NVE CORP /NEW/
Form 10-Q
October 18, 2006

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 **September 30, 2006**

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** (IRS 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. [X] Yes [ ] No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [ ] Accelerated filer [ ] Non-accelerated filer [X]

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 - 4,616,983 shares outstanding as of October 13, 2006

PART I--FINANCIAL INFORMATION

Item 1. Financial Statements.

NVE CORPORATION
BALANCE SHEETS
SEPTEMBER 30, 2006 AND MARCH 31, 2006

	(Unaudited) Sept. 30, 2006	March 31, 2006*
ASSETS		
Current assets		
Cash and cash equivalents	$ 363,268	$ 1,288,362
Short-term investments	250,100	1,248,103
Accounts receivable, net of allowance for uncollectible accounts of $15,000	2,141,414	1,667,029
Inventories	2,248,131	2,149,769
Deferred tax assets	1,589,584	1,576,472
Prepaid expenses and other assets	238,343	231,412
Total current assets	6,830,840	8,161,147
Fixed assets		
Machinery and equipment	4,372,765	4,149,080
Leasehold improvements	413,482	413,482
	4,786,247	4,562,562
Less accumulated depreciation	3,575,625	3,319,651
Net fixed assets	1,210,622	1,242,911
Long-term investments	13,075,943	8,354,861
Total assets	$ 21,117,405	$ 17,758,919
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 272,300	$ 399,762
Accrued payroll and other	419,206	470,392
Deferred revenue	39,107	77,373
Capital lease obligations	-	33,281
Total current liabilities	730,613	980,808
Shareholders' equity		
Common stock	46,170	46,150
Additional paid-in capital	17,425,642	16,042,637
Accumulated other comprehensive loss	(116,529)	(166,908)
Retained earnings	3,031,509	856,232
Total shareholders' equity	20,386,792	16,778,111
Total liabilities and shareholders' equity	$ 21,117,405	$ 17,758,919

*The March 31, 2006 Balance Sheet is from the audited financial statements contained in our Annual Report on Form 10-K for the year ended March 31, 2006.

See accompanying notes.

NVE CORPORATION
STATEMENTS OF INCOME
QUARTERS ENDED SEPTEMBER 30, 2006 AND 2005
(Unaudited)

	Quarter Ended September 30 2006	2005
Revenue		
Product sales	$ 3,777,060	$ 2,021,672
Contract research and development	621,308	1,030,250
Total revenue	4,398,368	3,051,922
Cost of sales	1,439,181	1,627,673
Gross profit	2,959,187	1,424,249
Expenses		
Research and development	566,246	517,939
Selling, general, and administrative	535,213	394,980
Total expenses	1,101,459	912,919
Income from operations	1,857,728	511,330
Interest income	149,440	77,119
Interest expense	-	(1,695)
Other income	25,246	5,751
Income before taxes	2,032,414	592,505
Provision for income taxes	748,943	228,537
Net income	$ 1,283,471	$ 363,968
Net income per share - basic	$ 0.28	$ 0.08
Net income per share - diluted	$ 0.27	$ 0.08
Weighted average shares outstanding		
Basic	4,616,819	4,573,168
Diluted	4,791,160	4,679,335

See accompanying notes.

NVE CORPORATION
STATEMENTS OF INCOME
SIX MONTHS ENDED SEPTEMBER 30, 2006 AND 2005
(Unaudited)

	Six Months Ended Sept. 30	
	2006	2005
Revenue		
Product sales	$ 6,830,388	$ 3,805,922
Contract research and development	1,203,175	2,271,548
Total revenue	8,033,563	6,077,470
Cost of sales	2,839,002	3,308,791
Gross profit	5,194,561	2,768,679
Expenses		
Research and development	1,096,858	894,739
Selling, general, and administrative	941,945	804,574
Total expenses	2,038,803	1,699,313
Income from operations	3,155,758	1,069,366
Interest income	261,346	145,438
Interest expense	(589)	(3,748)
Other income	25,246	36,566
Income before taxes	3,441,761	1,247,622
Provision for income taxes	1,266,484	471,005
Net income	$ 2,175,277	$ 776,617
Net income per share - basic	$ 0.47	$ 0.17
Net income per share - diluted	$ 0.45	$ 0.17
Weighted average shares outstanding		
Basic	4,616,704	4,571,524
Diluted	4,791,046	4,677,691

See accompanying notes.

