

NVE CORP /NEW/
Form 10-Q
October 19, 2016

DRAFT / CONFIDENTIAL

**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, 2016**

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).

[X] 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 [X]

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 [X] 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 4,836,010 shares outstanding as of October 14, 2016

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BALANCE SHEETS**

| | (Unaudited) September 30, 2016 | March 31, 2016* |
|--|--------------------------------------|--------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 5,690,673 | \$ 7,534,593 |
| Marketable securities, short-term | 22,318,903 | 19,697,384 |
| Accounts receivable, net of allowance for uncollectible accounts of \$15,000 | 3,368,170 | 2,244,086 |
| Inventories | 2,908,881 | 3,205,233 |
| Prepaid expenses and other assets | 697,788 | 734,524 |
| Total current assets | 34,984,415 | 33,415,820 |
| Fixed assets | | |
| Machinery and equipment | 8,973,375 | 8,840,033 |
| Leasehold improvements | 1,559,719 | 1,539,965 |
| | 10,533,094 | 10,379,998 |
| Less accumulated depreciation and amortization | 9,080,831 | 8,688,285 |
| Net fixed assets | 1,452,263 | 1,691,713 |
| Long-term deferred tax assets | 123,410 | 51,188 |
| Marketable securities, long-term | 60,777,962 | 65,695,335 |
| Total assets | \$ 97,338,050 | \$ 100,854,056 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities | | |
| Accounts payable | \$ 310,030 | \$ 317,990 |
| Accrued payroll and other | 563,960 | 556,674 |
| Deferred revenue | 383,877 | 714,805 |
| Total current liabilities | 1,257,867 | 1,589,469 |
| Shareholders' equity | | |
| Common stock, \$0.01 par value, 6,000,000 shares authorized; 4,836,010 issued and outstanding as of September 30, 2016 and 4,835,010 issued and outstanding as of March 31, 2016 | 48,360 | 48,350 |
| Additional paid-in capital | 19,268,752 | 19,205,682 |
| Accumulated other comprehensive income | 436,153 | 451,359 |
| Retained earnings | 76,326,918 | 79,559,196 |
| Total shareholders' equity | 96,080,183 | 99,264,587 |
| Total liabilities and shareholders' equity | \$ 97,338,050 | \$ 100,854,056 |

*The March 31, 2016 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, 2016.

See accompanying notes.

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NVE CORPORATION
STATEMENTS OF INCOME
(Unaudited)

| | Quarter Ended Sept. 30 | |
|--|-------------------------------|--------------|
| | 2016 | 2015 |
| Revenue | | |
| Product sales | \$ 6,814,384 | \$ 6,436,672 |
| Contract research and development | 488,155 | 843,085 |
| Total revenue | 7,302,539 | 7,279,757 |
| Cost of sales | 1,740,814 | 1,644,514 |
| Gross profit | 5,561,725 | 5,635,243 |
| Expenses | | |
| Selling, general, and administrative | 343,688 | 524,631 |
| Research and development | 768,188 | 628,962 |
| Total expenses | 1,111,876 | 1,153,593 |
| Income from operations | 4,449,849 | 4,481,650 |
| Interest income | 430,983 | 468,531 |
| Income before taxes | 4,880,832 | 4,950,181 |
| Provision for income taxes | 1,575,635 | 1,639,386 |
| Net income | \$ 3,305,197 | \$ 3,310,795 |
| Net income per share basic | \$ 0.68 | \$ 0.68 |
| Net income per share diluted | \$ 0.68 | \$ 0.68 |
| Cash dividends declared per common share | \$ 1.00 | \$ 1.00 |
| Weighted average shares outstanding | | |
| Basic | 4,835,564 | 4,855,398 |
| Diluted | 4,837,819 | 4,858,133 |

STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

| | Quarter Ended Sept. 30 | |
|--|-------------------------------|--------------|
| | 2016 | 2015 |
| Net income | \$ 3,305,197 | \$ 3,310,795 |
| Unrealized loss from marketable securities, net of tax | (240,809) | (35,369) |
| Comprehensive income | \$ 3,064,388 | \$ 3,275,426 |

See accompanying notes.

