

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

FORM 10-Q

(MARK ONE)

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

For the quarterly period ended September 29, 2007

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 [X]

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 [X]

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 [X]

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 6, 2007
13,650,202

*Exhibit index is on Page 28
Total number of pages: 32*

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 | |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| | September 29, 2007 | September 30, 2006 | September 29, 2007 | September 30, 2006 |
| Net sales | \$ 22,029 | \$ 26,521 | \$ 42,791 | \$ 51,086 |
| Cost of sales ⁽¹⁾ | 9,020 | 10,305 | 17,096 | 20,142 |
| Gross profit | 13,009 | 16,216 | 25,695 | 30,944 |
| Research and development ⁽¹⁾ | 3,858 | 3,658 | 7,623 | 7,607 |
| Selling, general and administrative ⁽¹⁾ | 4,192 | 3,826 | 7,838 | 7,629 |
| Total operating expenses | 8,050 | 7,484 | 15,461 | 15,236 |
| Income from operations | 4,959 | 8,732 | 10,234 | 15,708 |
| Interest income | 1,441 | 1,202 | 2,821 | 2,313 |
| Other income (expense), net | 146 | (234) | 273 | (57) |
| Income before provision for income taxes | 6,546 | 9,700 | 13,328 | 17,964 |
| Provision for income taxes | 2,045 | 3,704 | 4,354 | 7,052 |
| Net income | <u>\$ 4,501</u> | <u>\$ 5,996</u> | <u>\$ 8,974</u> | <u>\$ 10,912</u> |
| Net income per share: | | | | |
| Basic | <u>\$ 0.33</u> | <u>\$ 0.44</u> | <u>\$ 0.65</u> | <u>\$ 0.80</u> |
| Diluted | <u>\$ 0.32</u> | <u>\$ 0.43</u> | <u>\$ 0.64</u> | <u>\$ 0.78</u> |
| Shares used in per share computation: | | | | |
| Basic | <u>13,755</u> | <u>13,671</u> | <u>13,767</u> | <u>13,658</u> |
| Diluted | <u>13,987</u> | <u>13,989</u> | <u>13,999</u> | <u>14,000</u> |

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

| | | | | |
|-------------------------------------|--------|--------|--------|--------|
| Cost of sales | \$ 132 | \$ 92 | \$ 274 | \$ 157 |
| Research and development | \$ 189 | \$ 396 | \$ 465 | \$ 783 |
| Selling, general and administrative | \$ 183 | \$ 163 | \$ 421 | \$ 359 |

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

| | September 29, 2007 | March 31, 2007 |
|--|---------------------------|-----------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 22,630 | \$ 22,652 |
| Short-term investments | 120,311 | 116,264 |
| Trade accounts receivable | 14,222 | 12,793 |
| Inventories | 16,845 | 14,238 |
| Prepaid expenses and other current assets | 3,141 | 2,172 |
| Deferred income taxes | 8,122 | 8,123 |
| Total current assets | 185,271 | 176,242 |
| Property, plant and equipment, net | 10,258 | 8,651 |
| Other assets | 391 | 140 |
| Deferred income taxes | 1,823 | 899 |
| TOTAL ASSETS | \$ 197,743 | \$ 185,932 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Trade accounts payable | \$ 5,064 | \$ 4,120 |
| Accrued salaries and employee benefits | 12,584 | 12,102 |
| Other accrued liabilities | 1,883 | 2,175 |
| Deferred revenue | 3,279 | 2,965 |
| Income taxes payable | -- | 3,318 |
| Total current liabilities | 22,810 | 24,680 |
| Income taxes payable, noncurrent | 5,101 | -- |
| TOTAL LIABILITIES | \$ 27,911 | \$ 24,680 |
| 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 13,773 shares and 13,794 shares | 57,279 | 54,741 |
| Retained earnings | 112,553 | 106,511 |
| TOTAL SHAREHOLDERS' EQUITY | 169,832 | 161,252 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 197,743 | \$ 185,932 |

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

| | Six Months Ended | |
|---|-------------------------------|-------------------------------|
| | September 29, 2007 | September 30, 2006 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | \$ 8,974 | \$ 10,912 |
| Non-cash adjustments to net income: | | |
| Depreciation | 1,388 | 1,340 |
| Provision for doubtful accounts and sales returns | 524 | 575 |
| Provision for excess and obsolete inventories | 850 | 1,189 |
| Stock-based compensation expense | 1,160 | 1,378 |
| Tax benefit related to stock-based compensation plans | 363 | 526 |
| Excess tax benefit related to stock-based compensation plans | (181) | (292) |
| Gain on disposal of property, plant and equipment | (200) | - |
| Changes in operating assets and liabilities: | | |
| Short-term investments, categorized as trading | (447) | 745 |
| Trade accounts receivable | (1,953) | (1,884) |
| Inventories | (3,457) | (1,459) |
| Prepaid expenses and other assets | (1,220) | (456) |
| Trade accounts payable and accrued expenses | 1,134 | 277 |
| Deferred revenue | 314 | 815 |
| Deferred income taxes | (923) | - |
| Income taxes payable | 1,690 | 397 |
| Net cash provided by operating activities | 8,016 | 14,063 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of property, plant and equipment | (2,995) | (1,968) |
| Proceeds from disposal of property and equipment | 200 | - |
| Purchases of short-term investments, categorized as available for sale | (67,100) | (186,664) |
| Sales and maturities of short-term investments, categorized as available for sale | 63,500 | 166,465 |
| Net cash used in investing activities | (6,395) | (22,167) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from exercise of stock options and employee stock purchase plan | 1,425 | 2,124 |
| Repurchase of common stock | (3,249) | (1,107) |
| Excess tax benefit related to stock-based compensation plans | 181 | 292 |
| Net cash provided by (used in) financing activities | (1,643) | 1,309 |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (22) | (6,795) |
| CASH AND CASH EQUIVALENTS: | | |
| Beginning of period | 22,652 | 27,654 |
| End of period | \$ 22,630 | \$ 20,859 |
| Supplemental cash flow disclosures: | | |
| Income taxes paid, net of refunds | \$ 4,185 | \$ 6,360 |

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 29, 2007 and March 31, 2007, results of operations for the three and six months ended September 29, 2007 and September 30, 2006, and cash flows for the six months ended September 29, 2007 and September 30, 2006. The March 31, 2007 balance sheet was derived from the audited financial statements included in the 2007 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 March 31, 2007, 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 29, 2007 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 2008 will be a 52-week year. The three months ended September 29, 2007, March 31, 2007, and September 30, 2006, all consist of thirteen weeks.

Reclassification

For presentation purposes, certain prior period amounts have been reclassified to conform to the reporting in the current period financial statements. These reclassifications do not affect the Company’s net income, cash flows or net shareholders’ equity.

Recent Accounting Pronouncements

In February 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS No. 159), which permits entities to elect to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. This election is irrevocable. SFAS No. 159 will be effective for the Company in fiscal 2009. The Company is currently assessing the potential impact that the adoption of SFAS No. 159 will have on its financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157), 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 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

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

the information. This statement is effective for the Company in fiscal 2009. 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, *Accounting for Uncertainty in Income Taxes: An Interpretation of FASB statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109. This interpretation defines the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. The Company adopted FIN 48 on April 1, 2007 as a change in accounting principle, and has recorded the cumulative effect of adoption of \$93,000 as a decrease in the opening balance of retained earnings in the first quarter of fiscal 2008, as permitted by the transition provisions of FIN 48. See Note 5.

