

NVE CORP /NEW/  
Form 10-Q  
July 20, 2011

**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 **June 30, 2011**

or

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

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

Commission File Number: **000-12196**

**NVE CORPORATION**

(Exact name of registrant as specified in its charter)

**Minnesota**

(State or other jurisdiction of incorporation or organization)

**41-1424202**

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

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

(Address of principal executive offices)

**55344**

(Zip Code)

**(952) 829-9217**

(Registrant's telephone number, including area code)

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

Yes  No

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

Yes  No

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

Large accelerated filer

Accelerated filer

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

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

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

**Common Stock, \$0.01 Par Value 4,776,198 shares outstanding as of July 15, 2011**

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**NVE CORPORATION  
QUARTERLY REPORT ON FORM 10-Q  
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BALANCE SHEETS**

	<b>(Unaudited) June 30, 2011</b>	<b>March 31, 2011*</b>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 1,677,431	\$ 952,209
Marketable securities, short term	9,599,679	7,970,358
Accounts receivable, net of allowance for uncollectible accounts of \$15,000	3,402,982	3,596,239
Inventories	3,368,728	3,343,857
Prepaid expenses and other assets	1,037,664	1,185,306
Total current assets	19,086,484	17,047,969
Fixed assets		
Machinery and equipment	6,376,673	6,178,207
Leasehold improvements	612,682	612,682
	6,989,355	6,790,889
Less accumulated depreciation	5,372,405	5,259,773
Net fixed assets	1,616,950	1,531,116
Marketable securities, long term	55,938,489	53,257,140
Total assets	\$ 76,641,923	\$ 71,836,225
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current liabilities		
Accounts payable	\$ 724,420	\$ 731,580
Accrued payroll and other	832,950	987,403
Income taxes payable	1,374,763	-
Deferred taxes	198,723	146,693
Total current liabilities	3,130,856	1,865,676
Shareholders equity		
Common stock, \$0.01 par value, 6,000,000 shares authorized; 4,776,198 issued and outstanding as of June 30 and March 31, 2011	47,762	47,762
Additional paid-in capital	20,894,766	20,894,766
Accumulated other comprehensive income	1,161,728	1,060,438
Retained earnings	51,406,811	47,967,583
Total shareholders equity	73,511,067	69,970,549
Total liabilities and shareholders equity	\$ 76,641,923	\$ 71,836,225

\*The March 31, 2011 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, 2011.

See accompanying notes.



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

	<b>Quarter Ended June 30</b>	
	<b>2011</b>	<b>2010</b>
<b>Revenue</b>		
Product sales	\$ 7,023,274	\$ 6,193,876
Contract research and development	1,190,488	1,047,418
Total revenue	8,213,762	7,241,294
Cost of sales	2,595,592	2,075,804
Gross profit	5,618,170	5,165,490
<b>Expenses</b>		
Selling, general, and administrative	615,830	628,386
Research and development	494,876	341,663
Total expenses	1,110,706	970,049
Income from operations	4,507,464	4,195,441
Interest income	565,529	475,730
Income before taxes	5,072,993	4,671,171
Provision for income taxes	1,633,765	1,570,074
Net income	\$ 3,439,228	\$ 3,101,097
Net income per share basic	\$ 0.72	\$ 0.66
Net income per share diluted	\$ 0.70	\$ 0.64
<b>Weighted average shares outstanding</b>		
Basic	4,776,198	4,700,583
Diluted	4,893,915	4,861,331

See accompanying notes.

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

	<b>Quarter Ended June 30</b>	
	<b>2011</b>	<b>2010</b>
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 3,439,228	\$ 3,101,097
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	113,537	89,476
Deferred income taxes	(6,948)	20,857
Changes in operating assets and liabilities:		
Accounts receivable	193,257	1,042,793
Inventories	(24,871)	(141,750)
Prepaid expenses and other assets	147,642	(67,355)
Accounts payable and accrued expenses	1,213,150	1,400,250
Deferred revenue	-	(20,833)
Net cash provided by operating activities	5,074,995	5,424,535
<b>INVESTING ACTIVITIES</b>		
Purchases of fixed assets	(199,371)	(61,953)
Purchases of marketable securities	(5,011,799)	(5,699,849)
Proceeds from maturities and sales of marketable securities	861,397	602,272
Net cash used in investing activities	(4,349,773)	(5,159,530)
<b>FINANCING ACTIVITIES</b>		
Net cash provided by financing activities	-	-
Increase in cash and cash equivalents	725,222	265,005
Cash and cash equivalents at beginning of period	952,209	1,389,288
Cash and cash equivalents at end of period	\$ 1,677,431	\$ 1,654,293
Supplemental disclosures of cash flow information:		
Cash (refunded) paid during the period for income taxes	\$ (2,435)	\$ 4,742

