NASDAQ:NVEC Q2 2026 Earnings Call Transcript

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Dan Baker | President and CEO:

Good afternoon and welcome to the NVE Corporation conference call for the quarter ended September 30th, 2025. I'm Dan Baker, NVE's President and CEO. I'm joined by Daniel Nelson, our Principal Financial Officer, and Pete Eames, Vice President of Advanced Technology. This call is being webcast live by YouTube and Amazon Chime and being recorded. A replay will be available through our website, nve.com, and our YouTube channel, youtube.com slash nvecorporation. All participants are currently in listen-only mode. After our presentation, there will be a question and answer session. After my opening comments, Daniel Nelson will present our financial results, Pete will cover new products and R&D, I'll cover the business, and then we'll open the call to questions. We issued our press release with financial results and filed our quarterly report on Form 10-Q in the past hour following the close of market. Links to the press release and 10-Q are available through our website, the SEC's website, and X, formerly known as Twitter. Please refer to the Safe Harbor Statement on your screen. Comments we may make that relate to future plans, events, financial results, or performance are forward-looking statements that are subject to certain risks and uncertainties, including, among others, such factors as uncertainties related to the economic environments and the industries we serve, risks and uncertainties related to future sales and revenue, and risks and uncertainties related to tariffs, customs, duties, and other trade barriers. as well as the risk factors listed from time to time in our filings with the SEC, including our annual report on Form 10-K for the year ended March 31, 2025. Actual results could differ materially from the information provided, and we undertake no obligation to update forward-looking statements we may make. We're pleased to report a 4% sequential increase in revenue driven by strong increases in distributor and non-defense sales, despite an expected decrease in defense sales. Daniel Nelson will cover details of the financials. Daniel.

Daniel Nelson | Principal Financial Officer:

Revenue increased 4% quarter over quarter sequentially and decreased 6% year over year. The year-over-year decrease was due to a 68% decrease in contract R&D revenue, partially offset by a 1% increase in product sales. Contract R&D was 3% of revenue. The year-over-year increase in product sales was due to a 21% increase in non-defense sales, partially offset by a 64% decrease in defense sales, which can be volatile because of defense procurement cycles. Defense product sales were 8% of revenue in the past quarter. Contract R&D is primarily defense or government related, and those revenues can also be uneven. Our defense business is primarily anti-tamper products that protect U.S. technology. It's important to our country, and it's profitable business, although it's not part of our growth strategy. The defense business has been steadily recovering this fiscal year, and as expected, defense industry sales increased sequentially in the past quarter. Distributor sales also increased nicely, both sequentially and year over year. Gross margin decreased to 78% from 86% the prior year quarter due to a less profitable product mix and strong distributor sales, which tend to have lower margins than direct sales. Total expenses decreased 7% for the second quarter of fiscal 2026 compared to the second quarter of fiscal 2025 due to a 3% increase in R&D expense and a 23% decrease in SG&A. The increase in R&D was due to increased new product development. The decrease in SG&A was primarily due to the timing of sales and marketing activities and reassignment of some SG&A resources to manufacturing and new product development. Our tax rate increased to 20% for the second quarter of fiscal 2026, compared to 17% for the second quarter of fiscal 2025, primarily due to the non-cash impact of tax law changes on certain tax deductions this fiscal year. We currently expect a full-year tax rate of between 16% and 17% this fiscal year because we expect advanced manufacturing investment tax credits of between $700,000 and $1 million to offset the effect of other tax law changes. The advanced manufacturing investment tax credit was extended in the tax bill enacted in July and

