

NVE CORP /NEW/  
Form 10-Q  
January 21, 2015

**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 **December 31, 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

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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 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 January 16, 2015**

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BALANCE SHEETS**

|   | <b>(Unaudited)<br/>Dec. 31, 2014</b> | <b>March 31,<br/>2014*</b> |
|---|--------------------------------------|----------------------------|
| <b>ASSETS</b>   |                                      |                            |
| Current assets  |                                      |                            |
| Cash and cash equivalents   | \$ 11,796,943                        | \$ 1,262,300               |
| Marketable securities, short term   | 11,554,543                           | 12,360,091                 |
| Accounts receivable, net of allowance for uncollectible accounts of \$15,000  | 1,855,079                            | 2,331,574                  |
| Inventories   | 3,686,124                            | 3,207,333                  |
| Deferred tax assets   | 183,603                              | 237,387                    |
| Prepaid expenses and other assets   | 1,525,778                            | 816,276                    |
| <b>Total current assets</b>   | <b>30,602,070</b>                    | <b>20,214,961</b>          |
| Fixed assets  |                                      |                            |
| Machinery and equipment   | 8,650,150                            | 8,536,010                  |
| Leasehold improvements  | 1,499,454                            | 1,499,454                  |
|   | 10,149,604                           | 10,035,464                 |
| Less accumulated depreciation   | 7,729,513                            | 7,030,692                  |
| <b>Net fixed assets</b>   | <b>2,420,091</b>                     | <b>3,004,772</b>           |
| Marketable securities, long term  | 82,801,741                           | 82,022,310                 |
| <b>Total assets</b>   | <b>\$ 115,823,902</b>                | <b>\$ 105,242,043</b>      |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>  |                                      |                            |
| Current liabilities   |                                      |                            |
| Accounts payable  | \$ 360,991                           | \$ 374,127                 |
| Accrued payroll and other   | 801,669                              | 808,675                    |
| <b>Total current liabilities</b>  | <b>1,162,660</b>                     | <b>1,182,802</b>           |
| Long-term deferred tax liabilities  | 216,838                              | 354,600                    |
| Shareholders' equity  |                                      |                            |
| Common stock, \$0.01 par value, 6,000,000 shares authorized; 4,857,953 issued and outstanding as of December 31, 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  | 526,033                              | 877,857                    |
| Retained earnings   | 93,019,029                           | 82,313,391                 |
| <b>Total shareholders' equity</b>   | <b>114,444,404</b>                   | <b>103,704,641</b>         |
| <b>Total liabilities and shareholders' equity</b>   | <b>\$ 115,823,902</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.

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

|  | <b>Quarter Ended Dec. 31</b> |              |
|--|------------------------------|--------------|
|  | <b>2014</b>                  | <b>2013</b>  |
| <b>Revenue</b>                             |                              |              |
| Product sales                              | \$ 5,883,690                 | \$ 6,448,407 |
| Contract research and development          | 408,058                      | 25,290       |
| Total revenue                              | 6,291,748                    | 6,473,697    |
| Cost of sales                              | 1,473,655                    | 1,449,396    |
| Gross profit                               | 4,818,093                    | 5,024,301    |
| <b>Expenses</b>                            |                              |              |
| Selling, general, and administrative       | 533,695                      | 543,698      |
| Research and development                   | 694,758                      | 905,246      |
| Total expenses                             | 1,228,453                    | 1,448,944    |
| Income from operations                     | 3,589,640                    | 3,575,357    |
| Interest income                            | 557,843                      | 530,383      |
| Income before taxes                        | 4,147,483                    | 4,105,740    |
| Provision for income taxes                 | 1,354,577                    | 1,328,566    |
| Net income                                 | \$ 2,792,906                 | \$ 2,777,174 |
| Net income per share basic                 | \$ 0.57                      | \$ 0.57      |
| Net income per share diluted               | \$ 0.57                      | \$ 0.57      |
| <b>Weighted average shares outstanding</b> |                              |              |
| Basic                                      | 4,857,953                    | 4,842,565    |
| Diluted                                    | 4,876,074                    | 4,859,601    |

