NVE CORP /NEW/
Form 10-K
May 06, 2009

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

# FORM 10-K

(Mark One)

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

For the fiscal year ended **March 31, 2009**

[ ] 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:

| Title of each class | Name of each exchange on which registered |
|---|---|
| **Common stock, $0.01 par value ( Common Stock )** | **The NASDAQ Stock Market, LLC** |

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 [X]

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 [X]

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes [X] No [ ]

Indicate 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

229.405 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. [X]

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 [X] |
| 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 [X]

The aggregate market value of the voting stock held by non-affiliates of the Registrant, based on the closing price on September 30, 2008, the last business day of the Registrant s most recently completed second fiscal quarter, as reported on the NASDAQ Stock Market, was approximately $118 million.

The number of shares of the registrant s Common Stock (par value $0.01) outstanding as of May 1, 2009 was 4,669,333.

## DOCUMENTS INCORPORATED BY REFERENCE

Portions of our Proxy Statement for our 2009 Annual Meeting of Stockholders are incorporated by reference into Items 10, 11, 12, 13, and 14 of Part III hereof.

**NVE CORPORATION**
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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 an uncertain economic environment, risks associated with our marketable securities, competition including entry of new competitors, progress in research and development activities by us and others, variations in costs that are beyond our control, adverse legal proceedings, lower sales, failure of suppliers to meet our requirements, failure to obtain new customers, inability to carry out marketing and sales plans, inability to meet customer technical requirements, inability to consummate license agreements, ineligibility for SBIR awards, loss of key executives, 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 recognized pioneer in spintronics. 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. As its density increases and cost per bit decreases, MRAM could replace semiconductor memories in cellphones, computers, and other electronic devices enabling smaller, faster, and more power-efficient electronics.

**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.

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 elsewhere in this Report.

### *Sensor Products and Markets*

Our sensor products detect the presence of a magnet or metal 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: IL600-Series passive-input couplers; IL700/IL200-Series digital-input couplers; new, cost-effective IL500-Series couplers; and IL400/IL3000-Series isolated network signal couplers.

***MRAM Products and Markets***

MRAM uses spintronics to store data, combining the speed of semiconductor memory with the nonvolatility of magnetic disk drives. MRAM is inherently nonvolatile, meaning the data remains even if power is removed. MRAM has been called the ideal or universal memory because it has the 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. In MRAMs, the spin of the electrons is set with tiny bursts of energy. We have invented several types of MRAM memory cells and modes of operation.

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Advanced MRAM designs that we are developing or have developed include Vertical transport MRAM (also known as VMRAM), magnetothermal MRAM, and spin-momentum transfer MRAM. We believe such design approaches have the potential to increase the scalability of MRAM.

In the near term, MRAM could replace battery-backed-up SRAMs in mission-critical systems such as military, factory control, point-of-sale terminals, and gaming electronics. MRAM has the potential advantages of being simpler, lower cost, and more reliable than battery/memory systems. Long term, MRAM could address the market for ubiquitous high-density memory.

**Product Manufacturing**

Our fabrication facility is a clean-room area with specialized equipment to deposit, pattern, etch, and process spintronic materials. Most of our products are fabricated in our facility using either raw 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. Packaged parts are returned to us to be tested, inventoried, and shipped.

**Sales and Product Distribution**

We rely on distributors who stock and sell our products in more than 75 countries. Distributors of our products include two of the largest electronic component distributors in the world: Digi-Key Corporation and the Premier Farnell Group. 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 2010.

**New Product Status**

In the past year we began marketing several new products including:

- the IL500-Series of lower-priced spintronic couplers;
- integrated spintronic current sensors; and
- tunneling magnetoresistance angle sensors.

**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 other solid-state magnetic sensors and from electromechanical magnetic sensors. Compared to other solid-state magnetic sensors, we believe our medical sensors have small size, high sensitivity to small magnetic fields, simpler electrical interfaces, and inherent reliability. Electromechanical magnetic sensors such as reed 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.

***Coupler Competition***

Competing digital coupler technologies include optical couplers, inductive couplers (transformers), and capacitive couplers.

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, NEC Corporation, Sharp Corporation, Toshiba Corporation, and Vishay Intertechnology. We believe our couplers are faster and have longer life than optical couplers.

Inductive couplers are made by a number of companies including Analog Devices, Inc. and Silicon Laboratories Inc. Unlike our IsoLoop couplers, inductive couplers require special encoding to transmit logic signals. Furthermore, IsoLoop couplers require much less board space than most optical or inductive couplers. MEMS inductive couplers are smaller than other inductive couplers, but we believe our devices generally have higher channel density per area, higher speed, less signal distortion, and generate less noise. Manufacturers of capacitive couplers include Texas Instruments Incorporated. We believe we have a broader product line and higher channel density than is available for capacitive couplers.

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We make a number of isolated network signal couplers that combine spintronics coupling with network protocol functions, such as RS-485 (also known as TIA-485 or EIA-485), in a single package. Competitive network signal couplers are available from Analog Devices; Linear Technology Corporation; Maxim Integrated Products, Inc.; and Texas Instruments. Based on a comparison of published specifications, we believe our devices have speed, miniaturization, and product-line breadth advantages over other network signal couplers.

*MRAM Competition*

Most currently available memories are volatile, meaning data is lost when power is removed. Memories in this category include dynamic random access memory (DRAM) and static random access memory (SRAM). MRAM has the potential to match or exceed the speed of such memories without the volatility. Currently available nonvolatile memories include flash memory and ferroelectric random access memory (FRAM). MRAM is potentially faster and uses less power than existing nonvolatile memories. Furthermore, existing nonvolatile memories can be written only a limited number of times before they wear out, while MRAM has virtually unlimited life. Additionally, flash memory may be subject to scalability limitations that could limit its density in coming years. We do not believe MRAM is subject to those limitations.

Battery-backed-up SRAM uses stored energy to preserve data after the main power has been removed. We believe that MRAM has the potential of being simpler, lower cost, and more reliable than battery-backed-up SRAM. Battery-backed-up SRAM manufacturers include Maxim.

Emerging technologies competing with MRAM include carbon nanotubes, phase-change memory (PCM; also known as PRAM, chalcogenide, CRAM, or Ovonic memory), and resistive RAM (RRAM). We believe that MRAM has advantages over these technologies in either manufacturability, speed, or endurance. Companies developing carbon nanotube memory include Nantero, Inc. , a number of companies are developing PCM, and several memory makers have been reported to be involved in RRAM research.

Other companies that may compete with us for MRAM research and development or service business, or that may be attempting to develop MRAM intellectual property with the intention of licensing to others include Crocus Technology SA (Grenoble, France), Grandis, Inc., MagSil Corporation, Spintec (Grenoble, France), Spintron (Marseille, France), and Spintronics Plc (London, UK).

**Principal Suppliers and Raw Materials**

Our principal suppliers include manufacturers of semiconductor wafers that are incorporated into our products. These include Advanced Semiconductor Manufacturing Corporation of Shanghai (China); Intersil Corporation; ON Semiconductor Corporation; Silicon Quest International, Inc.; Taiwan Semiconductor Manufacturing Corporation; Texas Instruments Incorporated; and X-FAB Silicon Foundries Group. Other companies provide device packaging services, including Circuit Electronics Industries (Ayutthaya, Thailand); United Test and Assembly Center Ltd. (Singapore); and SPEL Semiconductor Limited (Chennai, India).

**Intellectual Property**

***Patents***

We were granted five U.S. patents assigned to us in the fiscal year ended March 31, 2009. As of March 31, 2009 we had a total of 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. Our technology is protected by more than 100 patents worldwide either issued, pending or licensed from others. We are continuing to develop inventions and expect to add to our patent portfolio. 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 include GMR Switch and GT Sensor.

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***Licenses***

We have licensed certain of our MRAM intellectual property to several companies, including Cypress, Honeywell, 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, non-transferable, and non-assignable license to our MRAM intellectual property and received advance payments in conjunction with the agreement. Motorola has since separated Freescale. 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 since announced the formation of an independent company to take ownership of Freescale s MRAM manufacturing assets.

*Royalty Agreement*

We have licensed rights to another organization s GMR-related patent family, and that agreement calls for us to pay royalties on our sales of certain products. Payments under this agreement have been less than $5,000 for each of the most recent three fiscal years. The agreement remains in force until the expiration of the last patent, which we believe will be June 14, 2009.

*Other Licenses*

We have a technology exchange agreement with Cypress Semiconductor Corporation. None of the rights we have under this agreement are currently important to our business.

**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 our products available from stock, to receive more favorable pricing for raw materials, and to guard against raw material shortages.

**Major Customers**

We rely on several customers for a large percentage of our revenue. These include: Avago Technologies; Phonak AG; St. Jude Medical, Inc.; Starkey Laboratories, Inc.; the U.S. Government; and certain distributors. 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.

**Backlog**

As of March 31, 2009 we had $2,198,545 of contract research and development backlog we believed to be firm, compared to $898,101 as of March 31, 2008. We expect most of the firm backlog as of March 31, 2009 to be filled in fiscal 2010. Approximately 53% of our backlog as of March 31, 2009 and 96% as of March 31, 2008 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, however, of additional contracts or follow-on contracts for expired or completed U.S. Government contracts.