NVE CORPORATION
STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED SEPTEMBER 30, 2006 AND 2005
(Unaudited)

	Six Months Ended Sept. 30 2006	2005
OPERATING ACTIVITIES		
Net income	$ 2,175,277	$ 776,617
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	259,395	284,884
Gain on sale of fixed assets	-	(25,500)
Stock-based compensation	120,036	-
Excess tax benefits	(1,102,564)	-
Deferred income taxes	1,222,184	458,005
Changes in operating assets and liabilities:		
Accounts receivable	(474,385)	311,173
Inventories	(98,362)	(108,901)
Prepaid expenses and other assets	(6,931)	13,082
Accounts payable and accrued expenses	(178,648)	106,187
Deferred revenue	(38,266)	(127,851)
Net cash provided by operating activities	1,877,736	1,687,696
INVESTING ACTIVITIES		
Proceeds from the sale of fixed assets	-	25,500
Purchases of fixed assets	(229,976)	-
Maturities of investment securities	1,019,681	-
Purchases of investment securities	(4,663,558)	(1,252,203)
Net cash used in investing activities	(3,873,853)	(1,226,703)
FINANCING ACTIVITIES		
Net proceeds from sale of common stock	1,740	28,313
Excess tax benefits	1,102,564	-
Repayment of capital lease obligations	(33,281)	(32,992)
Net cash provided by (used in) financing activities	1,071,023	(4,679)
(Decrease) Increase in cash and cash equivalents	(925,094)	456,314
Cash and cash equivalents at beginning of period	1,288,362	1,240,205
Cash and cash equivalents at end of period	$ 363,268	$ 1,696,519
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 589	$ 3,748
Income taxes	$ 44,300	$ 13,000

See accompanying notes.

NVE CORPORATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006
(Unaudited)

NOTE 1. NATURE OF BUSINESS

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

NOTE 2. INTERIM FINANCIAL INFORMATION

The accompanying unaudited financial statements of NVE Corporation are consistent with accounting principles generally accepted in the United States and reporting with Securities and Exchange Commission rules and regulations. In the opinion of management, these financial statements reflect all adjustments, consisting only of normal and recurring adjustments, necessary for a fair presentation of the financial statements. Although we believe that the disclosures are adequate to make the information presented not misleading, it is suggested that these unaudited financial statements be read in conjunction with the audited financial statements and the notes included in our latest annual financial statements included in our Annual Report on Form 10-K for the fiscal year ended March 31, 2006. The results of operations for the quarter ended September 30, 2006 are not necessarily indicative of the results that may be expected for the full fiscal year ending March 31, 2007.

NOTE 3. INVESTMENTS

We classify and account for debt and equity securities in accordance with Statement of Financial Accounting Standards (SFAS) No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. Securities with original maturities greater than three months and remaining maturities less than one year are classified as short-term investments; securities with remaining maturities greater than one year are classified as long-term investments.

Our entire portfolio of short-term and long-term investments consists of government- and corporate-backed notes and bonds, and is classified as available for sale; therefore securities are recorded at fair market value and any associated unrealized gain or loss, net of tax, is included as a separate component of shareholders' equity, "Accumulated other comprehensive income."

NOTE 4. COMPREHENSIVE INCOME

The components of comprehensive income are as follows:

	Quarter Ended September 30 2006	2005
Net income	$ 1,283,471	$ 363,968
Unrealized gain (loss) from investments	82,649	(51,720)
Comprehensive income	$ 1,366,120	$ 312,248

	Six Months Ended September 30 2006	2005
Net income	$ 2,175,277	$ 776,617
Unrealized gain from investments	50,379	27,474
Comprehensive income	$ 2,225,656	$ 804,091

NOTE 5. INVENTORIES

Inventories consisted of the following:

	September 30 2006	March 31 2006
Raw materials	$ 806,299	$ 703,407
Work-in-process	960,284	740,578
Finished goods	686,548	850,784
	2,453,131	2,294,769
Less obsolescence reserve	(205,000)	(145,000)
	$ 2,248,131	$ 2,149,769

NOTE 6. STOCK-BASED COMPENSATION

Effective April 1, 2006 we adopted the provisions of, and accounts for stock-based compensation in accordance with, Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), *Share-Based Payment*. Under the fair value recognition provisions of SFAS No. 123(R), we measure stock-based compensation cost at the grant date based on the fair value of the award and recognize the compensation expense over the requisite service period, which is generally the vesting period. We estimate pre-vesting option forfeitures at the time of grant by analyzing historical data and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. Ultimately, the total expense recognized over the vesting period will only be for those awards that vest. We elected the modified-prospective method of adopting SFAS No. 123(R), under which prior periods are not retroactively revised. The valuation provisions of SFAS No. 123(R) apply to awards granted after the April 1, 2006 effective date. Stock-based compensation expense for awards that were granted prior to the effective date but remain unvested on the effective date is being recognized over the remaining service period using the compensation cost estimated for our SFAS No. 123 pro forma disclosures.

