

NVE CORP /NEW/  
Form 10-Q  
October 22, 2008

**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, 2008

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 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 - 4,665,333 shares outstanding as of October 17, 2008**

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BALANCE SHEETS**

|                                                                                 | (Unaudited)<br>September 30,<br>2008 | March 31,<br>2008* |
|---------------------------------------------------------------------------------|--------------------------------------|--------------------|
| <b>ASSETS</b>                                                                   |                                      |                    |
| Current assets                                                                  |                                      |                    |
| Cash and cash equivalents                                                       | \$ 1,719,313                         | \$ 1,885,867       |
| Marketable securities, short term                                               | 1,285,392                            | 795,728            |
| Accounts receivable, net of allowance for<br>uncollectible accounts of \$15,000 | 2,868,179                            | 3,226,027          |
| Inventories                                                                     | 2,443,199                            | 2,456,804          |
| Deferred tax assets                                                             | 732,115                              | 453,405            |
| Prepaid expenses and other assets                                               | 513,331                              | 529,616            |
| Total current assets                                                            | 9,561,529                            | 9,347,447          |
| Fixed assets                                                                    |                                      |                    |
| Machinery and equipment                                                         | 5,278,895                            | 5,205,288          |
| Leasehold improvements                                                          | 436,794                              | 436,794            |
|                                                                                 | 5,715,689                            | 5,642,082          |
| Less accumulated depreciation                                                   | 4,457,873                            | 4,276,680          |
| Net fixed assets                                                                | 1,257,816                            | 1,365,402          |
| Marketable securities, long term                                                | 26,036,482                           | 22,055,279         |
| Total assets                                                                    | \$ 36,855,827                        | \$ 32,768,128      |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                                     |                                      |                    |
| Current liabilities                                                             |                                      |                    |
| Accounts payable                                                                | \$ 338,377                           | \$ 434,808         |
| Accrued payroll and other                                                       | 558,133                              | 632,338            |
| Deferred revenue                                                                | 145,833                              | 187,500            |
| Total current liabilities                                                       | 1,042,343                            | 1,254,646          |
| Shareholders' equity                                                            |                                      |                    |
| Common stock                                                                    | 46,653                               | 46,387             |
| Additional paid-in capital                                                      | 19,095,189                           | 18,539,538         |
| Accumulated other comprehensive (loss) income                                   | (355,754)                            | 103,158            |
| Retained earnings                                                               | 17,027,396                           | 12,824,399         |
| Total shareholders' equity                                                      | 35,813,484                           | 31,513,482         |
| Total liabilities and shareholders' equity                                      | \$ 36,855,827                        | \$ 32,768,128      |

\*The March 31, 2008 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, 2008.

See accompanying notes.

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

|                                      | <b>Quarter Ended September 30</b> |              |
|--------------------------------------|-----------------------------------|--------------|
|                                      | <b>2008</b>                       | <b>2007</b>  |
| Revenue                              |                                   |              |
| Product sales                        | \$ 4,871,381                      | \$ 4,311,862 |
| Contract research and development    | 856,409                           | 692,758      |
| Total revenue                        | 5,727,790                         | 5,004,620    |
| Cost of sales                        | 1,747,618                         | 1,850,960    |
| Gross profit                         | 3,980,172                         | 3,153,660    |
| Expenses                             |                                   |              |
| Selling, general, and administrative | 585,373                           | 575,422      |
| Research and development             | 280,863                           | 314,037      |
| Total expenses                       | 866,236                           | 889,459      |
| Income from operations               | 3,113,936                         | 2,264,201    |
| Interest income                      | 277,074                           | 246,857      |
| Income before taxes                  | 3,391,010                         | 2,511,058    |
| Provision for income taxes           | 1,090,629                         | 866,284      |
| Net income                           | \$ 2,300,381                      | \$ 1,644,774 |
| Net income per share – basic         | \$ 0.49                           | \$ 0.35      |
| Net income per share – diluted       | \$ 0.48                           | \$ 0.34      |
| Weighted average shares outstanding  |                                   |              |
| Basic                                | 4,661,396                         | 4,634,442    |
| Diluted                              | 4,788,614                         | 4,794,855    |

See accompanying notes.

