

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

FORM 10-Q

(MARK ONE)

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

For the quarterly period ended September 30, 2006

or

() Transition Report Pursuant to Section 13 or 15(d) of the Securities and Exchange Act of 1934 (No Fee Required)

Commission File No. 0-12718

SUPERTEX, INC.

(Exact name of Registrant as specified in its Charter)

California

(State or other jurisdiction of incorporation or organization)

94-2328535

(IRS Employer Identification #)

**1235 Bordeaux Drive
Sunnyvale, California 94089**
(Address of principal executive offices)

Registrant's Telephone Number, Including Area Code: **(408) 222-8888**

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes []

No []

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Check one.

Large accelerated filer []

Accelerated filer []

Non-accelerated filer []

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes []

No []

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class
Common Stock, no par value

Outstanding at November 2, 2006
13,729,030

*Exhibit index is on Page 30
Total number of pages: 35*

SUPERTEX, INC.
QUARTERLY REPORT - FORM 10Q

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

SUPERTEX, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(unaudited)
(in thousands, except per share amounts)

	Three Months Ended		Six Months Ended	
	<u>September 30,</u> <u>2006</u>	<u>October 1,</u> <u>2005</u>	<u>September 30,</u> <u>2006</u>	<u>October 1,</u> <u>2005</u>
Net sales	\$ 26,521	\$ 20,226	\$ 51,086	\$ 36,219
Cost of sales ⁽¹⁾	<u>10,305</u>	<u>8,844</u>	<u>20,142</u>	<u>15,650</u>
Gross profit	<u>16,216</u>	<u>11,382</u>	<u>30,944</u>	<u>20,569</u>
Research and development ⁽¹⁾	3,658	2,598	7,607	5,357
Selling, general and administrative ⁽¹⁾	<u>3,826</u>	<u>3,248</u>	<u>7,629</u>	<u>6,436</u>
Total operating expenses	<u>7,484</u>	<u>5,846</u>	<u>15,236</u>	<u>11,793</u>
Income from operations	8,732	5,536	15,708	8,776
Interest income	1,202	632	2,313	1,259
Other income and expense, net	<u>(234)</u>	<u>70</u>	<u>(57)</u>	<u>349</u>
Income before provision for income taxes	9,700	6,238	17,964	10,384
Provision for income taxes	<u>3,704</u>	<u>1,991</u>	<u>7,052</u>	<u>3,318</u>
Net income	<u>\$ 5,996</u>	<u>\$ 4,247</u>	<u>\$ 10,912</u>	<u>\$ 7,066</u>
Net income per share:				
Basic	<u>\$ 0.44</u>	<u>\$ 0.32</u>	<u>\$ 0.80</u>	<u>\$ 0.54</u>
Diluted	<u>\$ 0.43</u>	<u>\$ 0.31</u>	<u>\$ 0.78</u>	<u>\$ 0.53</u>
Shares used in per share computation:				
Basic	<u>13,671</u>	<u>13,180</u>	<u>13,658</u>	<u>13,129</u>
Diluted	<u>13,989</u>	<u>13,628</u>	<u>14,000</u>	<u>13,422</u>

⁽¹⁾ Includes amortization of employee stock-based compensation as follows. See Note 2 for more information:

	<u>FAS123R</u>	<u>APB25</u>	<u>FAS123R</u>	<u>APB25</u>
Cost of sales	\$ 92	\$ --	\$ 157	\$ --
Research and development	\$ 396	\$ --	\$ 783	\$ --
Selling, general and administrative	\$ 163	\$ --	\$ 359	\$ --

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

SUPERTEX, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited, in thousands)

	<u>September 30, 2006</u>	<u>April 1, 2006</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 20,859	\$ 27,654
Short-term investments	102,446	82,992
Trade accounts receivable, net of allowances of \$623 and \$672	16,133	14,824
Inventories	12,813	12,543
Prepaid expenses and other current assets	1,811	1,358
Deferred income taxes	<u>7,781</u>	<u>7,781</u>
Total current assets	161,843	147,152
Property, plant and equipment, net	8,670	8,048
Other assets	144	141
Deferred income taxes	<u>792</u>	<u>792</u>
TOTAL ASSETS	<u>\$ 171,449</u>	<u>\$ 156,133</u>
 LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	\$ 4,460	\$ 3,725
Accrued salaries and employee benefits	10,614	11,227
Other accrued liabilities	1,653	1,498
Deferred revenue	4,381	3,566
Income taxes payable	<u>3,090</u>	<u>2,693</u>
Total current liabilities	<u>24,198</u>	<u>22,709</u>
Commitments and contingencies (See Note 7)		
Shareholders' equity:		
Preferred stock, no par value - 10,000 shares authorized, none outstanding	--	--
Common stock, no par value - 30,000 shares authorized; issued and outstanding 13,682 and 13,608 shares	50,594	46,692
Retained earnings	<u>96,657</u>	<u>86,732</u>
Total shareholders' equity	<u>147,251</u>	<u>133,424</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 171,449</u>	<u>\$ 156,133</u>

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

SUPERTEX, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited, in thousands)

	Six Months Ended,	
	September 30, 2006	October 1, 2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 10,912	\$ 7,066
Non-cash adjustments to net income:		
Depreciation	1,340	1,391
Provision for doubtful accounts and sales returns	575	574
Provision for excess and obsolete inventories	1,189	702
Stock-based compensation expense	1,378	--
Tax benefit related to stock-based compensation plans	526	873
Excess tax benefit related to stock-based compensation plans	(292)	--
Changes in operating assets and liabilities:		
Short-term investments, categorized as trading	745	(437)
Trade accounts receivable	(1,884)	(4,141)
Inventories	(1,459)	(1,884)
Prepaid expenses and other assets	(456)	37
Trade accounts payable and accrued expenses	277	2,258
Deferred revenue	815	(486)
Income taxes payable	397	34
Net cash provided by operating activities	14,063	5,987
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(1,968)	(973)
Purchases of short-term investments, categorized as available for sale	(487,990)	(370,500)
Sales of short-term investments, categorized as available for sale	467,791	346,799
Net cash used in investing activities	(22,167)	(24,674)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from exercise of stock options and employee stock purchase plan	2,124	3,511
Repurchase of common stock	(1,107)	(1,080)
Excess tax benefit related to stock-based compensation plans	292	--
Net cash provided by financing activities	1,309	2,431
NET DECREASE IN CASH AND CASH EQUIVALENTS	(6,795)	(16,256)
CASH AND CASH EQUIVALENTS:		
Beginning of period	27,654	38,634
End of period	\$ 20,859	\$ 22,378
Supplemental cash flow disclosures:		
Income taxes paid, net of refunds	\$ 6,360	\$ 2,411

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

SUPERTEX, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Note 1 – Organization and Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Supertex, Inc. and its subsidiary have been prepared in accordance with accounting principles generally accepted (“GAAP”) in the United States of America. This financial information reflects all adjustments, which are, in the opinion of the Company’s management, of normal recurring nature and necessary to present fairly the statements of financial position as of September 30, 2006 and April 1, 2006, results of operations for the three and six months ended September 30, 2006 and October 1, 2005, and cash flows for the six months ended September 30, 2006 and October 1, 2005. The April 1, 2006 balance sheet was derived from the audited financial statements included in the 2006 annual report on Form 10-K. All significant intercompany transactions and balances have been eliminated.

The condensed consolidated financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in these financial statements have been condensed or omitted pursuant to such rules and regulations, although the Company believes the disclosures which are made are adequate to make the information presented not misleading. These financial statements should be read in conjunction with the audited condensed consolidated financial statements of Supertex, Inc. for the fiscal year ended April 1, 2006, which were included in the annual report on Form 10-K.

Interim results are not necessarily indicative of results for the full fiscal year. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates, and such differences may be material to the financial statements. The results of operations for the three and six months ended September 30, 2006 are not necessarily indicative of the results to be expected for any future periods.

The Company reports on a fiscal year basis and it operates and reports based on quarterly periods ending on the Saturday nearest the end of the applicable calendar quarter, except in a 53-week fiscal year, in which case the additional week falls into the fourth quarter of the fiscal year. Fiscal 2007 will be a 52-week year. The three months ended September 30, 2006, July 1, 2006, April 1, 2006, and October 1, 2005, all consist of thirteen weeks.

Note 2 - Stock-Based Compensation

On April 2, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), “Share-Based Payment,” (“SFAS 123R”) which requires the measurement and recognition of compensation expense for all stock-based payment awards made to employees and directors including stock options and employee stock purchases related to the Employee Stock Purchase Plan (“ESPP”) based on estimated fair value of those awards at grant date and to record the cost as compensation expense over the period during which the employee or director is required to perform services in exchange for the award (generally over the vesting period of the award). In addition, the Company is required to record compensation expense (as previous awards continue to vest) for the unvested portion of previously granted awards that remain outstanding at the date of adoption. SFAS 123R supersedes the Company’s previous accounting under Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees” (“APB 25”). In March 2005, the SEC issued Staff Accounting Bulletin No. 107 (“SAB 107”) relating to SFAS 123R. The Company has applied the provisions of SAB 107 in its adoption of SFAS 123R.

SUPERTEX, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)
(unaudited)

Prior to the Adoption of SFAS 123R.

Prior to the adoption of SFAS No. 123R, the Company provided the disclosures required under SFAS No. 123, as amended by SFAS No. 148, “Accounting for Stock-Based Compensation – Transition and Disclosures”. No employee stock-based compensation was reflected in net income for the period ended October 1, 2005, as all options granted to employees and directors had an exercise price equal to the market value of the underlying common stock on the date of grant.

