NVE CORP /NEW/
Form 10QSB
July 31, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10QSB

[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended: June 30, 2002

[ ] Transition report under Section 13 or 15(d) of the Securities Exchange Act.

NVE Corporation
(Exact name of registrant as specified in its charter)

Minnesota
(State or other jurisdiction of incorporation)

000-12196	41-1424202
Commission File Number	I.R.S. Employer Identification number
11409 Valley View Road, Eden Prairie, Minnesota	55344
(Address of principal executive offices)	(Zip code)

Issuer's telephone number, including area code: (952) 829-9217

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 [X]   NO [ ]

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

Common Stock, $.01 Par Value - 20,785,549 shares outstanding as of July 25, 2002.

PART I--FINANCIAL INFORMATION

Item 1. Financial Statements.

NVE CORPORATION
BALANCE SHEET
JUNE 30, 2002

ASSETS	
Current assets:	
Cash	$ 873,688
Investment securities	5,283,731
Accounts receivable	1,129,385
Inventories	514,796
Prepaid expenses and other assets	120,922
Total current assets	7,922,522
Fixed assets:	
Machinery and equipment	2,376,796
Furniture and fixtures	35,499
Leasehold improvements	356,833
Construction in progress	70,411
	2,839,539
Less accumulated depreciation	1,592,465
Total fixed assets	1,247,074
Total assets	$9,169,596
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current liabilities:	
Accounts payable	311,470
Accrued payroll and other	367,915
Deferred revenue	1,193,273
Current portion of capital lease obligations	144,898
Total current liabilities	2,017,556
Capital lease obligations, less current portion	340,038
Total liabilities	2,357,594
Shareholders' equity:	
Common stock	207,855
Additional paid-in capital	11,943,158
Accumulated other comprehensive income	23,098
Accumulated deficit	(5,362,109)
Total shareholders' equity	6,812,002
Total liabilities and shareholders' equity	$9,169,596

SEE ACCOMPANYING NOTES.

NVE CORPORATION
STATEMENTS OF OPERATIONS
THREE MONTHS ENDED JUNE 30:

	2002	2001
Revenue		
Contract research and development	$1,535,851	$1,112,596
Product sales	529,188	369,045
License revenue	97,917	181,249
Total revenue	2,162,956	1,662,890
Cost of sales	1,340,146	1,202,081
Gross profit	822,810	460,809
Expenses		
Research and development	328,602	277,073
Selling, general & administrative	446,999	359,956
Total expenses	775,601	637,029
Income (loss) from operations	47,209	(176,220)
Interest income	40,250	10,376
Other income	4,770	71,308
Net income (loss)	92,229	(94,536)
Net income (loss) per basic and diluted share	-	(.01)
Weighted average shares outstanding:		
Basic	20,192,362	16,945,607
Diluted	21,711,367	16,945,607

SEE ACCOMPANYING NOTES.

NVE CORPORATION
STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED JUNE 30:

	2002	2001
OPERATING ACTIVITIES		
Net income (loss)	$ 92,229	$ (94,536)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	106,551	65,219
Changes in operating assets and liabilities:		
Accounts receivable	131,788	138,022
Inventories	(2,581)	1,423
Prepaid expenses and other	(61,717)	(19,009)
Accounts payable and accrued expenses	(136,097)	(110,475)

Deferred revenue	(372,034)	(336,585)
Net cash used in operating activities	(241,861)	(355,941)
INVESTING ACTIVITIES		
Purchases of fixed assets	(128,020)	(466,831)
Purchase of investment securities	(5,260,633)	-
Net cash used in investing activities	(5,388,653)	(466,831)
FINANCING ACTIVITIES		
Net proceeds from sale of common stock	6,219,867	80,001
Repayment of note payable and capital lease obligations	(252,923)	(13,491)
Net cash provided by financing activities	5,966,944	66,510
Increase (decrease) in cash	336,430	(756,262)
Cash at beginning of period	537,258	1,492,080
Cash at end of period	$ 873,688	$ 735,818

SEE ACCOMPANYING NOTES.