Stock Option Plan

Our 2000 Stock Option Plan, as amended, provides for issuance to employees, directors, and certain service providers of incentive stock options and nonstatutory stock options. Generally, the options may be exercised at any time prior to expiration, subject to vesting based on terms of employment. The period ranges from immediate vesting to vesting over a five-year period. The options have exercisable lives ranging from one year to ten years from the date of grant, and are generally not eligible to vest early in the event of retirement, death, disability, or change in control. Exercise prices are not less than fair market value of the underlying Common Stock at the date the options are granted.

On March 28, 2005, in anticipation of the impact of SFAS No. 123(R), the Compensation Committee of our Board of Directors approved an immediate and full acceleration of vesting of all stock options outstanding under our Stock Option Plan with an exercise price greater than $20 per share. As a result of the acceleration, out-of-the-money options to purchase 42,125 shares of our Common Stock became immediately exercisable as of March 28, 2005.

On January 1, 2006 we terminated our Employee Stock Purchase Plan in anticipation of SFAS No. 123(R), which we believed otherwise would have required recognizing expenses associated with the issuance of shares under SFAS No. 123(R).

Valuation assumptions

We use the Black-Scholes standard option pricing model to determine the fair value of stock options. The following assumptions were used to estimate the fair value of options granted during the periods indicated:

	Quarters Ended Sept. 30		Six Mos. Ended Sept. 30	
	2006	2005	2006	2005
Risk-free interest rate	4.9 %	3.9 %	4.9 %	3.9 %
Expected volatility	81 %	85 %	81 %	85 %
Expected life (years)	6.5	10.0	6.5	10.0
Dividend yield	0 %	0 %	0 %	0 %

The determination of the fair value of the awards on the date of grant using the Black-Scholes model is affected by our stock price as well as assumptions of other variables, including projected employee stock option exercise behaviors, risk-free interest rate, and expected volatility of our stock price in future periods. Our estimates and assumptions affect the amounts reported in the financial statements and accompanying notes.

Expected life

We analyze historical employee exercise and termination data to estimate the expected life assumption. We believe historical data currently represents the best estimate of the expected life of a new employee option. Prior to adopting SFAS No. 123(R), we estimated that the expected life was equal to the option term. For determining the fair value of options under SFAS No. 123(R) we use different expected lives for officers and directors than we use for our general employee population. We examined the historical pattern of option exercises to determine if there was a discernible pattern as to how different classes of employees exercised their options. Our analysis showed that officers and directors held their stock options for a longer period of time before exercising compared to the rest of our employee population.

Risk-free interest rate

The rate is based on the yield of U.S. Treasury securities on the grant date for maturities similar to the expected lives of the options.

Volatility

We use historical volatility to estimate the expected volatility of our common stock.

Dividend yield

We assume a dividend yield of zero because we do not anticipate paying dividends in the foreseeable future.

Expenses related to share-based payments

The following table shows the effect of our adoption of SFAS No. 123(R) on our net income and earning per share for the quarter and six months ended September 30, 2006. Expenses and costs related to share-based payments are presented in the same line or lines as cash compensation paid to the same employees. The effect of SFAS No. 123(R) is included in selling, general, and administrative expenses and presented in the line titled "Stock-based compensation" on our Statements of Cash Flows:

	Quarter Ended Sept. 30, 2006	Six Mos. Ended Sept. 30, 2006
Effect of SFAS No. 123(R) on net income	(78,402)	(80,971)
Effect of SFAS No. 123(R) on net income per share:		
Basic	$ (0.02)	$ (0.02)
Diluted	$ (0.02)	$ (0.02)

Prior to the adoption of SFAS No. 123(R), we presented all tax benefits of deductions resulting from the exercise of stock options as operating cash flows in the Statement of Cash Flows. SFAS No. 123(R) requires the cash flows resulting from the tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) to be classified as financing cash flows.

