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

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

_____

FORM 10-K

(Mark One)

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

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

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

For the transition period from _____to_____

Commission file number **000-12196**

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

Minnesota	**41-1424202**
State or other jurisdiction of incorporation or organization	(I.R.S.Employer Identification No.)
11409 Valley View Road, Eden Prairie, Minnesota	**55344**
(Address of principal executive offices)	(Zip Code)

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

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

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 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes [ ] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [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, 2010, the last business day of the Registrant s most recently completed second fiscal quarter, as reported on the NASDAQ Stock Market, was approximately $171 million.

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

DOCUMENTS INCORPORATED BY REFERENCE

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

NVE CORPORATION
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PART IV

Item 15. Exhibits, Financial Statement Schedules.

SIGNATURES

FINANCIAL STATEMENTS

Reports of Independent Registered Public Accounting Firm
Balance Sheets
Statements of Income
Statements of Shareholders Equity
Statements of Cash Flows
Notes to Financial Statements

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PART I

FORWARD-LOOKING STATEMENTS

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

ITEM 1. BUSINESS.

In General

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

NVE History and Background

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

Industry Background

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

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

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

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

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

Our Enabling Technology

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

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

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

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

Our Strategy

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

Our Products and Markets

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

Sensor Products and Markets

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

Standard sensors

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

Custom and medical sensors

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

Coupler Products and Markets

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

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

MRAM Products and Markets

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

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

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Product Manufacturing

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

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

Sales and Product Distribution

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

New Product Status

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

Our Competition

Industrial Sensor Competition

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

Medical Sensor Competition

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

Coupler Competition

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

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

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

MRAM Competition

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

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Sources and Availability of Raw Materials

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

Intellectual Property

Patents

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

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

Certain of our patents cover MRAM cells with transistor selection for data retrieval, which we believe may be necessary for successful high-density, high-performance MRAMs. We believe our 6,275,411 and 6,349,053 U.S. patents, both titled Spin Dependent Tunneling Memory, are particularly important. Both patents cover MRAMs using arrays of Spin Dependent Tunnel Junctions. Based on their public disclosures, we believe several companies are pursuing the approach described in these patents. The 6,275,411 patent expires in 2019 and the 6,349,053 patent expires in 2021. We also have patents on advanced MRAM designs that we believe are important, including patents that relate to magnetothermal MRAM, spin-momentum MRAM, and synthetic antiferromagnetic storage.

Trademarks

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

Licenses

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

Agreements with Honeywell

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

Motorola License

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

Seasonality

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

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

Working Capital Items

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

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Dependence on Major Customers

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

Firm Backlog

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

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

Research and Development Activities

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

Environmental Matters

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

Number of Employees

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

Financial Information About Geographic Areas

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

Available Information

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

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

We risk losing business to our competitors.

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

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

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

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

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

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

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

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

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Our backlog may not result in future revenue.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

jurisdictions where we do business.

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

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

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

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

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

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

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

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

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

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

We could incur losses on our marketable securities.

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

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

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Risks Related to Buying Our Stock

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

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

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

ITEM 3. LEGAL PROCEEDINGS.

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

ITEM 4. RESERVED.

PART II

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

Market Information

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

quarter within our two most recent fiscal years:

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

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

We had approximately 111 shareholders of record and 8,347 total shareholders as of April 20, 2011. We have never paid or declared any cash dividends on our Common Stock. We do not anticipate paying dividends in the foreseeable future, as we intend to retain any earnings we may generate if needed to provide for the expansion of our business, the possible defense of our intellectual property, or for use in unforeseen circumstances. Information regarding our securities authorized for issuance under equity compensation plans will be included in the section Equity Compensation Plan Information of our Proxy Statement for our 2011 Annual Meeting of Shareholders, and is incorporated by reference into Item 12 of this Report.

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Stock Performance Graph

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

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

Stock Repurchase Program

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

ITEM 6. SELECTED FINANCIAL DATA.

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

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

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

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

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

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

General

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

Application of Critical Accounting Policies and Estimates

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

Research and Development Contract Percentage of Completion Estimation

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

Inventory Valuation

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

Allowance for Doubtful Accounts Estimation

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

Deferred Tax Assets Estimation

In determining the carrying value of our net deferred tax assets, we must assess the likelihood of sufficient future taxable income in certain tax jurisdictions, based on estimates and assumptions to realize the benefit of these assets.

We evaluate the realizability of the deferred assets quarterly and assess the need for valuation allowances or reduction of existing allowances quarterly.

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

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

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

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

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

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

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

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

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

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

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

Liquidity and Capital Resources

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

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

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

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

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

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

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

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

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

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

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Inflation

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

Off-Balance-Sheet Arrangements

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

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

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

Marketable Securities

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

Foreign Currency Transactions

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

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

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Quarterly Summary Information

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

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

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

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

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Disclosure Controls and Procedures

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

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

Management s Report on Internal Control Over Financial Reporting

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

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

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

Changes in Internal Controls

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

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

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

ITEM 11. EXECUTIVE COMPENSATION.

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

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

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

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

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

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The information in the sections Audit Committee Disclosure Fees Billed to Us by Ernst & Young During Fiscal 2011 and 2010 and Audit Committee Disclosure Audit