

NVE CORP /NEW/  
Form 10-Q  
October 17, 2012

**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 30, 2012

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

(State or other jurisdiction of incorporation or organization)

41-1424202

(I.R.S. Employer Identification No.)

11409 Valley View Road, Eden Prairie, Minnesota

(Address of principal executive offices)

55344

(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.

Yes  No

Edgar Filing: NVE CORP /NEW/ - Form 10-Q

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

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  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 4,826,745 shares outstanding as of October 12, 2012**

---

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

**PART I. FINANCIAL INFORMATION**

Item 1. Financial Statements

Balance Sheets

Statements of Income for the Quarters Ended September 30, 2012 and 2011

Statements of Comprehensive Income for the Quarters Ended September 30, 2012 and 2011

Statements of Income for the Six Months Ended September 30, 2012 and 2011

Statements of Comprehensive Income for the Six Months Ended September 30, 2012 and 2011

Statements of Cash Flows

Notes to Financial Statements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Item 4. Controls and Procedures

**PART II. OTHER INFORMATION**

Item 1. Legal Proceedings

Item 1A. Risk Factors

Item 6. Exhibits

**SIGNATURES**

**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements.****NVE CORPORATION  
BALANCE SHEETS**

|  | <b>(Unaudited)<br/>Sept. 30, 2012</b> | <b>March 31,<br/>2012*</b> |
|--|---------------------------------------|----------------------------|
| <b>ASSETS</b>  |                                       |                            |
| Current assets   |                                       |                            |
| Cash and cash equivalents  | \$ 1,934,562                          | \$ 1,544,536               |
| Marketable securities, short term  | 15,907,264                            | 17,551,629                 |
| Accounts receivable, net of allowance for uncollectible accounts of \$15,000   | 1,961,682                             | 2,684,840                  |
| Inventories  | 3,522,488                             | 3,229,376                  |
| Prepaid expenses and other assets  | 1,287,755                             | 1,159,852                  |
| Total current assets   | 24,613,751                            | 26,170,233                 |
| Fixed assets   |                                       |                            |
| Machinery and equipment  | 8,211,475                             | 7,488,211                  |
| Leasehold improvements   | 1,016,887                             | 720,882                    |
|  | 9,228,362                             | 8,209,093                  |
| Less accumulated depreciation  | 5,989,392                             | 5,697,861                  |
| Net fixed assets   | 3,238,970                             | 2,511,232                  |
| Marketable securities, long term   | 62,020,033                            | 54,445,298                 |
| Total assets   | \$ 89,872,754                         | \$ 83,126,763              |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>   |                                       |                            |
| Current liabilities  |                                       |                            |
| Accounts payable   | \$ 657,070                            | \$ 663,702                 |
| Accrued payroll and other  | 813,407                               | 867,331                    |
| Deferred taxes   | 452,328                               | 136,872                    |
| Total current liabilities  | 1,922,805                             | 1,667,905                  |
| Shareholders equity  |                                       |                            |
| Common stock, \$0.01 par value, 6,000,000 shares authorized; 4,826,745 issued and outstanding as of September 30, 2012 and 4,824,745 issued and outstanding as of March 31, 2012 | 48,267                                | 48,247                     |
| Additional paid-in capital   | 21,112,980                            | 20,974,477                 |
| Accumulated other comprehensive income   | 1,619,483                             | 1,087,456                  |
| Retained earnings  | 65,169,219                            | 59,348,678                 |
| Total shareholders equity  | 87,949,949                            | 81,458,858                 |
| Total liabilities and shareholders equity  | \$ 89,872,754                         | \$ 83,126,763              |

\*The March 31, 2012 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, 2012.

See accompanying notes.



**Table of Contents**

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

|  | <b>Quarter Ended Sept. 30</b> |              |
|--|-------------------------------|--------------|
|  | <b>2012</b>                   | <b>2011</b>  |
| <b>Revenue</b>                             |                               |              |
| Product sales                              | \$ 5,231,332                  | \$ 5,557,299 |
| Contract research and development          | 591,464                       | 1,041,334    |
| Total revenue                              | 5,822,796                     | 6,598,633    |
| Cost of sales                              | 1,606,913                     | 2,277,926    |
| Gross profit                               | 4,215,883                     | 4,320,707    |
| <b>Expenses</b>                            |                               |              |
| Selling, general, and administrative       | 607,694                       | 606,847      |
| Research and development                   | 612,258                       | 611,595      |
| Total expenses                             | 1,219,952                     | 1,218,442    |
| Income from operations                     | 2,995,931                     | 3,102,265    |
| Interest income                            | 621,950                       | 597,363      |
| Income before taxes                        | 3,617,881                     | 3,699,628    |
| Provision for income taxes                 | 1,174,998                     | 1,144,535    |
| Net income                                 | \$ 2,442,883                  | \$ 2,555,093 |
| Net income per share basic                 | \$ 0.51                       | \$ 0.53      |
| Net income per share diluted               | \$ 0.50                       | \$ 0.52      |
| <b>Weighted average shares outstanding</b> |                               |              |
| Basic                                      | 4,825,441                     | 4,776,198    |
| Diluted                                    | 4,884,656                     | 4,896,525    |