Note 2 - Stock-Based Compensation

Effective April 2, 2006, the Company adopted the provisions of SFAS No. 123(R), *Share-Based Payment*. SFAS 123R establishes accounting for stock-based awards exchanged for employee services. Accordingly, stock-based compensation cost is measured at grant date, based on the fair value of the award, and is recognized as expense over the requisite service period for the employee.

The effects of recording employee stock-based compensation expense for the three months and six months ended September 29, 2007 and September 30, 2006 were as follows:

| | <u>Three Months Ended</u> | | <u>Six Months Ended</u> | |
|--|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| | <u>September 29, 2007</u> | <u>September 30, 2006</u> | <u>September 29, 2007</u> | <u>September 30, 2006</u> |
| Stock-based compensation expense | \$ 504 | \$ 651 | \$ 1,160 | \$ 1,299 |
| Tax effect of stock-based compensation expense | (42) | 31 | (104) | (17) |
| Effect on net income | <u>\$ 462</u> | <u>\$ 682</u> | <u>\$ 1,056</u> | <u>\$ 1,282</u> |

During the three and six months ended September 29, 2007, the Company granted options with an estimated total grant date fair value of \$2,378,000 and \$2,546,000, respectively. For the same periods last fiscal year, the Company granted options with an estimated grant date fair value of \$155,000 and \$1,072,000, respectively. As of September 29, 2007, the unrecorded stock-based compensation cost balance related to stock options was \$6,796,000 (net of forfeitures) and will be recognized over an estimated weighted average amortization period of 4.70 years.

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 to ten years from grant date or 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 grant only non-statutory stock options to better align the Company's compensation plan to employee incentives and to company objectives. On August 17, 2007, the Company's board of directors approved that all future stock option grants would have a ten-year life, which is within the guidelines of the Company's 2001 Stock Option Plan document.

The following table summarizes the combined activity under the Option Plans for the six months ended September 29, 2007:

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

| | Available For Grant | Options Outstanding | |
|-----------------------------|------------------------|---------------------|------------------------------------|
| | | Number of Shares | Weighted Average Exercise Price |
| Balance, March 31, 2007 | 885,579 | 1,052,370 | \$27.08 |
| Granted | (139,100) | 139,100 | 35.67 |
| Exercised | -- | (80,405) | 16.67 |
| Canceled | 99,500 | (99,500) | 41.76 |
| Balance, September 29, 2007 | 845,979 | 1,011,565 | \$27.54 |

The weighted average fair values of options, as determined under SFAS 123R, granted under the Option Plans during the three and six months ended September 29, 2007 were \$18.63 and \$18.30 per share, compared to \$16.32 and \$19.04 per share, respectively, during the same periods last fiscal year. The total intrinsic values 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 29, 2007 were \$549,000 and \$1,345,000, compared to \$684,000 and \$1,888,000, respectively, for the same periods last fiscal year. During the three and six months ended September 29, 2007, the amounts of cash received from employees as a result of employee stock option exercises were \$716,000 and \$1,341,000, respectively. For the same periods last fiscal year, such amounts were \$681,000 and \$1,589,000, respectively.

The options outstanding and exercisable at September 29, 2007, 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 - \$17.06 | 214,255 | 2.26 | \$ 13.95 | 155,995 | \$ 12.92 |
| 17.11 - 19.37 | 202,300 | 3.41 | 17.51 | 74,520 | 17.50 |
| 19.56 - 33.67 | 263,160 | 5.02 | 31.25 | 54,040 | 28.72 |
| 35.37 - 41.05 | 294,150 | 7.78 | 38.60 | 15,940 | 39.35 |
| 42.24 - 46.92 | 37,700 | 6.05 | 46.34 | 940 | 42.24 |
| \$10.75 - \$46.92 | 1,011,565 | 4.96 | \$ 27.54 | 301,435 | \$ 18.38 |

The total intrinsic value of options outstanding and options exercisable as of September 29, 2007 were \$12,913,000 and \$6,501,000, 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. 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 at the end of the six-month offering period, and no longer based on the lower of the market value at the beginning or ending of the six-month offering period.

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

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 29, 2007</u> | <u>March 31, 2007</u> |
|---|---------------------------|-----------------------|
| Raw materials | \$ 1,584 | \$ 1,648 |
| Work-in-process | 10,810 | 8,382 |
| Finished goods | 2,788 | 2,681 |
| Finished goods at distributors and on consignment | 1,663 | 1,527 |
| Inventories | <u>\$ 16,845</u> | <u>\$ 14,238</u> |

The Company wrote down inventory totaling \$469,000 and \$850,000 for the three and six months ended September 29, 2007, respectively. For the comparable periods in fiscal 2007, the Company wrote down inventory totaling \$592,000 and \$1,189,000, respectively. The Company realized gross margin benefits of \$380,000 and \$778,000 for the three and six months ended September 29, 2007 due to sales of previously reserved, or written-down, inventory. Such benefits were \$434,000 and \$950,000 for the three and six months ended September 30, 2006.

Inventories at distributors and inventories held on consignment at the Company's OEM customers' hubs on September 29, 2007 and March 31, 2007 were \$1,663,000 and \$1,527,000, respectively. Due to the 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, which we own and is included in our inventory at cost, revenue is not recognized until customers draw the products 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.

Note 5 – Income Taxes

The provision for income taxes for the three and six months ended September 29, 2007 was \$2,045,000 at the effective tax rate of 31% and \$4,354,000 at the effective tax rate of 33%, compared to \$3,704,000 or 38% and \$7,052,000 or 39% for the same periods in the prior fiscal year, respectively. The income tax provision for such interim periods reflects the Company's computed estimated annual effective tax rate and differs from the taxes computed at the federal and state statutory rates primarily due to the effect of non-deductible stock-based compensation expense, tax exempt interest income, and research and development credits.

The effective tax rate for the three and six months ended September 30, 2006 was impacted by an adjustment to provide for contingencies related to an Internal Revenue Service ("IRS") audit. Excluding these adjustments, the Company's tax rate for both periods would have been 37%. Additionally, in the three and six months ended September 30, 2006, the federal research and development credit had not been renewed. It was subsequently renewed during the Company's third quarter of fiscal 2007.

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

The Company adopted the provisions of FIN 48 on April 1, 2007. As a result of the implementation of FIN 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109*, the cumulative effect adjustment was an increase in tax liability and a decrease of \$93,000 to the April 1, 2007 retained earnings balance. Upon adoption, the liability for income taxes associated with uncertain tax positions at April 1, 2007 was \$4,713,000, excluding interest and penalties. This liability could be reduced by \$874,000 of offsetting tax benefits associated with the correlative effects of state income taxes and other receivables. The net amount of \$3,839,000, if recognized, would favorably affect the Company's effective tax rate. As of April 1, 2007, the Company reclassified \$5,064,000 of income tax liabilities from current to non-current liabilities because payment of cash was not anticipated within one year of the balance sheet date.