We do not believe product sales backlog as of any particular date is indicative of future results. Our product sales are made primarily under standard purchase orders. We 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. Shipment schedules and quantities actually purchased by customers are often revised to reflect changes in customers needs. Based on semiconductor industry practice and our experience, we do not believe that such agreements are meaningful for determining backlog amounts. We believe that 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.

**Seasonality**

In each of the three most recent fiscal years, our product sales have been less in quarters ended December 31 than the immediately preceding or subsequent quarters. This may have been due in part to distributor ordering patterns or customer vacations and shutdowns late in calendar years. We do not know if this pattern will continue.

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**Research and Development Activities**

We spent $966,610 for fiscal 2009, $1,202,504 for fiscal 2008, and $1,789,844 for fiscal 2007 in company-sponsored research and development activities. Over the past three fiscal years these activities have included development of new sensors and couplers, and lower-cost product designs. Additionally, we spent $3,085,726 during fiscal 2009, $2,139,059 during fiscal 2008, and $2,090,200 during fiscal 2007 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 with other companies.

**Government Regulations**

We are subject to various local, state, and federal laws, regulations and agencies that affect businesses generally. These include regulations promulgated by federal and state environmental and health agencies, the federal Occupational Safety and Health Administration, and laws pertaining to the hiring, treatment, safety, and discharge of employees. Compliance with these laws and regulations has not had a material effect on our capital expenditures, earnings, or competitive position.

**Number of Employees**

We had 50 employees as of March 31, 2009 and 2008. Increased manufacturing productivity allowed us to increase our revenue per employee for the year ended March 31, 2009. Our employment can fluctuate due to a variety of factors. None of our employees is represented by a labor union or is subject to a collective bargaining agreement, and we believe we maintain good relations with our employees.

**Financial Information About Geographical Areas**

International sales accounted for approximately 47% of our revenue in fiscal 2009, 47% in fiscal 2008, and 40% in fiscal 2007. More information about geographical areas is contained in Note 8 Segment Information of the Financial Statements included elsewhere in this Report.

**Environmental Matters**

We are subject to environmental laws and regulations, particularly with respect to industrial waste. Compliance with these laws and regulations has not had a material impact on our capital expenditures, earnings, or competitive position.

**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 on Schedule 14A, as well as any amendments to those reports, are accessible at no cost through the Investors section of our Website (www.nve.com). These filings are also accessible through the SEC s Website (www.sec.gov).

## ITEM 1A. RISK FACTORS.

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 large percentage of our revenue. These large customers include Avago Technologies; Phonak AG; St. Jude Medical, Inc.; Starkey Laboratories, Inc.; the U.S. Government; and certain distributors. Orders from these large customers could be canceled, postponed, or reduced, and the loss of any of these customers could have a significant impact on our revenue and our profitability.

***We may lose revenue if we are unable to renew agreements with large customers.***

Our Supplier Partnering Agreement with St. Jude Medical expires December 31, 2009, the agreement between Avago Technologies, Inc. and us, as amended, expires June 26, 2010, and our Phonak AG Supply Agreement expires May 1, 2012. We cannot predict if any of these agreements will be renewed, or if renewed, under what terms. The inability to agree on mutually acceptable terms or the loss of any of these large customers could have a significant adverse impact on our revenue and our profitability.

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

Although our revenue from agencies of the U.S. Government was less than 10% of our total revenue in fiscal 2009, a material decrease in U.S. Government funding 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 U.S. Government funding, certain of our non-Government customers depend on Government support to fund their contracts with us. U.S. Government funding is dependent upon adequate continued funding of the agencies and their programs. Changes in policy by the new U.S. presidential administration or new U.S. Congress could affect government spending priorities. Government spending priorities over which we have no control, such as the wars in Iraq and Afghanistan, may affect availability of U.S. Government funds. Furthermore, a significant portion of our U.S. Government funding is through Small Business Innovation Research (SBIR) contracts. SBIR budgets may be changed by legislation or by agencies such as the Department of Defense.

***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 $1.44 million in Small Business Innovation Research (SBIR) contract awards in fiscal 2009. 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.

***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.***

A significant portion of our product sales are into industries affected by the current worldwide economic downturn. This downturn has resulted in a significant decrease in the semiconductor market, which is the primary market for our products. Industries we serve that have been affected by the economic downturn include industrial control, factory automation, scientific instruments, and certain medical industries. We cannot predict the timing, strength, or duration of any economic slowdown or subsequent recovery, worldwide or in the industries we serve. A material adverse impact on our business and revenue is likely if the economy or industries we serve do not improve from their present levels.

***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 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 technical requirements could result in the loss of key customers and potentially reduce our sales.***

Some of our customers, including Avago Technologies, Phonak AG, St. Jude Medical, and Starkey Laboratories, have stringent technical requirements which require our products to pass certain test and qualification criteria before they are accepted by such customers. Failure to meet those criteria could result in the loss of current sales revenue, customers, and future sales.

***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 with 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.

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***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 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 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. Any 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 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. Any 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 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. 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 47% of our revenue for fiscal 2009, 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; 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.

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***Because we are significantly smaller than the many of our competitors, we may lack the financial resources needed to increase our market share and future revenue.***

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 are established companies that have significantly greater financial, technical, and marketing resources than us. We believe that our competition is increasing as the technology matures. 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 our future competitiveness will depend on our ability to develop new products and reduce our product costs. While we believe that our products have important competitive advantages, our competitors may succeed in developing and marketing products that perform better or are less expensive than ours, or that would render our products and technology obsolete or noncompetitive.

***Our business may suffer because we have limited influence over the rate of adoption of our 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 licensees introducing MRAM products. 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.

***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. Further, others may independently develop similar, superior, or parallel technologies to any technology developed by us, or our technology may prove to infringe upon patents or rights owned by others. Thus the patents held by or licensed to us may not afford us any meaningful competitive advantage. 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 June 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 future business may suffer if we are unable to enforce our intellectual property rights with existing licensees.***

Our existing license agreements have not generated royalties and may never become active or generate significant royalties. Furthermore, our success in enforcing our intellectual property rights may be dependent on our ability to enforce our contract rights under existing license agreements. Our existing licensees could claim without merit that they do not use our intellectual property or claim that one or more of our patents are invalid. In 2000 we were forced to resort to litigation to enforce our intellectual property rights with Motorola, and we plan to continue to vigorously defend our intellectual property rights. Our limited capital resources could put us at a disadvantage if we take legal action to enforce our intellectual property rights.

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

We have no employment agreements with any of our management other than our Chief Executive Officer and Chief Financial Officer, and have no key-person insurance covering employees. Competition for highly qualified management and technical personnel is generally 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.

***Our marketable securities are subject to risks which may affect the liquidity of these investments or cause losses.***

At March 31, 2009, we held $32,446,748 in long-term marketable securities, which included government agency obligations, municipal obligations, and corporate obligations. The ongoing credit crisis has significantly affected issuer credit rating, insurer financial condition and credit rating, liquidity, market, and interest rates for these and other types of obligations. The financial market risks associated with our marketable securities may have an adverse effect on our financial condition, results of operations, or cash flows.

**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, our licensees, or our competitors;
- the announcement of new products, product enhancements, contracts, or license agreements by us, our licensees, or our competitors;
- the announcement of changes in strategy or discontinuation of products by us or licensees;
- changes in requirements or demands for our products or technology;
- changes in prices of our products and services or our competitors products and services;
- quarterly variations in our operating results;
- changes in our revenue or revenue growth rates;
- changes in revenue estimates, earnings estimates, or market projections by market analysts, speculation in the press or analyst community;
- short selling and covering of short positions in our stock; and
- general market conditions or market conditions specific to particular industries served by us, our customers, or our licensees.

**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 and managed by Carlson Real Estate Company, Inc. and leased under an agreement expiring December 31, 2015, with a one-time 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 clean room 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.

## PART II

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

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 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 3/31/09 | 12/31/08 | 9/30/08 | 6/30/08 | 3/31/08 | 12/31/07 | 9/30/07 | 6/30/07 |
| High | $ 34.93 | $ 29.35 | $ 35.00 | $ 39.60 | $ 31.73 | $ 32.70 | $ 41.95 | $ 37.67 |
| Low | $ 20.11 | $ 16.56 | $ 26.01 | $ 24.99 | $ 19.50 | $ 22.44 | $ 29.44 | $ 25.30 |

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**Shareholders and Dividends**

We had approximately 119 shareholders of record and 8,184 total shareholders as of April 27, 2009. 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 or for the possible defense of our intellectual property.

**Stock Price 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 Global Crown Capital Nanotechnology Index. 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, 2004 in each of our Common Stock, the NASDAQ Industrial Index, and the Global Crown Capital Nanotechnology Index, with reinvestment of dividends.