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

|                                      | <b>Six Months Ended Sept. 30</b> |              |
|--------------------------------------|----------------------------------|--------------|
|                                      | <b>2008</b>                      | <b>2007</b>  |
| Revenue                              |                                  |              |
| Product sales                        | \$ 9,418,703                     | \$ 8,580,962 |
| Contract research and development    | 1,172,873                        | 1,132,941    |
| Total revenue                        | 10,591,576                       | 9,713,903    |
| Cost of sales                        | 3,155,050                        | 3,293,928    |
| Gross profit                         | 7,436,526                        | 6,419,975    |
| Expenses                             |                                  |              |
| Selling, general, and administrative | 1,114,857                        | 1,139,165    |
| Research and development             | 666,895                          | 821,674      |
| Total expenses                       | 1,781,752                        | 1,960,839    |
| Income from operations               | 5,654,774                        | 4,459,136    |
| Interest income                      | 531,509                          | 471,378      |
| Other income                         | 3,400                            | -            |
| Income before taxes                  | 6,189,683                        | 4,930,514    |
| Provision for income taxes           | 1,986,686                        | 1,698,405    |
| Net income                           | \$ 4,202,997                     | \$ 3,232,109 |
| Net income per share – basic         | \$ 0.90                          | \$ 0.70      |
| Net income per share – diluted       | \$ 0.88                          | \$ 0.67      |
| Weighted average shares outstanding  |                                  |              |
| Basic                                | 4,652,448                        | 4,632,506    |
| Diluted                              | 4,779,606                        | 4,792,882    |

See accompanying notes.

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

|                                                                                   | <b>Six Months Ended Sept. 30</b> |              |
|-----------------------------------------------------------------------------------|----------------------------------|--------------|
|                                                                                   | <b>2008</b>                      | <b>2007</b>  |
| <b>OPERATING ACTIVITIES</b>                                                       |                                  |              |
| Net income                                                                        | \$ 4,202,997                     | \$ 3,232,109 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                  |              |
| Depreciation                                                                      | 225,116                          | 240,921      |
| Stock-based compensation                                                          | 75,476                           | 158,410      |
| Excess tax benefits                                                               | (236,524)                        | -            |
| Gain on sale of fixed assets                                                      | (3,400)                          | -            |
| Deferred income taxes                                                             | 219,117                          | 874,643      |
| Changes in operating assets and liabilities:                                      |                                  |              |
| Accounts receivable                                                               | 357,848                          | (325,789)    |
| Inventories                                                                       | 13,605                           | (128,305)    |
| Prepaid expenses and other assets                                                 | 16,285                           | (701,723)    |
| Accounts payable and accrued expenses                                             | (170,636)                        | (263,121)    |
| Deferred revenue                                                                  | (41,667)                         | 81,091       |
| Net cash provided by operating activities                                         | 4,658,217                        | 3,168,236    |
| <b>INVESTING ACTIVITIES</b>                                                       |                                  |              |
| Purchases of fixed assets                                                         | (117,530)                        | (515,157)    |
| Proceeds from sale of fixed assets                                                | 3,400                            | -            |
| Purchases of marketable securities                                                | (6,602,443)                      | (2,358,159)  |
| Proceeds from maturities and sales of marketable securities                       | 1,411,361                        | 422,947      |
| Net cash used in investing activities                                             | (5,305,212)                      | (2,450,369)  |
| <b>FINANCING ACTIVITIES</b>                                                       |                                  |              |
| Net proceeds from sale of common stock                                            | 243,917                          | 44,024       |
| Excess tax benefits                                                               | 236,524                          | -            |
| Net cash provided by financing activities                                         | 480,441                          | 44,024       |
| (Decrease) increase in cash and cash equivalents                                  | (166,554)                        | 761,891      |
| Cash and cash equivalents at beginning of period                                  | 1,885,867                        | 397,423      |
| Cash and cash equivalents at end of period                                        | \$ 1,719,313                     | \$ 1,159,314 |
| <b>Supplemental disclosures of cash flow information:</b>                         |                                  |              |
| <b>Cash paid during the period for:</b>                                           |                                  |              |
| Income taxes                                                                      | \$ 1,631,000                     | \$ 1,484,313 |

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 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, 2008. The results of operations for the quarter ended September 30 are not necessarily indicative of the results that may be expected for the full fiscal year ending March 31, 2009.