In accordance with the modified prospective transition method, the Company’s Consolidated Financial Statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123(R). Had the Company recorded compensation costs for stock options issued to employees under the Company’s stock option plans and Employee Stock Purchase Plan based on the fair value at the grant date for the awards consistent with the provisions of SFAS 123, the pro forma net income and net income per share for the three and six months ended October 1, 2005 would have been reduced to the pro forma amounts (*in thousands, except per share data*):

	Three Months Ended <u>October 1, 2005</u>	Six Months Ended <u>October 1, 2005</u>
Net income – as reported	\$ 4,247	\$ 7,066
Stock-based employee compensation expense determined under fair value based method related to stock options	(458)	(804)
Stock-based employee compensation expense determined under fair value based method related to the employee stock purchase plan	<u>(46)</u>	<u>(96)</u>
Net income – pro forma	<u>\$ 3,743</u>	<u>\$ 6,166</u>
Net earnings per share – basic:		
As reported	\$ 0.32	\$ 0.54
Pro forma	\$ 0.28	\$ 0.47
Net earnings per share – diluted		
As reported	\$ 0.31	\$ 0.53
Pro forma	\$ 0.28	\$ 0.47

Impact of the Adoption of SFAS 123R.

The Company elected to adopt the modified prospective application transition method as provided by SFAS 123R. Accordingly, during the three and six months ended September 30, 2006, the Company recorded stock-based compensation expense totaling the amount that would have been recognized had the fair value method been applied since the effective date of SFAS 123. Previously reported amounts have not been restated. The effect of recording stock-based compensation expense for the three and six months ended September 30, 2006 is as follows (*in thousands, except per share data*):

	Three Months Ended <u>September 30, 2006</u>	Six Months Ended <u>September 30, 2006</u>
Stock-based compensation expense	\$ 651	\$ 1,299
Tax effect of stock-based compensation expense	<u>31</u>	<u>(17)</u>
Net effect on net income	<u>\$ 682</u>	<u>\$ 1,282</u>
Tax effect on:		
Cash flows from operating activities	\$ (59)	\$ (292)
Cash flows from financing activities	\$ 59	\$ 292
Effect on earnings per share:		
Basic	\$ 0.05	\$ 0.09
Diluted	\$ 0.05	\$ 0.09

SUPERTEX, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)
(unaudited)

During the three and six months ended September 30, 2006, the Company granted options with an estimated total grant date fair value of \$155,000 and \$1,072,000, respectively. Of these amounts, the Company estimated that the employee stock-based compensation expense for the awards not expected to vest was \$40,000 and \$285,000, respectively. During the three and six months ended September 30, 2006, the Company recorded an employee stock-based compensation expense related to stock options, which were either outstanding on April 1, 2006, or granted during the three and six months ended September 30, 2006, of \$651,000 and \$1,299,000, respectively. As of September 30, 2006, the unrecorded employee stock-based compensation expense balance related to stock options was \$4,363,000 net of forfeitures and will be recognized over an estimated weighted average amortization period of four years.

Of the stock-based compensation expense, \$30,000 was capitalized as inventory at September 30, 2006. The Company did not capitalize any stock-based compensation expense to inventory prior to the adoption of SFAS 123R.

Prior to adopting SFAS 123R, the Company presented all tax benefits resulting from the exercise of stock options as operating cash flows in the Statement of Cash Flows. SFAS 123R requires cash flows resulting from excess tax benefits to be classified as a part of cash flows from financing activities. Excess tax benefits are realized tax benefits from tax deductions for exercised options in excess of the deferred tax asset attributable to stock-based compensation costs for such options. As a result of adopting SFAS 123R, \$59,000 and \$292,000 of excess tax benefits for the three and six months ended September 30, 2006 have been classified as a financing cash inflow.

Valuation Assumptions

SFAS 123R requires companies to estimate the fair value of stock-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Company's Consolidated Statement of Income. Prior to the adoption of SFAS 123R, the Company accounted for stock-based awards to employees and directors using the intrinsic value method in accordance with APB 25 as allowed under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). Under the intrinsic value method, no stock-based compensation expense had been recognized in the Company's Consolidated Statement of Income for Company stock options granted to employees and directors because the exercise price of such stock options equaled the fair market value of the underlying stock at the date of grant.

The Company estimates the fair value of stock options using the Black-Scholes valuation model, consistent with the provisions of SFAS 123R, SAB 107 and the Company's prior period pro forma disclosures of net earnings, including stock-based compensation (determined under a fair value method as prescribed by SFAS 123). The Black-Scholes option-pricing model was developed for use in estimating the fair value of short-lived exchange traded options that have no vesting restrictions and are fully transferable. In addition, option-pricing models require the input of highly subjective assumptions, including the option's expected life and the price volatility of the underlying stock. The expected stock price volatility assumption was determined using historical volatility of the Company's common stock. In valuing the stock-based compensation expense, the options and awards were stratified into two categories, namely: directors and officers ("D&O") and all other employees ("All Others") as the experiences of these two groups were different for the expected term of the options. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option valuation model and the straight-line attribution approach with the following weighted-average assumptions:

SUPERTEX, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)
(unaudited)

	Three Months Ended			Six Months Ended		
	<u>September 30, 2006</u>		<u>October 1, 2005</u>	<u>September 30, 2006</u>		<u>October 1, 2005</u>
	<u>D&O</u>	<u>All Others</u>	<u>D&O and All Others</u>	<u>D&O</u>	<u>All Others</u>	<u>D&O and All Others</u>
Expected term (years)	5.75	4.50	4.66	5.75	4.50	4.62
Stock volatility	54.0%	49.0%	47.0%	56.0%	51.5%	48.93%
Risk free interest rates	4.85%	4.84%	3.80%	4.95%	5.00%	3.65%
Dividends during expected term	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Forfeiture rate	3.9%	9.6%	0.0%	4.0%	9.8%	0.0%

Expected Term. The Company analyzed various data points to determine the most accurate expected term by group. In the course of its analysis, it considered various factors, including vesting terms and period of awards, contractual term of the award, employee historical exercise, post-vesting employment termination behavior and various other factors.

Expected stock volatility. The Company has identified its own historical volatility to be the most appropriate and most representative of the expected volatility rate to be used for valuing stock-based compensation under the Black-Scholes option-pricing model. Historical reports were pulled from the National Association of Securities Dealer Automated Quotations (“NASDAQ”). The expected volatility was based on the expected term of the two groups of options to be valued.

Risk-free interest rate. The Company continues to use the estimate of risk-free rate based on the U.S. Treasury yield curve in effect at the time of grant.

Dividends yield. The Company has never paid cash dividends and does not currently intend to pay cash dividends, thus the Company assumes an expected dividend yield of zero.

Forfeiture rate. The amount of stock-based compensation recognized during a period is based on the value of the portion of the awards that are ultimately expected to vest as SFAS 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The term “forfeitures” is distinguished from “cancellations” or “expirations” and represents only the unvested portion of the surrendered option. The Company has applied an annual forfeiture rate of 3.9% for D&O and 9.6% for All Others to all unvested options as of September 30, 2006. This forfeiture rate will be re-evaluated at least annually and adjusted as necessary.

Under the Company’s 1991 and 2001 Stock Option Plans (“Option Plans”), a total of 4,825,715 shares of Common Stock are authorized for issuance. The 1991 Plan expired in June 2001, thus there were no options available for grant thereafter, although there are options that remain outstanding under the 1991 Plan. Under the Option Plans, options have been typically granted once a quarter (on the first business day of the third month of the quarter), and valued at the fair value of the Company’s common stock on the date of grant. Options generally expire seven (7) years from grant date or at thirty days after termination of service, whichever occurs first. Options are generally exercisable beginning one year from date of grant and generally vest ratably over a five-year period. On August 24, 2006, the Company’s board of directors approved a change in grant policy of the Plan to only grant non-statutory stock options to better align the Company’s compensation plan to employee incentives and to company objectives.

SUPERTEX, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)
(unaudited)

The following table summarizes the combined activity under the Option Plans for the indicated periods:

	Available For Grant	Options Outstanding	
		Shares	Weighted Average Exercise Price
Balance, April 3, 2004	1,478,949	1,479,830	\$ 16.67
Granted	(205,600)	205,600	17.94
Exercised	--	(183,130)	12.72
Canceled	63,120	(63,120)	18.04
Expired	<u>(14,560)</u>	--	
Balance, April 2, 2005	1,321,909	1,439,180	\$ 17.56
Granted	(342,800)	342,800	30.71
Exercised	--	(552,801)	14.99
Canceled	111,960	(111,960)	18.64
Expired	<u>(39,400)</u>	--	
Balance, April 1, 2006	1,051,669	1,117,219	\$ 22.93
Granted	(79,300)	79,300	40.56
Exercised	--	(91,655)	17.34
Canceled	39,340	(39,340)	34.02
Expired	<u>--</u>	--	
Balance, September 30, 2006	<u>1,011,709</u>	<u>1,065,524</u>	\$ 24.11

The weighted average fair value of options, as determined under SFAS 123R, granted under the Option Plans during the three and six months ended September 30, 2006 was \$16.32 and \$19.04 per share, respectively. The total intrinsic value of options (which is the amount by which the stock price exceeded the exercise price of the option on the date of the exercise) exercised during the three and six months ended September 30, 2006 was \$684,000 and \$1,888,000, respectively. During the three and six months ended September 30, 2006, the amount of cash received from employees as a result of employee stock option exercises was \$681,000 and \$1,589,000, respectively.

