

NVE CORP /NEW/  
Form 10-Q  
January 23, 2013

**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, 2012**

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: **000-12196**

**NVE CORPORATION**

(Exact name of registrant as specified in its charter)

**Minnesota**

(State or other jurisdiction of incorporation or organization)

**41-1424202**

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

**11409 Valley View Road, Eden Prairie, Minnesota**

(Address of principal executive offices)

**55344**

(Zip Code)

**(952) 829-9217**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

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

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

Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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

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

**Common Stock, \$0.01 Par Value 4,860,436 shares outstanding as of January 18, 2013**

---

**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 December 31, 2012 and 2011

Statements of Comprehensive Income for the Quarters Ended December 31, 2012 and 2011

Statements of Income for the Nine Months Ended December 31, 2012 and 2011

Statements of Comprehensive Income for the Nine Months Ended December 31, 2012 and 2011

Statements of Cash Flows

Notes to Financial Statements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Item 4. Controls and Procedures

**PART II. OTHER INFORMATION**

Item 1A. Risk Factors

Item 6. Exhibits

**SIGNATURES**

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

	<b>(Unaudited) Dec. 31, 2012</b>	<b>March 31, 2012*</b>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 843,023	\$ 1,544,536
Marketable securities, short term	15,610,697	17,551,629
Accounts receivable, net of allowance for uncollectible accounts of \$15,000	2,621,780	2,684,840
Inventories	3,755,523	3,229,376
Prepaid expenses and other assets	1,333,019	1,159,852
Total current assets	24,164,042	26,170,233
Fixed assets		
Machinery and equipment	8,343,525	7,488,211
Leasehold improvements	1,416,971	720,882
	9,760,496	8,209,093
Less accumulated depreciation	6,100,071	5,697,861
Net fixed assets	3,660,425	2,511,232
Marketable securities, long term	64,774,808	54,445,298
Total assets	\$ 92,599,275	\$ 83,126,763
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current liabilities		
Accounts payable	\$ 558,935	\$ 663,702
Accrued payroll and other	760,955	867,331
Deferred taxes	452,560	136,872
Total current liabilities	1,772,450	1,667,905
Shareholders equity		
Common stock, \$0.01 par value, 6,000,000 shares authorized; 4,860,436 issued and outstanding as of December 31, 2012 and 4,824,745 issued and outstanding as of March 31, 2012	48,604	48,247
Additional paid-in capital	21,112,651	20,974,477
Accumulated other comprehensive income	1,597,009	1,087,456
Retained earnings	68,068,561	59,348,678
Total shareholders equity	90,826,825	81,458,858
Total liabilities and shareholders equity	\$ 92,599,275	\$ 83,126,763

\*The March 31, 2012 Balance Sheet is derived from the audited financial statements contained in our Annual Report on Form 10-K for the fiscal year ended March 31, 2012.

See accompanying notes.



**Table of Contents**

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

	<b>Quarter Ended Dec. 31</b>	
	<b>2012</b>	<b>2011</b>
<b>Revenue</b>		
Product sales	\$ 5,762,925	\$ 5,394,758
Contract research and development	762,296	763,768
Total revenue	6,525,221	6,158,526
Cost of sales	1,738,618	2,174,878
Gross profit	4,786,603	3,983,648
<b>Expenses</b>		
Selling, general, and administrative	570,741	520,044
Research and development	501,325	718,688
Total expenses	1,072,066	1,238,732
Income from operations	3,714,537	2,744,916
Interest income	600,395	591,694
Income before taxes	4,314,932	3,336,610
Provision for income taxes	1,415,590	1,047,519
Net income	\$ 2,899,342	\$ 2,289,091
Net income per share basic	\$ 0.60	\$ 0.48
Net income per share diluted	\$ 0.60	\$ 0.47
<b>Weighted average shares outstanding</b>		
Basic	4,847,619	4,807,859
Diluted	4,872,019	4,873,429

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

	<b>Quarter Ended Dec. 31</b>	
	<b>2012</b>	<b>2011</b>
Net income	\$ 2,899,342	\$ 2,289,091
Unrealized loss from marketable securities, net of tax	(22,474)	(239,596)
Comprehensive income	\$ 2,876,868	\$ 2,049,495

See accompanying notes.