**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, 2009.

**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** | | | | |
|---|---|---|---|---|---|
| | **2009** | **2008** | **2007** | **2006** | **2005** |
| Cash, cash equivalents, and marketable securities | $ 34,321,811 | $ 24,736,874 | $ 18,289,191 | $ 10,891,326 | $ 7,717,264 |
| Total assets | $ 42,566,440 | $ 32,768,128 | $ 25,010,494 | $ 17,758,919 | $ 14,190,004 |
| Capital lease obligations, less current portion | $ - | $ - | $ - | $ 33,281 | $ 100,711 |
| Total shareholders equity | $ 41,567,571 | $ 31,513,482 | $ 23,888,255 | $ 16,778,111 | $ 13,036,581 |

| | **Income Statement Data for Years Ended March 31** | | | | |
|---|---|---|---|---|---|
| | **2009** | **2008** | **2007** | **2006** | **2005** |
| Revenue | | | | | |
| Product sales | $ 19,715,311 | $ 18,505,650 | $ 14,425,632 | $ 8,345,967 | $ 5,522,250 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Contract research and development | | 3,656,958 | | 2,023,162 | | 2,035,198 | | 3,824,559 | | 6,093,320 |
| Total revenue | $ | 23,372,269 | $ | 20,528,812 | $ | 16,460,830 | $ | 12,170,526 | $ | 11,615,570 |
| | | | | | | | | | | |
| Gross profit | $ | 16,648,027 | $ | 13,695,504 | $ | 10,673,172 | $ | 5,951,993 | $ | 4,604,836 |
| Income from operations | $ | 13,251,590 | $ | 10,048,779 | $ | 6,545,569 | $ | 2,471,026 | $ | 1,343,777 |
| Net income | $ | 9,782,895 | $ | 7,187,384 | $ | 4,780,783 | $ | 1,797,746 | $ | 1,758,254 |
| Net income per share diluted | $ | 2.04 | $ | 1.51 | $ | 1.00 | $ | 0.39 | $ | 0.37 |

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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 revenue and gross profit as work is performed, based on actual costs incurred. We apply the percentage-of-completion method to firm-fixed-price contracts. This requires us to make estimates of the percentage of completion of firm-fixed-price contracts. 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.

#### *Product Warranty Estimation*

We maintain a reserve for warranty claims based on the trend in the historical ratio of claims to sales, releases of new products and other factors. The warranty period for our products is generally one year. Although we believe the likelihood to be relatively low, claims experience could be materially different from actual results because of the introduction of new products, manufacturing changes that could impact product quality, or as yet unrecognized defects in products sold. As of March 31, 2009 and 2008 our reserve for estimated warranty claims was not material to our financial statements.

#### *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 sales trends, turnover, competition, and other market factors, and 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 reserve are made. Our inventory reserve was $300,000 at March 31, 2009 and $280,000 at March 31, 2008.

#### *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, 2009 and 2008. 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, 2009 our deferred tax assets were $667,729 compared to $453,405 as of March 31, 2008. Deferred tax assets included $136,587 in stock-based compensation deductions as of March 31, 2009 and $106,681 as of March 31, 2008. Our deferred tax assets are subject to an Internal Revenue Code Section 382 limitation.

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**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 Year Ended March 31 | | | Year-to-Year Change Years Ended March 31 | |
|---|---|---|---|---|---|
| | **2009** | **2008** | **2007** | **2008 to 2009** | **2007 to 2008** |
| Revenue | | | | | |
| Product sales | 84.4% | 90.1% | 87.6% | 6.5 % | 28.3 % |
| Contract research and development | 15.6% | 9.9% | 12.4% | 80.8 % | (0.6)% |
| Total revenue | 100.0% | 100.0% | 100.0% | 13.9 % | 24.7 % |
| Cost of sales | 28.8% | 33.3% | 35.2% | (1.6)% | 18.1 % |
| Gross profit | 71.2% | 66.7% | 64.8% | 21.6 % | 28.3 % |
| Expenses | | | | | |
| Selling, general, and administrative | 9.3% | 10.5% | 11.9% | 0.9 % | 10.7 % |
| Research and development | 5.2% | 7.2% | 13.2% | (18.1)% | (31.6)% |
| Total expenses | 14.5% | 17.7% | 25.1% | (6.9)% | (11.7)% |
| Income from operations | 56.7% | 49.0% | 39.8% | 31.9 % | 53.5 % |
| Net interest and other income | 5.0% | 5.0% | 3.9% | 14.0 % | 59.6 % |
| Income before taxes | 61.7% | 54.0% | 43.7% | 30.2 % | 54.1 % |
| Income tax provision | 19.9% | 19.0% | 14.7% | 19.3 % | 61.5 % |
| Net income | 41.8% | 35.0% | 29.0% | 36.1 % | 50.3 % |

Total revenue for fiscal 2009 increased 14% to $23,372,269 compared to $20,528,812 for fiscal 2008, and increased 25% in fiscal 2008 compared to $16,460,830 for fiscal 2007. The increase in total revenue in fiscal 2009 was due to a 7% increase in product sales and an 81% increase in research and development revenue. The increase in total revenue in fiscal 2008 was due to increases in product sales. In fiscal 2009, total revenue increased 15% in the U.S. and 36% in Europe, partially offset by a 29% decrease in revenue from Asia. In fiscal 2008, total revenue increased 9% from the U.S., 68% from Europe, and 27% from Asia.

Product sales increased 7% to $19,715,311 compared to $18,505,650 in fiscal 2008. Fiscal 2008 product sales increased 28% from $14,425,632 in fiscal 2007. The increases in both years were due to both the addition of new customers and increased purchases by existing customers. Sales of parts for medical devices increased in fiscal 2009, while sales into other markets such as industrial control and factory automation decreased, in part, we believe, due to a worldwide manufacturing slowdown.

Contract research and development revenue increased 81% for fiscal 2009 compared to fiscal 2008, following a decrease of less than 1% for fiscal 2008 compared to fiscal 2007. The increase for fiscal 2009 compared to fiscal 2008 was due to new contracts. The increase in research and development revenue in fiscal 2009 may not be representative of future trends and there can be no assurance of additional or follow-on contracts for expired or completed contracts.

Gross profit margin increased to 71% of revenue for fiscal 2009 compared to 67% for fiscal 2008 and 65% for fiscal 2007. The increase in gross profit margin in fiscal 2009 from fiscal 2008 was due to higher margins on both product sales and research and development revenue as well as manufacturing efficiencies and a more favorable product sales mix. The increase in gross profit margin in fiscal 2008 from fiscal 2007 was due to a more profitable revenue mix consisting of a higher percentage of product sales. Increases in gross profit margin might not continue because we may not have additional opportunities to increase prices or decrease product costs. Furthermore, successfully implementing our long-term strategy of expanding into large markets such as consumer or automotive might result in increased revenue but decreased gross profit margin.

Selling, general, and administrative expense increased 1% for fiscal 2009 and 11% for fiscal 2008 compared to fiscal 2007. The increase for fiscal 2009 was primarily due to increased salaries and commissions, partially offset by a $78,303 decrease in legal fees and a $82,934 decrease in the effect of SFAS No. 123(R). The decrease in the effect of SFAS No. 123(R) for fiscal 2009 was primarily due to a decrease to 1,000 share options granted to each non-employee director on their reelection compared to 2,000 shares in the prior-year period in consideration of the addition of cash compensation for non-employee directors. The increase for fiscal 2008 was primarily due to increased expenses relating to commissions on product sales and incentive compensation, and a $33,236 increase in the effect of SFAS No. 123(R). The increase in the effect of SFAS No. 123(R) for fiscal 2008 was primarily due to a higher market stock price at the date of automatic grant of stock options to our non-employee directors on their reelection to our Board compared to the market stock price at the prior-year date of grant.

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Research and development expense decreased 18% for fiscal 2009 compared to fiscal 2008 due to the completion of certain research and development projects and an increase in contract research and development obligations. Research and development expense decreased 32% for fiscal 2008 compared to fiscal 2007 due to the completion of certain research and development projects. These decreases may not be representative of future expense trends. Our research and development expense can fluctuate significantly depending on staffing, project requirements, and contract research and development obligations.

Net interest and other income increased 14% for fiscal 2009 to $1,176,010 compared to $1,031,225 for fiscal 2008. Net interest and other income increased 60% in fiscal 2008 compared to $646,234 for fiscal 2007. The increase for fiscal 2009 was primarily due to an increase in interest income from a larger portfolio of marketable securities. The increase for fiscal 2008 was primarily due to an increase in interest income from a larger portfolio of marketable securities and an increase in other income primarily due to $56,837 in net gains on sales of marketable securities.

The effective income tax rate in fiscal 2009 was 32% of income before taxes compared to 35% in fiscal 2008 and 34% in fiscal 2007. The decreased tax rate for fiscal 2009 compared to fiscal 2008 was primarily due to a larger portion of our interest income from federally tax-free securities and a lower state effective tax rate. Our tax rate was higher in fiscal 2008 compared to fiscal 2007 primarily due to our assessment for fiscal 2007 that it was more likely than not that we would realize certain deferred tax assets. Our tax rate can fluctuate due to a number of factors, including the mix between taxable and tax-exempt securities in our marketable securities and deductions related to disqualifying dispositions of our common stock. We did not pay significant cash taxes for fiscal 2007 because of stock-based compensation deductions. We exhausted our available stock-based compensation deductions during fiscal 2008 and began accruing and paying cash-tax obligations. The decrease in the effective tax rate in fiscal 2009 may not be representative of future trends because the effective tax rate can fluctuate from year to year due to a number of factors, some of which are outside our control.

