

NVE CORP /NEW/  
Form 10-K  
May 04, 2011

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

**FORM 10-K**

(Mark One)

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

For the fiscal year ended **March 31, 2011**

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**

**41-1424202**

State or other jurisdiction of incorporation or organization

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

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

**55344**

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code **(952) 829-9217**

Securities registered pursuant to Section 12(b) of the Act:

| <u>Title of each class</u>                             | <u>Name of each exchange on which registered</u> |
|--|--|
| <b>Common stock, \$0.01 par value ( Common Stock )</b> | <b>The NASDAQ Stock Market, LLC</b>              |

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.  
Yes  No

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

Yes  No

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

Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Accelerated filer

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes  No

The aggregate market value of the voting stock held by non-affiliates of the Registrant, based on the closing price on September 30, 2010, the last business day of the Registrant's most recently completed second fiscal quarter, as reported on the NASDAQ Stock Market, was approximately \$171 million.

The number of shares of the registrant's Common Stock (par value \$0.01) outstanding as of April 29, 2011 was 4,776,198.

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#### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of our Proxy Statement for our 2011 Annual Meeting of Stockholders are incorporated by reference into Items 10, 11, 12, 13, and 14 of Part III hereof.

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### **PART I**

#### **FORWARD-LOOKING STATEMENTS**

Some of the statements made in this Report or in the documents incorporated by reference in this Report and in other materials filed or to be filed by us with the Securities and Exchange Commission ( SEC ) as well as information included in verbal or written statements made by us constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are subject to the safe harbor provisions of the reform act. Forward-looking statements may be identified by the use of the terminology such as may, will, expect, anticipate, intend, believe, estimate, should, or continue, or the negatives of these terms or other variations on these words or comparable terminology. To the extent that this Report contains forward-looking statements regarding the financial condition, operating results, business prospects or any other aspect of NVE, you should be aware that our actual financial condition, operating results and business performance may differ materially from that projected or estimated by us in the forward-looking statements. We have attempted to identify, in context, some of the factors that we currently believe may cause actual future experience and results to differ from their current expectations. These differences may be caused by a variety of factors, including but not limited to risks associated with competition, progress in research and development activities by us and others, variations in costs that are beyond our control, decreased sales, failure of suppliers to meet our requirements, failure to obtain new customers, inability to meet customer technical requirements, inability to consummate license agreements, ineligibility for SBIR awards, and other specific risks that may be alluded to in this Report or in the documents incorporated by reference in this Report. For further information regarding our risks and uncertainties, see Item 1A Risk Factors of this Report.

#### **ITEM 1. BUSINESS.**

##### **In General**

NVE Corporation, referred to as NVE, we, us, or our, develops and sells devices that use spintronics, a nanotechnology that relies on electron spin rather than electron charge to acquire, store and transmit information. We manufacture high-performance spintronic products including sensors and couplers that are used to acquire and transmit data. We have also licensed our spintronic magnetoresistive random access memory technology, commonly known as MRAM.

##### **NVE History and Background**

NVE is a Minnesota corporation headquartered in a suburb of Minneapolis. We were founded in 1989 by James M. Daughton, Ph.D., a spintronics pioneer. Our common stock became publicly traded in 2000 through a reverse merger and became NASDAQ listed in 2003. Since our founding, we have been awarded more than \$50 million in government research contracts, including more than 30 MRAM development contracts. These contracts have helped us build our intellectual property portfolio. Over the years our product sales have increased and we have reduced our dependence on research contracts. Fiscal years referenced in this report end March 31.

##### **Industry Background**

Much of the electronics industry is devoted to the acquisition, storage, and transmission of information. We have focused on three applications for our spintronic technology: magnetic sensors, couplers, and memories. Sensors acquire information, couplers transmit information, and memories store information. In that sense, our technology can provide the eyes, nerves, and brains of electronic systems.

Magnetic sensors can be used for a number of purposes including detecting the position or speed of robotics and mechanisms, or for communicating with implantable medical devices. We believe our spintronic sensors are smaller, more precise, and more reliable than competing devices.

Couplers are widely used in factory automation, providing reliable digital communication between electronic subsystems in factories. For example, couplers are used to send data between robots and central controllers at very

high speed. As manufacturing automation expands, there is a need for higher speed data and more channel density. Because of their unique properties, we believe our couplers transmit more data at higher speeds and over longer distances than conventional devices.

Near-term potential MRAM applications include mission-critical storage such as military, industrial, and anti-tamper applications. Long term, MRAM could address the market for ubiquitous high-density memory.

### **Our Enabling Technology**

Our designs are generally based on either giant magnetoresistance or tunneling magnetoresistance. These structures produce a large change in electrical resistance depending on the electron spin orientation in a free layer.

In giant magnetoresistance (GMR) devices, resistance changes due to conduction electrons scattering at interfaces within the devices. The GMR effect is only significant if the layer thicknesses are less than the mean free path of conduction electrons, which is approximately five nanometers. Our critical GMR conductor layers may be less than two nanometers, or five atomic layers, thick. Technological advances in recent years have made it practical to manufacture such small dimensions.

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The second type of spintronic structure we use is based on tunneling magnetoresistance (TMR). Such devices are known as Spin-Dependent Tunnel (SDT) junctions, Magnetic Tunnel Junctions (MTJs), or Tunneling Magnetic Junctions (TMJs). SDT junctions use tunnel barriers that are so thin that electrons can tunnel through a normally insulating material to cause a resistance change. SDT barrier thicknesses can be in the range of one to four nanometers (less than ten molecules).

In our products, the spintronic elements are connected to integrated circuitry and packaged in much the same way as conventional integrated circuits.

### **Our Strategy**

Our vision is to become the leading developer of practical spintronics technology and devices. We plan to do that by selling the products described below and licensing our MRAM technology. To grow product sales, we plan to broaden our sensor and coupler product lines, and longer-term to target larger markets such as consumer electronics.

### **Our Products and Markets**

We operate in one reportable segment. For financial information concerning this segment see Note 8 Segment Information of the Financial Statements included in this Report.

#### ***Sensor Products and Markets***

Our sensor products detect the strength or gradient of magnetic fields and are often used to determine position or speed. The GMR changes its electrical resistance depending on the magnetic field. In our devices, GMR is combined with conventional foundry integrated circuitry and packaged in much the same way as conventional integrated circuits. We sell standard or catalog sensors, and custom sensors designed to meet customers' exact requirements. Our sensors are quite small, very sensitive to magnetic fields, precise, and reliable.

##### ***Standard sensors***

Our standard, or catalog, sensors are generally used to detect the presence of a magnetic or metallic material to determine position or speed. We believe our spintronic sensors are smaller, more precise, and more reliable than competing devices. Our major market for standard sensors is factory automation.

##### ***Custom and medical sensors***

Our primary custom products are sensors for medical devices, which are customized to our customers' requirements and manufactured under stringent medical device quality standards. Most are used to replace electromechanical magnetic switches. We believe our sensors have important advantages in medical devices compared to electromechanical switches, including no moving parts for inherent reliability, and being smaller, more sensitive, and more precise. Our sensors can be customized using customer-specific integrated signal processing and design variations that can include the range and sensitivity to magnetic fields, electrical resistance, and multi-sensor elements configuration. Future custom sensor target markets include consumer and automotive electronics.

#### ***Coupler Products and Markets***

Our spintronic couplers combine a GMR sensor element and an IsoLoop integrated microscopic coil. The coil creates a small magnetic field that is picked up by the spintronic sensor, transmitting data almost instantly. Couplers are also known as isolators because they electrically isolate the coupled systems. Our IsoLoop couplers are much faster than the fastest optical couplers.

We have four lines of coupler products: cost-effective IL500-Series couplers; IL600-Series passive-input couplers; IL700/IL200-Series digital-input couplers; and IL400/IL3000-Series isolated network couplers.

#### ***MRAM Products and Markets***

MRAM uses spintronics to store data. It has been called the ideal or universal memory because of its potential to combine the speed of SRAM, the density of DRAM, and the nonvolatility of flash memory. Data is stored in the spin of the electrons in thin metal alloy films, and read with spin-dependent tunnel junctions. Unlike electrical charge, the spin of an electron is inherently permanent. We have invented several types of MRAM memory cells including inventions related to advanced MRAM designs and MRAM for tamper prevention or detection.

Our strategy is to develop, manufacture, and sell low bit-density MRAM for applications such as tamper prevention and detection. For high bit-density MRAM, our strategy is to license our technology to companies with large-scale memories manufacturing capabilities.



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### **Product Manufacturing**

Our fabrication facility is a cleanroom area with specialized equipment to deposit, pattern, etch, and process spintronic materials. Most of our products are fabricated in our facility using either raw silicon wafers or foundry wafers. Foundry wafers contain conventional electronics that perform housekeeping functions such as voltage regulation and signal conditioning in our products.

Each wafer may include thousands of devices. We build spintronics structures on wafers in our fabrication facility. We either saw wafers to be sold in die form, or wafers are sent to Asia for dicing and packaging. Other production operations include wafer-level inspection and testing. Packaged parts are returned to us to be tested, inventoried, and shipped.

### **Sales and Product Distribution**

We rely on distributors who stock our products and sell them in more than 75 countries. Distributors of our products include Digi-Key Corporation, HY-LINE Group, Premier Farnell plc companies, and Rhopoint Components Ltd. Our distributor agreements generally renew annually. In addition, Avago Technologies, a leading supplier of solid-state couplers, distributes private-branded versions of some of our couplers under an agreement that expires in June 2013.

### **New Product Status**

In the past year we began marketing several new products including new couplers designed for Controller Area Networks, which are networks used in automobiles and factory automation, and extremely low-power miniature sensors. Long-term product development programs in fiscal 2011 included spintronic solid-state compasses applicable to consumer electronics and MRAM designed for tamper prevention and detection.

### **Our Competition**

#### ***Industrial Sensor Competition***

A limited number of other companies claim to either make or have the capability to make GMR and TMR sensors. Also, several competitors make solid-state industrial magnetic sensors including silicon Hall-effect sensors and anisotropic magnetoresistive (AMR) sensors. We believe those types of sensors are not as sensitive as our GMR or TMR sensors.

#### ***Medical Sensor Competition***

Our sensors for medical devices face competition from electromechanical magnetic sensors and from other solid-state magnetic sensors. Electromechanical magnetic sensors such as reed and micro-electromechanical system (MEMS) switches have been in use for several decades. Electromechanical competitors include Hermetic Switch, Inc., Meder Electronic AG (Engen/Welschingen, Germany), and Memscap SA (Grenoble, France). Because our sensors have no moving parts, we believe they are inherently more reliable than electromechanical magnetic sensors. We also believe our sensors are smaller than the smallest electromechanical magnetic sensors, more precise in their magnetic switch points, and more sensitive. Compared to other solid-state sensors, our medical sensors may have advantages in size, sensitivity to small magnetic fields, or electrical interface simplicity.

#### ***Coupler Competition***

Competing coupler technologies include optical couplers, inductive couplers (transformers), and capacitive couplers. Our strategy is to compete based on product features rather than to compete solely on price.

In addition to being a customer, Avago is a leading producer of high-speed optical couplers. Other prominent optical coupler suppliers are Fairchild Semiconductor International, Lite-On Technology Corporation, Renesas Electronics Corporation, Toshiba Corporation, and Vishay Intertechnology. We believe our couplers are smaller, faster, have less signal distortion, and have longer life than optical couplers.

Inductive couplers are made by a number of companies including Analog Devices, Inc. and Silicon Laboratories Inc. IsoLoop couplers are smaller and therefore require less circuit board space per channel than most optical or inductive couplers. MEMS inductive couplers are smaller than other inductive couplers, but we believe our devices have higher channel density per area and have less signal distortion. Manufacturers of capacitive couplers include Texas Instruments Incorporated. We believe we have a broader product line, higher channel density, less signal distortion, longer product life, and lower power consumption than capacitive couplers.

***MRAM Competition***

A number of companies compete or may compete with us for MRAM research and development or service business, or may be attempting to develop MRAM intellectual property for licensing to others. Emerging technologies that could compete with MRAM include graphene and carbon nanotubes, phase-change memory (PCM; also known as PRAM, PCRAM, chalcogenide, CRAM, or Ovonic memory), resistive RAM (RRAM), memory resistors (memristors), and conductive metal oxide (CMOx) memory. MRAM may have advantages over these technologies in either manufacturability, speed, bit density, data retention, or endurance.

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### **Sources and Availability of Raw Materials**

Our principal sources of raw materials include suppliers of raw silicon and semiconductor foundry wafers that are incorporated into our products, and suppliers of device packaging services. Our wafers sources are based around the world; our device packaging services are primarily in Asia.

### **Intellectual Property**

#### ***Patents***

We were granted four U.S. patents assigned to us in the fiscal year ended March 31, 2011. As of March 31, 2011 we had more than 50 issued U.S. patents assigned to us. We also have a number of foreign patents, a number of U.S. and foreign patents pending, and we have licensed patents from others. There are no patents we regard as critical to our business owned by us or licensed to us that expire in the next 12 months.

Much of our intellectual property has been developed with U.S. Government support. Under federal legislation, companies normally may retain the principal worldwide patent rights to any invention developed with U.S. Government support.