**STATEMENTS OF COMPREHENSIVE INCOME**  
**(Unaudited)**

|   | <b>Quarter Ended Sept. 30</b> |              |
|---|-------------------------------|--------------|
|   | <b>2012</b>                   | <b>2011</b>  |
| Net income  | \$ 2,442,883                  | \$ 2,555,093 |
| Unrealized gain (loss) from marketable securities, net of tax | 617,655                       | (526,232)    |
| Comprehensive income  | \$ 3,060,538                  | \$ 2,028,861 |

See accompanying notes.

**Table of Contents**

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

|  | <b>Six Months Ended Sept. 30</b> |               |
|--|----------------------------------|---------------|
|  | <b>2012</b>                      | <b>2011</b>   |
| <b>Revenue</b>                             |                                  |               |
| Product sales                              | \$ 12,262,077                    | \$ 12,580,573 |
| Contract research and development          | 1,023,624                        | 2,231,822     |
| Total revenue                              | 13,285,701                       | 14,812,395    |
| Cost of sales                              | 3,409,266                        | 4,873,518     |
| Gross profit                               | 9,876,435                        | 9,938,877     |
| <b>Expenses</b>                            |                                  |               |
| Selling, general, and administrative       | 1,143,804                        | 1,222,677     |
| Research and development                   | 1,300,284                        | 1,106,471     |
| Total expenses                             | 2,444,088                        | 2,329,148     |
| Income from operations                     | 7,432,347                        | 7,609,729     |
| Interest income                            | 1,184,568                        | 1,162,892     |
| Income before taxes                        | 8,616,915                        | 8,772,621     |
| Provision for income taxes                 | 2,796,374                        | 2,778,300     |
| Net income                                 | \$ 5,820,541                     | \$ 5,994,321  |
| Net income per share basic                 | \$ 1.21                          | \$ 1.26       |
| Net income per share diluted               | \$ 1.19                          | \$ 1.22       |
| <b>Weighted average shares outstanding</b> |                                  |               |
| Basic                                      | 4,825,095                        | 4,776,198     |
| Diluted                                    | 4,882,524                        | 4,896,525     |

**STATEMENTS OF COMPREHENSIVE INCOME**  
(Unaudited)

|   | <b>Six Months Ended Sept. 30</b> |              |
|---|----------------------------------|--------------|
|   | <b>2012</b>                      | <b>2011</b>  |
| Net income  | \$ 5,820,541                     | \$ 5,994,321 |
| Unrealized gain (loss) from marketable securities, net of tax | 532,027                          | (424,942)    |
| Comprehensive income  | \$ 6,352,568                     | \$ 5,569,379 |

See accompanying notes.