The options outstanding and exercisable at September 30, 2006, under the Option Plans were in the following exercise price ranges:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted- Average Remaining Contractual Life (Years)	Weighted- Average Exercise Price	Number Outstanding	Weighted- Average Exercise Price
\$10.75 - \$15.83	228,925	1.93	\$12.87	181,025	\$12.90
17.06 - 18.52	346,840	4.50	17.31	86,480	17.30
19.37 - 29.00	123,009	3.91	23.31	50,949	22.50
33.67 - 46.34	<u>366,450</u>	5.23	37.85	<u>82,750</u>	46.34
\$ 10.75 - \$46.34	<u>1,065,524</u>	4.13	\$24.11	<u>401,204</u>	\$21.97

The total intrinsic value of options outstanding and options exercisable as of September 30, 2006 are \$16,696,000

SUPERTEX, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)
(unaudited)

and \$7,483,000, respectively.

Employee Stock Purchase Plan (“ESPP”). Under the 2000 ESPP, eligible employees may elect to withhold up to 20% of their cash compensation to purchase shares of the Company’s common stock at a price equal to 85% of the market value of the stock at the beginning or ending of a six-month offering period, whichever is lower. An eligible employee may purchase no more than 500 shares during any six-month offering period. Under the intrinsic value method under SFAS 123, there was no compensation-related expense for the ESPP. In December 2005, the Company’s board of the directors approved an amendment of the ESPP effective May 1, 2006, to satisfy the requirement as a “non-compensatory” plan under the provision of SFAS 123R and thus eliminate any compensation-related expense associated with the ESPP on a go-forward basis. As a result, the purchase discount was reduced to 5% from 15% of market value of the stock at the purchase. Additionally, the purchase price under the amended plan will be based solely on the market price at the time of purchase, and no longer based on the lower of the market value at the beginning or ending of the six-month offering period.

Note 3 – Inventories

The Company’s inventories consist of high technology semiconductor devices and integrated circuits that are specialized in nature, subject to rapid technological obsolescence and are sold in a highly competitive industry. Inventory balances at the end of each period are adjusted to approximate the lower of cost or market value.

Inventories consisted of (*in thousands*):

	<u>September 30, 2006</u>	<u>April 1, 2006</u>
Raw materials	\$ 1,454	\$ 1,214
Work-in-process	7,741	7,644
Finished goods	<u>3,618</u>	<u>3,685</u>
Inventories	<u>\$ 12,813</u>	<u>\$ 12,543</u>

The Company provided inventory reserves totaling \$592,000 and \$1,189,000 for the three and six months ended September 30, 2006, respectively. For the comparable periods in fiscal 2006, the Company provided inventory reserves totaling \$345,000 and \$702,000, respectively. The Company realized gross margin benefits of \$434,000 and \$950,000 for the three and six months ended September 30, 2006 due to sales of previously reserved inventory. Such benefit was \$306,000 and \$563,000 for the three and six months ended October 1, 2005.

Inventories at distributors and inventories held on consignment at the Company’s OEM customers’ hubs on September 30, 2006 and April 1, 2006 were \$1,913,000 and \$1,730,000, respectively. Due to uncertainty associated with possible returns and pricing concessions, the Company defers the recognition of revenue on shipments to all distributors, domestic and foreign, and the related costs of sales until the distributors have sold the products to their end-user customers. Sales through the distributors are made primarily under arrangements allowing limited rights of return, limited price protection and the right of stock rotation on merchandise unsold by distributors. For inventory at OEM hubs, sales are not recognized until customers draw inventory from the hubs.

Note 4 - Comprehensive Income

Comprehensive income, which includes all changes in equity during a period from non-owner sources, did not differ from net income for any of the periods presented.

SUPERTEX, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)
(unaudited)

Note 5 – Income Taxes

Provision for income taxes represents federal, state and foreign taxes. The provision for income taxes for the three and six months ended September 30, 2006 was \$3,704,000 at the effective tax rate of 38% and \$7,052,000 at the effective tax rate of 39%, compared to \$1,991,000 or 32%, and \$3,318,000 or 32% effective tax rate for the same periods in the prior fiscal year. The income tax provision for such interim periods reflects the Company's estimated annual income tax rate and differs from the taxes computed at the federal statutory rate primarily due to state income taxes, the effect of non-deductible stock-based compensation expense, tax exempt interest income, state research and development credits, and other adjustments to reserves for tax contingencies. Additionally, the fiscal 2006 tax provision rate included a benefit from federal research and development credit, which has not been renewed in fiscal 2007.

On November 10, 2005, the FASB issued FASB Staff Position No. FAS 123R-3 "*Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards.*" The Company has elected to adopt the alternative transition method provided in the FASB Staff Position for calculating the tax effects of stock-based compensation pursuant to SFAS 123R. The alternative transition method includes simplified methods to establish the beginning balance of the additional paid-in capital pool ("APIC pool") related to the tax effects of employee stock-based compensation, and to determine the subsequent impact on the APIC pool and Consolidated Statements of Cash Flows of the tax effects of employee stock-based compensation awards that are outstanding upon adoption of SFAS 123R.

The Company maintains reserves for tax contingencies within its income tax payable account. The determination of the amount to reserve involves considerable judgment and estimation, and is continuously monitored by management based on the best information available including changes in tax regulations, the outcome of relevant court cases, and other information. The IRS has concluded its audit of the fiscal 2002 tax return and the Company is under IRS examination for its 2003 tax return. The Company believes that it has adequately provided tax reserves in its financial statements for additional taxes that it estimates it may be required to pay as a result of the examination. If the resulting tax assessment exceeds the estimate of tax liabilities, an additional charge to expense will result. If payment proves unnecessary, the reversal of tax liabilities would result in tax benefits being recognized in the period we determine the liabilities are no longer necessary.

Note 6 - Net Income per Share

Basic earnings per share ("EPS") is computed as net income divided by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur from common shares that may be issued through stock options only, since the Company does not have any warrants or other convertible securities outstanding. A reconciliation of the numerator and denominator of basic and diluted earnings per share is provided as follows (*in thousands, except per share amounts*):

SUPERTEX, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)
(unaudited)

	Three Months Ended		Six Months Ended	
	<u>September 30,</u>	<u>October 1,</u>	<u>September 30,</u>	<u>October 1,</u>
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
BASIC:				
Net income	\$ <u>5,996</u>	\$ <u>4,247</u>	\$ <u>10,912</u>	\$ <u>7,066</u>
Weighted average shares outstanding for the period	<u>13,671</u>	<u>13,180</u>	<u>13,658</u>	<u>13,129</u>
Net income per share	\$ <u>0.44</u>	\$ <u>0.32</u>	\$ <u>0.80</u>	\$ <u>0.54</u>
DILUTED:				
Net income	\$ <u>5,996</u>	\$ <u>4,247</u>	\$ <u>10,912</u>	\$ <u>7,066</u>
Weighted average shares outstanding for the period	13,671	13,180	13,658	13,129
Dilutive effect of stock options	<u>318</u>	<u>448</u>	<u>341</u>	<u>293</u>
Total	<u>13,989</u>	<u>13,628</u>	<u>14,000</u>	<u>13,422</u>
Net income per share	\$ <u>0.43</u>	\$ <u>0.31</u>	\$ <u>0.78</u>	\$ <u>0.53</u>

Options to purchase 408,791 shares of the Company's common stock at an average price of \$37.15 per share, and 145,147 shares at an average price of \$38.61 per share at September 30, 2006 and October 1, 2005, respectively, were outstanding but were not included in the computation of diluted earnings per share because its effect would have been anti-dilutive. For the six months ended September 30, 2006 and October 1, 2005, options to purchase the Company's common stock of 391,032 shares at an average price of \$36.94 per share, and 209,136 shares at an average price of \$33.21 per share, respectively, were not included in the computation of diluted earnings per share because their effect would have been anti-dilutive.

Note 7 – Commitments and Contingencies

FASB Interpretation No. 45, or FIN 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, requires that upon issuance of a guarantee, the guarantor must recognize a liability for the fair value of the obligation it assumes under that guarantee. In addition, FIN 45 requires disclosures about the guarantees that an entity has issued, including a roll forward of the entity's product warranty liabilities.

Indemnification

As is customary in the Company's industry, the Company has agreed to defend certain customers, distributors, suppliers, and subcontractors against certain claims, which third parties may assert that its products allegedly infringe certain of their intellectual property rights, including patents, trademarks, trade secrets, or copyrights. The Company has agreed to pay certain amounts of any resulting damage awards and typically has the option to replace any infringing product with non-infringing product. The terms of these indemnification obligations are generally perpetual from the effective date of the agreement. In certain cases, there are limits on and exceptions to the Company's potential liability for indemnification relating to intellectual property infringement claims. The Company cannot estimate the amount of potential future payments, if any, that it might be required to make as a result of these agreements. To date, the Company has not paid any damage award nor has been required to defend any claim related to its indemnification obligations, and accordingly, it has not accrued any amount for indemnification obligations. However, there can be no assurance that the Company will not have any financial exposure under those indemnification obligations in the future.

SUPERTEX, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)
(unaudited)

Legal Proceedings

From time to time the Company is subject to possible claims or assessments from third parties arising in the normal course of business. Management has reviewed such possible claims and assessments with legal counsel and believes that it is unlikely that they will result in a material adverse impact on the Company's financial position or results of operations or cash flows. The Company is not currently involved in any legal proceedings that it believes will materially and adversely affect its business.

Product Warranty

The Company's policy is to replace defective products at its own expense for a period of 90 days from date of shipment. This liability is limited to replacement of the product, freight and delivery costs or refund or credit the purchase price. On certain occasions, the Company may pay for rework. The Company usually provides a replaced/reworked product at resale value rather than a refund or credit to meet the warranty obligations. This policy is necessary to protect the Company's distributors, to improve customer satisfaction, and for competitive reasons. Additionally, it is the custom in Japan and Europe to provide this benefit.