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NVE CORPORATION
STATEMENTS OF INCOME
(Unaudited)

| | Six Months Ended Sept. 30 | |
|--|----------------------------------|---------------|
| | 2016 | 2015 |
| Revenue | | |
| Product sales | \$ 12,665,598 | \$ 14,172,537 |
| Contract research and development | 1,344,713 | 1,428,139 |
| Total revenue | 14,010,311 | 15,600,676 |
| Cost of sales | 3,125,992 | 3,638,442 |
| Gross profit | 10,884,319 | 11,962,234 |
| Expenses | | |
| Selling, general, and administrative | 733,603 | 1,009,395 |
| Research and development | 1,526,556 | 1,309,963 |
| Total expenses | 2,260,159 | 2,319,358 |
| Income from operations | 8,624,160 | 9,642,876 |
| Interest income | 868,717 | 954,329 |
| Income before taxes | 9,492,877 | 10,597,205 |
| Provision for income taxes | 3,055,135 | 3,483,184 |
| Net income | \$ 6,437,742 | \$ 7,114,021 |
| Net income per share basic | \$ 1.33 | \$ 1.46 |
| Net income per share diluted | \$ 1.33 | \$ 1.46 |
| Cash dividends declared per common share | \$ 2.00 | \$ 2.00 |
| Weighted average shares outstanding | | |
| Basic | 4,835,289 | 4,858,557 |
| Diluted | 4,837,293 | 4,862,431 |

STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

| | Six Months Ended Sept. 30 | |
|--|----------------------------------|--------------|
| | 2016 | 2015 |
| Net income | \$ 6,437,742 | \$ 7,114,021 |
| Unrealized loss from marketable securities, net of tax | (15,206) | (343,868) |
| Comprehensive income | \$ 6,422,536 | \$ 6,770,153 |

See accompanying notes.

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NVE CORPORATION
STATEMENTS OF CASH FLOWS
(Unaudited)

| | Six Months Ended Sept. 30 | |
|---|----------------------------------|---------------|
| | 2016 | 2015 |
| OPERATING ACTIVITIES | | |
| Net income | \$ 6,437,742 | \$ 7,114,021 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 392,546 | 414,634 |
| Stock-based compensation | 22,000 | 21,160 |
| Excess tax deficiencies (benefits) | 1,369 | (352,294) |
| Deferred income taxes | (64,915) | 340,608 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (1,124,084) | 181,006 |
| Inventories | 296,352 | 594,624 |
| Prepaid expenses and other assets | 36,736 | (60,410) |
| Accounts payable and accrued expenses | (674) | (412,767) |
| Deferred revenue | (330,928) | - |
| Net cash provided by operating activities | 5,666,144 | 7,840,582 |
| INVESTING ACTIVITIES | | |
| Purchases of fixed assets | (153,096) | (146,505) |
| Purchases of marketable securities | (6,928,028) | 266,240 |
| Proceeds from maturities and sales of marketable securities | 9,200,000 | 6,250,000 |
| Net cash provided by investing activities | 2,118,876 | 6,369,735 |
| FINANCING ACTIVITIES | | |
| Proceeds from sale of common stock | 42,449 | 292,909 |
| Excess tax (deficiencies) benefits | (1,369) | 352,294 |
| Repurchase of common stock | - | (1,851,290) |
| Payment of dividends to shareholders | (9,670,020) | (9,725,174) |
| Net cash used in financing activities | (9,628,940) | (10,931,261) |
| (Decrease) increase in cash and cash equivalents | (1,843,920) | 3,279,056 |
| Cash and cash equivalents at beginning of period | 7,534,593 | 9,437,262 |
| Cash and cash equivalents at end of period | \$ 5,690,673 | \$ 12,716,318 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the period for income taxes | \$ 3,045,000 | \$ 3,240,000 |

See accompanying notes.