**Table of Contents**

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

	<b>Nine Months Ended Dec. 31</b>	
	<b>2012</b>	<b>2011</b>
<b>Revenue</b>		
Product sales	\$ 18,025,002	\$ 17,975,331
Contract research and development	1,785,920	2,995,590
Total revenue	19,810,922	20,970,921
Cost of sales	5,147,884	7,048,396
Gross profit	14,663,038	13,922,525
<b>Expenses</b>		
Selling, general, and administrative	1,714,545	1,742,721
Research and development	1,801,609	1,825,159
Total expenses	3,516,154	3,567,880
Income from operations	11,146,884	10,354,645
Interest income	1,784,963	1,754,586
Income before taxes	12,931,847	12,109,231
Provision for income taxes	4,211,964	3,825,819
Net income	\$ 8,719,883	\$ 8,283,412
Net income per share basic	\$ 1.80	\$ 1.73
Net income per share diluted	\$ 1.80	\$ 1.71
<b>Weighted average shares outstanding</b>		
Basic	4,832,630	4,786,790
Diluted	4,856,851	4,852,360

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

	<b>Nine Months Ended Dec. 31</b>	
	<b>2012</b>	<b>2011</b>
Net income	\$ 8,719,883	\$ 8,283,412
Unrealized gain (loss) from marketable securities, net of tax	509,553	(664,538)
Comprehensive income	\$ 9,229,436	\$ 7,618,874

See accompanying notes.

**Table of Contents**

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

	<b>Nine Months Ended Dec. 31</b>	
	<b>2012</b>	<b>2011</b>
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 8,719,883	\$ 8,283,412
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	457,937	361,211
Stock-based compensation	66,720	80,160
Excess tax benefits	(2,383)	-
Deferred income taxes	27,320	(37,266)
Changes in operating assets and liabilities:		
Accounts receivable	63,060	140,197
Inventories	(526,147)	26,018
Prepaid expenses and other assets	(173,167)	14,268
Accounts payable and accrued expenses	(211,143)	(317,091)
Net cash provided by operating activities	8,422,080	8,550,909
<b>INVESTING ACTIVITIES</b>		
Purchases of fixed assets	(1,607,130)	(762,007)
Purchases of marketable securities	(17,438,274)	(14,039,795)
Proceeds from maturities and sales of marketable securities	9,850,000	5,736,980
Net cash used in investing activities	(9,195,404)	(9,064,822)
<b>FINANCING ACTIVITIES</b>		
Net proceeds from sale of stock	69,428	36
Excess tax benefits	2,383	-
Net cash provided by financing activities	71,811	36
Decrease in cash and cash equivalents	(701,513)	(513,877)
Cash and cash equivalents at beginning of period	1,544,536	952,209
Cash and cash equivalents at end of period	\$ 843,023	\$ 438,332
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid during the period for income taxes	\$ 4,220,000	\$ 3,697,565

See accompanying notes.



**Table of Contents**

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

**NOTE 1. DESCRIPTION OF BUSINESS**

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

**NOTE 2. INTERIM FINANCIAL INFORMATION**

The accompanying unaudited financial statements of NVE Corporation are prepared consistent with accounting principles generally accepted in the United States and in accordance with Securities and Exchange Commission rules and regulations. In the opinion of management, these financial statements reflect all adjustments, consisting only of normal and recurring adjustments, necessary for a fair presentation of the financial statements. Although we believe that the disclosures are adequate to make the information presented not misleading, it is suggested that these unaudited financial statements be read in conjunction with the audited financial statements and the notes included in our latest annual financial statements included in our Annual Report on Form 10-K for the fiscal year ended March 31, 2012. The results of operations for the quarter or nine months ended December 31, 2012 are not necessarily indicative of the results that may be expected for the full fiscal year ending March 31, 2013.

**NOTE 3. RECENTLY ISSUED ACCOUNTING STANDARDS**

We have adopted all applicable recently issued accounting pronouncements.

**NOTE 4. NET INCOME PER SHARE**

Net income per basic share is computed based on the weighted-average number of common shares issued and outstanding during each period. Net income per diluted share amounts assume conversion, exercise or issuance of all potential common stock instruments (stock options and warrants). Stock options and warrants totaling 5,000 for the quarter and nine months ended December 31, 2012, and 5,000 for the quarter and nine months ended December 31, 2011 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 Dec. 31</b>	
		<b>2012</b>	<b>2011</b>
Weighted average common shares outstanding	basic	4,847,619	4,807,859
Effect of dilutive securities:			
Stock options		22,594	58,502
Warrants		1,806	7,068
Shares used in computing net income per share	diluted	4,872,019	4,873,429
		<b>Nine Months Ended Dec. 31</b>	
		<b>2012</b>	<b>2011</b>
Weighted average common shares outstanding	basic	4,832,630	4,786,790
Effect of dilutive securities:			
Stock options		22,430	58,502
Warrants		1,791	7,068
Shares used in computing net income per share	diluted	4,856,851	4,852,360