The Company records a reduction to revenue for estimated product returns, including warranty related returns, in the same period as the related revenues are recorded. These estimates are based on historical experience, analysis of outstanding Return Material Authorization and Allowance Authorization data and any other form of notification received of pending returns.

The reductions to revenue for estimated product returns for the three and six months ended September 30, 2006 and October 1, 2005 are as follows (*in thousands*):

<u>Description</u>	<u>Balance at Beginning of Period</u>	<u>Additions</u> ⁽¹⁾	<u>Deductions</u> ⁽²⁾	<u>Balance at End of Period</u>
Three months ended September 30, 2006				
Allowance for sales returns	<u>\$ 462</u>	<u>\$ 523</u>	<u>\$ 488</u>	<u>\$ 497</u>
Three months ended October 1, 2005				
Allowance for sales returns	<u>\$ 490</u>	<u>\$ 205</u>	<u>\$ 201</u>	<u>\$ 494</u>
Six months ended September 30, 2006				
Allowance for sales returns	<u>\$ 525</u>	<u>\$ 676</u>	<u>\$ 704</u>	<u>\$ 497</u>
Six months ended October 1, 2005				
Allowance for sales returns	<u>\$ 463</u>	<u>\$ 560</u>	<u>\$ 529</u>	<u>\$ 494</u>

⁽¹⁾ Allowances for sales returns are charged as a reduction to net sales.

⁽²⁾ Represents amounts written off against the allowance for sales returns.

While the Company's sales returns are historically within the expectations and the allowance established, it cannot guarantee that it will continue to experience the same return rates that it has had in the past. Any significant increase in product failure rates and the resulting sales returns could have a material adverse impact on the operating results for the period or periods in which such returns materialize.

SUPERTEX, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)
(unaudited)

Operating Lease Obligations

The following table summarizes the Company's future minimum lease payments and sublease income under non-cancelable operating leases at September 30, 2006 are as follows (*in thousands*):

<u>Payment Due by Year</u>	<u>Operating Lease</u>	<u>Estimated Sublease Income</u>
Less than 1 year	\$ 1,064	\$ 293
2 years	1,011	52
3 years	1,034	--
4 years	961	--
5 years	562	--
Thereafter	--	--
	<u>\$ 4,632</u>	<u>\$ 345</u>

The Company leases facilities under non-cancelable lease agreements expiring at various times through April 2011. Rental expense net of sublease income for the three and six months ended September 30, 2006, amounted to \$240,000 and \$474,000, respectively.

Note 8 – Common Stock Repurchase

Share repurchase activities for the three and six months ended September 30, 2006 and October 1, 2005, are as follows:

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>September 30,</u> <u>2006</u>	<u>October 1,</u> <u>2005</u>	<u>September 30,</u> <u>2006</u>	<u>October 1,</u> <u>2005</u>
Number of shares repurchased	35,000	--	35,000	67,900
Cost of shares repurchased	\$1,107,000	--	\$1,107,000	\$ 1,080,000
Average price per share	\$31.62	--	\$31.62	\$ 15.91

Since the inception of the repurchase program in 1992 through September 30, 2006, the Company repurchased a total of 1,150,900 shares of the common stock for an aggregate cost of \$8,434,000. Upon their repurchase, shares are restored to the status of authorized but un-issued shares. As of September 30, 2006, a total of 749,100 shares remain authorized for repurchases under the program.

Note 9 – Segment Information

The Company operates in one business segment comprising of the design, development, manufacturing and marketing of high voltage semiconductor devices including analog and mixed signal integrated circuits. The Company's principal markets are in the Asia, United States, and Europe. The Company's chief operating decision makers, the Company's chief executive officer and the chief financial officer, review financial information presented on a consolidated basis for purposes of making operating decisions and assessing financial performance.

SUPERTEX, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)
(unaudited)

Below is a summary of sales by major geographic area (*in thousands*):

<u>Net Sales</u>	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>September 30,</u> <u>2006</u>	<u>October 1,</u> <u>2005</u>	<u>September 30,</u> <u>2006</u>	<u>October 1,</u> <u>2005</u>
Asia (excluding Japan)	\$ 12,886	\$ 8,966	\$ 24,953	\$ 13,762
United States	7,361	7,220	14,888	14,570
Europe	3,981	1,831	6,400	3,136
Japan	2,035	1,718	3,985	3,453
Other	<u>258</u>	<u>491</u>	<u>860</u>	<u>1,298</u>
Net Sales	<u>\$ 26,521</u>	<u>\$ 20,226</u>	<u>\$ 51,086</u>	<u>\$ 36,219</u>

The Company does not segregate information related to operating income generated by export sales. The Company's assets are primarily located in the United States of America.

Net property, plant and equipment by country was as follows (*in thousands*):

<u>Country</u>	<u>September 30, 2006</u>	<u>April 1, 2006</u>
United States	\$ 7,391	\$ 7,006
Hong Kong	<u>1,279</u>	<u>1,042</u>
	<u>\$ 8,670</u>	<u>\$ 8,048</u>

Note 10 – Significant Customers

For the three months ended September 30, 2006, two customers, a distributor of our products and a contract manufacturer each accounted for approximately 12% of net sales. For the six months ended September 30, 2006, the same two customers accounted for approximately 14% and 13% of net sales, respectively. For the three months ended October 1, 2005, two customers, a contract manufacturer and a distributor of our products accounted for approximately 14% and 12% of net sales, respectively. For the six months ended October 1, 2005, the same two customers accounted for approximately 12% and 10% of net sales, respectively.

Outstanding accounts receivable due from the Company's two significant customers as of September 30, 2006, each accounted for 13% of gross accounts receivable.

The Company sells its products to OEMs through its direct sales and marketing personnel, and through its independent sales representative and distributors. Sales to distributors and related cost of sales are recognized upon resale to end-user customers. The Company estimates that approximately 23% and approximately 14% of its net sales in the three months ended September 30, 2006, were subsequently sold to two companies thereby making each of these two companies effectively significant end-user customers for Supertex. For the six months ended September 30, 2006, the same end-user customers accounted for approximately 23% and 12% of net sales, respectively. No other end-user customer accounted for more than 10% of net sales for the three and six months periods ended September 30, 2006.

The same end-user customers accounted for about 24% and 10% of net sales for the three months period ended October 1, 2005, and about 18% and 10% of the net sales of the six months period ended October 1, 2005. No other end-user customer accounted for more than 10% of net sales for the three and six months periods ended October 1, 2005.

SUPERTEX, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)
(unaudited)

Note 11 – Recent Accounting Pronouncements

In September 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Current Year Misstatements*. SAB No. 108 requires analysis of misstatements using both an income statement (rollover) approach and a balance sheet (iron curtain) approach in assessing materiality and provides for a one-time cumulative effect transition adjustment. SAB No. 108 is effective for the Company's fiscal year 2007 annual financial statements. The Company is currently assessing the potential impact that the adoption of SAB No. 108 will have on its financial statements. The Company does not expect that its adoption of the SAB No. 108 will have a material impact on its consolidated financial condition or results of operations.

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is currently assessing the potential impact that the adoption of SFAS No. 157 will have on its financial statements.

In June 2006, the FASB issued FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes: An Interpretation of FASB Statement No. 109*. FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. This Interpretation defines the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN No. 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the effect that the adoption of FIN No. 48 will have on its financial position and results of operations.

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

The following discussion and analysis should be read in conjunction with the Condensed Consolidated Financial Statements and related Notes thereto contained elsewhere in this Report. The information contained in this quarterly report on Form 10-Q is not a complete description of our business or the risks associated with an investment in our common stock. You are urged to carefully review and consider the various disclosures we made in this Report and in other reports filed with the SEC, including the annual report on Form 10-K for the year-ended April 1, 2006, and Form 10-Q for the quarter ended July 1, 2006.

Cautionary Statement Regarding Forward Looking Statements

This quarterly Report on Form 10-Q includes forward-looking statements. These forward-looking statements are not historical facts, and are based on current expectations, estimates, and projections about our industry, our beliefs, our assumptions, and our goals and objectives. Words such as "anticipates," "expects," "intends," "plans," "believes," "seeks," and "estimates," and variations of these words and similar expressions, are intended to identify forward-looking statements. Examples of the kinds of forward-looking statements in this report include statements regarding the following: (1) our belief that we have substantial production capacity in place to handle any projected increase in business for the next fiscal year; (2) our expectation that quarterly R&D spending during the next quarter and remainder of fiscal 2007 is likely to remain at or above the level of our second quarter of fiscal 2007 but that expenses as a percentage of net sales may fluctuate; (3) the Company's belief that it has provided adequate tax reserves to cover any additional taxes that maybe be assessed in the IRS audit; (4) that available funds and cash generated from operations will be sufficient to meet our working capital and capital expenditure requirements for the next twelve months; (5) that we expect to spend approximately \$2.3 million for capital acquisitions in the second half of fiscal year 2007; (6) our belief that the medical ultrasound machine market will continue to grow globally in fiscal 2007 and beyond and that we will be a key component supplier with our increasing sales of high voltage analog switches and multiplexers, high voltage pulser ICs, high-speed MOSFET drivers, and discrete high voltage FETs; (7) our belief that our sales to the Medical Electronics market will increase during fiscal 2007, due in part to contributions of high voltage pulsers and high speed MOSFET drivers; (8) our view that Telecom market sales of optical to optical switches and amplifier products and protection products for DSL are soft; and (9) our view that historic seasonality in sales to the Medical Electronics market may be mitigated due to our having more new products and design wins in our Medical Ultrasound Imaging Group in the past year. These statements are only predictions, are not guarantees, of future performance, and are subject to risks, uncertainties, and other factors, some of which are beyond our control and are difficult to predict, and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements. These risks and uncertainties include items such as no material adverse changes in the demand for our customer's products in which the Company's products are used; competition to supply semiconductor devices in the markets in which the Company competes does not increase and cause price erosion; demand materializes and increases for recently released customer products incorporating the Company's products; that we have no delays in developing and releasing into production our planned new products, that there are no unexpected manufacturing issues as production ramps up; the demand for the Company's products or results of its product development change is such that it would be unwise not to decrease research and development; that the IRS will determine that more US income was realized than the Company claimed or that fewer expenses were allowable; and that some of the Company's equipment will not be unexpectedly damaged or obsoleted, thereby requiring replacement as well as those described in " Factors Which May Affect Operating Results" under Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operation" in the Company's annual report of Form 10-K for the fiscal year ended April 1, 2006. The information included in this Form 10-Q is provided as of the filing date with the SEC and future events or circumstances could differ significantly from the forward-looking statements included herein. Accordingly, the readers are cautioned not to place undue reliance on such statements. Except as required by law, the Company undertakes no obligation to update any forward-looking statement, as a result of new information, future events, or otherwise.