NVE CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002

1. Interim Financial Information
The accompanying unaudited financial statements of NVE Corporation (the "Company") are consistent with accounting principles generally accepted in the United States and reporting with SEC 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 the Company believes that the disclosures are adequate to make the information presented not misleading, it is suggested that that these condensed financial statements be read in conjunction with the audited financial statements and the notes there to included in the Company's latest annual financial statements included in its report on Form 10-KSB. The results of operations for the three month period ended June 30, 2002 are not necessarily indicative of the results that may be expected for the full year ending March 31, 2003.

2. Nature of Business
We develop and sell "spintronics" devices, which utilize electron spin rather than electron charge to acquire, store, and transmit information.

3. Revenue Recognition
Revenue from product sales to direct customers is recognized upon shipment. Revenue from licensing and technology development programs, which is nonrefundable and for which no significant future obligations exist, is recognized when the license is signed. Revenue from licensing and technology development programs, which is refundable, recoupable against future royalties, or for which future obligations exist, is recognized when the Company has completed its obligations under the terms of the agreements. Revenue from royalties is recognized upon the shipment of product from the Company's technology license partners to direct customers. Certain research and development activities are conducted for third parties and such revenue is recognized as the services are performed.

4. Earnings Per Share
The Company calculates its income (loss) per share pursuant to Statement of Financial Accounting Standards No. 128 ("SFAS 128"), Earnings Per Share. Basic earnings per share is computed based upon the weighted average number of common shares issued and outstanding during each year. Diluted net income per share amounts assume conversion, exercise or issuance of all potential common stock instruments (stock options, warrants and convertible preferred stock). Potentially dilutive securities including warrants and stock options are excluded from diluted earnings per share during net loss periods because these securities would be anti-dilutive.

5. Reclassification
The Company has reclassified certain research and development costs related to contract research and development programs to cost of sales. Previously, these costs were included with research and development costs reported as operating expenses.

6. Investments
The Company classifies and accounts for debt and equity securities in accordance with SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities. The Company's entire portfolio is classified as available for sale; thus, 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."

7. Technology exchange agreement
On April 19, 2002 the Company closed a technology exchange agreement accompanied by an investment by Cypress Semiconductor Corporation ("Cypress"). Cypress purchased 3.433 million shares of NVE Common Stock for $6.228 million. Cypress also received a warrant for the purchase of up to an additional two million shares of Common Stock for $3.00 per share for a term of three years.

Item 2. Management's Discussion and Analysis or Plan of Operation.

General
We develop and sell "spintronics" devices, which are integrated circuit type devices that rely on electron spin rather than electron charge to acquire, store, and transmit information in electronic systems. We derive revenue from three sources:

1) contract spintronics research and development (principally government contracts);

2) commercial sales of spintronic sensor and coupler products; and

3) licenses for our magnetic random-access memory (MRAM) intellectual property.

Three months ended June 30, 2002 compared to three months ended June 30, 2001
The table shown below summarizes the percentage of revenues for the various items for the periods indicated:

	Three Months Ended June 30, 2002	Three Months Ended June 30, 2001
Revenue:		
Research and development	71.0 %	66.9 %
Product sales	24.5	22.2

License fees	4.5	10.9
Total revenues	100.0	100.0
Cost of sales	62.0	72.3
Gross profit	38.0	27.7
Total expenses	33.8	33.4
Net income (loss)	4.2 %	(5.7)%

Revenue for the three months ended June 30, 2002 were $2,162,956, an increase of 30% from revenue of $1,662,890 for the three months ended June 30, 2001. The increase was due primarily to a 43% increase in commercial product sales from $369,045 to $529,188. Contract research revenue increased 38%, from $1,112,596 to $1,535,851 due to increased government contract revenue and new revenue recognized under an agreement with Agilent Technologies, Inc. ("Agilent"). Increases in product revenue and contract research were partially offset by a decrease in license revenue from $181,249 to $97,917.

Gross profit increased to 38% for the three months ended June 30, 2002 as compared to 27% for the three months ended June 30, 2001. This increase was due to higher yields on commercial products as well as increased margins on contract research and development.