**Table of Contents**

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

|   | <b>Six Months Ended Sept. 30</b> |              |
|---|----------------------------------|--------------|
|   | <b>2012</b>                      | <b>2011</b>  |
| <b>OPERATING ACTIVITIES</b>   |                                  |              |
| Net income  | \$ 5,820,541                     | \$ 5,994,321 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                  |              |
| Depreciation  | 291,531                          | 235,282      |
| Stock-based compensation  | 66,720                           | 80,160       |
| Excess tax benefits   | (2,383)                          | -            |
| Deferred income taxes   | 14,265                           | (18,861)     |
| Changes in operating assets and liabilities:                                      |                                  |              |
| Accounts receivable   | 723,158                          | 624,700      |
| Inventories   | (293,112)                        | (38,171)     |
| Prepaid expenses and other assets   | (127,903)                        | (169,689)    |
| Accounts payable and accrued expenses   | (60,556)                         | (324,240)    |
| Net cash provided by operating activities   | 6,432,261                        | 6,383,502    |
| <b>INVESTING ACTIVITIES</b>   |                                  |              |
| Purchases of fixed assets   | (1,019,269)                      | (294,234)    |
| Purchases of marketable securities  | (11,979,769)                     | (9,504,221)  |
| Proceeds from maturities and sales of marketable securities                       | 6,885,000                        | 3,786,980    |
| Net cash used in investing activities   | (6,114,038)                      | (6,011,475)  |
| <b>FINANCING ACTIVITIES</b>   |                                  |              |
| Net proceeds from sale of stock   | 69,420                           | -            |
| Excess tax benefits   | 2,383                            | -            |
| Net cash provided by financing activities   | 71,803                           | -            |
| Increase in cash and cash equivalents   | 390,026                          | 372,027      |
| Cash and cash equivalents at beginning of period                                  | 1,544,536                        | 952,209      |
| Cash and cash equivalents at end of period  | \$ 1,934,562                     | \$ 1,324,236 |
| <b>Supplemental disclosures of cash flow information:</b>                         |                                  |              |
| Cash paid during the period for income taxes                                      | \$ 2,920,000                     | \$ 2,947,565 |

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, 2012. The results of operations for the quarter or six months ended September 30, 2012 are not necessarily indicative of the results that may be expected for the full fiscal year ending March 31, 2013.

**NOTE 3. RECENTLY ISSUED ACCOUNTING STANDARDS**

We have adopted all applicable recently issued accounting pronouncements.

**NOTE 4. NET INCOME PER SHARE**

Net income per basic share is computed based on the weighted-average number of common shares issued and outstanding during each period. Net income per diluted share amounts assume conversion, exercise or issuance of all potential common stock instruments (stock options and warrants). The following table reflects the components of common shares outstanding:

|   |         | <b>Quarter Ended Sept. 30</b> |             |
|---|---------|-------------------------------|-------------|
|   |         | <b>2012</b>                   | <b>2011</b> |
| Weighted average common shares outstanding    | basic   | 4,825,441                     | 4,776,198   |
| Effect of dilutive securities:                |         |                               |             |
| Stock options                                 |         | 57,363                        | 113,011     |
| Warrants                                      |         | 1,852                         | 7,316       |
| Shares used in computing net income per share | diluted | 4,884,656                     | 4,896,525   |

|   |         | <b>Six Months Ended Sept. 30</b> |             |
|---|---------|----------------------------------|-------------|
|   |         | <b>2012</b>                      | <b>2011</b> |
| Weighted average common shares outstanding    | basic   | 4,825,095                        | 4,776,198   |
| Effect of dilutive securities:                |         |                                  |             |
| Stock options                                 |         | 55,646                           | 113,011     |
| Warrants                                      |         | 1,783                            | 7,316       |
| Shares used in computing net income per share | diluted | 4,882,524                        | 4,896,525   |

**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, 2012, by maturity, were as follows:

| Total         | <1 Year       | 1 3 Years     | 3 5 Years     |
|---------------|---------------|---------------|---------------|
| \$ 77,927,297 | \$ 15,907,264 | \$ 24,526,863 | \$ 37,493,170 |

As of September 30 and March 31, 2012, our marketable securities were as follows:

|                 | As of September 30, 2012 |                              |                               |                         | As of March 31, 2012 |                              |                               |                         |
|-----------------|--------------------------|------------------------------|-------------------------------|-------------------------|----------------------|------------------------------|-------------------------------|-------------------------|
|                 | Adjusted<br>Cost         | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Market<br>Value | Adjusted<br>Cost     | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Market<br>Value |
| Corporate bonds | \$ 62,643,029            | \$ 2,378,930                 | \$ -                          | \$ 65,021,959           | \$ 50,513,389        | \$ 1,481,604                 | \$ (76,434)                   | \$ 51,918,559           |
| Municipal bonds | 12,740,711               | 167,712                      | (3,085)                       | 12,905,338              | 19,775,582           | 334,793                      | (32,007)                      | 20,078,368              |
| Total           | \$ 75,383,740            | \$ 2,546,642                 | \$ (3,085)                    | \$ 77,927,297           | \$ 70,288,971        | \$ 1,816,397                 | \$ (108,441)                  | \$ 71,996,927           |

The decrease in fair market value of municipal bonds as of September 30, 2012 compared to March 31, 2012 was primarily due to the maturation of eight municipal bonds. The increase in fair market value of corporate bonds was primarily due to purchases of corporate bonds during the quarter ended September 30, 2012.

