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NVE CORP /NEW/
Form 10QSB
October 20, 2004

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

FORM 10-QSB

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

For the quarterly period ended September 30, 2004

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from _____ to _____

Commission file number 000-12196

NVE Corporation

(Exact name of small business issuer 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 55344
(Address of principal executive offices)

(952) 829-9217
(Issuer's telephone number)

Check whether the issuer (1) filed all reports required to be filed by
Section 13 or 15(d) of the Exchange Act during the past 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

State the number of shares outstanding of each of the issuer's classes of
common equity, as of the latest practicable date:
Common Stock, \$.01 Par Value - 4,501,345 shares outstanding
as of October 15, 2004

Transitional Small Business Disclosure Format (Check one): Yes No

PART I--FINANCIAL INFORMATION

Item 1. Financial Statements.

NVE CORPORATION
BALANCE SHEET
SEPTEMBER 30, 2004
(Unaudited)

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| | | |
|--------------------------------------|--------------|--------------|
| | ----- | ----- |
| Revenue: | | |
| Contract research and development | \$ 1,645,662 | \$ 1,595,612 |
| Product sales | 1,450,052 | 1,268,573 |
| | ----- | ----- |
| Total revenue | 3,095,714 | 2,864,185 |
| Cost of sales | 1,960,797 | 1,738,702 |
| | ----- | ----- |
| Gross profit | 1,134,917 | 1,125,483 |
| Expenses: | | |
| Research and development | 306,593 | 302,573 |
| Selling, general & administrative | 481,648 | 475,691 |
| | ----- | ----- |
| Total expenses | 788,241 | 778,264 |
| | ----- | ----- |
| Income from operations | 346,676 | 347,219 |
| Interest income | 58,497 | 44,455 |
| Interest expense | (3,605) | (6,907) |
| Other income | 21,730 | 21,709 |
| | ----- | ----- |
| Net income | \$ 423,298 | \$ 406,476 |
| | ===== | ===== |
| Net income per share-basic | \$ 0.09 | \$ 0.10 |
| | ===== | ===== |
| Net income per share-diluted | \$ 0.09 | \$ 0.09 |
| | ===== | ===== |
| Weighted average shares outstanding: | | |
| Basic | 4,499,180 | 4,232,666 |
| Diluted | 4,932,500 | 4,679,415 |

SEE ACCOMPANYING NOTES.

NVE CORPORATION
STATEMENTS OF INCOME
SIX MONTHS ENDED SEPTEMBER 30, 2004 AND 2003
(Unaudited)

| | Six Months Ended Sept. 30 | |
|-----------------------------------|---------------------------|--------------|
| | 2004 | 2003 |
| | ----- | ----- |
| Revenue: | | |
| Contract research and development | \$ 3,171,749 | \$ 3,316,518 |
| Product sales | 2,813,192 | 2,367,516 |
| | ----- | ----- |
| Total revenue | 5,984,941 | 5,684,034 |
| Cost of sales | 3,586,678 | 3,647,697 |

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| | | |
|--------------------------------------|------------|------------|
| | ----- | ----- |
| Gross profit | 2,398,263 | 2,036,337 |
| Expenses: | | |
| Research and development | 667,852 | 481,242 |
| Selling, general & administrative | 966,244 | 926,554 |
| | ----- | ----- |
| Total expenses | 1,634,096 | 1,407,796 |
| | ----- | ----- |
| Income from operations | 764,167 | 628,541 |
| Interest income | 113,366 | 93,468 |
| Interest expense | (8,062) | (14,598) |
| Other income | 37,498 | 33,483 |
| | ----- | ----- |
| Net income | \$ 906,969 | \$ 740,894 |
| | ===== | ===== |
| Net income per share-basic | \$ 0.20 | \$ 0.18 |
| | ===== | ===== |
| Net income per share-diluted | \$ 0.18 | \$ 0.16 |
| | ===== | ===== |
| Weighted average shares outstanding: | | |
| Basic | 4,495,442 | 4,199,715 |
| Diluted | 4,928,762 | 4,646,464 |

SEE ACCOMPANYING NOTES.