**STATEMENTS OF COMPREHENSIVE INCOME**  
(Unaudited)

|  | <b>Quarter Ended Dec. 31</b> |              |
|--|------------------------------|--------------|
|  | <b>2014</b>                  | <b>2013</b>  |
| Net income   | \$ 2,792,906                 | \$ 2,777,174 |
| Unrealized loss from marketable securities, net of tax | (41,941)                     | (151,829)    |
| Comprehensive income                                   | \$ 2,750,965                 | \$ 2,625,345 |

See accompanying notes.

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

|  | <b>Nine Months Ended Dec. 31</b> |               |
|--|----------------------------------|---------------|
|  | <b>2014</b>                      | <b>2013</b>   |
| <b>Revenue</b>                             |                                  |               |
| Product sales                              | \$ 22,345,577                    | \$ 19,654,162 |
| Contract research and development          | 666,579                          | 297,648       |
| Total revenue                              | 23,012,156                       | 19,951,810    |
| Cost of sales                              | 4,641,633                        | 4,331,297     |
| Gross profit                               | 18,370,523                       | 15,620,513    |
| <b>Expenses</b>                            |                                  |               |
| Selling, general, and administrative       | 1,788,944                        | 1,756,578     |
| Research and development                   | 2,285,465                        | 2,744,620     |
| Total expenses                             | 4,074,409                        | 4,501,198     |
| Income from operations                     | 14,296,114                       | 11,119,315    |
| Interest income                            | 1,669,320                        | 1,577,524     |
| Income before taxes                        | 15,965,434                       | 12,696,839    |
| Provision for income taxes                 | 5,259,796                        | 4,123,189     |
| Net income                                 | \$ 10,705,638                    | \$ 8,573,650  |
| Net income per share basic                 | \$ 2.21                          | \$ 1.77       |
| Net income per share diluted               | \$ 2.20                          | \$ 1.76       |
| <b>Weighted average shares outstanding</b> |                                  |               |
| Basic                                      | 4,854,702                        | 4,852,356     |
| Diluted                                    | 4,871,270                        | 4,868,040     |

**STATEMENTS OF COMPREHENSIVE INCOME**  
(Unaudited)

|  | <b>Nine Months Ended Dec. 31</b> |              |
|--|----------------------------------|--------------|
|  | <b>2014</b>                      | <b>2013</b>  |
| Net income   | \$ 10,705,638                    | \$ 8,573,650 |
| Unrealized loss from marketable securities, net of tax | (351,824)                        | (762,475)    |
| Comprehensive income                                   | \$ 10,353,814                    | \$ 7,811,175 |

See accompanying notes.

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

|   | <b>Nine Months Ended Dec. 31</b> |              |
|---|----------------------------------|--------------|
|   | <b>2014</b>                      | <b>2013</b>  |
| <b>OPERATING ACTIVITIES</b>   |                                  |              |
| Net income  | \$ 10,705,638                    | \$ 8,573,650 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                  |              |
| Depreciation  | 698,820                          | 601,241      |
| Stock-based compensation  | 58,960                           | 53,200       |
| Excess tax benefits   | (24,288)                         | (67,044)     |
| Deferred income taxes   | 141,060                          | 102,118      |
| Changes in operating assets and liabilities:                                      |                                  |              |
| Accounts receivable   | 476,495                          | 731,905      |
| Inventories   | (478,791)                        | 306,689      |
| Prepaid expenses and other assets   | (709,502)                        | (262,686)    |
| Accounts payable and other current liabilities                                    | (20,142)                         | (221,045)    |
| Net cash provided by operating activities   | 10,848,250                       | 9,818,028    |
| <b>INVESTING ACTIVITIES</b>   |                                  |              |
| Purchases of fixed assets   | (114,139)                        | (33,893)     |
| Purchases of marketable securities  | (9,136,457)                      | (17,879,202) |
| Proceeds from maturities and sales of marketable securities                       | 8,610,000                        | 8,555,000    |
| Net cash used in investing activities   | (640,596)                        | (9,358,095)  |
| <b>FINANCING ACTIVITIES</b>   |                                  |              |
| Net proceeds from sale of stock   | 302,701                          | 188,030      |
| Excess tax benefits   | 24,288                           | 67,044       |
| Repurchase of common stock  | -                                | (1,263,405)  |
| Net cash provided by (used in) financing activities                               | 326,989                          | (1,008,331)  |
| Increase (decrease) in cash and cash equivalents                                  | 10,534,643                       | (548,398)    |
| Cash and cash equivalents at beginning of period                                  | 1,262,300                        | 2,509,683    |
| Cash and cash equivalents at end of period  | \$ 11,796,943                    | \$ 1,961,285 |
| <b>Supplemental disclosures of cash flow information:</b>                         |                                  |              |
| Cash paid during the period for income taxes                                      | \$ 5,600,000                     | \$ 4,213,033 |