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, 2012:

|                          | Less Than 12 Months     |                               | 12 Months or Greater    |                               | Total                   |                               |
|--------------------------|-------------------------|-------------------------------|-------------------------|-------------------------------|-------------------------|-------------------------------|
|                          | Fair<br>Market<br>Value | Gross<br>Unrealized<br>Losses | Fair<br>Market<br>Value | Gross<br>Unrealized<br>Losses | Fair<br>Market<br>Value | Gross<br>Unrealized<br>Losses |
| As of September 30, 2012 |                         |                               |                         |                               |                         |                               |
| Corporate bonds          | \$ -                    | \$ -                          | \$ -                    | \$ -                          | \$ -                    | \$ -                          |
| Municipal bonds          | 521,337                 | (3,085)                       | -                       | -                             | 521,337                 | (3,085)                       |
| Total                    | \$ 521,337              | \$ (3,085)                    | \$ -                    | \$ -                          | \$ 521,337              | \$ (3,085)                    |
| As of March 31, 2012     |                         |                               |                         |                               |                         |                               |
| Corporate bonds          | \$ 10,387,955           | \$ (76,434)                   | -                       | -                             | \$ 10,387,955           | \$ (76,434)                   |
| Municipal bonds          | -                       | -                             | 908,550                 | (32,007)                      | 908,550                 | (32,007)                      |
| Total                    | \$ 10,387,955           | \$ (76,434)                   | \$ 908,550              | \$ (32,007)                   | \$ 11,296,505           | \$ (108,441)                  |

Gross unrealized losses totaled \$3,085 as of September 30, 2012, and were attributed to two bonds out of a portfolio of 46 bonds. For each bond with an unrealized loss, we expect to recover the entire cost basis of each security based on our consideration of factors including their credit ratings, the underlying ratings of insured bonds, and historical default rates for securities of comparable credit rating. Because we expect to recover the entire cost basis of the securities, and because we do not intend to sell the securities and it is not more likely than not that we will be required to sell the securities before recovery of the cost basis, which may be maturity, we did not consider the securities to be other-than-temporarily impaired at September 30, 2012.



**Table of Contents****NOTE 6. INVENTORIES**

Inventories consisted of the following:

|                        | <b>September 30</b> | <b>March 31</b> |
|------------------------|---------------------|-----------------|
|                        | <b>2012</b>         | <b>2012</b>     |
| Raw materials          | \$ 1,435,977        | \$ 1,285,106    |
| Work in process        | 1,582,155           | 1,658,467       |
| Finished goods         | 789,356             | 585,803         |
|                        | 3,807,488           | 3,529,376       |
| Less inventory reserve | (285,000)           | (300,000)       |
| Total inventories      | \$ 3,522,488        | \$ 3,229,376    |

**NOTE 7. STOCK-BASED COMPENSATION**

Stock-based compensation expense was \$66,720 for the second quarter and first six months of fiscal 2013, and \$80,160 for the second quarter and first six months of fiscal 2012. Stock-based compensation expenses for the quarters and six months ended September 30, 2012 and 2011 were non-cash, and due to the issuance of automatic stock options to our non-employee directors on their reelection to our Board. We calculate the share-based compensation expense using the Black-Scholes standard option-pricing model.

**NOTE 8. 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.

We had no unrecognized tax benefits as of September 30, 2012, 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, 2012 we had no accrued interest related to uncertain tax positions. The tax years 1999 through 2011 remain open to examination by the major taxing jurisdictions to which we are subject.

**NOTE 9. 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:

**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 \$77,927,297 at September 30, 2012 and \$71,996,927 at March 31, 2012.

**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 10. 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, 2012.

## **Table of Contents**

### **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, variations in costs that are beyond our control, decreased sales, failure of suppliers to meet our requirements, loss of supply from any of our packaging vendors, failure to obtain new customers, inability to meet customer technical requirements, litigation risks, and other specific risks that may be alluded to in this Report or in the documents incorporated by reference in this Report.

More 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, 2012, as updated in Part II, Item 1A of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2012.