During the three month period ended September 29, 2007, the Company and the Internal Revenue Service settled on an uncertain tax position related to an IRS audit of transfer pricing for fiscal 2003. As a result of this audit, the Company paid to the Internal Revenue Service \$1.4 million of additional taxes, interest and penalties associated with transfer pricing and R&D tax credits. The Company subsequently released \$1.5 million of its liability for uncertain tax positions related to transfer pricing and R&D credit. As a result the Company recognized a reduction in its income tax provision of \$144,000 during the three months ended September 29, 2007. The Company does not anticipate any further payment of cash from uncertain tax positions within one year of the balance sheet date.

As a result of the tax payment related to an Internal Revenue Service examination for fiscal 2003 and additional accruals for the current year uncertain tax positions, on September 29, 2007 the liability for uncertain tax positions was \$3,956,000 excluding interest and penalties. This liability can be reduced by \$921,000 of offsetting tax benefits associated with the correlative effects of state income taxes and other receivables. The net amount of \$3,035,000, as of September 29, 2007, if recognized, would favorably affect the Company's effective tax rate.

Included in the balance of unrecognized tax benefits at September 29, 2007 is \$301,000 related to tax positions, interest, and penalties for which it is reasonably possible that the statute of limitations will expire in various jurisdictions within the next twelve months.

The Company records interest and penalties related to unrecognized tax benefits in income tax expense. Through the six-month period ended September 30, 2006, the Company recorded interest and penalties related to unrecognized tax benefits in other expense. At April 1, 2007, the Company had approximately \$649,000 in estimated interest and \$774,000 in estimated penalties related to uncertain tax positions. These liabilities could be reduced by \$264,000 of offsetting tax benefits. The net amount of \$1,159,000, if recognized, would favorably affect the Company's effective tax rate. As of September 29, 2007 these balances were \$449,000 and \$696,000, respectively. These liabilities can be reduced by \$182,000 of offsetting tax benefits. The net amount of \$963,000, if recognized, would favorably affect the Company's effective tax rate.

The Company and its subsidiaries are subject to taxation in various jurisdictions, including federal, state and foreign. The Company's federal and state income tax returns are generally not subject to examination by taxing authorities for fiscal years before 2002. The U.S. federal income tax return for fiscal years 2002, 2003, and 2004 are currently under examination by the Internal Revenue Service. Management continues to assess the impact of the federal uncertain tax positions under examination, along with the resulting state adjustments. The Company paid \$1,367,000 during the six months period ended September 29, 2007 in connection with the fiscal 2003 audit. The Company cannot conclude on the range of estimates resulting from the fiscal 2002, 2003 and 2004 IRS examinations, however the Company believes it is adequately accrued.

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 warrants or other convertible

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

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*):

| | <u>Three Months Ended</u> | | <u>Six Months Ended</u> | |
|--|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| | <u>September 29,</u> <u>2007</u> | <u>September 30,</u> <u>2006</u> | <u>September 29,</u> <u>2007</u> | <u>September 30,</u> <u>2006</u> |
| BASIC: | | | | |
| Net income | \$ 4,501 | \$ 5,996 | \$ 8,974 | \$ 10,912 |
| Weighted average shares outstanding for the period | 13,755 | 13,671 | 13,767 | 13,658 |
| Net income per share | \$ 0.33 | \$ 0.44 | \$ 0.65 | \$ 0.80 |
| DILUTED: | | | | |
| Net income | \$ 4,501 | \$ 5,996 | \$ 8,974 | \$ 10,912 |
| Weighted average shares outstanding for the period | 13,755 | 13,671 | 13,767 | 13,658 |
| Dilutive effect of stock options | 232 | 318 | 232 | 342 |
| Total | 13,987 | 13,989 | 13,999 | 14,000 |
| Net income per share | \$ 0.32 | \$ 0.43 | \$ 0.64 | \$ 0.78 |

Options to purchase 490,510 shares of the Company's common stock at an average price of \$38.51 per share, and 408,791 shares at an average price of \$37.15 per share for the three months ended September 29, 2007 and September 30, 2006, respectively, were outstanding but were not included in the computation of diluted earnings per share because their effect would have been anti-dilutive.

For the six months ended September 29, 2007 and September 30, 2006, options to purchase the Company's common stock of 517,412 shares at an average price of \$38.25 per share, and 391,032 shares at an average price of \$36.94 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

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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 awards nor has been required to defend any claims related to its indemnification obligations, and accordingly, it has not accrued any amounts 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.

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, 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 or financial statements.

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 29, 2007 and September 30, 2006 are as follows (*in thousands*):

| <u>Description</u> | <u>Balance at Beginning of Period</u> | <u>Charge⁽¹⁾</u> | <u>Deductions and Other⁽²⁾</u> | <u>Balance at End of Period</u> |
|---------------------------------------|---|-----------------------------|---|---|
| Three months ended September 29, 2007 | | | | |
| Allowance for sales returns | \$ 165 | \$ 137 | \$ (158) | \$ 144 |
| Three months ended September 30, 2006 | | | | |
| Allowance for sales returns | \$ 462 | \$ 523 | \$ (488) | \$ 497 |
| Six months ended September 29, 2007 | | | | |
| Allowance for sales returns | \$ 199 | \$ 512 | \$ (567) | \$ 144 |
| Six months ended September 30, 2006 | | | | |
| Allowance for sales returns | \$ 525 | \$ 676 | \$ (704) | \$ 497 |

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

⁽²⁾ Represents amounts charged to the allowance for sales returns.

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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.

Operating Lease Obligations

The Company's future minimum lease payments and sublease income under non-cancelable operating leases at September 29, 2007 are as follows (*in thousands*):

| <u>Payment Due by Year</u> | <u>Operating Lease</u> | <u>Estimated Sublease Income</u> |
|----------------------------|------------------------|--------------------------------------|
| Less than 1 year | \$ 1,098 | \$ 52 |
| 2 years | 1,081 | - |
| 3 years | 998 | - |
| 4 years | 563 | - |
| | <u>\$ 3,740</u> | <u>\$ 52</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 29, 2007 amounted to \$243,000 and \$460,000, respectively. For the same periods last fiscal year, such expenses were \$240,000 and \$474,000, respectively.

Note 8 – Common Stock Repurchase

Share repurchase activities for the three and six months ended September 29, 2007 and September 30, 2006 are shown below.

| | <u>Three Months Ended</u> | | <u>Six Months Ended</u> | |
|------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| | <u>September 29, 2007</u> | <u>September 30, 2006</u> | <u>September 29, 2007</u> | <u>September 30, 2006</u> |
| Number of shares repurchased | 100 | 35,000 | 104,800 | 35,000 |
| Cost of shares repurchased | \$ 4,000 | \$ 1,107,000 | \$ 3,249,000 | \$ 1,107,000 |
| Average price per share | \$ 34.97 | \$ 31.62 | \$ 31.00 | \$ 31.62 |

Since the inception of the repurchase program in 1992 through September 29, 2007, the Company repurchased a total of 1,275,700 shares of the common stock for an aggregate cost of \$12,429,000. Upon their repurchase, shares are restored to the status of authorized but unissued shares. As of September 29, 2007, a total of 624,300 shares remain authorized for repurchase under the program.