NVE CORPORATION
STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED SEPTEMBER 30, 2004 AND 2003
(Unaudited)

| | Six Months Ended | Sept. 30 |
|---|------------------|------------|
| | 2004 | 2003 |
| | ----- | ----- |
| OPERATING ACTIVITIES | | |
| Net income | \$ 906,969 | \$ 740,894 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 254,531 | 244,459 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (808,664) | (71,138) |
| Inventories | 59,683 | (427,586) |
| Prepaid expenses and other | 117,298 | 36,755 |
| Accounts payable and accrued expenses | 1,358 | 273,134 |
| Deferred revenue | (75,578) | (262,812) |
| | ----- | ----- |
| Net cash provided by operating activities | 455,597 | 533,706 |
| INVESTING ACTIVITIES | | |
| Purchases of fixed assets | (679,812) | (650,911) |

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| | | |
|---|------------|--------------|
| Purchases of investment securities | (19,921) | 455,929 |
| | ----- | ----- |
| Net cash used in investing activities | (699,733) | (194,982) |
| FINANCING ACTIVITIES | | |
| Net proceeds from sale of common stock | 79,147 | 166,791 |
| Repayment of capital lease obligations | (82,040) | (75,503) |
| | ----- | ----- |
| Net cash (used in) provided by financing activities | (2,893) | 91,288 |
| | ----- | ----- |
| (Decrease) increase in cash and cash equivalents | (247,029) | 430,012 |
| Cash and cash equivalents at beginning of period | 1,055,796 | 595,768 |
| | ----- | ----- |
| Cash and cash equivalents at end of period | \$ 808,767 | \$ 1,025,780 |
| | ===== | ===== |

SEE ACCOMPANYING NOTES.

NVE CORPORATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

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 we believe that the disclosures are adequate to make the information presented not misleading, it is suggested that these condensed financial statements be read in conjunction with the audited financial statements and the notes included in our latest annual financial statements included in our report on Form 10-KSB. The results of operations for the three and six month periods ended September 30, 2004 are not necessarily indicative of the results that may be expected for the full year ending March 31, 2005.

2. 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.

3. REVENUE RECOGNITION

Revenue from product sales is recognized when title transfers, generally 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 we complete our obligations under the terms of the agreements. Revenue from royalties is recognized upon the shipment of product from our 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.

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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.

4. EARNINGS PER SHARE

We calculate our net income per share pursuant to SFAS No. 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 and warrants). Stock options were not included in the computation of diluted earnings per share if the exercise prices of the options were greater than the market price of the common stock.

5. 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. Our entire portfolio consists of government-backed and corporate bonds and 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."

6. COMPREHENSIVE INCOME

The components of comprehensive income are as follows:

| | Three months ended September 30 | | Six months ended September 30 | |
|----------------------------|------------------------------------|-----------|----------------------------------|-----------|
| | 2004 | 2003 | 2004 | 2003 |
| Net income | \$423,298 | \$406,476 | \$906,969 | \$740,894 |
| Change in unrealized gains | 73,150 | (26,352) | (85,095) | 1,235 |
| Comprehensive income | \$496,448 | \$380,124 | \$821,874 | \$742,129 |

7. INVENTORIES

Inventories consist of the following:

| | |
|---------------------------|-------------|
| Raw materials | \$ 447,839 |
| Work-in-process | 509,096 |
| Finished goods | 313,236 |
| | 1,270,171 |
| Less obsolescence reserve | (180,000) |
| | \$1,090,171 |

8. STOCK-BASED COMPENSATION

We have adopted the disclosure-only provisions of SFAS Nos. 123 and 148, Accounting for Stock-Based Compensation, but apply Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related

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interpretations in accounting for our plans. Under APB Opinion No. 25, when the exercise price of employee stock options equals or exceeds the market price of the underlying stock on the date of grant, no compensation expense is recognized.

Pro forma information regarding net income and income per share is required by SFAS Nos. 123 and 148, and has been determined as if we had accounted for our employee stock options under the fair value method. The fair value for these options was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: risk-free interest rate of 3.1% and 2.7% for the three and six months ended September 30, 2004 and 2003, expected volatility of 55% to 99% and 55% for the three and six months ended September 30, 2004 and 2003, a weighted average expected life of the options of one to five years, and no dividend yield.

Option valuation models were developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions. Because our employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of our employee stock options.

