NVE CORP /NEW/
Form 10-Q
October 20, 2010

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

# FORM 10-Q

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended **September 30, 2010**

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ________________to ________________

Commission File Number: **000-12196**

**NVE CORPORATION**
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Minnesota** | **41-1424202** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| **11409 Valley View Road, Eden Prairie, Minnesota** | **55344** |
| (Address of principal executive offices) | (Zip Code) |

**(952) 829-9217**
(Registrant s telephone number, including area code)

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.
[X] Yes [ ] No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

[ ] Yes [ ] No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

| | |
|---|---|
| Large accelerated filer [ ] | Accelerated filer [X] |
| Non-accelerated filer [ ] (Do not check if a smaller reporting company) | Smaller reporting company [ ] |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). [ ] Yes [X] No

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

**Common Stock, $0.01 Par Value 4,700,583 shares outstanding as of October 15, 2010**

**NVE CORPORATION**
**QUARTERLY REPORT ON FORM 10-Q**
**TABLE OF CONTENTS**

**Table of Contents**

## PART I FINANCIAL INFORMATION

### Item 1. Financial Statements.

**NVE CORPORATION**
**BALANCE SHEETS**

| | (Unaudited) Sept. 30, 2010 | March 31, 2010* |
|---|---|---|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | $ 690,841 | $ 1,389,288 |
| Marketable securities, short term | 2,489,580 | 1,566,666 |
| Accounts receivable, net of allowance for uncollectible accounts of $15,000 | 4,138,418 | 4,221,564 |
| Inventories | 2,371,727 | 1,706,427 |
| Prepaid expenses and other assets | 1,073,176 | 781,294 |
| Total current assets | 10,763,742 | 9,665,239 |
| Fixed assets | | |
| Machinery and equipment | 5,821,555 | 5,617,136 |
| Leasehold improvements | 450,546 | 450,546 |
| | 6,272,101 | 6,067,682 |
| Less accumulated depreciation | 5,038,657 | 4,857,819 |
| Net fixed assets | 1,233,444 | 1,209,863 |
| Marketable securities, long term | 52,720,248 | 46,587,812 |
| Total assets | $ 64,717,434 | $ 57,462,914 |
| | | |
| LIABILITIES AND SHAREHOLDERS EQUITY | | |
| Current liabilities | | |
| Accounts payable | $ 712,396 | $ 665,782 |
| Accrued payroll and other | 716,079 | 720,867 |
| Deferred taxes | 434,739 | 102,138 |
| Deferred revenue | - | 20,833 |
| Total current liabilities | 1,863,214 | 1,509,620 |
| | | |
| Shareholders equity | | |
| Common stock | 47,006 | 47,006 |
| Additional paid-in capital | 20,246,644 | 20,169,924 |
| Accumulated other comprehensive income | 1,646,825 | 1,129,726 |
| Retained earnings | 40,913,745 | 34,606,638 |
| Total shareholders equity | 62,854,220 | 55,953,294 |
| Total liabilities and shareholders equity | $ 64,717,434 | $ 57,462,914 |

*The March 31, 2010 Balance Sheet is derived from the audited financial statements contained in our Annual Report on Form 10-K for the fiscal year ended March 31, 2010.

See accompanying notes.

**Table of Contents**

**NVE CORPORATION**
**STATEMENTS OF INCOME**
**(Unaudited)**

| | Quarter Ended Sept. 30 | | | |
|---|---|---|---|---|
| | | 2010 | | 2009 |
| Revenue | | | | |
| Product sales | $ | 6,410,512 | $ | 5,177,445 |
| Contract research and development | | 1,398,648 | | 1,331,056 |
| Total revenue | | 7,809,160 | | 6,508,501 |
| Cost of sales | | 2,604,926 | | 1,985,100 |
| Gross profit | | 5,204,234 | | 4,523,401 |
| Expenses | | | | |
| Selling, general, and administrative | | 634,547 | | 622,354 |
| Research and development | | 309,873 | | 291,540 |
| Total expenses | | 944,420 | | 913,894 |
| Income from operations | | 4,259,814 | | 3,609,507 |
| Interest income | | 497,731 | | 393,198 |
| Income before taxes | | 4,757,545 | | 4,002,705 |
| Provision for income taxes | | 1,551,535 | | 1,308,522 |
| Net income | $ | 3,206,010 | $ | 2,694,183 |
| Net income per share basic | $ | 0.68 | $ | 0.57 |
| Net income per share diluted | $ | 0.66 | $ | 0.55 |
| Weighted average shares outstanding | | | | |
| Basic | | 4,700,583 | | 4,692,607 |
| Diluted | | 4,860,237 | | 4,871,387 |