Critical Accounting Policies

Our critical accounting policies are those that both (1) are most important to the portrayal of the financial condition and results of operations and (2) require management's most difficult, subjective, or complex judgments, often requiring estimates about matters that are inherently uncertain. The critical accounting policies are described in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," of our annual report on Form 10-K for the year ended April 1, 2006.

Critical accounting policies affecting us, the critical estimates made when applying them, and the judgments and uncertainties affecting their application have not changed materially since April 1, 2006.

Overview

We design, develop, manufacture, and market integrated circuits (ICs), including analog and mixed signal devices utilizing state-of-the-art high voltage DMOS, HVCMOS and HVBiCMOS analog and mixed signal technologies. We supply standard and custom high voltage interface products primarily for use in the telecommunications (telecom), imaging, medical electronics, and industrial markets. We also supply custom integrated circuits for our customers using customer-owned designs and mask toolings with our process technologies.

Results of Operations

Net Sales

We operate in one business segment comprising the design, development, manufacturing and marketing of high voltage semiconductor devices including analog and mixed signal integrated circuits (ICs). Net sales for the three months ended September 30, 2006 were \$26,521,000, a 31% increase compared to \$20,226,000 for the same period of the prior fiscal year. The year-over-year increase in net sales is primarily attributed to an increase in units shipped, partially offset by a decrease in average selling prices driven by a mix shift to lower price devices and slight price erosion. Net sales increased 8% from \$24,565,000 when compared to the prior quarter ended July 1, 2006. Net sales for the six months ended September 30, 2006 were \$51,086,000, a 41% increase compared to \$36,219,000 for the same period of fiscal 2006 also primarily attributed to increased units.

Our estimate of the breakdown of net sales to customers in the Medical Electronics, Imaging, Telecom and Other markets for the three and six months ended September 30, 2006, and October 1, 2005, respectively, and for three months ended July 1, 2006, as well as year-over-year and quarterly sequential percentage changes are shown in the below table. We have a broad base of customers, who in some cases manufacture end products spanning multiple markets. As such, the assignments of net sales to the aforementioned markets requires the use of estimates, judgment, and extrapolation. Actual results may differ from those reported.

Net Sales (Dollars in thousands)	<u>Three Months Ended</u>			<u>Year- Over- Year Change</u>	<u>Sequential Change</u>	<u>Six Months Ended</u>		<u>Year- Over- Year Change</u>
	<u>September 30, 2006</u>	<u>October 1, 2005</u>	<u>July 1, 2006</u>			<u>September 30, 2006</u>	<u>October 1, 2005</u>	
Imaging	\$ 11,077	\$ 8,900	\$ 9,877	24%	12%	\$ 20,954	\$ 14,488	45%
Medical Electronics	10,162	7,281	8,659	40%	17%	18,821	13,401	40%
Telecom	3,670	3,236	4,419	13%	-17%	8,089	6,519	24%
Other	<u>1,612</u>	<u>809</u>	<u>1,610</u>	99%	0%	<u>3,222</u>	<u>1,811</u>	78%
Net Sales	<u>\$ 26,521</u>	<u>\$ 20,226</u>	<u>\$ 24,565</u>	31%	8%	<u>\$ 51,086</u>	<u>\$ 36,219</u>	41%

<u>Markets</u>	<u>Three Months Ended</u>			<u>Six Months Ended</u>	
	<u>September 30,</u> <u>2006</u>	<u>October 1,</u> <u>2005</u>	<u>July 1,</u> <u>2006</u>	<u>September 30,</u> <u>2006</u>	<u>October 1,</u> <u>2005</u>
Imaging	42%	44%	40%	41%	40%
Medical Electronics	38%	36%	35%	37%	37%
Telecom	14%	16%	18%	16%	18%
Other	<u>6%</u>	<u>4%</u>	<u>7%</u>	<u>6%</u>	<u>5%</u>
Net Sales	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

The Imaging market accounted for the highest dollar sales amount of all of our markets for the three and six months ended September 30, 2006. Sales in the Imaging market for the three and six months ended September 30, 2006 increased 24% and 45%, respectively, to \$11,077,000 and \$20,954,000 when compared to the same periods a year ago and increased 12% sequentially. The year-over-year increase in net sales is primarily attributed to the continued increase in unit demand of the electroluminescent (EL) drivers for cellular phones. The sequential increase in net sales is primarily attributed to a fluctuation in distributor sales from quarter to quarter to meet the changing OEM manufacturing schedules.

Sales to the Medical Electronics market for the three and six months ended September 30, 2006 were \$10,162,000 and \$18,821,000, respectively, as sales increased 40% for both the three and six month periods of the prior fiscal year, and increased 17% sequentially. The year-over-year and sequential increases in net sales are attributed to strong shipments of our high voltage analog switches, pulser circuits and MOSFETs due in part to added analog and multiplexer content in stationary and hand-carried ultrasound (HCU) units.

We believe sales to the Medical Electronics market will continue to increase during this fiscal year. High-performance, portable, affordable systems are accelerating the proliferation of ultrasound imaging to medical specialties other than the traditional clinical applications. Geographically, the market is expanding as well, as China and Korea are now designing and producing medical ultrasound machines. The Company believes that sales of our high voltage analog switches and multiplexers, high voltage pulser ICs, high-speed MOSFET drivers, and discrete high voltage FETs to this market will continue to increase as the ultrasound market continues to expand globally. Supertex is heavily investing in product development for the ultrasound market. We expect to introduce more new integrated pulser ICs as well as ultrasound receiver blocks. Custom high voltage pulsers are projected to contribute to our revenue growth in fiscal 2007.

Sales to the Telecom market increased 13% and 24% during the three and six months ended September 30, 2006 to \$3,670,000 and \$8,089,000, respectively compared to the same periods a year ago and decreased 17% sequentially. The year-over-year increase in sales in the second quarter was attributed to ramping up of our DC-to-DC converters, long haul ring generators, line protection devices, voltage sequencer ICs and high voltage amplifier arrays for the optical-to-optical telecom market. The sequential decrease in second fiscal quarter sales was due to the softening of the optical-to-optical telecom markets.

Sales to Other markets increased 99% and 78% during the three and six months ended September 30, 2006 to \$1,612,000 and \$3,222,000, respectively, compared to the same periods a year ago and didn't change sequentially. The year-over-year increases in sales are primarily due to increased foundry sales, our success in the high voltage LED driver design wins, of which several have started pre-production, and other products.

Several of our markets are seasonal with stronger sales in the second-half of the calendar year. In the past two fiscal years, we experienced a peaking of sales to the Medical Electronics segment during the second quarter of our fiscal year. This is largely the result of increased demand for our customers' products in their December quarter. The budget process and consequential buying practices of large clinics and hospitals result in increased demand for components by equipment manufacturers in the quarter before the purchase by the large clinics and hospitals. With more new products and design wins in our Medical Ultrasound Imaging Group in the past year, this seasonality in sales may be mitigated. Also, we sell products with consumer applications, such as cell phones and other portable

devices, that tend to have higher demand during the Christmas season. This seasonality may affect either or both of our second and third fiscal quarters.

Our current growth strategy relies on the successful transition of our new products, and our ability to continuously and successfully introduce and market new products and technologies that meet our customers' requirements.