The pro forma information is as follows:

| | Three Months Ended Sept. 30 2004 | 2003 |
|---|-------------------------------------|------------|
| | ----- | ----- |
| Net income applicable to common shares: | | |
| As reported | \$ 423,298 | \$ 406,476 |
| Pro forma adjustment for stock options | (241,196) | (81,325) |
| Pro forma net income | \$ 182,102 | \$ 325,151 |
| | ===== | ===== |
| Earnings per share: | | |
| Basic - as reported | \$ 0.09 | \$ 0.10 |
| Basic - pro forma | \$ 0.04 | \$ 0.08 |
| Diluted - as reported | \$ 0.09 | \$ 0.09 |
| Diluted - pro forma | \$ 0.04 | \$ 0.07 |
| | | |
| | Six Months Ended Sept. 30 2004 | 2003 |
| | ----- | ----- |
| Net income applicable to common shares: | | |
| As reported | \$ 906,969 | \$ 740,894 |
| Pro forma adjustment for stock options | (383,982) | (162,650) |
| Pro forma net income | \$ 522,987 | \$ 578,244 |

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| | ===== | ===== |
|-----------------------|---------|---------|
| Earnings per share: | | |
| Basic - as reported | \$ 0.20 | \$ 0.18 |
| Basic - pro forma | \$ 0.12 | \$ 0.14 |
| | | |
| Diluted - as reported | \$ 0.18 | \$ 0.16 |
| Diluted - pro forma | \$ 0.11 | \$ 0.12 |

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

Forward-looking statements

Some of the statements made in this Quarterly Report on Form 10-QSB 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 adverse economic conditions, intense competition, including entry of new competitors, our ability to obtain sufficient financing to support our operations, progress in research and development activities by us and others, 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, price increases for equipment, our dependence on significant suppliers, including Taiwan Semiconductor Manufacturing Corporation for foundry semiconductor wafers, our ability to meet stringent customer technical requirements, our ability to consummate additional license agreements, our ability to continue eligibility for SBIR awards, our inability to raise prices, 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 included in our most recent Annual Report on Form 10-KSB.

General

We develop 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.

Critical accounting policies

It is important to understand our significant accounting policies in order to understand our 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 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.

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Revenue Recognition

Revenue from product sales is recognized when title transfers, generally 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 we complete our

obligations under the terms of the agreements. Revenue from royalties is recognized upon the shipment of product from our 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

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. If the financial condition of our customers were to deteriorate resulting in an impairment of their ability to make payments, additional allowances may be required.

Inventory

We reduce the stated value of our inventory for excess quantities or obsolescence 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. Additional reductions in stated value may be required if actual future demand or market conditions are less favorable than we projected.

Income Taxes

In determining the carrying value of our net deferred tax assets, we 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. We evaluate the realizability of the deferred assets quarterly and assess the need for valuation allowances or reduction of existing allowances quarterly.

Three months ended September 30, 2004 compared to three months ended September 30, 2003

The table below summarizes the percentage of revenue for the various items for the periods indicated:

| | Three Months Ended Sept. 30 | |
|--------------------------|-----------------------------|--------|
| | 2004 | 2003 |
| | ----- | ----- |
| Revenue: | | |
| Research and development | 53.2 % | 55.7 % |
| Product sales | 46.8 | 44.3 |
| | ----- | ----- |
| Total revenue | 100.0 | 100.0 |
| Cost of sales | 63.3 | 60.7 |
| | ----- | ----- |
| Gross profit | 36.7 | 39.3 |

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| | | |
|----------------|--------|--------|
| Total expenses | 23.0 | 25.1 |
| | ----- | ----- |
| Net income | 13.7 % | 14.2 % |
| | ===== | ===== |

Revenue for the three months ended September 30, 2004 (the second quarter of fiscal 2005) was \$3,095,714, an increase of 8% from revenue of \$2,864,185, for the three months ended September 30, 2003 (the second quarter of fiscal 2004). The revenue increase was due to a 14% increase in commercial product sales to \$1,450,052 from \$1,268,573 and a 3% increase in research and development revenue to \$1,645,662 from \$1,595,612.

Gross profit margins decreased to 37% for the three months ended September 30, 2004 as compared to 39% for the three months ended September 30, 2003. The decrease was due to a shift in product mix partially offset by a more favorable mix between product sales and contract research and development.

Research and development expenses increased by 1% to \$306,593 for the three months ended September 30, 2004 as compared to \$302,573 for the three months ended September 30, 2003.

Selling, general and administrative expenses for the three months ended September 30, 2004 increased by 1% to \$481,648 compared to \$475,691 for the three months ended September 30, 2003.