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 believe our 6,275,411 and 6,349,053 U.S. patents, both titled *Spin Dependent Tunneling Memory*, are particularly important. Both patents cover MRAMs using arrays of Spin Dependent Tunnel Junctions. Based on their public disclosures, we believe several companies are pursuing the approach described in these patents. The 6,275,411 patent expires in 2019 and the 6,349,053 patent expires in 2021. We also have patents on advanced MRAM designs that we believe are important, including patents that relate to magnetothermal MRAM, spin-momentum MRAM, and synthetic antiferromagnetic storage.

#### ***Trademarks***

NVE and IsoLoop are our registered trademarks. Other trademarks we claim include GMR Switch and GT Sensor.

#### ***Licenses***

We have licensed certain of our MRAM intellectual property to several companies, including Honeywell International Inc. and Motorola, Inc.

#### ***Agreements with Honeywell***

We have agreements and amendments to agreements with Honeywell dating back approximately to our founding. Under these agreements we are not required to pay royalties to Honeywell for the use of their intellectual property, and Honeywell has intellectual property rights to certain of our earlier-developed MRAM technology.

#### ***Motorola License***

We granted Motorola a non-exclusive, nontransferable, and non-assignable license to our MRAM intellectual property and received advance payments in conjunction with the agreement. Motorola has since separated Freescale Semiconductor, Inc. Motorola and Freescale asked us to consent to Motorola's assignment of the Patent License Option Agreement to Freescale. We have declined to provide such consent without additional consideration. We believe the Motorola agreement likely terminated in 2005 because Motorola transferred manufacturing to Freescale. Freescale later announced the formation of Everspin, an independent company that would take ownership of Freescale's MRAM manufacturing assets.

### **Seasonality**

In fiscal 2009 our product sales were less in the quarter ended December 31 than the quarter ended September 30. This sequential decrease did not occur in fiscal 2010 or 2011, possibly due to the addition of new customers, increased purchase volume by existing customers, or improved economic environments. We cannot predict whether seasonal

weakness in quarters ending December 31 will return in future fiscal years, and we cannot predict the possible impact of economic conditions on future results of operations. Furthermore, in every year since fiscal 2007 our product sales have increased in quarters ended March 31 from the quarters ended December 31, but we cannot predict whether this pattern will continue in fiscal 2012.

**Working Capital Items**

Like other companies in the electronics industry, we have historically invested in capital equipment for manufacturing and testing our products, as well as research and development equipment. We have also deployed significant capital in inventories to have finished products available from stock, to receive more favorable pricing for raw materials, and to guard against raw material shortages.

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### **Dependence on Major Customers**

We rely on several large customers for a significant percentage of our revenue, including Avago Technologies; Phonak AG; St. Jude Medical, Inc.; certain other medical device manufacturers; certain distributors; and the U.S. Government. The loss of any one or more of these customers could have a material adverse effect on us. For the purposes of this disclosure, all agencies of the U.S. Government are considered a single customer.

### **Firm Backlog**

As of March 31, 2011 we had \$2,964,885 of contract research and development backlog we believed to be firm, compared to \$1,527,621 as of March 31, 2010. We expect the firm backlog as of March 31, 2011 to be filled in fiscal 2012. Approximately 51% of our backlog as of both March 31, 2011 and March 31, 2010 was from agencies of the U.S. Government. U.S. Government orders that are not yet funded, or contracts awarded but not yet signed, are not included in firm backlog. The portion of orders already included in operating revenues on the basis of percentage of completion or program accounting are excluded. We do not believe any material portion of our business is subject to renegotiation of profits or termination of contracts or subcontracts at the election of the U.S. Government. There can be no assurance of additional contracts or follow-on contracts for expired or completed U.S. Government or other contracts.

Our product sales are made primarily under standard purchase orders. Only a small portion of our product order backlog is non-cancelable and that the dollar amount associated with the non-cancelable portion is not significant, therefore product order backlog is not included in firm backlog, and product sales backlog as of any particular date may not be indicative of future results. We also have certain agreements that require customers to forecast purchases; however, these agreements do not generally obligate the customer to purchase any particular quantity of products. Based on semiconductor industry practice and our experience, we do not believe that such agreements are meaningful for determining backlog amounts.

### **Research and Development Activities**

Over the past three fiscal years our research and development activities have included development of new sensors, couplers, and memories. We spent \$1,062,694 for fiscal 2011, \$872,673 for fiscal 2010, and \$966,610 for fiscal 2009 in company-sponsored research and development activities. Additionally, we spent \$4,371,852 during fiscal 2011, \$4,346,200 during fiscal 2010, and \$3,085,726 during fiscal 2009 on customer-sponsored research and development contract activities. These research and development contracts were with various agencies of the U.S. Government as well as non-government entities.

### **Environmental Matters**

We are subject to environmental laws and regulations, particularly with respect to industrial waste and emissions. Compliance with these laws and regulations has not had a material impact on our capital expenditures, earnings, or competitive position to date. Existing and future environmental laws and regulations could result in expenses related to emission abatement or remediation, but we are currently unable to estimate such expenses.

### **Number of Employees**

We had 58 employees as of March 31, 2011 compared to 52 as of March 31, 2010. Our employment can fluctuate due to a variety of factors. None of our employees are represented by a labor union or are subject to a collective bargaining agreement, and we believe we maintain good relations with our employees.

### **Financial Information About Geographic Areas**

International sales accounted for approximately 55% of our revenue in fiscal 2011, 49% in fiscal 2010, and 47% in fiscal 2009. More information about geographic areas is contained in Note 8 Segment Information of the Financial Statements included elsewhere in this Report.

**Available Information**

All reports we file with the SEC, including our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and proxy statements and additional proxy materials on Schedule 14A, as well as any amendments to those reports and schedules, are accessible at no cost through the Investors section of our Website ([www.nve.com](http://www.nve.com)). We make those filings available as soon as reasonably practicable after filing. These filings are also accessible through the SEC's Website ([www.sec.gov](http://www.sec.gov)).

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We caution readers that the following important factors, among others, could affect our financial condition, operating results, business prospects or any other aspect of NVE, and could cause our actual results to differ materially from that projected or estimated by us in the forward-looking statements made by us or on our behalf. Although we have attempted to list below the important factors that do or may affect our financial condition, operating results, business prospects, or any other aspect of NVE, other factors may in the future prove to be more important. New factors emerge from time to time and it is not possible for us to predict all of such factors. Similarly, we cannot necessarily assess or quantify the impact of each such factor on the business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in forward-looking statements.

**Risks Related to Our Business*****We may lose revenue if any of our large customers cancel, postpone, or reduce their purchases.***

We rely on several large customers for a significant percentage of our revenue. These large customers include Avago Technologies; Phonak AG; St. Jude Medical, Inc.; certain other medical device manufacturers; certain distributors; and the U.S. Government. Although we have agreements with certain large customers, these agreements do not obligate customers to purchase from us and may not prevent price reductions. Furthermore, orders from our large customers can generally be reduced, postponed, or canceled. Any decreases in purchase quantities or purchase prices, or the loss of any of our large customers, could have a significant impact on our revenue and our profitability.

***We risk losing business to our competitors.***

Our known product competitors include Avago Technologies; Analog Devices, Inc.; Fairchild Semiconductor International; Hermetic Switch, Inc.; Linear Technology Inc.; Maxim Integrated Products, Inc.; Meder Electronic AG; Memscap SA; NEC Corporation; Sharp Corporation; Silicon Laboratories, Inc.; Texas Instruments Incorporated; Toshiba Corporation; Vishay Intertechnology; and others. Many of our competitors and potential competitors have significantly greater financial, technical, and marketing resources than us. We believe that our competition is increasing as the technology and markets mature. This has meant more competitors and more severe pricing pressure. In addition, our competitors may be narrowing or eliminating our performance advantages. We expect these trends to continue, and we may lose business to competitors or it may be necessary to significantly reduce our prices in order to acquire or retain business. These factors could cause a material adverse impact on our financial condition, revenue, gross profit margins, or income.

***We will lose revenue if government contract funding is reduced, delayed, or eliminated.***

Although our revenue from agencies of the U.S. Government was less than 10% of our total revenue in each of the past three fiscal years, a material decrease in U.S. Government funded research or disqualification as a vendor to the U.S. Government for any reason would likely hamper future research and development activity and decrease related revenue. In addition to direct Government funding, certain of our non-Government customers depend on Government support to fund their contracts with us. Our direct and indirect Government funding depends on adequate continued funding of the agencies and their programs. Such funding is affected by Government spending priorities that can change and over which we have no control, and delays in such funding can occur for a number of reasons. Deficit reduction initiatives may impact Department of Defense budgets. Furthermore, a significant portion of our Government funding has been through Small Business Innovation Research (SBIR) contracts. SBIR budgets may be changed by legislation or by agencies such as the Department of Defense.

***If we were barred for any reason from U.S. government contracts there could be a significant adverse impact on our revenue and our ability to make research and development progress.***

If we were to be charged with violation of certain laws or if the U.S. Government were to determine that we are not a presently responsible contractor, we could be temporarily suspended or, in the event of a violation, barred for up to three years from receiving new U.S. Government contracts or government-approved subcontracts. In addition, we

could expend substantial amounts in defending against such charges and in damages, fines and penalties if such charges are proven or result in negotiated settlements. Being barred for any reason from U.S. Government contracts could have a material adverse effect on our revenue, profits, and research and development efforts.

***Failure to qualify as a small business under federal regulations could make us ineligible for some government-funded research contracts, which could have a significant adverse impact on our revenue and our ability to make research and development progress.***

We received approximately \$2.35 million in Small Business Innovation Research (SBIR) contract awards in fiscal 2011. Federal regulations place a number of criteria for a business to be eligible to compete for SBIR awards. Those criteria currently include number of employees and ownership structure. While we believe we meet the eligibility criteria, changes in our ownership beyond our control could cause us to lose our eligibility to compete for SBIR awards, which in turn could have a material adverse effect on our revenue, profits, and research and development efforts. In addition, SBIR eligibility requirements could be changed at any time.



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### ***Our backlog may not result in future revenue.***

While we evaluate each order to determine qualification for inclusion in our firm backlog, there can be no assurance that amounts included in our firm backlog ultimately will result in future revenue. A reduction in our firm backlog during any particular period, or the failure of our firm backlog to result in future revenue, could harm our business and revenue.

### ***We face an uncertain economic environment in the industries we serve, which could adversely affect our business.***

We sell our products into the semiconductor market, which is highly cyclical. Additionally, elements of U.S. healthcare system reform could have an adverse effect on the economic environment for the medical device industries we serve. We cannot predict the timing, strength, or duration of any economic slowdown or subsequent recovery, worldwide or in the industries we serve. The economic environment could have a material adverse impact on our business and revenue.

### ***Our reputation could be damaged and we could lose revenue if we fail to meet technical challenges required to produce marketable products.***

Our products use new technology and we are continually researching and developing product designs and production processes. Our production processes require control of dimensional, magnetic, and other parameters that are not required in conventional semiconductor processes. If we are unable to develop stable designs and production processes, we may not be able to produce products that meet our customers' requirements, which could cause damage to our reputation and loss of revenue.

### ***Our failure to meet stringent customer requirements could result in the loss of key customers and potentially reduce our sales.***

Some of our customers, including Avago Technologies and certain medical device manufacturers, have stringent technical and quality requirements that require our products to meet certain test and qualification criteria. Failure to meet those criteria could result in the loss of current sales revenue, customers, and future sales.

### ***Some of our sensors are incorporated into medical devices, which could expose us to a risk of product liability claims and such claims could seriously harm our business and financial condition.***

Certain of our sensor products are used in medical devices, including devices that help sustain human life. We are also marketing our sensor technology to other manufacturers of cardiac pacemakers and ICDs. Although we have indemnification agreements with certain customers including provisions designed to limit our exposure to product liability claims, there can be no assurance that we will not be subject to losses, claims, damages, liabilities, or expenses resulting from bodily injury or property damage arising from the incorporation of our products in devices sold by our customers. Existing or future laws or unfavorable judicial decisions could limit or invalidate the provisions of our indemnification agreements, or the agreements may not be enforceable in all instances. A successful product liability claim could require us to pay, or contribute to payment of, substantial damage awards, which would have a significant negative effect on our business and financial condition.

### ***Federal legislation may not protect us against liability for the use of our sensors in medical devices and a successful liability claim could seriously harm our business and financial condition.***

Although the Biomaterials Access Assurance Act of 1998 may provide us some protection against potential liability claims, that Act includes significant exceptions to supplier immunity provisions, including limitations relating to negligence or willful misconduct. A successful product liability claim could require us to pay, or contribute to payment of, substantial damage awards, which would have a significant negative effect on our business and financial condition. Any product liability claim against us, with or without merit, could result in costly litigation, divert the time, attention, and resources of our management and have a material adverse impact on our business.

### ***Any malfunction of our sensors in existing medical devices could lead to the need to recall devices incorporating***

***our sensors from the market, which may be harmful to our reputation and cause a significant loss of revenue.***

Any malfunction of our sensors could lead to the need to recall existing medical devices incorporating our sensors from the market, which may be harmful to our reputation because it is dependent on product safety and efficacy. Even if assertions that our sensors caused or contributed to device failure do not lead to product liability or contract claims, such assertions could harm our reputation and our customer relationships. Any damage to our reputation and/or the reputation of our products, or the reputation of our customers or their products could limit the market for our and our customers' products and harm our results of operations.

