricing to make sure we still continue gaining market share in the marketplace.

Mark King - *Diodes Incorporated - SVP, Sales and Marketing*

If I could add, last year we were able to hold our price increase strong throughout the year because of the business environment. So I think we got hit a little bit stronger in the first quarter. As well as the first quarter, the seasonal shift in our business, in our — the end equipments that are softer in the first quarter happen to be some of our higher ASP devices. So the shift there is to remain full and to maintain revenue levels. I would expect that to improve going forward. So I think part of it is a change in mix, rather than just overall straight decline.

Ramesh Misra - *CE Unterberg, Towbin - Analyst*

So is it safe to assume right now that the 6% sequential decline in pricing is probably the worst that you'll be seeing, and it will be probably a lot more moderate than this in upcoming quarters?

Mark King - *Diodes Incorporated - SVP, Sales and Marketing*

I would expect that, yes.

Dr. Keh-Shew Lu - *Diodes Incorporated - President and CEO*

Correct.

Ramesh Misra - *CE Unterberg, Towbin - Analyst*

Finally, on the analog gross margin side, good to see that margins went up 200 basis points over there. Can you qualitatively describe some of the drivers that enabled this?

Mark King - *Diodes Incorporated - SVP, Sales and Marketing*

I think it has do with a continued shift into internal manufacturing. And I think we've reached somewhere between 40 and 45% of our targeted conversion parts. I think that's up from last quarter, and we're continuing to expand that going forward. I think we're seeing a little bit more revenue from North America and Europe that's helping the overall margin in that area, and continual improvement in cost reduction and product mix.

Ramesh Misra - *CE Unterberg, Towbin - Analyst*

So there is more room for expansion on the [analog] gross margin, simply because not all has been pulled in. Okay. Europe — congratulations on growing the share of sales over there. Clearly, you've invested a lot of effort and time in expanding your distribution — distributor profile over there. Where can you see Europe as a percentage of revenues by year-end or so?

Mark King - *Diodes Incorporated - SVP, Sales and Marketing*

You know what? I don't think we've really sat down there and tried to figure that out, because we're really focusing also on the overall growth of the Company. And Asia — as we grow quickly, Asia will have a tendency to dwarf that number back down again. We do have significant focus on the European market, and our success level going there is quite well. And I think we're making great progress with our distribution network, and I think you'll see more and more progress in that area in the quarters to come.

Dr. Keh-Shew Lu - *Diodes Incorporated - President and CEO*

One more thing is when we focus on design wins in Europe, a lot of time the revenue may not be — may not be coming from Europe. (inaudible) U.S., (inaudible) the design win is in U.S., in Europe. But when they go to production, the revenue [is] going to come in from Asia.

Mark King - *Diodes Incorporated - SVP, Sales and Marketing*

The biggest deal they did last year never shipped a dollar into Europe last year.

Operator

Steve Smigie, Raymond James.

Steve Smigie - *Raymond James - Analyst*

I was hoping you could comment a little bit on what the outlook might be for operating expenses in Q2 — or, excuse me. R&D increased as a percentage of revenue, but you also had revenue come down some. So as we move into Q2, would you expect to see maybe dollars flattish, or maybe up a little bit, but down as a percentage? And what would SG&A look like as a percentage in Q2 also?

Dr. Keh-Shew Lu - *Diodes Incorporated - President and CEO*

Let me address the R&D first. The reason R&D as a percent going up is because we acquired APD. And in (inaudible) this quarter, we do not have APD. And APD generates a very small percentage of revenue. And therefore, when you look at the rate as a percent of the revenue, R&D we increased more. About half of the increase was due to the APD acquisition. And then we are now (inaudible) the design center in [Dallas], in China, (inaudible) design center in Taiwan to go up. And then we have another (inaudible). So we tried to be more aggressive to come out (inaudible) good new product for analog (inaudible). Therefore, our R&D as a percent going up. But then, look — move forward (inaudible) still we've seen the range we are looking at. We're talking about 3%, (inaudible)%. And as the revenue continues to improve, (inaudible) our percentage will be still keeping the same levels.

Steve Smigie - *Raymond James - Analyst*

And on the SG&A side in Q2?

Dr. Keh-Shew Lu - *Diodes Incorporated - President and CEO*

In Q2? I think since the revenue is going to go up, I think, as a percent, we'll probably keep the same level.