We recorded pre-tax income of \$423,298 and \$406,476 for the three months ended September 30, 2004 and September 30, 2003, respectively. The income tax provision for the three months ended September 30, 2004 is comprised of a U.S. Federal income tax expense of \$143,921, offset by a tax valuation allowance adjustment of \$143,921. The income tax provision for the three months ended September 30, 2003 is comprised of a U.S. Federal income tax expense of \$138,202, offset by a tax valuation allowance adjustment of \$138,202.

Net income totaled \$423,298 for the three months ended September 30, 2004 compared to \$406,476 for the three months ended September 30, 2003. The increase in net income was due primarily to higher revenues and higher interest income.

Six months ended September 30, 2004 compared to six months ended September 30, 2003

The table below summarizes the percentage of revenue for the various items for the periods indicated:

| | Six Months Ended Sept. 30 2004 | 2003 |
|--------------------------|-----------------------------------|--------|
| | ----- | ----- |
| Revenue: | | |
| Research and development | 53.0 % | 58.3 % |
| Product sales | 47.0 | 41.7 |
| | ----- | ----- |
| Total revenue | 100.0 | 100.0 |
| Cost of sales | 59.9 | 64.2 |
| | ----- | ----- |
| Gross profit | 40.1 | 35.8 |

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| | | |
|----------------|--------|--------|
| Total expenses | 24.9 | 22.8 |
| | ----- | ----- |
| Net income | 15.2 % | 13.0 % |
| | ===== | ===== |

Revenue for the six months ended September 30, 2004 was \$5,984,941, an increase of 5% from revenue of \$5,684,034, for the six months ended September 30, 2003. The revenue increase was due to increases in commercial product sales partially offset by a decline in research and development revenue.

Research and development revenue decreased 4% for the six months ended September 30, 2004 to \$3,171,749 from \$3,316,518 for the six months ended September 30, 2003 due to a shift in resources from government-funded research contracts to company-funded research. Commercial product sales increased 19% to \$2,813,192 from \$2,367,516.

Gross profit margins increased to 40% for the six months ended September 30, 2004 as compared to 36% for the six months ended September 30, 2003. The increase was due to manufacturing efficiencies on commercial products and a more favorable mix between product sales and contract research and development, partially offset by a shift in product mix.

Research and development expenses increased by 39% to \$667,852 for the six months ended September 30, 2004 as compared to \$481,242 for the six months ended September 30, 2003. The increase was due to shifting resources from government-funded research contracts to company-funded research.

Selling, general and administrative expenses for the six months ended September 30, 2004 increased by 4% to \$966,244 compared to \$926,554 for the six months ended September 30, 2003. The increase was due primarily to higher intellectual property legal expenses.

We recorded pre-tax income of \$906,969 and \$740,894 for the six months ended September 30, 2004 and September 30, 2003, respectively. The income tax provision for the six months ended September 30, 2004 is comprised of a U.S. Federal income tax expense of \$308,369, offset by a tax valuation allowance adjustment of \$308,369. The income tax provision for the six months ended September 30, 2003 is comprised of a U.S. Federal income tax expense of \$251,904, offset by a tax valuation allowance adjustment of \$251,904.

Net income totaled \$906,969 for the six months ended September 30, 2004 compared to \$740,894 for the six months ended September 30, 2003. The increase in net income was due to higher gross profit margins partially offset by higher expenses.

Liquidity and capital resources

At September 30, 2004 we had \$7,224,803 in cash and available-for-sale securities, consisting of marketable fixed-income investments. We believe our working capital is adequate to meet our requirements for at least the next twelve months.

Outlook

We have been shifting resources from government-funded research contracts to company-funded research in order to develop new commercial products. Our contract research and development revenue may decline in the remainder of fiscal 2005.

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Gross profit margins could decrease in the balance of fiscal 2005 compared to the prior year as competitive pressures could force us to decrease our selling prices and our mix may shift to industrial product sales from medical product sales.

Increased MRAM development expenses could reduce research and development revenue and increase research and development expenses going forward.

We expect selling, general and administrative expenses to increase in fiscal 2005 if we rollout MRAM manufactured under our technology agreement with Cypress Semiconductor Corporation. We may also increase expenditures relating to MRAM license procurement. Legal expenses relating to enforcing our MRAM intellectual property may also increase. We expect general and administrative expenses to increase in the remainder of fiscal 2005 due to consulting and auditing related to compliance with Sarbanes-Oxley.

While we expect to remain profitable in the rest of the fiscal year, there is a risk that these additional expenses could lead to lower net income compared to the prior year or operating losses.

We may purchase additional capital equipment needed to package and test MRAM from wafers manufactured under our technology agreement with Cypress.