Prior to April 1, 2006 we accounted for our stock-based employee compensation plans under the recognition and measurement principles of APB Opinion No. 25 and related interpretations. The following table illustrates the effect on net earnings and net earnings per share for the quarter and six months ended September 30, 2005 if we had applied the fair value recognition provisions of SFAS No. 123 to our stock-based employee compensation:

	Quarter Ended Sept. 30, 2005
Net income:	
As reported	$ 363,968
Pro forma adjustment for stock options	(105,084)
Pro forma net income	$ 258,884
Net income per share:	
Basic - as reported	$ 0.08
Basic - pro forma	$ 0.06
Diluted - as reported	$ 0.08
Diluted - pro forma	$ 0.06

	Six Mos. Ended Sept. 30, 2005
Net income:	
As reported	$ 776,617
Pro forma adjustment for stock options	(115,403)
Pro forma net income	$ 661,214
Net income per share:	
Basic - as reported	$ 0.17
Basic - pro forma	$ 0.14
Diluted - as reported	$ 0.17
Diluted - pro forma	$ 0.14

Tax effects of stock-based compensation

Deferred taxes for the quarter and six months ended September 30, 2006 were increased by $39,065 due to stock-based compensation.

General stock option information

The following table summarizes stock option activity during the six months ended September 30, 2006:

	Options Outstanding	Weighted Average Exercise Price
Balance at March 31, 2006	312,130	$ 14.47
Granted	12,000	$ 20.12
Exercised	(2,030)	$ 0.86
Terminated	-	-
Balance at September 30, 2006	322,100	$ 14.76

A summary of the status of our nonvested shares as of September 30, 2006, and changes during the six months ended September 30, 2006, is presented below:

Nonvested Shares	Shares	Weighted Average Grant-Date Fair Value
Nonvested at March 31, 2006	3,500	$ 6.05
Granted	12,000	$ 20.12
Vested	(9,250)	$ 17.46
Forfeited	-	$ -
Nonvested at September 30, 2006	6,250	$ 16.18

The following tables summarize information concerning stock options outstanding and exercisable at September 30, 2006:

	Options Outstanding			Options Exercisable	
Ranges of Exercise Prices	Number Outstanding	Weighted Average Exercise Price	Weighted Remaining Contractual Life (years)	Number Outstanding	Weighted Average Exercise Price Average
$ 0.86 - 10.00	106,350	$ 5.87	3.9	104,600	$ 5.87
10.01 - 20.12	165,750	15.53	8.0	161,250	15.40
21.99 - 58.27	50,000	31.16	7.6	50,000	31.16
	322,100	$ 14.76	6.6	315,850	$ 14.74

The total intrinsic value of options exercised during the six months ended September 30, 2006 was $34,898. At September 30, 2006 the total intrinsic value of options outstanding was $5,005,599 of which $4,920,279 were exercisable. The total intrinsic value at September 30, 2006 is based on our closing stock price on the last trading day of the quarter for in-the-money options.

NOTE 7. 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 do not expect to pay significant cash taxes in the near future because we have the carryforward of prior years' stock-based compensation deductions available to offset future taxes. These amounts could be subject to limitation under Internal Revenue Code Section 382. Under SFAS No. 109, *Accounting for Income Taxes*, stock-based compensation deductions for tax return purposes do not reduce taxes reported for book purposes but are credited to "Additional paid-in capital." Tax provisions of $1,261,249 and $458,005 were credited to "Additional paid-in capital" for the six months ended September 30, 2006 and 2005. Regardless of our expectations, there can be no assurance that we will generate any specific level of continuing earnings.