increases from 25% to 30% in calendar 2026. We currently expect our effective tax rate next fiscal year to also be approximately 16% to 17%. More importantly, the tax law changes will reduce our cash taxes by approximately $1 million over three quarters starting this quarter, the December quarter, by allowing us to accelerate the deduction of previously un-armortized R&D expenses. After taxes, net income for the second quarter of fiscal 2026 was $3.31 million, or 68 cents per diluted share, compared to $4.03 million, or 83 cents per share for the prior year quarter. The decrease in net income for the quarter was primarily due to decreased revenue, lower margins, and a higher tax rate compared to a year ago, partially offset by decreased expenses. Our profitability metrics remain strong. Operating margin was 58%, pre-tax margin was 65%, and net margin was 52%. For the first six months of fiscal 2026, total revenue was $12.5 million, and net income was $6.89 million, or $1.42 per diluted share. Adding in approximately $159,000 in unrealized gain on our marketable securities for the fiscal year, comprehensive income for the first half was $7.05 million. Turning to cash flow items. Cash flow from operations was $7.98 million in the first six months of the fiscal year. Accounts receivable decreased $1.1 million, primarily due to the timing of customer payments. Prepaid expenses and other assets increased by $730,000, primarily due to an increase in accrued bond interest and a decrease in federal and state taxes due. The decrease in taxes due was because we deducted previously unamortized research and development expenses in the past quarter, as permitted under the Federal Budget Reconciliation Bill enacted July 4, 2025. Accrued payroll and other current liabilities decreased $286,000, primarily due to the payments of federal and state taxes balance due as of March 31, 2025. Fixed asset purchases were $1.13 million for the first half of the fiscal year. Most of that was for a cluster of production equipment, which arrived in July. We successfully installed the equipment in the past quarter and hope to complete deployment by the end of this fiscal year. We currently expect to spend an additional $1 to $1.5 million on fixed asset in the last six months of the fiscal year to complete our production expansion. Pete Ames will discuss that equipment shortly. Now I'll turn the call over to Pete Ames, our Vice President of Advanced Technology, to talk about our plans for the new equipment and to cover new products and R&D.

Pete Eames | Vice President of Advanced Technology:

Pete? Thanks, Daniel. I'll cover new equipment and R&D. New equipment in the past year will increase our capacity, increase our capabilities, and allow us to do wafer-level chip-scale packaging in-house. As Daniel said, we completed installation of a new equipment cluster in the past quarter in an expanded production area on the east end of our building. We've begun developing advanced Spintronic processes on the new equipment, and wafer-level chip-scale packaging makes our parts smaller and more precise. Our R&D strategy is to make the world's best electronics for high value markets such as medical devices, electric and autonomous vehicles, advanced factory and humanoid robotics, and highly automated fourth wave factories using artificial intelligence of things. Executing on that strategy, we launched three new products in the past quarter. A rotation sensor for applications such as networked utility meters and robotics, a new type of data coupler for motor control and energy conversion, and a new wafer-level chip-scale voltage regulator for ultra-miniature and ultra-robust power conversion in harsh environments. There are demonstrations of the new products on our website and on our YouTube channel. Going forward with the ingenuity of our engineers and scientists, the new equipment will continue to accelerate product development and fuel growth. Now I'll turn it back over to Dan.

Dan Baker | President and CEO:

Thanks, Pete. I'll cover sales and marketing in our annual meeting. We exhibited at the Medical Design and Manufacturing Trade Show the past two days in Minneapolis, part of the Advanced Manufacturing event. Minnesota is a healthcare industry hub, and medical devices are an important market for us. We have a convincing benefit proposition for medical devices with small size, low power, and superb reliability. At the show, we highlighted new wafer-level chip scale parts for miniaturization of implantable medical devices and surgical robots, high-sensitivity sensors for medical device navigation, our best-in-class electrical isolators to

