NVE CORP /NEW/
Form 10-Q
January 20, 2016

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**Washington, D.C. 20549**

# FORM 10-Q

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended **December 31, 2015**

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** | **41-1424202** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| **11409 Valley View Road, Eden Prairie, Minnesota** | **55344** |
| (Address of principal executive offices) | (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.
[X] Yes [ ] No

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 4,844,845 shares outstanding as of January 15, 2016**

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**NVE CORPORATION**
**QUARTERLY REPORT ON FORM 10-Q**
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## PART I FINANCIAL INFORMATION

**Item 1. Financial Statements.**

**NVE CORPORATION**
**BALANCE SHEETS**

| | (Unaudited) Dec. 31, 2015 | March 31, 2015* |
|---|---|---|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | $ 3,594,164 | $ 9,437,262 |
| Marketable securities, short term | 23,629,484 | 20,099,288 |
| Accounts receivable, net of allowance for uncollectible accounts of $15,000 | 1,753,689 | 2,963,974 |
| Inventories | 3,108,911 | 3,742,492 |
| Deferred tax assets | 152,789 | 102,052 |
| Prepaid expenses and other assets | 903,568 | 574,913 |
| Total current assets | 33,142,605 | 36,919,981 |
| Fixed assets | | |
| Machinery and equipment | 8,766,708 | 8,604,926 |
| Leasehold improvements | 1,539,965 | 1,524,298 |
| | 10,306,673 | 10,129,224 |
| Less accumulated depreciation and amortization | 8,502,002 | 7,873,816 |
| Net fixed assets | 1,804,671 | 2,255,408 |
| Long-term deferred tax assets | 99,958 | - |
| Marketable securities, long term | 68,127,073 | 70,913,807 |
| Total assets | $ 103,174,307 | $ 110,089,196 |
| | | |
| LIABILITIES AND SHAREHOLDERS EQUITY | | |
| Current liabilities | | |
| Accounts payable | $ 209,686 | $ 358,818 |
| Accrued payroll and other | 650,846 | 1,127,136 |
| Deferred revenue | 714,805 | - |
| Total current liabilities | 1,575,337 | 1,485,954 |
| | | |
| Long-term deferred tax liabilities | - | 275,708 |
| | | |
| Shareholders equity | | |
| Common stock, $0.01 par value, 6,000,000 shares authorized; 4,844,845 issued and outstanding as of December 31, 2015 and 4,857,953 issued and outstanding as of March 31, 2015 | 48,449 | 48,580 |
| Additional paid-in capital | 19,665,966 | 20,850,762 |
| Accumulated other comprehensive income | 81,357 | 746,447 |
| Retained earnings | 81,803,198 | 86,681,745 |
| Total shareholders equity | 101,598,970 | 108,327,534 |
| Total liabilities and shareholders equity | $ 103,174,307 | $ 110,089,196 |

*The March 31, 2015 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, 2015.

See accompanying notes.

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

| | Quarter Ended Dec. 31 2015 | Quarter Ended Dec. 31 2014 |
|---|---|---|
| Revenue | | |
| Product sales | $ 5,025,041 | $ 5,883,690 |
| Contract research and development | 990,974 | 408,058 |
| Total revenue | 6,016,015 | 6,291,748 |
| Cost of sales | 1,508,361 | 1,473,655 |
| Gross profit | 4,507,654 | 4,818,093 |
| Expenses | | |
| Selling, general, and administrative | 406,676 | 533,695 |
| Research and development | 738,657 | 694,758 |
| Total expenses | 1,145,333 | 1,228,453 |
| Income from operations | 3,362,321 | 3,589,640 |
| Interest income | 468,367 | 557,843 |
| Income before taxes | 3,830,688 | 4,147,483 |
| Provision for income taxes | 1,253,237 | 1,354,577 |
| Net income | $ 2,577,451 | $ 2,792,906 |
| Net income per share basic | $ 0.53 | $ 0.57 |
| Net income per share diluted | $ 0.53 | $ 0.57 |
| Cash dividends declared per common share | $ 1.00 | $ - |
| Weighted average shares outstanding | | |
| Basic | 4,844,845 | 4,857,953 |
| Diluted | 4,846,970 | 4,876,074 |

## STATEMENTS OF COMPREHENSIVE INCOME
## (Unaudited)

| | Quarter Ended Dec. 31 2015 | Quarter Ended Dec. 31 2014 |
|---|---|---|
| Net income | $ 2,577,451 | $ 2,792,906 |
| Unrealized loss from marketable securities, net of tax | (321,222) | (41,941) |
| Comprehensive income | $ 2,256,229 | $ 2,750,965 |

See accompanying notes.