Subsequent to September 29, 2007, and prior to November 7, 2007, the Company repurchased a total of 135,000 Common shares for an aggregate cost of \$4,842,000.

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 United States, Europe, and Asia. The Company's chief operating decision

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maker, who is currently the Company's Chief Executive Officer, reviews financial information presented on a consolidated basis for purposes of making operating decisions and assessing financial performance.

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 29, 2007</u> | <u>September 30, 2006</u> | <u>September 29, 2007</u> | <u>September 30, 2006</u> |
| Asia (excluding China & Japan) | \$ 4,362 | \$ 4,502 | \$ 8,084 | \$ 8,069 |
| China | 5,377 | 8,384 | 9,890 | 16,884 |
| Japan | 1,929 | 2,035 | 4,140 | 3,985 |
| Europe | 2,936 | 3,981 | 5,505 | 6,400 |
| United States | 7,220 | 7,361 | 14,804 | 14,888 |
| Other | 205 | 258 | 368 | 860 |
| Net Sales | <u>\$ 22,029</u> | <u>\$ 26,521</u> | <u>\$ 42,791</u> | <u>\$ 51,086</u> |

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

| <u>Country</u> | <u>September 29, 2007</u> | <u>March 31, 2007</u> |
|----------------|---------------------------|-----------------------|
| United States | \$ 8,929 | \$ 7,516 |
| Hong Kong | 1,329 | 1,135 |
| | <u>\$ 10,258</u> | <u>\$ 8,651</u> |

Note 10 – Significant Customers

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.

For the three months ended September 29, 2007, two customers, a major medical instrumentation company and a major communications company accounted for approximately 16% and 15% of sales, respectively. Nearly all of the sales to the medical instrumentation company were through distributors and contract manufacturers. For the six months ended September 29, 2007 the same two customers accounted for approximately 15% and 13 %, respectively.

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

Outstanding accounts receivable due from the Company's significant communications customer were 20% of gross accounts receivable as of September 29, 2007. The same customer accounted for 21% of gross accounts receivable as of March 31, 2007.

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 March 31, 2007.

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 it is unlikely that any legal claims will result in a material adverse impact on the Company's business, financial position, results of operations or cash flows; (2) our expectation that LED lighting will grow during the fiscal 2008 and beyond to become a significant market for Supertex; (3) our expectation that medical sales will increase slightly in the third fiscal quarter and 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; (4) our plans to introduce more new integrated pulser ICs as well as ultrasound receiver blocks and that custom high voltage pulsers are projected to contribute to our revenue growth in the second half of fiscal 2008; (5) R&D expenses in absolute dollars are expected to be lower sequentially; (6) our belief that we have adequately recorded tax liabilities in our financial statements for additional taxes we may be required to pay as a result of the examinations of our fiscal 2002, 2003 and 2004 tax returns and that we do not anticipate any payment of cash from uncertain tax positions within one year of the balance sheet date ; (7) that we expect to spend approximately \$5,400,000 for capital acquisitions during fiscal year 2008; (8) our belief that we have substantial production capacity in place to handle any projected increase in business in fiscal 2008; (9) our belief that existing cash, cash equivalents and short-term investments, together with cash flow from operations, will be sufficient to meet our liquidity and capital requirements through the next twelve months; (10) our belief that a significant change in interest rates would minimally impact interest income the fair value of our investments; (11) our belief that our exposure to foreign currency exchange risks is relatively small; and (12) our growth strategy relying on continuous introduction of new products and technologies.

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 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 increases and causes price erosion; demand does not materialize and increase for recently released customer products incorporating the Company's products; that we have delays in developing and releasing into production our planned new products, that there could be unexpected manufacturing issues as production ramps up; the demand for the Company's products or results of its product development changes 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 1A of Part I , "Risk Factors" in the Company's annual report of Form 10-K for the fiscal year ended March 31, 2007. 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. Except for income taxes, there have been no material changes from the methodology applied by management for critical accounting estimates previously disclosed in our most recent Annual Report on Form 10-K. The methodology applied to management's estimate for income taxes has changed due to the implementation of a new accounting pronouncement as described below.

Income Taxes

In June 2006, the FASB issued FASB Interpretation No.48, *Accounting for Uncertainty in Income Taxes: An Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 became effective for us beginning fiscal 2008. FIN 48 addressed the determination of how tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under FIN 48, we recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate resolution. The impact of our reassessment of our tax positions in accordance with FIN 48 resulted in a cumulative effect upon adoption of \$93,000, which was recorded as a decrease in the opening balance of our retained earnings on April 1, 2007.

For additional information regarding the adoption of FIN 48, see Note 5 to the accompanying condensed consolidated financial statements. For further discussion of our critical accounting estimates related to income taxes, see our 2007 Annual Report on Form 10-K.

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 imaging, medical electronics, telecommunications (telecom), 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). We have a broad base of customers, who in some cases manufacture end products spanning multiple markets. As such, the assignment of revenue to the aforementioned markets requires the use of estimates, judgment, and extrapolation. Actual results may differ from those reported. During the first fiscal quarter of 2008 we reviewed our assignment of products to markets and have made adjustments by including a new market, "LED lighting," renaming "Other" to "Industrial/other," and making certain changes to product market assignments. We expect that the LED lighting market, which includes drivers for LED backlights for TV flat screens and monitors as well as drivers for LED general lighting applications, will grow during the fiscal 2008 and beyond to become a significant market for Supertex. The Industrial/other market includes discretes and ICs for industrial controls and many general applications.

Net sales for the three months ended September 29, 2007 were \$22,029,000, a 17% decrease compared to \$26,521,000 for the same period of the prior fiscal year. The year-over-year decrease in net sales is primarily attributed to a decrease in our EL inverter and foundry unit shipments due to reduced demand for these products from our customers, as well as a reduction in average selling prices in certain products, partially offset by an increase in unit shipments to LED lighting customers. Net sales increased 6% from \$20,762,000 when compared to the quarter ended June 30, 2007 due to a rebound in unit shipments of EL inverters and an increase in shipments to LED lighting and telecommunications customers.

Net sales for the six months ended September 29, 2007 were \$42,791,000, a 16% reduction compared to \$51,086,000 for the same period of fiscal 2007. This resulted from a decrease in our EL inverter and foundry unit shipments due to reduced demand for these products from our customers, and reduction in average selling prices in certain products.