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, 2011. The results of operations for the quarter ended June 30, 2011 are not necessarily indicative of the results that may be expected for the full fiscal year ending March 31, 2012.

**NOTE 3. RECENT ACCOUNTING PRONOUNCEMENTS**

We have adopted all recently issued accounting pronouncements. The adoption of the accounting pronouncements, including those not yet effective, is not anticipated to have a material effect on our financial position or results of operations.

**NOTE 4. NET INCOME PER SHARE**

Net income per basic share is computed based on the weighted-average number of common shares issued and outstanding during each period. Net income per diluted share amounts assume conversion, exercise or issuance of all potential common stock instruments (stock options and warrants). Stock options and warrants totaling 5,000 for the quarter ended June 30, 2010 were not included in the computation of diluted earnings per share because the exercise prices of the options and warrants were greater than the market price of the common stock. The following table reflects the components of common shares outstanding:

		<b>Quarter Ended June 30</b>	
		<b>2011</b>	<b>2010</b>
Weighted average common shares outstanding	basic	4,776,198	4,700,583
Effect of dilutive securities:			
Stock options		110,502	154,488
Warrants		7,215	6,260
Shares used in computing net income per share	diluted	4,893,915	4,861,331

**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 June 30, 2011, by maturity, were as follows:

Total	<1 Year	1 3 Years	3 5 Years
\$ 65,538,168	\$ 9,599,679	\$ 30,045,128	\$ 25,893,361

As of June 30 and March 31, 2011, our marketable securities were as follows:

	As of June 30, 2011				As of March 31, 2011			
	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
U.S. agency securities	\$ 72,017	\$ 210	\$ -	\$ 72,227	\$ 83,358	\$ 1,200	\$ -	\$ 84,558
Corporate bonds	42,117,183	1,344,294	(87,237)	43,374,240	37,884,146	1,231,743	(147,443)	38,968,446
Municipal bonds	21,510,792	588,538	(7,629)	22,091,701	21,582,084	602,457	(10,047)	22,174,494
Total	\$ 63,699,992	\$ 1,933,042	\$ (94,866)	\$ 65,538,168	\$ 59,549,588	\$ 1,835,400	\$ (157,490)	\$ 61,227,498

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 June 30 and March 31, 2011:

	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 June 30, 2011						
U.S. agency securities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Corporate bonds	10,546,723	(87,237)	-	-	10,546,723	(87,237)
Municipal bonds	1,814,907	(7,629)	-	-	1,814,907	(7,629)
Total	\$ 12,361,630	\$ (94,866)	\$ -	\$ -	\$ 12,361,630	\$ (94,866)
As of March 31, 2011						
U.S. agency securities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Corporate bonds	9,146,952	(147,443)	-	-	9,146,952	(147,443)
Municipal bonds	2,178,225	(10,047)	-	-	2,178,225	(10,047)
Total	\$ 11,325,177	\$ (157,490)	\$ -	\$ -	\$ 11,325,177	\$ (157,490)

Gross unrealized losses totaled \$94,866 as of June 30, 2011, and were attributable to six corporate and two municipal bonds out of a portfolio of 57 bonds. Corporate bonds accounted for \$87,237 of the total gross unrealized losses. The gross unrealized losses were due to market-price decreases after the bonds were purchased. All of the bonds with an unrealized loss were rated investment grade by Moody's or Standard and Poor's, and none had been in a continuous unrealized loss position for 12 months or more. For each bond with an unrealized loss, we expect to recover the entire cost basis of each security based on our consideration of factors including their credit ratings, the underlying ratings of insured bonds, and historical default rates for securities of comparable credit rating. Because we expect to recover the entire cost basis of the securities, and because we do not intend to sell the securities and it is not more likely than not that we will be required to sell the securities before recovery of the cost basis, which may be

maturity, we did not consider any of our marketable securities to be other-than-temporarily impaired at June 30, 2011.