ensure the safety of medical instruments, and nanopower sensors for battery-powered medical devices. We gave away working sensor circuit boards with permanently connected batteries at the show to demonstrate ultra-low power performance. It was a popular promotion. We've been following up on some good leads from the show, and we believe our investments and trade shows will pay off in future sales. We held our annual shareholders meeting in the past quarter here at NVE. Proxy advisory firms recommend in-person annual meetings for good governance. All of our directors and officers attended, along with our auditors. We had a chance to meet shareholders, answer questions, do live demos, and provide tours. Shareholders had a chance to see our expanded production area and our new equipment. We set up a compressor and compressed air tank to demonstrate pneumatic cylinder sensors. Pneumatic cylinders are the muscles of many robots, and our sensors are their eyes. Visitors could try out our new wafer-level chip scale sensors and advanced proximity sensors for advanced robotics. Visitors could try out our new wafer-level chip scale sensors and advanced proximity sensors for advanced robotics. In the formal meeting, each director was reelected, named executive officer compensation was approved, and the selection of our independent registered public accounting firm was ratified. We filed the final vote counts in a current report on form 8K. There's a replay of the annual meeting and demonstrations on our website and YouTube channel. Now we'd like to open the call for questions. To ask a question from a phone, press star seven to unmute, or from a browser or the chime app, click the raise my hand icon under the meeting chat. That's at the bottom of the left column and unmute yourself to speak. Please state your name and affiliation before your question. And to prevent background noise, please mute your line after asking your questions.

spk01 | Caller:

Hello, am I on? You are. Okay. Well, I have a quick question. It's great that you're selling all this new equipment. Should we expect to see growth in revenues for this new equipment or is it just growth in capabilities?

Dan Baker | President and CEO:

No. Part of our goal, as Pete said in the prepared remarks, is to use the new equipment to develop advanced products and to fuel our future growth. So it's both to increase our capabilities and to develop new products.

spk01 | Caller:

Right. And when should we see that future growth?

Dan Baker | President and CEO:

Well, our goal is always to grow. And in our core market, we grew, we had strong growth in the past quarter. So we're starting to see the results of our R&D and our expansion plans already.

spk01 | Caller:

So you're referring to the sequential growth and also to the non-military growth. Is that correct? Exactly. Okay. The chip level scale packaging, when would that ramp up?

Dan Baker | President and CEO:

Well, we've been sampling the products for several quarters now. We have customer interest, and we're continuing to expand that product line. So we expect it to be a significant growth driver going forward.

spk01 | Caller:

Going forward, meaning as soon as this current quarter?

Dan Baker | President and CEO:

Yes, conceivably. In certain markets and industrial markets, that's certainly possible. Our goal is to make a design-in process as fast as possible. In the medical markets, which is one of our core markets, sometimes the development cycle can be a long time because of regulatory issues, but in the industrial markets, our goal is to get design wins.

spk01 | Caller:

Can you tell us Again, what would the advantages of chip-level scale packaging be?

Dan Baker | President and CEO:

So the advantages are that the parts are smaller, more precise, they're more precise because they're smaller. And so they have more spatial specificity. And then the other business advantage is that we can do that in house. So we're less susceptible to supply chain risks. And of course, the costs associated with those especially, especially in an environment with uncertain tariffs.

spk01 | Caller:

Okay, this is all great to hear. This is all for me, and I apologize. Could you remind me how to get off the call, how to mute my line while remaining on the call?

Dan Baker | President and CEO:

So, Star 7 should mute or unmute your line. Okay, thank you. Thank you for calling.

Jeff Bernstein | Investor:

Hi, Dan. It's Jeff Bernstein. Hi, Jeff. A couple of questions for you. I am curious, is wafer scale packaging now allowing you to have a fully domestic supply chain for those parts? And part two, do you have a fully domestic supply chain for any of your other parts?

Dan Baker | President and CEO:

We have, I think it's fair to say, a mostly domestic supply chain. We do buy materials from overseas, as most companies do, of course, but we are uniquely well-situated in the tariff environment because we're quite self-sufficient. We do the key operations, including front end, which is wafer deposition, and back end, which is test. And with the addition of wafer level chip scale, that will eliminate, that will bring in-house one of the

key elements of the supply chain, which is packaging our parts. Most of our traditional parts are packaged overseas, as are most semiconductors. But we are uniquely independent.