The table below shows our estimate of the breakdown of net sales to customers by end market for the three and six months ended September 29, 2007, September 30, 2006, and June 30, 2007, as well as year-over-year and quarterly sequential percentage changes (*dollars in thousands*).

| Net Sales | Three Months Ended | | | | | Six Months Ended | | |
|---------------------|--------------------|-----------------|--------------------|-------------------|-----------------------|--------------------|--------------------|-----------------------|
| | September 29, 2007 | June 30, 2007 | September 30, 2006 | Sequential Change | Year-Over-Year Change | September 29, 2007 | September 30, 2006 | Year-Over-Year Change |
| Medical Electronics | \$ 7,990 | \$ 8,210 | \$ 8,077 | -3% | -1% | \$ 16,200 | \$ 15,221 | 6% |
| Imaging | 7,400 | 6,209 | 11,331 | 19% | -35% | 13,609 | 21,938 | -38% |
| Industrial/Other | 2,968 | 3,925 | 5,091 | -24% | -42% | 6,893 | 9,453 | -27% |
| Telecom | 2,178 | 1,545 | 1,794 | 41% | 21% | 3,723 | 4,051 | -8% |
| LED Lighting | 1,493 | 873 | 228 | 71% | 555% | 2,366 | 423 | 459% |
| Net Sales | <u>\$ 22,029</u> | <u>\$20,762</u> | <u>\$ 26,521</u> | 6% | -17% | <u>\$ 42,791</u> | <u>\$ 51,086</u> | -16% |

| Net Sales | Three Months Ended | | | Six Months Ended | |
|---------------------|--------------------|---------------|--------------------|--------------------|--------------------|
| | September 29, 2007 | June 30, 2007 | September 30, 2006 | September 29, 2007 | September 30, 2006 |
| Medical Electronics | 36% | 40% | 30% | 38% | 30% |
| Imaging | 34% | 30% | 43% | 32% | 43% |
| Industrial/Other | 13% | 19% | 19% | 16% | 18% |
| Telecom | 10% | 7% | 7% | 9% | 8% |
| LED Lighting | 7% | 4% | 1% | 5% | 1% |
| Net Sales | <u>100%</u> | <u>100%</u> | <u>100%</u> | <u>100%</u> | <u>100%</u> |

The Medical Electronics market accounted for the highest sales of all of our markets for the three months and six months ended September 29, 2007. Sales to the Medical Electronics market for the three months ended September 29, 2007 were \$7,990,000, which were comparable to the same period of the prior year, as sales of our integrated pulsers, launched during the past year, grew, while orders for our analog switches were extremely strong during the second quarter of fiscal 2007. Sales to the medical electronics market in our second fiscal quarter compared to our first fiscal quarter were 3% lower due to a decline in our medical foundry business. This was partially offset by higher shipments of medical ultrasound standard products.

For the six months ended September 29, 2007 our Medical Electronics sales were \$16,200,000, an increase of \$979,000, or 6%, compared to the same period in the prior fiscal year. The year-over-year increase in net sales is due to higher demand reflected in strong shipments of our high voltage pulser circuits and chipsets and due to higher foundry shipments. We expect sales in this market to increase slightly in the third fiscal quarter, although we have experienced seasonal declines in past years.

In recent years, the ultrasound market experienced significant growth in the transportable, hand-carried ultrasound (HCU) units. These 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, Korea and India are now designing and producing medical ultrasound machines. We believe 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. We are heavily investing in product development for the ultrasound market and 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 the second half of fiscal 2008.

Sales in the Imaging market for the three and six months ended September 29, 2007 were \$7,400,000 and \$13,609,000, a decrease of 35% and 38%, respectively, when compared to the same periods in the last fiscal year. These decreases in net sales are primarily due to reduced demand reflected in lower shipments to a major customer due to reduced end user demand of that customer's mobile phones. Sales for the three months ended September 29, 2007 to this major customer increased when compared to the prior fiscal quarter, as mobile phone demand increased.

Sales in the Industrial/other market for the three and six months ended September 29, 2007 of \$2,968,000 and \$6,893,000 decreased 42% and 27%, respectively, when compared to the same periods a year ago and decreased 24% sequentially. The year-over-year and sequential decreases are primarily due to reduced foundry shipments and to a lesser extent due to lower sales of various industrial control products.

Sales to the Telecom market increased 21% during the three months ended September 29, 2007 to \$2,178,000 compared to the same period a year ago and increased 41% sequentially. The increase in year-over-year sales is primarily due to higher shipments for a military radio application and for optical MEMS drivers. The sequential increase in sales is primarily due to an increase in demand for a military radio application, for optical MEMS drivers, and for power supply controllers. For the six months ended September 29, 2007, Telecom sales were \$3,723,000, or 8% lower than the same period last year due to reduced demand for line protection devices and ring generators.

The ramp-up of in our LED driver markets includes the driver ICs for LCD and DLP flat screen television (TV) sets that are back-lighted by LEDs, and lighting applications such as traffic signals, street lights, signage, decorative lighting and automobile lights. Sales in LED backlighting driver ICs and driver ICs for lighting were \$1,493,000 and \$2,366,000 for the three and six months ended September 29, 2007 compared to \$228,000 and \$423,000, respectively, for the same periods last year. The increases in year-over-year and sequential sales are due primarily to introduction of our new line of LED backlight driver ICs for flat screen TVs and for general lighting. Sales in the LED lighting and backlighting market increased \$620,000 sequentially.

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 by geography as well as year-over-year and sequential percentage change, were as follows, where international sales include sales to the U.S. based customers if the product is delivered outside the U. S. (*in thousands*):

| Net Sales | Three Months Ended | | | Sequential Change | Year-Over-Year Change | Six Months Ended | | Year-Over-Year Change |
|--------------------------------|--------------------|------------------|--------------------|-------------------|-----------------------|--------------------|--------------------|-----------------------|
| | September 29, 2007 | June 30, 2007 | September 30, 2006 | | | September 29, 2007 | September 30, 2006 | |
| Asia (excluding China & Japan) | \$ 4,362 | \$ 3,722 | \$ 4,502 | 17% | -3% | \$ 8,084 | \$ 8,069 | 0% |
| China | 5,377 | 4,513 | 8,384 | 19% | -36% | 9,890 | 16,884 | -41% |
| Japan | 1,929 | 2,211 | 2,035 | -13% | -5% | 4,140 | 3,985 | 4% |
| Europe | 2,936 | 2,569 | 3,981 | 14% | -26% | 5,505 | 6,400 | -14% |
| United States | 7,220 | 7,584 | 7,361 | -5% | -2% | 14,804 | 14,888 | -1% |
| Other | 205 | 163 | 258 | 26% | -21% | 368 | 860 | -57% |
| Net Sales | <u>\$ 22,029</u> | <u>\$ 20,762</u> | <u>\$ 26,521</u> | 6% | -17% | <u>\$ 42,791</u> | <u>\$ 51,086</u> | -16% |
| International Sales | \$ 14,809 | \$ 13,178 | \$ 19,160 | 12% | -23% | \$ 27,987 | \$ 36,198 | -23% |
| Domestic Sales | <u>7,220</u> | <u>7,584</u> | <u>7,361</u> | -5% | -2% | <u>14,804</u> | <u>14,888</u> | -1% |
| Net Sales | <u>\$ 22,029</u> | <u>\$ 20,762</u> | <u>\$ 26,521</u> | 6% | -17% | <u>\$ 42,791</u> | <u>\$ 51,086</u> | -16% |

Net sales to international customers for the three and six months ended September 29, 2007 were \$14,809,000 and \$27,987,000 or 67% and 65%, respectively, of net sales as compared to \$19,160,000 or 72% and \$36,198,000 or 71%, respectively, of net sales for the same periods of the prior fiscal year and \$13,178,000 or 63% in the three months ended June 30, 2007. Sales to international customers for the three and six months ended September 29, 2007 decreased 23% compared to the same periods last year and increased 12% sequentially. The decrease in international sales year-over-year and sequentially are primarily due to reduced shipments of EL backlighting drivers to customers whose contract manufacturing vendors are located primarily in China. The sequential increase is due to a rebound in shipments of EL backlighting drivers to customers' hubs which are located primarily in China and shipments of LED backlighting drivers to Korea.