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

NOTE 1. DESCRIPTION OF BUSINESS

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

NOTE 2. INTERIM FINANCIAL INFORMATION

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, 2016. The results of operations for the quarter or six months ended September 30, 2016 are not necessarily indicative of the results that may be expected for the full fiscal year ending March 31, 2017.

NOTE 3. RECENTLY ISSUED ACCOUNTING STANDARDS

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-15, *Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments*, which will make eight targeted changes to how cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 will be effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, which will be fiscal 2019 for us. ASU 2016-15 requires retrospective adoption unless it is impracticable to apply, in which case it is to be applied prospectively as of the earliest practicable date. We do not expect adoption of ASU 2016-15 to have a significant impact on our financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses (Topic 326), Measurement of Credit Losses on Financial Statements*. This ASU requires a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset. The amendment is effective for financial statements issued for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, which will be fiscal 2021 for us. We do not expect adoption of ASU 2016-13 to have a significant impact on our financial statements.

Information regarding all other applicable recently issued accounting standards, on which our position have not changed since our latest annual financial statements, are contained in the financial statements included in our Annual Report on Form 10-K for the year ended March 31, 2016.

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 exercise of all stock options. Stock options totaling 6,000 for the quarter and 14,000 for the six months ended September 30, 2016 and 4,000 for the quarter and six months ended September 30, 2015 were not included in the computation of diluted earnings per share because the exercise prices were greater than the market price of the common stock.

The following tables show the components of diluted shares:

Quarter Ended Sept. 30

| | | 2016 | 2015 |
|---|---------|-------------|-------------|
| Weighted average common shares outstanding | basic | 4,835,564 | 4,855,398 |
| Dilutive effect of stock options | | 2,255 | 2,735 |
| Shares used in computing net income per share | diluted | 4,837,819 | 4,858,133 |

Six Months Ended Sept. 30

| | | 2016 | 2015 |
|---|---------|-------------|-------------|
| Weighted average common shares outstanding | basic | 4,835,289 | 4,858,557 |
| Dilutive effect of stock options | | 2,004 | 3,874 |
| Shares used in computing net income per share | diluted | 4,837,293 | 4,862,431 |

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 September 30, 2016, by maturity, were as follows:

| Total | <1 Year | 1 3 Years | 3 5 Years |
|---------------|-------------------|------------------|------------------|
| \$ 83,096,865 | \$ 22,318,903 | \$ 41,338,625 | \$ 19,439,337 |

As of September 30 and March 31, 2016, our marketable securities were as follows:

| | As of September 30, 2016 | | | | As of March 31, 2016 | | | |
|-----------------|---------------------------------|---------------------------------------|--|----------------------------------|-----------------------------|---------------------------------------|--|----------------------------------|
| | Adjusted Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Market Value | Adjusted Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Market Value |
| Corporate bonds | \$ 81,087,271 | \$ 719,992 | \$ (34,699) | \$ 81,772,564 | \$ 83,339,487 | \$ 717,206 | \$ (10,824) | \$ 84,045,869 |
| Municipal bonds | 1,324,572 | - | (271) | 1,324,301 | 1,344,328 | 2,522 | - | 1,346,850 |
| Total | \$ 82,411,843 | \$ 719,992 | \$ (34,970) | \$ 83,096,865 | \$ 84,683,815 | \$ 719,728 | \$ (10,824) | \$ 85,392,719 |