See accompanying notes.

**Table of Contents**

**NVE CORPORATION**
**STATEMENTS OF INCOME**
**(Unaudited)**

| | Six Months Ended Sept. 30 2010 | 2009 |
|---|---|---|
| Revenue | | |
| Product sales | $ 12,604,388 | $ 10,711,482 |
| Contract research and development | 2,446,066 | 2,631,551 |
| Total revenue | 15,050,454 | 13,343,033 |
| Cost of sales | 4,680,730 | 3,876,523 |
| Gross profit | 10,369,724 | 9,466,510 |
| Expenses | | |
| Selling, general, and administrative | 1,262,933 | 1,258,077 |
| Research and development | 651,536 | 558,861 |
| Total expenses | 1,914,469 | 1,816,938 |
| Income from operations | 8,455,255 | 7,649,572 |
| Interest income | 973,461 | 763,223 |
| Income before taxes | 9,428,716 | 8,412,795 |
| Provision for income taxes | 3,121,609 | 2,779,680 |
| Net income | $ 6,307,107 | $ 5,633,115 |
| Net income per share basic | $ 1.34 | $ 1.20 |
| Net income per share diluted | $ 1.30 | $ 1.16 |
| Weighted average shares outstanding | | |
| Basic | 4,700,583 | 4,684,453 |
| Diluted | 4,860,237 | 4,863,199 |

See accompanying notes.

**Table of Contents**

**NVE CORPORATION**
**STATEMENTS OF CASH FLOWS**
**(Unaudited)**

| | Six Months Ended Sept. 30 2010 | 2009 |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Net income | $ 6,307,107 | $ 5,633,115 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 180,838 | 181,809 |
| Stock-based compensation | 76,720 | 100,842 |
| Excess tax benefits | - | (280,448) |
| Deferred income taxes | (1,611) | 269,377 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 83,146 | 413,671 |
| Inventories | (665,300) | 382,632 |
| Prepaid expenses and other assets | (291,882) | (168,823) |
| Accounts payable and accrued expenses | 41,826 | 126,505 |
| Deferred revenue | (20,833) | (41,667) |
| Net cash provided by operating activities | 5,710,011 | 6,617,013 |
| | | |
| INVESTING ACTIVITIES | | |
| Purchases of fixed assets | (204,419) | (167,608) |
| Purchases of marketable securities | (7,765,811) | (6,779,505) |
| Proceeds from maturities and sales of marketable securities | 1,561,772 | 142,352 |
| Net cash used in investing activities | (6,408,458) | (6,804,761) |
| | | |
| FINANCING ACTIVITIES | | |
| Net proceeds from sale of common stock | - | 622,423 |
| Excess tax benefits | - | 280,448 |
| Net cash provided by financing activities | - | 902,871 |
| | | |
| Increase (decrease) in cash and cash equivalents | (698,447) | 715,123 |
| Cash and cash equivalents at beginning of period | 1,389,288 | 1,875,063 |
| | | |
| Cash and cash equivalents at end of period | $ 690,841 | $ 2,590,186 |
| | | |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the period for income taxes | $ 3,274,742 | $ 2,607,438 |

See accompanying notes.

Table of Contents

**NVE CORPORATION**
**NOTES TO FINANCIAL STATEMENTS**
**(Unaudited)**

**NOTE 1. DESCRIPTION OF BUSINESS**

We develop and sell devices that use spintronics, a nanotechnology that relies on electron spin rather than electron charge to acquire, store, and transmit information.