**NOTE 3. NET INCOME PER SHARE**

We calculate our net income per share in accordance with Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 128, *Earnings 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 60,000 for the quarter and six months ended September 30, 2008 and 21,000 for the quarter and six months ended September 30, 2007 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 in accordance with SFAS No. 128:

|                                                         | <b>Quarter Ended Sept. 30</b> |             |
|---------------------------------------------------------|-------------------------------|-------------|
|                                                         | <b>2008</b>                   | <b>2007</b> |
| Weighted average common shares outstanding – basic      | 4,661,396                     | 4,634,442   |
| Effect of dilutive securities:                          |                               |             |
| Stock options                                           | 122,329                       | 155,242     |
| Warrants                                                | 4,889                         | 5,171       |
| Shares used in computing net income per share – diluted | 4,788,614                     | 4,794,855   |

|                                                         | <b>Six Months Ended Sept. 30</b> |             |
|---------------------------------------------------------|----------------------------------|-------------|
|                                                         | <b>2008</b>                      | <b>2007</b> |
| Weighted average common shares outstanding – basic      | 4,652,448                        | 4,632,506   |
| Effect of dilutive securities:                          |                                  |             |
| Stock options                                           | 122,269                          | 155,205     |
| Warrants                                                | 4,889                            | 5,171       |
| Shares used in computing net income per share – diluted | 4,779,606                        | 4,792,882   |

**NOTE 4. MARKETABLE SECURITIES**

Proceeds from maturities of marketable securities were \$1,411,361 in the six months ended September 30, 2008 and \$422,947 in the six months ended September 30, 2007. There were no gross gains or gross losses on the maturities of those securities in either period. We use a specific-identification cost basis to determine gains and losses.

**Table of Contents****NOTE 5. COMPREHENSIVE INCOME**

The components of comprehensive income are as follows:

|                                                   | <b>Quarter Ended Sept. 30</b> |              |
|---------------------------------------------------|-------------------------------|--------------|
|                                                   | <b>2008</b>                   | <b>2007</b>  |
| Net income                                        | \$ 2,300,381                  | \$ 1,644,774 |
| Unrealized (loss) gain from marketable securities | (166,612)                     | 130,513      |
| Comprehensive income                              | \$ 2,133,769                  | \$ 1,775,287 |

|                                                   | <b>Six Months Ended Sept. 30</b> |              |
|---------------------------------------------------|----------------------------------|--------------|
|                                                   | <b>2008</b>                      | <b>2007</b>  |
| Net income                                        | \$ 4,202,997                     | \$ 3,232,109 |
| Unrealized (loss) gain from marketable securities | (458,912)                        | 41,324       |
| Comprehensive income                              | \$ 3,744,085                     | \$ 3,273,433 |

**NOTE 6. INVENTORIES**

Inventories consisted of the following:

|                        | <b>September 30</b> | <b>March 31</b> |
|------------------------|---------------------|-----------------|
|                        | <b>2008</b>         | <b>2008</b>     |
| Raw materials          | \$ 622,583          | \$ 741,361      |
| Work-in-process        | 1,297,802           | 1,184,062       |
| Finished goods         | 822,814             | 811,381         |
|                        | 2,743,199           | 2,736,804       |
| Less inventory reserve | (300,000)           | (280,000)       |
| Total inventories      | \$ 2,443,199        | \$ 2,456,804    |

**NOTE 7. STOCK-BASED COMPENSATION**

Stock-based compensation recognized under SFAS No. 123 (revised 2004), *Share-Based Payment*, was \$69,878 for the second quarter of fiscal 2009, \$151,118 for the second quarter of fiscal 2008, \$75,476 for the first six months of fiscal 2009, and \$158,410 for the first six months of fiscal 2008. The decrease in expense under SFAS No. 123(R) was due to a decrease to 1,000 share options granted to each non-employee director on their reelection to our Board, compared to 2,000 shares in the prior-year period, in consideration of the addition of cash compensation for non-employee directors. We calculate the share-based compensation expense on a straight-line basis over the vesting periods of the related share-based awards.

**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. Tax provisions of \$236,524 for the six months ended September 30, 2008 were credited to Additional paid-in capital. No tax provisions were credited to Additional paid-in capital for the six months ended September 30, 2007.

At September 30, 2008 we had no unrecognized tax benefits. We do not believe unrecognized tax benefits will significantly change 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, 2008 we had no accrued interest related to uncertain tax

positions. The years 2004 through 2007 remain open to examination by the major taxing jurisdictions to which we are subject.

**NOTE 9. FAIR VALUE MEASUREMENTS**

We have marketable securities that we record at fair value based on quoted prices in an active market. The marketable securities consist of publicly-traded securities that are classified as available-for-sale securities. On the balance sheet, 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 \$27,321,874 at September 30, 2008 and \$22,851,007 at March 31, 2008.