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

| | Nine Months Ended Dec. 31 2015 | 2014 |
|---|---|---|
| Revenue | | |
| Product sales | $ 19,197,578 | $ 22,345,577 |
| Contract research and development | 2,419,113 | 666,579 |
| Total revenue | 21,616,691 | 23,012,156 |
| Cost of sales | 5,146,803 | 4,641,633 |
| Gross profit | 16,469,888 | 18,370,523 |
| Expenses | | |
| Selling, general, and administrative | 1,416,071 | 1,788,944 |
| Research and development | 2,048,620 | 2,285,465 |
| Total expenses | 3,464,691 | 4,074,409 |
| Income from operations | 13,005,197 | 14,296,114 |
| Interest income | 1,422,696 | 1,669,320 |
| Income before taxes | 14,427,893 | 15,965,434 |
| Provision for income taxes | 4,736,421 | 5,259,796 |
| Net income | $ 9,691,472 | $ 10,705,638 |
| Net income per share basic | $ 2.00 | $ 2.21 |
| Net income per share diluted | $ 2.00 | $ 2.20 |
| Cash dividends declared per common share | $ 3.00 | $ - |
| Weighted average shares outstanding | | |
| Basic | 4,853,970 | 4,854,702 |
| Diluted | 4,857,103 | 4,871,270 |

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

| | Nine Months Ended Dec. 31 2015 | 2014 |
|---|---|---|
| Net income | $ 9,691,472 | $ 10,705,638 |
| Unrealized loss from marketable securities, net of tax | (665,090) | (351,824) |
| Comprehensive income | $ 9,026,382 | $ 10,353,814 |

See accompanying notes.

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

| | Nine Months Ended Dec. 31 2015 | Nine Months Ended Dec. 31 2014 |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Net income | $ 9,691,472 | $ 10,705,638 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 628,186 | 698,820 |
| Stock-based compensation | 21,160 | 58,960 |
| Excess tax benefits | (352,294) | (24,288) |
| Deferred income taxes | 305,391 | 141,060 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 1,210,285 | 476,495 |
| Inventories | 633,581 | (478,791) |
| Prepaid expenses and other assets | (328,655) | (709,502) |
| Accounts payable and accrued expenses | (625,422) | (20,142) |
| Deferred revenue | 714,805 | - |
| Net cash provided by operating activities | 11,898,509 | 10,848,250 |
| | | |
| INVESTING ACTIVITIES | | |
| Purchases of fixed assets | (177,449) | (114,139) |
| Purchases of marketable securities | (9,613,052) | (9,136,457) |
| Proceeds from maturities and sales of marketable securities | 7,825,000 | 8,610,000 |
| Net cash used in investing activities | (1,965,501) | (640,596) |
| | | |
| FINANCING ACTIVITIES | | |
| Proceeds from sale of common stock | 292,909 | 302,701 |
| Excess tax benefits | 352,294 | 24,288 |
| Repurchase of common stock | (1,851,290) | - |
| Payment of dividends to shareholders | (14,570,019) | - |
| Net cash (used in) provided by financing activities | (15,776,106) | 326,989 |
| | | |
| (Decrease) increase in cash and cash equivalents | (5,843,098) | 10,534,643 |
| Cash and cash equivalents at beginning of period | 9,437,262 | 1,262,300 |
| | | |
| Cash and cash equivalents at end of period | $ 3,594,164 | $ 11,796,943 |
| | | |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the period for income taxes | $ 4,490,000 | $ 5,600,000 |

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, 2015. The results of operations for the quarter or nine months ended December 31, 2015 are not necessarily indicative of the results that may be expected for the full fiscal year ending March 31, 2016.

