

NVE CORP /NEW/  
Form 10-Q  
October 21, 2009

**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, 2009

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

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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 229.405 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 4,700,583 shares outstanding as of October 16, 2009**

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BALANCE SHEETS**

	(Unaudited) Sept. 30, 2009	March 31, 2009*
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 2,590,186	\$ 1,875,063
Marketable securities, short term	1,653,026	-
Accounts receivable, net of allowance for uncollectible accounts of \$15,000	2,953,027	3,366,698
Inventories	1,864,989	2,247,621
Deferred tax assets	-	667,729
Prepaid expenses and other assets	838,130	669,307
<b>Total current assets</b>	<b>9,899,358</b>	<b>8,826,418</b>
Fixed assets		
Machinery and equipment	5,495,846	5,328,237
Leasehold improvements	450,546	450,546
	5,946,392	5,778,783
Less accumulated depreciation	4,667,319	4,485,509
<b>Net fixed assets</b>	<b>1,279,073</b>	<b>1,293,274</b>
Marketable securities, long term	39,383,468	32,446,748
<b>Total assets</b>	<b>\$ 50,561,899</b>	<b>\$ 42,566,440</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current liabilities		
Accounts payable	\$ 423,552	\$ 257,239
Accrued payroll and other	597,655	637,463
Deferred taxes	23,971	-
Deferred revenue	62,500	104,167
<b>Total current liabilities</b>	<b>1,107,678</b>	<b>998,869</b>
Shareholders' equity		
Common stock	47,006	46,693
Additional paid-in capital	20,169,924	19,166,524
Accumulated other comprehensive income (loss)	996,882	(252,940)
Retained earnings	28,240,409	22,607,294
<b>Total shareholders' equity</b>	<b>49,454,221</b>	<b>41,567,571</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 50,561,899</b>	<b>\$ 42,566,440</b>

\*The March 31, 2009 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, 2009.

See accompanying notes.

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

	<b>Quarter Ended Sept. 30</b>	
	<b>2009</b>	<b>2008</b>
<b>Revenue</b>		
Product sales	\$ 5,177,445	\$ 4,871,381
Contract research and development	1,331,056	856,409
Total revenue	6,508,501	5,727,790
Cost of sales	1,985,100	1,747,618
Gross profit	4,523,401	3,980,172
<b>Expenses</b>		
Selling, general, and administrative	622,354	585,373
Research and development	291,540	280,863
Total expenses	913,894	866,236
Income from operations	3,609,507	3,113,936
Interest income	393,198	277,074
Income before taxes	4,002,705	3,391,010
Provision for income taxes	1,308,522	1,090,629
Net income	\$ 2,694,183	\$ 2,300,381
Net income per share basic	\$ 0.57	\$ 0.49
Net income per share diluted	\$ 0.55	\$ 0.48
<b>Weighted average shares outstanding</b>		
Basic	4,692,607	4,661,396
Diluted	4,871,387	4,788,614

See accompanying notes.

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

	<b>Six Months Ended Sept. 30</b>	
	<b>2009</b>	<b>2008</b>
<b>Revenue</b>		
Product sales	\$ 10,711,482	\$ 9,418,703
Contract research and development	2,631,551	1,172,873
Total revenue	13,343,033	10,591,576
Cost of sales	3,876,523	3,155,050
Gross profit	9,466,510	7,436,526
<b>Expenses</b>		
Selling, general, and administrative	1,258,077	1,114,857
Research and development	558,861	666,895
Total expenses	1,816,938	1,781,752
Income from operations	7,649,572	5,654,774
Interest income	763,223	531,509
Other income	-	3,400
Income before taxes	8,412,795	6,189,683
Provision for income taxes	2,779,680	1,986,686
Net income	\$ 5,633,115	\$ 4,202,997
Net income per share basic	\$ 1.20	\$ 0.90
Net income per share diluted	\$ 1.16	\$ 0.88
<b>Weighted average shares outstanding</b>		
Basic	4,684,453	4,652,448
Diluted	4,863,199	4,779,606

See accompanying notes.