Our principal markets are in Asia, the United States, and Europe. Sales for the three and six months ended September 30, 2006, and for three months ended July 1, 2006 by geography as well as year-over-year and sequential percentage change, were as follows, where international sales include sales to U.S. based customers if the product is delivered outside the United States (*in thousands*):

<u>Net Sales</u>	<u>Three Months Ended</u>			<u>Year-Over-Year Change</u>	<u>Sequential Change</u>	<u>Six Months Ended</u>		<u>Year-Over-Year Change</u>
	<u>September 30, 2006</u>	<u>October 1, 2005</u>	<u>July 1, 2006</u>			<u>September 30, 2006</u>	<u>October 1, 2005</u>	
Asia (excluding Japan)	\$ 12,886	\$ 8,966	\$ 12,067	44%	7%	\$ 24,953	\$ 13,762	81%
United States	7,361	7,220	7,527	2%	-2%	14,888	14,570	2%
Europe	3,981	1,831	2,419	117%	65%	6,400	3,136	104%
Japan	2,035	1,718	1,950	18%	4%	3,985	3,453	15%
Other	<u>258</u>	<u>491</u>	<u>602</u>	-47%	-57%	<u>860</u>	<u>1,298</u>	-34%
Net Sales	<u>\$ 26,521</u>	<u>\$ 20,226</u>	<u>\$ 24,565</u>	31%	8%	<u>\$ 51,086</u>	<u>\$ 36,219</u>	41%
Domestic Sales	\$ 7,361	\$ 7,220	\$ 7,527	2%	-2%	\$ 14,888	\$ 14,570	2%
International Sales	<u>19,160</u>	<u>13,006</u>	<u>17,038</u>	47%	12%	<u>36,198</u>	<u>21,649</u>	67%
Net Sales	<u>\$ 26,521</u>	<u>\$ 20,226</u>	<u>\$ 24,565</u>	31%	8%	<u>\$ 51,086</u>	<u>\$ 36,219</u>	41%

Net sales to international customers for the three and six months ended September 30, 2006 were \$19,160,000 or 72% and \$36,198,000 or 71% of net sales as compared to \$13,006,000 or 64% and \$21,649,000 or 60% of net sales for the same periods of the prior fiscal year, and as compared to \$17,038,000 or 69% of net sales in the three months ended July 1, 2006. Sales to international customers for the three and six months ended September 30, 2006 increased 47% and 67% compared to the same periods last year, and increased 12% sequentially. The increase in international sales year-over-year is primarily due to shipments of EL backlighting products to customers whose contract manufacturing vendors are located in China as well as the continuing transfer of end-customer manufacturing from North America to international locations, mainly the Asia Pacific Region. Sequential sales increased slightly due to higher unit shipments and improved product mix. Distributor sales may fluctuate from quarter to quarter to meet the changing OEM manufacturing schedules.

Sales to domestic customers for the three and six months ended September 30, 2006 increased 2% compared to the same periods last year; and decreased 2% sequentially. The sequential decrease in sales is attributed primarily to the transfer of end customer manufacturing to Asia Pacific Region.

Our assets are primarily located in the United States.

Gross Profit

Gross profit represents net sales less cost of sales. Cost of sales includes the cost of purchasing raw silicon wafers, cost associated with assembly, packaging, test, quality assurance and product yields, the cost of personnel, facilities, depreciation on equipment associated with manufacturing and support, and charges for excess inventory. Gross profit for the quarter ended September 30, 2006 was \$16,216,000, compared to \$11,382,000 for the same period of fiscal 2006, and \$14,728,000 for the prior quarter. For the six months ended September 30, 2006, gross

profit was \$30,944,000 compared to \$20,569,000 for the same period of last fiscal year. These increases were primarily attributable to increases in our unit sales and production capacity utilization.

<i>(Dollars in thousands)</i>	<u>Three Months Ended</u>			<u>Six Months Ended</u>	
	<u>September 30, 2006</u>	<u>October 1, 2005</u>	<u>July 1, 2006</u>	<u>September 30, 2006</u>	<u>October 1, 2005</u>
Gross Margin Percentage	61%	56%	60%	61%	57%
<i>Included in Gross Margin Percentage Above</i>					
Gross Margin Benefit from Sale of Previously Written Down Inventory	\$434	\$306	\$516	\$950	\$563
Percentage of Net Sales	2%	2%	2%	2%	2%

Gross margin, which is gross profit as a percent of net sales, was 61% for the three months ended September 30, 2006 compared to 56% for the same period of the prior fiscal year and 60% for the prior quarter ended July 1, 2006. The improvement in gross margin for the three months ended September 30, 2006 over the comparable period in fiscal 2006 was primarily attributed to higher unit shipments, improved plant capacity utilization and increase in sales of previously written-down inventory. The improvement in gross margin for the three months ended September 30, 2006 over the prior quarter was primarily due to increased sales, higher factory utilization, and a more profitable product mix. For the six months ended September 30, 2006, gross margin was 61% compared to 57% for the same period of last fiscal year.

Research and Development (R&D) Expenses

<i>(Dollars in thousands)</i>	<u>Three Months Ended</u>					<u>Six Months Ended</u>		
	<u>September 30, 2006</u>	<u>October 1, 2005</u>	<u>July 1, 2006</u>	<u>Year- Over- Year Change</u>	<u>Sequential Change</u>	<u>September 30, 2006</u>	<u>October 1, 2005</u>	<u>Year- Over- Year Change</u>
R&D Expenses	\$3,658	\$2,598	\$3,949	41%	-7%	\$7,607	\$5,357	42%
Percentage of Net Sales	14%	13%	16%			15%	15%	

R&D expenses include payroll and benefits, as well as expensed material and facility costs associated with the development of new processes and new products. We also expense prototype experimental wafers and mask sets related to new product R&D expenses until the new products are released to production.

In absolute dollars, R&D expenses in the three months ended September 30, 2006 increased to \$3,658,000 from \$2,598,000 for the same period a year ago, reflecting an increase in new product development activities. The increase of \$1,060,000 is primarily attributed to additional staffing resulting in increase in payroll and benefit expenses of \$969,000 including stock-based compensation expense of \$396,000. Compared to the prior quarter, R&D expenses decreased to \$3,658,000 from \$3,949,000, or \$291,000, primarily due to a portion of the expenses being funded by customers and reduced charges from the fab for experimental wafer processing. For the six months ended September 30, 2006, R&D expenses increased to \$7,607,000 compared to \$5,357,000 for the same period a year ago. The increase of \$2,250,000 is primarily due to an increase in payroll and benefit expenses of \$2,161,000, including employee-based stock compensation expense of \$783,000. This spending increase resulted from new product development.

Some aspects of our R&D efforts require significant short-term expenditures. As such, timing of such expenditures may cause fluctuations in our R&D expenses. We have increased R&D activities in order to increase our introduction of new products and meet current and future technological requirements of our customers and markets. As such, R&D expenses in absolute dollars are likely to remain at this or higher levels in the next quarter and the remainder of fiscal 2007. However, R&D expenses as a percentage of net sales may fluctuate.

Selling, General and Administrative (SG&A) Expenses

<i>(Dollars in thousands)</i>	<u>Three Months Ended</u>					<u>Six Months Ended</u>		
	<u>September 30, 2006</u>	<u>October 1, 2005</u>	<u>July 1, 2006</u>	<u>Year-Over-Year Change</u>	<u>Sequential Change</u>	<u>September 30, 2006</u>	<u>October 1, 2005</u>	<u>Year-Over-Year Change</u>
SG&A Expenses	\$3,826	\$ 3,248	\$3,803	18%	1%	\$7,629	\$ 6,436	19%
Percentage of Net Sales	14%	16%	15%			15%	18%	

SG&A expenses consist primarily of employee-related expenses, commissions to sales representatives, occupancy expenses including expenses associated with the our regional sales offices, cost of advertising and publications, and outside services such as legal, auditing, tax, and Sarbanes-Oxley compliance.

SG&A expenses for the three months ended September 30, 2006 increased \$578,000 or 18% to \$3,826,000 from \$3,248,000 for the comparable period of last year. This increase of \$578,000 resulted primarily from higher payroll and related benefits of \$387,000, including \$163,000 and \$56,000 in employee and non-employee stock base compensation expense, respectively, and a \$276,000 increase in outside service expense for audit and Sarbanes Oxley compliance services. Compared to the prior quarter, SG&A expenses increased slightly by \$23,000 or 1%. SG&A expenses for the six months ended September 30, 2006 increased \$1,193,000 or 19% to \$7,629,000 from \$6,436,000 for the comparable period of last year. The increase is primarily attributed to a \$370,000 increase in payroll and related benefits resulting from \$359,000 and \$79,000 in employee and non-employee stock based compensation, respectively, a \$698,000 increase in outside service expense for audit and Sarbanes Oxley compliance services, and a \$227,000 increase in commission and salesman bonus resulting from increased sales, partially offset by a \$90,000 decrease in advertising expense.

Interest Income and Other Income, Net

<i>(Dollars in thousands)</i>	<u>Three Months Ended</u>					<u>Six Months Ended</u>		
	<u>September 30, 2006</u>	<u>October 1, 2005</u>	<u>July 1, 2006</u>	<u>Year-Over-Year Change</u>	<u>Sequential Change</u>	<u>September 30, 2006</u>	<u>October 1, 2005</u>	<u>Year-Over-Year Change</u>
Interest Income and Other Income, Net	\$968	\$ 702	\$1,288	38%	-25%	\$2,256	\$ 1,608	40%
Percentage of Net Sales	4%	3%	5%			4%	4%	

Interest income, which consists primarily of interest income from our cash, cash equivalents and short-term investments, was \$1,202,000 and \$632,000 for the three months ended September 30, 2006 and October 1, 2005, respectively. For the six months ended September 30, 2006, interest income was \$2,313,000, compared to \$1,259,000 of the same period of the last fiscal year. The increases in interest income for the three and six months months ended September 30, 2006 compared to the same periods of fiscal 2006 are primarily a result of larger cash, cash equivalents and short-term investments balances and from higher investment yields.

Other expense, net, for the three months ended September 30, 2006 was \$234,000 and consisted primarily of a \$521,000 charge for uncollectible sales tax and interest expense accrued related to the recent sales tax and IRS audits, partially offset by proceeds of \$61,000 representing the balance received from the sale of an investment previously written off, by a \$191,000 increase in fair market value of investments held by our Supplemental Employee Retirement Plan, and foreign exchange gain and by an increase in other items of \$35,000. For the

comparable period in fiscal 2006, other income, net, was \$70,000 and consisted primarily of an increase in fair market value of investments held by our Supplemental Employee Retirement Plan of \$104,000, partially offset by foreign currency exchange loss and other items of \$34,000.