**NOTE 2. INTERIM FINANCIAL INFORMATION**

The accompanying unaudited financial statements of NVE Corporation are prepared consistent with accounting principles generally accepted in the United States and in accordance with Securities and Exchange Commission rules and regulations. In the opinion of management, these financial statements reflect all adjustments, consisting only of normal and recurring adjustments, necessary for a fair presentation of the financial statements. Although we believe that the disclosures are adequate to make the information presented not misleading, it is suggested that these unaudited financial statements be read in conjunction with the audited financial statements and the notes included in our latest annual financial statements included in our Annual Report on Form 10-K for the fiscal year ended March 31, 2010. The results of operations for the quarter or six months ended September 30, 2010 are not necessarily indicative of the results that may be expected for the full fiscal year ending March 31, 2011.

**NOTE 3. RECENT ACCOUNTING PRONOUNCEMENTS**

We have adopted all recently issued accounting pronouncements. The adoption of the accounting pronouncements, including those not yet effective, is not anticipated to have a material effect on our financial position or results of operations.

**NOTE 4. NET INCOME PER SHARE**

Basic earnings per share are computed based on the weighted-average number of common shares issued and outstanding during each period. Diluted net income per share amounts assume conversion, exercise or issuance of all potential common stock instruments (stock options and warrants). Stock options and warrants totaling 5,000 for the quarter and six months ended September 30, 2010 and 1,000 for the quarter and six months ended September 30, 2009 were not included in the computation of diluted earnings per share because the exercise prices of the options and warrants were greater than the market price of the common stock. The following table reflects the components of common shares outstanding:

| | | Quarter Ended Sept. 30 | |
|---|---|---|---|
| | | **2010** | **2009** |
| Weighted average common shares outstanding | basic | 4,700,583 | 4,692,607 |
| Effect of dilutive securities: | | | |
| Stock options | | 153,438 | 171,843 |
| Warrants | | 6,216 | 6,937 |
| Shares used in computing net income per share | diluted | 4,860,237 | 4,871,387 |

| | | Six Months Ended Sept. 30 | |
|---|---|---|---|
| | | **2010** | **2009** |
| Weighted average common shares outstanding | basic | 4,700,583 | 4,684,453 |
| Effect of dilutive securities: | | | |
| Stock options | | 153,438 | 171,809 |

| | | |
|---|---|---|
| Warrants | 6,216 | 6,937 |
| Shares used in computing net income per share diluted | 4,860,237 | 4,863,199 |

Table of Contents

## NOTE 5. MARKETABLE SECURITIES

Marketable securities with remaining maturities less than one year are classified as short-term, and those with remaining maturities greater than one year are classified as long-term. The fair value of our marketable securities as of September 30, 2010 were as follows:

| Total | <1 Year | 1 3 Years | 3 5 Years |
|---|---|---|---|
| $ 55,209,828 | $ 2,489,580 | $ 29,801,387 | $ 22,918,861 |

As of September 30 and March 31, 2010, our marketable securities were as follows:

| | As of September 30, 2010 | | | | As of March 31, 2010 | | | |
|---|---|---|---|---|---|---|---|---|
| | Adjusted Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Market Value | Adjusted Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Market Value |
| U.S. agency securities | $ 101,545 | $ 2,173 | $ - | $ 103,718 | $ 702,992 | $ 19,240 | $ - | $ 722,232 |
| Corporate bonds | 30,765,448 | 1,754,469 | - | 32,519,917 | 23,807,375 | 1,029,273 | (23,601) | 24,813,047 |
| Municipal bonds | 21,724,671 | 861,522 | - | 22,586,193 | 21,877,258 | 747,483 | (5,542) | 22,619,199 |
| Total | $ 52,591,664 | $ 2,618,164 | $ - | $ 55,209,828 | $ 46,387,625 | $ 1,795,996 | $ (29,143) | $ 48,154,478 |

None of our investments had an unrealized loss as of September 30, 2010. Guaranteed global notes issued by BP Capital Markets plc, which had an unrealized loss of $313,428 at June 30, 2010, had an unrealized gain as of September 30, 2010.