**NOTE 3. RECENTLY ISSUED ACCOUNTING STANDARDS**

In November 2015, the Financial Accounting Standards Board ( FASB ) issued Accounting Standard Update ( ASU ) No. 2015-17, *Balance Sheet Classification of Deferred Taxes*. ASU 2015-17 simplifies the presentation of deferred income taxes and requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. This update applies to all entities that present a classified statement of financial position. These amendments may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. If the guidance is applied prospectively, disclosure is made in the first interim and first annual period of change, the nature of and reason for the change in accounting principle and a statement that prior periods were not retrospectively adjusted. If the guidance is applied retrospectively, disclosure is made in the first interim and first annual period of change, the nature of and reason for the change in accounting principle and quantitative information about the effects of the accounting change on prior periods. The amendments are effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Earlier application is permitted for all entities as of the beginning of an interim or annual reporting period. We do not expect adoption of ASU 2015-17 to have a significant impact on our financial statements.

In July 2015, the FASB issued ASU No. 2015-11, *Simplifying the Measurement of Inventory*. ASU 2015-11 requires inventory that is recorded using the first-in, first-out method to be measured at the lower of cost or net realizable value. ASU 2015-11 will be effective prospectively for the year ending March 31, 2018, with early adoption permitted. We do not expect adoption of ASU 2015-11 to have a significant impact on our financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which supersedes the revenue recognition requirements in Accounting Standards Codification 605, *Revenue Recognition*. ASU 2014-09 is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. It also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. ASU 2014-09 is effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period, which will be our first quarter of fiscal 2019. We have not yet evaluated the impact of ASU 2014-09 on our financial statements.

We have adopted all other applicable recently issued accounting standards.

**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). Stock options totaling 10,000 for the quarter and 4,000 for the nine months ended December 31, 2015 and 4,000 for the nine months ended December 31, 2014 were not included in the computation of diluted earnings per share because the exercise prices were greater than the market price of the common stock. The following table reflects the components of common shares outstanding:

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| | | Quarter Ended Dec. 31 | |
|---|---|---|---|
| | | **2015** | **2014** |
| Weighted average common shares outstanding | basic | 4,844,845 | 4,857,953 |
| Dilutive effect of stock options | | 2,125 | 18,121 |
| Shares used in computing net income per share | diluted | 4,846,970 | 4,876,074 |

| | | Nine Months Ended Dec. 31 | |
|---|---|---|---|
| | | **2015** | **2014** |
| Weighted average common shares outstanding | basic | 4,853,970 | 4,854,702 |
| Dilutive effect of stock options | | 3,133 | 16,568 |
| Shares used in computing net income per share | diluted | 4,857,103 | 4,871,270 |

**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, 2015, by maturity, were as follows:

| Total | <1 Year | 1 3 Years | 3 5 Years |
|---|---|---|---|
| $ 91,756,557 | $ 23,629,484 | $ 43,633,379 | $ 24,493,694 |

As of December 31 and March 31, 2015, our marketable securities were as follows:

| | As of December 31, 2015 | | | | As of March 31, 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | Adjusted Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Market Value | Adjusted Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Market Value |
| Corporate bonds | $ 90,274,572 | $ 280,496 | $ (153,811) | $ 90,401,257 | $ 88,456,886 | $ 1,185,469 | $ (16,371) | $ 89,625,984 |
| Municipal bonds | 1,354,206 | 1,094 | - | 1,355,300 | 1,383,839 | 3,272 | - | 1,387,111 |
| Total | $ 91,628,778 | $ 281,590 | $ (153,811) | $ 91,756,557 | $ 89,840,725 | $ 1,188,741 | $ (16,371) | $ 91,013,095 |

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, 2015:

| | 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, 2015 | | | | | | |
| Corporate bonds | $ 39,526,380 | $ (132,870) | $ 2,583,664 | $ (20,941) | $ 42,110,044 | $ (153,811) |
| Municipal bonds | - | - | - | - | - | - |
| Total | $ 39,526,380 | $ (132,870) | $ 2,583,664 | $ (20,941) | $ 42,110,044 | $ (153,811) |
| As of March 31, 2015 | | | | | | |
| Corporate bonds | $ 3,015,900 | $ (163) | $ 2,590,240 | $ (16,208) | $ 5,606,140 | $ (16,371) |
| Municipal bonds | - | - | - | - | - | - |
| Total | $ 3,015,900 | $ (163) | $ 2,590,240 | $ (16,208) | $ 5,606,140 | $ (16,371) |

Gross unrealized losses totaled $153,811 as of December 31, 2015, and were attributed to 13 corporate bonds out of a portfolio of 28 bonds. The gross unrealized losses were due to market-price decreases after the bonds were purchased.