Jeff Bernstein | Investor:

But OK, so but it does sound like these new parts will make you 100 percent domestic.

Dan Baker | President and CEO:

Well, I wouldn't want to quite say 100 percent, Jeff, just because there are other materials and chemicals and things that we're relying on.

Jeff Bernstein | Investor:

Right.

Dan Baker | President and CEO:

And suppliers.

Jeff Bernstein | Investor:

But I really meant just, yeah, fabrication takes place.

Dan Baker | President and CEO:

Right. Right. Yes, that's true.

Jeff Bernstein | Investor:

OK. OK, that's great. And then I was curious, can you just remind us, you did mention a couple of things about, you know, the functions that you guys provide in medical devices. Can you remind us on hearing aids? I know Starkey I think now has a brand new very high end hearing aid product coming out. I would guess that usually this stuff happens. in cycles and that probably Sonova is probably doing the same thing. But just remind us what you do in that market and then also in the medical device market in terms of the part functions that you offer.

Dan Baker | President and CEO:

So in general, we enable communications between the device and the outside world for uploading and downloading data. And the uniqueness of our type of solution is that it's very secure and difficult to hack. We probably shouldn't get into the specifics of what our customers do just because it's confidential to them. But the advantages that we offer that are important in those markets are that our parts are small, they are very low power because these are battery-powered devices, and they're extremely reliable, which for medical devices, of course, critical.

Jeff Bernstein | Investor:

Gotcha. I seem to remember that in hearing aids, it was really sort of detecting if somebody is holding a handset by their ear. Is that still kind of a main thing?

Dan Baker | President and CEO:

That's been reported, yes.

Jeff Bernstein | Investor:

Gotcha. Okay. And then in cardiac rhythm management, where your customer, Abbott, has this sort of revolutionary aviator pacemakers, and now they have them for... dual implantation, so two at a time, one in each chamber of the heart. Is that a product location thing or is it a communication or what is exactly in those kinds of CRM applications?

Pete Eames | Vice President of Advanced Technology:

Hi, Jeff. This is Pete Eames. I can try to answer that question for you. Of course, we can't get into the specifics, but, yeah, we provide some unique capabilities for implanted medical devices in general. So we're small size and low power, as Dan mentioned, and that's ideal for small applications and battery-powered applications, among others.

Jeff Bernstein | Investor:

Okay. That's all I'm going to get, I guess. All right. And then you guys mentioned the isolator business and some new products, I think, there. You've got this major move in data centers to 800 volt DC. I think we've talked about before you guys being compatible with some of the silicon carbide, very high power density and high switching speed. ICs that are FETs that are coming out now. Are you applicable in these data center applications? And just talk a little bit about that.

Pete Eames | Vice President of Advanced Technology:

Yeah, we have some of the highest isolation voltage ratings in the industry, Jeff, and the voltages that you mentioned for data centers as well within our sweet spot for those applications. So it is a good application for NV and it's something that we're excited about.

Jeff Bernstein | Investor:

And it seems like there's probably not a huge amount of touch points in that industry to have to go after. You don't have the same problem of, you know, every engineer having their analog devices or Texas Instruments sort of website on their browser. You know, how do you guys try to go to market to try and get into that arena?

Dan Baker | President and CEO:

You're right, Jeff. It's a concentrated market, which is well suited to us because we can reach those folks. And we reach them through direct outreach, through distributors that specialize in those types of energy conversion markets. and through demonstrating our capabilities through our various marketing collaterals such as newsletters, application notes, and videos that show the unique capabilities that we have to convert energy extremely efficiently using those new wideband gap devices that you mentioned. Gotcha.

Jeff Bernstein | Investor:

And I guess you could say the same thing for the eVTOL market. There's not a ton of players there. Is that basically the same story there? And have you actually gotten any design wins in that market?