Steve Smigie - *Raymond James - Analyst*

If I could ask quickly on gross margin — I guess the guidance was for, I believe, up similar. Does that mean the revenue — excuse me — the gross margin dollar amount will grow to the same level as revenues, so basically the percentage stays the same? Or would we expect to see a percentage increase in Q2?

Dr. Keh-Shew Lu - *Diodes Incorporated - President and CEO*

(inaudible) the percentage about the same. Since our strategy is the profitable growth, we are continually working on gross margin percent improvement by the new product introduction and by reducing manufacturing costs. But we will not sacrifice market share or revenue growth for minor gross margin percent fluctuations. So, we'll continue. The key thing we really go after is the profitable growth. And it is very important. We want to continue getting the market share growth as fast as we can. And typically, you know we have been targeting, we want to have 2X faster than the market growth. And we're still (inaudible) direction.

Steve Smigie - Raymond James - Analyst

One last question. Going into Q3, I know you don't forecast that far out, but do you expect to see maybe the back half really start to improve as some of the new products pay off? So, maybe Q3 up sequentially [a decent amount] from Q2, and some continued margin improvement there?

Dr. Keh-Shew Lu - Diodes Incorporated - President and CEO

I think so. Q3, if markets started getting tighter, and then the growth kept going up faster, then you're going to expect the margin percent going to be improved.

Operator

Shawn Harrison, Longbow Research.

Shawn Harrison - Longbow Research - Analyst

My first question just has to deal with raw material costs. I was wondering if you could comment in terms of just what you're seeing, in terms of raw material costs, and the effect on profitability currently.

Carl Wertz - Diodes Incorporated - CFO

Raw material is definitely an object we look at. There's some prices that are going up. As a matter of fact, if you look at our inventory days, we lost a few inventory days; we actually increased our inventory a couple million dollars in the first quarter, all for raw material purposes. But again, we could not cut our raw material costs or our manufacturing costs by the 6% average price erosion. So, that hurt us in the gross margin.

Shawn Harrison - Longbow Research - Analyst

In the outlook you're saying is for, it sounds like, because you built the inventory further; I guess inflationary pressures from raw material costs as the year progresses?

Dr. Keh-Shew Lu - Diodes Incorporated - President and CEO

Raw material costs mostly we're talking about is the starting material. And like Carl talking about, we try to predict any (inaudible) and material costs up; we tried to prevent that. So, we buy a little bit more material, raw material, ahead of the big — going to be big increase in the second half. So we start to prepare ourselves for that.

Shawn Harrison - Longbow Research - Analyst

My second question just goes back to — maybe I missed this — but with the CapEx running a little bit higher than your targeted rate this quarter, should we continue to model that at 13.5% for the remainder of the year? Or will it revert back more toward that 10 to 12% mean?

Dr. Keh-Shew Lu - Diodes Incorporated - President and CEO

No, don't change it. Our model is still 10 to 12. Typically, our biggest month — our second half is much bigger than the first half. And therefore, to get all the equipment ordered, and all the stuff ready for the big month — for the big [run rate] in the second half, you kind of spend a little bit more than capital in the first half. So, if you go to (inaudible) in the past, always, first half is a bit higher than second half. And then you end up to be 10 to 12% for the whole year.

Shawn Harrison - Longbow Research - Analyst

My final question just has to relate to the demand environment. If you could maybe characterize, maybe with a little bit more granularity, what you're seeing out into this quarter, as well as, typically, the seasonally-stronger September quarter. Where should we expect better pockets of growth, or the opposite of that, challenges, in terms of growth?

Mark King - Diodes Incorporated - SVP, Sales and Marketing

I'll take that one. I think that we kind of talked in the first quarter that we really saw a relatively choppy first half and a relatively strong second half of the year. I think we saw what we expected in the first quarter. Frankly, I think it's improved going into the second quarter. You can see from our guidance, although — but we see still pretty strong second half of the year, and I think everything is playing pretty much the way we expected it to go.

Shawn Harrison - Longbow Research - Analyst

There's not — you would expect kind of growth out of each of the individual end markets, kind of at similar rates that we've seen here (multiple speakers)

Mark King - Diodes Incorporated - SVP, Sales and Marketing

I think we'll see, obviously, the second half of the year will be strong in the computer and the consumer segments.