Net sales to domestic customers for the three and six months ended September 29, 2007 decreased 2% and 1%, respectively, compared to the same periods last year and decreased 5% sequentially.

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 and depreciation on equipment associated with manufacturing support and charges for excess or obsolete inventory.

Gross profit for the quarter ended September 29, 2007 was \$13,009,000, compared to \$16,216,000 for the same period of fiscal 2007, and \$12,686,000 for the prior quarter. The year-over-year reduction in gross profit was primarily attributable to reduced sales. The sequential increase in gross profit was primarily due to increased sales, partially offset by a less favorable product mix and lower manufacturing cost absorption. For the six months ended September 29, 2007, gross profit was \$25,695,000 compared to \$30,944,000 for the same period of last fiscal year. The decrease in gross profit was primarily attributable to reduced sales.

Gross margin, which is gross profit as a percent of net sales, was 59% for the three months ended September 29, 2007 compared to 61% for both the same period of the prior fiscal year and for the prior quarter of fiscal 2008. The decrease in gross margin for the three months ended September 29, 2007 compared to the same period in fiscal

2007 was primarily attributable to lower sales and reduced capacity utilization in the fab. The sequential reduction in gross margin is primarily due to a slightly unfavorable product mix and reduced factory cost absorption. For the six months ended September 29, 2007, gross margin was 60% compared to 61% for the same period in the last fiscal year.

| <i>(Dollars in thousands)</i> | Three Months Ended | | | Six Months Ended | |
|---|--------------------|---------------|--------------------|--------------------|--------------------|
| | September 29, 2007 | June 30, 2007 | September 30, 2006 | September 29, 2007 | September 30, 2006 |
| Gross Margin Percentage | 59% | 61% | 61% | 60% | 61% |
| <i>Included in Gross Margin Percentage Above</i> | | | | | |
| Gross Margin Benefit from Sale of Previously Written Down Inventory | \$ 380 | \$ 398 | \$ 434 | \$ 778 | \$ 950 |
| Percentage of Net Sales | 2% | 2% | 2% | 2% | 2% |

We wrote down inventory totaling \$469,000 and \$850,000 for the three and six months ended September 29, 2007, respectively. For the comparable periods in fiscal 2007, We wrote down inventory totaling \$592,000 and \$1,189,000, respectively. We realized gross margin benefits of \$380,000 and \$778,000 for the three and six months ended September 29, 2007 due to sales of previously reserved, or written-down, inventory. Such benefits were \$434,000 and \$950,000 for the three and six months ended September 30, 2006.

Research and Development (R&D) Expenses

| <i>(Dollars in thousands)</i> | Three Months Ended | | | | Year-Over-Year Change | Six Months Ended | | Year-Over-Year Change |
|-------------------------------|--------------------|---------------|--------------------|-------------------|-----------------------|--------------------|--------------------|-----------------------|
| | September 29, 2007 | June 30, 2007 | September 30, 2006 | Sequential Change | | September 29, 2007 | September 30, 2006 | |
| R&D Expenses | \$ 3,858 | \$ 3,765 | \$ 3,658 | 2% | 5% | \$ 7,623 | \$ 7,607 | 0% |
| Percentage of Net Sales | 18% | 18% | 14% | | | 18% | 15% | |

Research and development (R&D) expenses include payroll and benefits, processing costs, and depreciation. We also expense proto-type wafers and mask sets related to new products as R&D expenses until such new products are released to production.

Expenditures for R&D were \$3,858,000 and \$7,623,000 for the three and six months ended September 29, 2007, respectively, compared to \$3,658,000 and \$7,607,000, respectively, for the same period last year. The net increase of \$200,000 for the second fiscal quarter compared to the prior year resulted primarily from an increase in fab costs related to usage of equipment, including masks and supplies of \$520,000, higher depreciation expense of \$93,000 and higher outside services expense of \$40,000; partially offset by a decrease in payroll and benefits of \$460,000, including a decrease of \$207,000 in employee stock-based compensation expense. For the six months ended September 29, 2007, R&D expenses were essentially flat with the same period last year, as higher usage of equipment, including masks and supplies of \$549,000, higher depreciation expense of \$157,000 and higher outside services costs of \$103,000 were nearly offset by lower payroll and benefits of \$815,000, including a decrease of \$318,000 in employee stock-based compensation expense. Compared to the prior quarter, R&D expenses increased by \$93,000 primarily due to higher usage of fab equipment, including masks and supplies of \$420,000 plus depreciation of \$45,000; partially offset by reduced payroll and benefits of \$367,000, including a reduction of stock-based compensation expense of \$87,000.

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 the number of new products we introduce and meet current and future technological requirements of our customers and markets. R&D expenses in absolute dollars are expected to be lower sequentially due to holiday work schedules. R&D expenses as a percentage of net sales may fluctuate.

Selling, General and Administrative (SG&A) Expenses

| <i>(Dollars in thousands)</i> | Three Months Ended | | | | Year-Over-Year Change | Six Months Ended | | Year-Over-Year Change |
|-------------------------------|--------------------|---------------|--------------------|-------------------|-----------------------|--------------------|--------------------|-----------------------|
| | September 29, 2007 | June 30, 2007 | September 30, 2006 | Sequential Change | | September 29, 2007 | September 30, 2006 | |
| SG&A Expenses | \$ 4,192 | \$ 3,646 | \$ 3,826 | 15% | 10% | \$ 7,838 | \$ 7,629 | 3% |
| Percentage of Net Sales | 19% | 18% | 14% | | | 18% | 15% | |

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 compliance services related to Sarbanes-Oxley Act of 2002.

SG&A expenses for the three months ended September 29, 2007 were \$4,192,000 or an increase of \$366,000 when compared to \$3,826,000 for the comparable period last year. This increase is primarily due to higher sales commissions of \$164,000, higher data processing costs of \$66,000, higher professional services of \$57,000, including adoption of FIN 48, Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109, and other expenses including occupancy costs. For the six months ended September 29, 2007, SG&A expenses were \$7,838,000, an increase of \$209,000 when compared to the same period last year. This increase is primarily attributable to higher sales and marketing salaries of \$306,000 due to recruitment of sales professionals in Asia, and due to higher occupancy, data processing and other expenses of \$175,000; partially offset by lower professional services related to audit and Sarbanes-Oxley compliance of \$265,000 and a gain on sale of equipment of \$200,000. SG&A expenses for the second fiscal quarter of 2008 compared to the prior quarter were higher by \$546,000. This sequential increase resulted primarily from an increase in audit and tax consulting expenses of \$276,000, including adoption of FIN 48, and from lower costs recorded in the first fiscal quarter of 2008 on a \$200,000 gain on sale of equipment.