#### **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, 2012. At September 30, 2012 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, 2012 compared to quarter ended September 30, 2011**

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

|                                      | Percentage of Revenue  |        | Quarter-   |
|--------------------------------------|------------------------|--------|------------|
|                                      | Quarter Ended Sept. 30 | 2011   | to-Quarter |
|                                      | 2012                   |        | Change     |
| Revenue                              |                        |        |            |
| Product sales                        | 89.8%                  | 84.2%  | (5.9)%     |
| Contract research and development    | 10.2%                  | 15.8%  | (43.2)%    |
| Total revenue                        | 100.0%                 | 100.0% | (11.8)%    |
| Cost of sales                        | 27.6%                  | 34.5%  | (29.5)%    |
| Gross profit                         | 72.4%                  | 65.5%  | (2.4)%     |
| Expenses                             |                        |        |            |
| Selling, general, and administrative | 10.4%                  | 9.2%   | 0.1%       |
| Research and development             | 10.5%                  | 9.3%   | 0.1%       |
| Total expenses                       | 20.9%                  | 18.5%  | 0.1%       |
| Income from operations               | 51.5%                  | 47.0%  | (3.4)%     |
| Interest and other income            | 10.7%                  | 9.1%   | 4.1%       |
| Income before taxes                  | 62.2%                  | 56.1%  | (2.2)%     |
| Provision for income taxes           | 20.2%                  | 17.4%  | 2.7%       |
| Net income                           | 42.0%                  | 38.7%  | (4.4)%     |

Total revenue for the quarter ended September 30, 2012 (the second quarter of fiscal 2013) decreased 12% to \$5,822,796 compared to \$6,598,633 for the quarter ended September 30, 2011 (the second quarter of fiscal 2012). The decrease was due to a 43% decrease in contract research and development revenue and a 6% decrease in product sales.

The decrease in product sales from the prior-year period was due to decreased 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 increased to 72% of revenue for the second quarter of fiscal 2013 compared to 65% for the second quarter of fiscal 2012, due to a more favorable revenue mix and more efficient product manufacturing.

Selling, general, and administrative expense may not be representative of future quarters. Selling, general, and administrative expense can fluctuate significantly depending on a number of factors including legal expenses.

Interest income increased 4% for the second quarter of fiscal 2013 compared to the second quarter of fiscal 2012. The increase was due to an increase in interest-bearing marketable securities.

The provision for income taxes was \$1,174,998 for the second quarter of fiscal 2013 compared to \$1,144,535 for the second quarter of fiscal 2012. The effective tax rate was 32% of income before taxes for the second quarter of fiscal 2013 compared to 31% for the second quarter of fiscal 2012. The increase in effective tax rate was due to higher

State and Federal effective tax rates. Our effective tax rates can fluctuate due to a number of factors, some of which are outside our control.

The 4% decrease in net income in the second quarter of fiscal 2013 compared to the prior-year quarter was primarily due to decreased contract research and development revenue, decreased product sales, and an increased effective tax rate, partially offset by increased gross profit margin.



**Table of Contents****Six months ended September 30, 2012 compared to six months ended September 30, 2011**

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

|                                      | Percentage of Revenue          |        | Period-to-Period Change |
|--------------------------------------|--------------------------------|--------|-------------------------|
|                                      | Six Months Ended Sept. 30 2012 | 2011   |                         |
| <b>Revenue</b>                       |                                |        |                         |
| Product sales                        | 92.3%                          | 84.9%  | (2.5)%                  |
| Contract research and development    | 7.7%                           | 15.1%  | (54.1)%                 |
| Total revenue                        | 100.0%                         | 100.0% | (10.3)%                 |
| <b>Cost of sales</b>                 |                                |        |                         |
| Cost of sales                        | 25.7%                          | 32.9%  | (30.0)%                 |
| Gross profit                         | 74.3%                          | 67.1%  | (0.6)%                  |
| <b>Expenses</b>                      |                                |        |                         |
| Selling, general, and administrative | 8.6%                           | 8.2%   | (6.5)%                  |
| Research and development             | 9.8%                           | 7.5%   | 17.5%                   |
| Total expenses                       | 18.4%                          | 15.7%  | 4.9%                    |
| Income from operations               | 55.9%                          | 51.4%  | (2.3)%                  |
| Interest and other income            | 8.9%                           | 7.8%   | 1.9%                    |
| Income before taxes                  | 64.8%                          | 59.2%  | (1.8)%                  |
| Provision for income taxes           | 21.0%                          | 18.7%  | 0.7%                    |
| Net income                           | 43.8%                          | 40.5%  | (2.9)%                  |

Total revenue for the six months ended September 30, 2012 decreased 10% to \$13,285,701 compared to \$14,812,395 for the six months ended September 30, 2011. The decrease was primarily due to a 54% decrease in contract research and development revenue.

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 increased to 74% of revenue for the first six months of fiscal 2013 compared to 67% for the first six months of fiscal 2012, due to a more favorable revenue mix, a more favorable product sales mix, and more efficient product manufacturing.