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

Total	<1 Year	1 3 Years	3 5 Years
\$ 80,385,505	\$ 15,610,697	\$ 23,326,684	\$ 41,448,124

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

	As of December 31, 2012				As of March 31, 2012			
	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
Corporate bonds	\$ 68,138,943	\$ 2,424,000	\$ (20,869)	\$ 70,542,074	\$ 50,513,389	\$ 1,481,604	\$ (76,434)	\$ 51,918,559
Municipal bonds	9,738,302	111,426	(6,297)	9,843,431	19,775,582	334,793	(32,007)	20,078,368
Total	\$ 77,877,245	\$ 2,535,426	\$ (27,166)	\$ 80,385,505	\$ 70,288,971	\$ 1,816,397	\$ (108,441)	\$ 71,996,927

The decrease in fair market value of municipal bonds as of December 31, 2012 compared to March 31, 2012 was primarily due to the maturation of 12 municipal bonds. The increase in fair market value of corporate bonds was primarily due to purchases of corporate bonds during the nine months ended December 31, 2012.

The following table shows the gross unrealized losses and fair value of our investments with unrealized losses, aggregated by investment category and length of time that individual securities had been in a continuous unrealized loss position as of December 31 and March 31, 2012:

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Market Value	Gross Unrealized Losses	Fair Market Value	Gross Unrealized Losses	Fair Market Value	Gross Unrealized Losses
As of December 31, 2012						
Corporate bonds	\$ 3,224,566	\$ (20,869)	\$ -	\$ -	\$ 3,224,566	\$ (20,869)
Municipal bonds	514,795	(6,297)	-	-	514,795	(6,297)
Total	\$ 3,739,361	\$ (27,166)	\$ -	\$ -	\$ 3,739,361	\$ (27,166)
As of March 31, 2012						
Corporate bonds	\$ 10,387,955	\$ (76,434)	-	-	\$ 10,387,955	\$ (76,434)
Municipal bonds	-	-	908,550	(32,007)	908,550	(32,007)
Total	\$ 10,387,955	\$ (76,434)	\$ 908,550	\$ (32,007)	\$ 11,296,505	\$ (108,441)

Gross unrealized losses totaled \$27,166 as of December 31, 2012, and were attributed to two corporate bonds and two municipal bonds out of a portfolio of 45 bonds. The gross unrealized losses were due to market-price decreases and rating downgrades after the bonds were purchased, and none had been in a continuous unrealized loss position for 12 months or greater. All of the bonds we held that were rated by Moody's or Standard and Poor's had investment-grade credit ratings. For each bond with an unrealized loss, we expect to recover the entire cost basis of each security based on our consideration of factors including their credit ratings, the underlying ratings of insured bonds, and historical default rates for securities of comparable credit rating.

Because we expect to recover the entire cost basis of the securities, and because we do not intend to sell the

securities and it is not more likely than not that we will be required to sell the securities before recovery of the cost basis, which may be maturity, we did not consider any of our marketable securities to be other-than-temporarily impaired at December 31, 2012.

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

Inventories consisted of the following:

	<b>December 31</b>	<b>March 31</b>
	<b>2012</b>	<b>2012</b>
Raw materials	\$ 1,555,721	\$ 1,285,106
Work in process	1,713,369	1,658,467
Finished goods	771,433	585,803
	4,040,523	3,529,376
Less inventory reserve	(285,000)	(300,000)
Total inventories	\$ 3,755,523	\$ 3,229,376

**NOTE 7. STOCK-BASED COMPENSATION**

Stock-based compensation expense was \$66,720 for the first nine months of fiscal 2013, and \$80,160 for the first nine months of fiscal 2012. Stock-based compensation expenses for the nine months ended December 31, 2012 and 2011 were non-cash, and due to the issuance of automatic stock options to our non-employee directors on their reelection to our Board. We calculate the share-based compensation expense using the Black-Scholes standard option-pricing model.

**NOTE 8. INCOME TAXES**

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

We had no unrecognized tax benefits as of December 31, 2012, and we do not expect any significant unrecognized tax benefits within 12 months of the reporting date. We recognize interest and penalties related to income tax matters in income tax expense. As of December 31, 2012 we had no accrued interest related to uncertain tax positions. The tax years 1999 through 2011 remain open to examination by the major taxing jurisdictions to which we are subject.