Interest Income and Other Income, Net

| <i>(Dollars in thousands)</i> | Three Months Ended | | | | Year-Over-Year Change | Six Months Ended | | Year-Over-Year Change |
|---------------------------------------|--------------------|---------------|--------------------|-------------------|-----------------------|--------------------|--------------------|-----------------------|
| | September 29, 2007 | June 30, 2007 | September 30, 2006 | Sequential Change | | September 29, 2007 | September 30, 2006 | |
| Interest Income and Other Income, Net | \$ 1,587 | \$ 1,507 | \$ 968 | 5% | 64% | \$ 3,094 | \$ 2,256 | 37% |
| Percentage of Net Sales | 7% | 7% | 4% | | | 7% | 4% | |

Interest income, which consists primarily of interest income from our cash, cash equivalents and short-term investments, was \$1,441,000 and \$2,821,000 for the three and six months ended September 29, 2007, respectively compared to \$1,202,000 and \$2,313,000, respectively, for the same periods last fiscal year. These increases in

interest income are primarily a result of larger cash, cash equivalents and short-term investments balances and to a lesser extent from higher investment yields.

Other income, net, for the three months ended September 29, 2007 was \$146,000 and consisted primarily of a \$58,000 increase in fair value of investments held by our Supplemental Executive Retirement Plan (SERP) and \$41,000 of lease and non-trade income. For the comparable period in fiscal 2007, other expense, net was \$234,000 and consisted primarily of a \$521,000 charge for uncollectible sales tax and interest expense accrued related to sales tax and IRS audits, partially offset by proceeds of \$61,000 representing the balance received for the sale of an investment previously written off, by a \$191,000 increase in fair market value of investments held by our SERP, and by an increase in other items of \$35,000.

Other income, net for the six months ended September 29, 2007 was \$273,000, consisting primarily of \$113,000 increase in fair value of investments held by our SERP and \$58,000 of lease and non-trade income. For the comparable period in fiscal 2007, other expense, net was \$57,000, consisting primarily of a \$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 SERP, and \$64,000 in proceeds from an insurance claim for damages caused by a contractor.

Provision for Income Taxes

The income tax provision for the interim period represents federal, state and foreign taxes and reflects our computed estimated annual effective tax rate. It differs from the taxes computed at the federal and state statutory rates primarily due to the effect of non-deductible stock-based compensation expense, tax exempt interest income, and research and development credits. The provision for income taxes for the three months ended September 29, 2007 was \$2,045,000 at the effective tax rate of 31%. During the three month period ended September 29, 2007, a settlement of an IRS audit of fiscal 2003 was reached on uncertain tax positions related to transfer pricing and a payment was made related to transfer pricing and R&D tax credits. This resulted in a tax benefit of \$144,000. The tax provision for the comparable period in fiscal 2007 was \$3,704,000 at an effective tax rate of 38%. The provision for income taxes for the six months ended September 29, 2007 was \$4,354,000 at the effective tax rate of 33% compared to \$7,052,000 and 39% for the same period in the prior fiscal year. The effective tax rates for the three and six months ended September 30, 2006 were impacted by adjustments to provide for contingencies related to an IRS audit. Additionally, in the three months ended September 30, 2006, the federal research and development credit had not been renewed. It was subsequently renewed during our third fiscal quarter of fiscal 2007.

We maintain liabilities for uncertain tax positions within our income taxes payable account. The determination of the liability amount 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. We are currently under IRS examination for the fiscal 2002, 2003 and 2004 tax returns. We believe that we have adequately recorded tax liabilities 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 2008 with \$142,941,000 in cash, cash equivalents, and short-term investments. This represents an increase of \$4,025,000 when compared with the amount of \$138,916,000 on March 31, 2007. As of September 29, 2007, the net working capital was \$162,461,000, an increase of \$10,899,000 from \$151,562,000 as of March 31, 2007. 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

In summary, our cash flows were as follows:

| <i>(Dollars in thousands)</i> | Six Months Ended | |
|---|---------------------------|---------------------------|
| | September 29, 2007 | September 30, 2006 |
| Net cash provided by operating activities | \$ 8,016 | \$ 14,063 |
| Net cash used in investing activities | (6,395) | (22,167) |
| Net cash provided by (used in) financing activities | (1,643) | 1,309 |
| Net decrease in cash and cash equivalents | <u>\$ (22)</u> | <u>\$ (6,795)</u> |

Operating Activities

Net cash provided by operating activities is net income adjusted for certain non-cash items and changes in assets and liabilities. For the six months ended September 29, 2007, net cash provided by operating activities was \$8,016,000. This increase in cash resulted primarily from net income of \$8,974,000, an increase in trade accounts payable of \$1,134,000, an increase in income taxes payable of \$1,690,000, and other non-cash items such as depreciation of \$1,388,000 and stock-based compensation expense of \$1,160,000.. This increase in cash from operating activities was partially offset by an increase in inventories of \$3,457,000, which was primarily due to an increase in higher valued inventory in our back-end test facility, an increase in trade accounts receivable of \$1,953,000, which was due to higher shipments in the third month of the second fiscal quarter compared to the shipment pattern in the fourth quarter of last fiscal year, and an increase in prepaid expense and other assets of \$1,220,000, which was primarily related to tax over payment and tax benefits on employee stock compensation expense .

For the six months ended September 30, 2006, net cash provided by operating activities was \$14,063,000. This increase in cash was primarily attributable to net income of \$10,912,000, a decrease in deferred revenue of \$815,000, a decrease in short term investments, categorized as trading of \$745,000, and other non-cash items such as stock-based compensation expense of \$1,378,000, depreciation of \$1,340,000, provision for excess and obsolete inventories of \$1,189,000, and provision for doubtful accounts and sales returns of \$575,000. This increase in cash from operating activities was partially offset by an increase in trade accounts receivable of \$1,884,000 and an increase in inventories of \$1,459,000.

Investing Activities

Investing cash flows consist primarily of capital expenditures and purchases of short-term investments, partially offset by sales of short-term investments. Cash used in investing activities for the three months ended September 29, 2007 was \$6,395,000, due to the timing of purchases and sales of short-term investments and capital expenditures of \$2,995,000 primarily for manufacturing capacity and quality improvements and enterprise software during the first half of fiscal 2008.

Cash used in investing activities for the three months ended September 30, 2006 was \$22,167,000 due to the timing of purchases and sales of short-term investments and capital expenditures of \$1,968,000.

Financing Activities

Financing cash flows consist primarily of proceeds from the exercise of stock options under the 1991 and 2001 Plans and sale of stock through the ESPP, reclassification of non-cash excess tax benefit from operating into financing activities as required by SFAS 123R, and of repurchases of stock on the open market. Net cash used by financing activities in the six months ended September 29, 2007 was \$1,643,000 due to the repurchase of 104,800 shares of our common stock for \$3,249,000. This was partially offset by proceeds from the exercise of stock options and employee stock purchases under the ESPP of \$1,425,000 and excess tax benefit related to stock-based compensation plans of \$181,000.

Net cash provided by financing activities in the six months ended September 30, 2006 was \$1,309,000 due to proceeds from the exercise of stock options and employee stock purchases under the ESPP of \$2,124,000 and excess tax benefit related to stock-based compensation plans of \$292,000, partially offset by repurchase of common stock of \$1,107,000.