Item 3. Controls and Procedures.

Disclosure Controls and Procedures

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act.

Internal Control Over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) during the quarter ended September 30, 2004 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II--OTHER INFORMATION

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

An annual meeting of shareholders was held on August 17, 2004. There were 4,496,245 shares of common stock entitled to vote at the meeting with a majority represented at the meeting. The shareholders elected six directors to serve until the next Annual Meeting of Shareholders: Terrence Glarner, Daniel A. Baker, James M. Daughton, Robert H. Irish, Jeffrey K. Kaszubinski, and Patricia M. Hollister.

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Item 5. Other Information.

IMPLICATIONS OF MOTOROLA'S SPIN OFF OF FREESCALE

On March 10, 1995, we executed a Patent License Option Agreement with Motorola, Inc., which gave Motorola the right but not the obligation to take a license under our MRAM intellectual property within a limited time.

On April 14, 2000 we executed a Patent License Option Agreement Amendment which obligated Motorola to pay NVE \$500,000 in consideration for extending the Patent License Option Agreement, and gave Motorola the right to elect to exercise its option to license our intellectual property for a further payment of \$800,000.

On September 18, 2000 Motorola notified us that it was electing to exercise its option to acquire a non-exclusive, non-transferable, and non-assignable license under the Patent License Option Agreement Amendment and made the corresponding further payment.

Certain of our patents cover MRAM cells with transistor selection for data retrieval, which we believe may be necessary for successful high-density, high-performance MRAMs. We know of no practical alternative design being pursued by potential MRAM suppliers that could be sold in commercial quantities in the foreseeable future.

On July 16, 2004 Motorola spun off its Freescale Semiconductor Division as a separate, publicly-traded entity affiliated with, and controlled by, Motorola including Motorola's semiconductor manufacturing facilities.

In early October 2004 we received written notification that Motorola intends to distribute its remaining ownership interest in Freescale to its common stockholders. In its filings with the SEC, Freescale Semiconductor, Inc. has said it has been advised by Motorola that Motorola anticipates that the distribution will occur by the end of 2004. Completion of the distribution is contingent upon a variety of conditions, and Freescale has stated that the distribution may not occur by the contemplated time or may not occur at all.

In a letter received in early October 2004, Motorola and Freescale asked us to consent to Motorola's assignment of the Patent License Option Agreement to Freescale without additional consideration. We have declined to provide such consent.

Our attorneys have reviewed our agreements with Motorola in light of the Freescale spinoff.

Based on that review, we believe that as long as Motorola controls Freescale, Motorola and Freescale both enjoy rights granted to our intellectual property under our agreements with Motorola.

We believe that Motorola cannot, however, effectively assign its rights to our MRAM intellectual property under our Patent License Option Agreement to Freescale without our consent when, if ever, it no longer controls Freescale.

Furthermore, we believe that our Patent License Option Agreement with Motorola will terminate December 31, 2005 or on the date Motorola ceases manufacturing MRAM Products whichever is later. Such a termination appears likely should Motorola eliminate its ability to manufacture MRAM Products through its spinoff of, and any ending control of, Freescale.

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If Freescale loses its license through Motorola from NVE through ceasing to be controlled by Motorola, or if the Patent License Option Agreement is terminated through a cessation of manufacturing of MRAM Products by Motorola, we would be free to negotiate a new license agreement with Freescale.

We have had exploratory discussions with Freescale concerning the possible structure of a new agreement or an assignment of the Patent License Option Agreement with additional amendments. There can be no assurance, however, that agreement will be reached with Freescale, or that any such agreement with Freescale would be on more favorable terms to NVE than the present agreement with Motorola, or that NVE would receive any value under the existing Patent License Option Agreement or any value under any such further agreement with Freescale.

Item 6. Exhibits.

- 31.1 Certification by Daniel A. Baker pursuant to Rule 13a-14(a)/15d-14(a).
- 31.2 Certification by Richard L. George pursuant to Rule 13a-14(a)/15d-14(a).
- 32 Certification by Daniel A. Baker and Richard L. George pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 99 Cautionary statements for purposes of the "safe harbor" provisions of The Private Securities Litigation Reform Act.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NVE CORPORATION
(Registrant)

Date October 20, 2004

/s/ Daniel A. Baker

Daniel A. Baker
President and Chief Executive Officer

Date October 20, 2004

/s/ Richard L. George

Richard L. George
Chief Financial Officer