NOTE 8. CONTINGENCIES

On February 10, 2006 a lawsuit was filed against NVE and certain of its current and former executive officers and directors in the U.S. District Court for the District of Minnesota by an individual shareholder seeking to represent a class of purchasers of our common stock during the period from May 22, 2003 through February 11, 2005. On March 6 and March 7, 2006, two additional lawsuits were filed in the same court by two additional NVE shareholders, with the same proposed class period, purporting to represent the same class. These lawsuits were subsequently consolidated into a single case and a consolidated complaint was filed. The consolidated complaint generally alleges that the defendants violated the Securities Exchange Act of 1934 by issuing material misrepresentations concerning NVE s projected revenues and product technology, which artificially inflated the market price of our common stock. Two related actions brought by individual shareholders who seek to represent NVE derivatively have been filed in Hennepin County District Court. Those lawsuits allege that certain officers and directors violated their fiduciary duties to the company. We believe the lawsuits are wholly without merit and intend to vigorously defend the actions. We have incurred and expect to continue to incur legal expenses related to these lawsuits. Based on our evaluation of the likelihood of prevailing we have not recorded a liability on our balance sheet. Insurance may cover a portion of any judgments. In addition to these lawsuits, we are subject to various litigation matters from time to time in the normal course of our business. We currently believe that the ultimate outcome of these proceedings will not have a material adverse affect on our financial position or results of operations. However, because of the nature and inherent uncertainties of litigation, should the outcome of these actions be unfavorable, our business, financial position, and results of operations could be materially and adversely affected.

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

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 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 competition including entry of new competitors, variations in costs that are beyond our control, adverse federal, state and local government regulations, unexpected costs, lower sales and net income or higher net losses than forecasted, our dependence on significant suppliers, our ability to meet stringent customer technical requirements, our ability to consummate additional license agreements, our ability to continue eligibility for SBIR awards, failure to obtain new customers, the possible fluctuation and volatility of our operating results and financial condition, inability to carry out marketing and sales plans, loss of key executives, and other specific risks that may be alluded to in this Report. Further information regarding our risks and uncertainties, are contained in Item 1A "Risk Factors" of our Annual Report on Form 10-K for the year ended March 31, 2006.

General

We develop, manufacture, and sell devices using "spintronics," a nanotechnology we helped pioneer, which utilizes electron spin rather than electron charge to acquire, store and transmit information. We are a licensor of spintronic magnetic random access memory technology, commonly referred to as MRAM, which we believe has the potential to revolutionize electronic memory. We also manufacture high-performance spintronic products including sensors and couplers to revolutionize data sensing and transmission.

Quarter ended September 30, 2006 compared to quarter ended September 30, 2005

The table below summarizes certain summary information for various items for the periods indicated:

	Percentage of Revenue Quarter ended Sept. 30		Period-to-Period
	2006	2005	Change
Revenue			
Product sales	85.9 %	66.2 %	86.8 %
Research and development	14.1 %	33.8 %	(39.7)%
Total revenue	100.0 %	100.0 %	44.1 %
Cost of sales	32.7 %	53.3 %	
Gross profit	67.3 %	46.7 %	
Total expenses	25.1 %	29.9 %	20.7 %
Income from operations	42.2 %	16.8 %	263.3 %
Net interest and other income	4.0 %	2.6 %	115.2 %
Income before taxes	46.2 %	19.4 %	243.0 %
Provision for income taxes	17.0 %	7.5 %	227.7 %
Net income	29.2 %	11.9 %	252.6 %

Total revenue for the quarter ended September 30, 2006 (the second quarter of fiscal 2007) was $4,398,368, an increase of 44% from $3,051,922 for the quarter ended September 30, 2005 (the second quarter of fiscal 2006). The increase was due to an 87% increase in product sales to $3,777,060 from $2,021,672, partially offset by a 40% decrease in contract research and development revenue to $621,308 from $1,030,250. The decrease in contract research and development revenue was due to shifts to company-funded research from contract-funded research and a decrease in U.S. Government contract awards to us.

Gross profit margin increased to 67% of revenue for the second quarter of fiscal 2007 from 47% for the same quarter of fiscal 2006. The increase was due to higher product margins and a more profitable revenue mix consisting of 86% product sales versus 66% in the prior-year quarter.

Research and development expense increased 9% to $566,246 for the quarter ended September 30, 2006 compared to $517,939 for the quarter ended September 30, 2005. The increase was due to efforts to develop new and improved products and a shift to company-funded research from contract-funded research.

Selling, general and administrative expenses for the quarter ended September 30, 2006 increased 36% to $535,213 compared to $394,980 for the quarter ended September 30, 2005. The increase was primarily due to a $117,467 effect of SFAS No. 123(R). $114,898 of the effect of SFAS No. 123(R) was attributable to the automatic award of options on 12,000 shares of Common Stock to our directors on their initial election or reelection at our Annual Meeting of Shareholders.

Interest income increased 94% to $149,440 for the quarter ended September 30, 2006 from $77,119 for the quarter ended September 30, 2005. The increase was due to higher interest rates as well as an increase in interest-bearing investments, which were purchased primarily with cash generated from operations.