We expect to spend approximately \$5,400,000 for capital acquisitions in fiscal 2008. We believe that we have substantial production capacity in place to handle any projected increase in business in fiscal 2008. Most of our property, plant and equipment, net, of \$10,258,000 is located in the United States. We also believe that existing cash, cash equivalents and short-term investments, together with cash flow from operations, will be sufficient to meet our liquidity and capital requirements through 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 assemblers 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 assemblers and suppliers that either allow them to procure inventory based upon criteria as defined by us or 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, are firm, non-cancelable, and unconditional commitments.

The following table summarizes our significant contractual cash obligations at September 29, 2007, and the effect such obligations are expected to have on our liquidity and cash flow in future periods (*in thousands*):

| Contractual Obligations | Payment Due by Year | | | | |
|--|----------------------------|-------------------------|------------------|------------------|------------------|
| | Total | Less than 1 Year | 1-2 Years | 2-3 Years | 3-4 Years |
| Operating lease obligations ⁽¹⁾ | \$ 3,740 | \$ 1,098 | \$ 1,081 | \$ 998 | \$ 563 |
| Purchase obligations ⁽²⁾ | 7,568 | 6,696 | 803 | 40 | 29 |
| Total contractual cash obligations | <u>\$11,308</u> | <u>\$ 7,794</u> | <u>\$ 1,884</u> | <u>\$ 1,038</u> | <u>\$ 592</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 months ended September 29, 2007, amounted to \$243,000.

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

Effective April 1, 2007, we adopted the provisions of FIN 48 (see Note 5). As of September 29, 2007, the liability for uncertain tax positions, net of offsetting tax benefits associated with the correlative effects of state income taxes and other receivables was \$4,002,000, of which, none is expected to be paid within one year. We are unable to estimate when cash settlement with a taxing authority may occur.

Recent Accounting Pronouncements

In February 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS No. 159), which permits entities to elect to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. This election is irrevocable. SFAS No. 159 will be effective for us in fiscal 2009. We are currently assessing the potential impact that the adoption of SFAS No. 159 will have on our financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157), 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 us in fiscal 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, *Accounting for Uncertainty in Income Taxes: An Interpretation of FASB statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109. This interpretation defines the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. We adopted FIN 48 on April 1, 2007 as a change in accounting principle, and have recorded the cumulative effect of adoption of \$93,000 as a decrease in the opening balance of retained earnings in the first quarter of fiscal 2008, as permitted by the transition provisions of FIN 48. See Note 5.

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://www.sec.gov> that contains these 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

Interest Rate Risk

We are exposed to financial market risks due primarily to changes in interest rates. We do not use derivatives to alter the interest characteristics of our investment securities. We have no holdings of derivative or commodity instruments. Our portfolio is primarily comprised of fixed rate securities. Investments and cash and cash equivalents generated interest income of \$1,441,000 in the three months ended September 29, 2007. A significant change in interest rates would impact the amount of interest income generated from our excess cash and investments. It would also adversely impact the fair value of our investments; however, we believe the impact would be minimal since auction periods of these securities are short, typically 35 days. As of September 29, 2007, we had no long-term debt outstanding.

Foreign Currency Exchange Risks

We do not hedge any potential risk from any foreign currency exposure. With our operations in Hong Kong, we face exposure to an adverse change in the exchange rate of the Hong Kong dollar. We believe that our exposure is relatively small, thus we do not employ hedging techniques designed to mitigate this foreign currency exposure. Likewise, we could experience unanticipated currency gains or losses. As the level of activity at this operation changes over time, actual currency gains or losses could have an adverse impact to our consolidated financial statements.

Item 4. Controls and Procedures

(a) Disclosure Controls and Procedures.

Disclosure Controls and Procedures. Our disclosure controls and procedures are designed to ensure that information required to be disclosed in our 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 our management, including our 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 our disclosure controls and procedures, we 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, we necessarily were required to apply our 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. Our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the design and operation of our disclosure controls and procedures as defined in Exchange Act Rules 13a-14(c) as of September 29, 2007, and have determined that they are effective at the reasonable assurance level.

(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 changes in the our internal control over financial reporting that occurred during the second quarter of fiscal 2008 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 we are subject to possible claims or assessments from third parties arising in the normal course of business. We have reviewed such possible claims and assessments with legal counsel and believe that it is unlikely that they will result in a material adverse impact on our financial position, results of operations or cash flows.

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 March 31, 2007, filed on June 14, 2007, 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 |
|---------------------|---|------------------------------|---|--|
| 04/01/07- 04/28/07 | - | - | - | 729,100 |
| 04/29/07- 05/26/07 | 104,700 | \$ 31.00 | - | 624,400 |
| 05/27/07- 06/30/07 | - | - | - | 624,400 |
| 07/01/07 - 07/28/07 | - | - | - | 624,400 |
| 07/29/07 - 08/25/07 | 100 | 34.97 | - | 624,300 |
| 08/26/07 - 09/29/07 | - | - | - | 624,300 |
| Total | 104,800 | \$ 31.00 | - | 624,300 |

(1) Our current share repurchase program, under which we repurchased these 104,800 shares during the six months ended September 29, 2007, 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 104,800 shares were purchased in open market transactions.

(2) We adopted a share repurchase program in 1992 authorizing the repurchase of 1,000,000 shares. The 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 the 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 the second fiscal quarter ended September 29, 2007 nor have we decided to terminate any repurchase plan or program prior to expiration. There are no existing repurchase plans or programs under which we do 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 17, 2007, 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 2008. Of the 13,735,028 shares of common stock outstanding as of the record date of June 22, 2007, a total of 12,870,204 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>Votes For</u> | <u>Votes Against</u> | <u>Votes Withheld/ Abstentions</u> | <u>Broker Non-Votes</u> |
|--|------------------|----------------------|--|-------------------------|
| 1. Election of Directors | | | | |
| Henry C. Pao | 12,790,188 | 0 | 80,016 | 0 |
| Benedict C.K. Choy | 12,322,002 | 0 | 548,202 | 0 |
| W. Mark Loveless | 12,668,255 | 0 | 201,949 | 0 |
| Elliott Schlam | 12,668,255 | 0 | 201,949 | 0 |
| Milton Feng | 12,667,737 | 0 | 202,467 | 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 30, 2008. | | | | |
| | <u>Votes For</u> | <u>Votes Against</u> | <u>Abstentions</u> | <u>Broker Non-Votes</u> |
| | 12,862,346 | 7,538 | 320 | 0 |

Item 5. Other Information

None

Item 6. Exhibits

Exhibit 31.1 & 31.2 - Certification of Chief Executive Officer and 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 & 32.2 - Certification of Chief Executive Officer and 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)

Date: November 8, 2007

By: /s/ Phillip A. Kagel
Phillip A. Kagel
VP, Finance & Chief Financial Officer
(Principal Accounting & Financial Officer)

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 me 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 conclusion 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, 2007

/s/ Henry C. Pao
Henry C. Pao, Ph.D.
President & Chief Executive Officer
(Principal 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 me 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 conclusion 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, 2007

/s/ Phillip A. Kagel
Phillip A. Kagel
VP, Finance & Chief Financial Officer
(Principal Accounting and 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 29, 2007, 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, 2007

/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 29, 2007, 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, 2007

/s/ Phillip A. Kagel
Phillip A. Kagel
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.