The following table shows the gross unrealized losses and fair value of our investments with unrealized losses, aggregated by investment category and length of time that individual securities had been in a continuous unrealized loss position as of September 30 and March 31, 2010:

| | Less Than 12 Months | | 12 Months or Greater | | Total | |
|---|---|---|---|---|---|---|
| | Fair Market Value | Gross Unrealized Losses | Fair Market Value | Gross Unrealized Losses | Fair Market Value | Gross Unrealized Losses |
| As of September 30, 2010 | | | | | | |
| U.S. agency securities | $ - | $ - | $ - | $ - | $ - | $ - |
| Corporate bonds | - | - | - | - | - | - |
| Municipal bonds | - | - | - | - | - | - |
| Total | $ - | $ - | $ - | $ - | $ - | $ - |
| As of March 31, 2010 | | | | | | |
| U.S. agency securities | $ - | $ - | $ - | $ - | $ - | $ - |
| Corporate bonds | 2,032,306 | (23,601) | - | - | 2,032,306 | (23,601) |
| Municipal bonds | 1,564,416 | (5,542) | - | - | 1,564,416 | (5,542) |
| Total | $ 3,596,722 | $ (29,143) | $ - | $ - | $ 3,596,722 | $ (29,143) |

Table of Contents

**NOTE 6. COMPREHENSIVE INCOME**

The components of comprehensive income are as follows:

| | Quarter Ended Sept. 30 | |
|---|---|---|
| | 2010 | 2009 |
| Net income | $ 3,206,010 | $ 2,694,183 |
| Unrealized (loss) gain from marketable securities, net of tax | 678,599 | 437,926 |
| Comprehensive income | $ 3,884,609 | $ 3,132,109 |

| | Six Months Ended Sept. 30 | |
|---|---|---|
| | 2010 | 2009 |
| Net income | $ 6,307,107 | $ 5,633,115 |
| Unrealized (loss) gain from marketable securities, net of tax | 517,099 | 1,249,822 |
| Comprehensive income | $ 6,824,206 | $ 6,882,937 |

**NOTE 7. INVENTORIES**

Inventories consisted of the following:

| | Sept. 30 2010 | March 31 2010 |
|---|---|---|
| Raw materials | $ 1,024,155 | $ 595,032 |
| Work in process | 1,160,804 | 794,091 |
| Finished goods | 486,768 | 617,304 |
| | 2,671,727 | 2,006,427 |
| Less inventory reserve | (300,000) | (300,000) |
| Total inventories | $ 2,371,727 | $ 1,706,427 |

**NOTE 8. STOCK-BASED COMPENSATION**

Stock-based compensation expense was $76,720 for the second quarter of fiscal 2011, $95,244 for the second quarter of fiscal 2010, $76,720 for the first six months of fiscal 2011, and $100,842 for the first six months of fiscal 2010. Stock-based compensation expenses for the quarter and six months ended September 30, 2010 and 2009 were non-cash and primarily due to the issuance of automatic stock options to our non-employee directors on their reelection to our Board. The decreases in stock-based compensation for the quarter and six months ended September 30, 2010 compared to the prior-year periods were primarily due to a lower stock price at the date of grant compared to the prior-year date of grant. We calculate the share-based compensation expense on a straight-line basis over the vesting periods of the related share-based awards.

**NOTE 9. INCOME TAXES**

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. No tax provisions were credited to Additional paid-in capital for the six months ended September 30, 2010; $280,448 was credited to Additional paid-in capital for the the six months ended September 30, 2009.

We had no unrecognized tax benefits as of September 30, 2010, and we do not expect any significant unrecognized tax benefits within 12 months of the reporting date. We recognize interest and penalties related to income tax matters in income tax expense. As of September 30, 2010 we had no accrued interest related to uncertain tax positions. The tax years 1999 through 2009 remain open to examination by the major taxing jurisdictions to which we are subject.