Dan Baker | President and CEO:

So you're right. That's a concentrated market as well. We target the tier one and tier two suppliers. So those are the companies that make modules that go into the cars. So we're not targeting the nameplate car manufacturers because they are buying these sorts of modules generally from other companies. So we target those customers. Again, we reach them through the marketing means that I mentioned, direct outreach, distributors, uh face-to-face distributors and uh bulletins and newsletters and we uh we can point to a number of or several automotive adjacent market design wins automotive adjacent i mean by that charging stations uh trucks and trains cars have a unique uh qualification process And we've engaged with companies to go through that process. So we're optimistic that we can add considerable value to next generation cars, hybrid electric vehicles and autonomous vehicles.

Jeff Bernstein | Investor:

Gotcha. Gotcha. And I'm sorry, I was meaning to ask about EVTOLs, the vertical takeoff and landing electric vehicles, which is sort of a very small fraternity of players there.

Dan Baker | President and CEO:

we have significant advantages in that type of power control obviously there's a premium on efficiency in that market on small size and on uh and on reliability so those are the type types of markets that uh that we feel have the high value added that make them good markets for us gotcha okay and then i i take it dan that you are not a gamer

Jeff Bernstein | Investor:

But I was really interested in that TDK press release about TMR sensors for game controllers to give the gamer an advantage over other players. And I actually think that's a really premium market because there are people who will pay anything to have the best NVIDIA chips for their systems and and these kinds of game controllers. So I don't know if that's a market that you guys are able to go after, but.

Pete Eames | Vice President of Advanced Technology:

I can jump in here again, Jeff. We have looked closely at consumer electronics and, in this case, gaming markets. We found the devices much less demanding than our target markets in robotics, industrial, internet of things, and medical. We even did a couple of demos last year you might have seen showing the precision and speed of our sensors in comparison to some alternatives. Gamers look for millisecond responses. We demonstrated microsecond responses thousands of times faster in our promotional video, so you can find all this on our YouTube site.

Jeff Bernstein | Investor:

Gotcha. Okay. All right. That's great. And then I'm sorry, I think I got on a minute or two late. Did you say anything about the puff market in the quarter? Did it recover or did it not recover in this quarter?

Pete Eames | Vice President of Advanced Technology:

Yeah, so the puff market, so that's for us, that's a physical and clonable function that is something that we work actively in. Many of our anti-tamper products use puff technology. We're currently selling these into military systems, and there's many potential commercial applications as well. I think we alluded to the financials on that earlier, and I think Daniel was clear that there's quite a bit of volatility in those sales.

Jeff Bernstein | Investor:

Gotcha. And so did they recover in this quarter from the prior quarter, or were they still down?

Dan Baker | President and CEO:

So we talked about sequential growth, but not year over year. Gotcha. Okay. And as we've said, that's not as well. And as you know, that's not one of the markets, it's an important market to us. And we're proud to be a part of that. But it's not really a key part of our growth strategy. We were very pleased to see the non-defense sales grow so strongly.

Jeff Bernstein | Investor:

Gotcha. And lastly, Dan, we talked last quarter about your application of very high sensitivity sensors to allow people to get rid of rare earth metal magnets. And I think you guys had said that you had some design wins. I'm just wondering, you know, kind of how long the turnaround time is to actual production of those kinds of systems and what, if anything, has happened in the quarter since in terms of design wind pace and or getting to production on some of those design winds?

Dan Baker | President and CEO:

Yeah, we've been pleased with the reaction to our sensors. And of course, there's been a spotlight on rare earth magnets and materials, materials such as neodymium and dysprosium, which virtually all come from China and have risky supply chains and the threat of tariffs. so we've long offered rare or three ferrite magnets as well as high sensitivity sensors to detect them we've been promoting those we promote them at every trade shows and we have customers that are interested and customers that remark you know i can use one of these regular ferrite magnets on an advanced sensor system, and indeed they can. So I think it's already translated into sales. It's difficult to characterize, you know, how many of them are replacing rare

earth magnets, but I'm sure it's some of them.

Jeff Bernstein | Investor:

Okay, thanks.