Net income totaled $1,283,471 for the quarter ended September 30, 2006 compared to $363,968 for the quarter ended September 30, 2005. The increase in net income was primarily due to increases in revenue and gross profit, partially offset by increases in expenses and provision for income taxes.

Diluted net income per share increased to $0.27 for the quarter ended September 30, 2006 from $0.08 for the quarter ended September 30, 2005. The effect of SFAS No. 123(R) was to reduce diluted net income per share by $0.02 for the quarter ended September 30, 2006.

Six months ended September 30, 2006 compared to six months ended September 30, 2005

The table below summarizes certain summary information for various items for the periods indicated:

	Percentage of Revenue Six Months Ended Sept. 30 2006	2005	Period-to-Period Change
Revenue			
Product sales	85.0 %	62.6 %	79.5 %
Research and development	15.0 %	37.4 %	(47.0)%
Total revenue	100.0 %	100.0 %	32.2 %
Cost of sales	35.3 %	54.4 %	
Gross profit	64.7 %	45.6 %	
Total expenses	25.4 %	28.0 %	20.0 %
Income from operations	39.3 %	17.6 %	195.1 %
Net interest and other income	3.5 %	2.9 %	60.4 %
Income before taxes	42.8 %	20.5 %	175.9 %
Provision for income taxes	15.8 %	7.7 %	168.9 %
Net income	27.0 %	12.8 %	180.1 %

Total revenue for the six months ended September 30, 2006 was $8,033,563, an increase of 32% from revenue of $6,077,470 for the six months ended September 30, 2005. The increase was due to an 80% increase in product sales to $6,830,388 from $3,805,922, partially offset by a 47% decrease in contract research and development revenue to $1,203,175 from $2,271,548. The decrease in contract research and development revenue was due to shifts to company-funded research from contract-funded research and a decrease in U.S. Government contract awards to us.

Gross profit margin increased to 65% for the first six months of fiscal 2007 from 46% for the first six months fiscal 2006. The increase was due to a more profitable revenue mix consisting of a higher percentage of product sales, and increased product margins. Increased product margins were due to price increases for calendar 2006 and deployment of lower-cost coupler designs.

Research and development expenses increased 23% to $1,096,858 for the six months ended September 30, 2006 compared to $894,739 for the six months ended September 30, 2005. The increase was due to efforts to develop new and improved products and a shift to company-funded research from contract-funded research.

Selling, general and administrative expenses for the six months ended September 30, 2006 increased 17% to $941,945 compared to $804,574 for the six months ended September 30, 2005. The increase was primarily due to a $120,036 effect of SFAS No. 123(R). $114,898 of the effect of SFAS No. 123(R) was attributable to the automatic award of options on 12,000 shares of Common Stock to our directors on their initial election or reelection at our Annual Meeting of Shareholders.

Interest income increased 80% to $261,346 for the six months ended September 30, 2006 from $145,438 for the six months ended September 30, 2005. The increase was due to higher interest rates as well as an increase in interest-bearing investments, which were purchased primarily with cash generated from operations.

Net income totaled $2,175,277 for the six months ended September 30, 2006 compared to $776,617 for the six months ended September 30, 2005. The increase in net income was primarily due to increases in revenue and gross profit, partially offset by increases in expenses and provision for income taxes.

Diluted net income per share increased to $0.45 for the six months ended September 30, 2006 from $0.17 for the six months ended September 30, 2005. The effect of SFAS No. 123(R) was to reduce diluted net income per share by $0.02 for the six months ended September 30, 2006.

Liquidity and capital resources

At September 30, 2006 we had $13,689,311 in cash plus investments compared to $10,891,326 at March 31, 2006. Our entire portfolio of short-term and long-term investments is classified as available for sale. The increase in cash plus investments was primarily due to cash generated from operations, partially offset by purchases of fixed assets and payments of capital lease obligations in the first quarter of fiscal 2007.

Accounts receivable increased to $2,141,414 at September 30, 2006 from $1,667,029 at March 31, 2006. The increase was due to increased revenue and the timing of payments for research and development contracts.

Deferred revenue decreased to $39,107 at September 30, 2006 compared to $77,373 at March 31, 2006. The decrease was primarily due to the satisfaction during the six months ended September 30, 2006 of our remaining $4,863 in obligations under a prepayment under our 2001 agreement, as amended, with Agilent Technologies, Inc., and the satisfaction of the obligations related to a government contract.