Research and development expenses increased 19% to $328,602 for the quarter ended June 30, 2002 as compared to $277,073 in the prior year's quarter. The increase was due to a greater emphasis on commercial product development.

Selling, general and administrative expenses for the quarter ended June 30, 2002 increased by 24% to $446,999 compared to $359,956 in the prior year. The increase was primarily due to higher expenses associated with commercial selling activities and additional expenses associated with the Cypress technology exchange.

We reported net income of $92,229 for the quarter ended June 30, 2002 compared to a net loss of $94,536 for the quarter ended June 30, 2001. The profit was due to a change from operational losses to profits, and higher interest income on the Company's increased investments.

Liquidity and capital resources

Net proceeds of $6,213,719 from the sale of common stock to Cypress Semiconductor Corporation in April 2002 were used primarily to retire debt and invest in available-for-sale securities. At June 30, 2002, the Company had $5,283,731 in available-for-sale securities, consisting of marketable fixed-income investments. We had cash on June 30, 2002 of $873,688 and working capital of $5,904,996. We believe our working capital is adequate for our current needs.

Critical accounting policies

It is important to understand our significant accounting policies in order to understand our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. These accounting principles require us to make estimates and assumptions that affect amounts reported in our consolidated financial statements and the accompanying notes. Actual results are likely to differ from those estimates, but we do not believe such differences will materially affect our financial position or results of operations for the periods presented in this report.

Revenue recognition

Revenue from product sales to direct customers is recognized upon shipment. Revenue from licensing and technology development programs, which is nonrefundable and for which no significant future obligations exist, is recognized when the license is signed. Revenue from licensing and technology development programs, which is refundable, recoupable against future royalties, or for which future obligations exist, is recognized when the Company has completed its obligations under the terms of the agreements. Revenue from royalties is recognized upon the shipment of product from the Company's technology license partners to direct customers. Certain research and development activities are conducted for third parties and such revenue is recognized as the services are performed. Payments received from licensing and technology development programs relating to future obligations as well as prepayments for future discounts on product sales are recorded as deferred revenue.

Bad Debt

The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Inventory

The Company reduces the stated value of its inventory for obsolescence or impairment in an amount equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual future demand or market conditions are less favorable than those projected by management, additional reductions in stated value may be required.

Income Taxes

In determining the carrying value of the Company's net deferred tax assets, the Company must assess the likelihood of sufficient future taxable income in certain tax jurisdictions, based on estimates and assumptions to realize the benefit of these assets. Management evaluates the realizability of the deferred assets quarterly and assesses the need for valuation allowances or reduction of existing allowances quarterly.

PART II--OTHER INFORMATION

Item 2. Changes in Securities.

On April 12, 2002, we sold 3.433 million shares of unregistered Common Stock to Cypress Semiconductor Corporation. Net proceeds from the sale were $6,213,719, net of expenses. As part of the sale, Cypress was also granted a warrant to purchase up to an additional two million shares of Common Stock at a price of $3.00 per share for a term of three years. The sale was under Rule 506 of Regulation D promulgated under Section 4(2) of the Securities Act of 1933, as amended.

Item 6. Exhibits and Reports on Form 8-K.

a. Exhibits

10.1 Stock Purchase Agreement dated April 12, 2002 with Cypress Semiconductor Corporation.

10.2 Cypress Semiconductor Corporation Common Stock Purchase Warrant dated April 12, 2002.

10.3 License Agreement dated April 12, 2002 with Cypress Semiconductor Corporation (confidential treatment has been requested with respect to portions of this exhibit, and such confidential portions have been deleted and separately filed with the Securities and Exchange Commission pursuant to Rule24b-2 or Rule 406).

b. Reports on Form 8-K
None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on behalf of the undersigneds thereunto duly authorized.

NVE CORPORATION

Dated: July 31, 2002

By /s/ Daniel A. Baker

Daniel A. Baker
President and Chief Executive Officer

By /s/ Richard George

Richard George
Chief Financial Officer