***We may lose business and revenue if we are unable to increase production capacity to meet market demand.***

Our production process relies on resources such as equipment, facilities, and personnel to meet the market demand for our products and services. If market demand increases, we may not be able to add production capacity fast enough to meet market demand. Furthermore, expansion of our production facilities carries risks of disruption. Failure to meet market demand could result in the loss of current sales revenue, customers, and future sales.

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### ***We may lose business and revenue if our critical production equipment fails.***

Our production process relies on certain critical pieces of equipment for defining, depositing, and modifying the magnetic properties of very thin metal films. Some of this equipment was designed or customized by us, and some may no longer be in production. While we have an in-house maintenance staff, maintenance agreements for certain equipment, some critical spare parts, and back-ups for some of the equipment, we cannot be sure we could repair or replace critical manufacturing equipment were it to fail.

### ***The loss of supply from any of our key single-source wafer suppliers could impact our ability to produce and deliver products and cause loss of revenue.***

Our critical suppliers include suppliers of certain raw silicon and semiconductor foundry wafers that are incorporated in our products. We maintain inventory of some critical wafers, but we have not identified or qualified alternate suppliers for many of the wafers now being obtained from single sources. Increased industry demand due to an economic recovery or other factors beyond our control or ability to predict could cause or exacerbate wafer supply shortages. Any wafer supply interruptions could seriously jeopardize our ability to provide products that are critical to our business and operations and may cause us to lose revenue.

### ***The loss of supply of any critical chemicals or supplies could impact our ability to produce and deliver products and cause loss of revenue.***

There are a number of critical chemicals and supplies that we require to make products. These include certain gases, photoresists, polymers, metals, and alloys. We maintain inventory of critical chemicals and materials, but in many cases we are dependent on single sources, and some of the materials could be discontinued by their suppliers at any time. Furthermore, current and future climate change regulations could increase our costs or cause the loss of supply of critical chemicals. We use chemicals such as sulfur hexafluoride in our manufacturing process that have been identified as greenhouse gases. If such chemicals were restricted or prohibited we would need to obtain substitutes that might be more expensive or less available. Supply interruptions or shortages for any reason could seriously jeopardize our ability to provide products that are critical to our business and operations and may cause us to lose revenue.

### ***The loss of supply from any of our single-source packaging vendors could impact our ability to produce and deliver products and cause loss of revenue.***

We are dependent on our packaging vendors including Circuit Electronic Industries Public Co., Ltd. ( CEI ) of Ayutthaya, Thailand. Some of our products use processes or tooling unique to a particular packaging vendor, and it might be expensive, time-consuming, or impractical to convert to another vendor in the event of a supply interruption. CEI has been operating under voluntary debt rehabilitation under Thailand law since 2005. We have identified potential alternate vendors for our most important products in case CEI's ability to serve our needs becomes impaired, but it could prove expensive, time-consuming, or technically challenging to convert to an alternate vendor. If one of our packaging vendors were to become insolvent we might not be able to recover work in process or finished goods in their possession. Furthermore, an alternate vendor may not have sufficient capacity available to meet our requirements. Any supply interruptions or loss of inventory could seriously jeopardize our ability to provide products that are critical to our business and operations and may cause us to lose revenue.

### ***We are subject to risks inherent in doing business in foreign countries that could impair our results of operations.***

Foreign sales were approximately 55% of our revenue for fiscal 2011, and we expect foreign sales to continue to represent a significant portion of our revenue in the future. Furthermore, we rely on suppliers in China, India, Taiwan, Thailand, and other foreign countries. Risks relating to or arising from operating in foreign markets that could impair our results of operations include economic and political instability; difficulties in enforcement of contractual obligations and intellectual property rights; changes in regulatory requirements, tariffs, customs, duties, and other trade barriers; transportation delays; acts of God, including floods, typhoons, and earthquakes; and other uncertainties relating to the administration of, or changes in, or new interpretation of, the laws, regulations, and policies of the

jurisdictions where we do business.

***Our business may suffer because we have limited influence over the rate of adoption of our MRAM technology, and MRAM technology may not build into a large or significant market.***

A significant portion of our future revenue and profits may be dependent on our current or future licensees introducing MRAM products using our technology. Production difficulties, technical barriers, high production costs, poor market reception, or other problems, almost all of which are outside our control, could prevent the deployment of MRAM or limit its market potential. Furthermore, competing technologies could prevent or supplant MRAM from becoming an important memory technology.

***Our future business may suffer because we may not be able to consummate additional MRAM license agreements.***

Although there are potential licensees for our MRAM intellectual property in addition to our current licensees, we may never be able to consummate additional license agreements. Potential licensees could also use their own or a third party's MRAM intellectual property rather than ours.

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***We may not be able to enforce our intellectual property rights or our technology may prove to infringe upon patents or rights owned by others, which may prevent the future sale of our products or increase the cost of such sales.***

We protect our proprietary technology and intellectual property by seeking patents, trademarks, and copyrights, and by maintaining trade secrets through entering into confidentiality agreements with employees, suppliers, customers, and prospective customers depending on the circumstances. We hold patents or are the licensee of others owning patented technology covering certain aspects of our products and technology. These patent rights may be challenged, rendered unenforceable, invalidated, or circumvented. In addition, rights granted under the patents or under licensing agreements may not provide a competitive advantage to us. At least several potential MRAM competitors have described designs that we believe would infringe on our patents if such designs were to be commercialized. Efforts to legally enforce patent rights can involve substantial expense and may not be successful. Furthermore, others may independently develop similar, superior, or parallel technologies to any technology developed by us, or our technology may prove to infringe on patents or rights owned by others. Thus the patents held by or licensed to us may not afford us any meaningful competitive advantage. If technology we use infringes on patents or rights owned by others, we may be prevented from selling products that use such technology, we might be required to license the patents or rights owned by others, or we may be required to indemnify our customers against expenses relating to possible infringement. Also, our confidentiality agreements may not provide meaningful protection of our proprietary information. Our inability to maintain our proprietary rights could have a material adverse effect on our business, financial condition, and results of operations.

***We may not be able to negotiate a new MRAM licensing agreement with Freescale or EverSpin.***

Our Patent License Option Agreement with Motorola provided for termination on December 31, 2005 or on the date Motorola ceases manufacturing MRAM Products, whichever is later. We believe such a termination is likely to have occurred as a result of Motorola apparently having eliminated its ability to manufacture MRAM Products through its spinoff of Freescale. In 2008 Freescale announced that it had transferred its MRAM technology and intellectual property to an independent company, EverSpin Technologies. We believe we are free to negotiate a new agreement with Freescale or EverSpin, or an assignment of the Motorola Patent License Option Agreement, but we have said we would do so only with amendments thereto. We have notified Freescale that we believe that MRAM products it has sold come within the scope of claims of a number of our patents. There can be no assurance, however, that any agreement can be reached with Freescale or EverSpin, or that any such agreement would be on more favorable terms to NVE than our agreement with Motorola, or that NVE would receive any value under the existing agreement with Motorola or any value under any such further agreement with Freescale or EverSpin.

***Our business success may be adversely affected if we are unable to attract and retain highly qualified management and technical employees.***

Employment agreements with our Chief Executive Officer and Chief Financial Officer do not prevent either from leaving the company, and we have no employment agreements with any other employees. We have no key-person insurance covering employees. Competition for highly qualified management and technical personnel can be intense and we may not be able to attract and retain the personnel necessary for the development and operation of our business. The loss of the services of key personnel could have a material adverse effect on our business, financial condition, and results of operations.

***We could incur losses on our marketable securities.***

At March 31, 2011, we held \$61,227,498 in short-term and long-term marketable securities, representing approximately 85% of our total assets. For the fiscal year ended March 31, 2011 we earned \$2,021,426 in interest, virtually all of which was from those securities. During the past two fiscal years a number of the securities we hold were downgraded by Moody's or Standard and Poor's indicating a possible increase in default risk. A credit crisis may have caused or contributed to many of these downgrades. Conditions and circumstances beyond our control or ability to anticipate can cause downgrades and increases in default risk. For example, in fiscal 2011 guaranteed global notes

issued by BP Capital Markets plc that we hold were downgraded due to the impact of BP's Macondo oil spill on BP's financial profile. Downgrades of any of our marketable securities are possible at any time for reasons beyond our control. Additionally, the assignment of a high credit rating does not preclude the risk of default on any marketable security. We could incur losses on our marketable securities, which could have a material adverse impact on our financial condition, income, or cash flows.

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### **Risks Related to Buying Our Stock**

*Our stock has been more volatile than other technology sector stocks.*

The market price of our common stock has experienced significant fluctuations and may continue to fluctuate in the future. Depending on the metric used, we believe this volatility is more than the overall market or some other technology-sector stocks.

*The price of our common stock may be adversely affected by significant price fluctuations due to a number of factors, many of which are beyond our control.*

From time to time our stock price has decreased sharply, and could decline in the future. The market price of our common stock may be significantly affected by many factors, some of which are beyond our control, including:

- technological innovations by us or our competitors;
- the announcement of new products, product enhancements, contracts, or license agreements by us or our competitors;
- delays in our introduction of new products or technologies or market acceptance of these new products or technologies;
- changes in demand for our customers' products;
- the announcement of changes in strategy or discontinuation of products by us or our potential licensees;
- quarterly variations in our operating results, revenue, or revenue growth rates;
- changes in revenue estimates, earnings estimates, or market projections by market analysts;
- speculation in the press or analyst community about our business, potential revenue, or potential earnings;
- short selling and covering of short positions in our stock; and
- general economic conditions or market conditions specific to particular industries served or potentially served by us or our customers.

### **ITEM 1B. UNRESOLVED STAFF COMMENTS.**

None.

### **ITEM 2. PROPERTIES.**

Our principal executive offices and manufacturing facility are located at 11409 Valley View Road, Eden Prairie, Minnesota, 55344. The space consists of 21,362 square feet of offices, laboratories, and production areas. The space is owned by the Barbara C. Gage Revocable Trust and leased under an agreement expiring December 31, 2015, with a right to cancel the lease at our option on December 31, 2012. We believe the facility is adequate to support our needed production capacity and plan to expand our production space within the facility. We hold no investments in real estate.

### **ITEM 3. LEGAL PROCEEDINGS.**

In the ordinary course of business we may become involved in litigation. At this time, we are not aware of any material pending or threatened legal proceedings or other proceedings contemplated by governmental authorities that we expect would have a material adverse impact on our future results of operation and financial condition.

### **ITEM 4. RESERVED.**

## **PART II**

### **ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES.**

#### **Market Information**

Our Common Stock trades on the Capital Market tier of the NASDAQ Stock Market under the symbol NVEC. The following table shows the high and low sales prices of our Common Stock as reported on the NASDAQ for each

quarter within our two most recent fiscal years:

|         | Quarter Ended |          |          |          |          |          |          |          |
|---------|---------------|----------|----------|----------|----------|----------|----------|----------|
|         | 3/31/11       | 12/31/10 | 9/30/10  | 6/30/10  | 3/31/10  | 12/31/09 | 9/30/09  | 6/30/09  |
| High \$ | 63.49         | \$ 58.65 | \$ 48.10 | \$ 51.59 | \$ 48.61 | \$ 53.49 | \$ 63.64 | \$ 49.49 |
| Low \$  | 51.01         | \$ 42.17 | \$ 38.00 | \$ 42.84 | \$ 39.83 | \$ 35.51 | \$ 40.00 | \$ 28.02 |

### Shareholders, Dividends, and Securities Authorized for Issuance Under Equity Compensation Plans

We had approximately 111 shareholders of record and 8,347 total shareholders as of April 20, 2011. We have never paid or declared any cash dividends on our Common Stock. We do not anticipate paying dividends in the foreseeable future, as we intend to retain any earnings we may generate if needed to provide for the expansion of our business, the possible defense of our intellectual property, or for use in unforeseen circumstances. Information regarding our securities authorized for issuance under equity compensation plans will be included in the section

Equity Compensation Plan Information of our Proxy Statement for our 2011 Annual Meeting of Shareholders, and is incorporated by reference into Item 12 of this Report.



**Table of Contents****Stock Performance Graph**

The graph below compares the performance of our Common Stock to the cumulative five-year performance of the NASDAQ Industrial Index and the Cedrus Nanotechnology Index Pure. NVE is included in both indices. The NASDAQ Industrial Index includes NASDAQ domestic and international based common-type stocks. The graph and table assume \$100 was invested on March 31, 2006 in each of our Common Stock, the NASDAQ Industrial Index, and the Cedrus Nanotechnology Index Pure, with reinvestment of dividends.

|                                  | 3/31/2006 | 3/31/2007 | 3/31/2008 | 3/31/2009 | 3/31/2010 | 3/31/2011 |
|----------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| NVE Corporation                  | \$ 100.00 | \$ 170.29 | \$ 154.18 | \$ 179.84 | \$ 282.77 | \$ 351.69 |
| Cedrus Nanotechnology Index Pure | \$ 100.00 | \$ 111.27 | \$ 121.16 | \$ 73.82  | \$ 137.22 | \$ 158.75 |
| NASDAQ Industrial Index          | \$ 100.00 | \$ 106.51 | \$ 95.08  | \$ 56.35  | \$ 93.56  | \$ 117.51 |

**Stock Repurchase Program**

On January 21, 2009, we announced that our Board of Directors authorized the repurchase of up to \$2,500,000 of our Common Stock. The repurchase program may be modified or discontinued at any time without notice. We did not repurchase any of our Common Stock during the quarter ended March 31, 2011.