Dr. Keh-Shew Lu - Diodes Incorporated - President and CEO

(multiple speakers) typically our market. Consumer market typically is the [hardest] one in the third quarter, then probably second hardest one is the first quarter. And you know consumer market is (inaudible) is 30-something% of our total revenue. And in computer, again, computer typically slows in the second quarter. And so third quarter, again, would be the good quarter again. So typically, our big growth quarter will be in the third quarter — second (inaudible) going to the third.

Shawn Harrison - Longbow Research - Analyst

The final part of that would be it sounds like the design wins that were won during the first quarter, as well as the second half of last year, were broken out pretty evenly in terms of similar to your end market exposure right now.

Mark King - Diodes Incorporated - SVP, Sales and Marketing

Right. We try to focus in — we kind of focus our development and our design time in those key end equipments and key end markets. So we're pretty focused in that area. And we're pretty excited about the access to the customers that we have today, and the design activity is quite good.

Operator

Gary Mobley, A.G. Edwards.

Gary Mobley - A.G. Edwards - Analyst

You guys are guiding for about 350 basis points of sequential revenue growth in the June quarter. To what extent is that growth predicated on your distributors' restocking seasonality, and/or just general strength in your businesses driven by design win activity?

Mark King - *Diodes Incorporated - SVP, Sales and Marketing*

I think it's driven by general business. It certainly isn't distributor restocking. I think the distributor — you might have seen the big growth in Europe. There was some restocking in Q1 for Europe because Europe had a very soft fourth quarter. But as you saw, we still saw POS growth of 20% and OEM growth of 20%. So I think we're pretty solid there. We don't focus on distributor restocking; we focus on driving the end products into the customers. So I think it's just overall growth, and we like to view it as overall OEM growth and overall POS growth of our product moving into customers.

Gary Mobley - *A.G. Edwards - Analyst*

A question for Carl. Will Q2 be the quarter in which you recognize a Taiwanese R&D credit, and does it sort of follow that Q2 and Q4 semiannual cycle?

Carl Wertz - *Diodes Incorporated - CFO*

The Taiwanese R&D credit? We have very little of the R&D credit that I think we'll take into account. Actually, in the FIN 48 disclosure in our Q, we'll have a little bit more on all the tax credit, or tax entries. And quite frankly, we have not looked into the overall effect of that right now. We do have a pretty good U.S. domestic tax credit that we take into account that is part of that tax rate.

Operator

Christopher Longiaru, Sidoti.

Christopher Longiaru - *Sidoti - Analyst*

My first question is just on moving the analog packaging in-house. What inning are we in with respect to that, and what's your outlook for that?

Dr. Keh-Shew Lu - *Diodes Incorporated - President and CEO*

I think (inaudible) we are now about 40, 45% of the (inaudible) we want to move. We [already moved our internal]. And what we expect (inaudible) by end of September we will try to move everything we can, depending on if we have enough capacity. If we can — if we have enough capacity, we'll move everything we can to our internal. But then, at that time, we probably will have one quarter of the product still we don't intend to move in.

Christopher Longiaru - *Sidoti - Analyst*

So (inaudible) left over after September, that will probably stay out?

Dr. Keh-Shew Lu - *Diodes Incorporated - President and CEO*

Yes, correct. Because some of the packaging we (inaudible) some of them is not big enough revenue for us to move.

(multiple speakers)

Christopher Longiaru - Sidoti - Analyst

As far as — you had strong performance in Europe this quarter. Is that more a function of the fact that Asia was just seasonally weak, and that Europe ended up jumping up as a percentage of overall sales as much? Or was Europe particularly strong. And if so, what was the reason behind that?

Mark King - Diodes Incorporated - SVP, Sales and Marketing

I think both. Obviously, we reached 4.5%, because Asia was (inaudible). Asia's [rolling] that Europe is never going to be 4.5% in the short run. But Europe had a very nice quarter, and it shows the momentum that we're making and the customer entry that we're doing. The activity is quite good there, and our penetration is becoming more and more rapid. So I think it was also a testament to the good quarter in Europe also.

Christopher Longiaru - Sidoti - Analyst

And Carl, did you give a tax rate and a share count? (inaudible)

Carl Wertz - Diodes Incorporated - CFO

I'm sorry; what was that?

Christopher Longiaru - Sidoti - Analyst

Tax rate and a share count for next quarter.

Carl Wertz - Diodes Incorporated - CFO

We basically are saying that our 16.5 for the first quarter (multiple speakers)

(multiple speakers)

We'll plan on that for the rest of the year.