Net income increased 36% for fiscal 2009 compared to fiscal 2008 due to increases in revenue, gross profit as a percentage of revenue, and interest income and decreases in total expenses and the effective income tax rate. Net income increased 50% in fiscal 2008 compared to fiscal 2007 due to increases in revenue, gross profit as a percentage of revenue, interest income, and a decrease in total expenses.

**Liquidity and Capital Resources**

Our primary source of working capital for fiscal years 2007 through 2009 was cash provided by operating activities related to product sales and research and development contract revenue. At March 31, 2009 we had $34,321,811 in cash plus long-term marketable securities compared to $24,736,874 at March 31, 2008. The $9,584,937 increase in cash and marketable securities was primarily due to $9,998,114 in net cash provided by operating activities.

Purchases of fixed assets decreased to $401,612 in fiscal 2009 compared to $817,596 in fiscal 2008. Purchases of fixed assets were $321,997 in fiscal 2007. 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 and equipment purchasing opportunities.

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, 2009 our marketable securities had remaining maturities between 13 and 52 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:

| | | Payments Due by Period | | | |
|---|---|---|---|---|---|
| **Contractual obligations** | **Total** | **<1 Year** | **1 3 Years** | **3 5 Years** | **>5 Years** |
| Operating lease obligations | $ 1,717,427 | $ 244,387 | $ 499,348 | $ 775,506 | $ 198,186 |
| Purchase obligations | 269,995 | 269,995 | - | - | - |
| Total | $ 1,987,422 | $ 514,382 | $ 499,348 | $ 775,506 | $ 198,186 |

Operating lease obligations are primarily for our facility lease. Note 9 Commitments and Contingencies provides additional information about our lease obligations. Purchase obligations as of March 31, 2009 consisted of raw materials purchase commitments and fixed asset purchase commitments to increase manufacturing capacity. We expect to meet these contractual payment obligations from cash provided by operating activities. We plan to evaluate capital expenditures as needs and opportunities arise, and our future capital expenditures could vary significantly from expenditures in the past.

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We believe our working capital and cash generated from operations will be adequate for our needs at least through fiscal 2010.

**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.

**Inflation**

Inflation has not had a significant impact on our operations since our inception. Prices for our products and for the materials and labor going into those products are governed by market conditions. It is possible that inflation in future years could impact both materials and labor in 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.**

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. All of our marketable securities were long-term as of March 31, 2009, with remaining maturities between 13 and 52 months. Marketable securities had a market value of $32,446,748 at March 31, 2009, representing approximately 76% of our total assets. We have not used derivative financial instruments in our investment portfolio.

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

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

**Quarterly Summary Information**

Selected unaudited quarterly financial data for fiscal 2009 and 2008, presented as supplementary financial information, are as follows:

| | Unaudited; Quarter Ended | | | |
|---|---|---|---|---|
| | March 31, 2009 | Dec. 31, 2008 | Sept. 30, 2008 | June 30, 2008 |
| Revenue | | | | |
| Product sales | $ 5,699,660 | $ 4,596,948 | $ 4,871,381 | $ 4,547,322 |
| Contract research and development | 1,196,920 | 1,287,165 | 856,409 | 316,464 |
| Total revenue | 6,896,580 | 5,884,113 | 5,727,790 | 4,863,786 |
| Cost of sales | 1,806,102 | 1,763,090 | 1,747,618 | 1,407,432 |
| Gross profit | 5,090,478 | 4,121,023 | 3,980,172 | 3,456,354 |
| Expenses | | | | |
| Selling, general, and administrative | 554,055 | 508,953 | 585,373 | 529,484 |
| Research and development | 292,679 | 258,998 | 280,863 | 386,032 |
| Total expenses | 846,734 | 767,951 | 866,236 | 915,516 |
| Income from operations | 4,243,744 | 3,353,072 | 3,113,936 | 2,540,838 |
| Income before taxes | 4,577,231 | 3,660,686 | 3,391,010 | 2,798,673 |
| Net income | $ 3,111,494 | $ 2,468,404 | $ 2,300,381 | $ 1,902,616 |
| Net income per share basic | $ 0.67 | $ 0.53 | $ 0.49 | $ 0.41 |
| Net income per share diluted | $ 0.65 | $ 0.52 | $ 0.48 | $ 0.40 |

| | Unaudited; Quarter Ended | | | |
|---|---|---|---|---|
| | March 31, 2008 | Dec. 31, 2007 | Sept. 30, 2007 | June 30, 2007 |
| Revenue | | | | |
| Product sales | $ 5,674,879 | $ 4,249,809 | $ 4,311,862 | $ 4,269,100 |
| Contract research and development | 374,505 | 515,716 | 692,758 | 440,183 |
| Total revenue | 6,049,384 | 4,765,525 | 5,004,620 | 4,709,283 |
| Cost of sales | 1,876,335 | 1,663,045 | 1,850,960 | 1,442,968 |
| Gross profit | 4,173,049 | 3,102,480 | 3,153,660 | 3,266,315 |
| Expenses | | | | |
| Selling, general, and administrative | 526,882 | 492,771 | 575,422 | 563,743 |
| Research and development | 318,889 | 347,344 | 314,037 | 507,637 |
| Total expenses | 845,771 | 840,115 | 889,459 | 1,071,380 |
| Income from operations | 3,327,278 | 2,262,365 | 2,264,201 | 2,194,935 |
| Income before taxes | 3,564,330 | 2,585,160 | 2,511,058 | 2,419,456 |
| Net income | $ 2,252,982 | $ 1,702,293 | $ 1,644,774 | $ 1,587,335 |
| Net income per share basic | $ 0.49 | $ 0.37 | $ 0.35 | $ 0.34 |
| Net income per share diluted | $ 0.47 | $ 0.36 | $ 0.34 | $ 0.33 |

**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, 2009, our disclosure controls and procedures were effective.

During the quarter ended March 31, 2009, 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.

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**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, 2009. 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*.

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, 2009. Our internal control over financial reporting as of March 31, 2009 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.

**ITEM 9B. OTHER INFORMATION.**

None.

## PART III

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

**Directors and Executive Officers**

Each NVE director is elected annually and serves for a term of approximately one year or until his or her successor is duly elected and qualified. The section titled Proposal 1. Election of Board of Directors to be included in our Proxy Statement for our 2009 Annual Meeting of Shareholders sets forth certain information regarding our directors required by Item 10, and the section titled Executive Officers of the Company sets forth information regarding our executive officers required by Item 10. Both sections are incorporated by reference into this section.

**Audit Committee Financial Experts**

Our Board of Directors has determined that Terrence W. Glarner, James D. Hartman, and Patricia M. Hollister qualify as audit committee financial experts as that term is defined under Section 407 of the Sarbanes-Oxley Act of 2002 and the rules promulgated by the SEC in furtherance of Section 407. Furthermore, Ms. Hollister, Mssrs. Glarner and Hartman, and Robert H. Irish are independent as that term is defined under the corporate governance rules of the NASDAQ Stock Market.

**Audit Committee**

The discussion under the section titled Board Committees Corporate Governance Audit Committee to be included in our Proxy Statement for our 2009 Annual Meeting of Shareholders is incorporated by reference into this section.

**Code of Ethics**

We have adopted a Policy on Ethics and Business Conduct that applies to all officers, directors, and employees of the Company. The Policy is available from the Investors section of our Website (www.nve.com). We intend to disclose future amendments to the Policy, or waivers of such provisions granted to executive officers and directors, on our Website within four business days following the date of such amendment or waiver.

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**Section 16(a) Beneficial Ownership Reporting Compliance**

The discussion under the section titled Security Ownership Section 16(a) Beneficial Ownership Reporting Compliance to be included in our Proxy Statement for our 2009 Annual Meeting of Shareholders is incorporated by reference in this section.

## ITEM 11. EXECUTIVE COMPENSATION.

The information appearing under the sections Executive Compensation, Compensation Discussion and Analysis, Corporate Governance Board Committees Compensation Committee Interlocks and Insider Participation, Compensation Committee Report, and Directors Compensation to be included in our Proxy Statement for our 2009 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 to be included in our Proxy Statement for our 2009 Annual Meeting of Shareholders in the section titled Security Ownership is incorporated by reference into this section.