All of the bonds we held had investment-grade credit ratings by Moody s or Standard and Poor s. For each bond with an unrealized loss, we expect to recover the entire cost basis of each security based on our consideration of factors including their credit ratings, the underlying ratings of insured bonds, and historical default rates for securities of comparable credit rating.

One corporate bond, with a fair market value of $2,583,664, had been in continuous unrealized loss positions for 12 months or greater. For this security, we also considered the severity of unrealized loss, which was less than 1% of adjusted cost.

Because we expect to recover the cost basis of investments held, we do not consider any of our marketable securities to be other-than-temporarily impaired as of December 31, 2015.

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**NOTE 6. INVENTORIES**

Inventories consisted of the following:

| | December 31, 2015 | March 31, 2015 |
|---|---|---|
| Raw materials | $ 734,094 | $ 738,169 |
| Work in process | 1,568,449 | 2,302,751 |
| Finished goods | 806,368 | 701,572 |
| Total inventories | $ 3,108,911 | $ 3,742,492 |

**NOTE 7. STOCK-BASED COMPENSATION**

Stock-based compensation expense was $21,160 for the first nine months of fiscal 2016, and $58,960 for the first nine months of fiscal 2015. The stock-based compensation expenses were due to the issuance of automatic stock options to our non-employee directors on their election or 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, 2015, 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, 2015 we had no accrued interest related to uncertain tax positions. The tax years 1999 through 2014 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 $90,401,257 at December 31, 2015 and $89,625,984 at March 31, 2015.

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 $1,355,300 at December 31, 2015 and $1,387,111 at March 31, 2015. The security is included in Marketable securities, long term on the balance sheets.

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 an additional $5,000,000. We did not repurchase any of our Common Stock under the program during the quarter ended December 31, 2015. The remaining authorization was $5,001,189 as of December 31, 2015. The Repurchase Program may be modified or discontinued at any time without notice.

**NOTE 11. DIVIDENDS**

On January 20, 2016 we announced that our Board had declared a cash quarterly dividend of $1.00 per share of Common Stock to be paid February 29, 2016 to shareholders of record as of the close of business February 1, 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 possible renewal of agreements with large customers, uncertainties related to the economic environments in the industries we serve, uncertainties related to future contract research and development revenue, 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, 2015, as updated in Part II, Item 1A of this Quarterly Report on Form 10-Q.

**General**

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

**Critical accounting policies**

A description of our critical accounting policies is provided in Management s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended March 31, 2015. At December 31, 2015 our critical accounting policies and estimates continued to include investment valuation, inventory valuation, and deferred tax assets estimation.

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**Quarter ended December 31, 2015 compared to quarter ended December 31, 2014**

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

| | Percentage of Revenue Quarter Ended Dec. 31 | | Quarter-to-Quarter Change |
|---|---|---|---|
| | 2015 | 2014 | |
| Revenue | | | |
| Product sales | 83.5% | 93.5% | (14.6)% |
| Contract research and development | 16.5% | 6.5% | 142.9% |
| Total revenue | 100.0% | 100.0% | (4.4)% |
| Cost of sales | 25.1% | 23.4% | 2.4% |
| Gross profit | 74.9% | 76.6% | (6.4)% |
| Expenses | | | |
| Selling, general, and administrative | 6.7% | 8.5% | (23.8)% |
| Research and development | 12.3% | 11.0% | 6.3% |
| Total expenses | 19.0% | 19.5% | (6.8)% |
| Income from operations | 55.9% | 57.1% | (6.3)% |
| Interest income | 7.8% | 8.8% | (16.0)% |
| Income before taxes | 63.7% | 65.9% | (7.6)% |
| Provision for income taxes | 20.9% | 21.5% | (7.5)% |
| Net income | 42.8% | 44.4% | (7.7)% |

Total revenue for the quarter ended December 31, 2015 (the third quarter of fiscal 2016) decreased 4% compared to the quarter ended December 31, 2014 (the third quarter of fiscal 2015). The decrease was due to a 15% decrease in product sales, partially offset by a 143% increase in contract research and development revenue.