**ITEM 6. SELECTED FINANCIAL DATA.**

The following balance sheet and income statement selected financial data should be read in conjunction with our financial statements and notes included in Item 8 of this Report, and with Management's Discussion and Analysis of Financial Condition and Results of Operation included in Item 7 of this Report. The data are derived from our financial statements.

|   | Balance Sheet Data as of March 31 |               |               |               |               |
|---|-----------------------------------|---------------|---------------|---------------|---------------|
|   | 2011                              | 2010          | 2009          | 2008          | 2007          |
| Cash, cash equivalents, and marketable securities | \$ 62,179,707                     | \$ 49,543,766 | \$ 34,321,811 | \$ 24,736,874 | \$ 18,289,191 |
| Total assets                                      | \$ 71,836,225                     | \$ 57,462,914 | \$ 42,566,440 | \$ 32,768,128 | \$ 25,010,494 |
| Total shareholders equity                         | \$ 69,970,549                     | \$ 55,953,294 | \$ 41,567,571 | \$ 31,513,482 | \$ 23,888,255 |

|         | Income Statement Data for Years Ended March 31 |      |      |      |      |
|---------|--|------|------|------|------|
|         | 2011   | 2010 | 2009 | 2008 | 2007 |
| Revenue |  |      |      |      |      |

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|                                   |               |               |               |               |               |
|-----------------------------------|---------------|---------------|---------------|---------------|---------------|
| Product sales                     | \$ 26,024,823 | \$ 22,665,860 | \$ 19,715,311 | \$ 18,505,650 | \$ 14,425,632 |
| Contract research and development | 5,172,240     | 5,481,325     | 3,656,958     | 2,023,162     | 2,035,198     |
| Total revenue                     | \$ 31,197,063 | \$ 28,147,185 | \$ 23,372,269 | \$ 20,528,812 | \$ 16,460,830 |
| Gross profit                      | \$ 21,413,365 | \$ 19,834,170 | \$ 16,648,027 | \$ 13,695,504 | \$ 10,673,172 |
| Income from operations            | \$ 17,669,770 | \$ 16,298,536 | \$ 13,251,590 | \$ 10,048,779 | \$ 6,545,569  |
| Net income                        | \$ 13,360,945 | \$ 11,999,344 | \$ 9,782,895  | \$ 7,187,384  | \$ 4,780,783  |
| Net income per share diluted      | \$ 2.76       | \$ 2.47       | \$ 2.04       | \$ 1.51       | \$ 1.00       |

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### **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**

You should read this discussion together with our financial statements and notes included elsewhere in this Report. In addition to historical information, the following discussion contains forward-looking information that involves risks and uncertainties. Our actual future results could differ materially from those presently anticipated due to a variety of factors, including those discussed in Item 1A of this Report.

#### **General**

We develop and sell devices that use spintronics, a nanotechnology that relies on electron spin rather than electron charge to acquire, store, and transmit information. We manufacture high-performance spintronic products including sensors and couplers to revolutionize data sensing and transmission. We also receive contracts for research and development and are a licensor of spintronic magnetoresistive random access memory technology, commonly known as MRAM.

#### **Application of Critical Accounting Policies and Estimates**

In accordance with SEC guidance, those material accounting policies that we believe are the most critical to an investor's understanding of our financial results and condition and require complex management judgment are discussed below.

#### ***Research and Development Contract Percentage of Completion Estimation***

We recognize research and development contract revenues and costs pro-rata as work progresses, which requires us to make estimates of the percentage of completion. If increases in projected costs-to-complete are sufficient to create a loss contract, the entire estimated loss is charged to operations in the period the loss first becomes known. This estimate has not affected our financial statements in the past three fiscal years. Increases in projected costs to complete contracts could materially impact our future results, however.

#### ***Inventory Valuation***

Inventories are stated at the lower of cost or net realizable value. Cost is determined by the first in, first out method. Where there is evidence that inventory could be disposed of at less than carrying value, the inventory is written down to the net realizable value in the current period. Additionally, we periodically examine our inventory in the context of inventory turnover, sales trends, competition and other market factors, and we record provisions to inventory reserve when we determine certain inventory is unlikely to be sold. If reserved inventory is subsequently sold, corresponding reductions in inventory and inventory reserves are made. Our inventory reserve was \$300,000 at March 31, 2011 and 2010.

#### ***Allowance for Doubtful Accounts Estimation***

We must make estimates of the uncollectibility of our accounts receivable. The most significant risk is the risk of sudden unexpected deterioration in financial condition of a significant customer that is not considered in the allowance. We specifically analyze accounts receivable, historical bad debts, and customer credit-worthiness when evaluating the adequacy of the allowance for doubtful accounts. Our results could be materially impacted if the financial condition of a significant customer deteriorated and related accounts receivable are deemed uncollectible. Our allowance for doubtful accounts was \$15,000 at March 31, 2011 and 2010. Our allowance for doubtful accounts is a relatively small percentage of our accounts receivable because our revenues are primarily from large customers, distributors, and U.S. Government agencies, all of which we consider generally credit-worthy. Our allowance for doubtful accounts could increase in the future if larger portions of our sales come from small end-user customers.

#### ***Deferred Tax Assets Estimation***

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.

As of March 31, 2011 our net deferred tax liabilities were \$146,693 compared to \$102,138 as of March 31, 2010. Deferred taxes included \$117,800 in stock-based compensation deductions as of March 31, 2011 and \$162,869 as of March 31, 2010. Utilization of certain of our deferred tax assets is subject to limitations based on Internal Revenue Code Section 382.

**Table of Contents****Results of Operations**

The following table summarizes the percentage of revenue and year-to-year changes for various items for the last three fiscal years:

|                                      | Percentage of Revenue<br>Year Ended March 31 |        |        | Year-to-Year Change<br>Years Ended March 31 |                 |
|--------------------------------------|--|--------|--------|---|-----------------|
|                                      | 2011   | 2010   | 2009   | 2010 to<br>2011                             | 2009 to<br>2010 |
| Revenue                              |  |        |        |   |                 |
| Product sales                        | 83.4%  | 80.5%  | 84.4%  | 14.8%                                       | 15.0%           |
| Contract research and development    | 16.6%  | 19.5%  | 15.6%  | (5.6)%                                      | 49.9%           |
| Total revenue                        | 100.0%                                       | 100.0% | 100.0% | 10.8%                                       | 20.4%           |
| Cost of sales                        | 31.4%  | 29.5%  | 28.8%  | 17.7%                                       | 23.6%           |
| Gross profit                         | 68.6%  | 70.5%  | 71.2%  | 8.0%  | 19.1%           |
| Expenses                             |  |        |        |   |                 |
| Selling, general, and administrative | 7.9%   | 8.6%   | 9.3%   | 2.5%  | 10.9%           |
| Research and development             | 4.1%   | 4.0%   | 5.2%   | 13.2%                                       | (8.0)%          |
| Total expenses                       | 12.0%  | 12.6%  | 14.5%  | 5.9%  | 4.1%            |
| Income from operations               | 56.6%  | 57.9%  | 56.7%  | 8.4%  | 23.0%           |
| Interest and other income            | 6.5%   | 5.7%   | 5.0%   | 24.9%                                       | 37.6%           |
| Income before taxes                  | 63.1%  | 63.6%  | 61.7%  | 9.9%  | 24.2%           |
| Income tax provision                 | 20.3%  | 21.0%  | 19.9%  | 7.0%  | 27.4%           |
| Net income                           | 42.8%  | 42.6%  | 41.8%  | 11.3%                                       | 22.7%           |

Total revenue for fiscal 2011 increased 11% to \$31,197,063 compared to \$28,147,185 for fiscal 2010, and increased 20% in fiscal 2010 compared to \$23,372,269 for fiscal 2009. The increase in total revenue in fiscal 2011 was due to a 15% increase in product sales, partially offset by a 6% decrease in research and development revenue. The increase in fiscal 2010 was due to a 15% increase in product sales and a 50% increase in research and development revenue. In fiscal 2011, total revenue increased 29% in Europe, 11% in Asia, and 12% in other areas, partially offset by a 1% decrease in the U.S.

Product sales increased 15% for fiscal 2011 to \$26,024,823 compared to \$22,665,860 in fiscal 2010. Fiscal 2010 product sales also increased 15%, from \$19,715,311 in fiscal 2009. The increases in both years were due to both the addition of new customers and increased purchases by existing customers. Increased product sales in fiscal 2011 were driven by strong sales into industrial control and factory automation markets. In fiscal 2010, strong sales of components for medical devices more than offset weak sales into other markets such as industrial control and factory automation. We believe the weakness in the industrial control and factory automation markets in fiscal 2010 was due to a worldwide manufacturing slowdown.

Contract research and development revenue decreased 6% for fiscal 2011 compared to fiscal 2010 due to completion of certain contracts and contract activities. Contract research and development revenue increased 50% for fiscal 2010 compared to fiscal 2009 due to new contracts and increased activity on certain contracts. Contract research and development activities can fluctuate for a number of reasons, some of which are beyond our control, and there can be no assurance of additional or follow-on contracts for expired or completed contracts.

Gross profit margin decreased to 69% of revenue for fiscal 2011 from 70% for fiscal 2010 due to a less favorable product sales mix. Gross profit margin decreased to 70% for fiscal 2010 from 71% for fiscal 2009 due to a higher percentage of total revenue from contract research and development, which generally is less profitable than product sales.

Selling, general, and administrative expense increased 2% for fiscal 2011 compared to fiscal 2010 and 11% for fiscal 2010 compared to fiscal 2009. The increase for fiscal 2010 was primarily due to increased salaries and commissions.

Research and development expense increased 13% for fiscal 2011 compared to fiscal 2010 due to increased product development activities, and a decrease in contract research and development activities, which caused resources to be reallocated to expensed research and development activities. Research and development expense decreased 8% for fiscal 2010 compared to fiscal 2009 due to an increase in contract research and development activities, which caused resources to be reallocated from expensed research and development activities. Research and development expense can fluctuate significantly depending on staffing, project requirements, and contract research and development activities.

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Interest and other income increased 25% to \$2,021,426 for fiscal 2011 compared to \$1,617,880 for fiscal 2010, and increased 38% for fiscal 2010 compared to \$1,176,010 for fiscal 2009. The increases for both fiscal years were due to increases in interest-bearing marketable securities.

The effective income tax rate in fiscal 2011 was 32% of income before taxes compared to 33% in fiscal 2010 and 32% in fiscal 2009. The decreased tax rate for fiscal 2011 compared to fiscal 2010 was primarily due to a lower state effective tax rate. The increased tax rate for fiscal 2010 compared to fiscal 2009 was primarily due to higher Federal and state effective tax rates. Our tax rate can fluctuate from year to year due to a number of factors, including Federal and state tax rates and regulations, the mix between taxable and tax-exempt securities in our marketable securities, and other factors, some of which are outside our control.

Net income increased 11% in fiscal 2011 compared to fiscal 2010 due to increases in product sales and interest income. Net income increased 23% in fiscal 2010 compared to fiscal 2009 due to increases in product sales, contract research and development revenue, and interest income.

**Liquidity and Capital Resources**

Our primary source of working capital for fiscal years 2009 through 2011 was cash provided by operating activities related to product sales and research and development contract revenue. At March 31, 2011 we had \$62,179,707 in cash plus short-term and long-term marketable securities compared to \$49,543,766 at March 31, 2010. All of our marketable securities were classified as available for sale. The \$12,635,941 increase in cash plus marketable securities was primarily due to \$12,808,807 in net cash provided by operating activities.

The \$6,403,692 increase in short-term marketable securities in fiscal 2011 was primarily due to marketable securities previously classified as long-term approaching maturity.

Accounts Receivable decreased by \$625,325 due to the timing of payments by our customers.

Inventories increased by \$1,637,430 due to raw material purchase timing and to support an increased rate of product sales.

Purchases of fixed assets were \$732,800 in fiscal 2011 compared to \$305,862 in fiscal 2010 and \$401,612 in fiscal 2009. Purchases in all three fiscal years were primarily for capital equipment to increase our production capacity and were financed with cash provided by operating activities. Our capital expenditures can vary significantly from year to year depending on our needs, equipment purchasing opportunities, and production expansion plans.

For the past three fiscal years, after purchasing fixed assets we invested excess cash provided by operating activities in long-term marketable securities. As of March 31, 2011 our marketable securities had remaining maturities between two and 59 months (see Note 4 Marketable Securities for additional information). As our marketable securities mature, we currently plan to either use the proceeds to meet future capital needs or reinvest the proceeds in other marketable securities.