Total expenses increased 5% for the first six months of fiscal 2013 compared to the first six months of fiscal 2012 due to an 18% increase in research and development expense, partially offset by a 6% decrease in selling, general, and administrative expense. The increase in research and development expense was due to increased product development activities, and a decrease in contract research and development activities, which caused resources to be reallocated to expensed research and development activities.

Research and development expense can fluctuate significantly depending on staffing, project requirements, and contract research and development activities.

Selling, general, and administrative expense may not be representative of future quarters or the full fiscal year ending March 31, 2013. Selling, general, and administrative expense can fluctuate significantly depending on a number of factors including revenue, profitability, and legal expenses.

Interest income increased 2% for the first six months of fiscal 2013 compared to the first six months of fiscal 2012. The increase was due to an increase in interest-bearing marketable securities.

The provision for income taxes was \$2,796,374 for the first six months of fiscal 2013 compared to \$2,778,300 for the first six months of fiscal 2012. The effective tax rate was 32% of income before taxes for the first six months of fiscal 2013 and 2012. Our effective tax rates can fluctuate due to a number of factors, some of which are outside our control.

The 3% decrease in net income in the first six months of fiscal 2013 compared to the prior-year period was primarily due to decreased contract research and development revenue, decreased product sales, and increased research and development expense, partially offset by increased gross profit margin.

**Table of Contents**

**Liquidity and capital resources**

At September 30, 2012 we had \$79,861,859 in cash plus short-term and long-term marketable securities compared to \$73,541,463 at March 31, 2012. 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 2013 was primarily due to \$6,432,261 in net cash provided by operating activities and a \$835,601 net increase in the market value of our marketable securities, partially offset by purchases of fixed assets of \$1,019,269, primarily for production equipment and leasehold improvements.

We currently believe our working capital and cash generated from operations will be adequate for our needs at least for the next 12 months.

## **Table of Contents**

### **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, 2012 had remaining maturities between one day and 254 weeks. Our short-term and long-term marketable securities had a fair market value of \$77,927,297 at September 30, 2012, representing approximately 87% 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, 2012, 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.

## **PART II OTHER INFORMATION**

### **Item 1. Legal Proceedings.**

As reported in previous SEC filings, on January 3, 2012 we filed a patent infringement lawsuit against Everspin Technologies, Inc. in the U.S. District Court for the Minnesota District. The lawsuit is based on Everspin's sale of magnetoresistive random access memory, commonly known as MRAM. The lawsuit seeks an injunction for Everspin to cease using NVE's patented technology and provide compensation for Everspin's past infringement. On May 24, 2012, Everspin filed an answer denying our allegations and filed counterclaims. Our responses to interrogatories indicated that for the purposes of this litigation, two of the patents in suit against Everspin, U.S. patents 6,275,411 and 6,349,053, will expire July 24, 2013, and the third patent in suit, U.S. patent 6,538,921, will expire August 14, 2021.

The United States Patent and Trademark Office granted requests by Everspin for *inter partes* reexaminations of U.S. patent 6,349,053 on May 16, 2012, and of U.S. patent 6,538,921 on September 19, 2012. Both patents are assigned to us and are patents in suit.

### **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, 2012 as updated in Part II, Item 1A of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2012.

**Table of Contents**

**Item 6. Exhibits.**

| <b><u>Exhibit #</u></b> | <b><u>Description</u></b>   |
|-------------------------|---|
| 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. |
| 101.INS                 | XBRL Instance Document  |
| 101.SCH                 | XBRL Taxonomy Extension Schema Document   |
| 101.CAL                 | XBRL Taxonomy Extension Calculation Linkbase Document                                     |
| 101.DEF                 | XBRL Taxonomy Extension Definition Linkbase Document                                      |
| 101.LAB                 | XBRL Taxonomy Extension Label Linkbase Document   |
| 101.PRE                 | XBRL Taxonomy Extension Presentation Linkbase Document                                    |

**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)

|                                |  |
|--------------------------------|--|
| <b><u>October 17, 2012</u></b> | <b><u>/s/ DANIEL A. BAKER</u></b>                        |
| Date                           | Daniel A. Baker<br>President and Chief Executive Officer |

|                                |   |
|--------------------------------|---|
| <b><u>October 17, 2012</u></b> | <b><u>/s/ CURT A. REYNDERS</u></b>          |
| Date                           | Curt A. Reynders<br>Chief Financial Officer |