Dan Baker | President and CEO:

So if there are any other questions, press star seven to unmute or raise my hand from chime.

Mike Ostermeyer | Investor:

Okay, go ahead.

Pete Previtt | Shareholder:

Hi, Dan. This is Pete Previtt down in Florida. I'm sorry I wasn't able to make the care holder meeting this year, but I'm going to try to get there next year. I was excited to hear about the progress you made over the last year. I remember touring and you guys are doing a little demo of the east side and sounds like you've got that all set up and you got your equipment going. Can you talk a little bit about space? I know space is a premium there and you were looking at maybe additional buildings for future expansion. What's the situation with the space that you have there?

Dan Baker | President and CEO:

Well, Pete and his team did a fabulous job of freeing up the space that you saw. Of course, you saw it unfinished when you were here a little more than a year ago. And it's packed right now, but it's working for us. We renewed our lease. In order to make it economically viable to expand in this building, and we have additional plans to expand if need be. So we think this building will hold us and we also have contingency plans that we hope to be able to to execute that would involve moving certain groups into a different building in order to expand our production and other areas. So we have a plan, and it didn't involve having to move a lot of equipment from our current building, which would have been expensive and potentially disruptive.

Pete Previtt | Shareholder:

Okay. That's great. Great to hear. Thank you. And it's great to hear about the new products, certainly getting into the robotic market, Um, can you talk a little bit about, um, is there any potential in the future? I know it might be a little bit lower margin, but, um, are, are you able to potentially target the hall effect sensor market, uh, at any point where maybe your price, your cost structure can be reduced, where you can be more competitive or is that just not, not a target market at all?

Dan Baker | President and CEO:

The high end of that market is a target market. So for folks unfamiliar, Hall effect is a type of semiconductor magnetic switch. We make spintronic non-semiconductor switches. So we have a number of advantages that we've talked about repeatedly in terms of the small size, the high reliability, the low power. and the ability to provide smart connections for sophisticated systems. But it's not our goal to compete with commodity switches. But we talked about, for example, Jeff brought up the gaming market, which is a high-end market.

that's currently hall effect sensors. And if there's a need for folks who have reaction times in the microseconds rather than milliseconds, we believe that that's the type of market that perhaps we could look at. And there are other types of markets like that where they're using hall effect sensors now, and they can improve the performance significantly using our sensors. where there are the markets where a Hall effect sensor is good enough and they're really cheap versions. Those are not markets that we would typically target.

Pete Previtt | Shareholder:

Great. And I think there was an announcement today by Amazon where they want to start replacing a lot of people in their distribution centers with robots. Are those the types of robotic applications where NVE parts would potentially be used?

Dan Baker | President and CEO:

They are. Those are the types of industrial robots, the industrial Internet of Things, and the artificial intelligence of things that are the markets where we have a great benefit proposition. So smart factories, smart warehouses where they need sensor inputs and they need precision and speed, that's where we can add a lot of value. So those are the types of markets that we are targeting.

Pete Previtt | Shareholder:

Great. Thank you very much. Appreciate it. Thanks, Pete.

Mike Ostermeyer | Investor:

Dan, this is Mike Ostermeyer.

Pete Previtt | Shareholder:

Hi, Mike.

Mike Ostermeyer | Investor:

Yeah, hi. I think I believe a couple calls back you folks were thinking of breaking out your product sales by segments, defense in particular. Is my memory correct on that, on your reports?

Dan Baker | President and CEO:

Well, we don't break out segments. We do try to give some additional context and color on these calls, which Daniel did. And so this was a quarter where our underlying core business, the non-defense business, was extremely strong. So we wanted to provide that level of detail to you, our investors, so that you can see what's going on here. So we'll continue to do that. Formally putting it into reports and things, that's a little bit tougher.

Mike Ostermeyer | Investor:

Okay. And then the final, the other question is, how much comes... Your distributor sales obviously said have lower margins. What's the percent of distributor sales versus direct sales for you guys?