The decrease in product sales from the prior-year quarter was due to decreased purchase volume by existing customers and a more aggressive pricing strategy in certain markets. Additionally, we faced a challenging global economic environment in the quarter.

The increase in contract research and development revenue for the third quarter of fiscal 2016 was due to new contracts.

Gross profit margin decreased to 75% of revenue for the third quarter of fiscal 2016 compared to 77% for the third quarter of fiscal 2015, due to a less profitable revenue mix caused by a decrease in product sales and an increase in contract research and development revenue.

Total expenses decreased 7% for the third quarter of fiscal 2016 compared to the third quarter of fiscal 2015, due to a 24% decrease in selling, general, and administrative expense, partially offset by a 6% 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. We currently expect research and development expense to increase in the fourth quarter of the current fiscal year from the fourth quarter of the prior year due to planned product development. Research and development expense can fluctuate significantly, however, depending on staffing, project requirements, and contract research and development activities.

Interest income for the third quarter of fiscal 2016 decreased 16% due to a decrease in interest-bearing marketable securities. The decrease in marketable securities was because we used a portion of the proceeds from maturating securities to help fund cash dividends and repurchases of our common stock.

The 8% decrease in net income in the third quarter of fiscal 2016 compared to the prior-year quarter was primarily due to decreased product sales and decreased interest income, partially offset by increased contract research and development revenue and decreased selling, general, and administrative expense.

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**Nine months ended December 31, 2015 compared to nine months ended December 31, 2014**

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

| | Percentage of Revenue Nine Months Ended Dec. 31 2015 | 2014 | Period-to-Period Change |
|---|---|---|---|
| Revenue | | | |
| Product sales | 88.8% | 97.1% | (14.1)% |
| Contract research and development | 11.2% | 2.9% | 262.9% |
| Total revenue | 100.0% | 100.0% | (6.1)% |
| Cost of sales | 23.8% | 20.2% | 10.9% |
| Gross profit | 76.2% | 79.8% | (10.3)% |
| Expenses | | | |
| Selling, general, and administrative | 6.5% | 7.8% | (20.8)% |
| Research and development | 9.5% | 9.9% | (10.4)% |
| Total expenses | 16.0% | 17.7% | (15.0)% |
| Income from operations | 60.2% | 62.1% | (9.0)% |
| Interest income | 6.5% | 7.3% | (14.8)% |
| Income before taxes | 66.7% | 69.4% | (9.6)% |
| Provision for income taxes | 21.9% | 22.9% | (10.0)% |
| Net income | 44.8% | 46.5% | (9.5)% |

Total revenue for the nine months ended December 31, 2015 decreased 6% compared to the nine months ended December 31, 2014. The decrease was due to a 14% decrease in product sales, partially offset by a 263% increase 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 and a more aggressive pricing strategy in certain markets.

The increase in contract research and development revenue for the first nine months of fiscal 2016 was due to new contracts.

Gross profit margin decreased to 76% of revenue for the first nine months of fiscal 2016 compared to 80% for the first nine months of fiscal 2015, due to a less profitable revenue mix caused by a decrease in product sales and an increase in contract research and development revenue.

Total expenses decreased 15% for the first nine months of fiscal 2016 compared to the first nine months of fiscal 2015, due to a 21% decrease in selling, general, and administrative expense and a 10% decrease in research and development expense. The decrease in selling, general, and administrative expense was primarily due to decreased sales commissions and performance-based compensation. The decrease in research and development expense was due to an increase in contract research and development activities, which caused us to reallocate resources from expensed research and development activities.

Interest income for the first nine months of fiscal 2016 decreased 15% due to a decrease in interest-bearing marketable securities. The decrease in marketable securities was because we used a portion of the proceeds from maturating securities to help fund cash dividends and repurchases of our common stock.

The 9% decrease in net income for the first nine months of fiscal 2016 compared to the prior-year period was primarily due to decreased product sales and decreased interest income, partially offset by increased contract research and development revenue and decreased expenses.