Christopher Longiaru - Sidoti - Analyst

I didn't hear you. What was that?

Carl Wertz - Diodes Incorporated - CFO

16.5% tax rate (multiple speakers) the first quarter. We expect the rest of the year to be pretty comparable to that.

Christopher Longiaru - Sidoti - Analyst

Okay. And a share count?

Carl Wertz - Diodes Incorporated - CFO

Didn't give that. Give me a second; I'll find it for you. Approximately 28, 28.1.

(multiple speakers)

Operator

(OPERATOR INSTRUCTIONS). Kevin Rottinghaus, Cleveland Research.

Kevin Rottinghaus - Cleveland Research - Analyst

As far as the pricing pressure that you saw in the quarter, was it anybody outside of your traditionals? Do you see anybody coming into the market, or anything changing there?

Mark King - Diodes Incorporated - SVP, Sales and Marketing

No, I think it's the typical — the same (inaudible). I don't see a lot of dynamic change. There's a couple people retrenching a little bit, focusing a little bit more back if they wanted to keep themselves more utilized. But again, some of it's not just pricing on individual units, but it's the units that we sold. A lot of that — some of the ASP is selling more of the commodity units versus some more of the higher ASP devices. So some of it's just [shift] because of the markets. And the way we operate, when business in our targeted areas isn't good, we move to other areas to make sure that we maximize our opportunity.

Kevin Rottinghaus - Cleveland Research - Analyst

Any competitors that are retrenching — you know, most semi companies have kind of guided for sequential growth this quarter. Would you expect them to kind of move away from the market again in this quarter or second half of the year? Or given —

Mark King - Diodes Incorporated - SVP, Sales and Marketing

Generally, we see those retrenches as short-lived. It's part of our philosophy that we believe that the broadliners are not investing in packaging in this area any longer, so it takes very little shift up in positive revenue growth to put the packages in these product areas in a much more tighter position. So, we feel pretty good that our long-term strategy is on track.

Kevin Rottinghaus - Cleveland Research - Analyst

Backlog coverage, or — it sounds like leadtimes, you said, have stabilized or kind of flattish. But how about backlog coverage start of this quarter versus start of last quarter, or anything you can comment on visibility changes?

Mark King - Diodes Incorporated - SVP, Sales and Marketing

I think that we were — I don't have the exact figures in front of me, but our coverage was slightly better in this quarter than it was going into last quarter, globally.

Kevin Rottinghaus - Cleveland Research - Analyst

Slightly better for achieving the midpoint of your guidance?

Mark King - Diodes Incorporated - SVP, Sales and Marketing

Right.

Dr. Keh-Shew Lu - Diodes Incorporated - President and CEO

Don't forget, for our products, our visibility very short. Our leadtime is short. Our visibility is short. So you can now really look at just beginning of the quarter after booking and try to predict the whole [quarter].

Kevin Rottinghaus - Cleveland Research - Analyst

How about linearity inside the quarter in bookings?

Mark King - Diodes Incorporated - SVP, Sales and Marketing

I don't have that figure in front of me. I really don't have that figure in front of me.

Kevin Rottinghaus - Cleveland Research - Analyst

Two more quick ones. Utilizations right now — has there been any major change in how you're utilizing the back-end?

Dr. Keh-Shew Lu - Diodes Incorporated - President and CEO

We always keep our utilization very high. And that's why [when we get] — that's why we get a product mix. When the market is soft, we shift to the more commodity-type of product. And we still keep our manufacturing fully loaded. And that's why — at the same time, that's why we put in capitals, to continue [to] increase our capacity to get ready for the second half.

Kevin Rottinghaus - Cleveland Research - Analyst

Just one last clarification. Dr. Lu, did I hear you say that even with the revenue growth, you expect SG&A to stay stable as a percentage of revenues?

Dr. Keh-Shew Lu - Diodes Incorporated - President and CEO

Yes. And as a percent of the revenue, it could be improved. And we're talking about — the way our strategy is, we get our revenue growth very fast. And you cannot — and get the R&D increased some, but you get SG&A as a percent going down (inaudible) our SG&A growth. So move forward, our SG&A as a percent of the revenue will be going down. And it will be slightly improved (inaudible) increase (inaudible).

Operator

Gary Mobley, A.G. Edwards.