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

	<b>Six Months Ended Sept. 30</b>	
	<b>2009</b>	<b>2008</b>
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 5,633,115	\$ 4,202,997
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	181,809	225,116
Stock-based compensation	100,842	75,476
Excess tax benefits	(280,448)	(236,524)
Gain on sale of fixed assets	-	(3,400)
Deferred income taxes	269,377	219,117
Changes in operating assets and liabilities:		
Accounts receivable	413,671	357,848
Inventories	382,632	13,605
Prepaid expenses and other assets	(168,823)	16,285
Accounts payable and accrued expenses	126,505	(170,636)
Deferred revenue	(41,667)	(41,667)
Net cash provided by operating activities	6,617,013	4,658,217
<b>INVESTING ACTIVITIES</b>		
Purchases of fixed assets	(167,608)	(117,530)
Proceeds from sale of fixed assets	-	3,400
Purchases of marketable securities	(6,779,505)	(6,602,443)
Proceeds from maturities and sales of marketable securities	142,352	1,411,361
Net cash used in investing activities	(6,804,761)	(5,305,212)
<b>FINANCING ACTIVITIES</b>		
Net proceeds from sale of common stock	622,423	243,917
Excess tax benefits	280,448	236,524
Net cash provided by financing activities	902,871	480,441
Increase (decrease) in cash and cash equivalents	715,123	(166,554)
Cash and cash equivalents at beginning of period	1,875,063	1,885,867
Cash and cash equivalents at end of period	\$ 2,590,186	\$ 1,719,313
Supplemental disclosures of cash flow information:		
Cash paid during the period for income taxes	\$ 2,607,438	\$ 1,631,000

See accompanying notes.





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**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 AND SUBSEQUENT EVENTS**

The accompanying unaudited financial statements of NVE Corporation are consistent with accounting principles generally accepted in the United States and reporting 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, 2009. The results of operations for the quarter ended September 30, 2009 are not necessarily indicative of the results that may be expected for the full fiscal year ending March 31, 2010.

We evaluated all events or transactions that occurred after September 30, 2009 through October 21, 2009, the date we issued these financial statements. During this period we did not have any material recognizable subsequent events.

**NOTE 3. RECENT ACCOUNTING PRONOUNCEMENTS**

In June 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162*. SFAS No. 168 was codified as Accounting Standards Codification (ASC) Topic 105-10 and replaces SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*, to establish the FASB ASC as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in preparation of financial statements in conformity with generally accepted accounting principles in the United States. We adopted ASC Topic 105-10 effective for the quarter ended September 30, 2009 and the adoption did not result in a significant impact on our financial statements.

**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 1,000 for the quarter and six months ended September 30, 2009 and 60,000 for the quarter and six months ended September 30, 2008 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:

	<b>Quarter Ended Sept. 30</b>	
	<b>2009</b>	<b>2008</b>
Weighted average common shares outstanding basic	4,692,607	4,661,396
Effect of dilutive securities:		
Stock options	171,843	122,329
Warrants	6,937	4,889

Shares used in computing net income per share	diluted	4,871,387	4,788,614
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**Six Months Ended Sept.  
30**

		<b>2009</b>	<b>2008</b>
Weighted average common shares outstanding	basic	4,684,453	4,652,448
Effect of dilutive securities:			
Stock options		171,809	122,269
Warrants		6,937	4,889
Shares used in computing net income per share	diluted	4,863,199	4,779,606

**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 maturities of our marketable securities as of September 30, 2009 were as follows:

<b>Total</b>	<b>&lt;1 Year</b>	<b>1 3 Years</b>	<b>3 5 Years</b>	<b>&gt;5 Years</b>
\$ 41,036,494	\$ 1,653,026	\$ 15,753,061	\$ 23,630,407	\$ -

Marketable securities were as follows:

	<b>As of September 30, 2009</b>				<b>As of March 31, 2009</b>			
	<b>Adjusted Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Estimated Fair Market Value</b>	<b>Adjusted Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Estimated Fair Market Value</b>
U.S. agency securities	\$ 816,172	\$ 22,730	\$ -	\$ 838,902	\$ 955,827	\$ 30,647	\$ -	\$ 986,474
Corporate bonds	17,654,836	840,120	-	18,494,956	13,983,202	54,085	(942,514)	13,094,773
Municipal bonds	21,007,370	753,240	(57,974)	21,702,636	17,902,196	489,802	(26,497)	18,365,501
<b>Total</b>	<b>\$ 39,478,378</b>	<b>\$ 1,616,090</b>	<b>\$(57,974)</b>	<b>\$ 41,036,494</b>	<b>\$ 32,841,225</b>	<b>\$ 574,534</b>	<b>\$(969,011)</b>	<b>\$ 32,446,748</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, 2009:

	<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>
<b>As of September 30, 2009</b>						
U.S. Agency securities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Corporate bonds	-	-	-	-	-	-
Municipal bonds	1,213,376	(52,835)	895,330	(5,139)	2,108,706	(57,974)
<b>Total</b>	<b>\$ 1,213,376</b>	<b>\$ (52,835)</b>	<b>\$ 895,330</b>	<b>\$ (5,139)</b>	<b>\$ 2,108,706</b>	<b>\$ (57,974)</b>
<b>As of March 31, 2009</b>						
U.S. Agency securities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Corporate bonds	7,278,810	(796,441)	1,902,698	(146,073)	9,181,508	(942,514)
Municipal bonds	901,213	(6,436)	947,043	(20,061)	1,848,256	(26,497)
<b>Total</b>	<b>\$ 8,180,023</b>	<b>\$ (802,877)</b>	<b>\$ 2,849,741</b>	<b>\$ (166,134)</b>	<b>\$ 11,029,764</b>	<b>\$ (969,011)</b>

Gross unrealized losses at September 30, 2009 were attributable to our municipal bonds. The gross unrealized losses were primarily due to interest rate fluctuations and market-price changes. Although several of the bonds we hold were downgraded by Moody's or Standard and Poor's during the six months ended September 30, 2009, all of the bonds that were rated by Moody's or Standard and Poor's had investment-grade credit ratings, and a substantial majority were rated A3/A- or better. For each bond with an unrealized loss, we determined that it was not probable that we would not collect all amounts due. In reaching this determination, we considered factors including the credit ratings of the bonds, the underlying ratings of insured bonds, whether the bonds were prefunded, and historical default rates for securities of comparable credit rating. Because we determined that it was not probable that we would not collect all amounts due, and because we have the ability and intent to hold our bonds until a recovery of fair value,

which may be maturity, we did not consider any of our marketable securities to be other-than-temporarily impaired at September 30, 2009.

**Table of Contents****NOTE 6. COMPREHENSIVE INCOME**

The components of comprehensive income are as follows:

	<b>Quarter Ended Sept. 30</b>	
	<b>2009</b>	<b>2008</b>
Net income	\$ 2,694,183	\$ 2,300,381
Unrealized gain (loss) from marketable securities, net of tax	437,926	(166,612)
Comprehensive income	\$ 3,132,109	\$ 2,133,769

	<b>Six Months Ended Sept. 30</b>	
	<b>2009</b>	<b>2008</b>
Net income	\$ 5,633,115	\$ 4,202,997
Unrealized gain (loss) from marketable securities, net of tax	1,249,822	(458,912)
Comprehensive income	\$ 6,882,937	\$ 3,744,085

**NOTE 7. INVENTORIES**

Inventories consisted of the following:

	<b>September 30</b>	<b>March 31</b>
	<b>2009</b>	<b>2009</b>
Raw materials	\$ 519,977	\$ 564,630
Work-in-process	792,200	1,082,290
Finished goods	852,812	900,701
	2,164,989	2,547,621
Less inventory reserve	(300,000)	(300,000)
Total inventories	\$ 1,864,989	\$ 2,247,621

**NOTE 8. STOCK-BASED COMPENSATION**

Stock-based compensation expense was \$95,244 for the second quarter of fiscal 2010, \$69,878 for the second quarter of fiscal 2009, \$100,842 for the first six months of fiscal 2010, and \$75,476 for the first six months of fiscal 2009. Stock-based compensation expenses for the quarter and six months ended September 30, 2009 and 2008 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 increases in stock-based compensation for the quarter and six months ended September 30, 2009 compared to the prior-year periods were primarily due to a higher 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. Tax provisions of \$280,448 for the the six months ended September 30, 2009 and \$236,524 for the six months ended September 30, 2008 were credited to Additional paid-in capital.

At September 30, 2009 we had no unrecognized tax benefits and we do not expect any significant unrecognized tax benefits within twelve months of the reporting date. We recognize interest and penalties related to income tax matters in income tax expense. As of September 30, 2009 we had no accrued interest related to uncertain tax positions. The

years 1999 through 2008 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:

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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 \$41,036,494 at September 30, 2009 and \$32,446,748 at March 31, 2009.

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 or six months ended September 30, 2009.

## **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 an uncertain economic environment, risks associated with our marketable securities, competition including entry of new competitors, progress in research and development activities by us and others, variations in costs that are beyond our control, adverse legal proceedings, lower sales, failure of suppliers to meet our requirements, failure to obtain new customers, inability to carry out marketing and sales plans, inability to meet customer technical requirements, inability to consummate license agreements, ineligibility for SBIR awards, loss of key executives, 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, 2009.

### **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, 2009. At September 30, 2009 our critical accounting policies and estimates continued to include research and development contract percentage of completion estimation, product warranty estimation, inventory valuation, allowance for doubtful accounts estimation, and deferred tax assets estimation.