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**Liquidity and capital resources**

***Overview***

Cash and cash equivalents were $3,594,164 at December 31, 2015 compared to $9,437,262 at March 31, 2015. The $5,843,098 decrease in cash and cash equivalents during the quarter was due to $11,898,509 in net cash provided by operating activities, less $1,965,501 in net cash used in investing activities and $15,776,106 in net cash used in financing 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***

Cash provided by operating activities increased 10% to $11,898,509 compared to $10,848,250 for the prior-year period.

Accounts receivable as of December 31, 2015 decreased $1,210,285 compared to March 31, 2015, primarily due to the timing of payments by our customers.

Inventories as of December 31, 2015 decreased $633,581 compared to March 31, 2015, primarily due to a reduction in work in process related to contract research and development revenue recognition timing.

Deferred revenue as of December 31, 2015 increased $714,805 due to payments received related to future product sales.

***Investing Activities***

Net cash used in investing activities in the first nine months of fiscal 2016 was primarily due to marketable security purchases of $9,613,052 partially offset by marketable security maturities of $7,825,000.

Purchases of fixed assets were $177,449 in the first nine months of fiscal 2016 compared to $114,139 in the first nine months of fiscal 2015. Our capital expenditures can vary significantly depending on our needs, equipment purchasing opportunities, and production expansion activities.

Free cash flow, which is net cash provided by operating activities less purchases of fixed assets, was $11,721,060 for the first nine months of fiscal 2016.

***Financing Activities***

Net cash used in financing activities in the first nine months of fiscal 2016 was primarily due to $1,851,290 for repurchases of our common stock and $14,570,019 in cash dividends to shareholders.

In addition to cash dividends to shareholders paid in the first nine months of fiscal 2016, on January 20, 2016 we announced that our Board had declared a cash quarterly dividend of an additional $1.00 per share of Common Stock, or $4,844,845 based on shares outstanding as of January 15, 2016, to be paid February 29, 2016. We plan to fund 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.

The repurchases of our common stock in the first nine months of fiscal 2016 were under a program announced January 21, 2009 authorizing the repurchase of up to $2,500,000 of our Common Stock and an additional $5,000,000 announced August 27, 2015. The remaining authorization was $5,001,189 as of December 31, 2015. We intend to finance any stock repurchases with cash provided by operating activities or maturing marketable securities.

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**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, 2015, 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 December 31, 2015 had remaining maturities between two and 259 weeks. Marketable securities had a market value of $91,756,557 at December 31, 2015, representing approximately 89% of our total assets. We have not used derivative financial instruments in our investment portfolio.

**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 December 31, 2015, our disclosure controls and procedures were effective.

***Changes in Internal Controls***

During the quarter ended December 31, 2015, 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, 2015, except the following risk factor is updated because we executed amendment No. 1 to our Supply Agreement with Sonova AG (formerly known as Phonak AG), which extends the Agreement term through March 1, 2020:

***We may lose revenue if we are unable to renew agreements with large customers.***

Our agreement with Avago Technologies, Inc., as amended, expires June 27, 2016, and our Supply Agreement with Sonova AG (formerly known as Phonak AG) as amended expires March 1, 2020. We cannot predict if these agreements will be renewed, or if renewed, under what terms. Although it is possible we could continue to sell products to these customers without formal agreements, an inability to agree on mutually acceptable terms or the loss of any of these large customers could have a significant adverse impact on our revenue and our profitability.

**Item 4. Mine Safety Disclosures.**

Not applicable.

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**Item 6. Exhibits.**

| Exhibit # | Description |
|---|---|
| 10.8 | Supply Agreement by and between the company and Phonak AG (incorporated by reference to the Form 8-K filed May 6, 2009). |
| 10.9+ | Amendment to Supply Agreement by and between the company and Phonak (incorporated by reference to the Form 8-K/A filed January 12, 2011). |
| 10.10+ | Second Amendment to Supply Agreement by and between the company and Sonova AG (incorporated by reference to the Form 8-K/A filed November 16, 2015). |
| 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 |

+Confidential portions deleted and filed separately with the SEC.

**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 20, 2016** | /s/ DANIEL A. BAKER |
| Date | Daniel A. Baker |
| | President and Chief Executive Officer |
| **January 20, 2016** | /s/ CURT A. REYNDERS |
| Date | Curt A. Reynders |
| | Chief Financial Officer |