The following table provides aggregate information about our contractual payment obligations and the periods in which payments are due:

| Contractual obligations     | Total        | Payments Due by Period |            |            |          |
|-----------------------------|--------------|------------------------|------------|------------|----------|
|                             |              | <1 Year                | 1 3 Years  | 3 5 Years  | >5 Years |
| Operating lease obligations | \$ 1,237,359 | \$ 254,053             | \$ 519,055 | \$ 464,251 | \$ -     |
| Purchase obligations        | 454,972      | 454,972                | -          | -          | -        |
| Total                       | \$ 1,692,331 | \$ 709,025             | \$ 519,055 | \$ 464,251 | \$ -     |

Operating lease obligations are primarily for our facility lease. Note 9 Commitments and Contingencies to the Financial Statements, included elsewhere in this report, provides additional information about our lease obligations. Purchase obligations as of March 31, 2011 consisted of raw materials purchase commitments and fixed asset purchase obligations. We expect to meet these contractual payment obligations from cash provided by operating activities or proceeds from maturities of marketable securities. We plan to evaluate raw materials purchases based on a variety of factors including forecasted requirements and anticipated supply leadtimes, and our obligations could vary significantly in the future. We had approximately \$156,154 of fixed asset purchase obligations as of March 31, 2011, for production equipment. We plan to evaluate capital expenditures as needs and opportunities arise, and our future capital expenditures and purchase obligations could vary significantly from expenditures in the past.

We believe our working capital and cash generated from operations will be adequate for our needs at least through fiscal 2012.



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### **Inflation**

Inflation has not had a significant impact on our operations in any of our three most recent fiscal years. Prices for our products and for the materials and labor costs for those products are governed by market conditions. It is possible that inflation in future years could impact both materials and labor used for the production of our products.

### **Off-Balance-Sheet Arrangements**

Our off-balance sheet arrangements consist of purchase commitments and operating leases for our facility. We believe that our off-balance sheet arrangements do not have a material current or anticipated future effect on our profitability, cash flows, or financial position.

### **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

We are exposed to financial market risks, primarily marketable securities and, to a lesser extent, changes in currency exchange rates.

#### **Marketable Securities**

The primary objective of our investment activities is to preserve principal while at the same time maximizing after-tax yields without significantly increasing risk. To achieve this objective, we maintain our portfolio of cash equivalents and marketable securities in a variety of securities including government agency obligations, municipal obligations, corporate obligations, and money market funds. Short-term and long-term marketable securities are generally classified as available-for-sale and consequently are recorded on the balance sheet at fair value with unrealized gains or losses reported as a separate component of accumulated other comprehensive income or loss, net of estimated tax. Our marketable securities as of March 31, 2011 had remaining maturities between two and 59 months. Marketable securities had a market value of \$61,227,498 at March 31, 2011, representing approximately 85% of our total assets. We have not used derivative financial instruments in our investment portfolio.

#### **Foreign Currency Transactions**

We have some limited revenue risks from fluctuations in values of foreign currency due to product sales abroad. Foreign sales are generally made in U.S. currency, and currency transaction gains or losses in the past three fiscal years were not significant.

### **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.**

Financial statements and accompanying notes are included in this Report beginning on page F-1.

**Table of Contents****Quarterly Summary Information**

Selected unaudited quarterly financial data for fiscal 2011 and 2010, presented as supplementary financial information, are as follows:

|                                      | <b>Unaudited; Quarter Ended</b> |                      |                       |                      |
|--------------------------------------|---------------------------------|----------------------|-----------------------|----------------------|
|                                      | <b>March 31, 2011</b>           | <b>Dec. 31, 2010</b> | <b>Sept. 30, 2010</b> | <b>June 30, 2010</b> |
| <b>Revenue</b>                       |                                 |                      |                       |                      |
| Product sales                        | \$ 6,733,984                    | \$ 6,686,451         | \$ 6,410,512          | \$ 6,193,876         |
| Contract research and development    | 1,449,117                       | 1,277,057            | 1,398,648             | 1,047,418            |
| Total revenue                        | 8,183,101                       | 7,963,508            | 7,809,160             | 7,241,294            |
| Cost of sales                        | 2,641,170                       | 2,461,798            | 2,604,926             | 2,075,804            |
| Gross profit                         | 5,541,931                       | 5,501,710            | 5,204,234             | 5,165,490            |
| <b>Expenses</b>                      |                                 |                      |                       |                      |
| Selling, general, and administrative | 573,312                         | 638,223              | 634,547               | 628,386              |
| Research and development             | 286,910                         | 330,681              | 309,873               | 341,663              |
| Total expenses                       | 860,222                         | 968,904              | 944,420               | 970,049              |
| Income from operations               | 4,681,709                       | 4,532,806            | 4,259,814             | 4,195,441            |
| Income before taxes                  | 5,217,471                       | 5,045,009            | 4,757,545             | 4,671,171            |
| Net income                           | \$ 3,669,919                    | \$ 3,383,919         | \$ 3,206,010          | \$ 3,101,097         |
| Net income per share diluted         | \$ 0.75                         | \$ 0.70              | \$ 0.66               | \$ 0.64              |

|                                      | <b>Unaudited; Quarter Ended</b> |                      |                       |                      |
|--------------------------------------|---------------------------------|----------------------|-----------------------|----------------------|
|                                      | <b>March 31, 2010</b>           | <b>Dec. 31, 2009</b> | <b>Sept. 30, 2009</b> | <b>June 30, 2009</b> |
| <b>Revenue</b>                       |                                 |                      |                       |                      |
| Product sales                        | \$ 6,662,150                    | \$ 5,292,228         | \$ 5,177,445          | \$ 5,534,037         |
| Contract research and development    | 1,517,145                       | 1,332,629            | 1,331,056             | 1,300,495            |
| Total revenue                        | 8,179,295                       | 6,624,857            | 6,508,501             | 6,834,532            |
| Cost of sales                        | 2,333,637                       | 2,102,855            | 1,985,100             | 1,891,423            |
| Gross profit                         | 5,845,658                       | 4,522,002            | 4,523,401             | 4,943,109            |
| <b>Expenses</b>                      |                                 |                      |                       |                      |
| Selling, general, and administrative | 607,534                         | 548,973              | 622,354               | 635,723              |
| Research and development             | 310,564                         | 251,625              | 291,540               | 267,321              |
| Total expenses                       | 918,098                         | 800,598              | 913,894               | 903,044              |
| Income from operations               | 4,927,560                       | 3,721,404            | 3,609,507             | 4,040,065            |
| Income before taxes                  | 5,367,548                       | 4,136,073            | 4,002,705             | 4,410,090            |
| Net income                           | \$ 3,598,746                    | \$ 2,767,483         | \$ 2,694,183          | \$ 2,938,932         |
| Net income per share diluted         | \$ 0.74                         | \$ 0.57              | \$ 0.55               | \$ 0.61              |

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.**

None.

**ITEM 9A. CONTROLS AND PROCEDURES.****Disclosure Controls and Procedures**

Management, with the participation of the Chief Executive Officer and Chief Financial Officer, has performed an evaluation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act) as of the end of the period covered by this Report. This evaluation included consideration of the controls, processes, and procedures that are designed to ensure that information required to be disclosed by us in the reports we file under the Exchange Act is recorded, processed, summarized, and reported within the time periods

specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of March 31, 2011, our disclosure controls and procedures were effective.

**Management's Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act. Our management, including our Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of our internal control over financial reporting as of March 31, 2011. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control - Integrated Framework*.

## **Table of Contents**

Based on our assessment using the criteria set forth by COSO in *Internal Control – Integrated Framework*, management concluded that our internal control over financial reporting was effective as of March 31, 2011. Our internal control over financial reporting as of March 31, 2011 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report.

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within NVE have been detected. Our internal controls over financial reporting, however, are designed to provide reasonable assurance that the objectives of internal control over financial reporting are met.

## **Changes in Internal Controls**

During the quarter ended March 31, 2011, there was no change in our internal control over financial reporting that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART III**

### **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.**

The sections titled Proposal 1. Election of Board of Directors and Certain Relationships and Related Person Transactions Section 16(a) Beneficial Ownership Reporting Compliance to be included in our Proxy Statement for our 2011 Annual Meeting of Shareholders set forth certain information regarding our directors and executive officers required by Item 10, the section titled Executive Officers of the Company sets forth information regarding our executive officers required by Item 10, and the section titled Corporate Governance sets forth information regarding our corporate governance and code of ethics required by Item 10. The information in these sections to be included in our Proxy Statement for our 2011 Annual Meeting of Shareholders are incorporated by reference into this section.

### **ITEM 11. EXECUTIVE COMPENSATION.**

The information in the sections Executive Compensation, Compensation Discussion and Analysis, Corporate Governance Board Committees Compensation Committee Interlocks and Insider Participation, Compensation Committee Report, and Director Compensation to be included in our Proxy Statement for our 2011 Annual Meeting of Shareholders is incorporated by reference into this section.

### **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.**

The information in the sections Equity Compensation Plan Information and Security Ownership to be included in our Proxy Statement for our 2011 Annual Meeting of Shareholders is incorporated by reference into this section. Information regarding the material features of our 2000 Stock Option Plan, as amended, is contained in Note 6 to the Financial Statements included elsewhere in this Report.

### **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.**

The information in the sections Security Ownership Transactions With Related Persons, Promoters, and Certain Control Persons and Corporate Governance Board Composition and Independence to be included in our Proxy Statement for our 2011 Annual Meeting of Shareholders is incorporated by reference into this section.

### **ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.**

The information in the sections Audit Committee Disclosure Fees Billed to Us by Ernst & Young During Fiscal 2011 and 2010 and Audit Committee Disclosure Audit Committee Pre-Approval Policy to be included in our Proxy Statement for our 2011 Annual Meeting of Shareholders is incorporated by reference into this section.

**PART IV**

**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.**

**(a) Financial Statements and Schedules**

Financial statements are provided pursuant to Item 8 of this Report. Certain financial statement schedules have been omitted because they are not required, not applicable, or the required information is provided in other financial statements or the notes to the financial statements.

**(b) Exhibits**

A list of exhibits is on the following page.

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| <b>Exhibit #</b> | <b>Description</b>  |
|------------------|---|
| 3.1              | Amended and Restated Articles of Incorporation of the company as amended by the Board of Directors effective November 21, 2002 (incorporated by reference to the Form 10-QSB for the period ended December 31, 2002).                                 |
| 3.2              | Bylaws of the company as amended by the Board of Directors effective December 18, 2007 (incorporated by reference to the Form 8-K filed December 19, 2007).   |
| 10.1             | Lease dated October 1, 1998 between the company and Glenborough Properties, LP (incorporated by reference to the Form 10-QSB for the period ended September 30, 2002).  |
| 10.2             | First amendment to lease between the company and Glenborough Properties, LP dated September 18, 2002 (incorporated by reference to the Form 10-QSB for the period ended September 30, 2002).  |
| 10.3             | Second amendment to lease between the company and Glenborough Properties, LP dated December 1, 2003 (incorporated by reference to the Form 10-QSB for the period ended December 31, 2003).  |
| 10.4             | Notification from Glenborough Properties, LP relating to change in building ownership (incorporated by reference to the Form 8-K filed October 11, 2005).   |
| 10.5             | Notification from Carlson Real Estate Company, Inc. relating to change in building ownership (incorporated by reference to the Form 8-K filed October 11, 2005).  |
| 10.6             | Third amendment to lease between the company and Carlson Real Estate Company, Inc. (incorporated by reference to the Form 8-K/A filed December 20, 2007).   |
| 10.7             | Letter from Carlson Real Estate Services, LLC relating to transfer of building title (incorporated by reference to the Form 8-K/A filed April 15, 2011).  |
| 10.8*            | Employment Agreement between the company and Daniel A. Baker dated January 29, 2001 (incorporated by reference to the Form 10-KSB for the year ended March 31, 2001).   |
| 10.9*            | NVE Corporation 2000 Stock Option Plan as Amended July 19, 2001 by the shareholders (incorporated by reference to our Registration Statement on Form S-8 filed July 20, 2001).  |
| 10.10+           | Agreement between the company and Agilent Technologies, Inc. dated September 27, 2001 (incorporated by reference to the Form 10-QSB for the period ended September 30, 2001).   |
| 10.11            | Amendment dated October 18, 2002 to Agreement between the company and Agilent Technologies, Inc. (incorporated by reference to the Form 10-QSB for the period ended December 31, 2002).   |
| 10.12            | Notification from Agilent Technologies of planned sale of Agilent's Semiconductor Product Group (incorporated by reference to the Form 8-K filed October 19, 2005).   |
| 10.13            | Report of completion of the divestiture of Agilent's Semiconductor Products business (incorporated by reference to the Form 8-K/A filed December 6, 2005).  |
| 10.14            | Amendment No. 2 to OEM Purchase Agreement between Agilent Technologies, Inc. and the company (incorporated by reference to the Form 8-K/A filed September 11, 2007).  |
| 10.15            | Amendment No. 3 to Agreement between the company and Agilent Technologies, Inc. (incorporated by reference to the Form 8-K/A filed June 28, 2010).  |
| 10.16*           | Amendment No. 1 to Stock Option Agreement dated May 7, 2004 between the Company and Daniel A. Baker (incorporated by reference to the Form 8-K filed March 30, 2005).   |
| 10.17            | Amendment No. 1 to Stock Option Agreement dated August 17, 2004 between the Company and Patricia M. Hollister (incorporated by reference to the Form 8-K filed March 30, 2005).   |
| 10.18            | Indemnification Agreement by and between Pacesetter, Inc., a St. Jude Medical Company, d.b.a. St. Jude Medical Cardiac Rhythm Management Division ( St. Jude ), and the company (incorporated by reference to the Form 8-K filed September 27, 2005). |
| 10.19+           | Supplier Partnering Agreement by and between St. Jude and the company (incorporated by reference to the Form 8-K filed January 4, 2006).  |
| 10.20+           | Amendment No. 1 to Supplier Partnering Agreement between St. Jude and the company (incorporated by reference to the Form 8-K/A filed September 10, 2007).   |
| 10.21+           | Amendment No. 2 to Supplier Partnering Agreement between St. Jude and the company (incorporated by reference to the Form 8-K/A filed December 18, 2009).  |

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- 10.22+ Amendment Number 3 to Supplier Partnering Agreement between St. Jude and the company (incorporated by reference to the Form 8-K/A filed September 16, 2010).
- 10.23 Amendment No. 4 to Supplier Partnering Agreement between St. Jude and the company (incorporated by reference to the Form 8-K/A filed February 7, 2011).
- 10.24 Supply Agreement by and between the company and Phonak AG (incorporated by reference to the Form 8-K filed May 6, 2009).
- 10.25+ Amendment to Supply Agreement by and between the company and Phonak AG (incorporated by reference to the Form 8-K/A filed January 12, 2011).
- 23 Consent of Ernst & Young LLP.
- 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.