**NOTE 10. FAIR VALUE MEASUREMENTS**

Generally accepted accounting principles establish a framework for measuring fair value, provide a definition of fair value and prescribe required disclosures about fair-value measurements. Generally accepted accounting principles define fair value as the price that would be received to sell an asset or paid to transfer a liability. Fair value is a market-based measurement that should be determined using assumptions that market participants would use in pricing an asset or liability. Generally accepted accounting principles utilize a valuation hierarchy for disclosure of fair value measurements. The categorization within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement. The categories within the valuation hierarchy are described as follows:

**Table of Contents**

Level 1  Financial instruments with quoted prices in active markets for identical assets or liabilities. Our Level 1 financial instruments consist of publicly-traded marketable debt securities that are classified as available-for-sale. On the balance sheets, available-for-sale securities are classified as  Marketable securities, short term  and  Marketable securities, long term.  The fair value of our available-for-sale securities was $55,209,828 at September 30, 2010 and $48,154,478 at March 31, 2010.

Level 2  Financial instruments with quoted prices in active markets for similar assets or liabilities. Level 2 fair value measurements are determined using either prices for similar instruments or inputs that are either directly or indirectly observable, such as interest rates. We do not have any financial assets or liabilities being measured at fair value that are classified as Level 2 financial instruments.

Level 3  Inputs to the fair value measurement are unobservable inputs or valuation techniques. We do not have any financial assets or liabilities being measured at fair value that are classified as Level 3 financial instruments.

**NOTE 11. STOCK REPURCHASE PLAN**

On January 21, 2009 we announced that our Board of Directors authorized the repurchase of up to $2,500,000 of our Common Stock. The repurchase program may be modified or discontinued at any time without notice. We did not repurchase any of our Common Stock during the quarter ended September 30, 2010.

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

### Forward-looking statements

Some of the statements made in this Report or in the documents incorporated by reference in this Report and in other materials filed or to be filed by us with the Securities and Exchange Commission ( SEC ) as well as information included in verbal or written statements made by us constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are subject to the safe harbor provisions of the reform act. Forward-looking statements may be identified by the use of the terminology such as may, will, expect, anticipate, intend, believe, estimate, should, or continue, or the negatives of these terms or other variations on these words or comparable terminology. To the extent that this Report contains forward-looking statements regarding the financial condition, operating results, business prospects or any other aspect of NVE, you should be aware that our actual financial condition, operating results and business performance may differ materially from that projected or estimated by us in the forward-looking statements. We have attempted to identify, in context, some of the factors that we currently believe may cause actual future experience and results to differ from their current expectations. These differences may be caused by a variety of factors, including but not limited to risks associated with competition, progress in research and development activities by us and others, decreased sales, failure of suppliers to meet our requirements, inability to meet customer technical requirements, inability to consummate license agreements, ineligibility for SBIR awards, inability to renew agreements with large customers, risks of losses on our marketable securities, and other specific risks that may be alluded to in this Report or in the documents incorporated by reference in this Report.

Further information regarding our risks and uncertainties are contained in Part I, Item 1A  Risk Factors  of our Annual Report on Form 10-K for the year ended March 31, 2010, as updated in Part II, Item 1A of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 and Part II, Item 1A of this Quarterly Report on Form 10-Q.

### General

NVE Corporation, referred to as NVE, we, us, or our, develops and sells devices that use spintronics, a nanotechnology that relies on electron spin rather than electron charge to acquire, store and transmit information. We manufacture high-performance spintronic products including sensors and couplers that are used to acquire and transmit data. We have also licensed our spintronic magnetoresistive random access memory technology, commonly known as MRAM.

**Critical accounting policies**

A description of our critical accounting policies is provided in Management s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended March 31, 2010. At September 30, 2010 our critical accounting policies and estimates continued to include research and development contract percentage of completion estimation, inventory valuation, allowance for doubtful accounts estimation, and deferred tax assets estimation.