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**

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 nine months ended December 31, 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 nine months ended December 31, 2014 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 Dec. 31</b> |             |
|---|---------|------------------------------|-------------|
|   |         | <b>2014</b>                  | <b>2013</b> |
| Weighted average common shares outstanding    | basic   | 4,857,953                    | 4,842,565   |
| Effect of dilutive securities:                |         |                              |             |
| Stock options                                 |         | 18,121                       | 16,416      |
| Warrants                                      |         | -                            | 620         |
| Shares used in computing net income per share | diluted | 4,876,074                    | 4,859,601   |

**Nine Months Ended Dec. 31**

|   |         | <b>2014</b> | <b>2013</b> |
|---|---------|-------------|-------------|
| Weighted average common shares outstanding    | basic   | 4,854,702   | 4,852,356   |
| Effect of dilutive securities:                |         |             |             |
| Stock options                                 |         | 16,568      | 15,128      |
| Warrants                                      |         | -           | 556         |
| Shares used in computing net income per share | diluted | 4,871,270   | 4,868,040   |

**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 December 31, 2014, by maturity, were as follows:

| <b>Total</b>  | <b>&lt;1 Year</b> | <b>1-3 Years</b> | <b>3-5 Years</b> |
|---------------|-------------------|------------------|------------------|
| \$ 94,356,284 | \$ 11,554,543     | \$ 49,411,855    | \$ 33,389,886    |

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

|                 | <b>As of December 31, 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 | \$ 92,136,379                  | \$ 928,607                    | \$ (101,954)                   | \$ 92,963,032            | \$ 88,567,210               | \$ 1,613,822                  | \$ (246,973)                   | \$ 89,934,059            |
| Municipal bonds | 1,393,718                      | -                             | (466)                          | 1,393,252                | 4,436,430                   | 16,521                        | (4,609)                        | 4,448,342                |
| <b>Total</b>    | <b>\$ 93,530,097</b>           | <b>\$ 928,607</b>             | <b>\$ (102,420)</b>            | <b>\$ 94,356,284</b>     | <b>\$ 93,003,640</b>        | <b>\$ 1,630,343</b>           | <b>\$ (251,582)</b>            | <b>\$ 94,382,401</b>     |

The following table presents 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 December 31 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> |
| <b>As of December 31, 2014</b> |                            |                                |                             |                                |                          |                                |
| Corporate bonds                | \$ 12,936,131              | \$ (39,938)                    | \$ 8,382,167                | \$ (62,016)                    | \$ 21,318,298            | \$ (101,954)                   |
| Municipal bonds                | 1,393,252                  | (466)                          | -                           | -                              | 1,393,252                | (466)                          |
| <b>Total</b>                   | <b>\$ 14,329,383</b>       | <b>\$ (40,404)</b>             | <b>\$ 8,382,167</b>         | <b>\$ (62,016)</b>             | <b>\$ 22,711,550</b>     | <b>\$ (102,420)</b>            |
| <b>As of March 31, 2014</b>    |                            |                                |                             |                                |                          |                                |
| 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 \$102,420 as of December 31, 2014, and were attributed to seven corporate bonds and one municipal bond out of a portfolio of 35 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 \$8,382,167, 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 2% of adjusted cost for each security.