We completely retired our capital lease obligations in June 2006, eliminating all of our debt. Capital lease obligations were $33,281 at March 31, 2006.

We made capital expenditures of $229,976 in the six months ended September 30, 2006, primarily for equipment to increase our production capacity for very small parts. We evaluate capital investments as needs and opportunities arise so our capital expenditures could deviate significantly from our expectations. We will likely fund future capital expenditures from operating profits or our cash and cash equivalents.

We believe our working capital is adequate for our needs at least for the next 12 months.

Our outlook

We expect product sales to increase in the remainder of fiscal 2007 compared to fiscal 2006 due to sales of new coupler and sensor products, anticipated growth of our sales into the medical device market, and price increases we implemented for calendar year 2006. The past two fiscal years our product sales have been less in the quarters ended December 31 than the immediately preceding quarters. This may be due in part to distributor ordering patterns or customer vacations and shutdowns late in the calendar year. This pattern may continue in the quarter ending December 31, 2006. Furthermore, we rely on several large customers for a large percentage of our revenue, and we expect certain customers to decrease their orders in the balance of the fiscal year compared to previous quarters because of their inventory status. Additionally, orders from our large customers can be canceled, postponed, or reduced without cause, and the loss of any of these customers could have a significant impact on our revenue and our profitability.

Contract research and development revenue will likely continue to decrease in fiscal 2007 compared to the prior year due to more limited availability of Government research funds, our shift in emphasis from contract-funded to company-funded research, particularly new product development, and our focusing of contract research on certain strategic areas.

We expect gross profit margins to continue to increase in the remainder of fiscal 2007 compared to the prior year due to price increases we implemented for calendar year 2006, manufacturing efficiencies, and a planned continued shift in our revenue mix to product sales from research and development revenue. Our product sales have generally had higher gross profit margins than our research and development revenue. There can be no assurance, however, that margin increases in sequential quarters will continue.

Research and development expense may continue to increase in fiscal 2007 compared to the prior year as we develop new products and continue to shift to company-funded research and development from contract-funded research and development.

Selling, general and administrative expenses could continue to increase in the future due to expenses associated with compliance with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 and legal expenses.

Recent accounting pronouncements

In September 2006, the Securities and Exchange Commission Office of the Chief Accountant and Divisions of Corporation Finance and Investment Management released Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*, that provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. The SEC staff believes that registrants should quantify errors using both a balance sheet and an income statement approach and evaluate whether either approach results in quantifying a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. This pronouncement is effective beginning in our fiscal year ending March 31, 2007. SAB No. 108 has had no material impact on our financial statements.

In July 2006 the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes--an interpretation of FASB Statement No. 109*, which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 will be effective beginning in our fiscal year ending March 31, 2008. We have not yet evaluated the possible impact of implementation on our financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. This statement provides a single definition of fair value, a framework for measuring fair value, and expanded disclosures concerning fair value. Previously, different definitions of fair value were contained in various accounting pronouncements creating inconsistencies in measurement and disclosures. SFAS No. 157 applies under those previously issued pronouncements that prescribe fair value as the relevant measure of value, except SFAS No. 123(R) and related interpretations and pronouncements that require or permit measurement similar to fair value but are not intended to measure fair value. SFAS No. 157 will be effective beginning in our fiscal year ending March 31, 2009. We currently do not expect the adoption of SFAS No. 157 to have a material impact our financial statements.

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 yields without significantly increasing risk. To achieve this objective, we maintain our portfolio of cash equivalents, short-term and long-term investments in a variety of securities, including government and corporate obligations and money market funds. Short-term and long-term marketable securities are generally classified as available-for sale-and consequently are recorded on the balance sheet at fair value with unrealized gains or losses reported as a separate component of accumulated other comprehensive income (loss), net of estimated tax. Our investments as of September 30, 2006 have remaining maturities from six to 60 months. Available-for-sale securities had a market value of $13,326,043 at September 30, 2006, representing approximately 63% of our total assets.

Item 4. Controls and Procedures.

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in our Securities Exchange Act of 1934 (the "Exchange Act") reports 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 for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, we recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and we are required to apply judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As of the end of the period covered by this Report, we conducted an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of our disclosure controls and procedures (as defined in Rules 13a 14(c) and 15d 14(c) under the Exchange Act). Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in SEC rules and forms; and (ii) is accumulated and communicated to the our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. There was no change in our internal control over financial reporting during our most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II--OTHER INFORMATION

Item 1A. Risk Factors.