Five securities were in an unrealized loss position as of September 30, 2016. The following table shows the gross unrealized losses and fair value of our investments with unrealized losses, aggregated by investment category and length of time that individual securities had been in a continuous unrealized loss position as of September 30 and March 31, 2016:

| | 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 September 30, 2016 | | | | | | |
| Corporate bonds | \$ 10,965,905 | \$ (34,699) | \$ - | \$ - | \$ 10,965,905 | \$ (34,699) |
| Municipal bonds | 1,324,301 | (271) | - | - | 1,324,301 | (271) |
| Total | \$ 12,290,206 | \$ (34,970) | \$ - | \$ - | \$ 12,290,206 | \$ (34,970) |
| As of March 31, 2016 | | | | | | |
| Corporate bonds | \$ 3,003,606 | \$ (6,703) | \$ 2,599,870 | \$ (4,121) | \$ 5,603,476 | \$ (10,824) |
| Municipal bonds | - | - | - | - | - | - |
| Total | \$ 3,003,606 | \$ (6,703) | \$ 2,599,870 | \$ (4,121) | \$ 5,603,476 | \$ (10,824) |

Because we expect to recover the cost basis of investments held, we do not consider any of our marketable securities to be impaired as of September 30, 2016.

Table of Contents**NOTE 6. INVENTORIES**

Inventories consisted of the following:

| | Sept. 30, 2016 | March 31, 2016 |
|-------------------|-------------------|-------------------|
| Raw materials | \$ 639,275 | \$ 810,987 |
| Work in process | 1,808,909 | 1,653,800 |
| Finished goods | 460,697 | 740,446 |
| Total inventories | \$ 2,908,881 | \$ 3,205,233 |

NOTE 7. STOCK-BASED COMPENSATION

Stock-based compensation expense was \$22,000 for the second quarter and first six months of fiscal 2017, and \$21,160 for the second quarter and first six months of fiscal 2016. Stock-based compensation expenses for the quarters and six months ended September 30, 2016 and 2015 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 September 30, 2016, and we do not expect any significant unrecognized tax benefits within 12 months of the reporting date. We recognize interest and penalties related to income tax matters in income tax expense. As of September 30, 2016 we had no accrued interest related to uncertain tax positions. The tax years 1999 and 2013 through 2015 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 \$81,772,564 as of September 30, 2016 and \$84,045,869 as of March 31, 2016.

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 had one Level 2 financial instrument, a municipal debt security, which is classified as available-for-sale. The fair value of the Level 2 marketable security was \$1,324,301 as of September 30, 2016 and \$1,346,850 as of March 31, 2016. The security was included in Marketable securities, short term on the September 30, 2016 balance sheet, and Marketable securities, long term on the March 31, 2016 balance sheet.

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 PROGRAM

On January 21, 2009 we announced that our Board of Directors authorized the repurchase of up to \$2,500,000 of our Common Stock, and on August 27, 2015 we announced that our Board authorized \$5,000,000 of additional repurchases. We did not repurchase any of our Common Stock under the program during the quarter ended September 30, 2016. The remaining authorization was \$4,540,806 as of September 30, 2016. The Repurchase Program may be modified or discontinued at any time without notice.

NOTE 11. DIVIDENDS

On October 19, 2016 we announced that our Board had declared a quarterly cash dividend of \$1.00 per share of Common Stock to be paid November 30, 2016 to shareholders of record as of the close of business October 31, 2016.

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 our reliance on several large customers for a significant percentage of revenue, uncertainties related to the economic environments in the industries we serve, uncertainties related to future contract research and development revenue, 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, 2016.

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, 2016. As of September 30, 2016 our critical accounting policies and estimates continued to include investment valuation, inventory valuation, and deferred tax assets estimation.

Table of Contents**Quarter ended September 30, 2016 compared to quarter ended September 30, 2015**

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

| | Percentage of Revenue Quarter Ended Sept. 30 2016 | 2015 | Quarter- to-Quarter Change |
|--------------------------------------|--|-------------|---|
| Revenue | | | |
| Product sales | 93.3% | 88.4% | 5.9% |
| Contract research and development | 6.7% | 11.6% | (42.1)% |
| Total revenue | 100.0% | 100.0% | 0.3% |
| Cost of sales | 23.8% | 22.6% | 5.9% |
| Gross profit | 76.2% | 77.4% | (1.3)% |
| Expenses | | | |
| Selling, general, and administrative | 4.7% | 7.2% | (34.5)% |
| Research and development | 10.6% | 8.6% | 22.1% |
| Total expenses | 15.3% | 15.8% | (3.6)% |
| Income from operations | 60.9% | 61.6% | (0.7)% |
| Interest and other income | 5.9% | 6.4% | (8.0)% |
| Income before taxes | 66.8% | 68.0% | (1.4)% |
| Provision for income taxes | 21.5% | 22.5% | (3.9)% |
| Net income | 45.3% | 45.5% | (0.2)% |