**Table of Contents****NOTE 6. COMPREHENSIVE INCOME**

The components of comprehensive income are as follows:

	<b>Quarter Ended June 30</b>	
	<b>2011</b>	<b>2010</b>
Net income	\$ 3,439,228	\$ 3,101,097
Unrealized gain (loss) from marketable securities, net of tax	101,290	(161,501)
Comprehensive income	\$ 3,540,518	\$ 2,939,596

**NOTE 7. INVENTORIES**

Inventories consisted of the following:

	<b>June 30</b>	<b>March 31</b>
	<b>2011</b>	<b>2011</b>
Raw materials	\$ 1,856,659	\$ 2,083,730
Work in process	1,406,112	1,109,270
Finished goods	405,957	450,857
	3,668,728	3,643,857
Less inventory reserve	(300,000)	(300,000)
Total inventories	\$ 3,368,728	\$ 3,343,857

**NOTE 8. STOCK-BASED COMPENSATION**

There was no stock-based compensation expense for the first quarters of fiscal 2012 or 2011.

**NOTE 9. 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 June 30, 2011, 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 June 30, 2011 we had no accrued interest related to uncertain tax positions. The tax years 1999 through 2011 remain open to examination by the major taxing jurisdictions to which we are subject.

**NOTE 10. 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:

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Level 1 Financial instruments with quoted prices in active markets for identical assets or liabilities. Our Level 1 financial instruments consist of publicly-traded marketable debt securities that are classified as available-for-sale. On the balance sheets, available-for-sale securities are classified as Marketable securities, short term and Marketable securities, long term. The fair value of our available-for-sale securities was \$65,538,168 at June 30, 2011 and \$61,227,498 at March 31, 2011.

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

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

## **NOTE 11. STOCK REPURCHASE PLAN**

On January 21, 2009 we announced that our Board of Directors authorized the repurchase of up to \$2,500,000 of our Common Stock. The repurchase program may be modified or discontinued at any time without notice. We did not repurchase any of our Common Stock during the quarter ended June 30, 2011.

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

### **Forward-looking statements**

Some of the statements made in this Report or in the documents incorporated by reference in this Report and in other materials filed or to be filed by us with the Securities and Exchange Commission ( SEC ) as well as information included in verbal or written statements made by us constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are subject to the safe harbor provisions of the reform act. Forward-looking statements may be identified by the use of the terminology such as may, will, expect, anticipate, intend, believe, estimate, should, or continue, or the negatives of these terms or other variations on these words or comparable terminology. To the extent that this Report contains forward-looking statements regarding the financial condition, operating results, business prospects or any other aspect of NVE, you should be aware that our actual financial condition, operating results and business performance may differ materially from that projected or estimated by us in the forward-looking statements. We have attempted to identify, in context, some of the factors that we currently believe may cause actual future experience and results to differ from their current expectations. These differences may be caused by a variety of factors, including but not limited to risks associated with competition, progress in research and development activities by us and others, variations in costs that are beyond our control, decreased sales, failure of suppliers to meet our requirements, failure to obtain new customers, inability to meet customer technical requirements, inability to consummate license agreements, ineligibility for SBIR awards, 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, 2011.

### **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, 2011. At June 30, 2011 our critical accounting policies and estimates continued to include research and development contract percentage of completion estimation, inventory valuation, allowance for doubtful accounts estimation, and deferred tax assets estimation.