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

securities to be other-than-temporarily impaired at December 31, 2014.

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

Inventories consisted of the following:

|                        | <b>Dec. 31</b> | <b>March 31</b> |
|------------------------|----------------|-----------------|
|                        | <b>2014</b>    | <b>2014</b>     |
| Raw materials          | \$ 978,032     | \$ 776,510      |
| Work in process        | 2,053,317      | 1,940,809       |
| Finished goods         | 884,775        | 785,014         |
|                        | 3,916,124      | 3,502,333       |
| Less inventory reserve | (230,000)      | (295,000)       |
| Total inventories      | \$ 3,686,124   | \$ 3,207,333    |

**NOTE 7. STOCK-BASED COMPENSATION**

Stock-based compensation expense was \$58,960 for the first nine months of fiscal 2015, and \$53,200 for the first nine months of fiscal 2014. Stock-based compensation expenses for the nine months ended December 31, 2014 and 2013 were 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 December 31, 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 December 31, 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 \$92,963,032 at December 31, 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. We held one Level 2 marketable security at December 31, 2014, with

a fair value of \$1,393,252. The fair value of our Level 2 marketable securities was \$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.

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### **NOTE 10. STOCK REPURCHASE PLAN**

We did not repurchase any of our Common Stock during the quarter or nine months ended December 31, 2014. The repurchases were under a program announced January 21, 2009 authorizing the repurchase of up to \$2,500,000 of our Common Stock, \$1,236,595 of which remained available as of December 31, 2014. The repurchase program may be modified or discontinued at any time without notice.

### **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 risks related to our reliance on several large customers for a significant percentage of revenue, uncertainties related to possible renewal of agreements with large customers, uncertainties related to the economic environments in the industries we serve, uncertainties related to future contract research and development revenue, risks related to material weaknesses in our internal control over financial reporting, uncertainties related to future stock repurchases and dividend payments, 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, as updated in Part II, Item 1A of this Quarterly Report on Form 10-Q.

### **General**

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

### **Critical accounting policies**

A description of our critical accounting policies is provided in Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended March 31, 2014. At December 31, 2014 our critical accounting policies and estimates continued to include investment valuation, inventory valuation, and deferred tax assets estimation.

**Table of Contents****Quarter ended December 31, 2014 compared to quarter ended December 31, 2013**

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

|                                      | Percentage of Revenue |        | Quarter-to-Quarter Change |
|--------------------------------------|-----------------------|--------|---------------------------|
|                                      | 2014                  | 2013   |                           |
| <b>Revenue</b>                       |                       |        |                           |
| Product sales                        | 93.5%                 | 99.6%  | (8.8)%                    |
| Contract research and development    | 6.5%                  | 0.4%   | 1,513.5%                  |
| Total revenue                        | 100.0%                | 100.0% | (2.8)%                    |
| <b>Cost of sales</b>                 |                       |        |                           |
| Cost of sales                        | 23.4%                 | 22.4%  | 1.7%                      |
| Gross profit                         | 76.6%                 | 77.6%  | (4.1)%                    |
| <b>Expenses</b>                      |                       |        |                           |
| Selling, general, and administrative | 8.5%                  | 8.4%   | (1.8)%                    |
| Research and development             | 11.0%                 | 14.0%  | (23.2)%                   |
| Total expenses                       | 19.5%                 | 22.4%  | (15.2)%                   |
| Income from operations               | 57.1%                 | 55.2%  | 0.4%                      |
| Interest income                      | 8.8%                  | 8.2%   | 5.2%                      |
| Income before taxes                  | 65.9%                 | 63.4%  | 1.0%                      |
| Provision for income taxes           | 21.5%                 | 20.5%  | 2.0%                      |
| Net income                           | 44.4%                 | 42.9%  | 0.6%                      |

Total revenue for the quarter ended December 31, 2014 (the third quarter of fiscal 2015) decreased 3% compared to the quarter ended December 31, 2013 (the third quarter of fiscal 2014). The decrease was due to a 9% decrease in product sales, partially offset by a 1,514% increase in contract research and development revenue.