\*Indicates a management contract or compensatory plan or arrangement.

+Confidential portions deleted and filed separately with the SEC.

**Table of Contents****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 its behalf by the undersigned, thereunto duly authorized.

**NVE CORPORATION**

(Registrant)

/s/Daniel A. Baker

by Daniel A. Baker

President and Chief Executive Officer

Date May 4, 2011

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| <b><u>Name</u></b>                                       | <b><u>Title</u></b>   | <b><u>Date</u></b> |
|--|---|--------------------|
| <u>/s/Terrence W. Glarner</u><br>Terrence W. Glarner     | Director and<br>Chairman of the Board   | <u>May 4, 2011</u> |
| <u>/s/Daniel A. Baker</u><br>Daniel A. Baker             | Director,<br>President & Chief Executive Officer<br>(Principal Executive Officer)           | <u>May 4, 2011</u> |
| <u>/s/Curt A. Reynders</u><br>Curt A. Reynders           | Treasurer and<br>Chief Financial Officer<br>(Principal Financial and<br>Accounting Officer) | <u>May 4, 2011</u> |
| <u>/s/James D. Hartman</u><br>James D. Hartman           | Director  | <u>May 4, 2011</u> |
| <u>/s/Patricia M. Hollister</u><br>Patricia M. Hollister | Director  | <u>May 4, 2011</u> |
| <u>/s/Robert H. Irish</u><br>Robert H. Irish             | Director  | <u>May 4, 2011</u> |





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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Shareholders  
NVE Corporation

We have audited NVE Corporation's internal control over financial reporting as of March 31, 2011, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). NVE Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying report of management titled *Management's Report on Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on NVE Corporation's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, NVE Corporation maintained, in all material respects, effective internal control over financial reporting as of March 31, 2011, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the balance sheets of NVE Corporation as of March 31, 2011 and 2010, and the related statements of income, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2011, and our report dated May 4, 2011 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Minneapolis, Minnesota  
May 4, 2011

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Shareholders  
NVE Corporation

We have audited the accompanying balance sheets of NVE Corporation (the Company) as of March 31, 2011 and 2010, and the related statements of income, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NVE Corporation at March 31, 2011 and 2010, and the results of its operations and its cash flows for each of the three years in the period ended March 31, 2011, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), NVE Corporation's internal control over financial reporting as of March 31, 2011, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated May 4, 2011, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Minneapolis, Minnesota  
May 4, 2011

**Table of Contents****NVE CORPORATION  
BALANCE SHEETS**

|  | <b>March 31</b> |               |
|--|-----------------|---------------|
|  | <b>2011</b>     | <b>2010</b>   |
| <b>ASSETS</b>  |                 |               |
| Current assets   |                 |               |
| Cash and cash equivalents  | \$ 952,209      | \$ 1,389,288  |
| Marketable securities, short term  | 7,970,358       | 1,566,666     |
| Accounts receivable, net of allowance for uncollectible accounts of \$15,000   | 3,596,239       | 4,221,564     |
| Inventories  | 3,343,857       | 1,706,427     |
| Prepaid expenses and other assets  | 1,185,306       | 781,294       |
| Total current assets   | 17,047,969      | 9,665,239     |
| Fixed assets   |                 |               |
| Machinery and equipment  | 6,178,207       | 5,617,136     |
| Leasehold improvements   | 612,682         | 450,546       |
|  | 6,790,889       | 6,067,682     |
| Less accumulated depreciation  | 5,259,773       | 4,857,819     |
| Net fixed assets   | 1,531,116       | 1,209,863     |
| Marketable securities, long term   | 53,257,140      | 46,587,812    |
| Total assets   | \$ 71,836,225   | \$ 57,462,914 |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>   |                 |               |
| Current liabilities  |                 |               |
| Accounts payable   | \$ 731,580      | \$ 665,782    |
| Accrued payroll and other  | 987,403         | 720,867       |
| Deferred taxes   | 146,693         | 102,138       |
| Deferred revenue   | -               | 20,833        |
| Total current liabilities  | 1,865,676       | 1,509,620     |
| Shareholders equity  |                 |               |
| Common stock, \$0.01 par value, 6,000,000 shares authorized; 4,776,198 issued and outstanding (4,700,583 issued and outstanding in 2010) | 47,762          | 47,006        |
| Additional paid-in capital   | 20,894,766      | 20,169,924    |
| Accumulated other comprehensive income   | 1,060,438       | 1,129,726     |
| Retained earnings  | 47,967,583      | 34,606,638    |
| Total shareholders equity  | 69,970,549      | 55,953,294    |
| Total liabilities and shareholders equity  | \$ 71,836,225   | \$ 57,462,914 |

See accompanying notes.

**Table of Contents****NVE CORPORATION  
STATEMENTS OF INCOME**

|  | <b>Year Ended March 31</b> |               |               |
|--|----------------------------|---------------|---------------|
|  | <b>2011</b>                | <b>2010</b>   | <b>2009</b>   |
| <b>Revenue</b>                             |                            |               |               |
| Product sales                              | \$ 26,024,823              | \$ 22,665,860 | \$ 19,715,311 |
| Contract research and development          | 5,172,240                  | 5,481,325     | 3,656,958     |
| Total revenue                              | 31,197,063                 | 28,147,185    | 23,372,269    |
| Cost of sales                              | 9,783,698                  | 8,313,015     | 6,724,242     |
| Gross profit                               | 21,413,365                 | 19,834,170    | 16,648,027    |
| <b>Expenses</b>                            |                            |               |               |
| Selling, general, and administrative       | 2,474,468                  | 2,414,584     | 2,177,865     |
| Research and development                   | 1,269,127                  | 1,121,050     | 1,218,572     |
| Total expenses                             | 3,743,595                  | 3,535,634     | 3,396,437     |
| Income from operations                     | 17,669,770                 | 16,298,536    | 13,251,590    |
| Interest income                            | 2,021,426                  | 1,617,880     | 1,171,810     |
| Other income                               | -                          | -             | 4,200         |
| Income before taxes                        | 19,691,196                 | 17,916,416    | 14,427,600    |
| Provision for income taxes                 | 6,330,251                  | 5,917,072     | 4,644,705     |
| Net income                                 | \$ 13,360,945              | \$ 11,999,344 | \$ 9,782,895  |
| Net income per share basic                 | \$ 2.83                    | \$ 2.56       | \$ 2.10       |
| Net income per share diluted               | \$ 2.76                    | \$ 2.47       | \$ 2.04       |
| <b>Weighted average shares outstanding</b> |                            |               |               |
| Basic                                      | 4,729,035                  | 4,692,496     | 4,659,486     |
| Diluted                                    | 4,844,266                  | 4,857,044     | 4,785,565     |

See accompanying notes.

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**NVE CORPORATION**  
**STATEMENTS OF SHAREHOLDERS EQUITY**

|  | Common Stock |           | Additional    | Accumulated  | Retained      | Total         |
|--|--------------|-----------|---------------|--------------|---------------|---------------|
|  | Shares       | Amount    | Paid-In       | Other        | Earnings      |               |
|  |              |           | Capital       | Comprehen-   |               |               |
|  |              |           |               | sive Income  |               |               |
|  |              |           |               | (Loss)       |               |               |
| Balance at March 31, 2008                              | 4,638,683    | \$ 46,387 | \$ 18,539,538 | \$ 103,158   | \$ 12,824,399 | \$ 31,513,482 |
| Exercise of stock options and warrants                 | 30,650       | 306       | 269,901       | -            | -             | 270,207       |
| Comprehensive income:                                  |              |           |               |              |               |               |
| Unrealized (loss) on marketable securities, net of tax | -            | -         | -             | (356,098)    |               | (356,098)     |
| Net income   | -            | -         | -             | -            | 9,782,895     | 9,782,895     |
| Total comprehensive income                             |              |           |               |              |               | 9,426,797     |
| Stock-based compensation                               |              |           | 86,672        |              |               | 86,672        |
| Tax benefit of stock-based compensation                |              |           | 270,413       |              |               | 270,413       |
| Balance at March 31, 2009                              | 4,669,333    | 46,693    | 19,166,524    | (252,940)    | 22,607,294    | 41,567,571    |
| Exercise of stock options and warrants                 | 31,250       | 313       | 622,110       | -            | -             | 622,423       |
| Comprehensive income:                                  |              |           |               |              |               |               |
| Unrealized gain on marketable securities, net of tax   | -            | -         | -             | 1,382,666    |               | 1,382,666     |
| Net income   | -            | -         | -             | -            | 11,999,344    | 11,999,344    |
| Total comprehensive income                             |              |           |               |              |               | 13,382,010    |
| Stock-based compensation                               |              |           | 100,842       |              |               | 100,842       |
| Tax benefit of stock-based compensation                |              |           | 280,448       |              |               | 280,448       |
| Balance at March 31, 2010                              | 4,700,583    | 47,006    | 20,169,924    | 1,129,726    | 34,606,638    | 55,953,294    |
| Exercise of stock options and warrants                 | 75,615       | 756       | 417,949       | -            | -             | 418,705       |
| Comprehensive income:                                  |              |           |               |              |               |               |
| Unrealized (loss) on marketable securities, net of tax | -            | -         | -             | (69,288)     |               | (69,288)      |
| Net income   | -            | -         | -             | -            | 13,360,945    | 13,360,945    |
| Total comprehensive income                             |              |           |               |              |               | 13,291,657    |
| Stock-based compensation                               |              |           | 76,720        |              |               | 76,720        |
| Tax benefit of stock-based compensation                |              |           | 230,173       |              |               | 230,173       |
| Balance at March 31, 2011                              | 4,776,198    | \$ 47,762 | \$ 20,894,766 | \$ 1,060,438 | \$ 47,967,583 | \$ 69,970,549 |

See accompanying notes.





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**NVE CORPORATION**  
**STATEMENTS OF CASH FLOWS**

|   | Year Ended March 31 |               |              |
|---|---------------------|---------------|--------------|
|   | 2011                | 2010          | 2009         |
| <b>OPERATING ACTIVITIES</b>   |                     |               |              |
| Net income  | \$ 13,360,945       | \$ 11,999,344 | \$ 9,782,895 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                     |               |              |
| Depreciation  | 411,547             | 389,273       | 473,740      |
| Stock-based compensation  | 76,720              | 100,842       | 86,672       |
| Excess tax benefits   | (230,173)           | (280,448)     | (270,413)    |
| Gain on sale of fixed assets  | -                   | -             | (4,200)      |
| Deferred income taxes   | 294,384             | 271,651       | 256,376      |
| Changes in operating assets and liabilities                                       |                     |               |              |
| Accounts receivable   | 625,325             | (854,866)     | (140,671)    |
| Inventories   | (1,637,430)         | 541,194       | 209,183      |
| Prepaid expenses and other assets   | (404,012)           | (111,987)     | (139,691)    |
| Accounts payable and accrued expenses   | 332,334             | 491,947       | (172,444)    |
| Deferred revenue  | (20,833)            | (83,334)      | (83,333)     |
| Net cash provided by operating activities   | 12,808,807          | 12,463,616    | 9,998,114    |
| <b>INVESTING ACTIVITIES</b>   |                     |               |              |
| Purchases of fixed assets   | (732,800)           | (305,862)     | (401,612)    |
| Proceeds from sale of fixed assets  | -                   | -             | 4,200        |
| Purchases of marketable securities  | (14,742,032)        | (13,804,629)  | (12,137,160) |
| Proceeds from maturities and sales of marketable securities                       | 1,580,068           | 258,229       | 1,985,034    |
| Net cash used in investing activities   | (13,894,764)        | (13,852,262)  | (10,549,538) |
| <b>FINANCING ACTIVITIES</b>   |                     |               |              |
| Net proceeds from sale of common stock  | 418,705             | 622,423       | 270,207      |
| Excess tax benefits   | 230,173             | 280,448       | 270,413      |
| Net cash provided by financing activities   | 648,878             | 902,871       | 540,620      |
| Decrease in cash and cash equivalents   | (437,079)           | (485,775)     | (10,804)     |
| Cash and cash equivalents at beginning of year                                    | 1,389,288           | 1,875,063     | 1,885,867    |
| Cash and cash equivalents at end of year  | \$ 952,209          | \$ 1,389,288  | \$ 1,875,063 |
| <b>Supplemental disclosures of cash flow information:</b>                         |                     |               |              |
| Cash paid during the year for income taxes  | \$ 6,303,598        | \$ 5,587,438  | \$ 4,356,000 |

See accompanying notes.