Dan Baker | President and CEO:

So we don't have a breakdown percentage-wise, but both are important. Both distributor and direct sales are important to us. The direct sales tend to be more large customers in targeted markets, such as medical devices. And distributor sales go to, well, they're distributed. They go to a lot of different customers and tend to have lower order volumes. So we consider them both important. But the uniqueness of the distributor market is that they have a lot of inventory. That's part of the value added that they provide. So when there's an industry downturn, the distributor sales, as there was a couple of years ago, the distributor sales tend to be depressed because they want to bleed down their inventories. And so we were very gratified to see the recovery in distributor sales that Daniel talked about, Daniel Nelson talked about in the prepared remarks.

Mike Ostermeyer | Investor:

Okay, so that tends to be somewhat, okay, rollercoaster kind of things possibly by the industry, by the macro background of it. Okay, and then the final, I have one other thing. Is there an issue, in the past I used to get emails and things about the conference calls and so forth, and for some reason all of a sudden that's got shut down. You've been having problems sending out reports?

Dan Baker | President and CEO:

Not that I know of, but our IT team is here, and they're feverishly making notes to make sure that you get your emails.

Mike Ostermeyer | Investor:

Okay, because I knew it was coming, but I saw it through other news sites.

Dan Baker | President and CEO:

Oh, okay. We'll check on that. But we know who you are, Mike, and we'll keep you informed. Okay. Good luck. Thanks, Mike.

Don Gere | Co-founder and Retired CIO of a Wealth Management Firm:

Dan, this is Don Gere. I'm a co-founder and retired CIO of a large wealth management firm. I'm just curious, looking through the past reports on the contract R&D, it's been really lumpy over time, but kind of looking through the expense ratio, uh you're you're dropping a good part of that to the bottom line it looks like um could you just give a little bit of a color on your approach to contract r d the amount of time that it takes and maybe takes away from other projects along the way

Dan Baker | President and CEO:

right so contract r d tends to be mostly defense related and can be as you say lumpy and cyclical but we view it primarily as a way to facilitate future sales and build our intellectual property portfolio so particularly for government or government sponsored r d contracts we typically own the resultant intellectual property. So it's a way to build our intellectual property portfolio without a direct expense hitting the bottom line. Because as you implied, in the case of contract R&D, the the expenses associated with that r d are considered cost of sales and so we make a profit on contract generally on contract r d it's not the main reason we do it the main reason we do it is to develop new products where we have potential customers particularly in the defense segment and to build our intellectual property portfolio But we consider our R&D team extremely valuable. So we look at that and we look at balancing the opportunity costs of deploying valuable resources on contracts versus in-house R&D. And so that mix can change depending on the contracts available and our internal opportunities.

Don Gere | Co-founder and Retired CIO of a Wealth Management Firm:

Okay, so basically they're subsidizing your internal R&D growth, taking away from some of the other expenses you might have incurred, and you're using it as a stalking horse for future sales. As you go into periods such as we're in right now with the government shutdown, is that affecting the upcoming months and the current period of time? Or are you structured that the contract is in place and just keeps rolling over like an annuity?

Pete Eames | Vice President of Advanced Technology:

Yeah, I can address that, Don. The shutdown is probably going to be much shorter term than the typical cycles for contract R&D work. So we're not too concerned about what looks to be a relatively prolonged shutdown.

Don Gere | Co-founder and Retired CIO of a Wealth Management Firm:

And so you're expecting a bounce back in the current quarter or are we kind of flattening out on a quarter by quarter basis or quarter over quarter basis?

Dan Baker | President and CEO:

Are you talking about revenues or revenues? Yes, yes. Well, our goal is always to grow. And I think we feel fairly confident that we can grow in the current quarter. Now, that's the December quarter. And part of that is because, frankly, last year was a little easier to compare than we sometimes have. But also, we feel that we have a good pipeline in most areas of our business and the industry has recovered. So we're very optimistic about the future and certainly the long-term prospects for growth, we're very optimistic.