Table of Contents

**Quarter ended September 30, 2010 compared to quarter ended September 30, 2009**

The table shown below summarizes the percentage of revenue and quarter-to-quarter changes for various items:

| | Percentage of Revenue Quarter Ended Sept. 30 2010 | 2009 | Quarter-to-Quarter Change |
|---|---|---|---|
| Revenue | | | |
| Product sales | 82.1% | 79.5% | 23.8% |
| Contract research and development | 17.9% | 20.5% | 5.1% |
| Total revenue | 100.0% | 100.0% | 20.0% |
| Cost of sales | 33.4% | 30.5% | 31.2% |
| Gross profit | 66.6% | 69.5% | 15.1% |
| Expenses | | | |
| Selling, general, and administrative | 8.1% | 9.5% | 2.0% |
| Research and development | 4.0% | 4.5% | 6.3% |
| Total expenses | 12.1% | 14.0% | 3.3% |
| Income from operations | 54.5% | 55.5% | 18.0% |
| Interest and other income | 6.4% | 6.0% | 26.6% |
| Income before taxes | 60.9% | 61.5% | 18.9% |
| Provision for income taxes | 19.8% | 20.1% | 18.6% |
| Net income | 41.1% | 41.4% | 19.0% |

Total revenue for the quarter ended ended September 30, 2010 (the second quarter of fiscal 2011) increased 20% to $7,809,160 compared to $6,508,501 for the quarter ended ended September 30, 2009 (the second quarter of fiscal 2010). The increase was due to a 24% increase in product sales and a 5% increase in contract research and development revenue.

The increase in product sales from the prior-year quarter was due to the addition of new customers and increased purchase volume by existing customers.

The increase in research and development revenue was due to new contracts and increased activity on certain contracts. Contract research and development revenue may not be representative of future quarters. Contract research and development activities can fluctuate for a number of reasons, some of which are beyond our control, and there can be no assurance of additional or follow-on contracts for expired or completed contracts.

Gross profit margin decreased to 67% of revenue for the second quarter of fiscal 2011 compared to 69% for the second quarter of fiscal 2010, due to a less favorable product sales mix.

Total expenses increased 3% for the second quarter of fiscal 2011 compared to the second quarter of fiscal 2010 due to a 2% increase in selling, general, and administrative expense and a 6% increase in research and development expense. The increase in research and development expense was due to increased product development activities. Research and development expense can fluctuate significantly depending on staffing, project requirements, and contract research and development activities.

Interest income increased 27% to $497,731 for the second quarter of fiscal 2011 compared to $393,198 for the second quarter of fiscal 2010. The increase was due to an increase in interest-bearing marketable securities.

The provision for income taxes was $1,551,535 for the second quarter of fiscal 2011 compared to $1,308,522 for the second quarter of fiscal 2010. The effective tax rate was 33% of income before taxes for the second quarter of fiscal 2011, which was the same rate as the prior-year quarter. Our effective tax rate can fluctuate, however, due to a number of factors, some of which are outside our control.

The 19% increase in net income in the second quarter of fiscal 2011 compared to the prior-year quarter was primarily due to increased product sales.

**Table of Contents**

**Six months ended September 30, 2010 compared to six months September 30, 2009**

The table shown below summarizes the percentage of revenue and period-to-period changes for various items:

| | Percentage of Revenue Six Months Ended Sept. 30 2010 | 2009 | Period-to-Period Change |
|---|---|---|---|
| Revenue | | | |
| Product sales | 83.7% | 80.3% | 17.7% |
| Contract research and development | 16.3% | 19.7% | (7.0)% |
| Total revenue | 100.0% | 100.0% | 12.8% |
| Cost of sales | 31.1% | 29.1% | 20.7% |
| Gross profit | 68.9% | 70.9% | 9.5% |
| Expenses | | | |
| Selling, general, and administrative | 8.4% | 9.4% | 0.4% |
| Research and development | 4.3% | 4.2% | 16.6% |
| Total expenses | 12.7% | 13.6% | 5.4% |
| Income from operations | 56.2% | 57.3% | 10.5% |
| Interest and other income | 6.4% | 5.7% | 27.5% |
| Income before taxes | 62.6% | 63.0% | 12.1% |
| Provision for income taxes | 20.7% | 20.8% | 12.3% |
| Net income | 41.9% | 42.2% | 12.0% |

Total revenue for the six months ended September 30, 2010 increased 13% to $15,050,454 compared to $13,343,033 for the six months ended September 30, 2009. The increase was due to an 18% increase in product sales, partially offset by a 7% decrease in contract research and development revenue.