Gary Mobley - A.G. Edwards - Analyst

Mark, I was hoping you can give us an update on where most of your hall sensor sales are derived in the first quarter. Is it still basically in China? Could you give us an update on how your design win activity for hall sensors are going in clam and slider phones, and, as well, notebook computers?

Mark King - Diodes Incorporated - SVP, Sales and Marketing

You're right that most of our hall sensor business is still in China and still in fan. I think we're making good, solid progress on our new Omnipolar halls. And as — I mentioned a couple of wins in cellphone in Asia, ODM designs in this quarter. And a lot of people are looking at them. So we're very comfortable about the progress of that line. There'll be derivative products off of that line, and so forth. So I think we're making good progress in diversifying our hall business out of the fan marketplace.

Clearly, the notebook opportunity is a big target for us. We think that's a strength market for us. We think it's an area where our position differentiates ourselves from the hall competitors. So we're definitely viewing that as a very strong opportunity and putting the proper amount of emphasis on it.

Gary Mobley - A.G. Edwards - Analyst

Carl, correct me if I'm wrong, but should we start to model some gross margin seasonality for you guys, given that your consumer and computing mix decreases typically in the first quarter? Therefore, maybe some exceptional gross margin weakness in the first quarter?

Carl Wertz - Diodes Incorporated - CFO

We kind of said comparable margin. And it is pretty challenging with such a variety of issues between ASPs, cost down, product mix, seasonality. Like Dr. Lu says, if we get certain opportunities to grow revenue at a lower margin, we'll take it. I know currently the analysts have us modeled upward a little bit. I think between what we have now and versus what you guys already had, you might want to do some analysis. Again, we mentioned that we're doing about 40, 45% of the analog in-house now, and we stated that's still an upside for us. We just don't know ASP. We were all a little bit taken that it was down 6, 7% like it was. I don't envision that going forward for the rest of the year. With that said, we should have some upside.

Operator

Steve Smigie, Raymond James.

Steve Smigie - Raymond James - Analyst

I was wondering if you could talk a little bit about what option expense might look like Q2 and going forward. It seems like it was maybe a little bit less than I expected in the quarter. I was just wondering if you'll continue to see somewhat lower levels going forward.

Carl Wertz - Diodes Incorporated - CFO

I think — I have to go back and look, but I think our option expense was fairly consistent all last year. And we stated even that the first quarter this year was equal to the first quarter of last year. So it's pretty safe to, I think, model the same amount. I'm sorry?

Dr. Keh-Shew Lu - Diodes Incorporated - President and CEO

(inaudible)

Carl Wertz - Diodes Incorporated - CFO

It's 1.3 million, and then about a \$300,000 tax effect. Actually, the total — if you look at the announcement, where we have the net income to the adjusted net income, you can see we have 1.5 million in total option expense, and a 333,000 credit. So I believe it's going to be relatively flat during the year. We've been consistent in our expense grants, so I don't think there'll be a huge fluctuation in that. (multiple speakers) 100,000 one way or the other.

Steve Smigie - Raymond James - Analyst

Would you expect to continue to get the credit going forward?

Carl Wertz - Diodes Incorporated - CFO

No, the credit is already based on the effective tax rates of the jurisdiction. So I don't see that affecting it much. But I believe that we'll have, basically, a \$0.03 per share differentiation between our GAAP and our adjusted net income. And I think if you looked at the analyst analysis for the first quarter, I think, there was about a \$0.05 gap. And I think what happened is probably we didn't explain to the analysts the effect of the net income — the income taxes, and the (multiple speakers). And there's a little bit of share difference in the count, too. So, if you study — in our adjusted GAAP to adjusted net income, you can see the share difference count. So, between those two items, income tax and about — I think there was maybe a 3 or 400,000 shares difference between the analyst consensus and outstanding shares versus the actual.

Operator

At this time there are no further questions. Gentlemen, do you have any closing remarks?

Dr. Keh-Shew Lu - *Diodes Incorporated - President and CEO*

No. I think we have actually — even our (inaudible) down a little bit because (inaudible) compare with last year, this quarter, we still outperform our industry. So we are very pleased with our — this quarter's — our first quarter's performance. And looking forward to the second quarter, with the market slightly improved, and we look at 2 to 5%, I think, we will have a much better quarter in second quarter compared with the first. And we (inaudible) make the (inaudible) revenues. And we're looking forward to that. Thank you very much.

Operator

This concludes today's Diodes first quarter 2007 earnings conference call. You may now disconnect.