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### **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 adverse economic conditions, 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, 2008 as updated in our subsequently-filed Quarterly Reports 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, 2008. At September 30, 2008 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, 2008 compared to quarter ended September 30, 2007**

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

|                                      | <b>Percentage of Revenue</b>  |             | <b>Quarter-</b>   |
|--------------------------------------|-------------------------------|-------------|-------------------|
|                                      | <b>Quarter Ended Sept. 30</b> | <b>2007</b> | <b>to-Quarter</b> |
|                                      | <b>2008</b>                   |             | <b>Change</b>     |
| <b>Revenue</b>                       |                               |             |                   |
| Product sales                        | 85.0%                         | 86.2%       | 13.0 %            |
| Contract research and development    | 15.0%                         | 13.8%       | 23.6 %            |
| Total revenue                        | 100.0%                        | 100.0%      | 14.5 %            |
| Cost of sales                        | 30.5%                         | 37.0%       | (5.6)%            |
| Gross profit                         | 69.5%                         | 63.0%       | 26.2 %            |
| <b>Expenses</b>                      |                               |             |                   |
| Selling, general, and administrative | 10.2%                         | 11.5%       | 1.7 %             |
| Research and development             | 4.9%                          | 6.3%        | (10.6)%           |
| Total expenses                       | 15.1%                         | 17.8%       | (2.6)%            |
| Income from operations               | 54.4%                         | 45.2%       | 37.5 %            |
| Interest income                      | 4.8%                          | 5.0%        | 12.2 %            |
| Income before taxes                  | 59.2%                         | 50.2%       | 35.0 %            |
| Provision for income taxes           | 19.0%                         | 17.3%       | 25.9 %            |
| Net income                           | 40.2%                         | 32.9%       | 39.9 %            |

Total revenue for the quarter ended September 30, 2008 (the second quarter of fiscal 2009) increased 14% to \$5,727,790 compared to \$5,004,620 for the quarter ended September 30, 2007 (the second quarter of fiscal 2008). The increase was due to a 13% increase in product sales and a 24% increase in contract research and development revenue. The increase in product sales was due to increased volume from the addition of new customers and increased purchase volume by existing customers. The increase in research and development revenue was due to new contracts.

Gross profit margin increased to 69% of revenue for the second quarter of fiscal 2009 compared to 63% for the second quarter of fiscal 2008. The increase was primarily due to higher margins on product sales.

Research and development expense decreased 11% for the second quarter of fiscal 2009 compared to the second quarter of fiscal 2008 due to the completion of certain research and development projects and an increase in contract research and development obligations. This decrease 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 obligations.

Interest income increased 12% to \$277,074 for the second quarter of fiscal 2009 compared to \$246,857 for the second quarter of fiscal 2008. The increase was due to an increase in interest-bearing marketable securities.

The provision for income taxes was \$1,090,629 or 32% of income before taxes for the second quarter of fiscal 2009 compared to \$866,284 or 34% of income before taxes for the second quarter of fiscal 2008. The decrease in the effective tax rate may not be representative of future trends because the effective tax rate can fluctuate from quarter to quarter due to a number of factors, some of which are outside our control.

The 40% increase in net income in the second quarter of fiscal 2009 compared to the prior-year quarter was primarily due to increases in total revenue, interest income, and gross profit margin, and a decrease in research and

development expense.

**Table of Contents****Six months ended September 30, 2008 compared to six months ended September 30, 2007**

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

|                                      | <b>Percentage of Revenue</b>     |             | <b>Period-</b>   |
|--------------------------------------|----------------------------------|-------------|------------------|
|                                      | <b>Six Months Ended Sept. 30</b> | <b>2007</b> | <b>to-Period</b> |
|                                      | <b>2008</b>                      |             | <b>Change</b>    |
| <b>Revenue</b>                       |                                  |             |                  |
| Product sales                        | 88.9%                            | 88.3%       | 9.8 %            |
| Contract research and development    | 11.1%                            | 11.7%       | 3.5 %            |
| Total revenue                        | 100.0%                           | 100.0%      | 9.0 %            |
| Cost of sales                        | 29.8%                            | 33.9%       | (4.2)%           |
| Gross profit                         | 70.2%                            | 66.1%       | 15.8 %           |
| <b>Expenses</b>                      |                                  |             |                  |
| Selling, general, and administrative | 10.5%                            | 11.7%       | (2.1)%           |
| Research and development             | 6.3%                             | 8.5%        | (18.8)%          |
| Total expenses                       | 16.8%                            | 20.2%       | (9.1)%           |
| Income from operations               | 53.4%                            | 45.9%       | 26.8 %           |
| Interest and other income            | 5.0%                             | 4.9%        | 12.8 %           |
| Income before taxes                  | 58.4%                            | 50.8%       | 25.5 %           |
| Provision for income taxes           | 18.7%                            | 17.5%       | 17.0 %           |
| Net income                           | 39.7%                            | 33.3%       | 30.0 %           |