The decrease in product sales from the prior-year quarter was primarily due to decreased purchase volume by existing customers and unfavorable order timing. The increase in contract research and development revenue was due to a new contract. 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 future contract revenue.

Gross profit margin decreased to 77% of revenue for the third quarter of fiscal 2015 compared to 78% for the third quarter of fiscal 2014, due to a less favorable revenue mix consisting of a higher percentage of contract research and development revenue.

Total expenses decreased 15% for the third quarter of fiscal 2015 compared to the third quarter of fiscal 2014, due to a 2% decrease in selling, general, and administrative expense and a 23% decrease in research and development expense. The decrease in research and development expense was due to the completion of certain product development activities and an increase in contract research and development activities, which caused resources to be reallocated from expensed research and 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.

Interest income increased 5% for the third quarter of fiscal 2015, primarily due to an increase in interest-bearing marketable securities, partially offset by a decrease in interest rates on reinvested funds. Interest income may decrease in future quarters because we plan to use proceeds from maturities of marketable securities to help fund cash dividends, rather than reinvesting proceeds in marketable securities as we have generally done in the past.



Net income for the third quarter of fiscal 2015 increased 1% due to increased contract research and development revenue, decreased expenses, and increased interest income, partially offset by decreased product sales and decreased gross profit margin as a percentage of revenue.

**Table of Contents****Nine months ended December 31, 2014 compared to nine months ended December 31, 2013**

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

|                                      | Percentage of Revenue          |        | Period-to-Period Change |
|--------------------------------------|--------------------------------|--------|-------------------------|
|                                      | Nine Months Ended Dec. 31 2014 | 2013   |                         |
| Revenue                              |                                |        |                         |
| Product sales                        | 97.1%                          | 98.5%  | 13.7%                   |
| Contract research and development    | 2.9%                           | 1.5%   | 123.9%                  |
| Total revenue                        | 100.0%                         | 100.0% | 15.3%                   |
| Cost of sales                        | 20.2%                          | 21.7%  | 7.2%                    |
| Gross profit                         | 79.8%                          | 78.3%  | 17.6%                   |
| Expenses                             |                                |        |                         |
| Selling, general, and administrative | 7.8%                           | 8.8%   | 1.8%                    |
| Research and development             | 9.9%                           | 13.8%  | (16.7)%                 |
| Total expenses                       | 17.7%                          | 22.6%  | (9.5)%                  |
| Income from operations               | 62.1%                          | 55.7%  | 28.6%                   |
| Interest income                      | 7.3%                           | 7.9%   | 5.8%                    |
| Income before taxes                  | 69.4%                          | 63.6%  | 25.7%                   |
| Provision for income taxes           | 22.9%                          | 20.6%  | 27.6%                   |
| Net income                           | 46.5%                          | 43.0%  | 24.9%                   |

Total revenue for the nine months ended December 31, 2014 increased 15% compared to the nine months ended December 31, 2013. 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 from the prior-year period was due to increased purchase volume by existing customers and new customers. The increase in contract research and development revenue was due to a new contract. 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 future contract revenue.

Gross profit margin increased to 80% of revenue for the first nine months of fiscal 2015 compared to 78% for the first nine months of fiscal 2014, due to a more favorable product sales mix.

Total expenses decreased 9% for the first nine months of fiscal 2015 compared to the first nine months of fiscal 2014, due to a 17% decrease in research and development expense, partially offset by a 2% increase in selling, general, and administrative expense. The decrease in research and development expense was due to the completion of certain product development activities and an increase in contract research and development activities, which caused resources to be reallocated from expensed research and 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 nine months of fiscal 2015 increased 6% due to an increase in interest-bearing marketable securities, partially offset by a decrease in interest rates on reinvested funds. Interest income may decrease in future periods because we plan to use proceeds from maturities of marketable securities to help fund cash dividends, rather than reinvesting proceeds in marketable securities as we have generally done in the past.