**NOTE 9. FAIR VALUE MEASUREMENTS**

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

**Level 1** Financial instruments with quoted prices in active markets for identical assets or liabilities. Our Level 1 financial instruments consist of publicly-traded marketable debt securities that are classified as available-for-sale. On the balance sheets, available-for-sale securities are classified as Marketable securities, short term and Marketable securities, long term. The fair value of our available-for-sale securities was \$80,385,505 at December 31, 2012 and \$71,996,927 at March 31, 2012.

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

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

**NOTE 10. STOCK REPURCHASE PLAN**

On January 21, 2009 we announced that our Board of Directors authorized the repurchase of up to \$2,500,000 of our Common Stock. The repurchase program may be modified or discontinued at any time without notice. We did not repurchase any of our Common Stock during the quarter ended December 31, 2012.

## **Table of Contents**

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

#### **Forward-looking statements**

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

More information regarding our risks and uncertainties are contained in Part I, Item 1A Risk Factors of our Annual Report on Form 10-K for the year ended March 31, 2012, as updated in Part II, Item 1A of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2012.

#### **General**

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

#### **Critical accounting policies**

A description of our critical accounting policies is provided in Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended March 31, 2012. At December 31, 2012 our critical accounting policies and estimates continued to include research and development contract percentage of completion estimation, inventory valuation, allowance for doubtful accounts estimation, and deferred tax assets estimation.

**Table of Contents****Quarter ended December 31, 2012 compared to quarter ended December 31, 2011**

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 Dec. 31 2012	2011	
<b>Revenue</b>			
Product sales	88.3%	87.6%	6.8%
Contract research and development	11.7%	12.4%	(0.2)%
Total revenue	100.0%	100.0%	6.0%
Cost of sales	26.6%	35.3%	(20.1)%
Gross profit	73.4%	64.7%	20.2%
<b>Expenses</b>			
Selling, general, and administrative	8.8%	8.4%	9.7%
Research and development	7.7%	11.7%	(30.2)%
Total expenses	16.5%	20.1%	(13.5)%
Income from operations	56.9%	44.6%	35.3%
Interest income	9.2%	9.6%	1.5%
Income before taxes	66.1%	54.2%	29.3%
Provision for income taxes	21.7%	17.0%	35.1%
Net income	44.4%	37.2%	26.7%

Total revenue for the quarter ended December 31, 2012 (the third quarter of fiscal 2013) increased 6% to \$6,525,221 compared to \$6,158,526 for the quarter ended December 31, 2011 (the third quarter of fiscal 2012). The increase was due to a 7% increase in product sales.

Gross profit margin increased to 73% of revenue for the third quarter of fiscal 2013 compared to 65% for the third quarter of fiscal 2012, due to a more favorable revenue mix and more efficient product manufacturing.

Total expenses decreased 13% for the third quarter of fiscal 2013 compared to the third quarter of fiscal 2012 due to a 30% decrease in research and development expense, partially offset by a 10% increase in selling, general, and administrative expense. The decrease in research and development expense was due to the completion of certain research and development projects, and may not be representative of future trends. Research and development expense can fluctuate significantly depending on staffing, project requirements, and contract research and development activities. The increase in selling, general, and administrative expense was primarily due to increases in sales commissions and legal expenses.

The provision for income taxes was \$1,415,590 for the third quarter of fiscal 2013 compared to \$1,047,519 for the third quarter of fiscal 2012. The effective tax rate was 33% of income before taxes for the third quarter of fiscal 2013 compared to 31% for the third quarter of fiscal 2012. The increase in effective tax rate was due to a higher Federal effective tax rate. Our effective tax rates can fluctuate due to a number of factors, including Federal and state tax rates and regulations, the mix between taxable and tax-exempt securities in our marketable securities, and other factors, some of which are outside our control.

The 27% increase in net income in the third quarter of fiscal 2013 compared to the prior-year quarter was primarily due to increased product sales and increased gross profit margin.