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**NVE CORPORATION  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1. DESCRIPTION OF BUSINESS**

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

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Cash and Cash Equivalents**

We consider all highly-liquid investments with maturities of three months or less when purchased to be cash equivalents.

**Fair Value of Financial Instruments**

The carrying amount of cash and cash equivalents, accounts receivable, and accounts payable approximates fair value because of the short maturity of these instruments. Fair values of marketable securities are based on quoted market prices.

**Marketable Securities**

We classify securities with original maturities greater than three months and remaining maturities less than one year as short-term marketable securities, and securities with remaining maturities greater than one year as long-term marketable securities. Securities not due at a single maturity date are classified by their average life. We classify all of our marketable securities 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 (loss). We use a specific-identification cost basis to determine gains and losses. The amortized cost of marketable securities is adjusted for amortization of premiums and accretion of discounts to maturity, both of which are included in interest income.

We consider an other-than-temporary impairment of our marketable securities to exist if we determine it is probable that we will be unable to collect all amounts due according to the contractual terms of a debt security. If we judged a decline in fair value for any security to be other than temporary, the cost basis of the individual security would be written down and a charge recognized in net income. We consider a number of factors in determining whether other-than-temporary impairment exists, including: credit market conditions; the credit ratings of the securities; historical default rates for securities of comparable credit rating; the presence of insurance of the securities and, if insured, the credit rating and financial condition of the insurer; the effect of market interest rates on the value of the securities; and the duration and extent of any unrealized losses. We also consider the likelihood that we will be required to sell the securities prior to maturity based on our financial condition and anticipated cash flows. We determined that no write-downs were required on available-for-sale securities during fiscal 2011, 2010, or 2009.

**Concentration of Risk and Financial Instruments**

Financial instruments potentially subject to significant concentrations of credit risk consist principally of cash equivalents, marketable securities, and accounts receivable.

We invest our excess cash in U.S. Government agency securities, corporate-backed and municipal-backed bonds, and other money market instruments. Our investment policy prescribes investment only in high-grade securities, and limits the amount of credit exposure to any one issuer.

Our customers include agencies of the U.S. Government and other customers throughout the world. We generally do not require collateral from our customers, but we perform ongoing credit evaluations of their financial condition. More information on accounts receivable is contained in the paragraph titled Accounts Receivable and Allowance for

Doubtful Accounts of this note.

Additionally, we are dependent on critical suppliers including our packaging vendors and suppliers of certain raw silicon and semiconductor wafers that are incorporated in our products.

**Accounts Receivable and Allowance for Doubtful Accounts**

Accounts receivable are recorded net of an allowance for doubtful accounts. We make estimates of the uncollectibility of accounts receivable. We specifically analyze accounts receivable, historical bad debts, and customer creditworthiness when evaluating the adequacy of the allowance. We had no charges or provisions to our allowance for doubtful accounts in fiscal 2011 or 2010, and \$175 in charges and provisions in fiscal 2009.

**Inventories**

Inventories are stated at the lower of cost or net realizable value. Cost is determined by the first in, first out method. We record inventory reserves when we determine certain inventory is unlikely to be sold based on sales trends, turnover, competition, and other market factors.

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### **Product Warranty**

In general we warrant our products to be free from defects in material and workmanship for one year. We maintain a reserve for the estimated cost of maintaining product warranties.

### **Fixed Assets**

Fixed assets are stated at cost. Depreciation of machinery and equipment, and furniture and fixtures is recorded over the estimated useful lives of the assets, generally five years, using the straight-line method. Amortization of leasehold improvements is recorded using the straight-line method over the lesser of the lease term or five-year useful life. We record losses on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount.

### **Revenue Recognition**

#### ***Product Revenue Recognition***

We recognize product revenue on shipment because the terms of our sales are FOB shipping point, meaning that our customers (end users and distributors) take title and assume the risks and rewards of ownership upon shipment. Our customers may return defective products for refund or replacement under warranty, and have other very limited rights of return. We maintain reserves based on historical returns.

Shipping charges billed to customers are included in product sales and the related shipping costs are included in selling, general, and administrative expense. Such shipping costs were \$39,427 for fiscal 2011, \$34,694 for fiscal 2010, and \$33,483 for fiscal 2009.

Payments from our distributors are not contingent on resale or any other matter other than the passage of time, and delivery of products is not dependent on the number of units resold to the ultimate customer. There are no other significant acceptance criteria, pricing or payment terms that would affect revenue recognition.

#### ***Accounting for Commissions and Discounts***

We sometimes utilize independent sales representatives that provide services relating to promoting our products and facilitating product sales but do not purchase our products. We pay commissions to sales representatives based on the amount of revenue facilitated, and such commissions are recorded as selling, general, and administrative expenses.

Our stocking distributors take title and assume the risks and rewards of product ownership. We presume consideration given to a customer is a reduction in revenue unless both of the following conditions are met: (i) we receive an identifiable benefit in exchange for the consideration and the identifiable benefit is sufficiently separable from the customer's purchase of our products such that we could have purchased the products or services from a third party; and (ii) we can reasonably estimate the fair value of the benefit received. We recognize discounts provided to our distributors as reductions in revenue. Under certain limited circumstances, our distributors may earn commissions for activities unrelated to their purchases of our products, such as for facilitating the sale of custom products or research and development contracts with third parties. We recognize any such commissions as selling, general, and administrative expenses.

#### ***Research and Development Contract Revenue Recognition***

We recognize contract revenues and costs pro-rata as work progresses. Our research and development contracts do not contain post-shipment obligations. Contracts may be either firm-fixed-price or cost-plus-fixed-fee. Firm-fixed-price contracts provide for a price that is not subject to any adjustment based on our cost in performing the contract.

Cost-plus-fixed-fee contracts are cost-reimbursement contracts that also provide for payment to us of a negotiated fee that is fixed at the inception of the contract. The costs for which we earn reimbursement are the actual costs

incurred and are recorded in the period in which they are incurred. We recognize the contract fees pro-rata as work progresses.

***Revenue Recognition of Upfront Fees***

Revenue from nonrefundable upfront fees from development programs is deferred and recognized over the periods that the fees are earned. We recognize revenue from development programs which is refundable, recoupable against future royalties, or for which future obligations exist, over the term of the agreement.

**Income Taxes**

We account for income taxes using the liability method. Deferred income taxes are provided for temporary differences between the financial reporting and tax bases of assets and liabilities. We provide valuation allowances against deferred tax assets if we determine that it is less likely than not that we will be able to utilize the deferred tax assets.

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**Table of Contents****Research and Development Expense Recognition**

Research and development costs are expensed as they are incurred.

**Stock-Based Compensation**

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.

**Net Income Per Share**

Net income per basic share is computed based on the weighted-average number of common shares issued and outstanding during each year. Net income per diluted share amounts assume conversion, exercise or issuance of all potential common stock instruments (stock options and warrants). Stock options and warrants totaling 1,000 for fiscal 2011; 5,000 for fiscal 2010; and 60,000 for fiscal 2009 were not included in the computation of diluted earnings per share because the exercise prices were greater than the market price of the common stock. The following table reflects the components of common shares outstanding:

|   |         | <b>Year Ended March 31</b> |             |             |
|---|---------|----------------------------|-------------|-------------|
|   |         | <b>2011</b>                | <b>2010</b> | <b>2009</b> |
| Weighted average common shares outstanding    | basic   | 4,729,035                  | 4,692,496   | 4,659,486   |
| Effect of dilutive securities:                |         |                            |             |             |
| Stock options                                 |         | 108,121                    | 158,142     | 121,135     |
| Warrants                                      |         | 7,110                      | 6,406       | 4,944       |
| Shares used in computing net income per share | diluted | 4,844,266                  | 4,857,044   | 4,785,565   |

**Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires us to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**Recent Accounting Pronouncements**

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

**NOTE 3. FAIR VALUE MEASUREMENTS**

Generally accepted accounting principles establish a framework for measuring fair value, provide a definition of fair value and prescribe required disclosures about fair-value measurements. Generally accepted accounting principles define fair value as the price that would be received to sell an asset or paid to transfer a liability. Fair value is a market-based measurement that should be determined using assumptions that market participants would use in pricing an asset or liability. Generally accepted accounting principles utilize a valuation hierarchy for disclosure of fair value measurements. The categorization within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement. The categories within the valuation hierarchy are described as follows:

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

\$48,154,478 at March 31, 2010.

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

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

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**Table of Contents****NOTE 4. MARKETABLE SECURITIES**

Marketable securities with remaining maturities less than one year are classified as short-term, and those with remaining maturities greater than one year are classified as long-term. The fair value of our marketable securities as of March 31, 2011, by maturity, were as follows:

| Total         | <1 Year      | 1 3 Years     | 3 5 Years     |
|---------------|--------------|---------------|---------------|
| \$ 61,227,498 | \$ 7,970,358 | \$ 28,391,106 | \$ 24,866,034 |

As of March 31, 2011 and 2010 our marketable securities were as follows:

|                        | As of March 31, 2011 |                        |                         |                   | As of March 31, 2010 |                        |                         |                   |
|------------------------|----------------------|------------------------|-------------------------|-------------------|----------------------|------------------------|-------------------------|-------------------|
|                        | Adjusted Cost        | Gross Unrealized Gains | Gross Unrealized Losses | Fair Market Value | Adjusted Cost        | Gross Unrealized Gains | Gross Unrealized Losses | Fair Market Value |
| U.S. agency securities | \$ 83,358            | \$ 1,200               | \$ -                    | \$ 84,558         | \$ 702,992           | \$ 19,240              | \$ -                    | \$ 722,232        |
| Corporate bonds        | 37,884,146           | 1,231,743              | (147,443)               | 38,968,446        | 23,807,375           | 1,029,273              | (23,601)                | 24,813,047        |
| Municipal bonds        | 21,582,084           | 602,457                | (10,047)                | 22,174,494        | 21,877,258           | 747,483                | (5,542)                 | 22,619,199        |
| Total                  | \$ 59,549,588        | \$ 1,835,400           | \$ (157,490)            | \$ 61,227,498     | \$ 46,387,625        | \$ 1,795,996           | \$ (29,143)             | \$ 48,154,478     |

The following table shows the gross unrealized losses and fair value of our investments with unrealized losses, aggregated by investment category and length of time that individual securities had been in a continuous unrealized loss position as of March 31, 2011 and 2010:

|                        | Less Than 12 Months |                         | 12 Months or Greater |                         | Total             |                         |
|------------------------|---------------------|-------------------------|----------------------|-------------------------|-------------------|-------------------------|
|                        | Fair Market Value   | Gross Unrealized Losses | Fair Market Value    | Gross Unrealized Losses | Fair Market Value | Gross Unrealized Losses |
| As of March 31, 2011   |                     |                         |                      |                         |                   |                         |
| U.S. agency securities | \$ -                | \$ -                    | \$ -                 | \$ -                    | \$ -              | \$ -                    |
| Corporate bonds        | 9,146,952           | (147,443)               | -                    | -                       | 9,146,952         | (147,443)               |
| Municipal bonds        | 2,178,225           | (10,047)                | -                    | -                       | 2,178,225         | (10,047)                |
| Total                  | \$ 11,325,177       | \$ (157,490)            | \$ -                 | \$ -                    | \$ 11,325,177     | \$ (157,490)            |
| As of March 31, 2010   |                     |                         |                      |                         |                   |                         |
| U.S. agency securities | \$ -                | \$ -                    | \$ -                 | \$ -                    | \$ -              | \$ -                    |
| Corporate bonds        | 2,032,306           | (23,601)                | -                    | -                       | 2,032,306         | (23,601)                |
| Municipal bonds        | 1,564,416           | (5,542)                 | -                    | -                       | 1,564,416         | (5,542)                 |
| Total                  | \$ 3,596,722        | \$ (29,143)             | \$ -                 | \$ -                    | \$ 3,596,722      | \$ (29,143)             |

Gross unrealized losses totaled \$157,490 as of March 31, 2011, and were attributable to six corporate and two municipal bonds out of a portfolio of 57 bonds. Corporate bonds accounted for \$147,443 of the total gross unrealized losses. The gross unrealized losses were due to market-price decreases after the bonds were purchased. All of the bonds with an unrealized loss were rated investment grade by Moody's or Standard and Poor's, and none had been in a continuous unrealized loss position for 12 months or more. For each bond with an unrealized loss, we expect to recover the entire cost basis of each security based on our consideration of factors including their credit ratings, the underlying ratings of insured bonds, and historical default rates for securities of comparable credit rating. Because we expect to recover the entire cost basis of the securities, and because we do not intend to sell the securities and it is not more likely than not that we will be required to sell the securities before recovery of the cost basis, which may be maturity, we did not consider any of our marketable securities to be other-than-temporarily impaired at March 31,



2011.

