

NVE CORP /NEW/  
Form 10-Q  
October 22, 2014

**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, 2014

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 4,857,953 shares outstanding as of October 17, 2014**

---

**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, 2014 and 2013

Statements of Comprehensive Income for the Quarters Ended September 30, 2014 and 2013

Statements of Income for the Six Months Ended September 30, 2014 and 2013

Statements of Comprehensive Income for the Six Months Ended September 30, 2014 and 2013

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 1A. Risk Factors

Item 4. Mine Safety Disclosures

Item 6. Exhibits

**SIGNATURES**

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

	<b>(Unaudited) Sept. 30, 2014</b>	<b>March 31, 2014*</b>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 3,281,500	\$ 1,262,300
Marketable securities, short term	14,624,615	12,360,091
Accounts receivable, net of allowance for uncollectible accounts of \$15,000	3,678,396	2,331,574
Inventories	3,389,393	3,207,333
Deferred tax assets	169,671	237,387
Prepaid expenses and other assets	848,528	816,276
<b>Total current assets</b>	<b>25,992,103</b>	<b>20,214,961</b>
Fixed assets		
Machinery and equipment	8,563,720	8,536,010
Leasehold improvements	1,499,454	1,499,454
	10,063,174	10,035,464
Less accumulated depreciation	7,495,209	7,030,692
<b>Net fixed assets</b>	<b>2,567,965</b>	<b>3,004,772</b>
Marketable securities, long term	84,551,529	82,022,310
<b>Total assets</b>	<b>\$ 113,111,597</b>	<b>\$ 105,242,043</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current liabilities		
Accounts payable	\$ 337,462	\$ 374,127
Accrued payroll and other	855,927	808,675
<b>Total current liabilities</b>	<b>1,193,389</b>	<b>1,182,802</b>
Long-term deferred tax liabilities	224,769	354,600
Shareholders' equity		
Common stock, \$0.01 par value, 6,000,000 shares authorized; 4,857,953 issued and outstanding as of September 30, 2014 and 4,851,043 issued and outstanding as of March 31, 2014	48,580	48,510
Additional paid-in capital	20,850,762	20,464,883
Accumulated other comprehensive income	567,974	877,857
Retained earnings	90,226,123	82,313,391
<b>Total shareholders' equity</b>	<b>111,693,439</b>	<b>103,704,641</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 113,111,597</b>	<b>\$ 105,242,043</b>

\*The March 31, 2014 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, 2014.

See accompanying notes.

**Table of Contents**

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

	<b>Quarter Ended Sept. 30</b>	
	<b>2014</b>	<b>2013</b>
<b>Revenue</b>		
Product sales	\$ 8,113,806	\$ 7,231,149
Contract research and development	153,567	70,031
Total revenue	8,267,373	7,301,180
Cost of sales	1,609,632	1,503,546
Gross profit	6,657,741	5,797,634
<b>Expenses</b>		
Selling, general, and administrative	625,599	660,076
Research and development	787,279	876,463
Total expenses	1,412,878	1,536,539
Income from operations	5,244,863	4,261,095
Interest income	562,923	520,802
Income before taxes	5,807,786	4,781,897
Provision for income taxes	1,932,164	1,552,246
Net income	\$ 3,875,622	\$ 3,229,651
Net income per share basic	\$ 0.80	\$ 0.67
Net income per share diluted	\$ 0.80	\$ 0.66
<b>Weighted average shares outstanding</b>		
Basic	4,855,071	4,852,178
Diluted	4,872,029	4,873,106

**STATEMENTS OF COMPREHENSIVE INCOME**  
(Unaudited)

	<b>Quarter Ended Sept. 30</b>	
	<b>2014</b>	<b>2013</b>
Net income	\$ 3,875,622	\$ 3,229,651
Unrealized (loss) gain from marketable securities, net of tax	(404,731)	244,389
Comprehensive income	\$ 3,470,891	\$ 3,474,040

See accompanying notes.

**Table of Contents**

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

	<b>Six Months Ended Sept. 30</b>	
	<b>2014</b>	<b>2013</b>
<b>Revenue</b>		
Product sales	\$ 16,461,887	\$ 13,205,755
Contract research and development	258,521	272,358
Total revenue	16,720,408	13,478,113
Cost of sales	3,167,978	2,881,901
Gross profit	13,552,430	10,596,212
<b>Expenses</b>		
Selling, general, and administrative	1,255,249	1,212,880
Research and development	1,590,707	1,839,374
Total expenses	2,845,956	3,052,254
Income from operations	10,706,474	7,543,958
Interest income	1,111,477	1,047,141
Income before taxes	11,817,951	8,591,099
Provision for income taxes	3,905,219	2,794,623
Net income	\$ 7,912,732	\$ 5,796,476
Net income per share basic	\$ 1.63	\$ 1.19
Net income per share diluted	\$ 1.63	\$ 1.19
<b>Weighted average shares outstanding</b>		
Basic	4,853,068	4,857,279
Diluted	4,868,769	4,878,599

**STATEMENTS OF COMPREHENSIVE INCOME**  
(Unaudited)

	<b>Six Months Ended Sept. 30</b>	
	<b>2014</b>	<b>2013</b>
Net income	\$ 7,912,732	\$ 5,796,476
Unrealized loss from marketable securities, net of tax	(309,883)	(610,646)
Comprehensive income	\$ 7,602,849	\$ 5,185,830

See accompanying notes.

**Table of Contents**

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

	<b>Six Months Ended Sept. 30</b>	
	<b>2014</b>	<b>2013</b>
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 7,912,732	\$ 5,796,476
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	464,517	380,272
Stock-based compensation	58,960	53,200
Excess tax benefits	(24,288)	-
Deferred income taxes	138,992	28,457
Changes in operating assets and liabilities:		
Accounts receivable	(1,346,822)	(509,632)
Inventories	(182,060)	236,147
Prepaid expenses and other assets	(32,252)	63,341
Accounts payable and other current liabilities	10,587	(54,230)
Net cash provided by operating activities	7,000,366	5,994,031
<b>INVESTING ACTIVITIES</b>		
Purchases of fixed assets	(27,710)	-
Purchases of marketable securities	(9,280,445)	(11,533,738)
Proceeds from maturities and sales of marketable securities	4,000,000	5,855,000
Net cash used in investing activities	(5,308,155)	(5,678,738)
<b>FINANCING ACTIVITIES</b>		
Net proceeds from sale of stock	302,701	-
Excess tax benefits	24,288	-
Repurchase of common stock	-	(1,263,405)
Net cash provided by (used in) financing activities	326,989	(1,263,405)
Increase (decrease) in cash and cash equivalents	2,019,200	(948,112)
Cash and cash equivalents at beginning of period	1,262,300	2,509,683
Cash and cash equivalents at end of period	\$ 3,281,500	\$ 1,561,571
Supplemental disclosures of cash flow information:		
Cash paid during the period for income taxes	\$ 3,760,500	\$ 2,838,033

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, 2014. The results of operations for the quarter or six months ended September 30, 2014 are not necessarily indicative of the results that may be expected for the full fiscal year ending March 31, 2015.

**NOTE 3. RECENT ACCOUNTING PRONOUNCEMENTS**

In May 2014, the Financial Accounting Standards Board issued Accounting Standard Update ( ASU ) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which supersedes the revenue recognition requirements in Accounting Standards Codification 605, *Revenue Recognition*. ASU 2014-09 is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. It also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. ASU 2014-09 is effective for fiscal years beginning after December 15, 2016, including interim periods within that reporting period, which will be our first quarter of fiscal 2018. We have not yet evaluated the impact of ASU 2014-09 on our financial statements.

**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). Stock options totaling 4,000 for the quarter and six months ended September 30, 2014 and 13,000 for the quarter and six months ended September 30, 2013 were not included in the computation of diluted earnings per share because the exercise prices of the options were greater than the market price of the common stock and are considered anti-dilutive. The following table reflects the components of common shares outstanding:

		<b>Quarter Ended Sept. 30</b>	
		<b>2014</b>	<b>2013</b>
Weighted average common shares outstanding	basic	4,855,071	4,852,178
Effect of dilutive securities:			
Stock options		16,958	20,435
Warrants		-	493
Shares used in computing net income per share	diluted	4,872,029	4,873,106

**Six Months Ended Sept. 30**  
**2014**                      **2013**

Weighted average common shares outstanding	basic	4,853,068	4,857,279
Effect of dilutive securities:			
Stock options		15,701	20,798
Warrants		-	522
Shares used in computing net income per share	diluted	4,868,769	4,878,599

**Table of Contents****NOTE 5. MARKETABLE SECURITIES**

All of our marketable securities are classified as available-for-sale. 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, 2014, by maturity, were as follows:

<b>Total</b>	<b>&lt;1 Year</b>	<b>1 3 Years</b>	<b>3 5 Years</b>
\$ 99,176,144	\$ 14,624,615	\$ 46,756,649	\$ 37,794,880

As of September 30 and March 31, 2014, our marketable securities were as follows:

	<b>As of September 30, 2014</b>				<b>As of March 31, 2014</b>			
	<b>Adjusted Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Market Value</b>	<b>Adjusted Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Market Value</b>
Corporate bonds	\$ 95,870,410	\$ 1,137,401	\$ (252,010)	\$ 96,755,801	\$ 88,567,210	\$ 1,613,822	\$ (246,973)	\$ 89,934,059
Municipal bonds	2,413,675	6,668	-	2,420,343	4,436,430	16,521	(4,609)	4,448,342
<b>Total</b>	<b>\$ 98,284,085</b>	<b>\$ 1,144,069</b>	<b>\$ (252,010)</b>	<b>\$ 99,176,144</b>	<b>\$ 93,003,640</b>	<b>\$ 1,630,343</b>	<b>\$ (251,582)</b>	<b>\$ 94,382,401</b>

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, 2014:

	<b>Less Than 12 Months</b>		<b>12 Months or Greater</b>		<b>Total</b>	
	<b>Fair Market Value</b>	<b>Gross Unrealized Losses</b>	<b>Fair Market Value</b>	<b>Gross Unrealized Losses</b>	<b>Fair Market Value</b>	<b>Gross Unrealized Losses</b>
As of September 30, 2014						
Corporate bonds	\$ 29,377,477	\$ (172,907)	\$ 8,368,641	\$ (79,103)	\$ 37,746,118	\$ (252,010)
Municipal bonds	-	-	-	-	-	-
<b>Total</b>	<b>\$ 29,377,477</b>	<b>\$ (172,907)</b>	<b>\$ 8,368,641</b>	<b>\$ (79,103)</b>	<b>\$ 37,746,118</b>	<b>\$ (252,010)</b>
As of March 31, 2014						
Corporate bonds	\$ 34,761,683	\$ (246,973)	\$ -	\$ -	\$ 34,761,683	\$ (246,973)
Municipal bonds	1,418,742	(4,609)	-	-	1,418,742	(4,609)
<b>Total</b>	<b>\$ 36,180,425</b>	<b>\$ (251,582)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 36,180,425</b>	<b>\$ (251,582)</b>

Gross unrealized losses totaled \$252,010 as of September 30, 2014, and were attributed to 12 corporate bonds out of a portfolio of 40 bonds. The gross unrealized losses were due to market-price decreases and rating downgrades after the bonds were purchased.

All of the bonds we held had investment-grade credit ratings by Moody's or Standard and Poor's. 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.

Three corporate bonds, with a total fair market value of \$8,368,641, had been in continuous unrealized loss positions for 12 months or greater. For these securities, we also considered the severity of unrealized losses, which was less than 1% of adjusted cost for each security.

Because we expect to recover the costs basis of investments held, we do not consider any of our marketable

securities to be other-than-temporarily impaired at September 30, 2014.

8

---

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

Inventories consisted of the following:

	<b>Sept. 30</b>	<b>March 31</b>
	<b>2014</b>	<b>2014</b>
Raw materials	\$ 898,089	\$ 776,510
Work in process	2,087,528	1,940,809
Finished goods	658,776	785,014
	3,644,393	3,502,333
Less inventory reserve	(255,000)	(295,000)
Total inventories	\$ 3,389,393	\$ 3,207,333

**NOTE 7. STOCK-BASED COMPENSATION**

Stock-based compensation expense was \$58,960 for the second quarter and first six months of fiscal 2015, and \$53,200 for the second quarter and first six months of fiscal 2014. Stock-based compensation expenses for the quarters and six months ended September 30, 2014 and 2013 were due to the issuance of automatic stock options to our non-employee directors on their election or 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, 2014 or March 31, 2014, 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, 2014 we had no accrued interest related to uncertain tax positions. The tax years 1999 through 2013 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 corporate debt securities, which are classified as available-for-sale. On the balance sheets, these securities are included in Marketable securities, short term and Marketable securities, long term. The fair value of our Level 1 marketable securities was \$96,755,801 at September 30, 2014 and \$89,934,059 at March 31, 2014.

**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. Our Level 2 financial instruments consist of municipal debt securities, which are classified as available-for-sale. On the balance sheets, these securities are included in Marketable securities,

short term and Marketable securities, long term. The fair value of our Level 2 marketable securities was \$2,420,343 at September 30, 2014 and \$4,448,342 at March 31, 2014.

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.

## **Table of Contents**

### **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, \$1,236,595 of which remained available as of September 30, 2014. 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, 2014.

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

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 uncertainties related to the economic environments in the industries we serve, uncertainties related to direct and indirect U.S. Government funding, uncertainties relating to the revenue potential of new products, risks related to material weaknesses in our internal control over financial reporting, 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, 2014.

### **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, 2014. At September 30, 2014 our critical accounting policies and estimates continued to include investment valuation, inventory valuation, and deferred tax assets estimation.

**Table of Contents****Quarter ended September 30, 2014 compared to quarter ended September 30, 2013**

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

	<b>Percentage of Revenue</b>		<b>Quarter-</b>
	<b>Quarter Ended Sept. 30</b>	<b>2013</b>	<b>to-Quarter</b>
	<b>2014</b>		<b>Change</b>
<b>Revenue</b>			
Product sales	98.1%	99.0%	12.2%
Contract research and development	1.9%	1.0%	119.3%
Total revenue	100.0%	100.0%	13.2%
Cost of sales	19.5%	20.6%	7.1%
Gross profit	80.5%	79.4%	14.8%
<b>Expenses</b>			
Selling, general, and administrative	7.6%	9.0%	(5.2)%
Research and development	9.5%	12.0%	(10.2)%
Total expenses	17.1%	21.0%	(8.0)%
Income from operations	63.4%	58.4%	23.1%
Interest income	6.8%	7.1%	8.1%
Income before taxes	70.2%	65.5%	21.5%
Provision for income taxes	23.3%	21.3%	24.5%
Net income	46.9%	44.2%	20.0%

Total revenue for the quarter ended September 30, 2014 (the second quarter of fiscal 2015) increased 13% compared to the quarter ended September 30, 2013 (the second quarter of fiscal 2014). The increase was due to a 12% increase in product sales and a 119% increase in contract research and development revenue.

The increase in product sales from the prior-year quarter was due to increased purchase volume by existing customers, favorable order timing, and new customers. The increase in contract research and development revenue was due to new contracts, and the increase may not be representative of future periods. 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 81% of revenue for the second quarter of fiscal 2015 compared to 79% for the second quarter of fiscal 2014, due to a more favorable product sales mix.

Total expenses decreased 8% for the second quarter of fiscal 2015 compared to the second quarter of fiscal 2014, due to a 5% decrease in selling, general, and administrative expense and a 10% decrease in research and development expense. The decrease in research and development expense was due to the completion of certain product development activities. Research and development expense can fluctuate significantly depending on a number of factors including staffing, project requirements, and contract research and development activities. The decrease in selling, general, and administrative expense was primarily due to decreased legal expenses. Selling, general, and administrative expense can fluctuate significantly depending on a number of factors including staffing, sales commissions, performance-based compensation, and legal expenses. The decreases in expenses may not be representative of future periods.

Interest income for the second quarter of fiscal 2015 increased 8% due to an increase in interest-bearing marketable securities, partially offset by a decrease in interest rates earned on reinvested funds.



The 20% increase in net income in the second quarter of fiscal 2015 compared to the prior-year quarter was primarily due to increased product sales, increased contract research and development revenue, increased gross profit margin as a percentage of revenue, decreased expenses, and increased interest income.

**Table of Contents****Six months ended September 30, 2014 compared to six months ended September 30, 2013**

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

	<b>Percentage of Revenue</b>		<b>Period-</b>
	<b>Six Months Ended Sept. 30</b>		<b>to-Period</b>
	<b>2014</b>	<b>2013</b>	<b>Change</b>
<b>Revenue</b>			
Product sales	98.5%	98.0%	24.7%
Contract research and development	1.5%	2.0%	(5.1)%
Total revenue	100.0%	100.0%	24.1%
Cost of sales	18.9%	21.4%	9.9%
Gross profit	81.1%	78.6%	27.9%
<b>Expenses</b>			
Selling, general, and administrative	7.5%	9.0%	3.5%
Research and development	9.5%	13.6%	(13.5)%
Total expenses	17.0%	22.6%	(6.8)%
Income from operations	64.1%	56.0%	41.9%
Interest income	6.6%	7.7%	6.1%
Income before taxes	70.7%	63.7%	37.6%
Provision for income taxes	23.4%	20.7%	39.7%
Net income	47.3%	43.0%	36.5%

Total revenue for the six months ended September 30, 2014 increased 24% compared to the six months ended September 30, 2013. The increase was due to a 25% increase in product sales, partially offset by a 5% decrease in contract research and development revenue.

The increase in product sales from the prior-year period was due to increased purchase volume by existing customers, favorable order timing, and new customers. The decrease in contract research and development revenue was due to completion of the majority of activities on a large contract.

Gross profit margin increased to 81% of revenue for the first six months of fiscal 2015 compared to 79% for the first six months of fiscal 2014, due to a more favorable product sales mix.

Total expenses decreased 7% for the first six months of fiscal 2015 compared to the first six months of fiscal 2014, due to a 14% decrease in research and development expense, partially offset by a 3% increase in selling, general, and administrative expense. The increase in selling, general, and administrative expense was primarily due to increased sales commissions and performance-based compensation. The decrease in research and development expense was due to the completion of certain product development activities. Research and development expense can fluctuate significantly depending on staffing, project requirements, and contract research and development activities.

Interest income for the first six months of fiscal 2015 increased 6% due to an increase in interest-bearing marketable securities, partially offset by a decrease in interest rates earned on reinvested funds.

Net income increased 37% for the first six months of fiscal 2015 compared to the prior-year period due to increased product sales, increased gross profit margin as a percentage of revenue, decreased expenses, and increased interest income.



## **Table of Contents**

### **Liquidity and capital resources**

At September 30, 2014 we had \$102,457,644 in cash plus short-term and long-term marketable securities compared to \$95,644,701 at March 31, 2014. 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 2015 was primarily due to \$7,000,366 in net cash provided by operating activities.

We purchased \$27,710 of fixed assets in the first six months of fiscal 2015 and none in the first six months of fiscal 2014. Investments both periods were lower than most in our history because we completed an upgrade of our production capabilities in 2013. Our capital expenditures can vary significantly depending on our needs, equipment purchasing opportunities, and production expansion activities.

We currently believe our working capital and cash generated from operations will be 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 securities including 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 or loss, net of estimated tax. Our marketable securities as of September 30, 2014 had remaining maturities between one day and 250 weeks. Marketable securities had a market value of \$99,176,144 at September 30, 2014, representing approximately 88% of our total assets. We have not used derivative financial instruments in our investment portfolio.

**Table of Contents**

**Item 4. Controls and Procedures.**

***Evaluation of Disclosure 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 that are defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the 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 management's identification of previously reported deficiencies in internal control over financial reporting that it considers to be material weaknesses related to insufficient segregation of duties within the financial accounting and information technology environments, in conjunction with insufficient documented controls within revenue and journal entry processes, insufficient documentation regarding precision of monitoring controls and insufficient compensating reconciliation and review controls, management has concluded that disclosure controls and procedures were not effective at September 30, 2014. Steps to remediate these weaknesses are discussed below, and we currently expect the material weakness to be fully remediated by March 31, 2015.

Notwithstanding the material weaknesses described below, our management, including our Chief Executive Officer and Chief Financial Officer, has concluded that the financial statements included in this Quarterly Report on Form 10-Q present fairly, in all material respects, our financial position, results of operations, and cash flows for the periods presented in conformity with accounting principles generally accepted in the United States.

***Changes in Internal Control over Financial Reporting***

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

As reported in our assessment of the effectiveness of our internal control over financial reporting as of March 31, 2014, included in Item 9A. Controls and Procedures of Form 10-K for the year ended March 31, 2014, material weaknesses existed in our internal control over financial reporting related to insufficient segregation of duties within the financial accounting and information technology environments, in conjunction with insufficient documented controls within revenue and journal entry processes, insufficient documentation regarding precision of monitoring controls and insufficient compensating reconciliation and review controls.

During the quarter ended June 30, 2014 we implemented new controls as remediation of the material weaknesses, including more segregation of duties within the financial accounting and information technology environments, additional documented controls within revenue and journal entry processes, additional documentation regarding precision of monitoring controls, and enhanced compensating reconciliation and review controls. The new controls have not been operating long enough to evaluate their operating effectiveness.

**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, 2014.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**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 22, 2014</u></b>	<b><u>/s/ DANIEL A. BAKER</u></b>
Date	Daniel A. Baker President and Chief Executive Officer

<b><u>October 22, 2014</u></b>	<b><u>/s/ CURT A. REYNDERS</u></b>
Date	Curt A. Reynders Chief Financial Officer