The increase in product sales from the prior-year period was due to the addition of new customers and increased purchase volume by existing customers.

The decrease in research and development revenue was due to the completion of certain contracts and contract activities. Contract research and development activities can fluctuate for a number of reasons, some of which are beyond our control, and there can be no assurance of additional or follow-on contracts for expired or completed contracts.

Gross profit margin decreased to 69% of revenue for the first six months of fiscal 2011 compared to 71% for the first six months of fiscal 2010, due to a less favorable product sales mix.

Total expenses increased 5% for the first six months of fiscal 2011 compared to the first six months of fiscal 2010 due to a 17% increase in research and development expense. The increase in research and development expense was due to a decrease in contract research and development activities, which caused resources to be reallocated to expensed research and development activities, and increased product development activities. Research and development expense can fluctuate significantly depending on staffing, project requirements, and contract research and development activities.

Interest income increased 28% to $973,461 for the first six months of fiscal 2011 compared to $763,223 for the first six months of fiscal 2010. The increase was due to an increase in interest-bearing marketable securities.

The provision for income taxes was $3,121,609 for the first six months of fiscal 2011 compared to $2,779,680 for the first six months of fiscal 2010. The effective tax rate was 33% of income before taxes for the first six months of fiscal 2011, which was the same rate as the prior-year period. Our effective tax rate can fluctuate, however, due to a number of factors, some of which are outside our control.

The 12% increase in net income in the first six months of fiscal 2011 compared to the prior-year period was primarily due to increased product sales and increased interest income.

Table of Contents

**Liquidity and capital resources**

At September 30, 2010 we had $55,900,669 in cash plus short-term and long-term marketable securities compared to $49,543,766 at March 31, 2010. Our entire portfolio of short-term and long-term marketable securities is classified as available for sale. The increase in cash plus marketable securities in the first six months of fiscal 2011 was primarily due to $5,710,011 in net cash provided by operating activities and a $851,311 net increase in the market value of our marketable securities due to market-price changes.

The $922,914 increase in short-term marketable securities in the first six months of fiscal 2011 was due to marketable securities previously classified as long-term approaching maturity. We expect short-term marketable securities to increase in the remaining quarters of the fiscal year as more of our securities approach maturity.

Inventories increased by $665,300 due to raw material purchase timing and to support an increased rate of product sales.

We had no deferred revenue as of September 30, 2010 compared to $20,833 at March 31, 2010. Deferred revenue at March 31, 2010 was due to a nonrefundable payment of $250,000 by Avago to us under the terms of Amendment No. 2 to an agreement between us and Agilent. We recognized revenue from the payment over the term of Amendment No. 2, which was effective as of June 27, 2007 and ended June 27, 2010.

Purchases of fixed assets were $204,419 during the six months ended September 30, 2010, primarily for production equipment. We currently expect such purchases to be at a higher quarterly rate during the balance of the fiscal year ending March 31, 2011 because we plan to expand our production capacity.

We currently believe our working capital is adequate for our needs at least for the next 12 months.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

The primary objective of our investment activities is to preserve principal while at the same time maximizing after-tax yields without significantly increasing risk. To achieve this objective, we maintain our portfolio of cash equivalents and marketable securities in a variety of securities including government agency obligations, municipal obligations, corporate obligations, and money market funds. Short-term and long-term marketable securities are generally classified as available-for-sale and consequently are recorded on the balance sheet at fair value with unrealized gains or losses reported as a separate component of accumulated other comprehensive income, net of estimated tax. Marketable securities as of September 30, 2010 had remaining maturities between eight and 59 months. Our short-term and long-term marketable securities had a fair market value of $55,209,828 at September 30, 2010, representing approximately 85% of our total assets. We have not used derivative financial instruments in our investment portfolio.