Other expense, net for the six months ended September 30, 2006 was \$57,000 and consisted primarily of \$521,000 charge for uncollectible sales tax and interest expenses accrued related to the sales tax and IRS audits; partially offset by proceeds of \$246,000 from the sale of an investment previously written off, a \$113,000 increase in fair market value of investments held by our Supplemental Employee Retirement Plan, a \$64,000 proceeds from an insurance claim for damages caused by a contractor, and foreign exchange gain and other items of \$41,000. For the comparable six months ended October 1, 2005, other income, net, of \$349,000 is primarily attributed to an increase in fair market value of investments held by the Company's Supplemental Employee Retirement Plan of \$290,000.

Provision for Income Taxes

Provision for income taxes represents federal, state and foreign taxes. The provision for income taxes for the three months ended September 30, 2006 was \$3,704,000 at the effective tax rate of 38%, compared to \$1,991,000 and 32% for the same period in the prior fiscal year. The income tax provision for such interim periods reflects the Company's estimated annual income tax rate and differs from the taxes computed at the federal statutory rate primarily due to state income taxes, the effect of non-deductible stock-based compensation expense, tax exempt interest income, state research and development credits, and other adjustments to reserves for tax contingencies. Additionally, the fiscal 2006 tax provision rate included a benefit from federal research and development credit, which has not been renewed in fiscal 2007. The provision for income taxes for the six months ended September 30, 2006 was \$7,052,000 at the effective tax rate of 39% compared to \$3,318,000 and 32% for the same period in the prior fiscal year. The increases in effective tax rate for the quarter and year-to-date ended September 30, 2007 to 38% and 39%, respectively, from 32% in the comparable periods ending October 1, 2005 are primarily due to a reduction in research and development tax credits, including one-time adjustments for contingencies related to an IRS audit, and due to the effect of adopting FAS 123R, "Share-Based Payment."

On November 10, 2005, the FASB issued FASB Staff Position No. FAS 123R-3 "Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards." We elected to adopt the alternative transition method provided in the FASB Staff Position for calculating the tax effects of stock-based compensation pursuant to SFAS 123R. The alternative transition method includes simplified methods to establish the beginning balance of the additional paid-in capital pool ("APIC pool") related to the tax effects of employee stock-based compensation, and to determine the subsequent impact on the APIC pool and Consolidated Statements of Cash Flows of the tax effects of employee stock-based compensation awards that are outstanding upon adoption of SFAS 123R.

We maintain reserves for tax contingencies within our income taxes payable account. The determination of the amount to reserve involves considerable judgment and estimation, and is continuously monitored by management based on the best information available including changes in tax regulations, the outcome of relevant court cases and other information. The IRS has concluded its audit of the fiscal 2002 tax return and we are currently under IRS examination for the fiscal 2003 tax return. We believe that we have adequately provided tax reserves in our financial statements for additional taxes we may be required to pay as a result of the examinations. If the resulting tax assessment exceeds the estimate of tax liabilities, an additional charge to expense will result. If payment proves unnecessary, the reversal of tax liabilities would result in tax benefits being recognized in the period we determine such liabilities are no longer necessary.

Financial Condition

Overview

We ended the second quarter of fiscal 2007 with \$123,305,000 in cash, cash equivalents, and short-term investments. This represents an increase of \$12,659,000 when compared with the amount of \$110,646,000 on April 1, 2006. As of September 30, 2006, the net working capital was \$137,645,000, an increase of \$13,202,000 from \$124,443,000 as of April 1, 2006. Working capital is defined as current assets less current liabilities. The increase in working capital was mostly the result of cash generated from operations.

Liquidity and Capital Resources

Our cash and cash equivalents decreased \$6,795,000 during the six months ended September 30, 2006 to \$20,859,000 from \$27,654,000 at April 1, 2006. The decrease in cash and cash equivalents during the six months ended September 30, 2006 is due to cash used in net purchases of short-term investments of \$20,199,000, as we moved cash and cash equivalents into short-term investments and \$1,968,000 of cash used in the purchase of property, plant and equipment. This was partially offset by positive cash flows from operating activities of \$14,063,000 and from financing activities of \$1,309,000.

Our operating activities generated cash of \$14,063,000 for the six months ended September 30, 2006, compared to \$5,987,000, for the same period in the prior fiscal year. The positive cash flows from operating activities were primarily attributable to net income of \$10,912,000, adjusted for non-cash items of \$4,716,000; partially offset by an increase in net working capital of \$1,565,000. Non-cash adjustments to net income for the six months ended September 30, 2006 consisted of compensation expense related to stock option and employee stock purchase plans of \$1,378,000, depreciation of \$1,340,000, non-cash charges for provisions relating to inventory of \$1,189,000, a non-cash addition to provision for doubtful accounts and sales returns totaling \$575,000, and a non-cash tax benefit related to stock-based compensation plans of \$526,000; partially offset by a reclass of non-cash excess tax benefit of \$292,000 from operating into financing activities as required by SFAS 123R. Working capital sources of cash included an \$815,000 increase in deferred revenue, a \$745,000 decrease in short-term investments categorized as trading securities, a \$397,000 increase in income tax payable and a \$277,000 increase in trade accounts payable and accrued expenses payable. Working capital uses of cash included an increase in accounts receivable of \$1,884,000 due primarily to increased sales, an increase in inventory of \$1,459,000 to support higher projected sales, and an increase in prepaid expenses and other assets of \$456,000.

Prior to adopting SFAS 123R, we presented all tax benefits resulting from the exercise of stock options as operating cash flows in the Statement of Cash Flows. SFAS 123R requires cash flows resulting from excess tax benefits to be classified as a part of cash flows from financing activities. Excess tax benefits represent tax benefits related to exercised options in excess of the associated deferred tax asset for such options. The excess tax benefit for the six months ended September 30, 2006 was \$292,000. This amount was reported as a cash inflow from financing activities.

In the comparable period in fiscal 2006, the positive cash flows from operating activities were primarily attributable to net income of \$7,066,000, adjusted for non-cash items of \$3,540,000, partially offset by an increase in net working capital of \$4,619,000. Non-cash adjustments to net income for the six months ended October 1, 2005 consisted of depreciation of \$1,391,000, a non-cash tax benefit associated with employee stock option exercises of \$873,000, non-cash charges for provisions relating to inventory of \$702,000, and a non-cash addition to provision for doubtful accounts and sales returns totaling \$574,000. Working capital sources of cash included an increase in accounts payable and accrued expenses of \$2,258,000 primarily from timing of payments and increased accruals for employee benefits payable. Working capital uses of cash included an increase in accounts receivable of \$4,141,000 due primarily to increased sales, an increase in inventories of \$1,884,000 to support higher projected third and fourth fiscal quarter sales, a decrease in deferred revenue of \$486,000, and an increase in short-term investments categorized as trading securities of \$437,000.

Net cash used in investing activities in the six months ended September 30, 2006 was \$22,167,000, primarily for purchases of short-term investments categorized as available for sale of \$487,990,000 and purchases of property, plant and equipment of \$1,968,000, partially offset by \$467,791,000, of proceeds from sales of short-term investments categorized as available for sale. In the comparable period in fiscal 2006, net cash used in investing activities was \$24,674,000, primarily for purchases of short-term investments categorized as available for sale of \$370,500,000 and purchases of property, plant and equipment of \$973,000, partially offset by \$346,799,000, proceeds from sales of short-term investments categorized as available for sale.

Net cash provided from financing activities during the six months ended September 30, 2006, was \$1,309,000, which consisted primarily of proceeds from employee exercises of stock options under the current and former option plans and proceeds from employee purchases of stocks under the ESPP totaling \$2,124,000 and a non-cash reclass of excess tax benefit of \$292,000 from operating into financing activities as required by SFAS 123R; offset by a \$1,107,000 cash used for common stock repurchases. In the comparable period in fiscal 2006, net cash provided from financing activities was \$2,431,000, which consisted primarily of proceeds from employee exercises of stock options under the current and former option plans and proceeds from employee purchases of stocks under the ESPP totaling \$3,511,000, offset by \$1,080,000 used for common stock repurchases.

We expect to spend approximately \$2.3 million for capital acquisitions in the third and fourth quarters of fiscal 2007. We believe that we have substantial production capacity in place to handle any projected increase in business for the next fiscal year. We also believe our existing cash, cash equivalents and short-term investments, together with cash flow from operations, will be sufficient to meet liquidity and capital requirements through at least the next twelve months.

Off-Balance Sheet Arrangements

We do not have nor have we ever had any off-balance sheet arrangements that have, or are likely to have, a current or future material effect on the financial condition, sales, expenses, results of operations, liquidity, capital expenditures, or capital resources.

Contractual Obligations

We purchase components from a variety of suppliers and use several contract manufacturers to provide manufacturing services for our products. During the normal course of business, in order to manage manufacturing lead times and help assure adequate component supply, we enter into agreements with contract manufacturers and suppliers that either allow them to procure inventory based upon criteria as defined by us or that establish the parameters defining our requirements. In certain instances, these agreements allow us the option to cancel, reschedule, and adjust our requirements based on our business needs prior to firm orders being placed. Consequently, only a portion of our reported purchase commitments arising from these agreements is firm, non-cancelable, and unconditional commitments.

The following table summarizes our significant contractual cash obligations at September 30, 2006, and the effect such obligations are expected to have on our liquidity and cash flow in future periods (*in thousands*):

<u>Contractual Obligations</u>	<u>Total</u>	<u>Payment Due by Year</u>			<u>After 5 Years</u>
		<u>Less than 1 Year</u>	<u>2-3 Years</u>	<u>4-5 Years</u>	
Operating lease obligations ⁽¹⁾	\$ 4,632	\$ 1,064	\$ 2,045	\$ 1,523	\$ --
Purchase obligations ⁽²⁾	<u>7,415</u>	<u>7,383</u>	<u>32</u>	<u>--</u>	<u>--</u>
Total contractual cash obligations	<u>\$ 12,047</u>	<u>\$ 8,447</u>	<u>\$ 2,077</u>	<u>\$ 1,523</u>	<u>\$ --</u>

⁽¹⁾ We lease facilities under non-cancelable lease agreements expiring at various times through April 2011. Rental expense net of sublease income for the three and six months ended September 30, 2006, amounted to \$240,000 and \$474,000, respectively.