The following table summarizes Common Stock that may be issued as of March 31, 2009 on the exercise of options under our 2000 Stock Option Plan, as amended. Information regarding the material features of the Plan is contained in Note 6 to the Financial Statements included elsewhere in this Report.

| Plan Category | Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants, and Rights (A) | Weighted-Average Exercise Price of Outstanding Options, Warrants, and Rights (B) | Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (A)) (C) |
|---|---|---|---|
| Equity compensation plans approved by security holders | 281,750 | $17.10 | 174,230 |
| Equity compensation plans not approved by security holders | - | - | - |
| Total at March 31, 2009 | 281,750 | $17.10 | 174,230 |

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

The information to be included in our Proxy Statement for our 2009 Annual Meeting of Shareholders in the sections titled Security Ownership Transactions With Related Persons, Promoters, and Certain Control Persons and Corporate Governance Board Composition, Independence, and Meeting Attendance is incorporated by reference into this section.

## ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

The information to be included in our Proxy Statement for our 2009 Annual Meeting of Shareholders in the sections titled Audit Committee Disclosure Fees Billed to Us by Ernst & Young During Fiscal 2009 and 2008 and Audit Committee Disclosure Audit Committee Pre-Approval Policy is incorporated by reference into this section.

# PART IV

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

**(a) Financial Statements and Schedules**

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

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**(b) Exhibits**

| Exhibit # | Description |
|---|---|
| 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 our Quarterly Report on 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 our Current Report on Form 8-K filed December 19, 2007). |
| 4 | Form of Common Stock Certificate (incorporated by reference to our Registration Statement on Form S-8 filed July 20, 2001). |
| 10.1 | Lease dated October 1, 1998 between the company and Glenborough Properties, L.P. (incorporated by reference to our Quarterly Report on 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 our Quarterly Report on 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 our Quarterly Report on 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 our Current Report on 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 our Current Report on Form 8-K filed October 11, 2005). |
| 10.6 | Third amendment to lease between the company and Carlson Real Estate Company, Inc. dated December 17, 2007 (incorporated by reference to our Current Report on Form 8-K/A filed December 20, 2007). |
| 10.7* | Employment Agreement between the company and Daniel A. Baker dated January 29, 2001 (incorporated by reference to our Annual Report on Form 10-KSB for the year ended March 31, 2001). |
| 10.8* | 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). |
| 10.9+ | Agreement between the company and Agilent Technologies, Inc. dated September 27, 2001 (incorporated by reference to our Quarterly Report on Form 10-QSB for the period ended September 30, 2001). |
| 10.10 | Amendment dated October 18, 2002 to Agreement between the company and Agilent Technologies, Inc. (incorporated by reference to our Quarterly Report on Form 10-QSB for the period ended December 31, 2002). |
| 10.11 | Notification from Agilent Technologies of planned sale of Agilent s Semiconductor Product Group (incorporated by reference to our Current Report on Form 8-K filed October 19, 2005). |
| 10.12 | Report of completion of the divestiture of Agilent s Semiconductor Products business (incorporated by reference to our Current Report on Form 8-K/A filed December 6, 2005). |
| 10.13 | Amendment Number 2 to OEM Purchase Agreement dated September 10, 2007 to Agreement between Agilent Technologies, Inc. (and subsequently assigned to Avago Technologies, Inc.) and the company (incorporated by reference to our Exhibit 10.5 filed with our Current Report on Form 8-K/A filed September 11, 2007). |
| 10.14* | Amendment No. 1 dated March 28, 2005 to Stock Option Agreement dated May 7, 2004 between the Company and Daniel A. Baker (incorporated by reference to our Current Report on Form 8-K filed March 30, 2005). |
| 10.15 | Amendment No. 1 dated March 28, 2005 to Stock Option Agreement dated August 17, 2004 between the Company and Patricia M. Hollister (incorporated by reference to our Current Report on Form 8-K filed March 30, 2005). |
| 10.16 | 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 our Current Report on Form 8-K filed September 27, 2005). |

| | |
|---|---|
| 10.17+ | Supplier Partnering Agreement by and between St. Jude and the company (incorporated by reference to our Current Report on Form 8-K filed January 4, 2006). |
| 10.18+ | Amendment Number 1 to Supplier Partnering Agreement dated September 6, 2007 between St. Jude and the company (incorporated by reference to our Current Report on Form 8-K/A filed September 10, 2007). |
| 10.19* | Verbal agreement with Curt A. Reynders (incorporated by reference to Item 1.01 of our Current Report on Form 8-K filed January 18, 2006). |
| 10.20 | Supply Agreement by and between the company and Phonak AG (incorporated by reference to our Current Report on Form 8-K filed May 6, 2009). |
| 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, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

* Indicates a management contract or compensatory plan or arrangement.

+ Confidential portions of this exhibit have been deleted and filed separately with the SEC under a request for confidential treatment pursuant to Rule 24b-2 or Rule 406.

Copies of documents filed as exhibits to our Form 10-K may be accessed from the Investors section of our Website (www.nve.com), or obtained by making a written request to Curt A. Reynders, our Chief Financial Officer.

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## 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 6, 2009

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.

| Name | Title | Date |
|---|---|---|
| /s/Terrence W. Glarner<br>Terrence W. Glarner | Director and<br>Chairman of the Board | May 6, 2009 |
| /s/Daniel A. Baker<br>Daniel A. Baker | Director,<br>President & Chief Executive Officer<br>(Principal Executive Officer) | May 6, 2009 |
| /s/Curt A. Reynders<br>Curt A. Reynders | Treasurer and<br>Chief Financial Officer<br>(Principal Financial and<br>Accounting Officer) | May 6, 2009 |
| /s/James D. Hartman<br>James D. Hartman | Director | May 6, 2009 |
| /s/Patricia M. Hollister<br>Patricia M. Hollister | Director | May 6, 2009 |

| | | |
|---|---|---|
| /s/Robert H. Irish<br>Robert H. Irish | Director | May 6, 2009 |

**NVE CORPORATION**
**INDEX TO**
**FINANCIAL STATEMENTS**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Shareholders of NVE Corporation

We have audited NVE Corporation s internal control over financial reporting as of March 31, 2009, 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 entitled 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, 2009, 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, 2009 and 2008, and the related statements of income, shareholders equity, and cash flows for each of the three years in the period ended March 31, 2009, and our report dated May 5, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Minneapolis, Minnesota

May 5, 2009

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Shareholders of NVE Corporation

We have audited the accompanying balance sheets of NVE Corporation as of March 31, 2009 and 2008, and the related statements of income, shareholders equity, and cash flows for each of the three years in the period ended March 31, 2009. 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, 2009 and 2008, and the results of its operations and its cash flows for each of the three years in the period ended March 31, 2009, 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, 2009, 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 5, 2009, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Minneapolis, Minnesota
May 5, 2009

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**NVE CORPORATION**
**BALANCE SHEETS**

| | March 31 | | | |
|---|---|---|---|---|
| | **2009** | | **2008** | |
| ASSETS | | | | |
| Current assets | | | | |
| Cash and cash equivalents | $ | 1,875,063 | $ | 1,885,867 |
| Marketable securities, short term | | - | | 795,728 |
| Accounts receivable, net of allowance for uncollectible accounts of $15,000 | | 3,366,698 | | 3,226,027 |
| Inventories | | 2,247,621 | | 2,456,804 |
| Deferred tax assets | | 667,729 | | 453,405 |
| Prepaid expenses and other assets | | 669,307 | | 529,616 |
| Total current assets | | 8,826,418 | | 9,347,447 |
| Fixed assets | | | | |
| Machinery and equipment | | 5,328,237 | | 5,205,288 |
| Leasehold improvements | | 450,546 | | 436,794 |
| | | 5,778,783 | | 5,642,082 |
| Less accumulated depreciation | | 4,485,509 | | 4,276,680 |
| Net fixed assets | | 1,293,274 | | 1,365,402 |
| Marketable securities, long term | | 32,446,748 | | 22,055,279 |
| Total assets | $ | 42,566,440 | $ | 32,768,128 |
| | | | | |
| LIABILITIES AND SHAREHOLDERS EQUITY | | | | |
| Current liabilities | | | | |
| Accounts payable | $ | 257,239 | $ | 434,808 |
| Accrued payroll and other | | 637,463 | | 632,338 |
| Deferred revenue | | 104,167 | | 187,500 |
| Total current liabilities | | 998,869 | | 1,254,646 |
| | | | | |
| Shareholders equity | | | | |
| Common stock | | 46,693 | | 46,387 |
| Additional paid-in capital | | 19,166,524 | | 18,539,538 |
| Accumulated other comprehensive (loss) income | | (252,940) | | 103,158 |
| Retained earnings | | 22,607,294 | | 12,824,399 |
| Total shareholders equity | | 41,567,571 | | 31,513,482 |
| Total liabilities and shareholders equity | $ | 42,566,440 | $ | 32,768,128 |

See accompanying notes.