**Item 4. Controls and Procedures.**

Management, with the participation of the Chief Executive Officer and Chief Financial Officer, has performed an evaluation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (Exchange Act)) as of the end of the period covered by this report. This evaluation included consideration of the controls, processes and procedures that are designed to ensure that information required to be disclosed by us in the reports we file under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective.

During the quarter ended September 30, 2010, there was no change in our internal control over financial reporting that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

## PART II OTHER INFORMATION

### Item 1A. Risk Factors.

There have been no material changes from the risk factors disclosed in our Annual Report on Form 10-K for the fiscal year ended March 31, 2010 as updated in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, except the risk factors titled We may lose revenue if we are unable to renew agreements with large customers and We could incur losses on our marketable securities are replaced in their entirety by the following:

***We may lose revenue if we are unable to renew agreements with large customers.***

Our Supplier Partnering Agreement with St. Jude Medical, as amended, expires December 31, 2011; our Phonak AG Supply Agreement expires May 1, 2012; and our agreement with Avago Technologies, Inc., as amended, expires June 27, 2013. We have executed a letter of intent including a provision to extended the term of our Agreement with Phonak through March 31, 2015. We cannot predict if any of these agreements will be renewed, or if renewed, under what terms. Although it is possible we could continue to sell products to these customers without formal agreements, an inability to agree on mutually acceptable terms or the loss of any of these large customers could have a significant adverse impact on our revenue and our profitability.

This risk factor is being updated because we executed an amendment extending the term of our Supplier Partnering Agreement with St. Jude Medical.

***We could incur losses on our marketable securities.***

At September 30, 2010, we held $55,209,828 in short-term and long-term marketable securities, representing approximately 85% of our total assets. For the first six months of the fiscal year ending March 31, 2011 we earned $973,461 in interest, virtually all of which was from those securities. During the past two fiscal years a number of the securities we hold were downgraded by Moody s or Standard and Poor s indicating a possible increase in default risk. The credit crisis may have caused or contributed to many of these downgrades. Conditions and circumstances beyond our control or ability to anticipate can cause downgrades and increases in default risk. For example, in fiscal 2011 guaranteed global notes issued by BP Capital Markets plc that we hold were downgraded due to the impact of BP s Macondo subsea well oil spill on BP s financial profile. Although we recovered an unrealized loss in BP securities, downgrades of any of our marketable securities are possible at any time for reasons beyond our control, which could cause us to incur losses on those securities. Additionally, the assignment of a high credit rating does not preclude the risk of default on any marketable security. Losses for any reason on our marketable securities could have a material adverse impact on our financial condition, income, or cash flows.

The value of our marketable securities, the portion of our total assets in marketable securities, interest earned, and the recovery of our unrealized loss in BP securities are being updated in this risk factor.

### Item 6. Exhibits.

| Exhibit # | Description |
|---|---|
| 10.1+ | Amendment Number 3 dated September 13, 2010 to Supplier Partnering Agreement between Pacesetter, Inc., a St. Jude Medical Company, d.b.a. St. Jude Medical Cardiac Rhythm Management Division, and the company (incorporated by reference to our Current Report on Form 8-K/A filed September 16, 2010). |
| 31.1 | Certification by Daniel A. Baker pursuant to Rule 13a-14(a)/15d-14(a). |

31.2 Certification by Curt A. Reynders pursuant to Rule 13a-14(a)/15d-14(a).

32 Certification by Daniel A. Baker and Curt A. Reynders pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

+Confidential portions of this exhibit were deleted and filed separately with the SEC under a request for confidential treatment pursuant to Rule 24b-2 or Rule 406.

Table of Contents

## SIGNATURES

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

**NVE CORPORATION**
(Registrant)

| | |
|---|---|
| **October 20, 2010** | /s/ DANIEL A. BAKER |
| Date | Daniel A. Baker |
| | President and Chief Executive Officer |
| | |
| **October 20, 2010** | /s/ CURT A. REYNDERS |
| Date | Curt A. Reynders |
| | Chief Financial Officer |