Total revenue for the quarter ended September 30, 2016 (the second quarter of fiscal 2017) increased 0.3% compared to the quarter ended September 30, 2015 (the second quarter of fiscal 2016). The increase was due to a 6% increase in product sales, partially offset by a 42% decrease in contract research and development revenue.

The increase in product sales from the prior-year quarter was due to new customers. The decrease in contract research and development revenue for the second quarter of fiscal 2017 was due to the completion of certain contracts.

Gross profit margin decreased to 76% of revenue for the second quarter of fiscal 2017 compared to 77% for the second quarter of fiscal 2016, due to decreased gross profit margins on product sales with a less profitable product sales mix.

Total expenses decreased 4% for the second quarter of fiscal 2017 compared to the second quarter of fiscal 2016, due to a 34% decrease in selling, general, and administrative expense, partially offset by an 22% increase in research and development expense. The decrease in selling, general, and administrative expense was primarily due to decreased sales commissions. The increase in research and development expense was due to an increase in new product development activities.

Interest income for the second quarter of fiscal 2017 decreased 8% due to a decrease in the average interest rates on our marketable securities.

The provision for income taxes was \$1,575,635 for the second quarter of fiscal 2017 compared to \$1,639,386 for the second quarter of fiscal 2016. The effective tax rate was 32% of income before taxes for the second quarter of fiscal 2017 compared to 33% for the second quarter of fiscal 2016.

The 0.2% decrease in net income in the second quarter of fiscal 2017 compared to the prior-year quarter was primarily due to decreases in contract research and development revenue, gross profit margin, and interest income, partially offset by increased product sales, decreased total expenses, and a decrease in the provision for income taxes.

Table of Contents**Six months ended September 30, 2016 compared to six months ended September 30, 2015**

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

| | Percentage of Revenue Six Months Ended Sept. 30 | | Period- to-Period Change |
|--------------------------------------|--|-------------|---|
| | 2016 | 2015 | |
| Revenue | | | |
| Product sales | 90.4% | 90.8% | (10.6)% |
| Contract research and development | 9.6% | 9.2% | (5.8)% |
| Total revenue | 100.0% | 100.0% | (10.2)% |
| Cost of sales | 22.3% | 23.3% | (14.1)% |
| Gross profit | 77.7% | 76.7% | (9.0)% |
| Expenses | | | |
| Selling, general, and administrative | 5.2% | 6.5% | (27.3)% |
| Research and development | 10.9% | 8.4% | 16.5% |
| Total expenses | 16.1% | 14.9% | (2.6)% |
| Income from operations | 61.6% | 61.8% | (10.6)% |
| Interest income | 6.2% | 6.1% | (9.0)% |
| Income before taxes | 67.8% | 67.9% | (10.4)% |
| Provision for income taxes | 21.8% | 22.3% | (12.3)% |
| Net income | 46.0% | 45.6% | (9.5)% |

Total revenue for the six months ended September 30, 2016 decreased 10% compared to the six months ended September 30, 2015. The decrease was due to an 11% decrease in product sales and a 6% decrease in contract research and development revenue.

The decrease in product sales from the prior-year period was due to decreased purchase volume by existing customers. The decrease in contract research and development revenue for the first six months of fiscal 2017 was due to the completion of certain contracts.

Gross profit margin increased to 78% of revenue for the first six months of fiscal 2017 compared to 77% for the first six months of fiscal 2016, due to increased gross profit margins on contract research and development revenue.