Other than with respect to the risk factors below, 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, 2006. The two risk factors below were disclosed on the Form 10-K and have been updated in light of requirements to evaluate our internal controls under Section 404 of the Sarbanes-Oxley Act and consolidation of class action litigation.

While we believe that we currently have adequate internal control over financial reporting in place, in the future we expect our management will be required to evaluate our internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002 and any adverse results from such evaluation could result in a loss of investor confidence in our financial reports and have an adverse affect on our financial results and the market price of our common stock.

As required by Section 404 of the Sarbanes-Oxley Act of 2002, the SEC adopted rules requiring each public company to include a management report assessing the effectiveness of its internal control over financial reporting in Annual Reports on Form 10-KSB or 10-K, and the independent registered public accounting firm auditing such company s financial statements must attest to and report on management s assessment of the effectiveness of the internal control over financial reporting. We expect this requirement to apply to our Annual Report for the fiscal year ending March 31, 2007 because we appear to have met the criteria for being an Accelerated Filer as of September 30, 2006. Under current regulations we will also be required to comply with Section 404 in our Annual Report for the fiscal year ending March 31, 2008. While we currently anticipate being able to fully implement the requirements relating to compliance with Section 404 in a timely fashion, we cannot be certain as to the timing of completion of our evaluation, testing and remediation actions or the impact of such activities on our operations due in large part to the lack of precedent available by which to measure compliance with such requirements. We may incur significant expenses in order to comply with the requirements. If we are not able to implement the requirements of Section 404 in a timely manner or with adequate compliance, investors could lose confidence in the reliability of our financial statements, which could result in a decrease in the market price of our common stock. In addition, to the extent we or our independent registered public accounting firm identify a significant deficiency in our internal control over financial reporting, the resources and costs required to remediate such deficiency could have a material adverse impact on our future results of operations.

We are presently involved in class action litigation.

On February 10, 2006 a lawsuit was filed against NVE and certain of its current and former executive officers and directors in the U.S. District Court for the District of Minnesota by an individual shareholder seeking to represent a class of purchasers of our common stock during the period from May 22, 2003 through February 11, 2005. On March 6 and March 7, 2006, two additional lawsuits were filed in the same court by two additional NVE shareholders, with the same proposed class period, purporting to represent the same class. These lawsuits were subsequently consolidated into a single case and a consolidated complaint was filed. The consolidated complaint generally alleges that the defendants violated the Securities Exchange Act of 1934 by issuing material misrepresentations concerning NVE s projected revenues and product technology, which artificially inflated the market price of our common stock. Two related actions brought by individual shareholders who seek to represent NVE derivatively have been filed in Hennepin County District Court. Those lawsuits allege that certain officers and directors violated their fiduciary duties to the company. We believe the lawsuits are wholly without merit and intend to vigorously defend the actions. We have incurred and expect to continue to incur legal expenses related to these lawsuits. Although insurance may cover a portion of any judgments, if we do not prevail in these lawsuits we may be required to pay substantial amounts which could have a material adverse impact on our future results of operation and financial condition.

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

Our Annual Meeting of Shareholders was held on August 14, 2006. Proxies for the meeting were solicited pursuant to Regulation 14 under the Exchange Act. There was no solicitation in opposition to the nominees as listed in our proxy statement. There were 4,616,703 shares of common stock entitled to vote at the meeting with a majority represented at the meeting. All of our directors and director nominees attended the meeting. Each director nominee was elected to serve as a director until our next Annual Meeting of Shareholders. Each director nominee, Terrence W. Glarner, Daniel A. Baker, James D. Hartman, Patricia M. Hollister, and Robert H. Irish received more than 98% of the shares voted in their favor.

Item 6. Exhibits.

Exhibit #	Description
31.1	Certification by Daniel A. Baker pursuant to Rule 13a-14(a)/15d-14(a).
31.2	Certification by Curt A. Reynders pursuant to Rule 13a-14(a)/15d-14(a).
32	Certification by Daniel A. Baker and Curt A. Reynders pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

	NVE CORPORATION
	(Registrant)
October 18, 2006	/s/ DANIEL A. BAKER
Date	By: Daniel A. Baker
	President and Chief Executive Officer
October 18, 2006	/s/ CURT A. REYNDERS
Date	By: Curt A. Reynders
	Chief Financial Officer