Don Gere | Co-founder and Retired CIO of a Wealth Management Firm:

Okay. And the reason I was asking is it looks like any type of bounce back Or had you not seen that, you know, a third basically on a comparison basis year over year, your drop in earnings was pretty much coming from that segment. So looking into the next quarter or so, any sort of bounce back should be positive on a sequential basis to help the underlying earnings. Yes. And then this one kind of a little bit off the wall question, but looking at the interest income, which went up year over year, despite, I believe, cash coming down overall, your marketable securities and cash, and when you add them all together, at least if I did it properly,

we're in a period of declining rates. Did you extend your portfolios?

Daniel Nelson | Principal Financial Officer:

This is Daniel here, Don. The increase in our interest income in the past quarter is primarily due to new security purchases. Those securities were purchased at higher interest rates than the ones that matured in the prior year quarter. The decrease in our cash and cash equivalents is primarily because we paid more in cash dividends than we generated in cash flows from operations. Okay, great. Thank you.

Dan Baker | President and CEO:

Well, we're about out of time. We appreciate the-was there one more question?

Chip Rui | Rui Asset Management:

There is, if it's open. It's Chip Rui at Rui Asset Management. I appreciate the discussion on the contract R&D and just following up on that to confirm that doesn't really have any correlation with product revenue growth over the next year or so. It's really targeted just to the DoD, and that's one question. The second question would be, clearly the medical and sensor and robotic markets are great, but you've mentioned a couple times the defense market is not a target market for you. Curious on your thinking on that. If I heard that correctly and kind of what are your thoughts, it seems to be there's a lot of spending in areas that it seems you could take advantage of there. So just kind of those two clarifying questions. Thank you very much.

Dan Baker | President and CEO:

Yeah, thank you for the question. So on your first question, most of contract R&D, as we said in the prepared remarks, is defense related. So the other part of your question is that we do consider defense an important part of our business and we seek those contracts and those product sales. However, we don't see it as part of our long-term growth engine. It's not a fast-growing market, but we believe that it also indirectly, as I alluded to in one of the prior questions, it indirectly helps our long-term product sales by building our intellectual property portfolio in a number of areas, some of which have commercial applications for larger markets. In terms of the defense, defense contracts relating to defense products, that can be, sometimes we'll finish an R&D contract and if it's successful and Pete and his team do a great job, it usually is, then there's often product sales that are tied to that contract. So it's not always blue sky research or long-term research, as one might say. It can be targeted research at a particular problem. And if we can come up with solutions to that problem, we can sell products relatively near term.

Chip Rui | Rui Asset Management:

Got it. And just for clarity, I understand the other markets, especially like robotics and things like that, are all white space and big growth. But given your current revenue level, and again, I'm not an expert on your company, so this is kind of a one-on-one question, and thank you for indulging. It seems to me if you got specced in on a weapons program, missile drone or something like that, or even radar or something like that, the product sales there would be enormous versus your current revenue level too. So again, I know the defense market doesn't grow as fast as the other markets. So just help me clarify that. Is it revenue you would take or revenue you're not seeking? Thank you.

Dan Baker | President and CEO:

Right. So that's a good point. No, we do seek the revenues and we seek large contracts and we invest in that market. And it does have potential, as you say. But we also look at markets that are just historic with their opportunities, such as uh the industrial internet of things and the artificial intelligence of things that we really see is once in a lifetime opportunities and so those are what we tend to prioritize but we also look at uh defense opportunities and and in particular larger volume defense opportunities I think that's all the time we have for today. Again, we were pleased to report strong increases in distributor and non-defense sales. We launched three new products and we continue to deploy new equipment to fund and drive future growth. We look forward to speaking with you in January for our next quarterly call. A replay of this call will be available on the investor events page of our website, that's nve.com, and our YouTube channel, That's youtube.com slash NVE Corporation. Thank you again.