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## NVE CORPORATION
## STATEMENTS OF INCOME

| | Year Ended March 31 2009 | | 2008 | | 2007 | |
|---|---|---|---|---|---|---|
| Revenue | | | | | | |
| Product sales | $ | 19,715,311 | $ | 18,505,650 | $ | 14,425,632 |
| Contract research and development | | 3,656,958 | | 2,023,162 | | 2,035,198 |
| Total revenue | | 23,372,269 | | 20,528,812 | | 16,460,830 |
| Cost of sales | | 6,724,242 | | 6,833,308 | | 5,787,658 |
| Gross profit | | 16,648,027 | | 13,695,504 | | 10,673,172 |
| Expenses | | | | | | |
| Selling, general, and administrative | | 2,177,865 | | 2,158,818 | | 1,950,999 |
| Research and development | | 1,218,572 | | 1,487,907 | | 2,176,604 |
| Total expenses | | 3,396,437 | | 3,646,725 | | 4,127,603 |
| Income from operations | | 13,251,590 | | 10,048,779 | | 6,545,569 |
| Interest income | | 1,171,810 | | 974,990 | | 621,577 |
| Interest expense | | - | | - | | (589) |
| Other income | | 4,200 | | 56,235 | | 25,246 |
| Income before taxes | | 14,427,600 | | 11,080,004 | | 7,191,803 |
| Provision for income taxes | | 4,644,705 | | 3,892,620 | | 2,411,020 |
| Net income | $ | 9,782,895 | $ | 7,187,384 | $ | 4,780,783 |
| Net income per share basic | $ | 2.10 | $ | 1.55 | $ | 1.03 |
| Net income per share diluted | $ | 2.04 | $ | 1.51 | $ | 1.00 |
| Weighted average shares outstanding | | | | | | |
| Basic | | 4,659,486 | | 4,635,470 | | 4,620,371 |
| Diluted | | 4,785,565 | | 4,763,101 | | 4,771,297 |

See accompanying notes.

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

| | Common Stock Shares | Common Stock Amount | Additional Paid-In Capital | Accumulated Other Comprehensive Income (Loss) | Retained Earnings (Deficit) | Total |
|---|---|---|---|---|---|---|
| Balance at March 31, 2006 | 4,614,953 | $ 46,150 | 16,042,637 | $ (166,908 ) | $ 856,232 | $ 16,778,111 |
| Exercise of stock options and warrants | 12,430 | 124 | 26,355 | - | - | 26,479 |
| Comprehensive income: | | | | | | |
| Unrealized gain on marketable securities | - | - | - | 82,626 | | 82,626 |
| Net income | - | - | - | - | 4,780,783 | 4,780,783 |
| Total comprehensive income | | | | | | 4,863,409 |
| Stock-based compensation | | | 136,370 | | | 136,370 |
| Tax benefit of stock-based compensation | | | 2,083,886 | | | 2,083,886 |
| Balance at March 31, 2007 | 4,627,383 | 46,274 | 18,289,248 | (84,282 ) | 5,637,015 | 23,888,255 |
| Exercise of stock options and warrants | 11,300 | 113 | 46,911 | - | - | 47,024 |
| Comprehensive income: | | | | | | |
| Unrealized gain on marketable securities | - | - | - | 187,440 | | 187,440 |
| Net income | - | - | - | - | 7,187,384 | 7,187,384 |
| Total comprehensive income | | | | | | 7,374,824 |
| Stock-based compensation | | | 169,606 | | | 169,606 |
| Tax benefit of stock-based compensation | | | 33,773 | | | 33,773 |

| | | | | | | |
|---|---|---|---|---|---|---|
| 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 | - | - | - | (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 |

See accompanying notes.

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## NVE CORPORATION
## STATEMENTS OF CASH FLOWS

| | Year Ended March 31 | | |
|---|---|---|---|
| | **2009** | **2008** | **2007** |
| OPERATING ACTIVITIES | | | |
| Net income | $ 9,782,895 | $ 7,187,384 | $ 4,780,783 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation | 473,740 | 560,528 | 530,050 |
| Stock-based compensation | 86,672 | 169,606 | 136,370 |
| Excess tax benefits | (270,413) | (33,773) | (2,083,886) |
| (Gain) loss on sale of fixed assets | (4,200) | 601 | - |
| Gain on marketable securities, net | - | (56,837) | - |
| Deferred income taxes | 256,376 | 806,307 | 2,289,687 |
| Changes in operating assets and liabilities | | | |
| Accounts receivable | (140,671) | (1,221,022) | (337,976) |
| Inventories | 209,183 | (439,946) | 132,911 |
| Prepaid expenses and other assets | (139,691) | (196,029) | (102,175) |
| Accounts payable and accrued expenses | (172,444) | (25,736) | 222,728 |
| Deferred revenue | (83,333) | 158,143 | (48,016) |
| Net cash provided by operating activities | 9,998,114 | 6,909,226 | 5,520,476 |
| | | | |
| INVESTING ACTIVITIES | | | |
| Purchases of fixed assets | (401,612) | (817,596) | (321,997) |
| Proceeds from sale of fixed assets | 4,200 | 1,500 | - |
| Purchases of marketable securities | (12,137,160) | (16,518,287) | (9,506,521) |
| Proceeds from maturities and sales of marketable securities | 1,985,034 | 11,832,804 | 1,340,019 |
| Net cash used in investing activities | (10,549,538) | (5,501,579) | (8,488,499) |
| | | | |
| FINANCING ACTIVITIES | | | |
| Net proceeds from sale of common stock | 270,207 | 47,024 | 26,479 |
| Excess tax benefits | 270,413 | 33,773 | 2,083,886 |
| Repayment of capital lease obligations | - | - | (33,281) |
| Net cash provided by financing activities | 540,620 | 80,797 | 2,077,084 |
| | | | |
| (Decrease) increase in cash and cash equivalents | (10,804) | 1,488,444 | (890,939) |
| Cash and cash equivalents at beginning of year | 1,885,867 | 397,423 | 1,288,362 |
| | | | |
| Cash and cash equivalents at end of year | $ 1,875,063 | $ 1,885,867 | $ 397,423 |
| | | | |
| Supplemental disclosures of cash flow information: | | | |
| Cash paid during the year for: | | | |
| Interest | $ - | $ - | $ 589 |
| Income taxes | $ 4,356,000 | $ 3,254,313 | $ 44,300 |

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 and account for marketable securities in accordance with Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 115, Accounting for Certain Investments in Debt and Equity Securities. Securities with original maturities greater than three months and remaining maturities less than one year are classified as short-term marketable securities; securities with remaining maturities greater than one year are classified 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. We use a specific-identification cost basis to determine gains and losses.

We determine whether our marketable securities have other than temporary impairments in accordance with SFAS 115 Paragraph 16, which indicates that an other-than-temporary impairment exists if it is probable that the investor 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. In accordance with SAB Topic 5M, 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 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 our ability to hold the securities to maturity based on our financial condition and anticipated cash flows. We have determined that no write-downs were required on available-for-sale securities during fiscal 2009, 2008, or 2007.

### 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 section 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. Charges and provisions to our allowance for doubtful accounts were $175 in fiscal 2009. We had no charges or provisions to our allowance for doubtful accounts in fiscal 2008 or fiscal 2007.

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**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.

**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**

We recognize product revenue in accordance with SAB No. 101, Revenue Recognition in Financial Statements, as amended by SAB No. 104 and codified in SAB Topic 13, 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 $33,483 for fiscal 2009, $28,930 for fiscal 2008, and $18,219 for fiscal 2007.

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.

Under our agreement dated September 27, 2001 with Agilent Technologies, Inc. to distribute our couplers under its brand, Agilent provided a refundable prepayment of $500,000. In accordance with SAB No. 101 and SAB Topic 13A as amended by SAB No. 104, we classified this prepayment as Deferred revenue. In accordance with the agreement, we recognized the prepayment as revenue at a rate equal to a percentage of the sale price to Agilent when we shipped products to Agilent or Avago Technologies, Inc., and reduced deferred revenue by a corresponding amount. Inventory costs associated with amortization of the prepayment were recognized as Costs of sales as revenue was recognized. The 2001 prepayment was fully satisfied during fiscal 2007. We executed Amendment No. 2 to the Agreement between us and Agilent effective as of June 27, 2007. Among other provisions, Amendment No. 2 provided for a nonrefundable payment of $250,000 by Avago to us. In accordance with SAB No. 101 and SAB Topic 13A as amended by SAB No. 104, we are recognizing revenue from the $250,000 payment over the Amendment term ending June 27, 2010.

**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 recognize discounts to our distributors in accordance with Emerging Issues Task Force Issue No. 01-09, Accounting for Consideration Given by a Vendor to a Customer. EITF 01-09 addresses whether a vendor should recognize consideration given to a customer as an expense or as an offset to revenue being recognized from that same customer. 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. Under EITF 01-09 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.

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**Research and Development Contract Revenue Recognition**

We recognize government contract revenue in accordance with Accounting Research Bulletin No. 43, Chapter 11, Government Contracts. Revenue and gross profit are recognized as work is performed, based on actual costs incurred.

Our government research and development contracts may be either firm-fixed-price or cost-plus-fixed-fee. 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. Cost-plus-fixed-fee contracts normally require us to complete and deliver the specified end product (such as a final report of research accomplishing the goal or target) within the estimated cost, if possible, as a condition for payment of the entire fixed fee. Our research and development contracts do not contain post-shipment obligations.

Our commercial research and development contracts are generally firm-fixed-price contracts. Firm-fixed-price contracts provide for a price that is not subject to any adjustment based on our cost in performing the contract. We apply the percentage-of-completion method to these contracts for revenue recognition.