Total revenue for the six months ended September 30, 2008 increased 9% to \$10,591,576 compared to \$9,713,903 for the six months ended September 30, 2007. The increase was due to a 10% increase in product sales and a 4% increase in research and development revenue. The increase in product sales was due to increased volume from the addition of new customers and increased purchase volume by existing customers.

Gross profit margin increased to 70% of revenue for the first six months of fiscal 2009 compared to 66% for the first six months of fiscal 2008. The increase was primarily due to higher margins on product sales.

Research and development expense decreased 19% for the first six months of fiscal 2009 compared to the first six months of fiscal 2008 due to the completion of certain research and development projects and an increase in contract research and development obligations. This decrease 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 obligations.

Interest and other income increased 5% to \$534,909 for the first six months of fiscal 2009 compared to \$471,378 for the first six months of fiscal 2008. The increase was due to an increase in interest-bearing marketable securities.

The provision for income taxes was \$1,986,686 or 32% of income before taxes for the first six months of fiscal 2009 compared to \$1,698,405 or 34% of income before taxes for the first six months of fiscal 2008. The decrease in the effective tax rate may not be representative of future trends because the effective tax rate can fluctuate from period to period due to a number of factors, some of which are outside our control.

The 30% increase in net income in the first six months of fiscal 2009 compared to the prior-year period was primarily due to an increase in product sales and interest income, an increase in gross profit margin, and a decrease in expenses.



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### **Liquidity and capital resources**

At September 30, 2008 we had \$29,041,187 in cash plus short-term and long-term marketable securities compared to \$24,736,874 at March 31, 2008. 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 2009 was primarily due to \$4,658,217 in net cash provided by operating activities.

Accounts receivable decreased \$357,848 in the first six months of fiscal 2009 due to collection of receivables related to revenue late in the fiscal year ended March 31, 2008.

Purchases of fixed assets decreased to \$117,530 for the first six months of fiscal 2009 from \$515,157 for the first six months of fiscal 2008. Purchases during both periods were primarily for capital equipment to increase our production capacity and were financed with cash provided by operating activities.

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, and 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 (loss), net of estimated tax. Marketable securities as of September 30, 2008 had remaining maturities between 37 weeks and 54 months. Our short-term and long-term marketable securities had a fair market value of \$27,321,874 at September 30, 2008, representing approximately 74% 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, 2008, 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 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, 2008 except as updated in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2008.

**Item 4. Submission of Matters to a Vote of Security Holders.**

Our Annual Meeting of Shareholders was held on August 7, 2008. 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, 2009. There were 4,644,083 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<br/>Withheld</b>          | <b>Abstain</b> |
|-------------------------------------------------------------------------------------------------------------------------------------------------|------------------|-----------------------------------------------|----------------|
| 1. To elect five directors to serve until the next Annual Meeting of Shareholders.                                                              |                  |                                               |                |
| Terrence W. Glarner                                                                                                                             | 3,828,621        | 114,244                                       | 2,048          |
| Daniel A. Baker                                                                                                                                 | 3,828,800        | 114,065                                       | 2,048          |
| James D. Hartman                                                                                                                                | 3,844,135        | 98,730                                        | 2,048          |
| Patricia M. Hollister                                                                                                                           | 3,840,435        | 102,430                                       | 2,048          |
| Robert H. Irish                                                                                                                                 | 3,814,601        | 128,264                                       | 2,048          |
|                                                                                                                                                 |                  |                                               |                |
|                                                                                                                                                 | <b>Voted For</b> | <b>Number of Shares<br/>Voted<br/>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, 2009. | 3,888,259        | 42,026                                        | 14,628         |

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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, 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 22, 2008**

Date

**/s/ DANIEL A. BAKER**

Daniel A. Baker

President and Chief Executive Officer

**October 22, 2008**

Date

**/s/ CURT A. REYNDERS**

Curt A. Reynders

Chief Financial Officer