Net income increased 25% for the first nine months of fiscal 2015 compared to the prior-year period due to

increased product sales, increased contract research and development revenue, increased gross profit margin as a percentage of revenue, decreased research and development expense, and increased interest income.

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### **Liquidity and capital resources**

Cash and cash equivalents were \$11,796,943 at December 31, 2014 compared to \$1,262,300 at March 31, 2014. The \$10,534,643 increase in cash and cash equivalents was primarily due to \$10,848,250 in net cash provided by operating activities. At December 31, 2014 we had \$94,356,284 in short-term and long-term marketable securities compared to \$94,382,401 at March 31, 2014. We had no purchases of marketable securities in the quarter ended December 31, 2014 in preparation for the possibility of returning cash to shareholders. Our entire portfolio of short-term and long-term marketable securities is classified as available for sale.

Accounts receivable decreased \$476,495 in the first nine months of fiscal 2015 due to the timing of payments by our customers.

Inventories increased by \$478,791 as we prepared for possible product shipments in the future.

Prepaid expenses and other assets increased \$709,502 primarily due to estimated tax payments during the period.

Purchases of fixed assets were \$114,139 in the first nine months of fiscal 2015, compared to \$33,893 in the first nine months of fiscal 2014. Our capital expenditures can vary significantly from quarter to quarter depending on our needs, equipment purchasing opportunities, and production expansion activities.

Free cash flow, which is net cash provided by operating activities less purchases of fixed assets, was \$10,734,111 for the nine months ended December 31, 2014.

On January 21, 2015 we announced that our Board declared a cash dividend to shareholders in the aggregate amount of approximately \$10,000,000. We plan to continue quarterly dividends in excess of our free cash flow in order to return cash to our shareholders. We plan to fund these dividends through cash provided by operating activities and proceeds from maturities of marketable securities. Our plan for capital allocation is to continue cash dividends and opportunistic share repurchases until we have significantly decreased our balance of cash plus marketable securities. We expect to return significant cash to shareholders while maintaining sufficient liquidity for operations and strategic flexibility. We plan to maintain enough cash and marketable securities to fund our operations, to defend our intellectual property if necessary, to make opportunistic strategic investments, and for contingencies. All future dividends will be subject to Board approval and subject to the company's results of operations, cash and marketable security balances, estimates of future cash requirements, and other factors the Board may deem relevant. Furthermore, our stock repurchase program may be modified or discontinued at any time without notice.

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 December 31, 2014 had remaining maturities between three and 237 weeks. Marketable securities had a market value of \$94,356,284 at December 31, 2014, representing approximately 81% of our total assets. We have not used derivative financial instruments in our investment portfolio.



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### **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 December 31, 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 been operating but not evaluated for 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, except the risk factor titled, "We do not currently plan to pay dividends" is replaced in its entirety with the following:

*Any decisions to reduce or discontinue paying cash dividends to our shareholders could cause the market price of our common stock to decline.*

In January 2015 our Board of Directors declared our first cash dividend to our shareholders. While we currently plan to pay quarterly dividends indefinitely, our payment of cash dividends will be subject to, among other things, our results of operations, cash and marketable security balances, the timing of securities maturations, estimates of future cash requirements, fixed asset requirements, and other factors our Board may deem relevant. Because we plan to pay dividends that are significantly more than our current free cash flow, declared and planned dividend amounts are likely unsustainable. Any reduction or discontinuance by us of cash dividends could cause the market price of our common stock to decline.

**Item 4. Mine Safety Disclosures.**

Not applicable.

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**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)

**January 21, 2015**      **/s/ DANIEL A. BAKER**  
Date                      Daniel A. Baker  
President and Chief Executive Officer

**January 21, 2015**      **/s/ CURT A. REYNDERS**  
Date                      Curt A. Reynders  
Chief Financial Officer