**Revenue Recognition of Up-Front Fees**

We account for nonrefundable up-front fees from licensing and technology development programs in accordance with SAB Topic 13A. Revenue from upfront fees is deferred and recognized over the periods that the fees are earned. We recognize revenue from licensing and technology 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.

**Research and Development Expense Recognition**

Research and development costs are expensed as they are incurred.

**Stock-Based Compensation**

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

**Net Income Per Share**

We calculate our net income per share in accordance with SFAS No. 128, *Earnings per Share*. Basic earnings per share are computed based on the weighted-average number of common shares issued and outstanding during each year. Diluted net income per share amounts assume conversion, exercise or issuance of all potential common stock instruments (stock options and warrants). Stock options and warrants totaling 60,000 for fiscal 2009; 56,000 for fiscal 2008; and 48,000 for fiscal 2007 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 in accordance with SFAS No. 128:

| | | Year Ended March 31 | | |
|---|---|---|---|---|
| | | **2009** | **2008** | **2007** |
| Weighted average common shares outstanding | basic | 4,659,486 | 4,635,470 | 4,620,371 |
| Effect of dilutive securities: | | | | |
| Stock options | | 121,135 | 123,195 | 146,154 |
| Warrants | | 4,944 | 4,436 | 4,772 |
| Shares used in computing net income per share | diluted | 4,785,565 | 4,763,101 | 4,771,297 |

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. 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.

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**Recent Accounting Pronouncements**

In April 2009, FASB released FASB Staff Position (FSP) SFAS Nos. 107-1, 115-2, and 157-4. FSP SFAS No. 107-1 requires publicly-traded companies to include disclosures about the fair value of their financial instruments when issuing summarized financial information for interim reporting purposes. FSP SFAS No. 115-2 amends the other-than-temporary impairment guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments of debt and equity securities in the financial statements. FSP SFAS No. 157-4 provides additional guidance for estimating fair value in accordance with SFAS No. 157, *Fair Value Measurements*, when the volume and level of activity for the asset or liability have significantly decreased and includes guidance on identifying circumstances that indicate a transaction is not orderly. We adopted the Staff Positions at the beginning of fiscal 2010 and do not expect the adoption to have a significant impact on our financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 establishes a framework for measuring fair value, clarifies the definition of fair value, and requires additional disclosures about fair-value measurements. SFAS No. 157 applies only to fair value measurements that are already required or permitted by other accounting standards (except for measurements of share-based payments) and is expected to increase the consistency of those measurements. SFAS No. 157, as issued, was effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued FSP SFAS No. 157-2, *Effective Date of FASB Statement No. 157*, that deferred the effective date of SFAS No. 157 for one year for certain nonfinancial assets and nonfinancial liabilities. Accordingly, we adopted certain parts of SFAS No. 157 at the beginning of fiscal 2009 and the remaining parts at the beginning of fiscal 2010. Partial adoption of SFAS No. 157 in fiscal 2009 did not result in a material impact to our financial statements, and we do not expect adoption of the remaining parts to have a significant impact on our financial statements.

**NOTE 3. FAIR VALUE MEASUREMENTS**

As discussed in Note 2, we adopted the provisions of SFAS No. 157 at the beginning of fiscal 2009. The adopted provisions of SFAS No. 157 apply to all financial assets and liabilities that are being measured at fair value on a recurring basis. We adopted the remaining provisions of SFAS No. 157 at the beginning of fiscal 2010, which apply to all non-financial assets and liabilities that are being measured at fair value on a non-recurring basis.

SFAS No. 157 establishes a framework for measuring fair value, clarifies the definition of fair value and expands disclosures about fair-value measurements. SFAS No. 157 defines 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. SFAS No. 157 establishes 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 below:

Level 1 Financial instruments with quoted prices in active markets for identical assets or liabilities. Our Leve1 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 $32,446,748 at March 31, 2009 and $22,851,007 at March 31, 2008.

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.

**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 maturities of our marketable securities as of March 31, 2009 were as follows:

| Total | <1 Year | 1 3 Years | 3 5 Years | >5 Years |
|---|---|---|---|---|
| $ 32,446,748 | $ - | $ 9,561,007 | $ 22,885,741 | $ - |

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As of March 31, 2009 and 2008 our marketable securities were as follows:

| | As of March 31, 2009 | | | | As of March 31, 2008 | | | |
|---|---|---|---|---|---|---|---|---|
| | Adjusted Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Market Value | Adjusted Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimat Fair Mar Value |
| U.S. agency securities | $ 955,827 | $ 30,647 | $ - | $ 986,474 | $ 2,435,145 | $ 8,018 | $ (11,308) | $ 2,431, |
| Corporate bonds | 13,983,202 | 54,085 | (942,514) | 13,094,773 | 7,094,793 | 58,702 | (9,157) | 7,144, |
| Municipal bonds | 17,902,196 | 489,802 | (26,497) | 18,365,501 | 13,159,161 | 149,104 | (33,451) | 13,274, |
| Total | $ 32,841,225 | $ 574,534 | $ (969,011) | $ 32,446,748 | $ 22,689,099 | $ 215,824 | $ (53,916) | $ 22,851, |

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, 2009 and 2008:

| | 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, 2009 | | | | | | |
| U.S. agency securities | $ - | $ - | $ - | $ - | $ - | $ - |
| Corporate bonds | 7,278,810 | (796,441) | 1,902,698 | (146,073) | 9,181,508 | (942,514) |
| Municipal bonds | 901,213 | (6,436) | 947,043 | (20,061) | 1,848,256 | (26,497) |
| Total | $ 8,180,023 | $ (802,877) | $ 2,849,741 | $ (166,134) | $ 11,029,764 | $ (969,011) |
| As of March 31, 2008 | | | | | | |
| U.S. agency securities | $ 847,586 | $ (6,193) | $ 494,885 | $ (5,115) | $ 1,342,471 | $ (11,308) |
| Corporate bonds | 3,506,909 | (9,157) | - | - | 3,506,909 | (9,157) |
| Municipal bonds | 3,323,926 | (33,451) | - | - | 3,323,926 | (33,451) |
| Total | $ 7,678,421 | $ (48,801) | $ 494,885 | $ (5,115) | $ 8,173,306 | $ (53,916) |

Gross unrealized losses were attributable to our corporate and municipal bonds. The gross unrealized losses were primarily due to credit rating downgrades, interest rate fluctuations and market-price movements in an unstable bond market environment. Although a number of our bonds were downgraded during fiscal 2009, all of the bonds that were rated by Moody s or Standard and Poor s had investment-grade credit ratings, and a substantial majority were rated A3/A- or better. For each bond with an unrealized loss, we determined that it was not probable that we would not collect all amounts due. In reaching this determination, we considered factors including the credit ratings of the bonds, the underlying rating of insured bonds, whether the bonds were prefunded, and historical default rates for securities of comparable credit rating. Because we determined that it was not probable that we would not collect all amounts due, and because we have the ability and intent to hold our bonds until a recovery of fair value, which may be maturity, we did not consider our any of our investments to be other-than temporarily impaired at March 31, 2009.

**NOTE 5. INVENTORIES**

Inventories consisted of the following:

| | March 31 | |
|---|---|---|
| | 2009 | 2008 |
| Raw materials | $ 564,630 | $ 741,361 |
| Work-in-process | 1,082,290 | 1,184,062 |

| | | | | |
|---|---|---|---|---|
| Finished goods | | 900,701 | | 811,381 |
| | | 2,547,621 | | 2,736,804 |
| Less inventory reserve | | (300,000) | | (280,000) |
| Total inventories | $ | 2,247,621 | $ | 2,456,804 |

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## 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:

| | Year Ended March 31 | | |
|---|---|---|---|
| | **2009** | **2008** | **2007** |
| Risk-free interest rate | 3.2% | 4.2% | 4.9% |
| Expected volatility | 68% | 70% | 81% |
| Expected life (years) | 3.7 | 3.5 | 6.5 |
| 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. Prior to adopting SFAS No. 123(R), we estimated that the expected life was equal to the option term. For determining the fair value of options under SFAS No. 123(R) we use different expected lives for officers and directors than we use for our general employee population. We examined the historical pattern of option exercises to determine if there was a discernible pattern as to how different classes of employees exercised their options. Our analysis showed that officers and directors held their stock options for a longer period of time before exercising compared to the rest of our employee population.

***Risk-free interest rate***

The 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 share-based payments

The following table shows the effect of our adoption of SFAS No. 123(R) on our net income and earning per share for fiscal 2009 and 2008. Expenses and costs related to share-based payments are presented in the same line or lines as cash compensation paid to the same employees. The effect of SFAS No. 123(R) is included in Selling, general, and administrative expenses and presented in the line titled Stock-based compensation on our Statements of Cash Flows:

| | Year Ended March 31 | | |
|---|---|---|---|
| | **2009** | **2008** | **2007** |
| Effect of SFAS No. 123(R) on net income | $ (86,672) | $ (169,606) | $ (136,370) |
| Effect of SFAS No. 123(R) on net income per share: | | | |
| Basic | $ (0.02) | $ (0.04) | $ (0.03) |
| Diluted | $ (0.02) | $ (0.04) | $ (0.03) |

**Tax effects of stock-based compensation**

Stock-based compensation increased deferred taxes by $31,098 for fiscal 2009 and $60,599 for fiscal 2008.