**Table of Contents****Quarter ended September 30, 2009 compared to quarter ended September 30, 2008**

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

	Percentage of Revenue		Quarter-to-Quarter Change
	Quarter Ended Sept. 30 2009	2008	
<b>Revenue</b>			
Product sales	79.5%	85.0%	6.3%
Contract research and development	20.5%	15.0%	55.4%
Total revenue	100.0%	100.0%	13.6%
Cost of sales	30.5%	30.5%	13.6%
Gross profit	69.5%	69.5%	13.6%
<b>Expenses</b>			
Selling, general, and administrative	9.5%	10.2%	6.3%
Research and development	4.5%	4.9%	3.8%
Total expenses	14.0%	15.1%	5.5%
Income from operations	55.5%	54.4%	15.9%
Interest and other income	6.0%	4.8%	41.9%
Income before taxes	61.5%	59.2%	18.0%
Provision for income taxes	20.1%	19.0%	20.0%
Net income	41.4%	40.2%	17.1%

Total revenue for the quarter ended September 30, 2009 (the second quarter of fiscal 2010) increased 14% to \$6,508,501 compared to \$5,727,790 for the quarter ended September 30, 2008 (the second quarter of fiscal 2009). The increase was due to a 6% increase in product sales and a 55% increase in contract research and development revenue. The increase in product sales 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. The increase in research and development revenue may not be representative of future trends and there can be no assurance of additional or follow-on contracts for expired or completed contracts.

Gross profit margin was 69% of revenue for the second quarter of fiscal 2010, unchanged from the second quarter of fiscal 2009. Higher margins on both product sales and contract research and development revenue offset a less favorable revenue mix with a higher portion of revenue from contract research and development.

Selling, general, and administrative expense for the second quarter of fiscal 2010 increased 6% compared to the second quarter of fiscal 2009, primarily due to increases in salaries, commissions, and stock-based compensation expense. Stock-based compensation expenses for the quarters ended September 30, 2009 and 2008 were primarily due to the issuance of automatic stock options to our non-employee directors on their reelection to our Board. The increase in stock-based compensation for the quarter ended September 30, 2009 compared to the prior-year quarter was primarily due to a higher stock price at the date of grant compared to the prior-year date of grant.

Research and development expense increased 4% for the second quarter of fiscal 2010 compared to the second quarter of fiscal 2009 due to increased sensor and coupler product development. Our research and development expense can fluctuate significantly depending on staffing, project requirements, and contract research and development activities.

Interest and other income increased 42% to \$393,198 for the second quarter of fiscal 2010 compared to \$277,074 for the second quarter of fiscal 2009. The increase was due to an increase in interest-bearing marketable securities.

The provision for income taxes was \$1,308,522, or 33% of income before taxes, for the second quarter of fiscal 2010 compared to \$1,090,629, or 32% of income before taxes, for the second quarter of fiscal 2009. The effective tax rate can fluctuate due to a number of factors, some of which are outside our control.

The 17% increase in net income in the second quarter of fiscal 2010 compared to the prior-year quarter was primarily due to increases in product sales, contract research and development revenue, and interest income, partially offset by increased expenses.

**Table of Contents****Six months ended September 30, 2009 compared to six months ended September 30, 2008**

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 2009	2008	
<b>Revenue</b>			
Product sales	80.3%	88.9%	13.7 %
Contract research and development	19.7%	11.1%	124.4 %
Total revenue	100.0%	100.0%	26.0 %
<b>Cost of sales</b>			
Cost of sales	29.1%	29.8%	22.9 %
Gross profit	70.9%	70.2%	27.3 %
<b>Expenses</b>			
Selling, general, and administrative	9.4%	10.5%	12.8 %
Research and development	4.2%	6.3%	(16.2)%
Total expenses	13.6%	16.8%	2.0 %
Income from operations	57.3%	53.4%	35.3 %
Interest and other income	5.7%	5.0%	42.7 %
Income before taxes	63.0%	58.4%	35.9 %
Provision for income taxes	20.8%	18.7%	39.9 %
Net income	42.2%	39.7%	34.0 %

Total revenue for the six months ended September 30, 2009 increased 26% to \$13,343,033 compared to \$10,591,576 for the six months ended September 30, 2008. The increase was due to a 14% increase in product sales and a 124% increase in contract research and development revenue. The increase in product sales 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. The increase in research and development revenue may not be representative of future trends and there can be no assurance of additional or follow-on contracts for expired or completed contracts.

Gross profit margin increased to 71% of revenue for the first six months of fiscal 2010 compared to 70% for the first six months of fiscal 2009. The increase was due to higher margins on both product sales and contract research and development revenue.

Selling, general, and administrative expense for the first six months of fiscal 2010 increased 13% compared to the first six months of fiscal 2009, primarily due to increased salaries, performance-based compensation, commissions, and stock-based compensation expense. Stock-based compensation expenses for the six months ended September 30, 2009 and 2008 were primarily due to the issuance of automatic stock options to our non-employee directors on their reelection to our Board. The increase in stock-based compensation for the six months ended September 30, 2009 compared to the prior-year period was primarily due to a higher stock price at the date of grant compared to the prior-year date of grant.

Research and development expense decreased 16% for the first six months of fiscal 2010 compared to the first six months of fiscal 2009 due to an increase in contract research and development activities, which caused resources to be reallocated from expensed research and development activities. The decrease in research and development expense for the six-month period may not be representative of future expense trends. Our research and development expense can fluctuate significantly depending on staffing, project requirements, and contract research and development activities.

Interest and other income increased 43% to \$763,223 for the first six months of fiscal 2010 compared to \$534,909 for first six months of fiscal 2009. The increase was due to an increase in interest-bearing marketable securities.

The provision for income taxes was \$2,779,680, or 33% of income before taxes, for the first six months of fiscal 2010 compared to \$1,986,686, or 32% of income before taxes, for the first six months of fiscal 2009. The effective tax rate can fluctuate due to a number of factors, some of which are outside our control.

The 34% increase in net income in the first six months of fiscal 2010 compared to the prior-year period was primarily due to increases in product sales, contract research and development revenue, and interest income.

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### **Liquidity and capital resources**

At September 30, 2009 we had \$43,626,680 in cash plus short-term and long-term marketable securities compared to \$34,321,811 at March 31, 2009. 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 2010 was primarily due to \$6,617,013 in net cash provided by operating activities, a \$1,952,593 net increase in the market value of our marketable securities due to market-price changes, and \$622,423 in net proceeds from the sale of common stock related to option exercises.

Deferred taxes were a \$23,971 liability at September 30, 2009 compared to a \$667,729 asset at March 31, 2009. The change was primarily due to a \$702,771 increase in deferred taxes related to the net increase in the value of our marketable securities. Accounts receivable decreased by \$413,671 at September 30, 2009 compared to March 31, 2009 due to the timing of payments by our customers. Inventories decreased by \$382,632 due to raw material purchase timing and our efforts to manage certain inventories.

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, 2009 had remaining maturities between seven and 58 months. Our short-term and long-term marketable securities had a fair market value of \$41,036,494 at September 30, 2009, representing approximately 81% 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, 2009, 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 4. Submission of Matters to a Vote of Security Holders.**

Our Annual Meeting of Shareholders was held on August 6, 2009. Proxies for the meeting were solicited pursuant to Regulation 14 under the Exchange Act. All of our directors attended the meeting. The Annual Meeting was held for the following purposes: (1) to elect five directors to serve until the next Annual Meeting of Shareholders; and (2) to ratify the selection of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending March 31, 2010. There were 4,682,583 shares of common stock entitled to vote at the meeting with a majority represented at the meeting. The affirmative vote of the majority of the votes cast was required to pass each of the proposals. The Board of Directors recommended a vote for election of the director nominees and for ratification of the selection of our independent registered public accounting firm. There was no solicitation in opposition. Each director nominee was reelected to serve as a director until our next Annual Meeting of Shareholders and the selection of our independent registered public accounting firm was ratified.

Voting results were as follows:

	<b>Voted For</b>	<b>Number of Shares Withheld</b>	<b>Abstain</b>
1. To elect five directors to serve until the next Annual Meeting of Shareholders.			
Terrence W. Glarner	3,824,696	138,609	1,060
Daniel A. Baker	3,826,733	136,572	1,060
James D. Hartman	3,839,242	124,063	1,060
Patricia M. Hollister	3,836,415	126,890	1,060
Robert H. Irish	3,818,095	145,210	1,060

	<b>Voted For</b>	<b>Number of Shares Voted Against</b>	<b>Abstain</b>
2. To ratify the selection of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending March 31, 2010.	3,931,395	30,956	2,015

**Item 6. Exhibits.****Exhibit #****Description**

- 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.





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**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 21, 2009**

Date

**/s/ DANIEL A. BAKER**

Daniel A. Baker

President and Chief Executive Officer

**October 21, 2009**

Date

**/s/ CURT A. REYNDERS**

Curt A. Reynders

Chief Financial Officer