**Table of Contents****Nine months ended December 31, 2012 compared to nine months ended December 31, 2011**

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

	Percentage of Revenue		Period-to-Period Change
	Nine Months Ended Dec. 31 2012	2011	
Revenue			
Product sales	91.0%	85.7%	0.3%
Contract research and development	9.0%	14.3%	(40.4)%
Total revenue	100.0%	100.0%	(5.5)%
Cost of sales	26.0%	33.6%	(27.0)%
Gross profit	74.0%	66.4%	5.3%
Expenses			
Selling, general, and administrative	8.6%	8.3%	(1.6)%
Research and development	9.1%	8.7%	(1.3)%
Total expenses	17.7%	17.0%	(1.4)%
Income from operations	56.3%	49.4%	7.7%
Interest income	9.0%	8.3%	1.7%
Income before taxes	65.3%	57.7%	6.8%
Provision for income taxes	21.3%	18.2%	10.1%
Net income	44.0%	39.5%	5.3%

Total revenue for the nine months ended December 31, 2012 decreased 6% to \$19,810,922 compared to \$20,970,921 for the nine months ended December 31, 2011, due to a 40% decrease in contract research and development revenue.

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

Gross profit margin increased to 74% of revenue for the first nine months of fiscal 2013 compared to 66% for the first nine months of fiscal 2012, due to a more favorable revenue mix, a more favorable product sales mix, and more efficient product manufacturing.

Total expenses decreased 1% for the first nine months of fiscal 2013 compared to the first nine months of fiscal 2012 due to a 2% decrease in research and development expense and a 1% decrease in selling, general, and administrative expense. The expense decreases may not be representative of future periods. Research and development expense can fluctuate significantly depending on staffing, project requirements, and contract research and development activities. Selling, general, and administrative expense can fluctuate significantly depending on a number of factors including legal expenses.

The provision for income taxes was \$4,211,964 for the first nine months of fiscal 2013 compared to \$3,825,819 for the first nine months of fiscal 2012. The effective tax rate was 33% of income before taxes for the first nine months of fiscal 2013 compared to 32% for the first nine months of fiscal 2012. Our effective tax rates can fluctuate due to a number of factors, including Federal and state tax rates and regulations, the mix between taxable and tax-exempt securities in our marketable securities, and other factors, some of which are outside our control.

The 5% increase in net income in the first nine months of fiscal 2013 compared to the prior-year period was primarily due to increased gross profit margin, partially offset by decreased contract research and development revenue.

**Table of Contents**

**Liquidity and capital resources**

At December 31, 2012 we had \$81,228,528 in cash plus short-term and long-term marketable securities compared to \$73,541,463 at March 31, 2012. Our entire portfolio of short-term and long-term marketable securities is classified as available for sale. The increase in cash plus marketable securities in the first nine months of fiscal 2013 was primarily due to \$8,422,080 in net cash provided by operating activities and a \$800,305 net increase in the market value of our marketable securities, partially offset by purchases of fixed assets of \$1,607,130. Fixed asset purchases were primarily for production equipment and leasehold improvements.

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

## **Table of Contents**

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

The primary objective of our investment activities is to preserve principal while at the same time maximizing after-tax yields without significantly increasing risk. To achieve this objective, we maintain our portfolio of cash equivalents and marketable securities in a variety of securities including government agency obligations, municipal obligations, corporate obligations, and money market funds. Short-term and long-term marketable securities are generally classified as available-for-sale and consequently are recorded on the balance sheet at fair value with unrealized gains or losses reported as a separate component of accumulated other comprehensive income, net of estimated tax. Marketable securities as of December 31, 2012 had remaining maturities between one day and 246 weeks. Our short-term and long-term marketable securities had a fair market value of \$80,385,505 at December 31, 2012, representing approximately 87% of our total assets. We have not used derivative financial instruments in our investment portfolio.

### **Item 4. Controls and Procedures.**

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

During the quarter ended December 31, 2012, there was no change in our internal control over financial reporting that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II OTHER INFORMATION**

### **Item 1A. Risk Factors.**

There have been no material changes from the risk factors disclosed in our Annual Report on Form 10-K for the fiscal year ended March 31, 2012 as updated in Part II, Item 1A of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2012.

**Table of Contents**

**Item 6. Exhibits.**

<b><u>Exhibit #</u></b>	<b><u>Description</u></b>
31.1	Certification by Daniel A. Baker pursuant to Rule 13a-14(a)/15d-14(a).
31.2	Certification by Curt A. Reynders pursuant to Rule 13a-14(a)/15d-14(a).
32	Certification by Daniel A. Baker and Curt A. Reynders pursuant to 18 U.S.C. Section 1350.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

**SIGNATURES**

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

**NVE CORPORATION**  
(Registrant)

**January 23, 2013**      **/s/ DANIEL A. BAKER**  
Date                      Daniel A. Baker  
President and Chief Executive Officer

**January 23, 2013**      **/s/ CURT A. REYNDERS**  
Date                      Curt A. Reynders  
Chief Financial Officer