**NOTE 5. INVENTORIES**

Inventories consisted of the following:

|                        | <b>March 31</b> |              |
|------------------------|-----------------|--------------|
|                        | <b>2011</b>     | <b>2010</b>  |
| Raw materials          | \$ 2,083,730    | \$ 595,032   |
| Work in process        | 1,109,270       | 794,091      |
| Finished goods         | 450,857         | 617,304      |
|                        | 3,643,857       | 2,006,427    |
| Less inventory reserve | (300,000)       | (300,000)    |
| Total inventories      | \$ 3,343,857    | \$ 1,706,427 |

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**Table of Contents****NOTE 6. STOCK-BASED COMPENSATION****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.

**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:

|                         | <b>Year Ended March 31</b> |             |             |
|-------------------------|----------------------------|-------------|-------------|
|                         | <b>2011</b>                | <b>2010</b> | <b>2009</b> |
| Risk-free interest rate | 1.6%                       | 2.7%        | 3.2%        |
| Expected volatility     | 56%                        | 55%         | 68%         |
| Expected life (years)   | 4.2                        | 4.1         | 3.7         |
| Dividend yield          | 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. 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. Therefore we use different expected lives for officers and directors than we use for our general employee population for determining the fair value of options.

***Risk-free interest rate***

The risk-free 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 stock-based compensation**

The following table shows the effect of stock-based compensation on our net income and earning per share for fiscal 2009 through 2011. Stock-based compensation expenses and costs are included in the same line or lines as cash compensation paid to the same employees. Therefore the effect of stock-based compensation is included in Selling, general, and administrative expenses and presented in the line titled Stock-based compensation on our Statements of

## Cash Flows:

|   | <b>Year Ended March 31</b> |              |             |
|---|----------------------------|--------------|-------------|
|   | <b>2011</b>                | <b>2010</b>  | <b>2009</b> |
| Effect of stock-based compensation on net income            | \$ (76,720)                | \$ (100,842) | \$ (86,672) |
| Effect of stock-based compensation on net income per share: |                            |              |             |
| Basic   | \$ (0.02)                  | \$ (0.02)    | \$ (0.02)   |
| Diluted   | \$ (0.02)                  | \$ (0.02)    | \$ (0.02)   |

**Tax effects of stock-based compensation**

Stock-based compensation increased deferred taxes by \$28,233 for fiscal 2011 and \$36,364 for fiscal 2010.

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**Table of Contents****General stock option information**

We had no nonvested shares as of March 31, 2011 or 2010.

The following table summarizes information about options outstanding at March 31, 2011, all of which were exercisable:

| <b>Ranges of Exercise Prices</b> | <b>Number Outstanding</b> | <b>Weighted Average Exercise Price</b> | <b>Weighted Remaining Contractual Life (years)</b> |
|----------------------------------|---------------------------|--|--|
| \$ 15.08 - 16.93                 | 122,000                   | \$ 16.33                               | 4.3  |
| 29.65 - 31.27                    | 38,000                    | 29.78                                  | 3.4  |
| 34.71 - 58.27                    | 15,000                    | 43.06                                  | 7.1  |
|                                  | 175,000                   | \$ 21.54                               | 4.3  |

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. Exercise prices are not less than fair market value as determined by our Board at the date the options are granted.

A summary of our stock options and warrants are shown in the following table:

|                   | <b>Option Shares Reserved</b> | <b>Options Outstanding</b> | <b>Weighted Average Option Exercise Price</b> | <b>Warrants Outstanding</b> | <b>Weighted Average Warrant Exercise Price</b> |
|-------------------|-------------------------------|----------------------------|---|-----------------------------|--|
| At March 31, 2008 | 178,230                       | 308,400                    | \$ 16.09                                      | 10,000                      | \$ 16.28                                       |
| Granted           | (4,000)                       | 4,000                      | \$ 31.27                                      | -                           | -  |
| Exercised         | -                             | (30,650)                   | \$ 8.82                                       | -                           | -  |
| At March 31, 2009 | 174,230                       | 281,750                    | \$ 17.10                                      | 10,000                      | \$ 16.28                                       |
| Granted           | (4,000)                       | 4,000                      | \$ 51.04                                      | -                           | -  |
| Exercised         | -                             | (31,250)                   | \$ 19.92                                      | -                           | -  |
| At March 31, 2010 | 170,230                       | 254,500                    | \$ 17.28                                      | 10,000                      | \$ 16.28                                       |
| Granted           | (4,000)                       | 4,000                      | \$ 42.45                                      | -                           | -  |
| Exercised         | -                             | (83,500)                   | \$ 9.56                                       | -                           | -  |
| At March 31, 2011 | 166,230                       | 175,000                    | \$ 21.54                                      | 10,000                      | \$ 16.28                                       |

The remaining weighted-average exercisable life was 4.3 years at March 31, 2011; 4.0 years at March 31, 2010; and 4.9 years at March 31, 2009. All outstanding options were exercisable as of March 31, 2011 and 2010. Exercisable options were outstanding covering 280,250 shares at March 31, 2009 at a weighted-average exercise price of \$17.08. The total intrinsic value of options exercised during fiscal 2011 was \$3,337,511 based on the difference between the exercise price and stock price at the time of exercise for in-the-money options. The total intrinsic value of options outstanding March 31, 2011, based on our closing stock price for that day, was \$6,091,740, all of which were exercisable. The total fair value of option grants was \$76,720 in fiscal 2011. There was no unrecognized stock-based compensation at March 31, 2011.

No warrants were issued in the past three fiscal years. Remaining weighted-average exercisable warrant life was 1.9 years at March 31, 2011; 2.9 years at March 31, 2010; and 3.9 years at March 31, 2009.

**NOTE 7. INCOME TAXES**

Income tax provisions for fiscal 2009 through 2011 consisted of the following:

|                             | <b>Year Ended March 31</b> |                     |                     |
|-----------------------------|----------------------------|---------------------|---------------------|
|                             | <b>2011</b>                | <b>2010</b>         | <b>2009</b>         |
| <b>Current taxes</b>        |                            |                     |                     |
| Federal                     | \$ 5,761,632               | \$ 5,375,724        | \$ 4,304,330        |
| State                       | 504,408                    | 550,146             | 351,625             |
| <b>Deferred taxes</b>       |                            |                     |                     |
| Federal                     | 56,996                     | (6,109)             | (17,880)            |
| State                       | 7,215                      | (2,689)             | 6,630               |
| <b>Income tax provision</b> | <b>\$ 6,330,251</b>        | <b>\$ 5,917,072</b> | <b>\$ 4,644,705</b> |

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A reconciliation of income tax provisions at the U.S. statutory rate for fiscal 2009 through 2011 is as follows:

|  | <b>Year Ended March 31</b> |              |              |
|--|----------------------------|--------------|--------------|
|  | <b>2011</b>                | <b>2010</b>  | <b>2009</b>  |
| Tax expense at U.S. statutory rate         | \$ 6,809,003               | \$ 6,091,581 | \$ 4,905,384 |
| State income taxes, net of Federal benefit | 345,213                    | 369,754      | 271,307      |
| Domestic manufacturing deduction           | (549,123)                  | (309,222)    | (238,679)    |
| Municipal interest                         | (239,636)                  | (225,695)    | (197,065)    |
| Other                                      | (35,206)                   | (9,346)      | (96,242)     |
| Income tax provision                       | \$ 6,330,251               | \$ 5,917,072 | \$ 4,644,705 |

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. Significant components of our deferred tax liabilities as of March 31, 2011 and 2010 were as follows:

|  | <b>March 31</b> |              |
|--|-----------------|--------------|
|  | <b>2011</b>     | <b>2010</b>  |
| Deferred revenue                         | \$ -            | \$ 7,513     |
| Vacation accrual                         | 135,724         | 121,788      |
| Inventory reserve                        | 110,400         | 108,180      |
| Depreciation                             | 36,053          | 65,443       |
| Stock-based compensation deductions      | 117,800         | 162,869      |
| Unrealized gain on marketable securities | (617,471)       | (637,127)    |
| Other                                    | 70,801          | 69,196       |
| Net deferred tax liabilities             | \$ (146,693)    | \$ (102,138) |

Realizations of stock-based compensation deductions are credited to Additional paid-in capital and included in Tax benefit of stock-based compensation on our statements of shareholders equity. Credits of \$230,173 in fiscal 2011, \$280,448 in fiscal 2010, and \$270,413 in fiscal 2009 were attributed to stock-based compensation deductions. The Additional paid-in capital credits also included the tax benefit of stock-based compensation deductions in those years.

The amounts credited to Additional paid-in capital were the tax benefits of the deductions to the extent they exceeded the corresponding compensation expense recognized for financial reporting purposes. Tax benefit of stock-based compensation represented (i) the tax benefits of deductions for stock-based compensation to the extent they exceeded the corresponding compensation expense recognized for financial reporting purposes, and (ii) reversals of valuation allowances against deferred tax assets for net operating loss carryforwards attributable to stock-based compensation deductions. Cash we received from the exercise of stock options related to excess tax benefits is included in Net proceeds from sale of common stock in the statement of cash flows for the year in which the option was exercised and cash received.

We had \$203,384 of Federal net operating losses and \$166,729 of state net operating losses at March 31, 2011. These net operating losses expire in fiscal 2020 and are subject to limitation including limitation under the Internal Revenue Code.

We had no unrecognized tax benefits as of March 31, 2011, and we do not expect any significant unrecognized tax benefits within 12 months of the reporting date. We recognize interest and penalties related to income tax matters in income tax expense. As of March 31, 2011 we had no accrued interest related to uncertain tax positions. The tax years 1999 through 2010 remain open to examination by the major taxing jurisdictions to which we are subject.

**NOTE 8. SEGMENT INFORMATION**

We operate in one reportable segment. We manufacture and sell spintronic products, and receive research and development contracts.

The following table summarizes customers comprising 10% or more of revenue for fiscal 2011, 2010, and 2009:

|            | <b>% of Revenue for Year<br/>Ended March 31</b> |             |             |
|------------|---|-------------|-------------|
|            | <b>2011</b>                                     | <b>2010</b> | <b>2009</b> |
| Customer A | 14%   | 15%         | 10%         |
| Customer B | 11%   | 16%         | 19%         |
| Customer C | 11%   | 11%         | 11%         |

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Revenue by geographic region was as follows:

|               | Year Ended March 31 |               |               |
|---------------|---------------------|---------------|---------------|
|               | 2011                | 2010          | 2009          |
| United States | \$ 14,169,952       | \$ 14,283,819 | \$ 12,445,164 |
| Europe        | 12,009,294          | 9,334,742     | 8,154,261     |
| Asia          | 4,576,270           | 4,133,251     | 2,314,626     |
| Other         | 441,547             | 395,373       | 458,218       |
| Total Revenue | \$ 31,197,063       | \$ 28,147,185 | \$ 23,372,269 |

**NOTE 9. COMMITMENTS AND CONTINGENCIES**

Lease payments were \$245,220 for fiscal 2011, \$237,317 for fiscal 2010, and \$234,368 for fiscal 2009. The operating lease for our facility expires December 31, 2015. We pay operating expenses including maintenance, utilities, real estate taxes, and insurance in addition to rental payments. We also lease a piece of office equipment under an operating lease expiring July 2014 with payments due quarterly. Our future minimum lease payments are shown in the following table:

| Year Ending March 31 |            |            |            |            |              |
|----------------------|------------|------------|------------|------------|--------------|
| 2012                 | 2013       | 2014       | 2015       | 2016       | Total        |
| \$ 254,053           | \$ 257,685 | \$ 261,370 | \$ 264,142 | \$ 200,109 | \$ 1,237,359 |

**NOTE 10. COMMON STOCK**

Our authorized stock is stated as six million shares of common stock, \$0.01 par value, and ten million shares of all types. Our Board may designate any series and fix any relative rights and preferences to authorized but undesignated stock. We have an outstanding authorization from our Board to purchase up to \$2,500,000 of our common stock, all of which remained available as of March 31, 2011.

**NOTE 11. INFORMATION AS TO EMPLOYEE STOCK PURCHASE, SAVINGS, AND SIMILAR PLANS**

All of our employees are eligible to participate in our 401(k) savings plan the first quarter after reaching age 21. Employees may contribute up to the Internal Revenue Code maximum. We make matching contributions of 100% of the first 3% of participants' salary deferral contributions. Our matching contributions were \$110,268 for fiscal 2011, \$103,038 for fiscal 2010, and \$95,289 for fiscal 2009.



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**EXHIBIT INDEX**

| <b>Exhibit #</b> | <b>Description</b>  |
|------------------|---|
| 23               | Consent of Ernst & Young LLP.   |
| 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. |

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