⁽²⁾ *To obtain favorable pricing and resource commitment, we commit to volume purchases from suppliers of manufacturing materials and services.*

Recent Accounting Pronouncements

In September 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Current Year Misstatements*. SAB No. 108 requires analysis of misstatements using both an income statement (rollover) approach and a balance sheet (iron curtain) approach in assessing materiality and provides for a one-time cumulative effect transition adjustment. SAB No. 108 is effective for our fiscal year 2007 annual financial statements. We are currently assessing the potential impact that the adoption of SAB No. 108 will have on our financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. The provision of SFAS No. 157 is effective for us beginning our fiscal year 2009. We are currently assessing the potential impact that the adoption of SFAS No. 157 will have on our financial statements.

In June 2006, the FASB issued FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes: An Interpretation of FASB Statement No. 109*. FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. This Interpretation defines the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN No. 48 is effective for fiscal years beginning after December 15, 2006. We are currently evaluating the effect that the adoption of FIN No. 48 will have on our financial position and results of operations.

Available Information

We file electronically with the SEC our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments, if any, to those reports pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. The SEC maintains an Internet site at <http://sec.gov> that contains reports, proxy and information statements and other information regarding Supertex, Inc. We make available free of charge and through our Internet website at www.supertex.com copies of these reports as soon as reasonably practicable after filing or furnishing the information to the SEC. Copies of such documents may be requested by contacting our Investor Relations department at (408) 222-4295.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company is exposed to financial market risks due primarily to changes in interest rates. The Company does not use derivatives to alter the interest characteristics of its investment securities. The Company has no holdings of derivative or commodity instruments, and its holdings are for purposes other than trading. The Company's portfolio is primarily comprised of fixed rate securities. The fair value of these fixed rate securities may be affected by a rise in interest rates; however, the Company believes that the impact would be minimal since the maturities of these securities are short, typically not more than 35 days.

To date, the Company's international customer agreements are denominated primarily in U.S. dollars, and accordingly, it has not been exposed materially to foreign currency exchange rate fluctuations related to customer agreements. The Company does not engage in foreign currency hedging transactions. The functional currency of the Company's operations in Hong Kong is the U.S. dollar. Therefore, as the local expenditures are denominated in the local currency of Hong Kong dollar, it is subject to foreign currency exchange rate fluctuations associated with re-measurement to U.S. dollars. The Company does not enter into forward exchange contracts as a hedge

against foreign currency exchange risk on transactions denominated in foreign currencies or for speculative or trading purposes. A hypothetical change of 10% in the foreign currency exchange rates would not have a material impact on the Company's consolidated financial position or results of operations.

Item 4. Controls and Procedures

(a) Disclosure Controls and Procedures.

Disclosure Controls and Procedures. The Company's disclosure controls and procedures are designed to ensure that information required to be disclosed in the Company's reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, including, without limitation, that such information is accumulated and communicated to Company management, including the Company's principal executive and financial officers, as appropriate to allow timely decisions regarding required disclosures.

Limitations on the Effectiveness of Disclosure Controls. In designing and evaluating the Company's disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, Company management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Evaluation of Disclosure Controls and Procedures. The Company's principal executive and financial officers have evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as defined in Exchange Act Rules 13a-14(c) as of September 30, 2006, and have determined that they are reasonably effective, taking into account the totality of the circumstances, including the limitations described above.

(b) Internal Control over Financial Reporting.

Our internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) is designed to provide reasonable assurance regarding the reliability of our financial reporting and preparation of financial statements for external purposes in accordance with generally accepted accounting principles. There were no significant changes in the Company's internal control over financial reporting that occurred during the second quarter of fiscal 2007 that have materially affected, or are reasonably likely to materially affect such control.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

From time to time the Company is subject to possible claims or assessments from third parties arising in the normal course of business. Management has reviewed such possible claims and assessments with legal counsel and believes that it is unlikely that they will result in a material adverse impact on the Company's financial position or results of operations.

Item 1A. Risk Factors

There have been no material changes to the risk factors disclosed in Item 1A of Part I of our Form 10-K for the fiscal year ended April 1, 2006, filed on June 15, 2006, which risk factors are hereby incorporated by reference.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽²⁾	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs
07/02/06- 07/29/06	--	--	--	784,100
07/30/06- 08/26/06	35,000	\$ 31.62	--	749,100
08/27/06- 09/30/06	--	\$ --	--	749,100
Total	35,000	\$ 31.62	--	749,100

(1) Our current share repurchase program, under which we repurchased these 35,000 shares, has been in place since 1999. We are not certain but do not believe we publicly announced this program, although our financial statements have reflected purchases from time to time under this program. These 35,000 shares were purchased in open market transactions.

(2) We adopted a share repurchase program in 1992 authorizing the repurchase of 1,000,000 shares. Our board of directors terminated this program in 1999 after 938,000 shares had been repurchased and adopted a share repurchase program authorizing the repurchase of 900,000 shares plus the 62,000 shares authorized for repurchase under the 1992 program whose repurchase had not been affected. As described in footnote (1), we are not certain but do not believe that we publicly announced our 1999 repurchase plan. The 1999 repurchase program has no expiration date, other than, unless extended, when an aggregate of 962,000 shares have been repurchased. Neither this program nor any other repurchase program or plan has expired during our second quarter ended September 30, 2006 nor has the Company decided to terminate any repurchase plan or program prior to its expiration. There are no existing repurchase plans or programs under which the Company does not intend to make further purchases.

Item 3. Defaults Upon Senior Securities

None

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

At the Company's August 18, 2006, Annual Meeting of Shareholders, the Company's shareholders re-elected the existing board of directors and ratified the selection of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for fiscal 2007. Of the 13,677,295 shares of common stock outstanding as of the record date of June 23, 2005, a total of 12,998,579 shares were voted in person or by proxy, representing 95% of the total votes entitled to be cast, constituting a majority and therefore more than a quorum of the outstanding shares entitled to vote. Votes were cast as follows:

<u>Matter Acted Upon</u>	<u>Votes For</u>	<u>Votes Against</u>	<u>Votes Withheld/ Abstentions</u>	<u>Broker Non-Votes</u>
1. Election of Directors				
Henry C. Pao	12,604,868	0	393,711	0
Benedict C.K. Choy	12,766,232	0	232,347	0
W. Mark Loveless	12,975,313	0	23,266	0
Elliott Schlam	12,975,513	0	23,066	0
Milton Feng	12,975,063	0	23,516	0
2. Proposal to ratify the appointment of PricewaterhouseCoopers LLP as the independent registered public accounting firm of the Company for the fiscal year ending March 31, 2007.				
	12,995,163	3,363	53	0

Item 5. Other Information

None

Item 6. Exhibits

- Exhibit 31.1 Certification of Chief Executive Officer pursuant to Securities and Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- Exhibit 31.2 Certification of Chief Financial Officer pursuant to Securities and Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- Exhibit 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- Exhibit 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURE

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

SUPERTEX, INC.

(Registrant)

By: /s/ Phillip A. Kagel

Vice President of Finance and Chief Financial Officer
*(Duly Authorized Officer and Principal Financial and
Accounting Officer)*

Date: November 8, 2006

Exhibit 31.1
Certifications Under Rule 13a-14(a)/15d-14(a)

I, Henry C. Pao, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Supertex, Inc., a California corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and I have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2006

/s/ Henry C. Pao
Henry C. Pao, Ph.D.
Chief Executive Officer

Exhibit 31.2
Certifications Under Rule 13a-14(a)/15d-14(a)

I, Phillip A. Kagel, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Supertex, Inc., a California corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and I have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2006

/s/ Phillip A. Kagel

Phillip A. Kagel

Vice President of Finance and Chief Financial Officer

Exhibit 32.1

Statement of Chief Executive Officer under 18 U.S.C. § 1350

I, Henry C. Pao, the chief executive officer of Supertex, Inc., a California corporation (the “Company”), certify pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code, that to my knowledge:

- (i) the quarterly report of the Company on Form 10-Q for the period ended September 30, 2006, as filed with the Securities and Exchange Commission (the “Report”), fully complies with the requirements of Section 13(a) or 15(d), whichever is applicable, of the Securities Exchange Act of 1934, and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

Date: November 8, 2006

/s/ Henry C. Pao
Henry C. Pao, Ph.D.
Chief Executive Officer

The material contained in this Exhibit 32.1 is not deemed “filed” with the SEC and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation language contained in such filing.

Exhibit 32.2

Statement of Chief Financial Officer under 18 U.S.C. § 1350

I, Phillip A. Kagel, the chief financial officer of Supertex, Inc., a California corporation (the “Company”), certify pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code, that to my knowledge:

- (i) the quarterly report of the Company on Form 10-Q for the period ended September 30, 2006, as filed with the Securities and Exchange Commission (the “Report”), fully complies with the requirements of Section 13(a) or 15(d), whichever is applicable, of the Securities Exchange Act of 1934, and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

Date: November 8, 2006

/s/ Phillip A. Kagel

Phillip A. Kagel

Vice President of Finance and Chief Financial Officer

The material contained in this Exhibit 32.2 is not deemed “filed” with the SEC and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation language contained in such filing.