**Table of Contents****Quarter ended June 30, 2011 compared to quarter ended June 30, 2010**

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

	Percentage of Revenue		Quarter-to-Quarter Change
	Quarter Ended June 30 2011	2010	
<b>Revenue</b>			
Product sales	85.5%	85.5%	13.4%
Contract research and development	14.5%	14.5%	13.7%
Total revenue	100.0%	100.0%	13.4%
<b>Cost of sales</b>			
Cost of sales	31.6%	28.7%	25.0%
Gross profit	68.4%	71.3%	8.8%
<b>Expenses</b>			
Selling, general, and administrative	7.5%	8.7%	(2.0)%
Research and development	6.0%	4.7%	44.8%
Total expenses	13.5%	13.4%	14.5%
Income from operations	54.9%	57.9%	7.4%
Interest and other income	6.9%	6.6%	18.9%
Income before taxes	61.8%	64.5%	8.6%
Provision for income taxes	19.9%	21.7%	4.1%
Net income	41.9%	42.8%	10.9%

Total revenue for the quarter ended June 30, 2011 (the first quarter of fiscal 2012) increased 13% to \$8,213,762 compared to \$7,241,294 for the quarter ended June 30, 2010 (the first quarter of fiscal 2011). The increase was due to a 13% increase in product sales and a 14% increase in contract research and development revenue.

The increase in product sales from the prior-year quarter was due to the addition of new customers and increased purchase volume by existing customers.

The increase in research and development revenue was due to new contracts and increased activity on certain contracts. The increase in research and development revenue may not be representative of future trends. Contract research and development activities can fluctuate for a number of reasons, some of which are beyond our control.

Gross profit margin decreased to 68% of revenue for the first quarter of fiscal 2012 compared to 71% for the first quarter of fiscal 2011, due to increased labor cost and a less favorable product sales mix.

Total expenses increased 14% for the first quarter of fiscal 2012 compared to the first quarter of fiscal 2011 due to a 45% increase in research and development expense. The increase in research and development expense was due to increased product development activities. Research and development expense can fluctuate significantly depending on staffing, project requirements, and contract research and development activities.

Interest income increased 19% to \$565,529 for the first quarter of fiscal 2012 compared to \$475,730 for the first quarter of fiscal 2011. The increase was due to an increase in interest-bearing marketable securities.

The provision for income taxes was \$1,633,765 for the first quarter of fiscal 2012 compared to \$1,570,074 for the first quarter of fiscal 2011. The effective tax rate was 32% of income before taxes for the first quarter of fiscal 2012 compared to 34% for the first quarter of fiscal 2011. The decrease in effective tax rate was due to lower State and

Federal effective tax rates. Our effective tax rates can fluctuate due to a number of factors, some of which are outside our control.

The 11% increase in net income in the first quarter of fiscal 2012 compared to the prior-year quarter was primarily due to increases in product sales, contract research and development revenue, and interest income, partially offset by increased expenses.

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**Liquidity and capital resources**

At June 30, 2011 we had \$67,215,599 in cash plus short-term and long-term marketable securities compared to \$62,179,707 at March 31, 2011. 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 quarter was primarily due to \$5,074,995 in net cash provided by operating activities.

The \$1,629,321 increase in short-term marketable securities in the first quarter of fiscal 2012 was due to marketable securities previously classified as long-term approaching maturity.

Income taxes payable increased \$1,374,763 because we had no estimated income tax payments due in the quarter ended June 30, 2011.

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

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

The primary objective of our investment activities is to preserve principal while at the same time maximizing after-tax yields without significantly increasing risk. To achieve this objective, we maintain our portfolio of cash equivalents and marketable securities in a variety of securities including government agency obligations, municipal obligations, corporate obligations, and money market funds. Short-term and long-term marketable securities are generally classified as available-for-sale and consequently are recorded on the balance sheet at fair value with unrealized gains or losses reported as a separate component of accumulated other comprehensive income, net of estimated tax. Marketable securities as of June 30, 2011 had remaining maturities between one and 56 months. Our short-term and long-term marketable securities had a fair market value of \$65,538,168 at June 30, 2011, representing approximately 86% 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 June 30, 2011, 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.

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**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, 2011.

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**Item 6. Exhibits.**

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

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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)

**July 20, 2011**

Date

**/s/ DANIEL A. BAKER**

Daniel A. Baker

President and Chief Executive Officer

**July 20, 2011**

Date

**/s/ CURT A. REYNDERS**

Curt A. Reynders

Chief Financial Officer