Total expenses decreased 3% for the first six months of fiscal 2017 compared to the first six months of fiscal 2016, due to a 27% decrease in selling, general, and administrative expense, partially offset by an 17% increase in research and development expense. The decrease in selling, general, and administrative expense was primarily due to decreases in sales commissions. The increase in research and development expense was due to an increase in new product development activities.

Interest income for the first six months of fiscal 2017 decreased 9% due to a decrease in marketable securities and a decrease in the average interest rates on those securities.

The 10% decrease in net income in the first six months of fiscal 2017 compared to the prior-year quarter was primarily due to decreased total revenue and decreased interest income.

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Liquidity and capital resources

Overview

Cash and cash equivalents were \$5,690,673 as of September 30, 2016 compared to \$7,534,593 as of March 31, 2016. The \$1,843,920 decrease in cash and cash equivalents during the six months ended September 30, 2016 was due to \$9,628,940 net cash used in financing activities, partially offset by \$5,666,144 in net cash provided by operating activities and \$2,118,876 net cash provided by investing activities. We currently believe our working capital and cash generated from operations will be adequate for our needs at least for the next 12 months.

Operating Activities

Accounts receivable as of September 30, 2016 increased \$1,124,084 compared to March 31, 2016, primarily due to the timing of sales to and payments from certain customers.

Investing Activities

Net cash provided by investing activities in the first six months of fiscal 2017 was primarily due to marketable security maturities of \$9,200,000, less marketable security purchases of \$6,928,028.

Financing Activities

Net cash used in financing activities in the first six months of fiscal 2017 was primarily due to \$9,670,020 of cash dividends paid to shareholders. In addition to dividends paid in the first six months of fiscal 2017, on October 19, 2016 we announced that our Board had declared a cash quarterly dividend of an additional \$1.00 per share of common stock, or \$4,836,010 based on shares outstanding as of October 14, 2016, to be paid November 30, 2016. We plan to fund such dividends through cash provided by operating activities and proceeds from maturities of marketable securities. 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, dividends may be modified or discontinued at any time without notice.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

As discussed in our Annual Report on Form 10-K for the fiscal year ended March 31, 2016, we are exposed to financial market risks, primarily marketable securities and, to a lesser extent, changes in currency exchange rates.

Marketable Securities

The primary objective of our investment activities is to preserve principal while at the same time maximizing after-tax yields without significantly increasing risk. To achieve this objective, we maintain our portfolio of cash equivalents and marketable securities in securities including municipal obligations, corporate obligations, and money market funds. Short-term and long-term marketable securities are generally classified as available-for-sale and consequently are recorded on the balance sheet at fair value with unrealized gains or losses reported as a separate component of accumulated other comprehensive income or loss, net of estimated tax. Our marketable securities as of September 30, 2016 had remaining maturities between 17 days and 231 weeks. Marketable securities had a market value of \$83,096,865 as of September 30, 2016, representing approximately 85% of our total assets. We have not used derivative financial instruments in our investment portfolio.

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Item 4. Controls and Procedures.

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 such evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2016, our disclosure controls and procedures were effective.

Changes in Internal Controls

During the quarter ended September 30, 2016, 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 1. Legal Proceedings.

In the ordinary course of business we may become involved in litigation. At this time we are not aware of any material pending or threatened legal proceedings or other proceedings contemplated by governmental authorities that we expect would have a material adverse impact on our future results of operation and financial condition.

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, 2016.

Item 4. Mine Safety Disclosures.

Not applicable.

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Item 6. Exhibits.

| <u>Exhibit #</u> | <u>Description</u> |
|-------------------------|---|
| 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)

| | |
|--------------------------------|--|
| <u>October 19, 2016</u> | <u>/s/ DANIEL A. BAKER</u> |
| Date | Daniel A. Baker President and Chief Executive Officer |

| | |
|--------------------------------|---|
| <u>October 19, 2016</u> | <u>/s/ CURT A. REYNDERS</u> |
| Date | Curt A. Reynders Chief Financial Officer |