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**General stock option information**

A summary of the status of our nonvested shares at March 31, 2009 and changes during fiscal 2009 is presented below:

| Nonvested Shares | Shares | Weighted Average Grant-Date Fair Value |
|---|---|---|
| Nonvested at March 31, 2008 | 3,000 | $ 20.12 |
| Granted | 4,000 | $ 31.27 |
| Vested | (5,500) | $ 28.23 |
| Forfeited | - | - |
| Nonvested at March 31, 2009 | 1,500 | $ 20.12 |

The following table summarizes information about options outstanding and options exercisable at March 31, 2009:

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Ranges of Exercise Prices | Number Outstanding | Weighted Average Exercise Price | Weighted Remaining Contractual Life (years) | Number Outstanding | Weighted Average Exercise Price |
| $ 5.10 - 7.35 | 72,000 | $ 6.56 | 1.8 | 72,000 | $ 6.56 |
| 10.01 - 20.12 | 147,750 | 16.13 | 6.0 | 146,250 | 16.09 |
| 21.99 - 58.27 | 62,000 | 31.62 | 5.8 | 62,000 | 31.62 |
| | 281,750 | $ 17.10 | 4.9 | 280,250 | $ 17.08 |

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 incentive stock options and warrants are shown in the following table:

| | Option Shares Reserved | Options Outstanding | Weighted Average Option Exercise Price per Share | Warrants Outstanding | Weighted Average Warrant Exercise Price per Share |
|---|---|---|---|---|---|
| Balance at March 31, 2006 | 198,230 | 312,130 | $ 14.47 | 12,597 | $ 13.51 |
| Granted | (12,000) | 12,000 | $ 20.12 | - | - |
| Exercised | - | (12,430) | $ 2.13 | - | - |
| Terminated | - | - | - | (2,597) | $ 2.86 |
| Balance at March 31, 2007 | 186,230 | 311,700 | $ 15.18 | 10,000 | $ 16.28 |
| Granted | (8,000) | 8,000 | $ 34.71 | - | - |
| Exercised | - | (11,300) | $ 4.16 | - | - |
| Terminated | - | - | - | - | - |
| Balance 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 | - | - |
| Terminated | - | - | - | - | - |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Balance at March 31, 2009 | 174,230 | 281,750 | $ | 17.10 | 10,000 | $ | 16.28 |

Exercisable options were outstanding covering 280,250 shares at March 31, 2009; 305,400 shares at March 31, 2008; and 305,450 shares at March 31, 2007 at weighted-average exercise prices of $17.08, $16.05, and $15.16 per share. The remaining weighted-average exercisable life was 4.9, 5.6, and 6.3 years.

No warrants were issued in the past three fiscal years. Exercisable warrants covering 10,000 shares with a weighted-average exercise price of $16.28 were outstanding at March 31, 2009, 2008 and 2007. Remaining weighted-average exercisable life was 3.9, 4.9, and 5.9 years at March 31, 2009, 2008, and 2007.

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The total intrinsic value of options exercised during fiscal 2009 was $788,587. At March 31, 2009 the total intrinsic value of options outstanding was $3,501,688, of which $3,478,213 were exercisable. Intrinsic value is based on our closing stock price on the last trading day of the fiscal year for in-the-money options.

The total fair value of grants was $64,280 in fiscal 2009. At March 31, 2009, there was $8,282 of total unrecognized stock-based compensation expense, adjusted for estimated forfeitures, which is expected to be recognized over a weighted-average period of five months and will be adjusted for any future changes in estimated forfeitures.

**NOTE 7. INCOME TAXES**

Income tax provisions for fiscal 2007 through 2009 consisted of the following:

| | Year Ended March 31 | | |
|---|---|---|---|
| | **2009** | **2008** | **2007** |
| Current taxes | | | |
| Federal | $ 4,304,330 | $ 2,808,433 | $ 2,338,592 |
| State | 351,625 | 314,904 | 278,309 |
| | | | |
| Deferred taxes | | | |
| Federal | (17,880) | 719,197 | (188,476) |
| State | 6,630 | 50,086 | (17,405) |
| Income tax provision | $ 4,644,705 | $ 3,892,620 | $ 2,411,020 |

A reconciliation of income tax provisions at the U.S. statutory rate for fiscal 2007 through 2009 is as follows:

| | Year Ended March 31 | | |
|---|---|---|---|
| | **2009** | **2008** | **2007** |
| Tax expense at U.S. statutory rate | $ 4,905,384 | $ 3,767,201 | $ 2,445,214 |
| State income taxes, net of Federal benefit | 271,307 | 238,861 | 179,984 |
| Domestic manufacturing deduction | (238,679) | - | - |
| Municipal interest | (197,065) | - | - |
| Other | (96,242) | 87,512 | (50,311) |
| Benefit of tax credits | - | - | (61,302) |
| Change in valuation allowance | - | (200,954) | (102,565) |
| Income tax provision | $ 4,644,705 | $ 3,892,620 | $ 2,411,020 |

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 assets and liabilities as of March 31, 2009 and 2008 were as follows:

| | March 31 | |
|---|---|---|
| | **2009** | **2008** |
| Deferred tax assets | | |
| Deferred revenue | $ 37,375 | $ 68,035 |
| Vacation accrual | 107,517 | 95,301 |
| Inventory reserve | 107,640 | 101,598 |
| Depreciation | 67,901 | 68,668 |
| Stock-based compensation deductions | 136,587 | 106,681 |

| | | |
|---|---|---|
| Unrealized loss (gain) | 141,538 | (58,748) |
| Other | 69,171 | 71,870 |
| Net deferred tax assets | $ 667,729 | $ 453,405 |

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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 $270,413 in fiscal 2009 were attributed to stock-based compensation deductions. Credits of $33,773 in fiscal 2008, and $2,083,886 in fiscal 2007 to Additional paid-in capital were due principally to the reversal of valuation allowances against deferred tax assets for carryforwards of net operating losses that were attributable to stock-based compensation deductions. The reversals occurred as a result of the actual utilization of such net operating loss carryforwards in those respective years. 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, in accordance with paragraph 62 of SFAS No. 123(R) Tax benefit of stock-based compensation represented: (i) in accordance with paragraph 62 of SFAS No. 123(R), 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 by us.

During fiscal 2007 we reversed a $1,855,848 valuation allowance due to our assessment that it was more likely than not that we would earn sufficient operating income to realize the remaining deferred tax assets. We exhausted our stock-based compensation deductions during fiscal 2008.

We have $311,584 of Federal net operating losses and $255,433 of state net operating losses. These net operating losses expire in fiscal 2020 and are subject to limitation including limitation under Section 382 of the Internal Revenue Code.

We record all income tax accruals in accordance with Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109*. At March 31, 2009 we had no unrecognized tax benefits, and we do not believe unrecognized tax benefits will significantly change 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, 2009 we had no accrued interest related to uncertain tax positions. The tax years 1999 through 2008 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 we receive contracts for research and development.

The following table summarizes customers comprising 10% or more of revenue for fiscal 2009, 2008, and 2007:

| | % of Revenue for Year Ended March 31 | | |
|---|---|---|---|
| | **2009** | **2008** | **2007** |
| U.S. Government agencies | * | * | 10% |
| Customer A | 19% | 17% | 23% |
| Customer B | * | 10% | 11% |
| Customer C | 11% | * | * |
| Customer D | 10% | * | * |

*Less than 10%

Revenue by geographic region was as follows:

| | Year Ended March 31 | | |
|---|---|---|---|
| | **2009** | **2008** | **2007** |
| United States | $ 12,445,164 | $ 10,792,550 | $ 9,901,667 |
| Europe | 8,154,261 | 5,981,940 | 3,568,014 |
| Asia | 2,314,626 | 3,274,700 | 2,577,961 |
| Other | 458,218 | 479,622 | 413,188 |
| Total Revenue | $ 23,372,269 | $ 20,528,812 | $ 16,460,830 |

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**NOTE 9. COMMITMENTS AND CONTINGENCIES**

**Leases**

Lease payments were $234,368 for fiscal 2009, $224,712 for fiscal 2008, and $193,010 for fiscal 2007. In fiscal 2008 we executed a third amendment extending the operating lease for our facility through 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 | | | | | | | |
|---|---|---|---|---|---|---|---|
| 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | Total |
| $ 244,387 | $ 247,858 | $ 251,490 | $ 255,121 | $ 258,806 | $ 261,579 | $ 198,186 | $ 1,717,427 |

**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 remains available.

**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 Service maximum. We make matching contributions of 100% of the first 3% of participants salary deferral contributions. Our matching contributions were $95,289 for fiscal 2009, $94,585 for fiscal 2008, and $97,674 for fiscal 2007.

## EXHIBIT INDEX

| Exhibit # | Description |
|---|---|
| 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, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |